# MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the Year Ended December 31, 2017**
**(expressed in Canadian dollars, unless otherwise noted)**

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**ACASTA ENTERPRISES INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**For the Year Ended December 31, 2017**

## GENERAL

This Management's Discussion and Analysis (the "**MD&A**") dated as of April 2, 2018 of Acasta Enterprises Inc. ("**Acasta**" or the "**Company**") should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2017 (the "**Financial Statements**") that were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). The Financial Statements and this MD&A are presented in Canadian dollars, unless otherwise noted.

Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2017 (the "**AIF**"), is available under Acasta's profile on the Canadian System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com.

## NOTE TO INVESTORS CONCERNING FORWARD-LOOKING STATEMENTS

The Company's public communications may include written or oral forward-looking statements. Statements of this type are included in this MD&A, and may be included in other filings with the applicable Canadian regulators, stock exchanges or in other communications. All such statements constitute forward-looking information within the meaning of applicable securities law and are made pursuant to the "safe harbour" provisions of such applicable securities laws. Forward-looking statements may include, but are not limited to, statements about anticipated future events or results, including comments with respect to the Company's objectives and priorities for 2018 and beyond, strategies or further actions with respect to the Company, including the acquisition or disposition by the Company of one or more businesses or assets, paying down amounts outstanding under the Aviation Facility (as hereinafter defined), monetization of the PPNs, and the Company's future business operations, financial performance and condition. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions and are identified by words such as "will", "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions concerning matters that are not historical facts. Such statements are based on current expectations of the Company's management and inherently involve numerous risks and uncertainties, known and unknown, including economic factors. The forward-looking information contained in this MD&A is presented for the purpose of assisting shareholders in understanding the Company's business and strategic priorities and objectives as at the periods indicated and may not be appropriate for other purposes.

A number of risks, uncertainties and other factors may cause actual results to differ materially from the forward-looking statements contained in this MD&A, including, among other factors, those referenced in the section entitled "Risk Factors" in the AIF.

Forward-looking statements contained in this MD&A are not guarantees of future performance and, while forward-looking statements are based on certain assumptions that the Company considers reasonable, actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company. Prospective investors are cautioned to consider these and other factors carefully when making decisions with respect to the Company and to not place undue reliance on forward-looking statements. Circumstances affecting the Company may change rapidly. Except as may be expressly required by applicable law, the Company does not undertake any obligation to update publicly or revise any such forward-looking statements, whether as a result of new information, future events or otherwise. These cautionary statements expressly qualify all forward-looking statements in this MD&A.

## NOTE TO INVESTORS CONCERNING NON-IFRS FINANCIAL PERFORMANCE MEASURES

This MD&A contains certain financial performance measures, including "adjusted net income (loss)", "EBITDA" and "adjusted EBITDA" that are not recognized under IFRS. These measures may not be comparable to data presented by other companies. For a reconciliation of these measures to the most directly

comparable financial information presented in the Financial Statements in accordance with IFRS, see the section entitled "Non-IFRS Financial Performance Measures" of this MD&A.

Adjusted net income (loss) is calculated by adjusting net income (loss) as reported in the consolidated statements of income (loss) and comprehensive income (loss) for the exclusion of certain other income and expense items determined in accordance with IFRS. The Company believes that this measure allows the evaluation of the results of continuing operations and is useful in making comparisons between periods. Adjusted net income (loss) is intended to provide investors with information about the Company's continuing income generating capabilities. Management uses this measure to monitor and plan for the operating performance of the Company in conjunction with other data prepared in accordance with IFRS.

EBITDA is calculated by adjusting net income (loss) as reported in the consolidated statements of income (loss) and comprehensive income (loss) for finance costs, current and deferred income tax, depreciation and amortization expenses. The Company believes that this measure allows the evaluation of the results of continuing operations and is useful in making comparisons between periods. EBITDA is intended to provide investors with information about the Company's continuing income generating capabilities. Management uses this measure to monitor and plan for the operating performance of the Company in conjunction with other data prepared in accordance with IFRS.

Adjusted EBITDA is calculated by adjusting net income (loss) as reported in the consolidated statements of income (loss) and comprehensive income (loss) for the exclusion of certain other income and expense items determined in accordance with IFRS (the calculation for adjusted net income (loss)) and then further adjusting for finance costs, current and deferred income tax, depreciation and amortization expenses. The Company believes that this measure allows the evaluation of the results of continuing operations and is useful in making comparisons between periods. Adjusted EBITDA is intended to provide investors with information about the Company's continuing income generating capabilities. Management uses this measure to monitor and plan for the operating performance of the Company in conjunction with other data prepared in accordance with IFRS.

## BUSINESS OVERVIEW

### Objectives and Strategy

On March 27, 2018, Acasta closed the sale of its Stellwagen business unit (the "**Stellwagen Sale Transaction**") to a company that is indirectly owned by certain Stellwagen Vendors (as hereinafter defined) and other investors (the "**Purchaser**"). See the "Operating Segment Overview — Aviation Reportable Segment" section of this MD&A for further details. Currently, Acasta is comprised of two private label consumer staples businesses—Apollo Laboratories Inc. ("**Apollo**") and JemPak Corporation ("**JemPak**").

Apollo is one of the largest private label personal care product manufacturers in North America, developing and manufacturing retailer-branded and private label products for major North American retailers. Apollo's products are sold in tens of thousands of stores across North America and its customer base spans across major North American grocery, drug, and mass merchandise retailers, as well as wholesale clubs. In addition to private label, Apollo also manufactures products on a contract basis for many of its clients.

JemPak manufactures and distributes private label (store brand) laundry and dish cleaning products, including monodose dish and laundry packs, liquid laundry detergents and related chemicals, for mass merchandise, super, drug, club and dollar stores. JemPak has entrenched relationships with large North American retailers. JemPak's focus on R&D offers formulation, processing and manufacturing capabilities that we believe are difficult for its competitors to match.

As of the date of this MD&A, Acasta's board of directors is in the process of completing a strategic review and is considering a number of strategic alternatives beyond the sale of Stellwagen to improve shareholder value and reduce Acasta's indebtedness. This strategic review will be undertaken in the context of the decision by the

board of directors to focus on its consumer products platform and options for value creation in this sector, for which a private equity strategy is no longer relevant.

**Executive Summary of 2017 Results**

- Acasta reported its first year as an operating company, consolidating the results of the three businesses that it acquired on January 3, 2017 (see the "Qualifying Acquisition" section of this MD&A for more details).
- Acasta's 2017 consolidated results included revenues of $366.5 million, a net loss of $413.1 million, adjusted net income of $8.1 million and adjusted EBITDA of $134.4 million (see the "Note to Investors Concerning Non-IFRS Financial Performance Measures" and the "Non-IFRS Financial Performance Measures" sections of this MD&A for more details).
- Acasta reported impairment losses totaling $440.7 million ($423.6 million net of tax) during the year ended December 31, 2017, including goodwill and intangible asset impairments of $240.0 million related to Stellwagen and a goodwill impairment of $200.7 million related to Apollo (see the "Impairment Loss" section of this MD&A for more details).
- As outlined in the Liquidity and Capital Resources section of this MD&A, the Company believes that it has sufficient available capital resources to satisfy its 2018 expenditure commitments (including contractual obligations, subject to meeting certain financial covenants under relevant debt agreements).

**Corporate Structure**

Prior to the QA Closing (as hereinafter defined), Acasta was a special purpose acquisition corporation incorporated under the laws of the Province of Ontario for the purpose of effecting a qualifying acquisition, more specifically an acquisition of one or more businesses or assets, by way of a merger, amalgamation, arrangement, share exchange, asset acquisition, share purchase, reorganization, or any other similar business combination involving the Company. See the "Initial Public Offering" section of this MD&A for more details on this stage of the Company's history.

On January 3, 2017, Acasta closed its qualifying acquisition (the "**Qualifying Acquisition**") under Part X of the TSX Company Manual (the "**QA Closing**") of 100.0% of three businesses, concurrently with Acasta's launch as a long-term investment and private equity management firm. Pursuant to the Qualifying Acquisition, Acasta acquired a commercial aviation finance advisory and asset management business, Stellwagen Group ("**Stellwagen**") and two private label consumer staples businesses, Apollo and JemPak. These acquisitions formed two distinct investment platforms and reportable segments: (1) Consumer Products (Apollo and JemPak); and (2) Aviation (Stellwagen). See the "Qualifying Acquisition" section of this MD&A for more details.

The comparative period operating results prior to the year ended December 31, 2017 are representative of Acasta's operations prior to completing its Qualifying Acquisition and, as such, are not consistent or comparable with the nature of activities and operating results reported in the year ended December 31, 2017.

**Initial Public Offering**

On July 30, 2015, the Company completed its initial public offering ("**IPO**") of 35,000,000 Class A restricted voting units (the "**Class A Units**") at a price of $10.00 per Class A Unit for aggregate gross proceeds of $350.0 million (the "**IPO Closing**"). Concurrent with the IPO Closing, Acasta's founders (the "**Founders**") purchased an aggregate of 1,400,000 Class B units of the Company (the "**Class B Units**") at an offering price of $10.00 per Class B Unit, resulting in aggregate proceeds of $14.0 million to the Company. Prior to the IPO Closing, on July 22, 2015, the Founders purchased 10,442,031 Class B shares of the Company (referred to as the "**Founders' Shares**") for an aggregate purchase price of $25,000, or $0.0024 per Founders' Share.

On August 5, 2015, the Company issued an additional 5,250,000 Class A Units at a price of $10.00 per Class A Unit for aggregate gross proceeds of $52.5 million pursuant to the exercise in full by the IPO underwriters of the IPO over-allotment option which was granted to them (the "**IPO Over-Allotment Option**"). Concurrently with the closing of the IPO Over-Allotment Option, the Founders purchased an aggregate of 118,124 Class B Units at an offering price of $10.00 per Class B Unit, resulting in additional aggregate proceeds of approximately $1.2 million to the Company.

Effective September 8, 2015, both the Class A Units, each consisting of one Class A restricted voting share (a "**Class A Share**") and one-half of a share purchase warrant (a "**Warrant**"), and Class B Units, each consisting of one Class B share of the Company (a "**Class B Share**") and one-half of a Warrant, separated. Upon separation, the Class A Shares and Warrants underlying the Class A Units commenced trading separately on the Toronto Stock Exchange (the "**TSX**").

The proceeds from the distribution of the Class A Units pursuant to the IPO and the IPO Over-Allotment Option were deposited into an escrow account with TSX Trust Company, as escrow agent, and invested in permitted investments until the QA Closing.

**Qualifying Acquisition**

On the QA Closing, Acasta (through its wholly-owned subsidiaries) acquired:

(a) substantially all of the assets of Apollo for total purchase consideration of $397.2 million, comprised of $159.3 million in cash consideration, $233.9 million in share consideration (satisfied by the issuance of approximately 23.4 million Class B Shares at $10.00 per Class B Share) and $4.0 million in other purchase consideration adjustments;

(b) all of the issued and outstanding shares in the capital of JemPak for total purchase consideration of $134.4 million, comprised of $66.9 million in cash consideration and $67.5 million in share consideration (satisfied by the issuance of approximately 6.8 million Class B Shares at $10.00 per Class B Share); and

(c) all of the issued and outstanding equity interests comprising Stellwagen for total purchase consideration of $385.4 million, comprised of $96.5 million in cash consideration, $228.3 million in share consideration (satisfied by the issuance of approximately 22.8 million Class B Shares at $10.00 per Class B Share), $66.5 million in other purchase consideration adjustments, offset by $6.0 million in post-closing adjustments.

In aggregate, the Company issued a total of approximately 52.9 million Class B Shares at $10.00 per Class B Share to the vendors of Apollo, JemPak, and Stellwagen as share consideration in connection with the Qualifying Acquisition, of which an aggregate of 6.3 million Class B Shares were issued to the vendors of Apollo and Stellwagen under each of their respective backstop commitments. Concurrent with the QA Closing, Acasta completed a private placement of Class B Shares at $10.00 per Class B Share for aggregate proceeds of approximately $160.0 million, including $130.0 million from certain of Acasta's institutional shareholders and new investors and $30.0 million from the Founders.

On the QA Closing, all of the Class A Shares that were not submitted for redemption prior to Acasta's shareholder meeting to approve the Qualifying Acquisition were automatically converted into Class B Shares on the basis of one Class B Share for each Class A Share converted. Each redeeming holder of Class A Shares received an amount per Class A Share equal to $10.04 per Class A Share so redeemed. After payment of the deferred underwriting commission to the IPO underwriters, the remaining proceeds held in escrow were released therefrom, and used to fund a portion of the aggregate purchase price for the Qualifying Acquisition.

