ACASTA
ENTERPRISES INC.

# CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2017 and December 31, 2016
(expressed in thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The consolidated financial statements of Acasta Enterprises Inc. (the "Company"), the accompanying notes thereto and other financial information contained in the Company's management's discussion and analysis are the responsibility of, and have been prepared by management. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, include management's best estimates and judgments. Management has reviewed the financial information presented throughout the documents accompanying these consolidated financial statements and has ensured it is consistent with the consolidated financial statements.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable. However, any system of internal control over financial reporting, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all misstatements. In accordance with Section 5.3 of NI 52-109, the Chief Executive Officer and Chief Financial Officer of Acasta has limited the scope of design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude the controls, policies and procedures of Apollo, JemPak and Stellwagen. Contributions to the consolidated financial statements from the entities acquired as part of the Qualifying Acquisition represent substantially all of the consolidated operating results of the Company with the exception of the Other reportable segment.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is comprised of directors, none of whom are employees of the Company, reviews the interim and annual consolidated financial statements and management's discussion and analysis of the Company and recommends them for approval by the Board of Directors. The Audit Committee reports its findings to the Board of Directors before the consolidated financial statements are approved by the Board.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The auditor has full and unrestricted access to the Audit Committee to discuss the audit and related matters.

*"Ian Kidson"*
Ian Kidson
*Interim Chief Executive Officer and Chief Financial Officer*

Toronto, Canada
April 2, 2018

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Acasta Enterprises Inc.

We have audited the accompanying consolidated financial statements of Acasta Enterprises Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Acasta Enterprises Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Acasta Enterprises Inc. has breached a financial covenant in connection with certain of its debt agreements as of December 31, 2017. The compliance with the same financial covenant, and others, throughout the year ended December 31, 2018 is dependent upon the financial performance of the consumer products segment, which is subject to certain risks. These conditions indicate the existence of a material uncertainty that may cast significant doubt about Acasta Enterprises Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 2, 2018
Toronto, Canada

**ACASTA ENTERPRISES INC.**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(in thousands of Canadian dollars)**

| | Notes | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | $ 26,139 | $ 187 |
| Trade and other receivables | 9 | 39,644 | 597 |
| Inventories | 10 | 48,423 | — |
| Prepaid expenses and deposits | 11 | 54,548 | 25 |
| Current portion of loans receivable | 12 | 11,257 | — |
| Other current assets | | 5,534 | — |
| Restricted cash | 8 | — | 405,002 |
| | | $ 185,545 | $ 405,811 |
| Non-current assets | | | |
| Property, plant and equipment | 13 | $ 617,594 | $ — |
| Intangible assets | 14 | 275,469 | — |
| Goodwill | 14 | 176,552 | — |
| Long-term loans receivable | 12 | 189,974 | — |
| Non-current deposits | 11 | 5,077 | — |
| Other non-current assets | 25, 26 | 12,889 | 710 |
| | | $ 1,277,555 | $ 710 |
| **Total assets** | | **$ 1,463,100** | **$ 406,521** |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | $ 37,107 | $ 8,779 |
| Current portion of long-term debt | 16 | 276,735 | — |
| Income taxes payable | | 7,232 | — |
| Other current liabilities | 18 | 14,333 | 13,504 |
| Class A Restricted Voting Shares subject to redemption | 7, 26 | — | 409,342 |
| | | $ 335,407 | $ 431,625 |
| Non-current liabilities | | | |
| Long-term debt | 16 | $ 707,211 | $ — |
| Deferred tax liabilities | 15 | 20,306 | — |
| Other non-current liabilities | 18 | 31,520 | — |
| | | $ 759,037 | $ — |
| **Total liabilities** | | **$ 1,094,444** | **$ 431,625** |
| **Shareholders' equity (deficiency)** | | | |
| Share capital | 19 | $ 849,383 | $ 14,995 |
| Contributed surplus | 31 | 300 | — |
| Warrants | | 3,939 | 3,939 |
| Deficiency | | (457,104) | (44,038) |
| Accumulated other comprehensive loss | | (27,862) | — |
| **Total shareholders' equity (deficiency)** | | **$ 368,656** | **$ (25,104)** |
| **Total liabilities and shareholders' equity (deficiency)** | | **$ 1,463,100** | **$ 406,521** |

Going concern (note 2)
Commitments (note 28)
Contingencies (note 29)
Subsequent events (note 33)

*The accompanying notes are an integral part of these consolidated financial statements.*

**ACASTA ENTERPRISES INC.**
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**
**(in thousands of Canadian dollars, except share and per share amounts)**

| | Notes | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|---|
| **Revenue** | 20 | $ 366,521 | $ 1,845 |
| **Cost of revenue, expenses, and other items** | | | |
| Cost of revenue | 21 | 187,616 | — |
| Selling, general and administrative expense | 21 | 171,896 | 10,886 |
| Finance costs | 22 | 43,232 | — |
| Net unrealized loss on change in fair value of financial instruments | 7, 12 | 2,909 | 26,968 |
| Impairment of intangible assets and goodwill | 14 | 440,746 | — |
| Net gain on foreign exchange | | (6,755) | — |
| Other income, net | 23 | (41,597) | — |
| **Loss before income tax** | | **$ (431,526)** | **$ (36,009)** |
| Current income tax expense | 15 | 9,889 | — |
| Deferred income tax recovery | 15 | (28,349) | — |
| **Net loss** | | **$ (413,066)** | **$ (36,009)** |
| **Comprehensive loss** | | | |
| **Items that may be subsequently reclassified to net income (loss)** | | | |
| Foreign currency translation | | $ (29,377) | $ — |
| Net movement in cash flow hedges, net of tax | 26 | 1,515 | — |
| **Other comprehensive loss** | | **$ (27,862)** | **$ —** |
| **Total comprehensive loss** | | **$ (440,928)** | **$ (36,009)** |
| **Net loss per share** | | | |
| Basic | 24 | $ (4.65) | $ (3.85) |
| Diluted | 24 | $ (4.65) | $ (3.85) |
| **Other comprehensive loss per share** | | | |
| Basic | 24 | $ (0.31) | $ — |
| Diluted | 24 | $ (0.31) | $ — |
| **Weighted average number of Class B Shares outstanding** | | | |
| Basic | 24 | 88,795,384 | 9,349,648 |
| Diluted | 24 | 88,795,384 | 9,349,648 |

*The accompanying notes are an integral part of these consolidated financial statements.*

**ACASTA ENTERPRISES INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**
**(in thousands of Canadian dollars, except share amounts)**

| | | Share capital (Class B Shares) | | Warrants | | | | Accumulated other comprehensive | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| | **Notes** | **Number** | **Amount** | **Number** | **Amount** | **Contributed surplus** | **Deficiency** | **loss** | **(deficiency)** |
| **Balance at December 31, 2016** | 19 | **11,960,156** | **$ 14,995** | **20,884,062** | **$ 3,939** | **$ —** | **$ (44,038)** | **$ —** | **$ (25,104)** |
| Net loss for the year | | — | — | — | — | — | (413,066) | — | (413,066) |
| Other comprehensive loss, net of tax | | — | — | — | — | — | — | (27,862) | (27,862) |
| Issuance of Class B Shares, as consideration for the Qualifying Acquisition | 6, 19 | 52,966,814 | 529,668 | — | — | — | — | — | 529,668 |
| Issuance of Class B Shares, net of share issuance costs, as consideration for the ECN acquisition | 6, 19 | 3,037,500 | 26,517 | — | — | — | — | — | 26,517 |
| Issuance of Class B Shares, net of share issuance costs, related to private placement | 19 | 15,955,050 | 158,476 | — | — | — | — | — | 158,476 |
| Conversion of Class A Restricted Voting Shares | 19 | 11,795,778 | 119,727 | — | — | — | — | — | 119,727 |
| Issuance of equity-settled share-based payments | 31 | — | — | — | — | 300 | — | — | 300 |
| **Balance at December 31, 2017** | | **95,715,298** | **$ 849,383** | **20,884,062** | **$ 3,939** | **$ 300** | **$ (457,104)** | **$ (27,862)** | **$ 368,656** |

*The accompanying notes are an integral part of these consolidated financial statements.*

**ACASTA ENTERPRISES INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY) (Continued)**
**(in thousands of Canadian dollars, except share amounts)**

| | | Share capital (Class B Shares) | | Warrants | | | Total shareholders' equity (deficiency) |
|---|---|---|---|---|---|---|---|
| | **Notes** | **Number** | **Amount** | **Number** | **Amount** | **Deficiency** | |
| **Balance at December 31, 2015** | | **11,960,156** | **$ 14,995** | **20,884,062** | **$ 3,939** | **$ (8,029)** | **$ 10,905** |
| Net loss for the year | | — | — | — | — | (36,009) | (36,009) |
| **Balance at December 31, 2016** | | **11,960,156** | **$ 14,995** | **20,884,062** | **$ 3,939** | **$ (44,038)** | **$ (25,104)** |

*The accompanying notes are an integral part of these consolidated financial statements.*

# ACASTA ENTERPRISES INC.
# CONSOLIDATED STATEMENTS OF CASH FLOWS
# (in thousands of Canadian dollars)

| | Notes | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| Net loss | | $ (413,066) | $ (36,009) |
| Adjustments for non-cash items and other adjustments: | | | |
| Share-based compensation | 31 | 300 | — |
| Depreciation of property, plant and equipment | 13, 21 | 26,279 | — |
| Amortization of intangible assets | 14, 21 | 58,036 | — |
| Gain on redemption of Class A Restricted Voting Shares | 7, 23 | (3,699) | — |
| Gain on disposal of property, plant and equipment | 23 | (206) | — |
| Gain on revaluation of Stellwagen Vendors Earn-out | 23 | (37,143) | — |
| Net unrealized (gain) loss on change in fair value of financial liabilities | 7 | (236) | 26,968 |
| Finance costs | 22 | 43,232 | — |
| Current income tax expense | 15 | 9,889 | — |
| Deferred income tax recovery | 15 | (28,349) | — |
| Impairment of intangible assets and goodwill | 14 | 440,746 | — |
| Net gain on foreign exchange | | (6,755) | — |
| Amortization of inventory fair value increment | | 3,360 | — |
| Changes in non-cash working capital | 30 | (77,770) | 8,688 |
| Net cash flows provided by (used in) operating activities | | $ 14,618 | $ (353) |
| Income taxes paid | | (4,920) | — |
| **Cash provided by (used in) operating activities** | | $ 9,698 | $ (353) |
| **Investing activities** | | | |
| Additions to loans receivable, net | 12 | $ (198,875) | $ — |
| Additions to property, plant and equipment | 13 | (311,317) | — |
| Additions to intangible assets | 14 | (68,464) | — |
| Proceeds on disposal of property, plant and equipment | 13 | 53,099 | — |
| Proceeds from restricted cash to finance acquisitions | | 106,240 | — |
| Acquisition of Apollo | 6 | (161,545) | — |
| Acquisition of JemPak | 6 | (55,448) | — |
| Acquisition of Stellwagen | 6 | (90,781) | — |
| Interest received on restricted cash and cash equivalents held in escrow | | — | 4 |
| Proceeds on maturity of restricted cash and cash equivalents held in escrow | | — | 2,020,533 |
| Investment in restricted cash and cash equivalents held in escrow | | — | (2,022,383) |
| **Cash used in investing activities** | | $ (727,091) | $ (1,846) |
| **Financing activities** | | | |
| Proceeds from debt and credit facilities | 16 | $ 737,372 | $ — |
| Repayment of debt | 16 | (91,187) | — |
| Payment of debt issuance costs | | (24,175) | (635) |
| Proceeds from restricted cash to fund redemption of Class A Restricted Voting Shares and deferred underwriters' commission | | 298,761 | — |
| Redemption of Class A Restricted Voting Shares | 7 | (285,680) | — |
| Proceeds from private placement of Class B Shares | | 159,551 | — |
| Payment of deferred underwriters' commission | | (13,081) | — |
| Payment of share issuance costs related to private placement | | (1,136) | (75) |
| Interest paid | | (35,342) | — |
| **Cash provided by (used in) financing activities** | | $ 745,083 | $ (710) |
| **Net increase (decrease) in cash and cash equivalents during the year** | | $ 27,690 | $ (2,909) |
| Foreign exchange impact on cash and cash equivalents held in foreign currencies | | (1,738) | — |
| Cash and cash equivalents, beginning of year | | 187 | 3,096 |
| **Cash and cash equivalents, end of year** | | **$ 26,139** | **$ 187** |

*The accompanying notes are an integral part of these consolidated financial statements.*

## 1. Description of business

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 three businesses, alongside Acasta's launch as a long-term investment and private equity management firm. Acasta acquired a commercial aviation finance advisory and asset management business, Stellwagen Group ("Stellwagen") and two private label consumer staples businesses, Apollo Health and Beauty Care Partnership and Apollo Laboratories Inc. (collectively, "Apollo") and JemPak Corporation ("JemPak"). The comparative year operating results for the year ended December 31, 2016 are representative of Acasta's operations prior to completing its Qualifying Acquisition and, as such, are not consistent with the nature of activities and operating results reported in 2017.

Subsequent to the Qualifying Acquisition, Acasta acquired substantially all of the net assets of ECN Capital Advisory Group LLC's commercial aviation finance advisory and asset management business ("ECN") (see note 6), and gained control over two other bankruptcy-remote structured vehicles domiciled in Ireland. The Irish entities run aircraft financing operations by issuing loans to third parties. Through the ability to exercise control over these companies, Acasta is exposed to the variable returns of these investees. See note 12 for further details.

In connection with the Qualifying Acquisition, the Company issued an additional 15,955,050 Class B shares ("Class B Shares") for aggregate gross proceeds of $159,551 by way of a private placement (the "Private Placement") on January 3, 2017. On January 3, 2017, the funds held in the escrow account from Acasta's initial public offering of Class A restricted voting units were released, the borrowings under the Credit Facility (see note 16 for further detail) were made available to the Company and the Private Placement was completed (see notes 16 and 19 for further detail), which in the aggregate, satisfied the amounts payable on account of (1) the cash component of the purchase consideration arising from the Qualifying Acquisition, (2) Class A restricted voting shares (the "Class A Restricted Voting Shares") redeemed, (3) acquisition related expenses and (4) the deferred underwriters' commission paid, which was due and payable by the Company to the underwriters upon the closing of a Qualifying Acquisition. On January 6, 2017, the 11,795,778 Class A restricted voting shares not otherwise redeemed were automatically converted into Class B Shares on a one-for-one basis.

