ATS Automation Tooling Systems Inc.

Management's Discussion and Analysis

For the Quarter Ended July 1, 2018

TSX: ATA

Management's Discussion and Analysis
For the Quarter Ended July 1, 2018

This Management's Discussion and Analysis ("MD&A") for the three months ended July 1, 2018 (first quarter of fiscal 2019) is as of August 14, 2018 and provides information on the operating activities, performance and financial position of ATS Automation Tooling Systems Inc. ("ATS" or the "Company") and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the first quarter of fiscal 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. The Company assumes that the reader of this MD&A has access to, and has read, the audited consolidated financial statements prepared in accordance with IFRS and the MD&A of the Company for the year ended March 31, 2018 (fiscal 2018), and, accordingly, the purpose of this document is to provide a fiscal 2019 first quarter update to the information contained in the fiscal 2018 MD&A. Additional information is contained in the Company's filings with Canadian securities regulators, including its Annual Information Form, found on SEDAR at www.sedar.com and on the Company's website at www.atsautomation.com.

Notice to reader: Non-IFRS measures and additional IFRS measures
Throughout this document, management uses certain non-IFRS measures to evaluate the performance of the Company. The terms "operating margin", "EBITDA", "EBITDA margin", "adjusted net income", "adjusted earnings from operations", "adjusted basic earnings per share", "non-cash working capital", "Order Bookings" and "Order Backlog" do not have any standardized meaning prescribed within IFRS and therefore may not be comparable to similar measures presented by other companies. Such measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. In addition, management uses "earnings from operations", which is an additional IFRS measure, to evaluate the performance of the Company. Earnings from operations is presented on the Company's consolidated statements of income as net income excluding income tax expense and net finance costs. Operating margin is an expression of the Company's earnings from operations as a percentage of revenues. EBITDA is defined as earnings from operations excluding depreciation and amortization (which includes amortization of intangible assets). EBITDA margin is an expression of the Company's EBITDA as a percentage of revenues. Adjusted earnings from operations is defined as earnings from operations before items excluded from management's internal analysis of operating results, such as amortization expense of acquisition-related intangible assets, acquisition-related transaction and integration costs, restructuring charges, and certain other adjustments which would be non-recurring in nature ("adjustment items"). Adjusted basic earnings per share is defined as adjusted net income on a basic per share basis, where adjusted net income is defined as adjusted earnings from operations less net finance costs and income tax expense, plus tax effects of adjustment items. Non-cash working capital is defined as the sum of accounts receivable, contract assets, inventories, deposits, prepaids and other assets, less accounts payable, accrued liabilities, provisions and contract liabilities. Order Bookings represent new orders for the supply of automation systems, services and products that management believes are firm. Order Backlog is the estimated unearned portion of revenues on customer contracts that are in process and have not been completed at the specified date.

Earnings from operations and EBITDA are used by the Company to evaluate the performance of its operations. Management believes that earnings from operations is an important indicator in measuring the performance of the Company's operations on a pre-tax basis and without consideration as to how the Company finances its operations. Management believes that EBITDA is an important indicator of the Company's ability to generate operating cash flows to fund continued investment in its operations. Management believes that adjusted earnings from operations and adjusted basic earnings per share (including adjusted net income) are important measures to increase comparability of performance between periods. The adjustment items used by management to arrive at these metrics are not considered to be indicative of the business' ongoing operating performance. Management uses the measure "non-cash working capital as a percentage of revenues" to evaluate the Company's management of its investment in non-cash working capital. Management calculates non-cash working capital as a percentage of revenues using period-end non-cash working capital divided by trailing two fiscal quarter revenues annualized. Order Bookings provide an indication of the Company's ability to secure new orders for work during a specified period, while Order Backlog provides a measure of the value of Order Bookings that have not been completed at a specified point in time. Both Order Bookings and Order Backlog are indicators of future revenues that the Company expects to generate based on contracts that management believes to be firm. Management believes that ATS shareholders and potential investors in ATS use these additional IFRS measures and non-IFRS financial measures in making investment decisions and measuring operational results.

A reconciliation of (i) earnings from operations and EBITDA to net income, and (ii) adjusted earnings from operations to earnings from operations, adjusted net income to net income and adjusted basic earnings per share to basic earnings per share, in each case for the three-month periods ended July 1, 2018 and July 2, 2017 is contained in this MD&A (see “Reconciliation of non-IFRS measures to IFRS measures”). A reconciliation of Order Bookings and Order Backlog to total Company revenues for the three-month periods ending July 1, 2018 and July 2, 2017 is also contained in this MD&A (see “Order Backlog continuity”).

COMPANY PROFILE

ATS is an industry-leading automation solutions provider to many of the world's most successful companies. ATS uses its extensive knowledge base and global capabilities in custom automation, repeat automation, automation products and value-added services, including pre-automation and after-sales services, to address the sophisticated manufacturing automation systems and service needs of multinational customers in markets such as life sciences, chemicals, consumer products, electronics, food, beverage, transportation, energy, and oil and gas. Founded in 1978, ATS employs approximately 3,800 people at 20 manufacturing facilities and over 50 offices in North America, Europe, Southeast Asia and China.