In connection with the QA Closing, the Founders entered into an amended and restated forfeiture conditions and transfer restrictions agreement and undertaking (the "**Forfeiture Agreement**") with respect to the

Founders' Shares. Pursuant to the Forfeiture Agreement, 50% of the Founders' Shares (the "**Contingent Shares**") are subject to forfeiture on the following terms: (i) 50% of the Contingent Shares will be forfeited unless the Company secures limited partner commitments of at least $1 billion of capital for its private equity fund prior to January 3, 2019; and (ii) the remaining 50% of the Contingent Shares will be forfeited unless the Company achieves a Consumer Products Realization Event (as hereinafter defined) prior to January 3, 2019. A Consumer Products Realization Event can be the sale (partial or full) of Acasta's Consumer Products businesses to the private equity fund, a sale of the businesses to a third party, a strategic merger with other similar businesses, or a separate public listing of the Consumer Products businesses.

In addition to the forfeiture provisions described above, the Contingent Shares are restricted from transfer on the following terms: (i) until January 3, 2018, the Contingent Shares could not be transferred; (ii) for the period between January 3, 2018 and January 3, 2021, the Contingent Shares will only be transferable if the closing price of the Class B Shares exceeds $15.00 for any 20 trading days within a 30-day trading period; and (iii) after January 3, 2021, the Contingent Shares will only become transferable if the closing share price of the Class B Shares exceeds $18.00 for any 20 trading days within a 30-day trading period. If the Contingent Shares become unrestricted by any of the aforementioned conditions, 50% of the Contingent Shares may only be transferred if the Company has secured limited partner commitments of at least $1 billion of capital for its private equity fund prior to January 3, 2019, and the remaining 50% of the Contingent Shares may be transferred if the Company achieves a Consumer Products Realization Event prior to January 3, 2019.

As of January 3, 2018, the remaining Founders' Shares that are not Contingent Shares are no longer restricted from transfer.

Following the QA Closing, as at January 3, 2017, there were 92,677,798 Class B Shares issued and outstanding and 20,884,062 Warrants outstanding. Each full Warrant became exercisable on February 3, 2017 to purchase one Class B Share at an exercise price of $11.50 until January 3, 2022. As of the date of this MD&A, there were 69,715,298 Class B Shares issued and outstanding and 20,884,062 Warrants outstanding.

The Class B Shares commenced trading on the TSX on January 6, 2017 under the symbol "AEF", concurrent with the delisting of the Class A Shares. The Warrants also trade on the TSX under the symbol "AEF.WT".

## OPERATING SEGMENT OVERVIEW

An operating segment is a component of the Company 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 Company's other components. The operating results of all operating segments are reviewed regularly by the Company's Chief Executive Officer who is the chief operating decision maker ("**CODM**") for key decisions relating to resources to be allocated to the segments and for assessing their performance, in consultation with the board of directors of Acasta. Operating companies may be aggregated into a reportable segment based on the nature of the products and services, production process, customer base, distribution model and regulatory environment at the operating companies, as well as key financial metrics such as gross margin and projected long-term revenue growth.

As at December 31, 2017, the Company operated three distinct reportable segments (December 31, 2016 — one), being the Consumer Products, Aviation and Other segments. Acasta's Consumer Products portfolio includes companies that manufacture and distribute store-brand laundry, dish cleaning, and health and beauty care products for a range of retailers across North America. Due to the type of customers, nature of products sold and methods of distribution, the two operating segments under the Consumer Products portfolio have been aggregated within this reportable segment. Acasta's Aviation portfolio includes companies that provide technical management and fleet and capital financing solutions to the global aviation industry and its investors. For more details on each of the foregoing reportable segments see the "Consumer Products Reporable Segment" and "Aviation Reportable Segment" sections of this MD&A. Acasta's Other reportable segment includes the

corporate parent entity of the Consumer Products and Aviation reportable segments known as Acasta Enterprises Inc.

Acasta's CODM reviews the operating results, assesses performance, and makes capital allocation decisions with respect to the Consumer Products and Aviation businesses. Therefore, Acasta has presented these businesses as reportable segments for financial reporting purposes in accordance with IFRS 8 *Operating Segments*.

**Consumer Products Reportable Segment**

***Apollo***

Based in Ontario, Canada, Apollo is one of the largest private label personal care product manufacturers in North America, developing and manufacturing retailer-branded and private label products for major North American retailers. Apollo's products are sold in tens of thousands of stores across North America and its customer base spans across major North American grocery, drug, and mass merchandise retailers, as well as wholesale clubs. In addition to private label, Apollo also manufactures products on a contract basis for many of its clients.

***JemPak***

Based in Ontario, Canada, JemPak manufactures and distributes private label (store brand) laundry and dish cleaning products, including monodose dish and laundry packs, liquid laundry detergents and related chemicals, for mass merchandise, super, drug, club and dollar stores. JemPak has entrenched relationships with large North American retailers. JemPak's focus on R&D offers formulation, processing and manufacturing capabilities that we believe are difficult for its competitors to match.

**Aviation Reportable Segment**

***Stellwagen***

Based in Dublin, Ireland, Stellwagen is a fully-integrated provider of asset management, technical management, and fleet and capital financing solutions to the global aviation industry and aviation investors. Stellwagen has developed specialized aviation industry knowledge and relationships with airlines, lessors, and other key aviation industry participants since its inception in 2013.

On June 1, 2017, Stellwagen effected the acquisition (the "**ECN Acquisition**") of ECN Commercial Aviation ("**ECN**") for total consideration of $29.6 million. ECN arranges, co-invests and manages a portfolio of commercial aviation assets on behalf of institutional investors through a U.S.-based team. See the "Liquidity and Capital Resources — Investing Activities" section of this MD&A for further details.

On July 5, 2017, the Company invested U.S. $100.0 million in return for profit participating notes ("**PPN**") in the Stelloan Investment Company I DAC (the "**Stelloan Fund**"). As at December 31, 2017, the Stelloan Fund held an equity note ("**E-Note**") contingent return in Embassy Acquisition Facility I DAC ("**Embassy**"), which lends capital to aircraft lessors. As the sole and controlling investor in both the Stelloan Fund and Embassy, both entities were consolidated by Acasta and recorded as part of the Aviation reportable segment as at December 31, 2017. As at December 31, 2017, the Company's PPN investments in the Stelloan Fund totaled U.S. $51.0 million (after a U.S. $49.0 million return of capital on November 20, 2017), while Embassy held four loan assets in its portfolio valued at approximately $201.2 million (U.S. $160.4 million) and long-term debt of approximately $137.8 million (U.S. $109.8 million).

On March 27, 2018, the Stellwagen Sale Transaction closed. Pursuant to a share purchase agreement (the "**Purchase Agreement**") with Martello Finance Company Limited ("**Martello**"), the Purchaser and Stellwagen Acquistion Corp., as vendor, Acasta agreed to sell Stellwagen to the Purchaser in exchange for:

- the cancellation of 26 million Class B Shares beneficially owned by Martello and certain other Acasta shareholders that are indirect shareholders of the Purchaser, representing approximately 27.2% of the issued and outstanding Class B Shares;
- the payment to Acasta of U.S. $35.0 million;
- downside protection of up to U.S. $5.0 million if the proceeds realized from the monetization of Acasta's PPNs issued by the Stelloan Fund are at specified levels below a certain threshold; and
- termination of the Stellwagen Earn-out (see the "Results of Operations — Stellwagen Earn-out" section of this MD&A for further details).

Acasta subsequently applied the proceeds from the Stellwagen Sale Transaction to satisfy a scheduled payment and additional amounts outstanding under the Aviation Facility.

Under the terms of the Purchase Agreement, Acasta will retain ownership of the PPNs and will oversee the sale of the PPNs to one or more third parties. Acasta also intends to use the proceeds from the sale of the PPNs to pay down the Aviation Facility.

In connection with the Purchase Agreement, the lock-up restrictions, as described under the Qualifying Acquisition section of this MD&A above, on the Class B Shares held by the previous owners of Apollo, JemPak, Stellwagen and ECN Capital Corp. have terminated.

ECN Capital Corp. and Acasta agreed that 500,000 Class B Shares will be issued to ECN Capital Corp. in full satisfaction of the top-up payment on the fifteenth day following the March 27, 2018 closing of the Purchase Agreement. Upon issuance of such Class B Shares, Acasta will have no further obligations in respect of the ECN acquisition. See the "Liquidity and Capital Resources — Investing Activities" section of this MD&A for details on the ECN acquisition.

## KEY PERFORMANCE DRIVERS

Key drivers of financial performance for Acasta include:

- Sales volume and pricing in the Consumer Products reportable segment;
- Transaction fee revenue in the Aviation reportable segment;
- Operating costs; and
- Canadian dollar/U.S. dollar exchange rates.

The 2016 comparative period results are representative of Acasta's operations prior to completing is Qualifying Acquisition and, as such, were not significantly impacted by foreign exchange and are not consistent or comparable with the nature of activities and operating results reported in 2017.

### Sales Volume and Pricing (Consumer Products Reportable Segment)

Changes in sales volume and customer pricing have a direct impact on the financial results of the Consumer Products reportable segment. Pricing is negotiated with each individual customer and can change based on factors including contract terms, sales quantity and volume, customer relationships, product quality and service. The Consumer Products reportable segment offers several product lines to a diverse customer base that includes retail stores, chemical manufacturers and distributors and national brands.

**Transaction Fee Revenue (Aviation Reportable Segment)**

The Aviation reportable segment is a fully-integrated financial services provider of aircraft management, technical management, and fleet and capital financing solutions to the global aviation industry and its various investors.

The aircraft and technical management service offerings generate recurring monthly management fees for each aircraft managed, which are dependent on the value of the aircraft and the range of services provided.

However, the core business model of the Aviation reportable segment involves arranging innovative and comprehensive financing solutions for airlines, lessors and aviation investors across a broad range of aircraft types. This revenue stream is transactional in nature and is a key performance driver for the Aviation reportable segment.

Total transaction fee (fleet and capital financing) revenue recorded by the Aviation reportable segment was $3.6 million in the first quarter of 2017 (subsequent to the Qualifying Acquisition), $1.0 million in the second quarter of 2017, $2.2 million in the third quarter of 2017, and $3.1 million in the fourth quarter of 2017. Transactional revenue recorded by the Aviation reportable segment in 2017 related primarily to arrangement fees for aircraft financing on behalf of customers and portfolio loan arrangement fees related to the Stelloan Fund.

**Operating Costs**

Operating costs have a direct impact on Acasta's financial results and are discussed in detail in the "Results of Operations — Cost of Revenue and Selling, General and Administrative Expense" section of this MD&A.

Manufacturing operations in the Consumer Products reportable segment require several key raw material inputs including resin (used in the manufacture of molded packaging), surfactants, fragrances, enzymes, polyvinyl alcohol film (for monodose pacs), plastic bottles, tubs, pouches and linerboard (used to manufacture boxes).

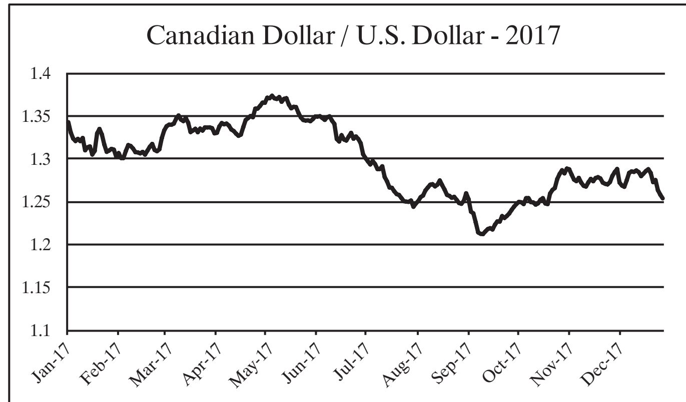
**Foreign Exchange Rates**

The exchange rate of the Canadian dollar relative to the U.S. dollar is an important financial driver for Acasta because the Company reports its financial results in Canadian dollars, while a significant portion of its revenues and operating costs are denominated in U.S. dollars.

Acasta's Consumer Products and Other reportable segments have a Canadian dollar functional currency, with transactions in foreign currencies translated into Canadian dollars at transaction date exchange rates. Monetary assets and liabilities denominated in foreign currencies are translated at period-end exchange rates, while non-monetary assets and liabilities denominated in foreign currencies are translated at historical exchange rates. Revenue and expenses are translated at the average exchange rates prevailing during the month of the transaction. Exchange gains and losses arising on the settlement of foreign-currency denominated transactions are recognized in net income (loss).

As the Company's Aviation reportable segment has a U.S. dollar functional currency, its assets and liabilities are translated into Canadian dollars using the exchange rate prevailing at the end of each reporting period. Income and expense items are translated in the same manner as above with exchange differences impacting other comprehensive income (loss) and accumulated in equity.

In 2017, the exchange rate of the Canadian dollar relative to the U.S. dollar averaged $1.30 and ranged between $1.21 and $1.37.