The Company has three reportable operating segments: Consumer Products, Aviation, and Other segments being representative of Acasta's corporate net assets and expenses. See note 27 for further segment disclosures.

## 2. Basis of preparation and going concern

### Statement of compliance

The consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting

## 2. Basis of preparation and going concern (Continued)

Standards Board ("IASB") in effect on December 31, 2017. The Board of Directors approved such consolidated financial statements (the "consolidated financial statements") on March 29, 2018. The significant accounting policies applied by the Company are described in note 3 herein.

### Basis of measurement

The consolidated financial statements of the Company are presented using, and have been prepared on a going concern basis, under the historical cost convention except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is measured as the fair value of the consideration provided in exchange for goods and services. The Company's presentation currency is Canadian dollars ("CAD"). All financial information is presented in thousands of Canadian dollars, except as otherwise indicated.

### Going concern

These consolidated 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.

At December 31, 2017, the Company was in breach of certain covenants, which included the leverage ratio financial covenant, under its credit agreements. Failure to meet these covenants at December 31, 2017 caused the long-term debt under the Credit Facility and Aviation Facility (hereinafter defined) to be reclassified as a current liability, which Acasta would not be able to satisfy if called by its lenders. In response, the Company sought and obtained a waiver in respect of such covenants as at December 31, 2017 and accelerated the sale process of Stellwagen, which closed on March 27, 2018. Proceeds from the sale of Stellwagen have been used to reduce levels of overall indebtedness of the Company (see note 33).

During 2017, the Company funded its working capital requirements and its capital and operating expenditures through operating cash flows and proceeds from debt (see note 16). Management expects that the cash to be generated from operations based on forecasts related to 2018, which assumes a pre-determined Canadian dollar foreign exchange rate relative to the U.S. dollar, and proceeds from the sale of Stellwagen and other Aviation assets (see note 33), will be sufficient to fund the Company's capital and operating expenditures so as to meet its financial obligations as they fall due in 2018.

There is no guarantee or assurance that the Company will be able to realize its operating forecast in 2018, which is partially dependent upon foreign exchange rates, and, thus, meet its financial covenants under the relevant credit agreements and/or obtain continued support from its lenders should that be required. These material uncertainties may cast significant doubt as to the Company's ability to continue as a going concern. As at December 31, 2017, the consolidated 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.

### Principles of consolidation

The consolidated financial statements represent the accounts of Acasta and its subsidiaries, including its controlled operating companies and its controlled investments. Control is achieved when Acasta:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and,
- has the ability to use its power to affect its returns.

## 2. Basis of preparation and going concern (Continued)

As at December 31, 2017, the significant controlled legal entities are as follows:

- Apollo Health and Beauty Care Inc.
- JemPak Corporation
- Stellwagen Acquisition Corp.
- Stellwagen Group Limited
- Guardian Holdings Limited
- Seraph Aviation Management Limited
- Stellwagen Finance Limited
- Stellwagen Capital Limited
- Stellwagen Capital UK Limited
- Stellwagen Technology Limited
- Infrastructure Finance & Trade Limited
- Coppermine River Aircraft Equity Fund Limited
- Ibex 1 Limited
- Ibex 2 Limited
- Ibex 5 Limited
- Ibex 6 Limited
- Stelloan Investment Company I DAC
- Embassy Acquisition Facility I DAC

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary or investment begins when the Company obtains control over the subsidiary or investment and ceases when the Company loses control of the subsidiary or investment. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income (loss) and other comprehensive income (loss) from the date the Company gains control until the date the Company ceases to control the subsidiary or investment.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full upon consolidation.

## 3. Significant accounting policies

The Company's accounting policies and its standards of financial disclosure set out below are in accordance with IFRS and have been applied consistently throughout the years presented in these consolidated financial statements, unless otherwise stated.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in net income (loss) as incurred.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

**3. Significant accounting policies (Continued)**

Contingent consideration is established for business acquisitions where the Company has the obligation to transfer additional assets or equity interests to the former owners if specified future events occur or conditions are met. The fair value of contingent consideration liabilities is typically based on the estimated future financial performance of the acquired business. Financial targets used in the estimation process include certain defined financial targets and realized internal rates of return. Contingent consideration is classified as a liability when the obligation requires settlement in cash or other assets, and is classified as equity when the obligation requires settlement in the Company's own equity instruments. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with a corresponding adjustment to goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are included in net income (loss) in the period. Changes in the fair value of contingent consideration classified as equity are not recognized.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that time. Upon conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to net income (loss). For a given acquisition, the Company may identify certain pre-acquisition contingencies as of the acquisition date and may extend its review and evaluation of these pre-acquisition contingencies throughout the measurement period in order to obtain sufficient information to assess these contingencies as part of acquisition accounting, as applicable.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at the amount established at the date of acquisition of the business less accumulated impairment losses, if any. The Company has determined that each of, JemPak, Apollo, and Stellwagen, is a separate cash-generating unit ("CGU") for purpose of impairment testing.

Corporate assets, which include the head office facility, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum grouping of CGUs to which the corporate assets can be reasonably and consistently allocated. Goodwill arising from a business combination is tested for impairment at the minimum grouping of CGUs that are expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually on December 31, or more frequently when there is an indication that the CGU may be impaired.

The recoverable amount of a CGU or CGU grouping is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the CGU or CGU grouping, discounted to their present value using a pre-tax discount rate that reflects current market assessments of

**3. Significant accounting policies (Continued)**

the time value of money and the risks specific to the CGU or CGU grouping. The fair value less costs to sell is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU or CGU grouping in an arm's length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal.

An impairment loss is recognized if the carrying amount of a CGU or CGU grouping exceeds its recoverable amount. For asset impairments other than goodwill, the impairment loss reduces the carrying amounts of the non-financial assets in the CGU on a pro-rata basis. Any loss identified from goodwill impairment testing is first applied to reduce the carrying amount of goodwill allocated to the CGU grouping, and then to reduce the carrying amounts of the other non-financial assets in the CGU or CGU grouping on a pro-rata basis. Any impairment losses are recognized in net income (loss) and any impairment loss recognized for goodwill is not reversed in subsequent years.

On disposal of the relevant CGU, the attributed amount of goodwill is included in the determination of the gain or loss on disposal. The determination of CGUs and the level at which goodwill is monitored, as well as whether there are indicators of impairment, requires judgment by management.

**Assets held for sale**

Assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

At December 31, 2017, the Company did not achieve the held for sale classification threshold for any group of assets.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

**Foreign currency translation**

*Foreign currency transactions*

The Company reports its financial results in CAD, as it is the currency of the primary economic environment in which it operates. Transactions in foreign currencies are translated to the respective functional currencies of subsidiaries of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates and revenue and expenses are translated at the average exchange rates prevailing during the month of the transaction. Exchange gains and losses also arise on the settlement of foreign-currency denominated transactions. These exchange gains and losses are recognized in net income (loss). The effect of currency translation adjustments on cash and cash equivalents is presented separately in the statements of cash flows and separated from investing and financing activities when deemed significant.

When a foreign operation payable or receivable classified as a net investment is partially or fully disposed, the proportionate share of the cumulative amount in the translation reserve related to that foreign operation is transferred to net income (loss) as part of the income or loss on disposal. The Company has

**3. Significant accounting policies (Continued)**

elected not to treat repayments of monetary items receivable or payable to a foreign operation in the normal course of operations as a disposition.

*Foreign operations*

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Company's foreign operations and investments with non-Canadian dollar functional currencies are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average rate prevailing during the period with exchange differences impacting other comprehensive income (loss) and accumulated in equity.

The functional currencies of Acasta and its subsidiaries include the Canadian dollar and the United States ("U.S.") dollar.

**Cash and cash equivalents**

Cash and cash equivalents include liquid investments such as term deposits, money market instruments and commercial paper with original maturities of three months or less. The investments are carried at cost plus accrued interest, net of bank overdrafts, which approximates fair value. Restricted cash and cash equivalents were considered restricted because it was held in escrow and subject to certain release conditions as outlined in notes 1 and 6.

**Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. A provision is recorded for impairment when there is objective evidence (such as significant financial difficulties of the debtor) that the Company will not be able to collect all amounts due according to the original terms of the receivable. A provision is recorded as the difference between the carrying value of the receivable and the present value of future cash flows expected from the debtor, with an offsetting amount recorded as an allowance, reducing the carrying value of the receivable. The provision expense is included in selling, general and administrative expense in the consolidated statements of income (loss) and comprehensive income (loss). When a receivable is considered permanently uncollectible, the receivable is written off against the allowance account.

**Inventories**

Inventory is comprised of raw materials, work-in-progress, and finished goods. Inventories are recorded at the lower of cost and net realizable value. Cost is determined on a standard cost basis, and includes the purchase price and other costs, such as import duties, taxes and transportation costs. Inventory cost is determined on a first-in, first-out basis and trade discounts and rebates are deducted from the purchase price. Raw materials costs include the purchase cost of the materials, freight-in and duty. Finished goods and work-in-progress include the cost of direct materials and labour and a proportion of manufacturing overheads allocated based on normal production capacity.

Net realizable value represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. The determination of net realizable value requires significant judgment, including consideration of factors such as shrinkage, the aging of and future demand for inventory and contractual arrangements with customers. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecasts and

**3. Significant accounting policies (Continued)**

net realizable value. The impact of changes in inventory reserves is reflected in cost of revenue. To the extent that circumstances have changed subsequently such that the net realizable value has increased, previous write-downs are reversed and recognized in net income (loss) in the year during which the reversal occurs.

**Revenue recognition**

Revenue represents the fair value of the consideration received or receivable from customers for goods and services provided by the Company, net of trade discounts, estimated sale allowances, volume rebates and sales taxes. The Company reports revenue under six revenue categories being, sale of consumer products, transaction fees, lease rental income, interest income, servicing fees and other.

*Sale of goods*

The Consumer Products reporting segment generates revenues from the sale of products, specifically focusing on the manufacturing and distribution of white-label health and beauty care products, laundry care products and chemical cleaning products.

The Company recognizes revenue when all the following conditions have been met and control over the goods has been transferred to the buyer:

- Significant risks and rewards of ownership of the goods have been transferred to the buyer;
- The revenues can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- Costs incurred or to be incurred in respect of the transaction can be measured reliably.

These conditions are typically met upon shipment or delivery to customers' premises, the price is fixed or determinable, collectability is reasonably assured and therefore, risk and rewards of ownership have been transferred to the buyer.

Estimates for allowances to customers, such as returns on sales of defective products and customer rebates, are applied as a reduction against revenue in the year in which the related sales are recorded. Estimates are made based on contractual terms and conditions and historical data. Where the Company is responsible for shipping and handling to customers, amounts charged for these services are recognized as revenue, and shipping and handling costs incurred are reported as a component of cost of revenue in net income (loss).

*Rendering of services*

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract as such services are performed as appropriate in the circumstances. The Aviation reporting segment provides asset management and finance services to companies primarily in the aviation industry. Specifically, the current sources of revenue are derived from the following activities:

- *Investment banking:* The Company earns transaction fees and commissions for the arrangement of financing between aircraft owners and investors. These transactions commonly include the sale and leaseback of aircraft by airlines. The Company acts as an integrated financing arranger by underwriting transactions and generating additional fees therefrom.

**3. Significant accounting policies (Continued)**

- *Aircraft servicing:* The Company offers a wide range of aircraft and lease management services including commercial, legal, accounting, technical management and risk management services. The Company earns both fixed and variable servicing fees for the provision of these services. Revenue is recognized when the outcome of a contract can be estimated reliably. When the outcome cannot be estimated reliably, the amount of revenue recognized is limited to the cost incurred in the period. Losses, if any, on contracts are recognized as soon as a loss is foreseen based on an assessment of the estimated costs of completion.
- *Aircraft ownership:* The Company earns lease rental income through its ownership of aircraft. It also generates revenue from the sale of owned aircraft. The Company's policy for recognition of lease rental income from operating leases is described below under Leases.

**Leases**

*Finance lease — lessee*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases are capitalized at the commencement of the lease at the fair value of the leased property as of the inception date or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statements of income (loss) and comprehensive income (loss).

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

*Operating lease — lessee*

Operating lease payments are recognized as selling, general and administrative expenses in the consolidated statements of income (loss) and comprehensive income (loss) on a straight-line basis over the lease term and include renewal terms when it is reasonably certain that the option will be exercised. Contingent rentals arising under operating leases are recognized as an expense in the year in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*Operating lease — lessor*

Rental income from operating leases with third parties is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

*Sale and leaseback*

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in a finance lease for the Company, any excess of sales proceeds over the carrying amount is recognized as deferred revenue and amortized over the term of the new lease. Any

**3. Significant accounting policies (Continued)**

gain or loss in a sale and leaseback transaction resulting in an operating lease that is transacted at fair value is recognized immediately. If the sale price is above fair value, the excess over fair value is deferred and amortized over the term of the new lease.

**Share capital**

The Class B Shares and warrants of the Company (the "Warrants") are classified as equity as they are contracts representative of a residual interest in the net assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issuance of Class B Shares and Warrants are recognized as a deduction from equity.

**Net income (loss) per share**

Basic net income (loss) per share is calculated by dividing the net income attributable to holders of the Class B Shares by the weighted average number of Class B Shares outstanding during the year. The Contingent Shares, described below, are subject to forfeiture and consequently excluded from the determination of the weighted average number of Class B Shares outstanding until such time as these shares are no longer subject to forfeiture. Diluted net income (loss) per share is calculated using the "if converted method" and is determined by adjusting the net income (loss) attributable to the holders of the Class B Shares and the weighted average number of Class B Shares outstanding for any dilutive effects of the Warrants.

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

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

The remaining Founders' Shares that are not Contingent Shares are restricted from transfer until the earlier of (a) one year following Closing; and (b) the closing share price of the Class B shares equaling or exceeding $12.00 per share for any 20 days within a 30-day trading year.

**3. Significant accounting policies (Continued)**

**Income taxes**

Current tax and deferred tax are recognized in net income (loss) except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected taxes payable or receivable on the taxable income (loss) for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

The Company follows the balance sheet liability method to provide for income taxes. The balance sheet liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their underlying tax bases. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized and the liability is settled. Deferred tax is not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising from the initial recognition of goodwill.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized within net income (loss) in the year that includes the substantive enactment date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but intends to settle current tax liabilities and assets on a net basis or its tax assets and liabilities will be realized simultaneously.