STRATEGY

Framework

To drive the creation of long-term sustainable shareholder value, the Company has developed a framework for a three-part value creation strategy: Build, Grow and Expand.

Build: To build on the Company’s foundation and drive performance improvements, management is focused on strategic initiatives including the advancement of the ATS Business Model (“ABM”), the implementation and measurement of value drivers and key performance indicators, a revised strategic planning process, succession planning and talent management, advancing employee engagement, and driving autonomy and accountability into its businesses.

Grow: To drive growth, management is focused on growing organically through the development and implementation of growth tools under the ABM, providing innovation and value to the Company’s customers and markets, and growing the Company’s recurring revenue model.

Expand: To expand the Company’s reach, management is focused on the development of new markets and business platforms, expansion of its service offerings, investing in innovation and product development, and making strategic and disciplined acquisitions that strengthen ATS’ business.

ATS Business Model

The ABM is a business management system that the Company has developed with the goal of enabling the Company to pursue its strategies, outpace its chosen markets, and drive year-over-year continuous improvement. Introduced in fiscal 2018, the ABM is bringing focus to:

- **People:** developing, engaging and empowering ATS’ people to build the best team;
- **Process:** alignment of ATS people to implement and continuously improve robust and disciplined business processes throughout the organization; and
- **Performance:** consistently measuring performance in order to yield world-class performance for our customers and shareholders.

The ABM is ATS’ playbook, serving as the framework utilized by the Company to achieve its business goals and objectives through disciplined, continuous improvement. The initial roll-out of the ABM included Company-wide training and deployment of tools to standardize problem solving, establishing focused key performance metrics and implementing continuous improvement processes. As the initial tools are implemented, management will deploy additional tools as part of the ongoing advancement of the ABM. Focus areas include:

- **Strengthening the core:** adopting a customer first mindset; implementing a robust performance management system; adhering to eight value drivers; managing using Key Performance Indicators; and leveraging daily management to measure at the point of impact;
- **Delivering growth:** alignment with customer success; focusing on organizational talent development, constantly confirming that progress is being made toward stated goals; and developing annual operating and capital deployment plans for each ATS division;
- **Pursuing excellence:** deploying specific goals that segment strategies into relevant focus areas; and improving continuously using Kaizen events, problem solving and other continuous improvement initiatives, which increase performance annually; and
- **Pioneering innovation:** driving market technology leadership; creating innovative platforms and analytics that benefit customers by reducing complexity, shortening development cycles and improving production efficiencies; and expanding the reach and scope of ATS' capabilities for competitive advantage.

OVERVIEW – OPERATING RESULTS

Consolidated Revenues

(In millions of dollars)

Revenues by market	**Three Months Ended July 1, 2018**	Three Months Ended July 2, 2017
Consumer products & electronics	**$ 66.3**	$ 36.7
Energy	**36.9**	21.7
Life sciences	**124.5**	119.1
Transportation	**72.3**	86.5
Total revenues	**$ 300.0**	$ 264.0

Fiscal 2019 first quarter revenues were 14% higher than in the corresponding period a year ago. Higher revenues primarily reflected higher Order Backlog entering the first quarter of fiscal 2019 compared to a year ago, and higher Order Bookings in the first quarter. Increased revenues from construction contracts more than offset lower services revenues.

By market, fiscal 2019 first quarter revenues from the consumer products & electronics, and the life sciences markets increased 81%, and 5%, respectively, due to higher Order Backlog entering the first quarter of fiscal 2019. Revenues in the energy market increased 70%, primarily due to the timing of Order Bookings. Transportation revenues decreased 16% compared to a year ago, primarily due to the timing of program execution compared to the previous year.

Consolidated Operating Results

(In millions of dollars)

	Three Months Ended July 1, 2018	Three Months Ended July 2, 2017
Earnings from operations	**$ 27.0**	$ 21.3
Amortization of acquisition-related intangible assets	**5.6**	5.0
Adjusted earnings from operations[1]	**$ 32.6**	$ 26.3

[1] See "Notice to reader: Non-IFRS measures and additional IFRS measures."

	Three Months Ended July 1, 2018	Three Months Ended July 2, 2017
Earnings from operations	**$ 27.0**	$ 21.3
Depreciation and amortization	**9.8**	8.9
EBITDA[2]	**$ 36.8**	$ 30.2

[2] See "Notice to reader: Non-IFRS measures and additional IFRS measures."

Fiscal 2019 first quarter earnings from operations were $27.0 million (9% operating margin) compared to $21.3 million (8% operating margin) in the first quarter of fiscal 2018. First quarter fiscal 2019 earnings from operations included $5.6 million related to amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. Included in first quarter fiscal 2018 earnings from operations was $5.0 million related to amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. Excluding these items, first quarter fiscal 2019 adjusted earnings from operations were $32.6 million (11% margin), compared to adjusted earnings from operations of $26.3 million (10% margin) a year ago. Higher adjusted earnings from operations primarily reflected higher revenues and improved gross margin compared to a year ago, partially offset by higher selling, general and administrative expenses in the first quarter of fiscal 2019.