See the "Risk Profile — Foreign Exchange Rates" section of this MD&A for a description of the Company's exposure to fluctuations in foreign currency exchange rates.

## BALANCE SHEET REVIEW

| STATEMENTS OF FINANCIAL POSITION (in thousands of Canadian dollars) | As at December 31, 2017 | | | | As at December 31, 2016 |
|---|---|---|---|---|---|
| | Reportable Segments | | | | |
| | Consumer Products | Aviation | Other | Acasta Consolidated | Acasta Consolidated |
| Cash and cash equivalents | $ 3,395 | $ 8,332 | $ 14,412 | $ 26,139 | $ 187 |
| Trade and other receivables | 33,083 | 3,756 | 2,805 | 39,644 | 597 |
| Inventories | 48,423 | — | — | 48,423 | — |
| Prepaid expenses and deposits | 1,393 | 48,614 | 4,541 | 54,548 | 25 |
| Current portion of loans receivable | — | 11,257 | — | 11,257 | — |
| Other current assets | 103 | — | 5,431 | 5,534 | — |
| Restricted cash | — | — | — | — | 405,002 |
| Property, plant and equipment | 60,715 | 556,857 | 22 | 617,594 | — |
| Intangible assets | 145,395 | 130,074 | — | 275,469 | — |
| Goodwill | 106,911 | 69,641 | — | 176,552 | — |
| Long-term loans receivable | — | 189,974 | — | 189,974 | — |
| Non-current deposits | — | 5,077 | — | 5,077 | — |
| Other non-current assets | — | 12,889 | — | 12,889 | 710 |
| **TOTAL ASSETS** | $ 399,418 | $1,036,471 | $ 27,211 | $1,463,100 | $406,521 |
| Accounts payable and accrued liabilities | 24,231 | 8,238 | 4,638 | 37,107 | 8,779 |
| Current portion of long-term debt | 84,358 | 48,383 | 143,994 | 276,735 | — |
| Income taxes payable | 7,232 | — | — | 7,232 | — |
| Other current liabilities | 825 | 7,708 | 5,800 | 14,333 | 13,504 |
| Class A Restricted Voting Shares subject to redemption | — | — | — | — | 409,342 |
| Long-term debt | — | 707,211 | — | 707,211 | — |
| Deferred tax liabilities | 19,848 | 458 | — | 20,306 | — |
| Other non-current liabilities | 7,279 | 15,459 | 8,782 | 31,520 | — |
| **TOTAL LIABILITIES** | $ 143,773 | $ 787,457 | $ 163,214 | $1,094,444 | $431,625 |
| Share capital | — | — | 849,383 | 849,383 | 14,995 |
| Contributed surplus | 436,267 | 525,926 | (961,893) | 300 | — |
| Warrants | — | — | 3,939 | 3,939 | 3,939 |
| Deficiency | (180,622) | (249,050) | (27,432) | (457,104) | (44,038) |
| Accumulated other comprehensive loss | — | (27,862) | — | (27,862) | — |
| **TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)** | $ 255,645 | $ 249,014 | $ (136,003) | $ 368,656 | $ (25,104) |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)** | $ 399,418 | $1,036,471 | $ 27,211 | $1,463,100 | $406,521 |

Total assets as at December 31, 2017 of $1,463.1 million increased by $1,056.6 million compared with December 31, 2016 total assets of $406.5 million. Total liabilities as at December 31, 2017 of $1,094.4 million increased by $662.8 million compared with total liabilities of $431.6 million as at December 31, 2016. The increase in total assets and total liabilities between December 31, 2016 and December 31, 2017 was due primarily to the consolidation of financial positions in connection with the Qualifying Acquisition effective as of the QA Closing and to new debt facilities obtained during 2017 (the Aviation Facility and Portfolio Loan Revolver, as described below).

Inventories of $48.4 million as at December 31, 2017 were comprised of $23.9 million in raw materials, $0.7 million in work in progress and $23.8 million in finished goods held within the Company's Consumer Products reportable segment. Prepaid expenses and deposits (current and non-current) of $59.6 million as at December 31, 2017 were comprised of $50.1 million in aircraft deposits ($45.0 million current, $5.1 million non-current) related primarily to pre-delivery payments on the C295 aircraft program within the Company's Aviation reportable segment, $5.9 million in deferred financing costs and $3.1 million in prepaid expenses.

Property, plant and equipment of $617.6 million as at December 31, 2017 was comprised primarily of $556.4 million related to two Airbus 380 aircraft (one acquired as part of the Qualifying Acquisition and the second acquired during the first quarter of 2017) held within the Company's Aviation reportable segment, $43.5 million in machinery and equipment, $15.3 million in buildings and leasehold improvements and $2.3 million in office equipment. Acasta recorded property, plant and equipment depreciation of $26.3 million during 2017.

Intangible assets of $275.5 million as at December 31, 2017 were comprised of intangible assets established in connection with the Qualifying Acquisition and the ECN Acquisition, less impairment losses recorded as at December 31, 2017. As at December 31, 2017, impairment losses of $11.3 million and $8.2 million were calculated and attributed to intangible assets established through the Qualifying Acquisition in the Company's Aviation reportable segment, related to transaction fee backlog and non-compete agreements, respectively. See the "Impairment Loss" section of this MD&A for more details. Subsequent to the application of impairment losses, the carrying value of intangible assets as at December 31, 2017 was comprised primarily of $135.5 million related to customer relationships in the Consumer Products reportable segment, $109.8 million related to aircraft lease premiums in the Aviation reportable segment, $13.6 million related to customer contracts in the Aviation reportable segment, $9.9 million related to intellectual property in the Consumer Products reportable segment and $6.7 million related to ECN fund contracts in the Aviation reportable segment.

Goodwill of $176.6 million as at December 31, 2017 was comprised of goodwill arising in connection with the Qualifying Acquisition and the ECN Acquisition (included as part of the Stellwagen cash-generating unit), less impairment losses recorded as at December 31, 2017. As at December 31, 2017, goodwill impairment losses of $200.7 million and $220.6 million were calculated and attributed to the Company's Apollo and Stellwagen cash-generating units, respectively. See the "Impairment Loss" section of this MD&A for more details. Subsequent to the application of impairment losses, the carrying value of goodwill as at December 31, 2017 was comprised of $30.4 million, $76.5 million and $69.6 million attributed to the Company's Apollo, JemPak and Stellwagen cash-generating units, respectively.

Loans receivable of $11.3 million (current) and $190.0 million (long-term) relate to four loan assets held by Embassy, which was consolidated by Acasta and recorded as part of the Aviation reportable segment as at December 31, 2017.

Other non-current assets of $12.9 million as at December 31, 2017 were comprised primarily of $10.4 million in interest rate swap derivatives settled on a monthly basis, exchanging variable rate interest amounts for fixed rate interest amounts in order to reduce the Company's cash flow exposure resulting from variable interest borrowings.

Debt (including the current portion of long-term debt and long-term debt) of $983.9 million as at December 31, 2017 was comprised primarily of $623.9 million in aircraft loans utilized to acquire two aircraft within the Company's Aviation reportable segment, $150.5 million in Aviation Facility drawdowns within the Company's Other reportable segment, $137.8 million in Portfolio Loan Revolver (as hereinafter defined) drawdowns utilized to support ongoing growth initiatives within the Company's Aviation reportable segment and $85.2 million in Credit Facility (as hereinafter defined) drawdowns within the Company's Consumer Products reportable segment, partially offset by $13.5 million in deferred financing fees. As a result of a technical breach of Credit Facility and Aviation Facility financial covenants as at December 31, 2017, the Company did not have the ability to defer repayment of such debt obligations beyond twelve months from period end and, consequently, reclassified the amounts owing under these debt facilities from long-term to current liabilities. See the "Financing Activities" section of this MD&A for more details on the Company's debt facilities.

Other liabilities (current and non-current) as at December 31, 2017 were comprised primarily of amounts due to related parties of $17.7 million, including an $8.8 million Stellwagen Earn-out valuation, a $4.0 million reimbursement of transaction costs related to the acquisition of Stellwagen, a $3.0 million purchase consideration adjustment related to the ECN Acquisition and a $1.8 million reimbursement to Acasta Capital Inc. of expenses on a cost-recovery basis. Other liabilities also included $4.9 million in current deferred lease

income related to aircraft leases and $6.1 million in non-current deferred income related to Embassy within the Company's Aviation reportable segment. Other non-current liabilities included a $7.3 million finance lease liability related to a manufacturing plant within the Consumer Products reportable segment and $6.3 million in security deposits within the Aviation reportable segment.

As at December 31, 2016, $405.0 million in cash was held in escrow, representing the funds raised pursuant to the IPO plus interest earned on the balance. The Company also held $0.2 million in cash and cash equivalents, $0.6 million in trade and other receivables and $0.7 million in deferred financing costs associated with the Credit Facility as at December 31, 2016. As at December 31, 2016, $409.3 million in Class A Shares subject to redemption were classified as financial liabilities at their fair value based on their quoted market price. The Company also had $8.8 million in accounts payable and accrued liabilities, $0.4 million in amounts due to a related party and $13.1 million in deferred underwriters' commission associated with the gross proceeds of the Class A Units issued pursuant to the IPO and the exercise by the IPO underwriters of the IPO Over-Allotment Option.

## OUTSTANDING SECURITIES

The table below sets out the change in the number of Class B Shares outstanding as at December 31, 2017 compared with December 31, 2016:

| | Class B Shares |
|---|---|
| **Balance — December 31, 2016** | **11,960,156** |
| Conversion of Class A Shares under the Qualifying Acquisition | 11,795,778 |
| Issued as consideration under the Qualifying Acquisition | 52,966,814 |
| Issued pursuant to the Qualifying Acquisition private placement | 15,955,050 |
| Issued as consideration under the ECN Acquisition | 3,037,500 |
| **Balance — December 31, 2017** | **95,715,298** |

There were 20,884,062 Warrants outstanding as of December 31, 2017, which is the same number of Warrants that were outstanding as at December 31, 2016.

The table below sets out the maximum number of Class B Shares that would be outstanding if all dilutive instruments outstanding as of the date of this MD&A were exercised:

| | Class B Shares |
|---|---|
| **Class B Shares outstanding as at April 2, 2018** | **69,715,298** |
| Dilutive impact of Class B Shares related to the Company's DSU Plan | 102,117 |
| **Diluted Class B Shares outstanding as at April 2, 2018** | **69,817,415** |

## RESULTS OF OPERATIONS

| STATEMENTS OF INCOME (LOSS) (in thousands of Canadian dollars) | Year Ended December 31, 2017 | | | | Year Ended December 31, 2016 |
|---|---|---|---|---|---|
| | Reportable Segments | | | | |
| | Consumer Products | Aviation | Other | Acasta Consolidated | Acasta Consolidated |
| Revenue | $ 263,893 | $ 102,628 | $ — | $ 366,521 | $ 1,845 |
| Cost of revenue | 187,616 | — | — | 187,616 | — |
| Selling, general and administrative expense | 64,637 | 88,156 | 19,103 | 171,896 | 10,886 |
| Finance costs | 5,576 | 25,954 | 11,702 | 43,232 | — |
| Net unrealized loss on change in fair value of financial instruments | — | 2,909 | — | 2,909 | 26,968 |
| Impairment of intangible assets and goodwill | 200,745 | 240,001 | — | 440,746 | — |
| Net (gain) loss on foreign exchange | (1,063) | 609 | (6,301) | (6,755) | — |
| Other expense (income), net | 227 | (714) | (41,110) | (41,597) | — |
| **INCOME (LOSS) BEFORE INCOME TAX** | $(193,845) | $(254,287) | $ 16,606 | $(431,526) | $(36,009) |
| Current income tax expense | 9,009 | 880 | — | 9,889 | — |
| Deferred income tax recovery | (22,232) | (6,117) | — | (28,349) | — |
| **NET INCOME (LOSS)** | $(180,622) | $(249,050) | $ 16,606 | $(413,066) | $(36,009) |

| STATEMENTS OF INCOME (LOSS) (in thousands of Canadian dollars) | Acasta Consolidated | | | | |
|---|---|---|---|---|---|
| | Three Months Ended | | | | Year Ended December 31, 2017 |
| | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 | |
| Revenue | $92,971 | $90,602 | $ 91,233 | $ 91,715 | $ 366,521 |
| Cost of revenue | 44,714 | 43,629 | 50,045 | 49,228 | 187,616 |
| Selling, general and administrative expense | 38,932 | 39,705 | 43,647 | 49,612 | 171,896 |
| Finance costs | 6,652 | 10,045 | 12,182 | 14,353 | 43,232 |
| Net unrealized (gain) loss on change in fair value of financial liabilities | (236) | — | — | 3,145 | 2,909 |
| Impairment of intangible assets and goodwill | — | — | — | 440,746 | 440,746 |
| Net loss (gain) on foreign exchange | 124 | (1,468) | (1,041) | (4,370) | (6,755) |
| Other income, net | (2,357) | (1,317) | (2,669) | (35,254) | (41,597) |
| **INCOME (LOSS) BEFORE INCOME TAX** | $ 5,142 | $ 8 | $(10,931) | $(425,745) | $(431,526) |
| Current income tax expense | 4,034 | 3,494 | 1,189 | 1,172 | 9,889 |
| Deferred income tax recovery | (3,090) | (2,244) | (2,381) | (20,634) | (28,349) |
| **NET INCOME (LOSS)** | $ 4,198 | $(1,242) | $ (9,739) | $(406,283) | $(413,066) |

Acasta reported a net loss of $413.1 million, or $4.65 per share (on a basic and diluted basis), for the year ended December 31, 2017 compared with a net loss of $36.0 million, or $3.85 per share (on a basic and diluted basis), for the year ended December 31, 2016. Adjusted net income of $8.1 million, or $0.09 per share (on a basic and diluted basis) and adjusted EBITDA of $134.4 million were reported by Acasta for the year ended December 31, 2017.