Deferred tax assets are recognized for unused tax losses, tax credits, and applicable differences in tax basis in the purchaser's tax jurisdiction as compared to its cost to the extent future recovery is probable, which may include consideration of the Company's ability to implement certain tax planning strategies. At each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

**Property, plant and equipment**

Property, plant and equipment is recorded at cost less accumulated depreciation and provisions for impairment, if any. Cost consists of expenditures directly attributable to the acquisition of the asset. The costs of construction of qualifying long-term assets include capitalized interest, as applicable.

Subsequent expenditures for maintenance and repairs are expensed as incurred, while costs related to betterments and improvements that extend the useful lives of property, plant and equipment are capitalized. Depreciation is recognized so as to write off the cost or valuation of assets less their residual

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

**3. Significant accounting policies (Continued)**

values over their useful lives, using the straight-line method or declining balance method. Depreciation is provided for as follows:

| | |
|---|---|
| Buildings | 25 - 50 years |
| Leasehold improvements | Lesser of useful life and term of the lease |
| Office equipment | 1 - 10 years and 20% - 30% declining method |
| Machinery and equipment — dish and laundry | 3 - 10 years |
| Machinery and equipment — health and beauty care | 10% - 30% declining method |
| Motor vehicles | 4 - 5 years |
| Aircraft(1) | 25 years |

(1) Aircraft is componentized into airframe, engine, and cabin exterior equipment and modifications

When components of an asset have a significantly different useful life or residual value than the primary asset, the components are depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

An item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognized in the consolidated statements of income (loss) and comprehensive income (loss) when the asset is de-recognized.

**Intangible assets**

The following are the estimated useful lives for the major classes of definite life intangible assets:

| | |
|---|---|
| Fund contract | 10 years |
| Customer contracts and relationships | 5 - 8 years |
| Backlog | 2 years |
| Non-competition agreements | 2 years |
| Intellectual property | 4 years |
| Lease premium | Term of the lease |

Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets. The estimated useful lives and amortization methods are reviewed at the end of each reporting year, with the effect of any changes in the estimate being accounted for on a prospective basis.

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their initial cost).

The Company uses the income approach to value the fund contract, customer relationships, customer contracts, backlog and non-compete agreement intangible assets. The income approach is a valuation technique that calculates the estimated fair value of an intangible asset based on the estimated future cash flows that the asset can be expected to generate over its remaining useful life.

Specifically, the Company uses the excess earnings method to value the fund contract, customer relationships, customer contracts and backlog acquired intangible assets, which is a form of the income

**3. Significant accounting policies (Continued)**

approach that estimates the fair value of an asset by calculating the present value of the after-tax earnings attributable to that asset. The earnings attributable to an asset are reduced by a return for each of the contributory assets required to generate these earnings. The earnings remaining are then discounted to present value at a rate of return commensurate with the risk inherent in the subject intangible asset.

The Company uses the probability-adjusted discounted cash flow ("DCF") method, which is a form of the income approach to value the non-compete agreement. The probability-adjusted DCF is based on the probability of the owner competing in the absence of the non-compete clause and the probability of revenue loss for the Company if the owner competes. The probability-adjusted earnings are discounted to present value at a rate of return commensurate with the risk inherent in the non-compete agreement.

The Company relies on the relief-from-royalty method to value the intellectual property acquired. The relief-from-royalty method assumes the notional sale of the intellectual property through a royalty or licensing agreement with arm's length third parties. Accordingly, the income forecast reflects an estimate of a fair royalty that a third-party purchaser (licensee) would pay, on a percentage of revenue basis, to obtain a license to utilize the intellectual property. These after-tax royalty payments are then discounted to present value at a rate of return commensurate with the risk of the intellectual property.

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if any. Subsequent expenditures are capitalized only when it increases the future economic benefits that form part of the specific asset to which it relates and other criteria have been met. Otherwise, all other expenditures are recognized in net income (loss) as incurred.

Where the purchase price of an aircraft by the Company together with a related leasing arrangement with a third party indicates the existence of a lease premium, the contracted lease rate is compared to market lease rates for similar aircraft assets. Lease premiums represent the value of an acquired lease where the contractual rent payments are above the market rate. The present value of this difference is accounted for as a lease premium intangible and is amortized over the term of the lease.

*De-recognition of intangible assets*

An intangible asset is de-recognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income (loss) when the asset is de-recognized.

**Impairment of non-financial assets**

Quarterly or whenever events or changes in circumstances suggest that the carrying value of an asset may not be recoverable, the Company reviews for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In addition, the carrying value of intangible assets with indefinite lives and goodwill are tested for recoverability on an annual basis. Refer to the accounting policies addressing inventories and deferred tax assets for the measurement steps applied for those non-financial assets.

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual

**3. Significant accounting policies (Continued)**

cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives, including goodwill are tested for impairment annually on December 31, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 recoverable amounts is recognized immediately in net income (loss).

**Contingencies**

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or present obligations that are not recognized because either it is not probable that an outflow of economic benefits would be required to settle the obligation or the amount cannot be measured reliably.

Contingent liabilities are not recognized but are disclosed and described in the notes to the consolidated financial statements, including an estimate of their potential financial effect and uncertainties relating to the amount or timing of any outflow, unless the possibility of settlement is remote. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company, with assistance from its legal counsel, evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

**Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification, as described below. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in net income (loss).

Gains and losses for financial instruments recognized through net income (loss) are primarily recognized in Other income, net in the consolidated statements of income (loss) and comprehensive income (loss). The classification of financial assets and financial liabilities depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

Financial instruments are classified as one of the following: (i) FVTPL; (ii) loans and receivables; (iii) held-to-maturity ("HTM"); (iv) available-for-sale ("AFS"); or (v) other liabilities.

**3. Significant accounting policies (Continued)**

*(i) Fair value through profit and loss ("FVTPL")*

Financial assets and financial liabilities are classified as FVTPL when the financial asset or financial liability is (a) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (b) held for trading, or (c) designated as FVTPL.

A financial asset or financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term (financial asset) or it has been incurred principally for the purpose of repurchasing it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in net income (loss). The net gain or loss recognized in net income (loss) incorporates any dividend or interest earned on the financial asset.

*(ii) Loans and receivables*

Loans and receivables are non-derivative instruments with fixed or determinable payments that are not quoted in an active market. Loans and receivables include trade and other receivables, cash and loans measured at amortized cost using the effective interest method, less any impairment. Interest is recognized by applying the effective interest method, except for short-term receivables when the effect of discounting is immaterial.

*(iii) Held-to-maturity ("HTM")*

HTM investments are non-derivative financial assets or financial liabilities with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment. Investments classified as held-to-maturity are written down to fair value through net income (loss) whenever it is necessary to reflect an impairment. Impairments are determined based on all relevant facts and circumstances for each investment and recognized when appropriate.

*(iv) Available-for-sale ("AFS")*

AFS financial assets and financial liabilities are non-derivative instruments that are either designated as AFS or are not classified as (a) loans and receivables, (b) HTM investments or (c) FVTPL. AFS financial instruments that are classified as available-for-sale and which do not have a quoted price in an active market are recorded at fair value, unless fair value is not reliably determinable, in which case they are recorded at cost. Changes in the carrying amount of AFS are recognized in other comprehensive income (loss). Foreign exchange gains and losses on available-for-sale assets are recognized immediately in net income (loss).

AFS financial instruments are written down to fair value through net income whenever it is necessary to reflect an impairment. Impairments are determined based on all relevant facts and circumstances for each

**3. Significant accounting policies (Continued)**

investment and cumulative gains or losses previously recognized in other comprehensive income (loss) are reclassified to net income (loss) in the year.

*(v) Other financial liabilities*

Financial liabilities (including borrowings and trade and other payables) not classified as FVTPL are accounted for at amortized cost using the effective interest method.

**Derivative and hedge accounting**

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each period. The resulting gain or loss is recognized in net income (loss) immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in net income (loss) depends on the nature of the hedge relationship.

*Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

*Hedge accounting*

When derivatives are designated as effective hedging relationships, the Company classifies them either as: (a) hedges of the change in fair value of recognized assets or liabilities or firm commitments (fair value hedges); (b) hedges of the variability in highly probable future cash flows attributable to a recognized asset or liability or a forecasted transaction (cash flow hedges); or (c) hedges of net investments in a foreign self-sustaining operation (net investment hedges).

At the inception of a hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, its risk management objectives and its strategy for undertaking the hedge. The Company also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in the hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Derivatives that are not designated as effective hedging relationships continue to be accounted for at fair value, with changes in fair value being included in Other income, net in net income (loss).

**Fair value measurements**

The Company measures fair value in accordance with IFRS 13 *Fair Value Measurement*, which provides a single source of fair value measurement guidance. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has applied the framework for measuring fair value which requires a fair value hierarchy to be applied to all fair value measurements.

**3. Significant accounting policies (Continued)**

All financial instruments recognized at fair value in the consolidated statements of financial position are classified into one of three levels in the fair value hierarchy as follows:

Level 1 — valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 — valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived from or corroborated by observable market data by correlation or other means.

Level 3 — valuation techniques with significant unobservable market inputs.

**Impairment of financial assets at amortized cost**

The Company assesses whether there is objective evidence that a recorded financial asset is impaired at each financial statement reporting date. Impairment exists if one or more events have occurred after the initial recognition of the asset and those events have objectively given rise to an expected negative impact on the estimated future cash flows of the financial asset that can be reliably estimated. The Company recognizes impairment if the expected discounted future cash flows is less than the carrying amount of the asset. The amount of this difference is recognized as the impaired amount and is recorded in net income (loss). An impairment of a financial asset carried at amortized cost is reversed in subsequent years if the amount of the loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognized.

**De-recognition of financial instruments**

The company de-recognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and reward of ownership of the asset to another party. On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that has been recognized in other comprehensive income (loss) and accumulated in equity is recognized in net income (loss). The Company de-recognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in net income (loss).

**4. Significant accounting judgments and estimates**

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

**4. Significant accounting judgments and estimates (Continued)**

conditions. Set out below are the most significant accounting judgments, estimates and assumptions that the Company has made in the preparation of these financial statements.

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

*Consolidation*

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

*Determination of CGUs*

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

*Functional currency*

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

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

**4. Significant accounting judgments and estimates (Continued)**

*Business combinations*

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

*Contingent consideration*

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

An estimated fair value of contingent consideration is determined using various appropriate valuation methods, including the Monte-Carlo model described in note 6. The model uses estimates and assumptions regarding discount rates, projected revenues and margins. A valuation is performed on the fair value of contingent cash consideration each reporting period and adjusted to reflect the current best estimate of the expected future pay-out.

*Fair value of financial instruments*

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

*Warrant valuation*

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

**4. Significant accounting judgments and estimates (Continued)**

underlying shares and the expected life of the Warrant. These estimates may ultimately differ from amounts subsequently realized.

*Impairment testing of goodwill*

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

*Useful life of property, plant and equipment and intangible assets with finite useful lives*

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

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

*Provisions*

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

*Contingencies*

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

*Inventory obsolescence*

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

## 4. Significant accounting judgments and estimates (Continued)

net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices.

*Sales allowances*

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

*Allowance for doubtful accounts*

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

*Income and other taxes*

The calculation of current and deferred income taxes requires the Company to make estimates and assumptions and to exercise judgment regarding the carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results, the timing of reversal of temporary differences and possible audits of income tax filings by the tax authorities.

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

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

## 5. Recently issued accounting pronouncements

*Accounting standards, amendments and interpretations not yet adopted or effective*

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

- IFRS 9 *Financial Instruments* ("IFRS 9"). IFRS 9 sets out requirements for the classification and measurement of financial assets and financial liabilities. The new standard specifies that financial assets are to be measured at either amortized cost or fair value on the basis of the reporting entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial liabilities designated at FVTPL remain generally unchanged; however, fair value changes attributable to changes in the Company's own credit risk for

**5. Recently issued accounting pronouncements (Continued)**

financial liabilities designated at FVTPL are to be recorded in other comprehensive income (loss) unless they offset amounts recorded in income. IFRS 9 introduces a new single impairment model for financial assets. The new model is based on expected credit losses and will result in credit losses being recognized regardless of whether a loss event has occurred. The expected credit loss model will apply to most financial instruments not measured at fair value, with the most significant impact being to loans. The expected credit loss model requires the recognition of credit losses based on a 12-month time horizon for performing loans and also requires the recognition of lifetime expected credit losses for loans that experience a significant deterioration in credit risk since inception. IFRS 9 also introduces a new hedge accounting model that expands the scope of eligible hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge re-designation. IFRS 9 is effective for the Company's fiscal year commencing on January 1, 2018.

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

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

- IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 replaces the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenue generated from contracts with customers, with the exception of revenue earned from contracts that are within the scope of other standards, such as financial instruments, insurance contracts and leases. The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from transactions with the Company's customers. IFRS 15 is effective for the Company's fiscal year beginning January 1, 2018.

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

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

## 5. Recently issued accounting pronouncements (Continued)

*Newly adopted standards*

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

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

## 6. Business combinations

Acasta effected a qualifying acquisition, representing three transactions that all closed concurrently on January 3, 2017 ("Acquisition Date"), the date on which the change of control took place and Acasta acquired 100% of the voting equity interests or substantially all of the net assets of each of the three entities described below. The acquisitions have been accounted for using the acquisition method with the results of operations included in the consolidated financial statements from the Acquisition Date. The total transaction costs incurred relating to the Qualifying Acquisition was $14,323, of which $4,627 has been included in selling, general and administrative expenses in the current year. The remainder has been recorded in the prior year or capitalized within prepaid expenses and deposits or in long-term debt. Goodwill arose in the acquisitions for all three subsidiaries because the cost of combination included a control premium. In addition, the consideration paid effectively included amounts in relation to the benefit of potential synergies, revenue growth, future market development and the assembled workforce of the businesses acquired. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deducted for tax purposes.