Depreciation and amortization expense was $9.8 million in the first quarter of fiscal 2019, compared to $8.9 million a year ago. The increase primarily reflected higher depreciation expenses for internal development projects and amortization expenses of acquisition-related intangible assets.

EBITDA was $36.8 million (12% EBITDA margin) in the first quarter of fiscal 2019 compared to $30.2 million (11% EBITDA margin) in the first quarter of fiscal 2018. Higher revenues and improved gross margin in the first quarter of fiscal 2019 were partially offset by higher selling, general and administrative expenses compared to a year ago.

Order Bookings

First quarter fiscal 2019 Order Bookings were $358 million, a 35% increase from the first quarter of fiscal 2018 as a result of growth in all customer markets. By customer market, higher Order Bookings in Energy primarily related to new programs in the nuclear market. Order Bookings in transportation are being driven by the electrification of vehicles (EV). Increased Order Bookings in life sciences are primarily related to medical device programs. Increased Order Bookings in consumer products and electronics are primarily related to warehousing automation.

Order Backlog Continuity

(In millions of dollars)

	Three Months Ended July 1, 2018	Three Months Ended July 2, 2017
Opening Order Backlog	**$ 746**	$ 681
Revenues	**(300)**	(264)
Order Bookings	**358**	266
Order Backlog adjustments[1]	**(15)**	-
Total	**$ 789**	$ 683

[1] Order Backlog adjustments include foreign exchange adjustments and cancellations.

Order Backlog by Market

(In millions of dollars)

As at	**July 1, 2018**	July 2, 2017
Consumer products & electronics	**$ 93**	$ 55
Energy	**122**	107
Life sciences	**389**	353
Transportation	**185**	168
Total	**$ 789**	$ 683

At July 1, 2018, Order Backlog was a record $789 million, 16% higher than at July 2, 2017. Higher Order Backlog was driven primarily by increased Order Bookings in all markets.

Outlook

The Company's Order Bookings are generally variable and sensitive to changes in the major economies the Company serves including the U.S., Canada, Europe and Asia. The global economic environment has shown recent signs of improvement; however, geopolitical risks remain. Recently, the U.S. government rescinded on its exclusion of Canada (and other jurisdictions including the European Union) from steel and aluminium tariffs. As a countermeasure, the Canadian government imposed tariffs on certain imports from the U.S. effective July 1, 2018. Management believes that these tariffs may impact pricing of certain components purchased by ATS as these tariffs work through the supply chain. However, management does not expect these tariffs to have a material impact on the Company's business, due to the Company's ability to use its global footprint to obtain alternative sources of supply. Ongoing trade agreement negotiations between various jurisdictions in which the Company does business may impact its future sales and operations. Currently, management has seen no indication of a material change in customer demand or production plans. Management will continue to monitor these developments and assess their impact, and identify mitigation opportunities.

Funnel activity (which includes customer requests for proposal and ATS identified customer opportunities) in life sciences remains strong and opportunities in the electrification of vehicles have strengthened funnel activity in the transportation market. Funnel activity in energy is fluid, and this market provides select opportunities for ATS. Funnel activity in the consumer products & electronics market has improved; however, it remains low relative to other customer markets. Overall, the Company's funnel remains significant; however, conversion of opportunities into Order Bookings is variable as customers are cautious in their approach to capital investment.

The Company's sales organization continues to work to engage customers on enterprise-type solutions, which it expects will provide ATS with more strategic relationships, increased predictability, better program control and less sensitivity to macroeconomic forces. This approach to market and the timing of customer decisions on larger opportunities is expected to cause variability in Order Bookings from quarter to quarter and lengthen the performance period and revenue recognition for certain customer programs. The Company's efforts to expand its after-sales service offering is expected to provide some balance to the capital expenditure cycle of its customers; however, this may not offset capital spending volatility. The Company expects its Order Backlog of $789 million at the end of the first quarter of fiscal 2019 to partially mitigate the impact of volatile Order Bookings on revenues in the short term. In the second quarter of fiscal 2019, management expects Order Backlog conversion to be in the higher end of the 35% to 40% range. This expected conversion rate is based on current programs in Order Backlog and management's estimate of revenues from new Order Bookings in the quarter.

The Company is deploying the ABM across its divisions globally. In fiscal 2018, the initial roll-out of the ABM was completed, which included Company-wide training and deployment of tools to standardize problem solving and continuous improvement processes. As the initial ABM tools are implemented, management will deploy additional tools as part of the ongoing advancement of the ABM, with the goal of driving growth and continuous, sustained performance improvements across the Company. Management expects that the ABM will provide the Company with a long-term competitive advantage in delivering value to its customers and shareholders.

