



**Third Quarter Report September 30, 2018**

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**ACASTA ENTERPRISES INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Three and Nine Months Ended September 30, 2018**

**GENERAL**

This Management's Discussion and Analysis (the "MD&A") dated as of November 8, 2018 of Acasta Enterprises Inc. ("Acasta" or the "Company") should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 (the "Financial Statements") that were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") 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](http://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 businesses or assets, paying down amounts outstanding under the Credit Facility and the US Credit Facility (as hereinafter defined), 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.

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**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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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, foreign exchange and impairment charges. 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**

Acasta Enterprises Inc. and its subsidiaries (collectively, “Acasta” or the “Company”) was incorporated under the Business Corporations Act (Ontario) on June 19, 2015 and is listed on the Toronto Stock Exchange (“TSX”) under the symbol AEF. The Company's registered address is 150 Bloor Street West, Suite 310, Toronto, Ontario, M5S 2X9.

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. On January 3, 2017, Acasta announced the closing (the “Closing”) of its qualifying acquisition under Part X of the TSX Company Manual (the “Qualifying Acquisition” or “Transaction”) of 100% of Stellwagen Group (“Stellwagen”), Apollo Health and Beauty Care Partnership and Apollo Laboratories Inc., and JemPak Corporation (“JemPak”).

On March 27, 2018, the Company disposed of substantially all the net assets of the previously controlled businesses that formed the Aviation reportable segment. Results from the Aviation reportable segment for the period from January 1, 2018 to March 27, 2018 and for the three and nine months ended September 30, 2017 have been presented as part of the results from discontinued operations in our Financial Statements.

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On June 1, 2018, the Company disposed of its investment in JemPak, which formed part of the Consumer Products reportable segment. The transaction was a share sale and represented all of the assets and liabilities of JemPak, excluding debt outstanding under the Credit Facility. Results from JemPak for the period from January 1, 2018 to May 31, 2018 and for the three and nine months ended September 30, 2017 have been presented as part of the results from discontinued operations in our Financial Statements.

As at September 30, 2018, Acasta's operations were comprised of a single private label consumer staples business — Apollo Health and Beauty Care Inc. ("**Apollo**") and Acasta Enterprises Inc.

**OVERVIEW OF CONTINUING AND DISCONTINUED OPERATIONS**

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 remaining operating segments are reviewed regularly by the Company's interim Chief Executive Officer and interim Chief Financial Officer who are the chief operating decision makers ("**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 September 30, 2018, the Company operated two distinct reportable segments (December 31, 2017 — three), being the Consumer Products and Other reportable segments (December 31, 2017 — Consumer Products, Aviation and Other reportable segments). Prior to the sale of JemPak on June 1, 2018, Acasta's Consumer Products portfolio included both Jempak and Apollo due to similarities in the type of customers, nature of products sold and methods of distribution between the two Companies. Subsequent to the sale, JemPak has been removed from this segment and included in discontinued operations (see the "Overview of Continuing and Discontinued Operations — Continuing Operations — Consumer Products Reportable Segment" section of this MD&A for further details). Acasta's Aviation portfolio was discontinued on March 27, 2018 as a result of the sale and loss of control of substantially all of the net assets in the Aviation reportable segment (see the "Overview of Continuing and Discontinued Operations — Discontinued Operations — Aviation Reportable Segment" section of this MD&A for further details). Acasta's Other reportable segment includes the corporate parent entity of the Consumer Products reportable segment 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 business. Therefore, Acasta has presented this business as a reportable segment for financial reporting purposes in accordance with IFRS 8 Operating Segments.

**Continuing Operations — 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.

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**Discontinued Operations — Jempak and Aviation Reportable Segment**

On June 1, 2018, the Company closed the sale of Jempak to Henkel AG & Co and on March 27, 2018, the Company disposed of substantially all of the net assets in the Aviation reportable segment through their sale. Neither the Jempak component of the Consumer Products reportable segment or the Aviation reportable segment was previously classified as held-for-sale or as a discontinued operation and the results and OCI of Jempak and the Aviation segment for the comparative periods have been aggregated and disclosed separately from continuing operations.

***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.

On June 1, 2018, the Company sold 100% of its shares held in JemPak Corporation ("JemPak Sale Transaction"). JemPak was not previously classified as held-for-sale or as a discontinued operation as the sale was not highly probable prior to the current period. Given the sale transaction, the profit or loss for the comparative periods has been presented to reflect the results of JemPak as a discontinued operation separately from continuing operations.

The JemPak Sale Transaction was executed at a purchase price of \$118.0 million, subject to certain purchase price adjustments and a reduction for certain liabilities transferred. On close of the sale transaction, net cash proceeds of \$111.3 million were received by the Company and \$77.7 million (US \$59.9 million) was used to reduce debt, pay fees and accrued interest to the lenders under the Credit Facility and the U.S Credit Facility. Cash proceeds of \$38.7 million were used to reduce debt outstanding under the Credit Facility and pay fees and accrued interest to the lenders of the Company's Credit Facility. The JemPak Sale Transaction did not include any contingent consideration. Post-closing adjustments related to closing date cash and net working capital have been estimated to be an obligation totaling \$0.3 million. Changes to the estimate may still be applicable but are not expected to be significant. The JemPak Sale Transaction subjects the Company to certain indemnities related to tax and environmental site remediation whose likelihood and magnitude will be determined at a future date.

***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 US-based team. The consideration includes 500,000 Class B Shares that were issued on April 5, 2018 to a wholly-owned subsidiary of ECN Capital Corp. at a deemed issuance price of \$2.01 per share and subject to a four month hold period, in full satisfaction of the remaining purchase price relating to the ECN Acquisition.

On July 5, 2017, the Company invested US \$100.0 million in return for ("Profit Participating Notes") PPNs in the Stelloan Investment Company I DAC ("**Stelloan**"), an entity controlled by Acasta which lended capital to airlines and lessors. On November 17, 2017, Stelloan sold all of its portfolio loans to Embassy Acquisition Facility I DAC ("**Embassy**"), an entity also controlled by Acasta, for consideration comprised of US \$118.0 million of cash and a US \$35.4 million equity note contingent return in Embassy. As the Company

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consolidated both its investment in Stelloan and the operations of Embassy as part of the Aviation reportable segment, these intragroup investments were eliminated upon consolidation in the Financial Statements. On November 20, 2017, the nominal value of the Company's PPN investment was reduced to US \$51.0 million as a result of the closing of a revolving credit facility agreement by Embassy on November 17, 2017 (the "**Portfolio Loan Revolver**"). The resulting US \$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 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 Acquisition 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 US \$35.0 million (\$45.0 million);
- downside protection of US \$5.0 million as a result of the proceeds realized from the monetization of Acasta's PPNs issued by Stelloan being below specified levels; and
- termination of the Stellwagen Earn-out valued at US \$7.0 million (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 US Credit Facility.

Under the terms of the Purchase Agreement, Acasta retained ownership of the PPNs in order to oversee their monetization. On May 14, 2018, Acasta monetized its interest in the Stelloan PPNs for net proceeds of approximately US \$25.8 million, which were used primarily to pay down Acasta's US Credit Facility.

The sale of Stellwagen resulted in the Company's loss of control over Stelloan and Embassy as the Company no longer has the ability to direct the relevant operating activities of the entities. As a result of the loss in control, the Company ceased consolidating Stelloan and Embassy and derecognized the assets and liabilities of these subsidiaries as of the date of the Stellwagen Sale Transaction.

Details of the JemPak sale transaction and discontinued operations are set out below:

	<u>For the three months ended September 30, 2018</u>	<u>For the three months ended September 30, 2017</u>
Revenue . . . . .	\$ —	\$22,841
Expenses . . . . .	<u>—</u>	<u>23,136</u>
Income (loss) from discontinued operations before income tax . . . . .	\$ —	\$ (295)
Income tax recovery (expense) . . . . .	<u>—</u>	<u>36</u>
Net loss from discontinued operations after income tax . . . . .	\$ —	\$ (259)
Loss on sale of JemPak, net of tax . . . . .	<u>(296)</u>	<u>—</u>
<b>Net loss from discontinued operations, net of tax . . . . .</b>	<b><u>\$(296)</u></b>	<b><u>\$ (259)</u></b>

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**For the Three and Nine Months Ended September 30, 2018**

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Revenue . . . . .	\$ 42,059	\$66,669
Expenses, inclusive of goodwill impairment . . . . .	53,700	67,843
Loss from discontinued operations before income tax . . . . .	\$(11,641)	\$(1,174)
Income tax recovery (expense) . . . . .	(363)	237
Net loss from discontinued operations after income tax . . . . .	\$(12,004)	\$ (937)
Loss on sale of JemPak, net of tax . . . . .	(2,945)	—
<b>Net loss from discontinued operations, net of tax . . . . .</b>	<b><u>\$(14,949)</u></b>	<b><u>\$ (937)</u></b>

Cash flows provided by (used in) JemPak and recorded within results from discontinued operations for the periods prior to sale are presented below.