Acasta reported a net loss of $406.3 million, or $4.49 per share (on a basic and diluted basis), for the three months ended December 31, 2017 compared with a net loss of $23.3 million, or $2.49 per share (on a basic and diluted basis), for the three months ended December 31, 2016. Adjusted net income of $12.9 million, or

$0.14 per share (on a basic and diluted basis) and adjusted EBITDA of $46.4 million were reported by Acasta for the three months ended December 31, 2017.

The comparative period operating results of the Company prior to the year ended December 31, 2017 are representative of Acasta's operations prior to completing its Qualifying Acquisition and, as such, are not consistent or comparable with the nature of activities and operating results reported in the year ended December 31, 2017.

See the "Non-IFRS Financial Performance Measures" section of this MD&A for calculations of adjusted net income (loss), EBITDA and adjusted EBITDA and their reconciliation to net income (loss) as reported under IFRS. See also the "Note to Investors Concerning Non-IFRS Financial Performance Measures" section of this MD&A.

**Revenue**

For the year ended December 31, 2017, Acasta reported total revenue of $366.5 million, comprised primarily of $263.9 million in revenue from the sale of consumer products, $72.6 million in lease rental income, $9.9 million in transaction fees and $8.2 million in servicing fees earned within the Aviation reportable segment.

For the three months ended December 31, 2017, Acasta reported total revenue of $91.7 million, comprised primarily of $68.2 million in revenue from the sale of consumer products and $19.1 million in lease rental income, $3.1 million in transaction fees and $2.2 million in servicing fees earned within the Aviation reportable segment.

Revenue generation by source and reportable segment are set out below:

| | Acasta Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended | | | | Year Ended December 31, 2017 | |
| (Amounts in thousands of Canadian dollars) | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 | Amount | % |
| **REVENUE BY SOURCE** | | | | | | |
| Revenue from the sale of consumer products | $63,774 | $65,481 | $66,446 | $68,192 | $263,893 | 72.0% |
| Transaction fees | 3,608 | 959 | 4,547 | 789 | 9,903 | 2.7% |
| Lease rental income | 15,863 | 19,803 | 17,859 | 19,070 | 72,595 | 19.8% |
| Servicing fees | 2,040 | 2,228 | 1,695 | 2,193 | 8,156 | 2.2% |
| Interest income | — | — | 686 | 1,734 | 2,420 | 0.7% |
| Other revenue | 7,686 | 2,131 | — | (263) | 9,554 | 2.6% |
| **Total revenue** | $92,971 | $90,602 | $91,233 | $91,715 | $366,521 | 100.0% |
| **REVENUE BY REPORTABLE SEGMENT** | | | | | | |
| Apollo | $42,045 | $43,381 | $43,607 | $44,553 | $173,586 | 47.4% |
| JemPak | 21,729 | 22,099 | 22,841 | 23,638 | 90,307 | 24.6% |
| Consumer Products | $63,774 | $65,480 | $66,448 | $68,191 | $263,893 | 72.0% |
| Aviation | 29,197 | 25,122 | 24,785 | 23,524 | 102,628 | 28.0% |
| **Total revenue** | $92,971 | $90,602 | $91,233 | $91,715 | $366,521 | 100.0% |

For the year and three months ended December 31, 2016, Acasta reported revenue of $1.8 million and $0.4 million, respectively, related entirely to interest income earned on restricted cash and cash equivalents held in escrow (carried at $405.0 million as at December 31, 2016).

**Cost of Revenue and Selling, General and Administrative Expense**

With respect to the Consumer Products reportable segment, Acasta's cost of revenue is comprised primarily of the cost of inventory, raw materials and consumables and manufacturing overhead, which includes an allocation of salaries and wages and depreciation of property, plant and equipment directly used in the manufacturing process.

For the year ended December 31, 2017, Acasta reported total cost of revenue of $187.6 million and selling, general and administrative expense of $171.9 million. Cost of revenue was incurred entirely by the Consumer Products reportable segment and was comprised primarily of the cost of inventory, raw materials and consumables, freight charges and the depreciation of property, plant and equipment. Selling general and administrative expense is incurred by each of Acasta's reportable segments and was comprised primarily of the depreciation of property plant and equipment and amortization of intangible assets, salaries and benefits, professional fees, rent, utilities and general office expenses.

For the three months ended December 31, 2017, Acasta reported total cost of revenue of $49.2 million and selling, general and administrative expense of $49.6 million. Cost of revenue was incurred entirely by the Consumer Products reportable segment and was comprised primarily of the cost of inventory, raw materials and consumables, freight charges and the depreciation of property, plant and equipment. Selling general and administrative expense is incurred by each of Acasta's reportable segments and was comprised primarily of the depreciation of property plant and equipment and amortization of intangible assets, salaries and benefits, professional fees, rent, utilities and general office expenses.

Cost of revenue and selling, general and administrative expense by nature and reportable segment are set out below:

| | Acasta Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended | | | | Year Ended December 31, 2017 | |
| (Amounts in thousands of Canadian dollars) | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 | Amount | % |
| **COST OF REVENUE AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSE BY NATURE** | | | | | | |
| Cost of inventory, raw materials and consumables | $37,901 | $36,061 | $40,932 | $38,982 | $153,876 | 42.8% |
| Depreciation of property, plant and equipment and amortization of intangible assets | 20,091 | 22,381 | 20,449 | 21,394 | 84,315 | 23.3% |
| Freight charges | 3,066 | 3,566 | 3,622 | 3,985 | 14,239 | 4.0% |
| Salaries and benefits | 8,966 | 10,191 | 14,277 | 19,668 | 53,102 | 14.8% |
| Rent and utilities expense | 2,448 | 2,235 | 2,961 | 2,975 | 10,619 | 3.0% |
| Professional fees | 6,445 | 4,100 | 5,139 | 3,020 | 18,704 | 5.2% |
| General office expenses | 1,930 | 2,449 | 1,988 | 3,734 | 10,101 | 2.8% |
| Research and development costs | 858 | 152 | — | 45 | 1,055 | 0.3% |
| Share-based compensation | — | — | 150 | 150 | 300 | 0.1% |
| Other expenses | 1,941 | 2,199 | 4,174 | 4,887 | 13,201 | 3.7% |
| **Total cost of revenue and selling, general and administrative expense** | $83,646 | $83,334 | $93,692 | $98,840 | $359,512 | 100.0% |
| **COST OF REVENUE BY REPORTABLE SEGMENT** | | | | | | |
| Apollo | $27,877 | $26,966 | $32,293 | $31,499 | $118,635 | 63.2% |
| JemPak | 16,837 | 16,663 | 17,752 | 17,729 | 68,981 | 36.8% |
| Consumer Products | $44,714 | $43,629 | $50,045 | $49,228 | $187,616 | 100.0% |
| Aviation | — | — | — | — | — | 0.0% |
| **Total cost of revenue** | $44,714 | $43,629 | $50,045 | $49,228 | $187,616 | 100.0% |
| **SELLING, GENERAL AND ADMINISTRATIVE EXPENSE BY REPORTABLE SEGMENT** | | | | | | |
| Apollo | $10,237 | $11,649 | $11,648 | $12,578 | $ 46,112 | 26.8% |
| JemPak | 4,742 | 4,559 | 4,451 | 4,773 | 18,525 | 10.8% |
| Consumer Products | $14,979 | $16,208 | $16,099 | $17,351 | $ 64,637 | 37.6% |
| Aviation | 17,974 | 19,825 | 22,067 | 28,290 | 88,156 | 51.3% |
| Other | 5,979 | 3,672 | 5,481 | 3,971 | 19,103 | 11.1% |
| **Total selling, general and administrative expense** | $38,932 | $39,705 | $43,647 | $49,612 | $171,896 | 100.0% |

For the year and three months ended December 31, 2016, the Company did not record any cost of revenue as the Company was classified as a special purpose acquisition corporation and did not have operating subsidiaries or investments in other entities. Selling, general and administrative expense of $10.9 million and

$8.8 million for the year and three months ended December 31, 2016, respectively, related primarily to costs incurred in connection with negotiating, evaluating and conducting due diligence on potential qualifying acquisition targets.

**Impairment Losses**

Quarterly or whenever events or changes in circumstances suggest that the carrying value of an asset may not be recoverable, the Company performs reviews for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In addition, the carrying value of intangible assets with indefinite lives and goodwill are tested for recoverability on an annual basis as at December 31.

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are required to be identified consistently from period to period for the same asset or types of assets, unless a change is justified. For the year ended December 31, 2017, Goodwill existed and was tested for impairment at three distinct CGUs: i) Stellwagen ii) Apollo, and iii) JemPak.

The recoverable amount is defined as the higher of a) fair value less costs to sell and b) value in use. For the purposes of impairment testing, the Company determined the fair value less costs to sell for each CGU. IFRS defines fair value less costs to sell as the price that would be received to sell an asset in an orderly transaction in the principal market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique.

In assessing the fair value less costs to sell, the estimated future cash flows of each CGU are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense. If the recoverable amount of an intangible asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss equal to the difference between the carrying and recorded amounts is recognized immediately in net income (loss).

The Company identified Stellwagen's lower than expected economic performance and the sale of Stellwagen subsequent to year end as indicators of potential impairment for Stellwagen's intangible assets as at December 31, 2017. As a result of the identification of these indicators, the Company estimated the recoverable amounts of Stellwagen's intangible assets and concluded that the backlog and non-compete intangible assets were impaired as at December 31, 2017, using updated assumptions and estimates. As at December 31, 2017, impairment losses of $11.3 million and $8.2 million were calculated and attributed to intangible assets established through the Qualifying Acquisition in the Company's Aviation reportable segment, related to the backlog and non-compete intangible assets, respectively.

As per Acasta's accounting policies, the Company estimated the recoverable amounts of all CGUs using updated assumptions and estimates and concluded that the Stellwagen and Apollo CGUs were impaired as at December 31, 2017.

The following impairment losses were recorded as part of the annual goodwill impairment test and valuation of certain intangible assets as at December 31, 2017:

| | As at December 31, 2017 | | | |
|---|---|---|---|---|
| | Pre-impairment Carrying Value | Impairment Loss | Post-impairment Carrying Value | Impairment Loss (net of tax) |
| **Goodwill:** | | | | |
| Stellwagen | $290,197 | $(220,556) | $ 69,641 | $(220,556) |
| Apollo | 231,163 | (200,745) | 30,418 | (186,002) |
| | $521,360 | $(421,301) | $100,059 | $(406,558) |
| **Intangible assets:** | | | | |
| Stellwagen — Backlog | $ 11,291 | $ (11,291) | $ — | $ (9,880) |
| Stellwagen — Non-compete | 8,154 | (8,154) | — | (7,135) |
| | | $(440,746) | | $(423,573) |

The estimated recoverable amount of the Stellwagen CGU was $246.6 million (U.S. $196.6 million) as at December 31, 2017, representing the fair value less costs to sell. The estimated recoverable amount of the Stellwagen CGU was calculated by discounting the estimated future net cash flows over its estimated life using a discount rate of 15.5% (in nominal terms), commensurate with the estimated level of risk associated with the Stellwagen CGU. The recoverable amount calculation was based on an estimate of future net cash flows applying capital and operating costs based on forecasted results and a terminal growth rate of 2.5%. As the Stellwagen CGU's carrying amount exceeded its estimated recoverable amount at December 31, 2017, an impairment loss of $220.6 million (U.S. $175.8 million) was recognized and allocated entirely to goodwill.