The Company is pursuing several initiatives with the goal of expanding its adjusted earnings from operations margin over the long-term including: growing the Company's higher margin after-sales service business; improving global supply chain management; increasing the use of standardized platforms and technologies; growing revenues while leveraging the Company's current cost structure; and the on-going development and adoption of the ABM.

The Company seeks to expand its position in the global automation market organically and through acquisition. The Company's solid foundation and strong cash flow generation capability provide the flexibility to pursue its growth strategy.

CONSOLIDATED RESULTS

(In millions of dollars, except per share data)

	Three Months Ended July 1, 2018	Three Months Ended July 2, 2017
Revenues	**$ 300.0**	$ 264.0
Cost of revenues	**222.1**	197.2
Selling, general and administrative	**47.5**	44.3
Stock-based compensation	**3.4**	1.2
Earnings from operations	**$ 27.0**	$ 21.3
Net finance costs	**$ 5.2**	$ 6.2
Provision for income taxes	**5.1**	3.6
Net income	**$ 16.7**	$ 11.5
Basic and diluted earnings per share	**$ 0.18**	$ 0.12

Revenues. At $300.0 million, consolidated revenues for the first quarter of fiscal 2019 were $36.0 million, or 14%, higher than in the corresponding period a year ago (see "Overview – operating results").

Cost of revenues. At $222.1 million, first quarter fiscal 2019 cost of revenues increased compared to the corresponding period a year ago by $24.9 million, or 13% primarily due to higher revenues. At 26%, gross margin increased by 1% from first quarter of fiscal 2018, primarily due to improved program execution and operational utilization.

Selling, general and administrative ("SG&A") expenses. SG&A expenses for the first quarter of fiscal 2019 were $47.5 million, which included $5.6 million of amortization costs related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. Excluding these costs, SG&A expenses were $41.9 million in the first quarter of fiscal 2019. Comparably, SG&A expenses for the first quarter of fiscal 2018 were $39.3 million, which excluded $5.0 million of amortization costs related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. Higher SG&A expenses in the first quarter of fiscal 2019 primarily reflected increased employee costs and sales-related expenses.

Stock-based compensation. Stock-based compensation expense amounted to $3.4 million in the first quarter of fiscal 2019 compared to $1.2 million in the corresponding period a year ago. The increase in stock-based compensation costs was due to higher expenses from the revaluation of deferred stock units and restricted share units.

Earnings from operations. For the first quarter ended July 1, 2018, earnings from operations were $27.0 million (9% operating margin), compared to earnings from operations of $21.3 million (8% operating margin) in the corresponding periods a year ago (see "Overview – operating results").

Net finance costs. Net finance costs were $5.2 million in the first quarter of fiscal 2019, $1.0 million lower than in the corresponding period a year ago. The decrease was primarily due to higher interest income earned in the first quarter of fiscal 2019 compared to the corresponding period a year ago.

Income tax provision. For the three months ended July 1, 2018, the Company's effective income tax rate of 23% differed from the combined Canadian basic federal and provincial income tax rate of 27% primarily due to income earned in certain jurisdictions with different statutory tax rates. The Company expects its effective tax rate to remain in the range of 25%.

Net income. Fiscal 2019 first quarter net income was $16.7 million (18 cents per share basic and diluted) compared to $11.5 million (12 cents per share basic and diluted) for the first quarter of fiscal 2018. Adjusted basic earnings per share were 22 cents in the first quarter of fiscal 2019 compared to 16 cents in the first quarter of fiscal 2018 (see "Reconciliation of non-IFRS measures to IFRS measures").

Reconciliation of Non-IFRS Measures to IFRS Measures
(In millions of dollars, except per share data)

The following table reconciles EBITDA to the most directly comparable IFRS measure (net income):

	Three Months Ended July 1, 2018	Three Months Ended July 2, 2017
EBITDA	**$ 36.8**	$ 30.2
Less: depreciation and amortization expense	**9.8**	8.9
Earnings from operations	**$ 27.0**	$ 21.3
Less: net finance costs	**5.2**	6.2
Provision for income taxes	**5.1**	3.6
Net income	**$ 16.7**	$ 11.5

The following table reconciles adjusted earnings from operations and adjusted basic earnings per share to the most directly comparable IFRS measure (net income and basic earnings per share, respectively):