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Net cash flows provided by operating activities . . . . .	\$ 5,548	\$ 2,659
Net cash flows used in investing activities . . . . .	(3,505)	(42,369)
Net cash flows provided by (used in) financing activities . . . . .	(1,293)	32,800
<b>Net increase (decrease) in cash for the period . . . . .</b>	<b><u>\$ 750</u></b>	<b><u>\$ (6,910)</u></b>

Details of the disposal of JemPak Corporation are described below.

**Consideration received**

Cash Proceeds . . . . .	\$118,000
Less: cash held in JemPak . . . . .	(3,938)
Net cash proceeds . . . . .	114,062
Add: adjustment for normalized net working capital . . . . .	5,242
Less: finance lease liability transferred to purchaser . . . . .	(7,750)
Less: retention amounts . . . . .	(228)
Net proceeds . . . . .	\$111,326
Costs to sell . . . . .	(4,210)
Post-closing adjustment <sup>(1)</sup> . . . . .	(296)
<b>Net proceeds on disposal . . . . .</b>	<b>\$106,820</b>
<b>Carrying value of JemPak net assets</b>	
Assets <sup>(2)</sup> . . . . .	134,041
Liabilities . . . . .	24,276
<b>Net assets on disposal . . . . .</b>	<b>\$109,765</b>
<b>Loss on sale of JemPak before adjustments and income tax . . . . .</b>	<b>(2,945)</b>
Income tax expense . . . . .	—
<b>Loss on sale of JemPak, net of tax . . . . .</b>	<b><u>\$ (2,945)</u></b>

(1) Post-closing adjustment arises from final measurement of closing May 31, 2018 cash and net working capital.

(2) Excludes closing cash held in JemPak of \$3,938 as at May 31, 2018.



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Details of the Stellwagen sale transaction and discontinued operations are set out below.

	<u>For the three months ended September 30, 2018</u>	<u>For the three months ended September 30, 2017</u>
Revenue . . . . .	\$—	\$ 24,785
Expenses and loss on revaluation of loans receivable . . . . .	—	(27,973)
Loss from discontinued operations before income tax . . . . .	\$—	\$ (3,188)
Income tax recovery . . . . .	—	642
<b>Net (loss) income from discontinued operations, net of tax . . . . .</b>	<b><u>\$—</u></b>	<b><u>\$ (2,546)</u></b>
	<u>For the nine months ended September 30, 2018</u>	<u>For the nine months ended September 30, 2017</u>
Revenue . . . . .	\$ 22,489	\$79,104
Expenses and loss on revaluation of loans receivable . . . . .	55,163	77,910
Income (loss) from discontinued operations before income tax . . . . .	\$ (32,674)	\$ 1,194
Income tax recovery . . . . .	450	334
Net (loss) income from discontinued operations after income tax . . . . .	\$ (32,224)	\$ 1,528
Income loss on disposition of Aviation reportable segment, net of tax . . . . .	(97,721)	—
<b>Net (loss) income from discontinued operations, net of tax . . . . .</b>	<b><u>\$(129,945)</u></b>	<b><u>\$ 1,528</u></b>

Cash flows provided by (used in) discontinued operations for the periods are presented below.

	<u>For the nine months ended September 30, 2018</u>	<u>For the nine months ended September 30, 2017</u>
Net cash flows provided by operating activities . . . . .	\$ 31,946	\$ 69,246
Net cash flows used in investing activities . . . . .	(65)	(473,657)
Net cash flows (used in) provided by financing activities . . . . .	(27,895)	409,920
<b>Net increase in cash for the period . . . . .</b>	<b><u>\$ 3,986</u></b>	<b><u>\$ 5,509</u></b>

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Details of the disposal of the Aviation reportable segment are described below.

<b>Consideration received or receivable</b>	
Cash proceeds .....	\$ 45,042
Less: Cash held in Aviation reportable segment .....	(12,315)
Net cash proceeds .....	\$ 32,727
Cancellation of Class B Shares of Acasta .....	57,200
Cancellation of Stellwagen Earn-out payment .....	9,007
Fair value of PPN downside protection .....	6,435
Costs to sell .....	(1,907)
<b>Net proceeds on disposal .....</b>	<b>\$ 103,462</b>
<b>Carrying value of Aviation reportable segment net assets</b>	
Assets <sup>(1)</sup> .....	(1,025,934)
Liabilities .....	843,119
<b>Net assets on disposal .....</b>	<b>\$ (182,815)</b>
<b>Loss on disposal of the Aviation reportable segment before adjustments, income tax, and reclassification of other comprehensive income items .....</b>	
Loss on receivable from Stellwagen Vendors, net .....	\$ (79,353)
Loss on receivable from Stellwagen Vendors, net .....	(1,501)
Net loss on foreign currency transaction for the year ended December 31, 2017 reclassified from accumulated other comprehensive income, net of tax .....	(29,377)
Net gain on foreign currency translation for the period from January 1, 2018 to March 27, 2018 reclassified from other comprehensive income, net of tax .....	5,819
Cumulative net movement in cash flow hedges for the year ended December 31, 2017 reclassified from accumulated other comprehensive income, net of tax .....	1,515
Movement in cash flow hedges for the period from January 1, 2018 to March 27, 2018 reclassified from other comprehensive income, net of tax .....	5,176
<b>Loss on disposal of Aviation reportable segment, net of tax .....</b>	<b>\$ (97,721)</b>

(1) Excludes closing cash held in the Aviation reportable segment of \$12,315 as at March 27, 2018.

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**BALANCE SHEET REVIEW**

(all amounts are in thousands of Canadian dollars)

STATEMENTS OF FINANCIAL POSITION (in thousands of Canadian dollars)	As at September 30, 2018			As at December 31, 2017				
	Continuing Operations			Continuing Operations		Discontinued Operations		
	Reportable Segments			Reportable Segments				
	Consumer Products	Other	Acasta Consolidated	Consumer Products	Other	Consumer Products	Aviation	Acasta Consolidated
Cash and cash equivalents	\$ 16	\$ 770	\$ 786	\$ 207	\$ 14,412	\$ 3,188	\$ 8,332	\$ 26,139
Trade and other receivables	26,950	87	27,037	26,334	2,805	6,749	3,756	39,644
Inventories	40,545	—	40,545	37,648	—	10,775	—	48,423
Prepaid expenses and deposits	1,377	1,592	2,969	1,077	4,541	316	48,614	54,548
Current portion of loans receivable	—	—	—	—	—	—	11,257	11,257
Other current assets	666	6,433	7,099	103	5,431	—	—	5,534
Property, plant and equipment	37,311	29	37,340	36,015	22	24,700	556,857	617,594
Intangible assets	57,854	—	57,854	117,950	—	27,445	130,074	275,469
Goodwill	—	—	—	30,418	—	76,493	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
<b>TOTAL ASSETS</b>	<b>\$ 164,719</b>	<b>\$ 8,911</b>	<b>\$ 173,630</b>	<b>\$ 249,752</b>	<b>\$ 27,211</b>	<b>\$149,666</b>	<b>\$1,036,471</b>	<b>\$1,463,100</b>
Accounts payable and accrued liabilities	\$ 20,931	\$ 5,534	\$ 26,465	\$ 19,039	\$ 4,638	\$ 5,192	\$ 8,238	\$ 37,107
Current portion of long-term debt	61,277	12,211	73,488	51,828	143,994	32,530	48,383	276,735
Income taxes payable	2,913	—	2,913	7,232	—	—	—	7,232
Other current liabilities	—	477	477	329	5,800	496	7,708	14,333
Long-term debt	—	—	—	—	—	—	707,211	707,211
Deferred tax liabilities	3,262	—	3,262	10,365	—	9,483	458	20,306
Other non-current liabilities	—	—	—	—	8,782	7,279	15,459	31,520
<b>TOTAL LIABILITIES</b>	<b>\$ 88,383</b>	<b>\$ 18,222</b>	<b>\$ 106,605</b>	<b>\$ 88,793</b>	<b>\$ 163,214</b>	<b>\$ 54,980</b>	<b>\$ 787,457</b>	<b>\$1,094,444</b>
Share capital	—	594,246	594,246	—	849,383	—	—	849,383
Contributed surplus	337,252	(139,130)	198,122	340,940	(961,893)	95,327	525,926	300
Warrants	—	3,939	3,939	—	3,939	—	—	3,939
Deficiency	(260,916)	(468,366)	(729,282)	(179,981)	(27,432)	(641)	(249,050)	(457,104)
Accumulated other comprehensive loss	—	—	—	—	—	—	(27,862)	(27,862)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 76,336</b>	<b>\$ (9,311)</b>	<b>\$ 67,025</b>	<b>\$ 160,959</b>	<b>\$ (136,003)</b>	<b>\$ 94,686</b>	<b>\$ 249,014</b>	<b>\$ 368,656</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 164,719</b>	<b>\$ 8,911</b>	<b>\$ 173,630</b>	<b>\$ 249,752</b>	<b>\$ 27,211</b>	<b>\$149,666</b>	<b>\$1,036,471</b>	<b>\$1,463,100</b>

Total assets as at September 30, 2018 of \$173.6 million decreased by \$1,289.5 million compared with December 31, 2017 total assets of \$1,463.1 million. Total liabilities as at September 30, 2018 of \$106.6 million decreased by \$987.8 million compared with total liabilities of \$1,094.4 million as at December 31, 2017. The decrease in total assets and total liabilities between December 31, 2017 and September 30, 2018 was due primarily to the June 1, 2018 sale of JemPak and the March 27, 2018 disposal of substantially all of the net assets in the Aviation reportable segment through their sale or by loss of control. See the “Overview of Continuing and Discontinued Operations — Discontinued Operations” section of this MD&A for more details on the impact of the sales of businesses on the Company’s balance sheet.