The estimated recoverable amount of the Apollo CGU was $147.3 million as at December 31, 2017, representing the fair value less costs to sell. The estimated recoverable amount of the Apollo CGU was calculated by discounting the estimated future net cash flows over its estimated life using a discount rate of 10.5% (in nominal terms), commensurate with the estimated level of risk associated with the Apollo CGU. The recoverable amount calculation was based on an estimate of future net cash flows applying foreign exchange rates of C$1.22:U.S.$1.00 to C$1.27:U.S.$1.00, capital and operating costs based on forecasted results and a terminal growth rate of 2.5%. As the Apollo CGU's carrying amount exceeded its estimated recoverable amount at December 31, 2017, an impairment loss of $200.7 million was recognized and allocated entirely to goodwill.

The estimated after-tax discounted future net cash flows of the JemPak CGU were also calculated as at December 31, 2017 as it had goodwill allocated to it through the Qualifying Acquisition. No goodwill impairment loss was required relating to the JemPak CGU as at December 31, 2017.

Discount rates were based on each CGU's weighted average cost of capital, of which the two main components are the cost of equity and the after-tax cost of debt. Cost of equity was calculated based on the capital asset pricing model, incorporating the risk-free rate of return based on government bond yields as at the valuation date, the Company's beta coefficient adjustment to the market equity risk premium based on the volatility of the Company's return in relation to that of a comparable market portfolio, plus a size premium and Company-specific risk factor. Cost of debt was determined by applying an appropriate market indication of the Company's borrowing capabilities and the corporate income tax rate applicable to each CGU's jurisdiction.

Management's estimates of future net cash flows are subject to risk and uncertainties. Therefore, it is reasonably possible that changes could occur which may affect the recoverability of the Company's assets and goodwill. This may have a material effect on the Company's consolidated financial statements.

The total impairment loss recorded during the year ended December 31, 2017 was $440.7 million, including $421.3 million attributed to goodwill and $19.5 million attributed to intangible assets.

**Other Results of Operations**

For the year and three months ended December 31, 2017, Acasta recorded finance costs of $43.2 million and $14.4 million, respectively, related primarily to interest on debt and the amortization and accretion of deferred financing costs.

Acasta recorded other income of $41.6 million during the year ended December 31, 2017 related primarily to a $37.1 million unrealized gain on the Stellwagen Earn-out valuation as at December 31, 2017 and a $3.7 million gain on the redemption of Class A Shares. Other income of $35.3 million during the three months ended December 31, 2017 related primarily to a $35.0 million unrealized gain on the Stellwagen Earn-out valuation as at December 31, 2017.

For the year and three months ended December 31, 2017, Acasta recorded net gains of $6.8 million and $4.4 million related to the translation of foreign currency transactions, respectively. The net gains recorded on the translation of foreign currency transactions were due primarily to a gain on the translation of US dollar denominated Aviation Facility debt within the Company's Other reportable segment, which were partially offset by losses generated by US dollar denominated business activities in the Consumer Products segment and were attributable to a weakening of the US dollar versus the Canadian dollar at December 31, 2017 relative to December 31, 2016.

For the year ended December 31, 2017, the Company recorded a deferred income tax recovery of $28.3 million, which was partially offset by current income tax expense of $9.9 million and resulted in a net income tax recovery of $18.5 million for the period attributable primarily to the impairment of goodwill and intangible assets and the reversal of temporary differences on intangible assets, partially offset by taxable income generated by the businesses. For the three months ended December 31, 2017, the Company recorded a deferred income tax recovery of $20.6 million, which was partially offset by current income tax expense of $1.2 million and resulted in a net income tax recovery of $19.5 million for the period attributable primarily to the impairment of goodwill and intangible assets and the reversal of temporary differences on intangible assets, partially offset by taxable income generated by the businesses. The Company's effective tax rate may fluctuate significantly in future periods due to varying rates in different jurisdictions, foreign currency exchange rate movements, changes in tax laws, the impact of specific transactions and assessments and the relative distribution of income among the Company's operating jurisdictions.

For the year and three months ended December 31, 2016, Acasta recorded net unrealized losses of $27.0 million and $14.9 million on the change in fair value of financial liabilities, respectively, reflecting changes in the trading price of the Class A Shares.

**Stellwagen Earn-out**

During the second quarter of 2017, the Company renegotiated the terms of the Stellwagen Earn-out (an entitlement of the vendors of Stellwagen, calculated based on Stellwagen's audited net income for each of the three preceding financial years, including the year of election which must occur in one of 2019, 2020 or 2021) with the vendors of Stellwagen (the former Stellwagen shareholders from which all issued and outstanding equity interests of Stellwagen were acquired by Acasta as part of the Qualifying Acquisition) with the intent of providing an offset for the delay in Acasta securing the financing contemplated on the QA Closing and the associated impact on Stellwagen's net income. The renegotiated Stellwagen Earn-out calculation is equal to 50%

multiplied by 8.5 multiplied by 54% multiplied by the result of Stellwagen's audited net income for each of the three preceding financial years including the year of election, adjusted for certain prescribed items, less a prescribed dollar threshold associated with the year of election and less the product of certain investments at a prescribed multiplier associated with the year of election. The Equity Interest Purchase Agreement dated November 10, 2016 contemplated an identical Stellwagen Earn-out calculation to the renegotiation outlined above, except that a 33% multiplier was included, which has subsequently been replaced and amended to be 54%.

The Stellwagen Earn-out calculation is reviewed at the end of each reporting period and adjusted to reflect the current best estimate of expected future net income, which may fluctuate materially between periods. As at December 31, 2017, an undiscounted estimated range of $8.9 million (U.S. $7.1 million) to $16.1 million (U.S. $12.9 million) was determined as the amount expected to be payable under the Stellwagen Earn-out purchase obligation (driven primarily by volatility assumptions based on the historical results of comparable entities), and the Company recognized estimated discounted contingent consideration of $8.8 million (U.S. $7.0 million). As a result of this change in estimate as at December 31, 2017, gains of $37.1 million and $35.0 million were recognized for the year and three months ended December 31, 2017, respectively, in other income, net in the statements of income (loss) and comprehensive income (loss). See notes 6, 18 and 23 to the Financial Statements for further details.

On March 27, 2018, the Stellwagen Sale Transaction closed at which point the Stellwagen Earn-out was terminated.

## NON-IFRS FINANCIAL PERFORMANCE MEASURES (UNAUDITED)

Adjusted net income (loss), EBITDA and adjusted EBITDA are not recognized measures under IFRS and this data may not be comparable to data presented by other companies.

Adjusted net income (loss) is calculated by adjusting net income (loss) as recorded in the consolidated statements of income (loss) and comprehensive income (loss) for the exclusion of certain other income and expense items determined in accordance with IFRS. The Company believes that this generally accepted measure allows the evaluation of the results of continuing operations and is useful in making comparisons between periods. Adjusted net income (loss) is intended to provide investors with information about the Company's continuing income generating capabilities. Management uses this measure to monitor and plan for the operating performance of the Company in conjunction with other data prepared in accordance with IFRS.

EBITDA is calculated by adjusting net income (loss) as recorded in the consolidated statements of income (loss) and comprehensive income (loss) for finance costs, current and deferred income tax, depreciation and amortization expenses. The Company believes that this measure allows the evaluation of the results of continuing operations and is useful in making comparisons between periods. EBITDA is intended to provide investors with information about the Company's continuing income generating capabilities. Management uses this measure to monitor and plan for the operating performance of the Company in conjunction with other data prepared in accordance with IFRS.

Adjusted EBITDA is calculated by adjusting net income (loss) as recorded in the consolidated statements of income (loss) and comprehensive income (loss) for the exclusion of certain other income and expense items determined in accordance with IFRS (the calculation for adjusted net income (loss)) and then further adjusting for finance costs, current and deferred income tax, depreciation and amortization expenses. The Company believes that this generally accepted measure allows the evaluation of the results of continuing operations and is useful in making comparisons between periods. Adjusted EBITDA is intended to provide investors with information about the Company's continuing income generating capabilities. Management uses this measure to

monitor and plan for the operating performance of the Company in conjunction with other data prepared in accordance with IFRS.

| NON-IFRS FINANCIAL PERFORMANCE MEASURES (in thousands of Canadian dollars, except share and per share amounts) | Year Ended December 31, 2017 | | | | Year Ended December 31, 2016 |
|---|---|---|---|---|---|
| | Reportable Segments | | | | |
| | Consumer Products | Aviation | Other | Acasta Consolidated | Acasta Consolidated |
| **Net income (loss)** | **$(180,622)** | **$(249,050)** | **$16,606** | **$ (413,066)** | **$ (36,009)** |
| Impairment of intangible assets and goodwill, net of tax | 186,002 | 237,571 | — | 423,573 | — |
| Gain on redemption of Class A Shares | — | — | (3,699) | (3,699) | — |
| Net gain on disposal of property, plant and equipment | — | (206) | — | (206) | — |
| Qualifying Acquisition transaction costs | — | — | 4,627 | 4,627 | — |
| ECN Acquisition transaction costs | — | 628 | — | 628 | — |
| Costs to prepare aircraft for sale | — | 706 | — | 706 | — |
| Net (gain) loss on foreign exchange | (1,063) | 609 | (6,301) | (6,755) | — |
| Amortization of inventory fair value increment | 1,946 | — | — | 1,946 | — |
| Other non-recurring costs | 359 | — | — | 359 | — |
| **Adjusted net income (loss)** | **$ 6,622** | **$ (9,742)** | **$11,233** | **$ 8,113** | **$ (36,009)** |
| **Net loss per share — basic and diluted[1]** | | | | **$ (4.65)** | **$ (3.85)** |
| **Adjusted net income (loss) per share — basic** | | | | **$ 0.09** | **$ (3.85)** |
| **Adjusted net income (loss) per share — diluted[1]** | | | | **$ 0.09** | **$ (3.85)** |
| **Weighted average number of Class B Shares outstanding — basic** | | | | **88,795,384** | **9,349,648** |
| **Weighted average number of Class B Shares outstanding — diluted[1]** | | | | **88,808,863** | **9,349,648** |
| Finance costs | $ 5,576 | $ 25,954 | $11,702 | $ 43,232 | $ — |
| Current income tax expense | 9,009 | 880 | — | 9,889 | — |
| Deferred income tax recovery | (22,232) | (6,117) | — | (28,349) | — |
| Depreciation of property, plant and equipment and amortization of intangible assets | 30,966 | 53,349 | — | 84,315 | — |
| **EBITDA** | **$(157,303)** | **$(174,984)** | **$28,308** | **$ (303,979)** | **$ (36,009)** |
| **Adjusted EBITDA** | **$ 44,684** | **$ 66,754** | **$22,935** | **$ 134,373** | **$ (36,009)** |

| NON-IFRS FINANCIAL PERFORMANCE MEASURES (in thousands of Canadian dollars) | Acasta Consolidated | | | | |
|---|---|---|---|---|---|
| | Three Months Ended | | | | Year Ended |
| | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 | December 31, 2017 |
| **Net income (loss)** | $ 4,198 | $ (1,242) | $ (9,739) | $ (406,283) | $ (413,066) |
| Impairment of intangible assets and goodwill, net of tax | — | — | — | 423,573 | 423,573 |
| Gain on redemption of Class A Shares | (3,699) | — | — | — | (3,699) |
| Net loss (gain) on disposal of property, plant and equipment (aircraft) | 1,083 | (1,289) | — | — | (206) |
| Qualifying Acquisition transaction costs | 4,627 | — | — | — | 4,627 |
| ECN Acquisition transaction costs | — | 628 | — | — | 628 |
| Costs to prepare aircraft for sale | 706 | — | — | — | 706 |
| Net loss (gain) on foreign exchange | 124 | (1,468) | (1,041) | (4,370) | (6,755) |
| Amortization of inventory fair value increment | 1,946 | — | — | — | 1,946 |
| Other non-recurring costs | 359 | — | — | — | 359 |
| **Adjusted net income (loss)** | **$ 9,344** | **$ (3,371)** | **$ (10,780)** | **$ 12,920** | **$ 8,113** |
| **Net income (loss) per share — basic and diluted[(1)]** | **$ 0.05** | **$ (0.01)** | **$ (0.11)** | **$ (4.49)** | **$ (4.65)** |
| **Adjusted net income (loss) per share — basic** | **$ 0.11** | **$ (0.04)** | **$ (0.12)** | **$ 0.14** | **$ 0.09** |
| **Adjusted net income (loss) per share — diluted[(1)]** | **$ 0.11** | **$ (0.04)** | **$ (0.12)** | **$ 0.14** | **$ 0.09** |
| **Weighted average number of Class B shares outstanding — basic** | **85,642,902** | **88,435,533** | **90,494,283** | **90,494,283** | **88,795,384** |
| **Weighted average number of Class B shares outstanding — diluted[(1)]** | **85,642,902** | **88,435,533** | **90,494,283** | **90,534,097** | **88,808,863** |
| Finance costs | $ 6,652 | $ 10,045 | $ 12,182 | $ 14,353 | $ 43,232 |
| Current income tax expense | 4,034 | 3,494 | 1,189 | 1,172 | 9,889 |
| Deferred income tax recovery | (3,090) | (2,244) | (2,381) | (20,634) | (28,349) |
| Depreciation of property, plant and equipment and amortization of intangible assets | 20,091 | 22,381 | 20,449 | 21,394 | 84,315 |
| **EBITDA** | **$ 31,885** | **$ 32,434** | **$ 21,700** | **$ (389,998)** | **$ (303,979)** |
| **Adjusted EBITDA** | **$ 37,031** | **$ 30,305** | **$ 20,659** | **$ 46,378** | **$ 134,373** |

(1) The dilutive impact of Class B Shares related to the Company's DSU Plan was excluded from the computation of diluted weighted average number of Class B Shares outstanding in periods where the Company reported a net loss or adjusted net loss because their effect would have been anti-dilutive.