	Three Months Ended July 1, 2018			Three Months Ended July 2, 2017		
	IFRS	**Adjustments**	**Adjusted (non-IFRS)**	IFRS	Adjustments	Adjusted (non-IFRS)
Earnings from operations	**$ 27.0**	**$ —**	**$ 27.0**	$ 21.3	$ —	$ 21.3
Amortization of acquisition-related intangible assets	**—**	**5.6**	**5.6**	—	5.0	5.0
	$ 27.0	**$ 5.6**	**$ 32.6**	$ 21.3	$ 5.0	$ 26.3
Less: net finance costs	**$ 5.2**	**$ —**	**$ 5.2**	$ 6.2	$ —	$ 6.2
Income before income taxes	**$ 21.8**	**$ 5.6**	**$ 27.4**	$ 15.1	$ 5.0	$ 20.1
Provision for income taxes	**$ 5.1**	**$ —**	**$ 5.1**	$ 3.6	$ —	$ 3.6
Adjustment to provision for income taxes[1]	**—**	**1.6**	**1.6**	—	1.6	1.6
	$ 5.1	**$ 1.6**	**$ 6.7**	$ 3.6	$ 1.6	$ 5.2
Net income	**$ 16.7**	**$ 4.0**	**$ 20.7**	$ 11.5	$ 3.4	$ 14.9
Basic earnings per share	**$ 0.18**	**$ 0.04**	**$ 0.22**	$ 0.12	$ 0.04	$ 0.16

[1] Adjustments to provision for income taxes relate to the income tax effects of adjustment items that are excluded for the purposes of calculating non-IFRS based adjusted net income.

LIQUIDITY, CASH FLOW AND FINANCIAL RESOURCES
(In millions of dollars, except ratios)

As at	**July 1, 2018**	March 31, 2018
Cash and cash equivalents	**$ 324.6**	$ 330.1
Debt-to-equity ratio	**0.46:1**	0.47:1

For the three months ended	**July 1, 2018**	July 2, 2017
Cash flows used in operating activities	**$ (0.4)**	$ (3.4)

At July 1, 2018, the Company had cash and cash equivalents of $324.6 million compared to $330.1 million at March 31, 2018. At July 1, 2018, the Company's debt-to-total equity ratio was 0.46:1.

In the three months ended July 1, 2018, cash flows used in operating activities were $0.4 million ($3.4 million used in operating activities in the corresponding period a year ago). The improvement in operating cash flows related primarily to the timing of investments in non-cash working capital in certain customer programs.

In the first quarter of fiscal 2019, the Company's investment in non-cash working capital increased by $29.9 million from March 31, 2018. At July 1, 2018, accounts receivable increased by 7%, or $16.0 million, driven by the timing of billings in certain customer contracts. Net contracts in progress decreased 30%, or $20.5 million, compared to March 31, 2018. The Company actively manages its accounts receivable and net contract in progress balances through billing terms on long-term contracts, collection efforts and supplier payment terms. Inventories decreased 4%, or $2.5 million, primarily due to the timing of inventory purchases. Deposits and prepaid assets decreased 12%, or $2.7 million, compared to March 31, 2018 due to the timing of program execution. Accounts payable and accrued liabilities decreased 15%, or $36.7

million, compared to March 31, 2018, primarily due to interest payments made on the Company's senior notes and employee incentive payments made in the first quarter of fiscal 2019. Provisions decreased 21%, or $4.4 million, compared to March 31, 2018.

Capital expenditures totalled $4.6 million in the first quarter of fiscal 2019, primarily related to the expansion and upgrade of certain manufacturing facilities and computer hardware.

Intangible assets totalled $1.6 million for the first three months of fiscal 2019, primarily related to computer software and various internal development projects.

In the first quarter of fiscal 2019, the Company had $629.5 million of unutilized multipurpose credit, including letters of credit, available under existing credit facilities and an additional $1.8 million available under letter of credit facilities.

On July 28, 2017, the Company amended its senior secured credit facility to extend the agreement by three years to mature on August 29, 2021 (the "Credit Facility"). The Credit Facility provides a committed revolving credit facility of $750.0 million. The Credit Facility is secured by (i) the Company's assets, including real estate; (ii) assets, including certain real estate, of certain of the Company's North American subsidiaries; and (iii) a pledge of shares of certain of the Company's non-North American subsidiaries. Certain of the Company's subsidiaries also provide guarantees under the Credit Facility. At July 1, 2018, the Company had utilized $135.7 million under the Credit Facility, by way of letters of credit (March 31, 2018 - $108.5 million).

The Credit Facility is available in Canadian dollars by way of prime rate advances and/or bankers' acceptances, in U.S. dollars by way of base rate advances and/or LIBOR advances, in Swiss francs, Euros and British pounds sterling by way of LIBOR advances and by way of letters of credit for certain purposes in Canadian dollars, U.S. dollars and Euros. The interest rates applicable to the Credit Facility are determined based on a net debt-to-EBITDA ratio as defined in the Credit Facility. For prime rate advances and base rate advances, the interest rate is equal to the bank's prime rate or the bank's U.S. dollar base rate in Canada, respectively, plus a margin ranging from 0.45% to 2.00%. For bankers' acceptances and LIBOR advances, the interest rate is equal to the bankers' acceptance fee or LIBOR, respectively, plus a margin that varies from 1.45% to 3.00%. The Company pays a fee for usage of financial letters of credit that ranges from 1.45% to 3.00%, and a fee for usage of non-financial letters of credit that ranges from 0.97% to 2.00%. The Company pays a standby fee on the unadvanced portions of the amounts available for advance or draw-down under the Credit Facility at rates ranging from 0.29% to 0.68%.