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 6. Business combinations (Continued)

The aggregate impact of acquisition accounting applied in connection with the acquisitions is as follows:

| | Apollo | JemPak | Stellwagen | Total |
|---|---|---|---|---|
| **Assets acquired** | | | | |
| Cash and cash equivalents (indebtedness) | $ (2,207) | $ 11,410 | $ 5,765 | **$ 14,968** |
| Trade and other receivables | 24,208 | 5,991 | 10,006 | **40,205** |
| Prepaid expenses | 2,280 | 678 | 91 | **3,049** |
| Other assets | — | — | 9,520 | **9,520** |
| Inventory | 20,378 | 8,125 | — | **28,503** |
| Property, plant and equipment | 32,578 | 23,299 | 368,069 | **423,946** |
| Intangible assets | 134,800 | 35,126 | 118,277 | **288,203** |
| Other non-current assets | — | — | 29 | **29** |
| Deferred tax asset | — | — | 335 | **335** |
| | $ 212,037 | $ 84,629 | $ 512,092 | **$ 808,758** |
| **Liabilities assumed** | | | | |
| Accounts payable and accrued liabilities | $ 15,042 | $ 6,005 | $ 234 | **$ 21,281** |
| Income taxes payable | 160 | 1,602 | — | **1,762** |
| Deferred tax liability | 30,776 | 11,297 | 7,347 | **49,420** |
| Finance lease liability | — | 7,860 | — | **7,860** |
| Other current liabilities | — | — | 6,858 | **6,858** |
| Prepaid lease rental | — | — | 3,221 | **3,221** |
| Security deposit | — | — | 6,252 | **6,252** |
| Loans and borrowings | — | — | 391,687 | **391,687** |
| | $ 45,978 | $ 26,764 | $ 415,599 | **$ 488,341** |
| **Goodwill** | 231,163 | 76,493 | 288,890 | **596,546** |
| **Total consideration** | **$ 397,222** | **$ 134,358** | **$ 385,383** | **$ 916,963** |

### Acquisition of Apollo

Acasta acquired substantially all of the net assets of Apollo for a total purchase price of $390,000, subject to certain adjustments of $3,222 for an adjusted purchase price of $393,222. The purchase consideration was satisfied by cash, which was funded from (i) the Company's escrowed funds, (ii) funds raised by way of a private placement of Class B Shares (the "Private Placement"), (iii) funds raised from a Credit Facility (together with the escrow funds and Private Placement proceeds, the "Cash Sources"), and the balance by the issuance of 23,388,396 Acasta Class B Shares at $10.00 per Acasta Class B Share to the vendors of Apollo ("Apollo Vendors").

*Purchase consideration adjustments*

The purchase consideration will be adjusted subsequent to the Closing in connection with Apollo's financial performance if a predetermined financial target is met in the post-acquisition year ended January 3, 2018, up to a maximum of $4,000.

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

**6. Business combinations (Continued)**

The total purchase consideration was:

| | |
|---|---|
| Cash consideration | $ 159,338 |
| Share consideration | 233,884 |
| | $ 393,222 |
| Purchase consideration adjustments[1] | 4,000 |
| Total consideration | **$ 397,222** |

(1) Purchase consideration adjustments include net working capital adjustments.

During the post-acquisition period ended December 31, 2017, the contingent consideration was revalued to nil because the financial target was not met, resulting in a gain of $4,000. The gain is recognized in Other income, net in the consolidated statements of loss and comprehensive loss. See note 23 for further detail.

**Acquisition of JemPak**

Acasta acquired all of the issued and outstanding equity interests of JemPak from the existing shareholders of JemPak for a purchase price of $135,000, subject to certain adjustments of $642 for an adjusted purchase price of $134,358. The purchase price was satisfied by the delivery of cash, which was funded from the Cash Sources, and (iv) the balance by the issuance of 6,750,000 Acasta Class B Shares at $10.00 per Acasta Class B Share to the vendors of JemPak (“JemPak Vendors”).

The total purchase consideration was:

| | |
|---|---|
| Cash consideration | $ 66,858 |
| Share consideration | 67,500 |
| Total consideration | **$ 134,358** |

**Acquisition of Stellwagen**

Acasta acquired all of the issued and outstanding equity interests of Stellwagen from the existing shareholders (the “Stellwagen Vendors”) for a purchase price of $316,665 (U.S. $235,700), subject to certain adjustments for an adjusted purchase price of $385,383 (U.S. $287,234). The purchase consideration was satisfied by $96,546 (U.S. $71,744) in cash consideration and $228,284 (U.S. $170,300) in share consideration (the issuance of Class B Shares at $10.00 per share). Included in the cash consideration to acquire control were certain Stellwagen Vendor costs of $6,499 (U.S. $4,837) that were reimbursed by Acasta (the “Vendor Reimbursement”). These costs resulted from the Company’s reimbursement to Stellwagen for certain taxes paid by those receiving Class B Shares in connection with the acquisition of Stellwagen and the pre-Closing reorganization of Stellwagen. The cash consideration amount was funded from the Company’s escrow funds and the balance was satisfied by the issuance of 22,828,418 Class B Shares at U.S. dollar equivalent of $10.00 per Class B Share.

*Purchase consideration adjustments*

The purchase consideration may be adjusted subsequent to the Closing in connection with Stellwagen’s financial performance. Such adjustments relate to an earn-out clause and net proceeds on sale of two aircraft, both outlined below. The estimated fair value of the contingent consideration related to these clauses was determined to be $66,530 (U.S. $49,520) using the best available information as at January 3,

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 6. Business combinations (Continued)

2017. The estimate was calculated using the weighted probability of the expected contingent consideration to be paid and application of a discount rate as appropriate.

More specifically, the Stellwagen Vendors are entitled to elect to receive an earn-out only once over a three-year period beginning in 2019 ("Year of Election"). The earn-out is calculated based on Stellwagen's audited net income for each of the three preceding financial years, including the Year of Election (the "Stellwagen Earn-out"), adjusted for certain prescribed items. An estimated fair value of the Stellwagen Earn-out is determined using the Monte-Carlo simulation method. This simulation calculates fair value using probability-weighted outcomes associated with the expected consideration to be paid on a multitude of possible future earnings scenarios. Acasta determines the form of settlement (either in cash or Class B Shares) for 90% of the total Stellwagen Earn-out amount and the Stellwagen Vendors determines the form of settlement for 10% of the total Stellwagen Earn-out amount. The Company's Board of Directors' approval is required before Acasta decides on how to proceed with determining the type of consideration used to satisfy 90% of the payment. An undiscounted estimated range of $78,845 (U.S. $58,590) to $90,393 (U.S. $67,172) was determined to be payable under these purchase obligations as of the acquisition date. The Company recognized an estimated discounted contingent consideration of $49,183 (U.S. $36,608) which was accrued and included as part of the purchase consideration to acquire control of Stellwagen on January 3, 2017.

Furthermore, the Stellwagen Vendors were entitled to an amount related to the net proceeds on sale of the two aircraft held for sale by Stellwagen as at January 3, 2017. The estimated fair value of the proceeds was determined to be $17,347 (U.S. $12,912). The actual net proceeds of the two aircraft sold during the year approximated the initial estimate of fair value.

Changes made to the estimated fair value of contingent consideration are included in Other income, net in the consolidated statements of loss and comprehensive loss.

The total purchase consideration was:

| | CAD | U.S. |
|---|---|---|
| Cash consideration | $ 96,546 | $ 71,744 |
| Share consideration | 228,284 | 170,300 |
| | $ 324,830 | $ 242,044 |
| Purchase consideration adjustments(1) | 66,530 | 49,520 |
| | $ 391,360 | $ 291,564 |
| Post-closing adjustments(2) | (5,977) | (4,330) |
| Total consideration | **$ 385,383** | **$ 287,234** |

(1) Purchase consideration adjustments include contingent consideration relating estimated values attributable to the Stellwagen Earn-out and the net proceeds relating to the sale of the aircraft.

(2) Post-closing adjustments include final measurement of closing cash held and net working capital.

During the second quarter of 2017, the Company renegotiated the terms of the Stellwagen Earn-out with the Stellwagen Vendors with the intent of providing an offset for the delay in Acasta securing the financing contemplated on the Acquisition Date and the forecasted impact on Stellwagen's net income. The renegotiated Stellwagen Earn-out calculation is equal to 50% multiplied by 8.5 multiplied by 54% multiplied by the result of Stellwagen's audited net income for each of the three preceding financial years including the year of election, adjusted for certain prescribed items, less a prescribed dollar threshold

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 6. Business combinations (Continued)

associated with the year of election and less the product of certain investments at a prescribed multiplier associated with the year of election. The Equity Interest Purchase Agreement dated November 10, 2016 contemplated an identical Stellwagen Earn-out calculation to the renegotiation outlined above, except that a 33% multiplier was included, which has subsequently been replaced and amended to be 54%.

The Stellwagen Earn-out calculation is reviewed at the end of each reporting period and adjusted to reflect the current best estimate of expected future business adjusted earnings, which may fluctuate materially between periods. Significant inputs to the Monte-Carlo calculation at December 31, 2017 include a growth rate forecast ranging from (50.1%) to 9.3%, an associated discount factor based on a risk-neutral valuation theory, and a volatility ranging from 30% to 35% based on historical volatility of net income data of comparable companies.

As at December 31, 2017, an undiscounted estimated range of $8,937 (U.S. $7,124) to $16,149 (U.S. $12,873) was determined as the amount expected to be payable under the Stellwagen Earn-out purchase obligation, and the Company recognized estimated discounted contingent consideration of $8,782 (U.S. $7,000). The change in valuation of the contingent consideration has been recognized in Other income, net for the amount of $37,143 (U.S. $29,608). See note 23 for further detail.

### Acquisition of ECN Net Assets

On May 11, 2017, Stellwagen entered into an agreement to acquire substantially all of the net assets of ECN Capital Advisory Group LLC's commercial aviation finance advisory and asset management business ("ECN Commercial Aviation") for a purchase price of U.S. $22,500 (or a "Converted Purchase Price" of $30,375). ECN Commercial Aviation arranges, co-invests and manages a portfolio of commercial aviation assets on behalf of institutional investors through a U.S.-based team. The purchase was effected on June 1, 2017 and was satisfied through the issuance of 3,037,500 Class B Shares, as determined using a $10.00 per share reference price. The fair value of the Class B Shares at the date of acquisition was $26,578. Total transaction costs incurred related to the ECN Commercial Aviation acquisition were $689, of which $628 had been included in selling, general and administrative expenses in the year.

| | ECN |
|---|---|
| **Assets acquired** | |
| Fund contract | $ 7,614 |
| | $ 7,614 |
| **Goodwill** | 22,002 |
| **Total consideration** | **$ 29,616** |

The Class B Shares issued in satisfaction of the purchase price are subject to a one year lock-up provision. If the vendors of ECN Commercial Aviation choose to dispose of these shares in the nine-month period following this lock-up period, they will be entitled to additional Class B Shares if the proceeds on sale of these shares represent less than $10.00 per Class B share. Upon the occurrence of such an event, a variable number of Class B Shares will be issued to an aggregate value required to cover the shortfall below $10.00 per Class B share (to a floor of $9.00 per Class B share or 10% of the initial reference price) to a maximum value of $3,038. If the sale transaction proceeds exceed the Converted Purchase Price, the purchase consideration adjustments shall be zero. At the time of closing, the estimated fair value of this contingent consideration was $3,038 which has been recognized in other non-current liabilities. Changes made to the estimated fair value of this purchase consideration in future years, if any, will be included in net income (loss).

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 6. Business combinations (Continued)

The total purchase consideration was:

| | CAD | U.S. |
|---|---|---|
| Share consideration | $ 26,578 | $ 19,688 |
| | $ 26,578 | $ 19,688 |
| Purchase consideration adjustments | 3,038 | 2,250 |
| Total consideration | **$ 29,616** | **$ 21,938** |

*Net cash outflow on acquisition of subsidiaries*

| | JemPak | Apollo | Stellwagen | ECN | Total |
|---|---|---|---|---|---|
| Consideration paid in cash | $ 66,858 | $ 159,338 | $ 96,546 | — | **$ 322,742** |
| Less: cash and cash equivalent balances acquired (indebtedness) | 11,410 | (2,207) | 5,765 | — | **14,968** |
| **Net cash outflow on acquisition of subsidiaries** | **$ 55,448** | **$ 161,545** | **$ 90,781** | **—** | **$ 307,774** |

*Impact of Qualifying Acquisitions on the results of the Company*

Included in the Company's net loss for the year ended December 31, 2017 was a net loss of $180,622 attributable to the Consumer Products reportable segment and $249,050 attributable to the Aviation reportable segment. Included in the Company's revenue for the year ended December 31, 2017 was $263,893 of revenue attributable to the Consumer Products reportable segment and $102,628 attributable to the Aviation reportable segment.

Had the business combinations under the Qualifying Acquisition been effected on January 1, 2017 instead of January 3, 2017, the revenue and net income (loss) of the Company would not have been materially different. The actual results disclosed above are considered to be an approximate measure of the performance of the combined group for the year ended December 31, 2017.

Included in the Stellwagen, which is a part of the Aviation reportable segment, is revenue and net loss attributable to the acquired commercial aviation finance advisory and asset management business from the ECN Vendor of $2,076 and $4,125, respectively. On a pro-forma basis (unaudited), had this acquisition been completed on January 1, 2017, ECN would have contributed revenue and net loss for the year ended December 31, 2017 of $3,828 and, $5,344 respectively.

## 7. Class A Restricted Voting Shares subject to redemption

*Authorization*

Prior to January 3, 2017, the Company was authorized to issue an unlimited number of Class A Restricted Voting Shares. The holders of Class A Restricted Voting Shares had no pre-emptive rights or other subscription rights and there were no sinking fund provisions applicable to these shares. On the closing of the Transaction on January 3, 2017, each of the Class A Restricted Voting Shares not submitted for redemption was automatically converted into a Class B Share, following which, the Company will no longer issue Class A Restricted Voting Shares.

## 7. Class A Restricted Voting Shares subject to redemption (Continued)

*Voting Rights*

Holders of Class A Restricted Voting Shares were not entitled to vote on, or receive notice of meeting materials in respect of customary annual general meeting matters, including the election and removal of directors and auditors. The holders of the Class A Restricted Voting Shares were entitled to vote on and receive notice of meeting materials on all other matters requiring shareholder approval, including approval of a proposed qualifying acquisition. On December 20, 2016, the Transaction was approved by a simple majority (greater than 50%) of the votes cast, in person or by proxy, by the holders of Class A Restricted Voting Shares and Class B Shares voting together as a single class at a special meeting of the Company's shareholders.

*Redemption Rights*

The holders of Class A Restricted Voting Shares were entitled to redeem their shares, subject to certain conditions, and were entitled to receive the escrow proceeds, as determined at a point in time, from the escrow account in the event that the Company did not complete a qualifying acquisition within a prescribed timeframe.

*Classification*

As at December 31, 2016, the Company has classified its Class A Restricted Voting Shares as financial liabilities within the consolidated statement of financial position. This liability was classified as current because the deadline to complete a qualifying acquisition was April 30, 2017, which was within twelve months of December 31, 2016. At each financial statement reporting date, changes in its fair value were recorded through net income (loss). The redemption rights embedded in the terms of the Class A Restricted Voting Shares, which allow holders to redeem these shares for cash, and the exercise of such redemption rights were considered by the Company to be outside of the Company's control and subject to uncertain future events. The fair value of the hybrid instrument, being the Class A Restricted Voting Shares was determined by reference to its quoted market price on the TSX. As at December 31, 2016, the trading price of the Class A Restricted Voting Shares closed at $10.17 per share.