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2017, the Company's cash and cash equivalents totaled $26.1 million. As at December 31, 2016, cash and cash equivalents and current restricted cash totaled $405.2 million, of which $405.0 million was held in escrow in anticipation of the Company completing a qualifying acquisition.

### Operating Activities

Acasta recorded cash provided by operating activities of $9.7 million in 2017 compared with cash used in operating activities of $0.4 million in 2016. In 2017, the Company's cash provided by operating activities was generated primarily by revenue of $366.5 million, partially offset by cost of revenues and selling, general and administrative expenses (net of embedded depreciation) of $275.2 million, cash taxes paid of $4.9 million and a net cash outflow associated with the changes in non-cash working capital items of $77.8 million during the period.

**Investing Activities**

Acasta recorded cash used in investing activities of $727.1 million in 2017 compared with cash used in investing activities of $1.8 million in 2016. In 2017, the Company's primary cash investments included a new aircraft within the Aviation reportable segment (resulting in a $299.8 million addition to property, plant and equipment and a $68.5 million addition to intangible assets), $198.9 million in loan investments to aircraft lessors held in the Embassy's portfolio and consolidated by Acasta, and the net cash outflow on the QA Closing related to Apollo ($161.5 million), Stellwagen ($90.8 million) and JemPak ($55.4 million). Partially offsetting the overall investing cash outflows in 2017, $106.2 million in cash previously held in escrow was released on the QA Closing and $53.1 million in proceeds were received on the sale of two aircraft during the period.

On June 1, 2017, Stellwagen acquired substantially all of the net assets of ECN Capital Advisory Group LLC's commercial aviation finance advisory and asset management business for a preliminary purchase price of U.S. $22.5 million ($30.4 million), which was satisfied by the issuance of 3,037,500 Class B Shares, as determined using a $10.00 per share reference price. ECN arranges, co-invests and manages a portfolio of commercial aviation assets on behalf of institutional investors through a U.S.-based team. The fair value of the Class B Shares at the date of acquisition was $26.6 million. Pursuant to the terms of the ECN acquisition, the purchase price was subject to a top-up payment of up to 10.0% of the purchase price if the price of the Class B Shares was less than $10.00 per share one year following closing of the ECN Acquisition. At the time of closing of the ECN Acquisition, the estimated fair value of this contingent consideration was a financial liability totaling $3.0 million, for total estimated purchase consideration of $29.6 million. See the "Operating Segment Overview — Aviation Reportable Segment" section of this MD&A for the satisfaction of obligations related to the ECN acquisition due to the Stellwagen Sale Transaction.

On July 5, 2017, the Company invested U.S. $100.0 million in the Stelloan Fund in return for PPN. On November 20, 2017, the nominal value of the Company's PPN investment was reduced to U.S. $51.0 million as a result of the closing of a three-year revolving credit facility agreement by Embassy on November 17, 2017 (the "**Portfolio Loan Revolver**"). The resulting U.S. $49.0 million in proceeds from the Portfolio Loan Revolver was primarily redeployed within the Aviation reportable segment on initiatives including aircraft purchase deposits and pre-delivery payments.

On November 17, 2017, the Stelloan Fund sold its three existing portfolio loans to Embassy, an entity controlled by the Company. Total consideration paid was comprised of U.S. $118.0 million of cash and a U.S. $35.4 million E-Note. As the Company consolidates both its investment in the Stelloan Fund and the operations of Embassy as part of the Aviation reportable segment, these intragroup investments are eliminated upon consolidation in the Financial Statements.

**Financing Activities**

Acasta recorded cash provided by financing activities of $745.1 million in 2017 compared with cash used in financing activities of $0.7 million in 2016. In 2017, the Company received net proceeds from debt and credit facilities of $646.2 million, sourced through two aircraft loans and the Portfolio Loan Revolver within the Aviation reportable segment, the Credit Facility within the Consumer Products reportable segment and the Aviation Facility within the Other reportable segment (see the "Long-term Debt" note to the Financial Statements for details). Proceeds of $298.8 million in cash previously held in escrow were released from escrow and used to fund the redemption of Class A Shares and the IPO underwriters' deferred commission. Concurrent with the QA Closing, the Company paid $285.7 million on the redemption of Class A Shares, partially offset by $159.6 million in gross proceeds from the issuance of Class B Shares related to the Qualifying Acquisition private placement.

On January 3, 2017, the Company entered into a credit agreement providing a borrowing capacity of up to $150.0 million, which was subsequently reduced to $100.0 million on May 14, 2017 (the "**Credit Facility**"). As at December 31, 2017, facilities available under the Credit Facility included a revolving credit facility with

availability of up to $35.0 million to be used for working capital and other general corporate purposes and term loans A and B made available to finance the JemPak and Apollo acquisitions. As at December 31, 2017, the undrawn capacity on the Credit Facility was $8.9 million. As a result of a technical breach of financial covenants as at December 31, 2017, the Company does not have the ability to defer payment beyond twelve months from period end and has reclassified the Credit Facility from non-current to current liabilities.

On May 14, 2017, Acasta entered into a secured two-year credit facility agreement (the "**Aviation Facility**") allowing for the borrowing of up to U.S. $150.0 million. During 2017, proceeds from the Aviation Facility were used to fund a U.S. $100.0 million investment in the Stelloan Fund. Interest is based on LIBOR plus an applicable margin. The Aviation Facility is secured by a first-priority lien over Acasta's real property. As at December 31, 2017, the undrawn capacity on the Aviation Facility was $37.6 million (U.S. $30.0 million). As a result of a technical breach of financial covenants as at December 31, 2017, the Company does not have the ability to defer payment beyond twelve months from period end and has reclassified the Aviation Facility from non-current to current liabilities.

On November 17, 2017, Embassy entered into the Portfolio Loan Revolver, allowing for the borrowing of up to U.S. $250.0 million (subject to a maximum amount based on the value of underlying aircraft loan assets). During 2017, proceeds from the Portfolio Loan Revolver were used to finance Embassy's fourth external loan receivable with an aircraft lessor, to repay a U.S. $18.5 million related party loan from Martello Financing Limited ("**Martello Financing**") and to support ongoing growth initiatives within the Company's Aviation reportable segment. Interest is based on LIBOR plus an applicable margin and is payable quarterly. The Portfolio Loan Revolver is secured by the underlying aircraft loan assets. As at December 31, 2017, the undrawn capacity on the Portfolio Loan Revolver was $175.8 million.

**Financial Instruments**

The Company occasionally enters into contracts acting as economic hedges of underlying exposures that are not held for speculative purposes. Acasta does not use complex derivative contracts to hedge exposures. The fair value of the Company's interest rate swap contracts are recorded in the other non-current assets financial statement line item and settle on a monthly basis. The interest rate swap contracts exchange variable rate interest amounts for fixed rate interest amounts and are designed as cash flow hedges in order to reduce the Company's cash flow exposure resulting from variable interest borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount in accumulated other comprehensive income is reclassified to net income (loss) over the period that the variable rate interest payments on debt affect net income (loss). Total cash flow hedge movements that may be subsequently reclassified as a $1.5 million gain, net of tax, were recognized in other comprehensive loss in 2017, with nil being reclassified to net income (loss) during the period.

**Off-Balance Sheet Arrangements**

The Company's off-balance sheet arrangements as at December 31, 2017 include operating leases of $39.6 million (see the "Leases" note to the Financial Statements for details). If Acasta were to terminate these off-balance sheet arrangements, the Company's liquidity position (as outlined in the table below) is sufficient to satisfy any related penalties or obligations.

### Liquidity and Capital Resources Analysis

As set out below, the Company believes that it had sufficient available capital resources to satisfy its 2018 expenditure commitments (including contractual obligations) as at December 31, 2017:

| (Amounts in thousands of Canadian dollars) | Amount |
|---|---|
| **COMMITMENTS** | |
| **Contractual obligations:** | |
| Operating leases payable[1] | $ 4,557 |
| Current portion of long-term debt[2] | 276,735 |
| Amounts due to related parties | 17,655 |
| **Other commitments:** | |
| Accounts payable and accrued liabilities | 37,107 |
| Income taxes payable | 7,232 |
| **Total commitments within one year of December 31, 2017** | **$343,286** |

| | Amount |
|---|---|
| **CAPITAL RESOURCES** | |
| Cash and cash equivalents | $ 26,139 |
| Working capital resources, excluding cash and cash equivalents | 142,615 |
| Operating leases receivable | 73,157 |
| Available under the Aviation Facility[2],[3] | 37,635 |
| Available under the Credit Facility[2],[3] | 8,926 |
| Available under the Portfolio Loan Revolver[3] | 175,838 |
| **Total capital resources available within one year of December 31, 2017** | **$464,310** |

(1) Operating leases payable later than one year and not longer than five years amounted to $17.2 million and operating leases payable later than five years amounted to $17.8 million as at December 31, 2017.

(2) At December 31, 2017, the Company was in breach of certain covenants, which included the leverage ratio financial covenant, under its credit agreements. Failure to meet these covenants at December 31, 2017 caused the long-term debt under the Credit Facility and Aviation Facility to be reclassified as a current liability, which Acasta would not be able to satisfy if called by its lenders. In response, the Company sought and obtained a waiver in respect of such covenants as at December 31, 2017 and accelerated the sale process of Stellwagen, which closed on March 27, 2018. Proceeds from the sale of Stellwagen have been used to reduce levels of overall indebtedness of the Company.

(3) Certain restrictions apply to the use of proceeds associated with these credit agreements.

## RELATED PARTY TRANSACTIONS

Pursuant to the purchase agreement between Acasta and Stellwagen entered into on the QA Closing, the Company made a payment to the vendors of Stellwagen during the year ended December 31, 2017 for settlement related to the net proceeds on the sale of two aircraft held for sale by Stellwagen. Net proceeds were determined to be $16.3 million (U.S. $12.5 million).

The Company was charged $4.5 million by Acasta Capital Inc. ("**Acasta Capital**") during the year ended December 31, 2017 related to support on the Qualifying Acquisition on a cost recovery basis, and for services rendered throughout the period. Amounts payable to Acasta Capital as at December 31, 2017 were $1.8 million (December 31, 2016 — $0.4 million).

During the year ended December 31, 2017, the Company was charged $1.0 million by Nevele Inc., a company controlled by Acasta's former Chief Executive Officer and director. The charge was approved by Acasta's board of directors as a success fee for the Qualifying Acquisition. Amounts payable to Nevele Inc. as at December 31, 2017 were nil.

Other revenue of $1.9 million (U.S. $1.5 million) was recognized by Seraph Aviation Inc., a wholly owned subsidiary of Stellwagen, during the year ended December 31, 2017. The fee was charged as an arrangement fee to AC Finance Air Europa B787-7 Limited, a related party by virtue of being controlled by a member of key management personnel at Stellwagen.

Two lenders party to the Aviation Facility, WFI Inc. and Martello Fund 1 Designated Activity Company, are related to Acasta by virtue of being members of key management personnel at Apollo and Stellwagen, respectively. As at December 31, 2017, $25.1 million (U.S. $20.0 million) of debt was outstanding to these related party lenders. Subsequent to December 31, 2017, U.S. $9.6 million of Aviation Facility debt held by WFI Inc., a lending party related to Acasta, was subordinated relative to the other Aviation Facility lenders.

On July 1, 2017, the Company issued a loan to a key employee of Stellwagen in the amount of $1.9 million (U.S. $1.5 million). Pursuant to the terms of the loan agreement, no interest is payable by the key employee and the loan is repayable in 36 months. At December 31, 2017, the balance outstanding was $1.9 million (U.S. $1.5 million) and is recorded in other non-current assets.

On September 28, 2017, Martello Financing entered into a loan agreement with the Stelloan Fund in the amount of $23.0 million (U.S. $18.5 million). Pursuant to the terms of the loan agreement, as amended, the loan is repayable on the earlier of two years and such time as certain assets of the Stelloan Fund are monetized. Martello Financing is owned and controlled by a member of key management of Stellwagen. This loan was repaid in full in October 2017. At December 31, 2017, the balance outstanding was nil. Interest was variable and LIBOR based.