The Credit Facility is subject to financial covenants including a net debt-to-EBITDA test and an interest coverage test. Under the terms of the Credit Facility, the Company is restricted from encumbering any assets with certain permitted exceptions. The Credit Facility also limits advances to subsidiaries and partially restricts the Company from repurchasing its common shares and paying dividends. At July 1, 2018, all of the covenants were met.

The Company has additional credit facilities available of $18.8 million (2.3 million Euros, $10.0 million U.S., 50.0 million Thai Baht and 1.3 million Czech Koruna). The total amount outstanding on these facilities at July 1, 2018 was $3.2 million, of which $2.6 million was classified as bank indebtedness (March 31, 2018 - $2.7 million) and $0.6 million was classified as long-term debt (March 31, 2018 - $0.7 million). The interest rates applicable to the credit facilities range from 1.66% to 8.25% per annum. A portion of the long-term debt is secured by certain assets of the Company.

The Company's U.S. $250.0 million aggregate principal amount of senior notes (the "Senior Notes") are unsecured, were issued at par, bear interest at a rate of 6.50% per annum and mature on June 15, 2023. The Company may redeem the Senior Notes, in whole, at any time or in part, from time to time, at specified redemption prices and subject to certain conditions required by the Senior Notes. If the Company experiences a change of control, the Company may be required to repurchase the Senior Notes, in whole or in part, at a purchase price equal to 101% of the aggregate principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to, but not including, the redemption date. The Senior Notes contain customary covenants that restrict, subject to certain exceptions and thresholds, some of the activities of the Company and its subsidiaries, including the Company's ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments and engage in specified transactions with affiliates. At July

1, 2018, all of the covenants were met. Subject to certain exceptions, the Senior Notes are guaranteed by each of the subsidiaries of the Company that is a borrower or has guaranteed obligations under the Credit Facility. Transaction fees of $7.2 million were deferred and are being amortized over the seven-year term of the Senior Notes.

Over the long term, the Company generally expects to continue increasing its overall investment in non-cash working capital to support the growth of its business, with fluctuations on a quarter-over-quarter basis. The Company's goal is to maintain its investment in non-cash working capital as a percentage of annualized revenues at a level below 15%. The Company expects that continued cash flows from operations, together with cash and cash equivalents on hand and credit available under operating and long-term credit facilities, will be sufficient to fund its requirements for investments in non-cash working capital and capital assets and to fund strategic investment plans including some potential acquisitions. Significant acquisitions could result in additional debt or equity financing requirements.

Contractual Obligations
(In millions of dollars)

The Company's minimum operating lease payments (related primarily to facilities and equipment) and purchase obligations are as follows:

	Operating leases	Purchase obligations
Less than one year	$ 9.3	$ 121.3
One – two years	9.3	0.6
Two – three years	7.3	0.5
Three – four years	4.1	—
Four – five years	1.7	—
Due in over five years	0.8	—
	$ 32.5	$ 122.4

The Company's off-balance sheet arrangements consist of purchase obligations and various operating lease financing arrangements related primarily to facilities and equipment that were entered into in the normal course of business. The Company's purchase obligations consist primarily of commitments for material purchases.

In accordance with industry practice, the Company is liable to customers for obligations relating to contract completion and timely delivery. In the normal conduct of its operations, the Company may provide letters of credit as security for advances received from customers pending delivery and contract performance. In addition, the Company provides letters of credit for post-retirement obligations and may provide letters of credit as security on equipment under lease and on order. At July 1, 2018, the total value of outstanding letters of credit was approximately $166.6 million (March 31, 2018 - $137.1 million).

In the normal course of operations, the Company is party to a number of lawsuits, claims and contingencies. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company does not believe that the ultimate outcome of these matters will have a material impact on its consolidated financial position.

The Company is exposed to credit risk on derivative financial instruments arising from the potential for counterparties to default on their contractual obligations to the Company. The Company minimizes this risk by limiting counterparties to major financial institutions and monitoring their creditworthiness. The Company's credit exposure to forward foreign exchange contracts is the current replacement value of contracts that are in a gain position. The Company is also exposed to credit risk from its customers. Substantially all of the Company's trade accounts receivable are due from customers in a variety of industries and, as such, are subject to normal credit risks from their respective industries. The Company regularly monitors customers for changes in credit risk. The Company does not believe that any single market or geographic region represents significant credit risk. Credit risk concentration, with respect to trade receivables, is mitigated as the Company primarily serves large, multinational customers and obtains receivables insurance in certain instances.

During the three months of fiscal 2019, 80,812 stock options were exercised. At August 15, 2018, the total number of shares outstanding was 94,082,504, and there were 1,937,334 stock options outstanding to acquire common shares of the Company.