*Qualifying Acquisition*

On Closing, all of the Class A Restricted Voting Shares that were not submitted for redemption prior to Acasta's shareholder meeting to approve the Qualifying Acquisition were automatically converted into Class B Shares on the basis of one Class B Share for each Class A Restricted Voting Share converted. Each redeeming holder of Class A Restricted Voting Shares received an amount per Class A Restricted Voting Share equal to $10.04 per Class A Restricted Voting Share so redeemed.

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 7. Class A Restricted Voting Shares subject to redemption (Continued)

*Issued and Outstanding*

| | Class A Restricted Voting Shares | |
|---|---|---|
| | **Number** | **Amount** |
| Balance, December 31, 2015 | 40,250,000 | $ 382,374 |
| Adjusted for: | | |
| Unrealized change in fair value | — | 26,968 |
| **Balance, December 31, 2016** | **40,250,000** | **$ 409,342** |
| Adjusted for: | | |
| Unrealized change in fair value prior to redemption | — | $ (236) |
| Redemption of Class A Restricted Voting Shares | (28,454,222) | (285,680) |
| Conversion of Class A Restricted Voting Shares to Class B Shares | (11,795,778) | (119,727) |
| Gain on redemption of Class A Restricted Voting Shares | — | (3,699) |
| **Balance, December 31, 2017** | **—** | **$ —** |

## 8. Cash and cash equivalents and restricted cash

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Cash and bank balances | $ 26,139 | $ 187 |
| **Total cash and cash equivalents** | **$ 26,139** | **$ 187** |

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Cash held in trust account | $ — | $ 405,002 |
| **Total restricted cash** | **$ —** | **$ 405,002** |

The fair value of the Company's restricted cash at December 31, 2017 was nil. At December 31, 2016, the Company held $405,002 in trust, which was classified as restricted cash, representative of the escrowed funds held to satisfy the redemption of Class A Restricted Voting Shares in connection with the Qualifying Acquisition on January 3, 2017.

The Company's cash at December 31, 2017 was held by major domestic (Schedule I banks) and foreign financial institutions.

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 9. Trade and other receivables

Trade and other receivables comprised the following:

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Trade receivables | $ 31,421 | $ — |
| Allowance for doubtful accounts | (92) | — |
| Sales tax receivable | 4,592 | 597 |
| Interest receivable | 814 | — |
| Other | 2,909 | — |
| **Total trade and other receivables** | **$ 39,644** | **$ 597** |

Trade receivables disclosed above include certain amounts that are past due at the end of the reporting year for which the Company has not recognized an allowance because there has not been a significant change in credit quality and the amounts are still considered recoverable. Such past due amounts have not been significant in the current and prior years.

*Trade receivables current and past due*

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Current | $ 28,671 | $ — |
| 1-30 days | 1,458 | — |
| 31-60 days | 127 | — |
| 61-90 days | 141 | — |
| 91-120 days | 160 | — |
| > 120 days | 864 | — |
| **Total trade receivables** | **$ 31,421** | **$ —** |

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. There were no impaired financial assets as at December 31, 2017.

## 10. Inventories

Inventories comprised the following:

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Raw materials | $ 23,926 | $ — |
| Work in progress | 704 | — |
| Finished goods | 23,793 | — |
| **Total inventories** | **$ 48,423** | **$ —** |

During the year ended December 31, 2017, $182,216 of inventory was expensed in cost of revenue (December 31, 2016 — nil). Inventory write-downs of $315 were recognized in the year (December 31, 2016 — nil). Inventory reserves recovered to net realizable value in the period were $5,576 (December 31,

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 10. Inventories (Continued)

2016 — nil). All of the inventory value is pledged as collateral for the Credit Facility (see note 16 for further detail).

## 11. Prepaid expenses and deposits

Prepaid expense and deposits comprised the following:

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Prepaid expenses | $ 3,130 | $ 25 |
| Deferred financing costs | 5,919 | — |
| Aircraft deposits(1) | 45,043 | — |
| Other deposits | 456 | — |
| **Total current prepaid expenses and deposits** | **$ 54,548** | **$ 25** |
| Aircraft deposits, non-current(1) | 5,077 | — |
| **Total non-current deposits** | **$ 5,077** | **$ —** |

(1) Aircraft deposits include pre-delivery payments made as part of the C295 program (note 28), and deposits to purchase other aircraft.

## 12. Loans receivable

During the year, the Company satisfied a U.S. $100 million commitment to the Stelloan Fund (“the Fund”) by way of purchasing Profit Participating Notes (“PPNs”) issued by the Fund. Since the original subscription of U.S. $100 million, the Fund redeemed U.S. $49 million PPNs, leaving the Company’s remaining investment in the Fund at U.S. $51 million as at December 31, 2017.

On November 17, 2017, the Stelloan Fund sold its three existing portfolio loans to Embassy Acquisition Facility I DAC (“Embassy”), an entity controlled by the Company by way of its ability to direct the relevant operating activities of Embassy and rights to variable returns. Total consideration paid was comprised of U.S. $118 million of cash and an equity note (“E-Note”) of U.S. $35.4 million. As the Company consolidates both its investment in the Stelloan Fund and operations of Embassy, these intragroup investments are not presented in these consolidated financial statements.

At December 31, 2017, the Company’s consolidated statement of financial position presents external loans receivable held by Embassy to aircraft lessors. Embassy holds four loans receivable in its portfolio, which are secured by the aircraft being financed. The portfolio loans are financed by the Company’s PPN investment and the Portfolio Loan Revolver (see note 16).

The Company has elected to measure and record these loans as financial assets measured and presented at FVTPL. To determine the fair value of the loans, the Company uses the “Benchmark IRR” method to determine the discount rate or rate of return a lender would require as of the measurement date for an aircraft collateralized loan, given market conditions and prevailing lending standards. The estimated fair value of each portfolio loan receivable within Embassy is then estimated by calculating the future expected cash flows for each loan receivable. The future expected cash flows for each loan receivable are discounted to its present value using the discount rates established using the Benchmark IRR in a discounted cash flow analysis. During the period ended December 31, 2017, the Company recognized an unrealized loss on the change in fair value of the loans receivable of $2,909.

During the year, the Company recorded gross additions to loans receivable of $208,518 (December 31, 2016 — nil). At December 31, 2017, loans receivable of $201,231 (December 31, 2016 — nil) were consolidated by the Company.

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 13. Property, plant and equipment

Property, plant and equipment comprised the following:

| Cost | Building and leasehold improvements | Office equipment | Machinery and equipment | Aircraft and motor vehicles | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2016 | $ — | $ — | $ — | $ — | $ — |
| Acquisitions through business combinations (note 6) | 16,026 | 2,070 | 38,111 | 367,739 | 423,946 |
| Additions | 1,606 | 951 | 8,950 | 299,810 | 311,317 |
| Transfers and disposals | (1,843) | (3) | 1,843 | (55,238) | (55,241) |
| Foreign currency translation | — | (40) | — | (38,987) | (39,027) |
| **Balance, December 31, 2017** | **$ 15,789** | **$ 2,978** | **$ 48,904** | **$ 573,324** | **$ 640,995** |

| Accumulated Depreciation | Building and leasehold improvements | Office equipment | Machinery and equipment | Aircraft and motor vehicles | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2016 | $ — | $ — | $ — | $ — | $ — |
| Depreciation | (495) | (675) | (5,369) | (19,740) | (26,279) |
| Disposals | — | 1 | — | 2,342 | 2,343 |
| Foreign currency translation | — | 6 | — | 529 | 535 |
| **Balance, December 31, 2017** | **$ (495)** | **$ (668)** | **$ (5,369)** | **$ (16,869)** | **$ (23,401)** |
| **Carrying value as at December 31, 2017** | **$ 15,294** | **$ 2,310** | **$ 43,535** | **$ 556,455** | **$ 617,594** |

Property, plant and equipment cost and accumulated amortization have been reduced for assets, the majority represented by aircraft, that have been disposed of during the year ended December 31, 2017 totaling a carrying value of $52,898 (December 31, 2016 — nil). No impairment was recognized during the years ended December 31, 2017 and December 31, 2016.

## 14. Goodwill and intangible assets

Goodwill and intangible assets comprised the following:

| | | Intangible assets | | | | | |
|---|---|---|---|---|---|---|---|
| Cost | Goodwill | Customer relationships/ contracts | Intellectual property | Lease premiums | Non-compete/ Backlog | Fund contract | Total |
| Balance, December 31, 2016 | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Acquisitions through business combinations (note 6) | 618,548 | 174,166 | 13,200 | 59,163 | 41,675 | 7,614 | 914,366 |
| Additions | — | — | — | 68,464 | — | — | 68,464 |
| Foreign currency translation | (20,695) | (1,157) | — | (8,015) | (2,759) | (539) | (33,165) |
| **Balance, December 31, 2017** | **$ 597,853** | **$ 173,009** | **$ 13,200** | **$ 119,612** | **$ 38,916** | **$ 7,075** | **$ 949,665** |

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 14. Goodwill and intangible assets (Continued)

| | | Intangible assets | | | | | |
|---|---|---|---|---|---|---|---|
| **Accumulated Amortization** | **Goodwill** | **Customer relationships/ contracts** | **Intellectual property** | **Lease premiums** | **Non-compete/ Backlog** | **Fund contract** | **Total** |
| Balance, December 31, 2016 | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Amortization | — | (24,044) | (3,300) | (10,136) | (20,129) | (427) | (58,036) |
| Impairment loss on Apollo | (200,745) | — | — | — | — | — | (200,745) |
| Impairment loss on Stellwagen | (220,556) | — | — | — | (19,445) | — | (240,001) |
| Foreign currency translation | — | 96 | — | 344 | 683 | 15 | 1,138 |
| **Balance, December 31, 2017** | **$ (421,301)** | **$ (23,948)** | **$ (3,300)** | **$ (9,792)** | **$ (38,891)** | **$ (412)** | **$ (497,644)** |
| **Carrying value as at December 31, 2017** | **$ 176,552** | **$ 149,061** | **$ 9,900** | **$ 109,820** | **$ 25** | **$ 6,663** | **$ 452,021** |

Additions to goodwill and intangible assets primarily arose through business combinations (see note 6 for further detail). None of the intangible assets are determined to have indefinite useful lives and have been amortized in the year.

As described in note 3, *Significant accounting policies*, goodwill is tested annually for impairment by comparing the carrying value of the CGU or group of CGUs to the recoverable amount; where, the recoverable amount is the higher of fair value less costs of disposal and value in use. Key assumptions used in calculating the recoverable amount are those regarding discount rates, growth rates and expected changes in margins.

The Company determined the recoverable amount for each CGU and intangible assets using the fair value less costs of disposal method. The fair value less costs of disposal for a CGU or group of CGUs is determined using the income approach valuation technique which discounts the earnings projection derived from business plans prepared by the Company. The projections reflect management's expectations of revenue, profit margins, capital expenditures, working capital and operating cash flows, based on past experience and future expectations of operating performance. Discount rates are applied to the earnings projections and are derived from the weighted average cost of capital for each CGU.

The Company performed its annual impairment test on goodwill for all CGUs based on the fair value less costs of disposal using after-tax discount rates ranging from 10% to 23%, annual growth rates up to 10%, and a terminal growth rate of 2.5%.

The Company recorded goodwill impairment at Apollo of $200,745 as a result of a decline in forecasted sales, reduction in profit margins, and increased inventory costs and operating expenses expected by management. The recoverable amount at December 31, 2017 was estimated to be $147,293 using the income approach valuation technique which discounts future cash flows.

The Company recorded goodwill impairment at Stellwagen of $220,556 as a result of a decline in forecasted sales expected by management. The recoverable amount at December 31, 2017 was estimated to be $246,583 using the income approach valuation technique which discounts future cash flows.

During the year ended December 31, 2017, the Company recognized $19,445 of an impairment loss on intangible assets in Stellwagen. An impairment loss totaling $8,154 was recognized on the non-compete agreement intangible asset as a result of lower forecasted earnings which diminishes the marginal benefit on the Stellwagen Vendors' non-compete agreement. An impairment loss of $11,291 was recognized in respect of the backlog intangible asset as the Company no longer expects to benefit from aircraft transactions that

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 14. Goodwill and intangible assets (Continued)

were expected to occur at the date of the Qualifying Acquisition. The fair value less costs of disposal for both intangible assets at December 31, 2017 was estimated to be nil which was determined using the discounted future cash flow valuation technique.

The impairment losses were recognized in the consolidated statements of loss and comprehensive loss. There was no reversal of impairment during the years ended December 31, 2017 and December 31, 2016.

## 15. Income taxes

The major components of income tax expense include the following:

| | For the year ended | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| *Current Income Tax Expense* | | |
| In respect of the current year | $ 9,889 | $ — |
| **Total current income tax expense** | **$ 9,889** | **$ —** |
| *Deferred Income Tax Recovery* | | |
| In respect of the current year | $ (28,349) | $ — |
| **Total deferred income tax recovery** | **$ (28,349)** | **$ —** |

The provision for income taxes differs from the expense that would be obtained by applying the Canadian statutory income tax rate as a result of the following:

| | For the year ended | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| Income tax recovery based on applicable statutory tax rate of 26.5% | $ (114,354) | $ (9,542) |
| Re-measurement (gain) loss — Class A Restricted Voting Shares | (1,043) | 7,146 |
| Non-deductible costs and permanent items | 4,120 | 2,571 |
| Current year tax on (gains) losses and other deductible temporary differences for which no deferred tax asset is recognized | 4,448 | (175) |
| Impairment of non-deductible goodwill | 64,518 | |
| Revaluation of non-deductible Stellwagen Earn-out liability | (10,715) | |
| Rate differential | 34,478 | — |
| Other | 88 | — |
| **Total income tax recovery** | **$ (18,460)** | **$ —** |

The applicable Canadian statutory income tax rate of 26.5% is attributable to a Federal tax rate of 15% and a provincial tax rate of 11.5% for Ontario.