During the year ended December 31, 2017, the Company incurred fees of $1.4 million to entities controlled by members of key management of JemPak. Expenses relate to rent on a plant facility owned by these related parties, as well as consulting services. A finance lease liability of $7.8 million has been recorded within other current liabilities and other non-current liabilities as at December 31, 2017, and represents a payable to the related party entities for rent over the lease term on the JemPak Oakville plant.

## SIGNIFICANT IFRS ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

The Company's significant IFRS accounting policies are disclosed in the "Significant Accounting Polices" note to the Financial Statements.

The preparation of the Financial Statements requires the Company to make judgments in applying its accounting policies, judgements, estimates and assumptions about the future. These judgments, estimates and assumptions affect the Company's reported amounts of assets, liabilities, and items in net income (loss), and the related disclosure of contingent assets and liabilities, if any. Such estimates are based on various assumptions that the Company believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities, and the reported amount of items in net income (loss) that are not readily apparent from other sources. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, and actual results may differ from these estimates under different assumptions or conditions. Set out below are the most significant accounting judgments, estimates and assumptions that the Company has made in the preparation of the Financial Statements.

The estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Going Concern

The assessment of events or conditions that may cast doubt on the Company's ability to continue as a going concern involves significant judgements and assumptions. In making this determination, management considers

all relevant information available at the time of the assessment, including, but not limited to, updated revenue forecasts, working capital requirements, the likelihood and timing of financial commitments, levels of indebtedness, foreign currency exchange rates, and compliance with lender covenants.

See the "Risk Profile — Going Concern" section of this MD&A for details on the Company's going concern assessment as at December 31, 2017.

**Consolidation**

The Company uses judgment in determining the entities that it controls and accordingly consolidates. An entity is controlled when the Company has power over an entity, exposure or rights of variable returns from its involvement with the entity, and is able to use its power over the entity to affect its return from the entity. The Company has power over an entity when it has existing rights that give it the current ability to direct the relevant activities, which are activities that significantly affect the investee's returns. Since power comes from rights, power can result from contractual arrangements. However, certain contractual arrangements also contain rights that are designed to protect the Company's interest, without giving it power over the entity.

**Determination of CGUs**

Management is required to use judgment in determining which assets or group of assets make up appropriate CGUs, for the level at which goodwill and intangible assets are tested for impairment. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Determining the impact of impairment requires significant judgment in identifying which assets or groups of assets form CGUs of the Company. Each of the three businesses, JemPak, Apollo and Stellwagen, were identified as CGUs as they operate under separate management, using separate assets, and generate cash inflows independent from one another that are monitored by Acasta on this basis. The units cannot be separated further due to the level of integration, and to a certain degree, interdependence between products and services lines within each business.

**Functional Currency**

Transactions in foreign currencies are translated to the respective functional currencies of foreign operations at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date.

Determining the appropriate functional currencies for entities in the Company requires analysis of various factors, including the currencies and country-specific factors that mainly influence sales prices, and the currencies that mainly influence labour, materials, and other costs of providing goods or services.

**Business Combinations**

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may determine the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the companies may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.

**Contingent Consideration**

Contingent consideration payable in a business combination is recognized at fair value as part of the purchase consideration. There may be considerable judgment in determining the fair value, which considers many possible future outcomes that result in the amount of contingent consideration determined for accounting purposes and estimated for ultimate settlement. The estimated fair value of the contingent consideration may change as a result of post-acquisition events. These changes are accounted for in net income (loss) in the period of change.

An estimated fair value of contingent consideration is determined using various appropriate valuation methods, including the Monte-Carlo model. The model uses estimates and assumptions regarding discount rates, projected revenues and margins. A valuation is performed on the fair value of contingent cash consideration each reporting period and adjusted to reflect the current best estimate of the expected future pay-out.

**Fair Value of Financial Instruments**

Certain financial instruments, such as loans receivable and debt, are recorded in the Company's consolidated statements of financial position at values that are representative of, or approximate their fair value. The fair value of a financial instrument that is traded in active markets at each reporting date is determined by its quoted market price. Changes in the underlying trading value may significantly affect the amount of net income (loss) for a particular year. Furthermore, the quoted market price of a financial liability may not be equal to the amount that the Company would have to pay in settlement of the underlying obligation, should such obligation become immediately payable.

**Warrant Valuation**

The Company issued Warrants pursuant to the offering of Class A Restricted Voting Units and Class B Shares. Estimating the fair value of the Warrants at the date of issuance required determining the most appropriate valuation model reflecting the terms and conditions of the Warrants. The Company applied an option-pricing model to measure the fair value of the Warrants issued and then applied a further discount to such fair value to reflect the uncertainty associated with the completion of a qualifying acquisition, which was a prerequisite in order for the Warrants to become exercisable. Application of the option-pricing model required estimates in various input variables including expected dividend yields, expected volatility in the underlying shares and the expected life of the Warrant. These estimates may ultimately differ from amounts subsequently realized.

**Impairment Testing of Goodwill**

Goodwill is assessed by the Company for impairment annually at December 31, and whenever there is an indication that the asset may be impaired. The Company determines the fair value of its cash-generating unit groupings to which goodwill is allocated using discounted cash flow models corroborated by other valuation techniques. The determination of the recoverable amount of a CGU (or group of CGUs) to which goodwill is allocated involves the use of estimates and assumptions of a long-term nature regarding discount rates, projected revenues, and margins, as applicable, derived from past experience, actual operating results and budgets. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies. The determination of the assets' recoverable amount involves the use of estimates by management and can have a material impact on the respective values and ultimately the amount of any impairment.

**Useful Life of Property, Plant and Equipment and Intangible Assets with Finite Useful Lives**

The Company employs significant estimates to determine the estimated useful lives of property, plant and equipment and intangible assets with finite useful lives, considering industry trends such as technological advancements, past experience, expected use and review of asset useful lives.

Components of an item of property, plant and equipment may have different useful lives. The Company makes estimates when determining depreciation methods, depreciation rates and asset useful lives, which requires taking into account industry trends and company-specific factors. The Company reviews depreciation methods, useful lives and residual values annually or when circumstances change and adjusts its depreciation methods and assumptions prospectively.

**Provisions**

Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

**Contingencies**

Contingencies can be either possible assets or possible liabilities arising from past events which, by their nature, will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential impact of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

**Inventory Obsolescence**

Inventories are stated at the lower of cost and estimated net realizable value. The Company estimates net realizable value as the amount at which inventories are expected to be sold, taking into consideration fluctuations in retail prices less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices.

**Sales Allowances**

A sales allowance is established to reflect credits due to customers relating to factors such as contractual discounts, negotiated discounts, customer audits, defective products, and costs incurred by customers to sell the Company's products. The allowance is based on specific reserves based upon the Company's evaluation of the likelihood of the outcome of sales allowance claims.

**Allowance for Doubtful Accounts**

The allowance for doubtful accounts has been assessed by Company's management based on the age of the accounts uncollected as at the end of the reporting period and management's experiences regarding the Company's customers' likelihood of payment. The allowance is assessed at the end of each reporting period and adjusted so that the net accounts receivable reflects the expected future collection of accounts.

**Income and Other Taxes**

The calculation of current and deferred income taxes requires the Company to make estimates and assumptions and to exercise judgment regarding the carrying values of assets and liabilities which are subject to

accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results, the timing of reversal of temporary differences and possible audits of income tax filings by the tax authorities.

Changes or differences in underlying estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated statements of financial position, a charge or credit to income tax expense included as part of net income (loss) and may result in cash payments or receipts. Judgment includes consideration of the Company's future cash requirements in its numerous tax jurisdictions.

All income, capital and commodity tax filings are subject to audits and reassessments. Changes in interpretations or judgments may result in a change in the Company's income, capital or commodity tax provisions in the future. The amount of such a change cannot be reasonably estimated.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

### Accounting Standards, Amendments and Interpretations Not Yet Adopted or Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting years beginning on or after January 1, 2018 that the Company has decided not to early adopt, as applicable. The following are standards, amendments and interpretations that may be relevant to the Company in preparing its financial statements in future years:

- IFRS 9 *Financial Instruments* ("IFRS 9"). IFRS 9 sets out requirements for the classification and measurement of financial assets and financial liabilities. The new standard specifies that financial assets are to be measured at either amortized cost or fair value on the basis of the reporting entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial liabilities designated at FVTPL remain generally unchanged; however, fair value changes attributable to changes in the Company's own credit risk for financial liabilities designated at FVTPL are to be recorded in other comprehensive income (loss) unless they offset amounts recorded in income. IFRS 9 introduces a new single impairment model for financial assets. The new model is based on expected credit losses and will result in credit losses being recognized regardless of whether a loss event has occurred. The expected credit loss model will apply to most financial instruments not measured at fair value, with the most significant impact being to loans. The expected credit loss model requires the recognition of credit losses based on a 12-month time horizon for performing loans and also requires the recognition of lifetime expected credit losses for loans that experience a significant deterioration in credit risk since inception. IFRS 9 also introduces a new hedge accounting model that expands the scope of eligible hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge re-designation. IFRS 9 is effective for the Company's fiscal year commencing on January 1, 2018.

  The Company has assessed the impact on the consolidated financial statements for the adoption of IFRS 9. No differences have been identified that will affect the Company's classification and measurement of its financial assets and financial liabilities. The impact of the new expected credit loss model for calculating impairment on financial assets has also been assessed and will not result in a material change. At this time, the Company does not anticipate any other changes that will significantly impact its consolidated financial statements.

  For hedge accounting, IFRS 9 allows companies to continue to use the existing requirements under IAS 39 rather than adopting the new requirements of IFRS 9 from January 1, 2018 up until IASB finalizes its macro hedge accounting project in future periods.

- IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 replaces the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of

revenue generated from contracts with customers, with the exception of revenue earned from contracts that are within the scope of other standards, such as financial instruments, insurance contracts and leases. The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from transactions with the Company's customers. IFRS 15 is effective for the Company's fiscal year beginning January 1, 2018.

The Company has elected to adopt IFRS 15 using the modified retrospective method which requires IFRS 15 to be applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning January 1, 2018 will be presented under IFRS 15 and the Company will apply the modified retrospective method to present prior periods. The Company has undertaken a detailed review of contracts entered with customers and other forms of agreements with customers and has evaluated the provisions under the five-step model specified by the new guidance. Based on the preliminary analysis performed, the adoption of IFRS 15 will not have a material impact on the Company's consolidated financial statements.

- IFRS 16 *Leases* ("IFRS 16"). IFRS 16 provides guidance for leases whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding right of use asset on the balance sheet. IFRS 16 is effective for the Company's fiscal year beginning January 1, 2019. Early adoption is permitted, provided IFRS 15 has been adopted. The Company intends to adopt the new standard on the required effective date and is progressing in its assessment of the impact of the new standard on the consolidated financial statements. Based on the Company's limited involvement as an operating lessee, the Company does not expect the impact, if any, to be material on its consolidated statements of income (loss) and comprehensive income (loss).

### Newly Adopted Standards

The following are new standards, amendments and interpretations that were adopted by the Company effective January 1, 2017:

- Amendments to IAS 7 *Statement of Cash Flows* ("IAS 7"). The Company implemented the amendments to IAS 7, in the first quarter of 2017 and has provided disclosures on changes in liabilities arising from certain financing activities, including both changes arising from cash and non-cash flow changes.

## RISK PROFILE

For a detailed description of the risks facing the Company, see the "Risk Factors" section of the AIF which is available under the Company's profile on SEDAR at www.sedar.com. These risks described in the AIF should be considered by interested parties when evaluating the Company's performance and outlook.

The risks and uncertainties described in the AIF are those the Company believes to be material, but they are not the only ones it faces. If any of the risks identified, or any other risks and uncertainties that the Company has not yet identified or that it currently considers not to be material, actually occur or become material risks, its business, financial condition and operating results may be materially adversely affected. In that event, the trading price of the Company's securities could be materially and adversely affected.

### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have access to sufficient liquid assets to meet its current liabilities when they are due, under both normal and stressed conditions, without incurring excessive losses. See the "Liquidity and Capital Resources — Liquidity and Capital Resources Analysis" section of this MD&A for the Company's assessment with respect to the sufficiency of available capital resources to

satisfy its 2018 expenditure commitments (including contractual obligations) as at December 31, 2017. There is no guarantee or assurance that the Company will be able to realize its operating forecast in 2018, which is partially dependent upon foreign exchange rates, and, thus, meet its financial covenants under the relevant credit agreements and/or obtain continued support from its lenders should that be required.

***Going Concern***

Acasta's Financial Statements were prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

At December 31, 2017, the Company was in breach of certain covenants, which included the leverage ratio financial covenant, under its credit agreements. Failure to meet these covenants at December 31, 2017 caused the long-term debt under the Credit Facility and Aviation Facility to be reclassified as a current liability, which Acasta would not be able to satisfy if called by its lenders. In response, the Company sought and obtained a waiver in respect of such covenants as at December 31, 2017 and accelerated the sale process of Stellwagen, which closed on March 27, 2018. Proceeds from the sale of Stellwagen have been used to reduce levels of overall indebtedness of the Company.