RELATED PARTY TRANSACTIONS

The Company has an agreement with a shareholder, Mason Capital Management, LLC ("Mason Capital"), pursuant to which Mason Capital has agreed to provide ATS with ongoing strategic and capital markets advisory services for an annual fee of U.S. $0.5 million. As part of the agreement, a member of the Company's Board of Directors who is associated with Mason Capital has waived any fees to which he may have otherwise been entitled for serving as a member of the Board of Directors or as a member of any committee of the Board of Directors.

There were no other significant related party transactions during the first three months of fiscal 2019.

FOREIGN EXCHANGE

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency of the Canadian dollar, through borrowings made by the Company in currencies other than its functional currency and through its investments in its foreign-based subsidiaries.

The Company's Canadian operations generate significant revenues in major foreign currencies, primarily U.S. dollars, which exceed the natural hedge provided by purchases of goods and services in those currencies. To manage a portion of this foreign currency exposure, the Company has entered into forward foreign exchange contracts. The timing and amount of these forward foreign exchange contract requirements are estimated based on existing customer contracts on hand or anticipated, current conditions in the Company's markets and the Company's past experience. Certain of the Company's foreign subsidiaries will also enter into forward foreign exchange contracts to hedge identified balance sheet, revenue and purchase exposures. The Company's forward foreign exchange contract hedging program is intended to mitigate movements in currency rates primarily over a four- to six-month period.

The Company uses cross-currency swaps as derivative financial instruments to hedge a portion of its foreign exchange risk related to its U.S.-dollar-denominated Senior Notes. On March 29, 2016, the Company entered into a cross-currency interest rate swap instrument to swap U.S. $150.0 million into Canadian dollars. The Company will receive interest of 6.50% U.S. per annum and pay interest of 6.501% Canadian. The terms of the hedging relationship will end on June 15, 2023.

The Company manages foreign exchange risk on its Euro-denominated net investments. The Company uses cross-currency swaps as derivative financial instruments to hedge a portion of the foreign exchange risk related to its Euro-denominated net investment. On March 29, 2016, the Company entered into a cross-currency interest rate swap instrument to swap 134.1 million Euros into Canadian dollars. The Company will receive interest of 6.501% Canadian per annum and pay interest of 5.094% Euros. The terms of the hedging relationship will end on June 15, 2023.

In addition, from time to time, the Company may hedge the foreign exchange risk arising from foreign currency debt, intercompany loans, net investments in foreign-based subsidiaries and committed acquisitions through the use of forward foreign exchange contracts or other non-derivative financial instruments. The Company uses hedging as a risk management tool, not to speculate.

Period Average Exchange Rates in CDN$

	Three Months Ended		
	July 1, 2018	July 2, 2017	% change
U.S. Dollar	**1.292**	1.346	-4.0%
Euro	**1.536**	1.480	3.8%

CONSOLIDATED QUARTERLY RESULTS

(In millions of dollars, except per share amounts)

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Revenues	**$ 300.0**	$ 298.4	$ 277.6	$ 274.9	$ 264.0	$ 265.7	$ 237.4	$ 242.5
Earnings from operations	**$ 27.0**	$ 25.5	$ 14.8	$ 23.9	$ 21.3	$ 16.8	$ 15.3	$ 17.3
Adjusted earnings from operations	**$ 32.6**	$ 32.8	$ 29.3	$ 28.8	$ 26.3	$ 24.5	$ 22.5	$ 22.3
Net income	**$ 16.7**	$ 15.0	$ 6.9	$ 13.8	$ 11.5	$ 7.8	$ 6.6	$ 8.5
Basic and diluted earnings per share	**$ 0.18**	$ 0.16	$ 0.07	$ 0.15	$ 0.12	$ 0.08	$ 0.07	$ 0.09
Adjusted basic earnings per share	**$ 0.22**	$ 0.22	$ 0.18	$ 0.18	$ 0.16	$ 0.15	$ 0.12	$ 0.13
Order Bookings	**$ 358.0**	$ 348.0	$ 311.0	$ 257.0	$ 266.0	$ 322.0	$ 284.0	$ 289.0
Order Backlog	**$ 789.0**	$ 746.0	$ 689.0	$ 648.0	$ 683.0	$ 681.0	$ 632.0	$ 654.0

Interim financial results are not necessarily indicative of annual or longer-term results because many of the individual markets served by the Company tend to be cyclical in nature. Operating performance quarter to quarter may also be affected by the timing of revenue recognition on large programs in Order Backlog, which is impacted by such factors as customer delivery schedules and the timing of third-party content. General economic trends, product life cycles and product changes may impact revenues and operating performance. ATS typically experiences some seasonality with its Order Bookings, revenues and earnings from operations due to summer plant shutdowns by its customers.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the end of the reporting period. Uncertainty about these estimates, judgments and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The Company based its assumptions on information available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the estimates as they occur. There have been no material changes to the critical accounting estimates described in the Company's fiscal 2018 MD&A.