Cash and cash equivalents of \$0.8 million as at September 30, 2018 was comprised primarily of \$nil held in the Consumer Products reportable segment (compared with \$0.2 million as at December 31, 2017) and \$0.8 million held in the Other reportable segment (compared with \$14.4 million as at December 31, 2017). Total cash and cash equivalents of \$26.1 million as at December 31, 2017 also included \$8.3 million held in the Aviation reportable segment, which was disposed of through the Stellwagen Sale Transaction and \$3.2 million that was included in the JemPak component of the consumer products segment. The \$25.3 million decrease in cash and cash equivalents between December 31, 2017 and September 30, 2018 was due primarily to the repayment and servicing of debt during the period.

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Inventories of \$40.6 million as at September 30, 2018 compared with \$48.4 million as at December 31, 2017 and were comprised of \$22.6 million in raw materials, \$0.1 million in work in progress and \$19.3 million and reserves of \$1.4 million in finished goods held within the Company's Consumer Products reportable segment. The \$7.8 million decrease in inventories was due primarily to the sale of Jempak which held \$10.8 million in inventory at December 31, 2017 partially offset by an inventory build-up designed to fulfill customer inventory on hand requirements at Apollo.

Prepaid expenses and deposits (current and non-current) of \$3.0 million as at September 30, 2018 compared with \$54.5 million as at December 31, 2017. As at December 31, 2017, prepaid expenses and deposits were comprised primarily of \$50.1 million in aircraft deposits (\$45.0 million current, \$5.1 million noncurrent) 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. As at September 30, 2018 (after the Stellwagen Sale Transaction and the JemPak sale), prepaid expenses and deposits were comprised primarily of \$2.1 million in prepaid insurance.

Property, plant and equipment of \$37.3 million as at September 30, 2018 compared with \$617.6 million as at December 31, 2017. As at December 31, 2017, property, plant and equipment was comprised primarily of \$556.4 million related to two Airbus 380 aircraft 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. As at September 30, 2018 (after the Stellwagen Sale Transaction and the sale of Jempak), property, plant and equipment was comprised primarily of \$31.4 million in machinery and equipment, \$4.7 million in buildings and leasehold improvements and \$1.3 million in office equipment. Acasta recorded property, plant and equipment depreciation of \$9.5 million during the first nine months of 2018.

Intangible assets of \$57.9 million as at September 30, 2018 compared with \$275.5 million as at December 31, 2017. As at September 30, 2018 (after the Stellwagen Sale Transaction and JemPak sale), intangible assets were comprised of Consumer Products' customer relationships. Intangible assets as at December 31, 2017 were comprised primarily of intangible assets established in connection with the Qualifying Acquisition and the ECN Acquisition, less impairment losses during the year ended 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 recognized as part of 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. All such intangible assets have been disposed of as part of the sale transactions, with the exception of the remaining Apollo customer relationships which are recorded net of depreciation and impairment charges.

Goodwill of \$nil as at September 30, 2018 compared with \$176.6 million as at December 31, 2017. A goodwill impairment loss of \$30.4 million was determined and attributed to the Apollo cash-generating unit ("CGU") and recorded in the second quarter of 2018. Goodwill as at December 31, 2017 was comprised of goodwill arising in connection with the Qualifying Acquisition and the ECN Acquisition, 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.

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Loans receivable of \$11.3 million (current) and \$190.0 million (long-term) related 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. Acasta lost control of Embassy as a result of the Stellwagen Sale Transaction and therefore did not consolidate its results as at September 30, 2018.

Other current assets of \$7.1 million as at September 30, 2018 compared with \$5.5 million as at December 31, 2017. As at September 30, 2018, other current assets were comprised primarily of contingent consideration receivable in the form of a downside protection on the sale of PPNs as contemplated per the Stellwagen Sale Transaction. As at December 31, 2017, other current assets were comprised primarily of a \$5.4 million net working capital post-closing adjustment related to the acquisition of Stellwagen.

Other non-current assets of nil as at September 30, 2018 compared with \$12.9 million as at December 31, 2017. As at December 31, 2017 (prior to the Stellwagen Sale Transaction), other non-current assets 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 Aviation reportable segment's cash flow exposure resulting from variable interest borrowings. The Company has terminated this hedge program with the sale of Stellwagen.

Debt of \$73.5 million as at September 30, 2018 was comprised of \$12.4 million in US Credit Facility drawdowns within the Company's Other reportable segment, \$61.5 million in Amended Credit Facility (as hereinafter defined) drawdowns partially offset by \$0.4 million in deferred financing fees within the Company's Consumer Products reportable segment. Due to the maturity date of the loans being within the next twelve months, and risks associated with operating performance and consequential covenant compliance, the amounts owing under these debt facilities have been presented as current liabilities.

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 US Credit 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 drawdowns within the Company's Consumer Products reportable segment, partially offset by \$13.5 million in deferred financing fees. As a result of a breach of 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.

Debt decreased by \$910.4 million between December 31, 2017 and September 30, 2018 due to the deconsolidation of the aircraft loans and Portfolio Loan Revolver as a result of the Stellwagen Sale Transaction and the repayment and restructuring of the remaining facilities in connection with the sale of Jempak.

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 September 30, 2018 were \$0.4 million relating to the reimbursement of expenses on a cost-recovery basis owing to Acasta Capital Inc.

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 \$11.0 million in deferred aircraft lease income related to Embassy within the Company's Aviation reportable segment, a \$7.8 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.

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**OUTSTANDING SECURITIES**

The table below sets out the change in the number of Class B Shares outstanding as at September 30, 2018 compared with December 31, 2017:

	<b>Class B Shares</b>
<b>Balance — December 31, 2017</b> . . . . .	<b>95,715,298</b>
Cancellation of Class B Shares on the Stellwagen Sale Transaction . . . . .	(26,000,000)
Settlement of contingent consideration on purchase of ECN . . . . .	500,000
<b>Balance — September 30, 2018</b> . . . . .	<b>70,215,298</b>

There were 20,884,062 warrants with a \$10.00 exercise price outstanding as of September 30, 2018, which is the same number of Warrants that were outstanding as at December 31, 2017.

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”.

**RESULTS OF OPERATIONS**

STATEMENTS OF INCOME (LOSS) (in thousands of Canadian dollars)	Three Months Ended September 30, 2018				Three Months Ended September 30, 2017				
	Continuing Operations		Discontinued Operations		Continuing Operations		Discontinued Operations		
	Reportable Segments				Reportable Segments				
	Consumer Products	Other	Consumer Products	Acasta Consolidated	Consumer Products	Other	Consumer Products	Aviation	Acasta Consolidated
Revenue . . . . .	\$45,877	\$ —	\$ —	\$45,877	\$43,607	\$ —	\$22,841	\$24,785	\$43,607
Cost of revenue . . . . .	37,896	—	—	37,896	32,293	—	17,752	—	32,293
Selling, general and administrative expense . . . . .	9,428	2,196	—	11,624	11,648	5,481	4,451	22,067	17,129
Finance costs . . . . .	960	503	—	1,463	570	4,607	612	6,393	5,177
Net unrealized loss on change in fair value of financial instruments . . . . .	(655)	—	—	(655)	—	—	—	—	—
Impairment of intangible assets and goodwill . . . . .	—	—	—	—	—	—	—	—	—
Net (gain) loss on foreign exchange . . . . .	96	(197)	—	(101)	1,085	(2,524)	361	37	(1,439)
Other expense (income), net . . . . .	(304)	—	296	(304)	—	(2,105)	(40)	(524)	(2,105)
<b>INCOME (LOSS) BEFORE INCOME TAX</b> . . . . .	<b>\$(1,544)</b>	<b>\$(2,502)</b>	<b>\$(296)</b>	<b>\$(4,046)</b>	<b>\$(1,989)</b>	<b>\$(5,459)</b>	<b>\$(295)</b>	<b>\$(3,188)</b>	<b>\$(7,448)</b>
Current income tax expense . . . . .	(459)	—	—	(459)	571	—	329	289	571
Deferred income tax recovery . . . . .	—	—	—	—	(1,085)	—	(365)	(931)	(1,085)
<b>Net income (loss) from continuing operations</b> . . . . .	<b>\$(1,085)</b>	<b>\$(2,502)</b>	<b>\$ —</b>	<b>\$(3,587)</b>	<b>\$(1,475)</b>	<b>\$(5,459)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$(6,934)</b>
<b>Net income (loss) from discontinued operations</b> . . . . .	<b>—</b>	<b>—</b>	<b>(296)</b>	<b>(296)</b>	<b>—</b>	<b>—</b>	<b>(259)</b>	<b>(2,546)</b>	<b>(2,805)</b>
<b>NET INCOME (LOSS)</b> . . . . .	<b>\$(1,085)</b>	<b>\$(2,502)</b>	<b>\$(296)</b>	<b>\$(3,883)</b>	<b>\$(1,475)</b>	<b>\$(5,459)</b>	<b>\$(259)</b>	<b>\$(2,546)</b>	<b>\$(9,739)</b>