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 15. Income taxes (Continued)

The changes in deferred tax balances are presented as follows:

| | As at December 31, 2016 | Recognized in Income | Recognized in Goodwill | As at December 31, 2017 |
|---|---|---|---|---|
| Basis differences — Intangibles | $ — | $ 11,387 | $ (39,505) | $ **(28,118)** |
| Basis differences — Fixed assets | — | 488 | (8,318) | **(7,830)** |
| Goodwill | — | 14,320 | — | **14,320** |
| Loss carryforwards | — | 4,512 | 326 | **4,838** |
| Basis differences — Other | — | (2,358) | (1,158) | **(3,516)** |
| **Total** | **$ —** | **$ 28,349** | **$ (48,655)** | **$ (20,306)** |

Included in the deferred tax assets related to deductible goodwill is $8,000 related to the Consumer Product segment for which the Company has relied on projections of future taxable profits to support their recognition, consistent with historical taxable results. The remainder of the deferred tax asset amount has been recognized based on taxable temporary differences expected to reverse over the relevant period.

Deferred tax assets are recognized if management has determined that it is probable that such deferred tax assets may be recovered. As at December 31, 2017 and December 31, 2016, the Company believes that the following deductible temporary differences do not currently meet the criteria for recognition:

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Operating loss carry forwards | $ 28,744 | $ 7,289 |
| Unamortized share issuance costs | 19,912 | 16,478 |
| Basis differences | 2,079 | — |
| **Total unrecognized deductible temporary differences** | **$ 50,735** | **$ 23,767** |

## 16. Debt

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Aircraft loans | $ 623,886 | $ — |
| Term loan A | 27,300 | — |
| Term loan B | 31,850 | — |
| Revolving credit facility | 26,091 | — |
| Aviation Facility | 150,540 | — |
| Portfolio Loan Revolver | 137,787 | — |
| Less: Deferred financing fees | (13,508) | — |
| **Total debt** | $ **983,946** | $ — |
| Current | 276,735 | — |
| Long-term | 707,211 | — |
| **Total debt** | $ **983,946** | $ — |

*Aircraft loans*

In connection with the acquisition of Stellwagen (see note 6 for further detail), the Company assumed a U.S. $275,000 loan which was utilized to acquire an aircraft. The principal outstanding at December 31,

**16. Debt (Continued)**

2017 is $308,194 (U.S. $245,671). Interest is variable and LIBOR based, and is currently being hedged with an interest rate swap. Repayments of $2,396 (U.S. $1,910) on the outstanding principal are made monthly.

During the first quarter of 2017, the Company acquired another aircraft, which it financed with a U.S. $267,125 loan. The principal outstanding at December 31, 2017 is $315,692 (U.S. $251,647). Interest is variable and LIBOR based. Repayments of $2,327 (U.S. $1,855) on the outstanding principal are made monthly.

*Credit Facility*

On January 3, 2017, the Company entered into a credit agreement providing a borrowing capacity of up to $150,000. On May 24, 2017, this credit agreement was amended and restated to reduce the capacity of the facility to $100,000 (the "Credit Facility"). Deferred financing fees related to the cancelled, undrawn capacity of the facility were written off and recognized within finance costs included in net loss during the year. The following facilities are available under the Credit Facility:

a) **Revolving credit facility** — availability of up to $35,000 (reduced from $50,000 in May 2017) to be used for working capital and other general corporate purposes. Amounts of drawdowns are in Canadian dollars by way of prime rate and bankers' acceptances advances and in United States dollars by way of U.S. base rate advances and LIBOR advances. During the year ended December 31, 2017, the Company made drawdowns of $22,310 in Canadian advances and U.S. $3,000. As a result of a technical breach of financial covenants at December 31, 2017, the Company does not have the ability to defer payment beyond twelve months from period end. Amounts have been classified within current liabilities. See note 2 for further details.

b) **Term loan A** — $30,000 made available to finance the JemPak and Apollo acquisitions (see note 6 for further detail). Amounts are in Canadian dollars by way of prime rate and bankers' acceptances advances. Term loan A's initial capacity was $15,000, and an additional $15,000 was added to this loan in May 2017, representing a transfer from the delayed draw facility. Principal repayments of $900 are due quarterly, commencing June 30, 2017. As a result of a technical breach of financial covenants at December 31, 2017, the Company does not have the ability to defer payment beyond twelve months from period end. Amounts drawn have been classified within current liabilities. See note 2 for further details.

c) **Term loan B** — $35,000 made available to finance the JemPak and Apollo acquisitions (see note 6 for further detail). Amounts are in Canadian dollars by way of prime rate and bankers' acceptances advances. Principal repayments of $1,050 are due quarterly, commencing June 30, 2017. As a result of a technical breach of financial covenants at December 31, 2017, the Company does not have the ability to defer payment beyond twelve months from period end. Amounts drawn have been classified within current liabilities. See note 2 for further details.

d) **Delayed draw facility** — During the first quarter, the Company made drawdowns of $15,000 against this facility, which was subsequently transferred to Term loan A in May 2017. The ability to make further draws against this facility was removed as part of the May 2017 amendments.

As at December 31, 2017, the undrawn capacity on the Credit Facility was $8,926.

The net assets of the Consumer Products reportable segment are pledged as security under the Credit Facility.

**16. Debt (Continued)**

The Credit Facility contains covenants which are customary for facilities of this nature. Such covenants limit, among other things, the ability of the Company to incur or assume additional debt, sell material assets, and make certain capital expenditures or acquisitions. The Credit Facility also imposes certain financial covenants the Company must monitor, report, and comply with each fiscal quarter. As a result of a technical breach of financial covenants at December 31, 2017, the Company does not have the ability to defer payment beyond twelve months from period end. Amounts have been classified within current liabilities. See note 2 for further details.

*Aviation Facility*

On May 14, 2017, the Company entered into a secured two-year credit facility agreement (the "Aviation Facility") with a syndicate comprised of a financial institution and two related parties (see note 25). The Aviation Facility allows for the borrowing of up to U.S. $150,000. During the year, proceeds from the Aviation Facility were used to fund a U.S. $100,000 investment in the Stelloan Fund, which is consolidated by the Company and presented as part of the Aviation reportable segment. The Stelloan Fund used the PPN proceeds to extend three loans to aircraft lessors, which the Company records as loans receivable in these consolidated financial statements. Subsequently, U.S. $49 million of PPNs in the Stelloan Fund were redeemed using proceeds from the Portfolio Loan Revolver discussed below and paid to the Company. Funds were redeployed to other areas of the Aviation segment, including deposits for aircraft purchases, and pre-delivery payments on C295 aircraft initiatives. Interest is LIBOR based plus an applicable margin. The Aviation Facility is secured by a first-priority lien over Acasta's real property.

As at December 31, 2017, the undrawn capacity on the Aviation Facility was $37,635 (U.S. $30,000). As a result of a technical breach of financial covenants at December 31, 2017, the Company does not have the ability to defer payment beyond twelve months from period end. Amounts have been classified within current liabilities. See note 2 for further details.

*Portfolio Loan Revolver*

On November 17, 2017, Embassy Acquisition Facility I DAC ("Embassy") entered into a secured three-year revolving credit facility agreement (the "Portfolio Loan Revolver"). The Portfolio Loan Revolver allows for the borrowing of up to U.S. $250,000 (subject to a maximum amount based on the value of underlying aircraft loan assets.) During 2017, proceeds from the Portfolio Loan Revolver were used to finance Embassy's fourth external loan receivable with an aircraft lessor, to repay a U.S. $18,450 related party loan from Martello Financing Limited ("Martello Financing", see note 25) and to support ongoing growth initiatives within the Company's Aviation reportable segment. Interest is based on LIBOR plus an applicable margin and is payable quarterly. The Portfolio Loan Revolver is secured by the underlying aircraft loan assets. As at December 31, 2017, the undrawn capacity on the Portfolio Loan Revolver was $175,838 (U.S. $140,166).

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 16. Debt (Continued)

The following table reconciles the changes in cash flows from financing activities attributable to debt for the following years:

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Total debt, beginning of year | $ — | $ — |
| Proceeds from aircraft loans and credit facilities | 737,372 | — |
| Debt repayments, including repayment of aircraft financing related to assets previously held for sale | (91,187) | — |
| Financing fees | (15,286) | — |
| Total cash flows from debt financing activities | $ 630,899 | $ — |
| Other components of debt | | |
| Debt assumed on acquisition of Stellwagen | $ 391,686 | $ — |
| Non-cash changes in deferred financing fees | 4,699 | — |
| Effects of foreign exchange | (43,337) | — |
| Total other components of debt | 353,047 | $ — |
| **Total debt, end of year** | **$ 983,946** | **$ —** |

## 17. Leases

*Finance leases — lessee*

The Company has an existing finance lease arrangement for a manufacturing plant in Oakville, Ontario. The following are the amounts payable under finance lease:

| | Present value of minimum lease payments | |
|---|---|---|
| | As at December 31, 2017 | As at December 31, 2016 |
| Not later than one year | $ 493 | $ — |
| Later than one year and not later than five years | 1,788 | — |
| Later than five years | 5,495 | — |
| **Present value of minimum lease payments** | **$ 7,776** | **$ —** |

*Operating leases — lessor*

Operating leases relate to the aircraft owned by the Company, each with an original fixed lease term of 12 years. All operating lease contracts contain market review clauses in the event that the lessee exercises an option to renew. The lessee does not have an option to purchase the aircraft at the expiry of the lease year. The following are the amounts to be collected under aircraft operating leases:

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Not later than one year | $ 73,157 | $ — |
| Later than one year and not later than five years | 292,629 | — |
| Later than five years | 414,220 | — |
| **Total** | **$ 780,006** | **$ —** |

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 17. Leases (Continued)

*Operating leases — lessee*

Operating leases relate to a facility in Concord, Ontario, a warehouse in Brampton, Ontario, corporate office spaces in various locations, and equipment used in the Consumer Products reporting segment. The following are the amounts payable under the operating leases:

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Not later than one year | $ 4,557 | $ — |
| Later than one year and not later than five years | 17,236 | — |
| Later than five years | 17,829 | — |
| **Total** | **$ 39,622** | **$ —** |

## 18. Other liabilities

Other current liabilities comprised the following:

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Unamortized discount on loans receivable | $ 5,841 | $ — |
| Amounts due to related parties(1) | 5,835 | 423 |
| Finance lease obligation — current | 496 | |
| Deferred underwriters' commission(2) | — | 13,081 |
| Other current liabilities | 2,161 | — |
| **Total other current liabilities** | **$ 14,333** | **$ 13,504** |

Other non-current liabilities comprised the following:

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Unamortized discount on loans receivable | $ 6,143 | $ — |
| Amount due to related parties(3) | 11,820 | — |
| Security deposits | 6,276 | — |
| Finance lease liability | 7,281 | — |
| **Total other non-current liabilities** | **$ 31,520** | **$ —** |

(1) Amounts due to related parties as at December 31, 2017 include payables to the Stellwagen Vendor for $3,968 in respect of the reimbursement of transaction costs related to the acquisition of Stellwagen and to Acasta Capital Inc. for reimbursement of expenses on a cost-recovery basis of $1,815. See notes 6 and 25 for further details.

(2) As at December 31, 2016, deferred underwriters' commission represented amounts payable to the Company's underwriters in respect of the Company's initial public offering. The deferred underwriters' commission was settled as part of the Qualifying Acquisition (note 6).

(3) Included in the non-current amounts due to related parties as at December 31, 2017 are the Stellwagen Earn-out liability of $8,782, and ECN contingent consideration of $3,038. See note 6 for further details.

## 19. Shareholders' equity (deficiency)

On July 30, 2015, the Company closed its initial public offering (the "Offering") of 35,000,000 Class A restricted voting units of the Company (the "Class A Restricted Voting Units") at a price of $10.00 per Class A Restricted Voting Unit for gross proceeds of $350,000. On August 5, 2015, the underwriters exercised their over-allotment option to purchase an additional 5,250,000 Class A Restricted Voting Units, at a price of $10.00 per Class A Restricted Voting Unit for gross proceeds of $52,500. After these two closings, a total of 40,250,000 Class A Restricted Voting Units were issued for total gross proceeds to the Company of $402,500.

Each Class A Restricted Voting Unit consisted of one Class A Restricted Voting Share and one half of one Warrant. Each full Warrant became exercisable on February 2, 2017, 30 days after the completion of the Qualifying Acquisition, and is exercisable to purchase one Class B Share at an exercise price of $11.50. Each Warrant expires on January 3, 2022. The Company may accelerate the expiry date of the outstanding Warrants by providing 30 days' notice if the closing price of the Class B Shares equals or exceeds $24.00 per Class B Share (as adjusted for stock splits or combinations, stock dividends, extraordinary dividends, reorganizations and recapitalizations) for any 20 trading days within a 30 day trading year. On September 8, 2015, the Company's Class A Restricted Voting Shares and Warrants each commenced trading on the TSX under the symbol "AEF.A" and "AEF.WT", respectively.

Prior to the closing of the Offering on July 30, 2015, the Company's founders ("Founders"), including directors, advisors, senior officers, Acasta Capital Inc. (the "Sponsor") and senior officers of the Sponsor purchased a total of 10,442,031 Class B Shares for $25 in aggregate at a price of $0.0024 per Class B Share (the "Founders' Shares"). In addition, concurrent with the closing of the Offering on July 30, 2015, the Founders purchased 1,400,000 Class B Units ("Class B Units") at an offering price of $10.00, being the equivalent price of each Class A Restricted Voting Unit on initial issuance, for a total of $14,000. Further, on August 5, 2015, the Founders purchased an additional 118,124 Class B Units in connection with the exercise by the Company's underwriters of the over-allotment option at an offering price of $10.00 for a total of $1,181. Each Class B Unit consisted of one Class B Share and one-half of one Warrant. Each full Warrant entitles the holder to purchase one Class B Share of the Company at a price of $11.50. Each Warrant expires on January 3, 2022.

The Company is authorized to issue an unlimited number of Class B Shares without nominal or par value. The holders of Class B Shares have no pre-emptive rights or other subscription rights and there are no sinking fund provisions applicable to these shares.

Upon closing of the Offering and the issuance of Class A Restricted Voting Units pursuant to the exercise of the over-allotment option, the Company placed $10.00 per Class A Restricted Voting Unit sold in an escrow account with the Company's escrow agent.

By way of agreement entered into at the time of the Offering (the "Forfeiture Agreement"), 25% of the Founders' Shares held by each Founder were subject to forfeiture on the fifth anniversary of a qualifying acquisition unless the closing share price of the Class B Shares exceeded $13.00 (as adjusted for stock splits or combinations, stock dividends, extraordinary dividends, reorganizations and recapitalizations) for any 20 trading days within a 30 day trading year at any time following the Closing (the "Contingent Shares"). Under the terms of the Forfeiture Agreement, the Contingent Shares were subject to additional transfer restrictions until the $13.00 closing Class B Share price condition was satisfied, at which point they would have, if applicable, become subject to the same ongoing restrictions applicable to the other Founders' Shares at that time. In connection with the Closing, the Forfeiture Agreement was amended and restated. Refer to note 3 for terms of the amended Forfeiture Agreement.