During 2017, the Company funded its working capital requirements and its capital and operating expenditures through operating cash flows and proceeds from debt. Management expects that the cash to be generated from operations based on forecasts related to 2018, which assumes a pre-determined Canadian dollar foreign exchange rate relative to the U.S. dollar, and proceeds from the sale of Stellwagen and other Aviation assets, will be sufficient to fund the Company's capital and operating expenditures so as to meet its financial obligations as they fall due in 2018.

There is no guarantee or assurance that the Company will be able to realize its operating forecast in 2018, which is partially dependent upon foreign exchange rates, and, thus, meet its financial covenants under the relevant credit agreements and/or obtain continued support from its lenders should that be required. These material uncertainties may cast significant doubt as to the Company's ability to continue as a going concern. As at December 31, 2017, the Company's Financial Statements do not reflect any adjustments to carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should the going concern assumption be inappropriate. Such adjustments could be material.

**Foreign Exchange Rates**

Acasta's financial results are sensitive to the exchange rate of the Canadian dollar relative to the U.S. dollar because the Company reports its financial results in Canadian dollars, while a significant portion of its revenues and operating costs are denominated in U.S. dollars.

Acasta's Consumer Products and Other reportable segments have a Canadian dollar functional currency, with transactions in foreign currencies translated into Canadian dollars at transaction date exchange rates. Monetary assets and liabilities denominated in foreign currencies are translated at period-end exchange rates while non-monetary assets and liabilities denominated in foreign currencies are translated at historical exchange rates. Revenue and expenses are translated at the average exchange rates prevailing during the month of the transaction. Exchange gains and losses arising on the settlement of foreign-currency denominated transactions are recognized in net income (loss).

Changes in exchange rates may be attributed to factors such as supply and demand for currencies and economic conditions in each country or currency area. In 2017, the exchange rate of the Canadian dollar relative to the U.S. dollar averaged $1.30 and ranged between $1.21 and $1.37.

***JemPak***

JemPak is exposed to market risks attributable to fluctuations in foreign currency exchange rates, primarily changes in the value of the Canadian dollar versus the U.S. dollar. Exchange rate fluctuations could have an adverse effect on JemPak's operating and financial results.

JemPak has a natural hedge between the majority of its U.S. dollar denominated revenue and cost of revenue. Approximately 90% of JemPak's revenue and 70% of cost of revenue are denominated in U.S. dollars — other expenses denominated in U.S. dollars are relatively immaterial. The percentage of cost of revenue denominated in U.S. dollars is anticipated to increase with revenue growth. Raw materials and packaging are largely U.S. dollar denominated while processing costs generally are not.

JemPak currently does not use any financial hedging strategies to manage foreign exchange rate risk.

A 5% change in the U.S. dollar versus Canadian dollar exchange rate has a considerable impact on JemPak's operating results. A 5% change in this exchange rate impacts revenue and net income by approximately $3.9 million and $1.0 million, respectively. The effect of foreign exchange rate movements on JemPak's operating performance is determined by using actual U.S. dollar denominated revenue, cost of revenue, and selling, general and administrative expense for the year ended December 31, 2017.

***Apollo***

Sales of Apollo's products to customers outside Canada account for a significant percentage of its revenue. Apollo also purchases raw materials for its products in world markets, and is subject to fluctuations of local currencies affecting the cost of such products. Exchange rate fluctuations are beyond Apollo's control and there can be no assurance that such fluctuations will not have a material adverse effect on Apollo's business.

Apollo does not have a natural hedge between its U.S. dollar denominated revenue and cost of revenue. Approximately 95% of Apollo's revenue, 37% of cost of revenue, and 13% of selling, general, and administrative expenses are denominated in U.S. dollars, with other U.S. denominated expenses being insignificant.

Apollo hedges its working capital exposure to reduce variability in expected performance arising from changes in foreign currency exchange rates using derivatives. Apollo has a short-term view on foreign exchange which management uses to protect against material fluctuations in exchange rate.

A 5% depreciation in the U.S. dollar versus Canadian dollar exchange rate has a considerable impact on Apollo's operating results. A 5% change in this exchange rate impacts revenue and net income by approximately $8.2 million and $4.2 million, respectively. The effect of foreign exchange rate movements on Apollo's operating performance is determined by using actual U.S. dollar denominated revenue, cost of revenue, and selling, general and administrative expense for the year ended December 31, 2017.

***Stellwagen***

Stellwagen earns substantially all its income in U.S. dollars as this is the main currency in which aircraft loans and leases are transacted. Stellwagen's expenses include substantial overhead items in other currencies, principally the European euro (the "Euro"). To the extent that the U.S. dollar weakens against other currencies, this will reduce Stellwagen's profitability. A weakening of the U.S. dollar will also have the effect of reducing Stellwagen's income and net assets on translation into Canadian dollars.

Stellwagen does not maintain positions in derivative financial instruments to hedge foreign exchange rate risk.

A 5% depreciation in the Euro versus U.S. dollar exchange rate has a considerable impact on Stellwagen's operating results. A 5% change in this exchange rate impacts revenue and net income by approximately nil and $0.9 million, respectively. The effect of foreign exchange rate movements on Stellwagen's operating performance

is determined by using estimated Euro denominated selling, general and administrative expense for the year ended December 31, 2017. Euro denominated costs relate to operations in Ireland, specifically, salaries, benefits, office, professional and administrative costs.

**Interest Rates**

The Company is exposed to interest rate risk from fluctuations in market interest rates on its variable rate debt. The Company manages interest rate risk by monitoring the respective mix of fixed and variable rate debt. The Company uses interest rate swaps to hedge the variability in cash flows on aircraft loans.

**Operational Risk**

Acasta's Consumer Products reportable segment faces competition from companies throughout the world, including multinational consumer product companies. Some of these competitors have greater resources than Acasta's Consumer Products reportable segment does and others are new companies competing in emerging distribution channels. In some cases, competitors may be able to respond to changing business and economic conditions more quickly than Acasta's Consumer Products reportable segment. Competition in the personal care and consumer products business is based on pricing of products, innovation, perceived value, service to the consumer, promotional activities, advertising, special events, new product introductions, e-commerce initiatives and other activities. Competition in the dishwashing and laundry business is based on pricing of products, innovation, perceived value, service, promotional activities, advertising, special events, new product introductions and e-commerce initiatives and other activities. It is difficult to predict the timing and scale of competitors' actions in these areas. The Acasta's Consumer Products reportable segment's inability to continue to compete effectively in key markets could have an adverse impact on the business. In addition, consolidation in the retail trade may result in Acasta's Consumer Products reportable segment becoming increasingly dependent on key retailers. This could result in an increased risk related to the concentration of its customers. A severe adverse impact on the business operations of its customers could have a corresponding material adverse effect on Acasta's Consumer Products reportable segment. If one or more of its largest customers change their strategies (including pricing or promotional activities) or change or terminate their relationship with Acasta's Consumer Products reportable segment, there could be a material adverse effect on the business.

**Key Personnel**

The loss of key personnel could adversely affect the operations and financial results of Acasta.

The board of directors is entitled to appoint officers and may also decide to remove them at any time. There can be no assurance that any changes to management will not have an adverse effect on the Company's business, financial condition or results of operations.

Although Acasta has no reason to believe any such key personnel will not remain with the Company for the foreseeable future, it is possible that it will lose some key personnel. The Company's success will depend on the ability, expertise, judgment, discretion, integrity and good faith of the Company's management and other personnel in conducting the business of the Company. The loss of any of the Company's executive officers or key employees, their inability to continue to serve as such or the Company's inability to attract suitably qualified staff could materially adversely impact the Company's business.

Acasta's Consumer Products reportable segment requires a skilled workforce and an agile organization, both of which are essential for the continued success of the business. The loss of management or other key personnel or the inability to identify, attract and retain qualified personnel could make it difficult to manage the business and could adversely affect operations and financial results.

**Regulatory and Political Risk**

Any changes in trade policies, disruptions in border crossing practices or regulatory proceedings could adversely affect Acasta's operations and financial results.

Acasta's Consumer Products reportable segment is subject to extensive legal and regulatory requirements in the United States. Such legal and regulatory requirements apply to most aspects of the Consumer Products reportable segment's products, including their development, ingredients, manufacture, packaging, labeling, transportation, distribution, export and import. New or more stringent legal or regulatory requirements, or more restrictive interpretations of existing requirements, could adversely impact the Consumer Products reportable segment's business, results of operations, cash flows and financial condition. A product liability claim or regulatory action against the Consumer Products reportable segment could result in increased costs, its (or its customer's) reputation or the appeal of the brand could be diminished, market share could be lost, and could have a material adverse effect on its results of operations and financial condition. Many of the Consumer Products reportable segment's products are designed to come in contact with skin, and as a consequence, could face the possible risk of exposure to product liability claims, regulatory action and litigation if they are alleged to have caused loss or injury. In addition, the manufacture and sale of the Consumer Products reportable segment's products involve the risk of injury to consumers due to tampering by unauthorized third parties, or unintended contamination of raw materials obtained from suppliers.

**Securities Price Fluctuations**

The trading price of the Class B Shares may be subject to large fluctuations. Fluctuations in the price of Acasta's securities could contribute to the loss of all or part of your investment. Any of the factors listed below could have a material adverse effect on your investment in Acasta securities, and they may trade at prices significantly below the price you paid for them. In such circumstances, the trading price may not recover and may experience a further decline.

- Actual or anticipated fluctuations in the Company's quarterly financial results or the quarterly financial results of companies perceived to be similar.
- Fluctuations in foreign exchange rates.
- Changes in the market's expectations about operating results.
- Success of competitors.
- The public's reaction to the Company's news releases, other public announcements and the Company's filings with the various securities regulatory authorities.
- Changes in earnings estimates or recommendations by research analysts who track the Company's equity securities.
- The Company's operating results failing to meet the expectation of securities analysts or investors in a particular period.
- Operating and stock price performance of other companies that investors deem comparable to the Company.
- Changes in laws and regulations affecting the business.
- Changes in general economic conditions and the overall condition of the financial markets.
- Commencement of, or involvement in, litigation involving the Company.
- Changes in the Company's capital structure, such as future issuances of securities or the incurrence of additional debt.

- Any major change in the Company's board of directors or management.
- Sales of substantial amounts of Class B Shares by directors, executive officers or significant shareholders or the perception that such sales could occur.

In addition, broad market and industry factors may materially harm the market price of Acasta's securities irrespective of operating performance. The stock market in general, and the TSX in particular, have experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the particular companies affected. The trading prices and valuations of these stocks, and of the Company's securities, may not be predictable. A loss of investor confidence in the market for retail stocks or the stocks of other companies which investors perceive to be similar to the Company could depress the share price regardless of the Company's business, prospects, financial conditions or results of operations. A decline in the market price of the Company's securities also could adversely affect the Company's ability to issue additional securities and to obtain additional financing in the future.

## CONTROLS EVALUATION

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting as defined in the Canadian Securities Administrators' National Instrument 52-109 — *Certification of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**"). The Chief Executive Officer and Chief Financial Officer implemented disclosure controls and procedures and internal controls over financial reporting appropriate for the nature of operations of the Company.

### Evaluation of disclosure controls and procedures

Management is responsible for designing, implementing and maintaining disclosure controls and procedures as defined under NI 52-109. As at December 31, 2017, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

### Internal controls over financial reporting

Management is responsible for designing, implementing and maintaining internal controls over financial reporting as defined under NI 52-109. As at December 31, 2017, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these internal controls and procedures was effective in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS based on the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 Internal Control-Integrated Framework.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute assurance that its objectives are met. Due to inherent limitations in all systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, Acasta's disclosure controls and procedures and its internal controls over financial reporting are effective in providing reasonable, not absolute assurance that the objectives of the Company's control systems have been met.

### Limitation on Scope of Design

In accordance with Section 5.3 of NI 52-109, the Chief Executive Officer and Chief Financial Officer of Acasta has limited the scope of design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude the controls, policies and procedures of Apollo, JemPak and Stellwagen.

Contributions to the Financial Statements from the entities acquired as part of the Qualifying Acquisition represent substantially all of the consolidated operating results of the Company with the exception of the Other reportable segment.

Further details related to the acquisitions are disclosed in the "Business Overview—Qualifying Acquisition" section of this MD&A.

### Changes in Internal Control

Internal controls associated with the entities acquired as part of the Qualifying Acquisition during the year ended December 31, 2017 are expected to materially affect the Company's ICFR. The Company has developed a plan to implement internal control policies and procedures at each of its businesses that formed the Qualifying Acquistion within the permissible period under NI 52-109.

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