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STATEMENTS OF INCOME (LOSS) (in thousands of Canadian dollars)	Nine Months Ended September 30, 2018					Nine Months Ended September 30, 2017					
	Continuing Operations		Discontinued Operations			Acasta Consolidated	Continuing Operations		Discontinued Operations		Acasta Consolidated
	Reportable Segments						Reportable Segments				
	Consumer Products	Other	Consumer Products	Aviation		Consumer Products	Other	Consumer Products	Aviation		
Revenue . . . . .	\$132,275	\$ —	\$ 42,059	\$ 22,489	\$ 132,275	\$129,033	\$ —	\$66,669	\$79,104	\$129,033	
Cost of revenue . . . . .	107,260	—	31,757	—	107,260	87,136	—	51,252	—	87,136	
Selling, general and administrative expense . . . . .	35,783	19,550	8,109	14,719	55,333	33,534	15,132	13,752	59,866	48,666	
Finance costs . . . . .	3,536	21,266	1,356	7,342	24,802	2,330	5,733	2,080	18,736	8,063	
Net unrealized loss (gain) on change in fair value of financial instruments . . . . .	(563)	—	—	33,121	(563)	—	(236)	—	—	(236)	
Impairment of goodwill . . . . .	79,775	—	12,248	—	79,775	—	—	—	—	—	
Net (gain) loss on foreign exchange . . . . .	(1,642)	2,689	(85)	61	1,047	(61)	(2,933)	571	38	(2,994)	
Other expense (income), net . . . . .	(1,885)	2,840	3,260	97,641	955	—	(5,801)	188	(730)	(5,801)	
<b>INCOME (LOSS) BEFORE INCOME TAX . . . . .</b>	<b>\$ (89,989)</b>	<b>\$ (46,345)</b>	<b>\$ (14,586)</b>	<b>\$ (130,395)</b>	<b>\$ (136,334)</b>	<b>\$ 6,094</b>	<b>\$ (11,895)</b>	<b>\$ (1,174)</b>	<b>\$ 1,194</b>	<b>\$ (5,801)</b>	
Current income tax expense . . . . .	(2,330)	—	1,023	(379)	(2,330)	5,500	—	1,063	2,154	5,500	
Deferred income tax recovery . . . . .	(7,103)	—	(660)	(71)	(7,103)	(3,927)	—	(1,300)	(2,488)	(3,927)	
<b>Net income (loss) from continuing operations . . . . .</b>	<b>\$ (80,556)</b>	<b>\$ (46,345)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (126,901)</b>	<b>\$ 4,521</b>	<b>\$ (11,895)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (7,374)</b>	
<b>Net income (loss) from discontinued operations . . . . .</b>	<b>—</b>	<b>—</b>	<b>(14,949)</b>	<b>(129,945)</b>	<b>(144,894)</b>	<b>—</b>	<b>—</b>	<b>(937)</b>	<b>1,528</b>	<b>591</b>	
<b>NET INCOME (LOSS) . . . . .</b>	<b>\$ (80,556)</b>	<b>\$ (46,345)</b>	<b>\$ (14,949)</b>	<b>\$ (129,945)</b>	<b>\$ (271,795)</b>	<b>\$ 4,521</b>	<b>\$ (11,895)</b>	<b>\$ (937)</b>	<b>\$ 1,528</b>	<b>\$ (6,783)</b>	

For the three and nine months ended September 30, 2018, Acasta reported:

- Net losses from continuing operations of \$3.6 million and \$126.9 million, or net loss \$0.06 per share (on a basic and diluted basis) for the three months and \$1.74 per share for the nine months. Net losses from discontinued operations for the three and nine months ended September 30, 2018 of \$0.3 million and \$144.9 million were incurred or net losses from discontinued operations of nil and \$1.99 per share (on a basic and diluted basis);
- Adjusted net loss from continuing operations of \$3.7 million and \$46.1 million or \$0.06 and \$0.63 per share (on a basic and diluted basis). Adjusted net loss from discontinued operations of \$0.3 million and \$99.6 million, or \$nil and \$1.36 per share (on a basic and diluted basis);
- EBITDA from continuing operations of \$1.1 million and \$(97.1) million and EBITDA from discontinued operations of \$(0.3) million and \$(124.6) million and;
- Adjusted EBITDA from continuing operations of \$1.0 million and \$(16.2) million, and adjusted EBITDA from discontinued operations of \$(0.3) million and \$(79.3) million.

For the three and nine months ended September 30, 2017, Acasta reported:

- Net losses of \$6.9 million and \$7.4 million, or a loss of \$0.08 and \$0.08 per share (on a basic and diluted basis). For the three and nine months ended September 30, 2017, the Company incurred a net loss from discontinued operations of \$2.8 million and income of \$0.6 million or a loss of \$0.03 per share and earnings of 0.01 per share (on a basic and diluted basis);
- Adjusted net loss from continuing operations of \$8.4 million and \$8.5 million or losses of \$0.09 and \$0.10 per share (on a basic and diluted basis). Adjusted net loss from discontinued operations of \$2.4 million and earnings of \$3.4 million, or a loss of \$0.03 and income of \$0.04 per share (on a basic and diluted basis);

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- EBITDA from continuing operations of \$3.1 million and \$18.1 million and EBITDA from discontinued operations of \$18.6 and \$68.0 million and;
- Adjusted EBITDA from continuing operations of \$1.7 million and \$17.0 million, and adjusted EBITDA from discontinued operations of \$19.0 million and \$70.8 million.

See the “Overview of Continuing and Discontinued Operations — Discontinued Operations” section of this MD&A for more details on the impact of discontinued operations on the Company’s statements of income (loss).

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 three and nine months ended September 30, 2018, Acasta reported revenue from continuing operations of \$45.9 million and \$132.3 million from the sale of health and beauty care products and reported as part of the consumer products reportable segment. Revenues for the periods were 4.9% and 2.5% higher than the three and nine month periods ended September 30, 2017, respectively. Overall, there were significant changes in product mix in 2018 compared to 2017 with more units of body wash and hair care products sold at a lower margin in 2018 and fewer soap and hand cream sales with a decline in margin on those products as well. Revenue from discontinued operations was nil and \$64.5 million for the and three and nine months ended September 30, 2018.

For the three and nine months ended September 30, 2017, Acasta reported revenue from continuing operations of \$43.6 million and \$129.0 million from the sale of health and beauty care products. Revenue from discontinued operations was \$47.6 million and \$145.8 million for the three and nine months ended September 30, 2017.

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

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

(Amounts in thousands of Canadian dollars)	Acasta Consolidated			
	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Material . . . . .	\$26,823	\$22,187	\$ 72,742	\$ 60,426
Direct Labour . . . . .	6,995	5,868	21,631	15,821
Overhead . . . . .	4,078	4,238	12,887	10,889
<b>Cost of revenue from continuing operations . . . . .</b>	<b>\$37,896</b>	<b>\$32,293</b>	<b>\$107,260</b>	<b>\$ 87,136</b>
<b>Cost of revenue from discontinued operations . . . . .</b>	<b>—</b>	<b>17,752</b>	<b>31,757</b>	<b>51,252</b>
<b>Total cost of revenue . . . . .</b>	<b>\$37,896</b>	<b>\$50,045</b>	<b>\$139,017</b>	<b>\$138,388</b>



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(Amounts in thousands of Canadian dollars)	Acasta Consolidated					
	Consumer Products		Other		Total	
	Three months ended		Three months ended		Three months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Depreciation of property, plant and equipment and amortization of intangible assets . . . . .	\$2,432	\$ 4,321	\$ —	\$ —	\$ 2,432	\$ 4,321
Freight charges . . . . .	2,950	2,633	—	—	2,950	2,633
Salaries and benefits . . . . .	2,532	2,513	312	1,900	2,844	4,413
Rent and utilities expense . . . . .	—	—	70	—	70	—
Professional fees . . . . .	130	209	1,196	3,195	1,326	3,404
General office expenses . . . . .	1,072	1,053	377	207	1,449	1,260
Research and development costs . . . . .	—	—	—	—	—	—
Share-based compensation . . . . .	—	—	238	150	238	150
Production repairs, maintenance and supplies . . . . .	—	—	—	—	—	—
laboratory expenses . . . . .	248	594	—	—	248	594
Other expenses . . . . .	64	325	3	29	67	354
<b>Selling, general and administrative expense from continuing operations . .</b>	<b><u>\$9,428</u></b>	<b><u>\$11,648</u></b>	<b><u>\$2,196</u></b>	<b><u>\$5,481</u></b>	<b><u>\$11,624</u></b>	<b><u>\$17,129</u></b>
<b>Selling, general and administrative expense from discontinued operations .</b>					<b><u>—</u></b>	<b><u>26,518</u></b>
<b>Total selling, general and administrative expense . . . . .</b>					<b><u>\$11,624</u></b>	<b><u>\$43,647</u></b>