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

**19. Shareholders' equity (deficiency) (Continued)**

On December 20, 2016, the Transaction was approved by a simple majority (greater than 50%) of the votes cast, in person or by proxy, by the holders of Class A Restricted Voting Shares and Class B Shares voting together as a single class at a special meeting of the Company's shareholders. Regardless of whether shareholders voted for or against, or did not vote on, the Transaction, holders of Class A Restricted Voting Shares could elect to redeem all or a portion of their Class A Restricted Voting Shares at a per-share price of $10.04, payable in cash, which was equal to their per-share amount deposited in the escrow account, adjusted for interest or other amounts earned and net of applicable taxes payable on such interest and other amounts earned and net of direct expenses related to the redemption. In connection with the Transaction, 28,454,222 Class A Restricted Voting Shares were redeemed on January 3, 2017, representing an aggregate redemption amount of $285,680.

In connection with the Transaction, the Company issued an additional 15,955,050 Class B Shares for aggregate gross proceeds of $159,551 by way of a private placement (the "Private Placement") on January 3, 2017. The Company issued a total of 52,966,814 Class B Shares for aggregate gross proceeds of $529,668 to the vendors of JemPak, Apollo, and Stellwagen.

On May 11, 2017, the Company entered into an agreement to acquire substantially all of the net assets of ECN Commercial Aviation for a purchase price of $26,578 (U.S. $22,500). The purchase price was satisfied on June 1, 2017 by the issuance of Acasta Class B Shares at $10.00 per share, the number of which was determined by the closing foreign exchange rate one business day prior to the closing date of the acquisition.

The following is a summary of the Class B Shares issued and outstanding:

| | Number | Amount |
|---|---|---|
| Balance, December 31, 2016 | 11,960,156 | $ 14,995 |
| Conversion of Class A Restricted Voting Shares | 11,795,778 | 119,727 |
| Issued as consideration under Qualifying Acquisition — JemPak | 6,750,000 | 67,500 |
| Issued as consideration under Qualifying Acquisition — Apollo | 23,388,396 | 233,884 |
| Issued as consideration under Qualifying Acquisition — Stellwagen | 22,828,418 | 228,284 |
| Issued as consideration under acquisition — ECN | 3,037,500 | 26,578 |
| Private placement | 15,955,050 | 159,551 |
| Share issuance costs | — | (1,136) |
| **Balance, December 31, 2017** | **95,715,298** | **$ 849,383** |

Holders of Class B Shares are entitled to vote at all meetings of shareholders and on all matters requiring a shareholder vote. Refer to note 24 for details on number of shares subject to forfeiture.

The Warrants outstanding were not exercisable by the holders until February 2, 2017, being 30 days after the Company completed the Transaction. Following the Transaction, each Warrant entitles the holder to purchase one Class B Share at an exercise price of $11.50, subject to normal anti-dilution adjustments. The Warrants expire on January 3, 2022, being five years after the Company completed the Transaction.

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 20. Revenue

The Company earns revenue from the following primary sources:

| | For the year ended | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| Revenue from the sale of consumer products | $ 263,893 | $ — |
| Transaction fees | 9,903 | — |
| Lease rental income | 72,595 | — |
| Servicing fees | 8,156 | — |
| Interest income | 2,420 | 1,845 |
| Other revenue | 9,554 | — |
| **Total revenue** | **$ 366,521** | **$ 1,845** |

## 21. Expenses by nature

Cost of revenue and selling, general and administrative expense comprised the following:

| | For the year ended | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| Cost of inventory, raw materials and consumables | $ 153,876 | $ — |
| Depreciation of property, plant and equipment included in cost of revenue | 5,926 | — |
| Depreciation of property, plant and equipment and amortization of intangible assets included in selling, general and administrative expense | 78,389 | — |
| Freight charges | 14,239 | — |
| Salaries and benefits | 53,102 | — |
| Rent and utilities expenses | 10,619 | — |
| Professional fees | 18,704 | 9,746 |
| General office expenses | 10,101 | 128 |
| Research and development costs | 1,055 | — |
| Share-based compensation | 300 | — |
| Production repairs, maintenance & supplies | 5,045 | — |
| Laboratory expenses | 2,176 | — |
| Other expenses | 5,980 | 1,012 |
| **Total cost of revenue and selling, general and administrative expense** | **$ 359,512** | **$ 10,886** |
| Cost of revenue | 187,616 | — |
| Selling, general and administrative expense | 171,896 | 10,886 |
| **Total cost of revenue and selling, general and administrative expense** | **$ 359,512** | **$ 10,886** |

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 22. Finance costs

Finance costs are comprised of the following:

| | For the year ended | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| Interest on bank overdrafts and loans | $ 35,664 | $ — |
| Amortization and accretion of deferred financing costs | 7,125 | — |
| Interest on finance lease obligations | 416 | — |
| Other interest expense, net | 27 | — |
| **Total finance costs** | **$ 43,232** | **$ —** |

## 23. Other income, net

Other income, net comprised the following:

| | For the year ended | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| Gain on disposal of property, plant and equipment | $ (206) | $ — |
| Restructuring costs | 267 | — |
| Loss on settlement of Stellwagen Vendors cost reimbursement | 3,968 | — |
| Gain on revaluation of Stellwagen Vendors Earn-out | (37,143) | — |
| Gain on settlement of contingent consideration in Stellwagen | (492) | — |
| Gain on settlement of contingent consideration in Apollo | (4,000) | — |
| Gain on redemption of Class A Restricted Voting Shares | (3,699) | — |
| Net realized gain on change in fair value of financial liabilities | (236) | — |
| Other expense (income) | (56) | — |
| **Other income, net** | **$ (41,597)** | **$ —** |

## 24. Net loss per share

The following is the net loss per share calculation for the years ended December 31, 2017 and December 31, 2016.

| | For the year ended | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| Net loss attributable to owners of Class B Shares | $ (413,066) | $ (36,009) |
| Weighted average number of Class B Shares outstanding during the year | 88,795,384 | 9,349,648 |
| **Net loss per share — basic and diluted** | **$ (4.65)** | **$ (3.85)** |

The following is the other comprehensive loss per share calculation for the years ended December 31, 2017 and December 31, 2016.

| | For the year ended | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| Other comprehensive loss attributable to owners of Class B Shares | $ (27,862) | $ — |
| Weighted average number of Class B Shares outstanding during the year | 88,795,384 | 9,349,648 |
| **Other comprehensive loss per share — basic and diluted** | **$ (0.31)** | **$ —** |

**24. Net loss per share (Continued)**

Net loss per share is computed by dividing the net loss incurred during the year by the weighted-average number of Class B Shares outstanding during the year. Diluted net loss per share is computed by dividing net loss incurred during the year by the diluted weighted-average number of Class B Shares outstanding during the year.

The Contingent Shares totaling 5,221,016 are contingently subject to forfeiture and consequently excluded from the determination of the weighted average number of Class B Shares outstanding until such time as these shares are no longer subject to forfeiture.

The Company did not take into effect any dilutive securities in calculating the net income (loss) per share because the dilutive securities are either anti-dilutive or the Company reported a net loss in the relevant year. As a result, diluted net loss per Class B Share is the same as the basic net loss per share for the years presented. For the year ended December 31, 2017, anti-dilutive securities include warrants and DSUs which, if converted to Class B Shares, would result in the issuance of 20,884,062 and 52,304 Class B Shares, respectively.

**25. Related party transactions**

Pursuant to the purchase agreement between Acasta and Stellwagen, the Company made a payment to the Stellwagen Vendors during the year ended December 31, 2017 for settlement related to the net proceeds on the sale of two aircraft held for sale by Stellwagen. Net proceeds were determined to be $16,263 (U.S. $12,532).

The Company was charged $4,452 by Acasta Capital Inc. ("Acasta Capital") during the year ended December 31, 2017 related to support on the Qualifying Acquisition on a cost recovery basis, and for services rendered throughout the period. Amounts payable to Acasta Capital as at December 31, 2017 were $1,816 (December 31, 2016 — $423).

During the year ended December 31, 2017, the Company was charged $1,000 by Nevele Inc., a company controlled by Acasta's former Chief Executive Officer and director. The charge was approved by the Board of Directors as a success fee for the Qualifying Acquisition. Amounts payable to Nevele Inc. as at December 31, 2017 were nil.

Other revenue of $1,887 (U.S. $1,512) was recognized by Seraph Aviation Inc., a wholly owned subsidiary of Stellwagen, during the year ended December 31, 2017. The fee was charged as an arrangement fee to AC Finance Air Europa B787-7 Limited, a related party by virtue of being controlled by a member of key management personnel at Stellwagen.

Two lenders party to the Aviation Facility, WFI Inc. and Martello Fund I Designated Activity Company, are related to Acasta by virtue of being members of key management personnel at Apollo and Stellwagen, respectively. As at December 31, 2017, $25,090 (U.S. $20,000) of debt was outstanding to these related party lenders (see note 16). Subsequent to December 31, 2017, U.S. $9,592 of Aviation Facility debt held by WFI Inc., a lending party related to Acasta, was subordinated relative to the other Aviation Facility lenders.

On July 1, 2017, the Company issued a loan to a key employee of Stellwagen in the amount of $1,882 (U.S. $1,500). Pursuant to the terms of the loan agreement, no interest is payable by the key employee and the loan is repayable in 36 months. At December 31, 2017, the balance outstanding was $1,882 (U.S. $1,500) and is recorded in other non-current assets.

On September 28, 2017, Martello Financing entered into a loan agreement with the Stelloan Fund in the amount of $23,026 (U.S. $18,450). Pursuant to the terms of the loan agreement, as amended, the loan is

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 25. Related party transactions (Continued)

repayable on the earlier of two years and such time as certain assets of the Stelloan Fund are monetized. Martello Financing is owned and controlled by a member of key management of Stellwagen. This loan was repaid in full in October 2017. At December 31, 2017, the balance outstanding was nil. Interest was variable and LIBOR based.

During the year ended December 31, 2017, the Company incurred fees of $1,432 to entities controlled by members of JemPak key management. These expenses relate to rent on a plant facility owned by these related parties, as well as consulting services. A finance lease liability of $7,776 has been recorded within other current liabilities and other non-current liabilities as at December 31, 2017, and represents a payable to the related party entities for rent over the lease term on the JemPak Oakville plant.

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. The following outlines the compensation of the Company's board of directors and key management personnel (the Company's chief executive officer, chief financial officer, and certain other senior management at the operating segment level):

| | For the year ended | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| Short-term employee benefits | $ 19,878 | $ — |
| Post-employment benefits | 356 | — |
| Other long-term benefits | 1,120 | — |
| Termination benefits | 226 | — |
| Share-based payments | 300 | — |
| **Total key management personnel compensation** | **$ 21,880** | **$ —** |

## 26. Financial instruments

The carrying values of cash equivalents, trade and other receivables and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments. The fair value of long-term debt is not considered to be materially different from carrying value as related interest rates are largely variable and terms to maturity on most facilities are relatively short-term.

The following table presents the fair value hierarchy of financial assets and financial liabilities that are carried at fair value on the consolidated statements of financial position on a recurring basis. There were no transfers between levels of the fair value hierarchy during the year.

| | Fair value as at December 31, 2017 | | | Fair value as at December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| **Financial assets** | | | | | | |
| Loan receivable | $ — | $ 201,231 | $ — | $ — | $ — | $ — |
| Derivatives included in other non-current assets | — | 10,353 | — | — | — | — |
| **Financial liabilities** | | | | | | |
| Contingent consideration | $ — | $ — | $ 8,782 | $ — | $ — | $ — |
| Class A Restricted Voting Shares | — | — | — | 409,342 | — | — |

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 26. Financial instruments (Continued)

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

| | Contingent consideration |
|---|---|
| **Balance at January 3, 2017** | $ — |
| Business combination — purchase consideration (note 6) | 49,183 |
| **Gain included in Other income, net** | |
| Net change in fair value (unrealized) (note 23) | (37,143) |
| **Gain included in other comprehensive loss** | |
| Net change in fair value due to foreign currency translation (unrealized) | (3,258) |
| **Balance at December 31, 2017** | **$ 8,782** |

*Cash flow hedges*

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting year.

| | Average contracted fixed interest rate | | Notional principal value | | Fair value assets (liabilities) | |
|---|---|---|---|---|---|---|
| **Interest rate swap** | **December 31, 2017** | **December 31, 2016** | **December 31, 2017** | **December 31, 2016** | **December 31, 2017** | **December 31, 2016** |
| | % | % | | | | |
| 5 years + | 4.075 | — | U.S.$ 245,671 | $ — | $ 10,353 | $ — |
| | **4.075** | **—** | **U.S.$ 245,671** | **$ —** | **$ 10,353** | **$ —** |

The interest rate swap included in other non-current assets settle on a monthly basis. The interest rate swap contracts exchanging variable rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Company's cash flow exposure resulting from variable interest borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously with the Company paying fixed interest on a monthly basis and receiving variable rate interest. The fair value of the interest rate swap is assessed on a quarterly basis. Movements in the fair value are recognized through other comprehensive income (loss) for the year. A total of $1,515 has been recognized in other comprehensive loss during the year ended December 31, 2017 (December 31, 2016 — nil), with nil being reclassified to net income loss (December 31, 2016 — nil).

## 27. Segment information

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The operating results of all operating segments are reviewed regularly by the Company's Chief Executive Officer who is the chief operating decision maker ("CODM") for key decisions relating to resources to be allocated to the segments and for assessing their performance, in consultation with the Board of Directors. 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.

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 27. Segment information (Continued)

At December 31, 2017, the Company operates three distinct reportable segments (December 31, 2016 — one), being the Consumer Products, Aviation and Other segments. Acasta's Consumer Products portfolio includes companies that manufacture and distribute store-brand laundry, dish cleaning, and health and beauty care products for a range of retailers across North America. Due to the type of customers, nature of products sold and methods of distribution, the two operating segments under the Consumer Products business have been aggregated within this reportable segment. Acasta's Aviation portfolio includes companies that provide technical management and fleet and capital financing solutions to the global aviation industry and its investors. Acasta's Other reportable segment includes the corporate parent entity of the Consumer Products and Aviation reportable segments known as Acasta Enterprises Inc.