(Amounts in thousands of Canadian dollars)	Acasta Consolidated					
	Consumer Products		Other		Total	
	Nine months ended		Nine months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Depreciation of property, plant and equipment and amortization of intangible assets . . . . .	\$11,090	\$12,928	\$ —	\$ —	\$11,090	\$ 12,928
Freight charges . . . . .	11,041	7,398	—	—	11,041	7,398
Salaries and benefits . . . . .	7,531	7,337	7,293	3,493	14,824	10,830
Rent and utilities expense . . . . .	—	—	265	—	265	—
Professional fees . . . . .	628	712	9,543	10,460	10,171	11,172
General office expenses . . . . .	3,161	2,833	1,154	966	4,315	3,799
Research and development costs . . . . .	—	—	—	—	—	—
Share-based compensation . . . . .	—	—	1,274	150	1,274	150
Production repairs, maintenance and supplies . . . . .	—	—	—	—	—	—
Laboratory expenses . . . . .	1,086	1,583	—	—	1,086	1,583
Other expenses . . . . .	1,246	743	21	63	1,267	806
<b>Selling, general and administrative expense from continuing operations . .</b>	<b><u>\$35,783</u></b>	<b><u>\$33,534</u></b>	<b><u>\$19,550</u></b>	<b><u>\$15,132</u></b>	<b><u>\$55,333</u></b>	<b><u>\$ 48,666</u></b>
<b>Selling, general and administrative expense from discontinued operations .</b>					<b><u>22,828</u></b>	<b><u>73,618</u></b>
<b>Total selling, general and administrative expense . . . . .</b>					<b><u>\$78,161</u></b>	<b><u>\$122,284</u></b>

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.

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For the three and nine months ended September 30, 2018, Acasta reported cost of revenue from continuing operations of \$37.9 million and \$107.3 million and selling, general and administrative expense from continuing operations of \$11.6 million and \$55.3 million. Cost of revenue from continuing operations was incurred entirely by the Consumer Products reportable segment and was comprised primarily of the cost of inventory, raw materials and consumables, salaries and benefits, rent and utilities, production repairs, maintenance and supplies and the depreciation of property, plant and equipment. The year over year increase in cost of revenues is due to increased units sold, increases in market pricing on in-bound freight, as well as higher head count and wage increases.

Selling, general and administrative expense from continuing operations was incurred by Acasta's Consumer Products and Other reportable segments and was comprised primarily of the depreciation of property plant and equipment and intangible assets, freight charges, salaries and benefits, professional fees, general office and laboratory expenses. Selling, general and administrative expenses in the Consumer Products segment increased year over year due to increased market pricing on outbound freight deliveries and increased volume of shipments partially offset by a reduction in depreciation due to goodwill and intangible asset writedowns. Selling, general and administrative expenses for the Consumer Product segment were lower for the three months ended September 30, 2018 due to the reduction in depreciation of intangible assets and goodwill caused by the writedown taken in the second quarter of 2018.

Selling, general and administrative expenses for the Other reportable segment were lower for the three months ended September 30, 2018 versus September 30, 2017 mainly due to the reduction in corporate salaries and benefits caused by the reduction of our private equity workforce which took place in the second quarter of 2018 and a reduction in professional fees. Selling, general and administration expenses were higher for the nine months ended September 30, 2018 versus September 30, 2017 due to severance costs incurred in connection with the divestiture and corporate restructuring strategies undertaken in 2018 and share-based compensation. For the three and nine months ended September 30, 2018, cost of revenue from discontinued operations was nil and \$31.8 million and selling, general and administrative expense from discontinued operations was nil and \$22.8 million for the three and nine months ended September 30, 2018.

For the three and nine months ended September 30, 2017, Acasta reported cost of revenue from continuing operations of \$32.3 million and \$87.1 million and selling, general and administrative expense from continuing operations of \$17.1 million and \$48.7 million. Cost of revenue from continuing operations was incurred entirely by the Consumer Products reportable segment and was comprised primarily of the cost of inventory, raw materials and consumables, salaries and benefits, rent and utilities, the depreciation of property, plant and equipment and production repairs, maintenance and supplies expenses. Selling, general and administrative expense from continuing operations was incurred by Acasta's Consumer Products and Other reportable segments and was comprised primarily of the depreciation of property plant and equipment, professional fees, salaries and benefits, freight charges, general office and laboratory expenses. Cost of revenue from discontinued operations was \$17.8 million and \$51.3 million and selling, general and administrative expense from discontinued operations was \$26.5 million and \$73.6 million for the three and nine months ended September 30, 2017.

### **Impairment Losses**

#### *Impairment summary*

Management's estimates of future net cash flows for the Apollo operating segment 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. This may have a material effect on the Company's consolidated financial statements.

For the nine months ended September 30, 2018, Acasta reported impairment losses from continuing operations of \$79.8 million with \$30.4 million allocated to goodwill and \$49.4 million allocated to intangible assets. The total impairment loss recorded during the nine months ended September 30, 2018 relating to discontinued operations was \$12.2 million.

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Quarterly, or whenever events or changes in circumstances suggest that the carrying value of an asset may not be recoverable, the Company performs a review 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).

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the 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, the carrying amount of goodwill 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 as at December 31, 2017, 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).

*Impairment charges for the three and nine months ended September 30, 2018*

The Company identified the June 30, 2018 decrement in market capitalization of Acasta as well as the decline in forecasted operating results as potential indicators of impairment for the Apollo CGU as at June 30, 2018. As a result of the identification of this impairment indicator, the Company estimated the recoverable amount of the Apollo CGU using a fair value less cost to sell model and concluded that it was impaired as at June 30, 2018. As the Apollo CGU's carrying amount exceeded its estimated recoverable amount, an impairment loss of \$79.8 million was recognized with \$30.4 million allocated to goodwill and \$49.4 million allocated to intangible assets. The impairment charge was recorded in the second quarter of 2018. 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 and applying foreign exchange rates of C\$1.23:US\$1.00 to C\$1.28:US\$1.00. 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.

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The following table sets out the continuity of goodwill and intangible assets from December 31, 2017 to September 30, 2018.

<u>(in thousands of Canadian dollars)</u>	<u>Pre-impairment Carrying Value</u>	<u>Impairment Loss</u>	<u>Post-impairment Carrying Value</u>	<u>Amortization</u>	<u>Balance as at September 30, 2018</u>
<b>Goodwill:</b>					
Apollo . . . . .	\$ 30,418	\$30,418	—	—	—
	<u>\$ 30,418</u>	<u>\$30,418</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Intangible assets:</b>					
Apollo — Customer relationships . .	\$109,525	\$49,357	\$60,168	\$2,314	\$57,854
		<u>\$79,775</u>		<u>\$2,314</u>	<u>\$57,854</u>

*Impairment charges for the year ended December 31, 2017*

The Company identified Stellwagen's lower than expected economic performance and the sales price of Stellwagen subsequent to year end as potential indicators of 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 a result of the December 31, 2017 annual goodwill impairment test and intangible asset valuation:

The estimated recoverable amount of the Stellwagen CGU was \$246.6 million (US \$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 (US \$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:US\$1.00 to C\$1.27:US\$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.

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

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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.

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

**Other Results of Operations**

Acasta reported finance costs related primarily to interest on debt, exit fees and the amortization and accretion of deferred financing costs from continuing operations of \$1.5 million and \$24.8 million for the three and nine months ended September 30, 2018 compared with \$5.2 million and \$8.1 million for the three and nine months ended September 30, 2017. Finance costs from discontinued operations of nil and \$8.7 million for the three and nine months ended September 30, 2018 compared with \$7.0 million and \$20.8 million for the three and nine months ended September 30, 2017. The increase in finance costs comparing the three and nine months ended September 30, 2018 to the same period in the prior year was due primarily to a refinancing and modification of outstanding debt between periods.

Acasta reported a gain of \$0.1 million and a loss of \$1.1 million related to the translation of foreign currency transactions from continuing operations for the three and nine months ended September 30, 2018 compared with \$1.4 million and \$3.0 million in gains related to the translation of foreign currency transactions for the three and nine months ended September 30, 2017. The gain reported for the three months ended September 30, 2018 was attributable to a strengthening of the US dollar versus the Canadian dollar where the Consumer Products segment was positively impacted due to its net asset position denominated in US dollars attributable to its US customers.

Acasta recorded other income, net of \$0.3 million and a loss of \$1.0 million in the three and nine months ended September 30, 2018. The gain for the three months ended September 30, 2018 relates primarily to settlement gains on income tax liabilities offset by a loss of \$0.1 million realized gain on changes in the fair value of financial instruments. The net loss for the nine months ended September 30, 2018 is comprised of a \$2.5 million net working capital purchase consideration adjustment to the vendors of Apollo and a \$1.0 million loss in full satisfaction of the remaining purchase price relating to the ECN Acquisition through the issuance of 500,000 Class B Shares on April 5, 2018 offset by the realized gain of \$2.1 million relating to changes in the fair value of financial instruments and other net gains of \$0.4 million. Acasta recorded other income, net of \$2.1 million and \$5.8 million in the three and nine months ended September 30, 2017 due primarily to a \$3.7 million gain on the redemption of Class A Shares, plus \$2.1 million in revaluation gains on the Stellwagen earn-out in the third quarter.

For the three and nine months ended September 30, 2018, the Company recorded deferred income tax recoveries of nil and \$7.1 million, attributable primarily to the reversal of temporary differences on goodwill and intangible assets offset by the derecognition of deferred tax assets previously recognised in the second quarter of 2018. For the three and nine months ended September 30, 2018 the Company recorded current income tax

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recoveries of \$0.5 million and \$2.3 million for the periods related to losses generated by the businesses that are expected to result in refunds of previously paid taxes.

For the three and nine months ended September 30, 2017, the Company recorded current income tax recoveries of \$0.6 million and \$5.5 million attributable to taxable income generated during the periods. The Company's effective tax rate may fluctuate significantly in future periods due to foreign currency exchange rate movements, changes in tax laws, changes with respect to the assessment of deferred tax recognition and the impact of specific transactions and assessments.

**SUMMARIZED QUARTERLY DATA**

STATEMENTS OF INCOME (LOSS) (in thousands of Canadian dollars)	Acasta Consolidated						
	Three Months Ended						
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018
Revenue	\$42,045	\$43,381	\$43,607	\$ 44,553	\$ 42,304	\$ 44,094	\$45,877
Cost of revenue	27,877	26,966	32,293	31,499	34,178	35,186	37,896
Selling, general and administrative expense	16,216	15,321	17,129	16,549	18,892	24,817	11,624
Finance costs	931	1,955	5,177	6,568	13,295	10,044	1,463
Net unrealized (loss) gain on change in fair value of financial liabilities	(236)	—	—	236	—	92	(655)
Impairment of intangible assets and goodwill	—	—	—	200,745	—	79,775	—
Net loss (gain) on foreign exchange transactions	88	(1,643)	(1,439)	(4,822)	1,685	(537)	(101)
Other (income) expense, net	(3,698)	2	(2,105)	(35,309)	1,976	(717)	(304)
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>\$ 867</b>	<b>\$ 780</b>	<b>\$(7,448)</b>	<b>\$(170,913)</b>	<b>\$ (27,722)</b>	<b>\$(104,566)</b>	<b>\$(4,046)</b>
Current income tax expense	2,539	2,390	571	1,572	—	(1,871)	(459)
Deferred income tax recovery	(1,757)	(1,085)	(1,085)	(16,484)	(1,279)	(5,824)	—
<b>Net loss from continuing operations</b>	<b>\$ 85</b>	<b>\$( 525)</b>	<b>\$(6,934)</b>	<b>\$(156,001)</b>	<b>\$ (26,443)</b>	<b>\$ (96,871)</b>	<b>\$(3,587)</b>
<b>Net income (loss) from discontinued operations</b>	<b>4,113</b>	<b>(717)</b>	<b>(2,805)</b>	<b>(250,282)</b>	<b>(142,371)</b>	<b>(2,227)</b>	<b>(296)</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 4,198</b>	<b>\$(1,242)</b>	<b>\$(9,739)</b>	<b>\$(406,283)</b>	<b>\$(168,814)</b>	<b>\$( 99,098)</b>	<b>\$(3,883)</b>
<b>NET INCOME (LOSS) PER SHARE</b>							
Basic — continuing operations	\$ —	\$ (0.01)	\$ (0.08)	\$ (1.72)	\$ (0.30)	\$ (1.49)	\$ (0.06)
Basic — discontinued operations	\$ 0.05	\$ (0.01)	\$ (0.03)	\$ (2.77)	\$ (1.59)	\$ (0.03)	\$ —
Diluted — continuing operations	\$ —	\$ (0.01)	\$ (0.08)	\$ (1.72)	\$ (0.30)	\$ (1.49)	\$ (0.06)
Diluted — discontinued operations	\$ 0.05	\$ (0.01)	\$ (0.03)	\$ (2.77)	\$ (1.59)	\$ (0.03)	\$ —

**NON-IFRS FINANCIAL PERFORMANCE MEASURES**

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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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.

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Adjusted EBITDA is calculated by adjusting net income (loss) as recorded in the unaudited condensed consolidated interim 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, foreign exchange and impairment charges. 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)	Three Months Ended September 30, 2018				Three Months Ended September 30, 2017				
	Continuing Operations		Discontinued Operations		Continuing Operations		Discontinued Operations		
	Reportable Segments				Reportable Segments				
	Consumer Products	Other	Consumer Products	Acasta Consolidated	Consumer Products	Other	Consumer Products	Aviation	Acasta Consolidated
Net income (loss)	\$ (1,085)	\$ (2,502)	\$ —	\$ (3,587)	\$ (1,475)	\$ (5,459)	\$ —	\$ —	\$ (6,934)
Net income (loss) from discontinued operations	—	—	(296)	(296)	—	—	(259)	(2,546)	(2,805)
Net (gain) loss on foreign exchange	96	(197)	—	(101)	1,085	(2,524)	361	37	(1,439)
Adjusted net income (loss) from continuing operations	\$ (989)	\$ (2,699)	\$ —	\$ (3,688)	\$ (390)	\$ (7,983)	\$ —	\$ —	\$ (8,373)
Adjusted net income (loss) from discontinued operations	\$ —	\$ —	\$ (296)	\$ (296)	\$ —	\$ —	\$ 102	\$ 2,509	\$ (2,407)
Net loss from continuing operations per share — basic				(0.06)					(0.08)
Net income (loss) from discontinued operations per share — basic				(0.00)					(0.03)
Net loss from continuing operations per share — diluted(1)				(0.06)					(0.08)
Net income (loss) from discontinued operations per share — diluted(1)				(0.00)					(0.03)
Adjusted net income (loss) from continuing operations per share — basic				(0.06)					(0.09)
Adjusted net income (loss) from discontinued operations per share — basic				(0.00)					(0.03)
Adjusted net income (loss) from continuing operations per share — diluted(1)				(0.06)					(0.09)
Adjusted net income (loss) from discontinued operations per share — diluted(1)				(0.00)					(0.03)
Weighted average number of Class B shares outstanding — basic				64,994,283					90,494,283
Weighted average number of Class B shares outstanding — diluted				64,994,283					90,494,283
Finance costs	960	503	—	1,463	570	4,607	612	6,393	5,177
Current income tax expense	(459)	—	—	(459)	571	—	329	289	571
Deferred income tax recovery	—	—	—	—	(1,085)	—	(365)	(931)	(1,085)
Depreciation of property, plant and equipment and amortization of intangible assets	3,660	—	—	3,660	5,365	—	2,462	12,622	5,365
EBITDA from continuing operations	\$ 3,076	\$ (1,999)	\$ —	\$ 1,077	\$ 3,946	\$ (852)	\$ —	\$ —	\$ 3,094
EBITDA from discontinued operations	—	—	(296)	(296)	—	—	2,779	15,827	18,606
EBITDA	\$ 3,076	\$ (1,999)	\$ (296)	\$ 781	\$ 3,946	\$ (852)	\$ 2,779	\$ 5,827	\$ 21,700
Adjusted EBITDA from continuing operations	\$ 3,172	\$ (2,196)	\$ —	\$ 976	\$ 5,031	\$ (3,376)	\$ —	\$ —	\$ 1,655
Adjusted EBITDA from discontinued operations	—	—	(296)	(296)	—	—	3,140	15,864	19,004
Adjusted EBITDA	\$ 3,172	\$ (2,196)	\$ (296)	\$ 680	\$ 5,031	\$ (3,376)	\$ 3,140	\$ 5,864	\$ 20,659

(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 where the Company reported a net loss or adjusted net loss because their effect would have been anti-dilutive.