Sales to the Company's largest customers, which individually account for 10% or more of the Company's consolidated revenue ("largest customers"), during the year ended December 31, 2017 in the Consumer Products reporting segment were $147,440 which accounted for 40% of consolidated revenue for the year ended December 31, 2017. Sales to the Company's largest customer in the Aviation reporting segment were $69,983, which accounted for 19% of consolidated revenue for the year ended December 31, 2017. No other single customer contributed more than 10% to the Company's consolidated revenue during the year ended December 31, 2017.

Financial information for the year ended December 31, 2017 by reportable segment is presented below.

*Segment operating results for the year ended December 31, 2017*

| | Consumer Products | Aviation | Other | Total |
|---|---|---|---|---|
| Revenue | $ 263,893 | $ 102,628 | $ — | **$ 366,521** |
| Cost of revenue | 187,616 | — | — | **187,616** |
| Selling, general and administrative expense | 64,637 | 88,156 | 19,103 | **171,896** |
| Finance costs | 5,576 | 25,954 | 11,702 | **43,232** |
| Net unrealized gain on change in fair value of financial instruments | — | 2,909 | — | **2,909** |
| Net loss (gain) on foreign exchange transactions | (1,063) | 609 | (6,301) | **(6,755)** |
| Impairment of intangible assets and goodwill | 200,745 | 240,001 | — | **440,746** |
| Other expense (income), net | 227 | (714) | (41,110) | **(41,597)** |
| **Income (loss) before income tax** | $ (193,845) | $ (254,287) | $ 16,606 | **$ (431,526)** |
| Current income tax expense | 9,009 | 880 | — | **9,889** |
| Deferred income tax recovery | (22,232) | (6,117) | — | **(28,349)** |
| **Net income (loss)** | **$ (180,622)** | **$ (249,050)** | **$ 16,606** | **$ (413,066)** |

*Segment assets and liabilities as at December 31, 2017*

| | Consumer Products | Aviation | Other | Total |
|---|---|---|---|---|
| *As at December 31, 2017* | | | | |
| Total assets(1) | $ 399,418 | $ 1,036,471 | $ 27,211 | **$ 1,463,100** |
| Total liabilities | $ 143,773 | $ 787,457 | $ 163,214 | **$ 1,094,444** |
| Goodwill | $ 106,911 | $ 69,641 | $ — | **$ 176,552** |

(1) Total assets include goodwill

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 27. Segment information (Continued)

*Geographical information*

The following is an analysis of the Company's geographical information:

| | Canada | United States | Europe | Total |
|---|---|---|---|---|
| Revenue (for the year ended December 31, 2017) | $ 26,512 | $ 238,654 | $ 101,355 | **$ 366,521** |
| Non-current assets[1] (as at December 31, 2017) | $ 313,043 | $ — | $ 761,649 | **$ 1,074,692** |

(1) Non-current assets exclude financial instruments of $202,863.

Prior year information has not been provided as there was only one reportable segment prior to the Qualifying Acquisition.

## 28. Commitments

The following commitments are related to warehouse, property, and other office leases.

| | As at December 31, 2017 |
|---|---|
| No later than one year | $ 5,066 |
| Later than one year and no later than five years | 19,363 |
| Later than five years | 30,243 |
| **Total commitments** | **$ 54,672** |

During the period, the Company entered into an agreement to purchase twelve C295 aircraft pre-production from the manufacturer, with an option to purchase an additional twelve. The purchase of the first twelve aircraft are staggered and are expected to commence in 2018 and conclude in 2022. As part of the financing arrangement, the Company has committed to make pre-delivery payments that align with the timing of the expected deliveries. In 2017, the Company made pre-delivery payments of $40,979 (U.S. $32,666), which are recorded as current and non-current prepaid expenses and deposits in the consolidated financial statements. At December 31, 2017, the remaining C295 aircraft commitment was $343,095 (U.S. $273,492).

## 29. Contingencies

The Company has filed a legal claim against previous employees of Stellwagen for which one defendant has filed a counterclaim. It is the opinion of management, based on the advice and information provided by its legal counsel, that the claim will establish liability against the defendants and that the counterclaim has no merit. The amount of damages recoverable arising as a result of the claim and counterclaim cannot be estimated until the conclusion of the lawsuits. No accrual for loss has been recorded in these consolidated financial statements. Management is unable to make an estimate related to the litigation matters as the outcomes are not yet determinable. Management has been advised it is remote that there will be a significant effect on the consolidated financial statements. Accordingly, no provisions have been made in the consolidated financial statements for these matters.

From time to time, the Company is named as a party to claims or involved in proceedings, including legal, regulatory and tax related, in the ordinary course of its business. While the outcome of these matters may not be estimable at period end, the Company makes provisions, where possible, for the estimated outcome of such claims or proceedings. Should a loss result from the resolution of any claims or proceedings that

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 29. Contingencies (Continued)

differs from these estimates, the difference will be accounted for as a charge to net income (loss) in that period.

## 30. Changes in non-cash working capital

| | For the year ended December 31, 2017 | For the year ended December 31, 2016 |
|---|---|---|
| Decrease (increase) in trade and other receivables | $ 2,668 | $ (259) |
| Increase in inventories | (21,683) | — |
| Increase in prepaid expenses and deposits | (49,808) | — |
| Increase in other assets | (24) | — |
| Increase in accounts payable and accrued liabilities | 91 | 8,947 |
| Decrease in other liabilities[1] | (9,014) | — |
| **Changes in non-cash working capital** | **$ (77,770)** | **$ 8,688** |

(1) Includes settlement of contingent liability to Stellwagen Vendors on sale of two aircraft. See note 6 for further details.

## 31. Share-based payment arrangements

On July 1, 2017, the Company established a deferred share unit ("DSU") incentive plan. The DSU incentive plan provides that participants may elect annually to receive all or a portion of their annual compensation amounts that would otherwise be payable in cash in the form of DSUs. DSUs may be redeemed for cash, Class B Shares or a combination of cash and Class B Shares, at the election of the Company upon exercise of the award, in accordance with the terms of the plan. The plan is currently available to members of the Board of Directors. The maximum number of Acasta Class B shares reserved for the DSU incentive plan is 4,785,765.

| | Number of Deferred share units |
|---|---|
| Outstanding, December 31, 2016 | — |
| Granted | 52,304 |
| Forfeited | — |
| Redeemed | — |
| **Outstanding, December 31, 2017** | **52,304** |

The Company recognized $300 of share-based payment expense for the year ended December 31, 2017 for these DSU awards. DSUs vest immediately as they are awarded.

## 32. Financial risk management

The Company has exposure to the following risk arising from financial instruments:

- credit risk
- liquidity risk
- market risk (including foreign currency and interest rate risk)

## 32. Financial risk management (Continued)

### Risk management framework

The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board of directors has established a risk management strategy, which incorporates development and monitoring of the Company's risk management activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Company's approach to risk management is assessed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investments in loans receivable through the Embassy portfolio.

The carrying amount of financial assets represent the maximum credit risk exposure.

***Trade and other receivables***

The Company's exposure to credit risk is influenced mainly by the credit risk profile of each customer. However, management also considers indirect factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including customer, their geographic location, and industry. The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of three months for customers.

The Company establishes an allowance for credit loss that represents its estimate of incurred losses in respect to trade and other receivables. At December 31, 2017, the maximum exposure to credit risk for trade and other receivables is $33,083 related to the Consumer Products reporting segment and $3,756 related to the Aviation reporting segment. No amount has been recorded as impairment as incurred losses are not material.

***Loans receivable***

The Company is exposed to credit risk from aircraft loans. The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's aircraft financing is offered. The Company reviews external ratings, if they are available, financial statements, industry information, valuation of underlying collateral, and in some cases, bank references. Lending limits are established for each customer and reviewed quarterly. Any lending exceeding those limits require approval from key management. Loans receivable are secured by the fixed-wing aircraft being financed. Secured collateral is independently valued on a quarterly basis.

### 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

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise noted)

## 32. Financial risk management (Continued)

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.

Refer to note 2 for details of the Company's liquidity risks.

The Company aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 60 days. The Company also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

The following are the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting arrangements.

| | Contractual cash flows | | | | |
|---|---|---|---|---|---|
| **As at December 31, 2017** | **2018** | **2019 - 2020** | **2021 - 2023** | **2024+** | **Total** |
| **Non-derivative financial liabilities** | | | | | |
| Contingent consideration | $ — | $ 8,782 | $ — | $ — | $ 8,782 |
| Debt | 284,164 | 102,524 | 306,422 | 304,344 | 997,454 |
| Accounts payable and accrued liabilities | 37,107 | — | — | — | 37,107 |
| | **$ 321,271** | **$ 111,306** | **$ 306,422** | **$ 304,344** | **$ 1,043,343** |

| | Contractual cash flows | | | | |
|---|---|---|---|---|---|
| **As at December 31, 2016** | **2018** | **2019 - 2020** | **2021 - 2023** | **2024+** | **Total** |
| **Non-derivative financial liabilities** | | | | | |
| Contingent consideration | $ — | $ — | $ — | $ — | $ — |
| Debt | — | — | — | — | — |
| Accounts payable and accrued liabilities | 8,779 | — | — | — | 8,779 |
| | **$ 8,779** | **$ —** | **$ —** | **$ —** | **$ 8,779** |

### Market risk

Market risk is the risk that changes in market prices — such as foreign exchange rates, interest rates and equity prices — will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the returns.

The Company uses derivatives to manage market risks including foreign currency risk and fluctuation in market interest rates. Hedge accounting is applied in the Aviation segment which manages volatility in net income (loss).

### Currency risk

The Company is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currency of the Company. The functional currencies of the Company and its controlled entities are primarily Canadian dollar, and United States dollar. The currencies in which these transactions are primarily denominated are Canadian Dollar, U.S. dollar and the European euro (the "Euro").

**32. Financial risk management (Continued)**

*JemPak*

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

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

JemPak currently does not use any financial hedging strategies to manage currency risk.

A 5% change in the U.S. dollar versus Canadian dollar exchange rate has a considerable impact on JemPak's operating results. A 5% change in this exchange rate impacts revenue and net income by approximately $3,937 and $1,033, respectively. The effect of foreign exchange rate movements on JemPak's operating performance is determined by using actual U.S. dollar denominated revenue, cost of revenue, and selling, general and administrative expense for the year ended December 31, 2017.

*Apollo*

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

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

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

A 5% change in the U.S. dollar versus Canadian dollar exchange rate has a considerable impact on Apollo's operating results. A 5% change in this exchange rate impacts revenue and net income by approximately $8,245 and $4,242, respectively. The effect of foreign exchange rate movements on Apollo's operating performance is determined by using actual U.S. dollar denominated revenue, cost of revenue, and selling, general and administrative expense for the year ended December 31, 2017.

*Stellwagen*

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

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

## 32. Financial risk management (Continued)

A 5% change in the Euro versus U.S. dollar exchange rate has a considerable impact on Stellwagen's operating results. A 5% change in this exchange rate impacts revenue and net income by approximately nil and $852, respectively. The effect of foreign exchange rate movements on Stellwagen's operating performance is determined by using estimated Euro denominated selling, general and administrative expense for the year ended December 31, 2017. Euro denominated costs relate to operations in Ireland, specifically, salaries, benefits, office, professional and administrative costs.

### Interest rate risk

The Company is exposed to interest rate risk from fluctuations in market interest rates on its variable rate debt. The Company manages interest rate risk by monitoring the respective mix of fixed and variable rate debt. The Company uses interest rate swaps to hedge the variability in cash flows on aircraft loans. See note 16.

The Company estimates that a 50 basis point increase (decrease) in short term rates, with all other variables held constant, would result in an annual increase (decrease) of $759 to interest expense and other financing charges.

## 33. Subsequent events

On February 6, 2018, a subsidiary of Stellwagen was advanced U.S. $3 million by Almada Inc., a company controlled by significant shareholders of Acasta. Proceeds from the note were to be used for meeting working capital requirements. The note bears interest at 2% per annum, and is due on demand. In accordance with the promissory note, Acasta paid a structuring fee of U.S. $250 to Almada Inc.

On January 31, 2018, the Company entered into a non-binding term sheet (the "Term Sheet") with Martello Finance Company Limited ("Martello") with respect to the sale of Stellwagen (the "Transaction"). The Company concurrently entered into an amending agreement (the "Amending Agreement") with the Company's senior lenders under its Aviation Facility (see note 16) on January 31, 2018, and entered a "Second Extension Agreement" with the same lenders on March 7, 2018.

The Term Sheet provided that the Company would sell Stellwagen to an affiliate of Martello, the previous owner of Stellwagen, in exchange for the cancellation of 26 million Class B Shares of Acasta beneficially owned by Martello and others, representing approximately 27% of the issued and outstanding Class B Shares, and the payment to the Company of U.S. $35 million. The Company would retain its investment in the Stelloan PPNs of U.S. $51 million, and would oversee the sale of the PPNs to one or more third parties in 2018.

On February 1, 2018, the Company repaid approximately U.S. $5 million of the Aviation Facility in compliance with the Term Sheet. The Term Sheet also called for an additional U.S. $25 million (the "Principal Repayment") to be repaid. Subsequent to December 31, 2017, U.S. $9.6 million of Aviation Facility debt held by WFI Inc., a lending party related to Acasta, was subordinated relative to the other Aviation Facility lenders (see note 25 for further detail).

On March 19, 2018, the Ontario Securities Commission ("OSC") granted Acasta exemptive relief from the issuer bid requirements under NI 62-104 and MI 61-101. Under the exemptive relief order, Acasta agreed that it would not close the Transaction until at least seven calendar days from the granting of the relief, being March 26, 2018. On March 31, 2018, Acasta announced that the Superior Court of Justice (Ontario) approved the arrangement which will reduce the stated capital of the Company's Class B Shares under the terms of the Transaction.

**33. Subsequent events (Continued)**

The Transaction closed on March 27, 2018, and resulted in the cancellation of 26 million Class B Shares and payment of U.S. $35 million to the Company. Cash was used to pay interest on the Aviation Facility, pay certain fees in connection with the Transaction, and to reduce the principal outstanding on the Aviation Facility. Concurrent with the closing of the Transaction, the Stellwagen Earn-out was terminated.

The sale of Stellwagen had a material impact on the consolidated financial statements of the Company. Assets and liabilities attributable to the Aviation reportable segment (see note 27 for further detail) were derecognized as of March 27, 2018 as part of the sale, with the exception of the Company's investment in the Stelloan Fund PPNs which were retained in the Transaction.

On March 19, 2018, the Company announced the termination of lock-up restrictions on the Class B shares held by the Apollo Vendors and the JemPak Vendors. On close of the Transaction, the lock-up restrictions on Class B Shares held by the Stellwagen Vendors and ECN Vendors were terminated.

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