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	Continuing Operations		Discontinued Operations		Acasta Consolidated	Continuing Operations		Discontinued Operations		Acasta Consolidated
	Reportable Segments		Reportable Segments			Consumer Products	Other	Consumer Products	Aviation	
	Consumer Products	Other	Consumer Products	Aviation		Consumer Products	Other	Consumer Products	Aviation	
Net income (loss) from continuing operations . . . . .	(80,556)	(46,345)	—	—	(126,901)	4,521	(11,895)	—	—	(7,374)
Net income (loss) from discontinued operations . . . . .	—	—	(14,949)	(129,945)	(144,894)	—	—	(937)	1,528	591
Impairment of goodwill . . . . .	79,775	—	12,248	—	79,775	—	—	—	—	—
Loss on revaluation of Profit Participating Notes . . . . .	—	—	—	33,121	—	—	(236)	—	—	(236)
Gain on redemption of Class A Shares . . . . .	—	—	—	—	—	—	(3,699)	—	—	(3,699)
Gain on disposal of property, plant and equipment . . . . .	—	—	—	—	—	—	—	—	(206)	—
Qualifying Acquisition transaction costs . . . . .	—	—	—	—	—	—	4,627	—	—	4,627
ECN Acquisition transaction costs . . . . .	—	—	—	—	—	—	—	—	628	—
Costs to prepare aircraft for sale . . . . .	—	—	—	—	—	—	—	—	706	—
Net (gain) loss on foreign exchange . . . . .	(1,642)	2,689	(85)	61	1,047	(61)	(2,933)	571	38	(2,994)
Amortization of inventory fair value increment . . . . .	—	—	—	—	—	1,203	—	743	—	1,203
Other non-recurring costs . . . . .	—	—	—	—	—	—	—	359	—	—
<b>Adjusted net income (loss) from continuing operations . . . . .</b>	<b>(2,423)</b>	<b>(43,656)</b>	<b>—</b>	<b>—</b>	<b>(46,079)</b>	<b>5,663</b>	<b>(14,136)</b>	<b>—</b>	<b>—</b>	<b>(8,473)</b>
<b>Adjusted net income (loss) from discontinued operations . . . . .</b>	<b>—</b>	<b>—</b>	<b>(2,786)</b>	<b>(96,763)</b>	<b>(99,549)</b>	<b>—</b>	<b>—</b>	<b>736</b>	<b>2,694</b>	<b>3,430</b>
Net loss from continuing operations per share — basic . . . . .					(1.74)					(0.08)
Net income (loss) from discontinued operations per share — basic . . . . .					(1.99)					0.01
Net loss from continuing operations per share — diluted <sup>(1)</sup> . . . . .					(1.74)					(0.08)
Net income (loss) from discontinued operations per share — diluted . . . . .					(1.99)					0.01
Adjusted net income (loss) from continuing operations per share — basic . . . . .					(0.63)					(0.10)
Adjusted net income (loss) from discontinued operations per share — basic . . . . .					(1.36)					0.04
Adjusted net income (loss) from continuing operations per share — diluted <sup>(1)</sup> . . . . .					(0.63)					(0.10)
Adjusted net income (loss) from discontinued operations per share — diluted . . . . .					(1.36)					0.04
Weighted average number of Class B shares outstanding — basic . . . . .					72,963,033					88,214,511
Weighted average number of Class B shares outstanding — diluted . . . . .					72,963,033					88,219,082
Finance costs . . . . .	3,536	21,266	1,356	7,342	24,802	2,330	5,733	2,080	18,736	8,063
Current income tax expense . . . . .	(2,330)	—	1,023	(379)	(2,330)	5,500	—	1,063	2,154	5,500
Deferred income tax recovery . . . . .	(7,103)	—	(660)	(71)	(7,103)	(3,927)	—	(1,300)	(2,488)	(3,927)
Depreciation of property, plant and equipment and amortization of intangible assets . . . . .	14,484	—	3,644	8,008	14,484	15,799	—	7,243	39,879	15,799
<b>EBITDA from continuing operations . . . . .</b>	<b>(71,969)</b>	<b>(25,079)</b>	<b>—</b>	<b>—</b>	<b>(97,048)</b>	<b>24,223</b>	<b>(6,162)</b>	<b>—</b>	<b>—</b>	<b>18,061</b>
<b>EBITDA from discontinued operations . . . . .</b>	<b>—</b>	<b>—</b>	<b>(9,586)</b>	<b>(115,045)</b>	<b>(124,631)</b>	<b>—</b>	<b>—</b>	<b>8,149</b>	<b>59,809</b>	<b>67,958</b>
<b>EBITDA . . . . .</b>	<b>(71,969)</b>	<b>(25,079)</b>	<b>(9,586)</b>	<b>(115,045)</b>	<b>(221,679)</b>	<b>24,223</b>	<b>(6,162)</b>	<b>8,149</b>	<b>59,809</b>	<b>86,019</b>
Adjusted EBITDA from continuing operations . . . . .	6,164	(22,390)	—	—	(16,226)	25,365	(8,403)	—	—	16,962
Adjusted EBITDA from discontinued operations . . . . .	—	—	2,577	(81,863)	(79,286)	—	—	9,822	60,975	70,797
<b>Adjusted EBITDA . . . . .</b>	<b>6,164</b>	<b>(22,390)</b>	<b>2,577</b>	<b>(81,863)</b>	<b>(95,512)</b>	<b>25,365</b>	<b>(8,403)</b>	<b>9,822</b>	<b>60,975</b>	<b>87,759</b>

(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 where the Company reported a net loss or adjusted net loss because their effect would have been anti-dilutive.



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<b>NON-IFRS FINANCIAL PERFORMANCE MEASURES</b> <b>(in thousands of Canadian dollars)</b>	<b>Acasta Consolidated</b>				
	<b>Three Months Ended</b>				
	<b>September 30,</b> <b>2017</b>	<b>December 31,</b> <b>2017</b>	<b>March 31,</b> <b>2018</b>	<b>June 30,</b> <b>2018</b>	<b>September 30,</b> <b>2018</b>
Net loss from continuing operations . . . . .	\$ (6,934)	\$(156,001)	\$ (26,443)	\$(96,871)	\$(3,587)
Net income (loss) from discontinued operations . . . . .	(2,805)	(250,282)	(142,371)	(2,227)	(296)
Net income (loss) . . . . .	\$ (9,739)	\$(406,283)	\$(168,814)	\$(99,098)	\$(3,883)
Impairment of intangible assets and goodwill, net of tax . . . . .	—	423,573	12,248	79,775	—
Loss on revaluation of Profit Participating Notes . . . . .	—	—	33,121	—	—
Net loss (gain) on foreign exchange transactions . . . . .	(1,041)	(4,370)	1,510	(386)	(101)
Adjusted net income (loss) from continuing operations . . . . .	\$ (8,373)	\$ 25,179	\$ (24,758)	\$(17,633)	\$(3,688)
Adjusted net income (loss) from discontinued operations . . . . .	(2,407)	(12,259)	(97,177)	(2,076)	(296)
Adjusted net income (loss) . . . . .	\$ (10,780)	\$ 12,920	\$(121,935)	\$(19,709)	\$(3,984)
Finance costs . . . . .	12,182	14,353	21,190	10,847	1,463
Current income tax expense . . . . .	1,189	1,172	168	(1,395)	(459)
Deferred income tax recovery . . . . .	(2,381)	(20,634)	(1,814)	(6,020)	—
Depreciation of property, plant and equipment and amortization of intangible assets . . . . .	20,449	21,394	15,914	6,562	3,660
EBITDA from continuing operations . . . . .	\$ 3,094	\$(158,921)	\$ (9,041)	\$(89,084)	\$ 1,077
EBITDA from discontinued operations . . . . .	18,606	(231,077)	(124,315)	(20)	(296)
EBITDA . . . . .	<u>\$ 21,700</u>	<u>\$(389,998)</u>	<u>\$(133,356)</u>	<u>\$(89,104)</u>	<u>\$ 781</u>
Adjusted EBITDA from continuing operations . . . . .	\$ 1,655	\$ 37,002	\$ (7,356)	\$ (9,846)	\$ 976
Adjusted EBITDA from discontinued operations . . . . .	19,004	9,376	(79,121)	131	(296)
Adjusted EBITDA . . . . .	<u>\$ 20,659</u>	<u>\$ 46,378</u>	<u>\$ (86,477)</u>	<u>\$ (9,715)</u>	<u>\$ 680</u>

**LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2018, the Company's cash and cash equivalents totaled \$0.8 million. As at December 31, 2017, cash and cash equivalents totaled \$26.1 million.

**Operating Activities**

Acasta recorded cash used in operating activities of \$41.2 million in the nine months ended September 30, 2018 compared with cash provided by operating activities of \$63.1 million in the nine months ended September 30, 2017. In the nine months ended September 30, 2018, the Company's cash used in operating activities was driven mainly by total revenues of 132.2 million, partially offset by cost of revenues and selling, general and administrative expenses (net of embedded depreciation of \$14.5 million) of \$148.1 million, cash taxes paid of \$3.6 million and a net cash outflow associated with the changes in non-cash working capital items of \$1.9 million during the period.

In the nine months ended September 30, 2017, the Company's cash provided by operating activities of \$63.1 million was generated primarily by total revenue of \$274.8 million revenues, offset by cost of revenues and selling, general and administrative expenses of (net of depreciation of 62.9 million) of \$197.8 million, cash taxes paid of \$2.7 million and a net cash outflow associated with the changes in non-cash working capital items of \$17.2 million during the period.

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**Investing Activities**

Acasta recorded cash provided by investing activities of \$172.7 million in the nine months ended September 30, 2018 compared with cash used in investing activities of \$677.3 million in the nine months ended September 30, 2017. In the nine months ended September 30, 2018, the Company received \$33.2 million in proceeds from the monetization of Profit Participating Notes, net cash proceeds from the Stellwagen Sale Transaction of \$32.7 million (cash proceeds of \$45.0 million less \$12.3 million in cash held in the Aviation reportable segment) as well as \$113.8 million from the sale of Jempak partially offset by investments of \$7.0 million in property, plant and equipment additions during the period. See the "Overview of Continuing and Discontinued Operations — Discontinued Operations — Aviation Reportable Segment" section of this MD&A for further details on the Stellwagen Sale Transaction.

In the nine months ended September 30, 2017, the Company's primary cash investments included a new aircraft within the Aviation reporting segment (resulting in a \$299.8 million addition to property, plant and equipment and a \$68.5 million addition to intangible assets) and the net cash outflow on the closing of the Qualifying Acquisition related to Apollo (\$161.5 million), Stellwagen (\$90.8 million) and JemPak (\$55.4 million). Partially offsetting the overall investing cash outflows in the three months ended March 31, 2017, \$106.2 million in cash previously held in escrow was released on closing of the Qualifying Acquisition and \$53.7 million in proceeds were received on the sale of an aircraft during the period.

**Financing Activities**

Acasta recorded cash used in financing activities of \$156.9 million in the nine months ended September 30, 2018 compared with cash provided by financing activities of \$629.4 million in the nine months ended September 30, 2017. In the nine months ended September 30, 2018, the Company made \$184.9 million in repayments of debt and credit facilities and debt issuance costs and paid 13.9 million in interest and related fees. Partially offsetting Acasta's net repayment of debt during the nine months ended September 30, 2018, the Company received net proceeds of \$41.9 million from the Amended Credit Facility (as hereinafter defined) within the Consumer Products reportable segment.

*Summary of loans and credit facilities*

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 March 31, 2018, 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. On June 1, 2018, the Credit Facility was further amended in consideration of the JemPak Sale Transaction ("**Amended Credit Facility**"). Under the Amended Credit Facility availability under this facility was extended to \$58.0 million plus a \$5.0 million revolving credit facility. The Company used cash proceeds of \$32.7 million from the JemPak Sale Transaction to repay the principal outstanding under Term loan A, Revolving credit facility amounts previously drawn by JemPak, and accrued interest and fees. The Amended Credit Facility matures on December 1, 2018 and will automatically extend for an additional three months if not repaid at the original maturity date. The final maturity date is June 1, 2019. As at September 30, 2018, the undrawn capacity on the Credit Facility was nil.

On May 14, 2017, Acasta entered into a secured two-year credit facility agreement (the "**US Credit Facility**") allowing for the borrowing of up to US \$150.0 million. During 2017, proceeds from the US Credit Facility were used to fund a US \$100.0 million investment in Stelloan. Interest is based on LIBOR plus an applicable margin. The US Credit Facility is secured by a first-priority lien over Acasta's real property. During the nine months ended September 30, 2018, the Company made principal repayments of \$145.4 million, as permitted under the agreement, such that the outstanding principal balance at September 30, 2018 was \$12.4 (US \$9.6 million). Interest is LIBOR based plus an applicable margin. The US Credit Facility is secured by a

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first-priority lien over Acasta's real property. The US Credit Facility matures within 12 months of September 30, 2018 and has been classified as a current liability. No new borrowings are permissible under this Facility.

**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 were recorded in the other non-current assets financial statement line item and settle on a monthly basis. The interest rate swap contracts exchanged variable rate interest amounts for fixed rate interest amounts and were 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 occurred simultaneously and the amount in accumulated other comprehensive income was reclassified to net income (loss) from discontinued operations over the period that the variable rate interest payments on debt affect net income (loss) from discontinued operations. Upon the disposition of the Aviation reportable segment by way of the Stellwagen Sale Transaction, the Company derecognized its interest rate swap contracts as at March 27, 2018 at a fair value of \$15.9 million.

**Liquidity and Capital Resources Analysis**

<u>(Amounts in thousands of Canadian dollars)</u>	<u>Amount</u>
<b>COMMITMENTS</b>	
<b>Contractual obligations:</b>	
Operating leases payable <sup>(1)</sup> . . . . .	\$ 2,688
Current portion of long-term debt . . . . .	73,488
Bank overdraft . . . . .	4,450
Amounts due to related parties . . . . .	477
<b>Other commitments:</b>	
Accounts payable and accrued liabilities . . . . .	22,015
Income taxes payable . . . . .	2,913
<b>Total commitments within one year of September 30, 2018</b> . . . . .	<b><u><u>\$106,031</u></u></b>
 <b>LIQUIDITY RESOURCES</b>	
Cash and cash equivalents . . . . .	\$ 786
Working capital resources, excluding cash and cash equivalents . . . . .	70,551
Available under the Credit Facility <sup>(2)</sup> . . . . .	—
<b>Total capital resources available within one year of September 30, 2018</b> . . . . .	<b><u><u>\$ 71,337</u></u></b>

(1) Operating leases payable later than one year and not longer than five years amounted to \$11.1 million and operating leases payable later than five years amounted to \$11.7 million as at September 30, 2018.

(2) Certain restrictions apply to the use of proceeds associated with the Credit Facility.

As at September 30, 2018, both the Amended Credit Facility and The US Credit Facility are due within the next 12 months and have been included in current liabilities for reporting purposes.

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As of the date of this MD&A, Acasta's board of directors is considering a number of alternatives to fully fund its working capital deficit over the next twelve months, including:

- Divestiture of Apollo
- Refinancing the Amended Credit Facility and the US Credit Facility
- Further capital transactions

In the meantime, the Company is in the process of executing a cost reduction plan that is primarily focused on creating efficiencies to reduce overall freight and labor costs.

**Off-Balance Sheet Arrangements**

The Company's off-balance sheet arrangements as at September 30, 2018 include operating leases of \$25.5 million related to plant, office and equipment leases.

**RELATED PARTY TRANSACTIONS**

On March 27, 2018, the Company closed the Stellwagen Sale Transaction to Mr. Douglas Brennan and certain other investors. Mr. Brennan was a related party by virtue of being the prior owner of Stellwagen and CEO of the business during the time it was owned by Acasta. Total sale proceeds included U.S. \$35.0 million cash, cancellation of 26,000,000 Acasta Class B Shares, cancellation of the Stellwagen Earn-out liability and downside protection on the monetization of the Stelloan PPNs up to a maximum payout of U.S. \$5.0 million. At September 30, 2018, a receivable of \$6.5 million (U.S. \$5 million) has been recorded by the Company in relation to the downside protection on the PPN's.

WFI Inc., the remaining lending party to the U.S. Credit Facility, is related to Acasta by virtue of being controlled by Richard and Charles Wachsberg who are members of key management personnel at Apollo as well as the prior owners of Apollo (the "**Apollo Vendors**"). As at September 30, 2018, \$12.4 (U.S. \$9.6 million) of debt was outstanding to WFI Inc. (December 31, 2017 — \$25.1 million; U.S. \$20.0 million). The U.S Credit Facility debt is subordinated relative to the Amended Credit Facility.

During the nine months ended September 30, 2018, the Company made payments to the Apollo Vendors, including Richard and Charles Wachsberg who are members of key management personnel at Apollo totaling \$2.5 million for post-closing adjustments relating to working capital at Apollo (nine months ended September 30, 2017 — \$nil). No amounts are payable as at September 30, 2018.

During the three and nine months ended September 30, 2018, the Company incurred fees of \$nil and \$0.6 million, respectively, to entities controlled by Martin Golfarb, a key member of JemPak management (three and nine months ended September 30, 2017 — \$0.4 million and \$1.2 million respectively). These expenses relate to rent on a plant facility owned by these related parties, as well as consulting services. As part of the JemPak Sale Transaction, the Company also incurred an additional \$1.8 million in severance and success fee payments to key members of JemPak management at the date of the transaction.

During the nine months ended September 30, 2018, the Company incurred \$3.7 million in severance and other costs associated with key management personnel of the Company, as defined, as a result of terminating/restructuring certain Acasta head office employees. These amounts have been paid in full as at September 30, 2018. An additional \$0.5 million to the Company's former Chief Executive Officer, Anthony Melman were incurred during the nine months ended September 30, 2018 representing his 2017 minimum bonus.

Amounts due to related parties are non-interest bearing and are payable on demand, unless otherwise stated above. Related party amounts are recorded at their exchange amount.

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**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company's critical accounting policies and estimates are disclosed in the Significant Accounting Policies, Significant Accounting Judgements and Estimates and Recently Issued Accounting Pronouncements notes to the Financial Statements.

**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](http://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 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 expenditure commitments (including contractual obligations) within one year of September 30, 2018. There is no guarantee or assurance that the Company will be able to realize its operating forecast within one year of September 30, 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***

These interim financial statements have been 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.

During the nine months ended September 30, 2018, the Company funded its working capital requirements and its capital and operating expenditures through operating cash flows, proceeds from debt and credit facilities, proceeds from the Stellwagen Sale Transaction, proceeds from the JemPak Sale Transaction and proceeds from the monetization of the PPNs. Proceeds from these transactions have been used to reduce the indebtedness of the Company. Management expects that the cash to be generated from continuing operations based on amended and updated operating forecasts, which assumes a pre-determined Canadian dollar foreign exchange rate relative to the U.S. dollar, will be sufficient to fund the Company's capital and operating expenditures so as to meet its financial obligations as they fall due during the next twelve months. Management also expects that the Company will be able to fully fund the current working capital deficit by either replacing or extending the Amended Credit Facility beyond the June 1, 2019 maturity date, or through further divestiture or capital transactions.

There is no guarantee or assurance that the Company will be able to obtain replacement debt financing upon the maturity of existing credit facilities and realize its operating forecast in the foreseeable future, which is partially dependent upon several factors, including foreign exchange rates, and, thus, meet its financial

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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 September 30, 2018, the interim 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.

## **CONTROLS EVALUATION**

The Company's interim Chief Executive Officer and interim 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 interim Chief Executive Officer and interim 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 September 30, 2018, 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 September 30, 2018, 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.

### **Changes in Internal Control**

The Company completed its implementation of disclosure controls and procedures and internal control over financial reporting associated with the entities acquired as part of the Qualifying Acquisition in the first quarter of 2018 within the permissible period under NI 52-109 and there were no changes from April 1, 2018 to September 30, 2018.