ACCOUNTING STANDARD ADOPTED IN THE FIRST QUARTER OF FISCAL 2019

IFRS 15 – Revenue from Contracts with Customers

Effective April 1, 2018, the Company adopted IFRS 15 - *Revenue from contracts with Customers (“IFRS 15”)*, in accordance with the modified retrospective transitional approach. There were no transitional adjustments or changes to the Company's revenue recognition policies required on the adoption of this standard. As required, in the interim consolidated statements of income, the Company disaggregated revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The standard requires contract assets and contract liabilities to be separately presented in the statement of financial position. Contract assets represent the right to consideration in exchange for goods or services that have been transferred to a customer. Contract liabilities represent the obligation to transfer goods and services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. Previously, the Company recognized contract assets as “costs and earnings in excess of billings on contracts in progress” and contract liabilities as “billings in excess of costs and earnings on contracts in progress.” Based on IFRS 15, contract assets and contract liabilities have been disclosed as current assets and current liabilities respectively in the statement of financial position.

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases* (“IFRS 16”), which requires lessees to recognize assets and liabilities for most leases. There are minimal changes to the existing accounting in IAS 17 – *Leases* from the perspective of lessors. The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted provided IFRS 15 has been adopted or is adopted at the same date. The Company does not anticipate early adoption and plans to adopt the standard for the annual period beginning on April 1, 2019. The Company is currently assessing the impact of adopting this new standard on its consolidated financial statements but expects that the adoption of IFRS 16 will result in higher non-current assets and non-current liabilities on the consolidated statements of financial position.

CONTROLS AND PROCEDURES

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) of the Company are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is the “Internal Control – Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Management, including the CEO and CFO, does not expect that the Company’s disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met.

During the three months ended July 1, 2018, there have been no changes in the design of the Company’s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

Note to Readers: Forward-looking statements

This management's discussion and analysis of financial conditions, and results of operations of ATS contains certain statements that may constitute forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of ATS, or developments in ATS' business or in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Forward-looking statements include all disclosure regarding possible events, conditions or results of operations that is based on assumptions about future economic conditions and courses of action. Forward-looking statements may also include, without limitation, any statement relating to future events, conditions or circumstances. ATS cautions you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. Forward-looking statements relate to, among other things: the strategic framework; trade tariffs and trade agreements; conversion of opportunities into Order Bookings; the expected benefits where the company engages with customers on enterprise-type solutions and the potential impact on Order Bookings, performance period, and timing of revenue recognition; expectation that the Company's efforts to expand its after-sales service offering will provide some balance to the capital expenditure cycle of its customers; the Company's Order Backlog partially mitigating the impact of volatile Order Bookings; rate of Order Backlog conversion; deployment of the ATS Business Model ("ABM") and the expected impact; initiatives having the goal of expanding adjusted earnings from operations margin over long-term; the Company's strategy to expand organically and through acquisition; the Company's expectation with respect to effective tax rate; the Company's goal with respect to non-cash working capital as a percentage of revenues; expectation in relation to meeting funding requirements for investments; potential to use leverage to support growth strategy; and the Company's belief with respect to the outcome of certain lawsuits, claims and contingencies. The risks and uncertainties that may affect forward-looking statements include, among others: impact of the global economy; general market performance including capital market conditions and availability and cost of credit; performance of the markets that ATS serves; foreign currency and exchange risk; the relative strength of the Canadian dollar; impact of factors such as increased pricing pressure and possible margin compression; the regulatory and tax environment; that current or future trade tariffs or trade agreements have unexpected impact on the business, including increased cost of supplies; that some or all of the sales funnel is not converted to Order Bookings due to competitive factors or failure to meet customer needs; timing of customer decisions related to large enterprise programs and potential for negative impact associated with any cancellations or non-performance in relation thereto; that revenues from after-sales services are insufficient to offset capital spending volatility; variations in the amount of Order Backlog completed in any given quarter; that the ABM is not deployed effectively, not adopted on the desired scale by the business, or that its impact is other than as expected; that efforts to expand adjusted earnings from operations margin over long-term is unsuccessful, due to any number of reasons, including less than anticipated increase in after-sales service revenues or reduced margins attached to those revenues, inability to achieve lower costs through supply chain management, failure to develop, adopt internally, or have customers adopt, standardized platforms and technologies, inability to maintain current cost structure if revenues were to grow, and failure of ABM to impact margins; inability to successfully expand organically or through acquisition, due to an inability to grow expertise, personnel, and/or facilities at required rates or to identify, negotiate and conclude one or more acquisitions; or to raise, through debt or equity, or otherwise have available, required capital; that acquisitions made are not integrated as quickly or effectively as planned or expected and, as a result, anticipated benefits and synergies are not realized; that the effective tax rate is other than expected, due to reasons including income spread among jurisdictions being other than anticipated; non-cash working capital as a percentage of revenues operating at a level other than as expected due to reasons, including, the timing and nature of Order Bookings, the timing of payment milestones and payment terms in customer contracts, and delays in customer programs; risk that the ultimate outcome of lawsuits, claims, and contingencies give rise to material liabilities for which no provisions have been recorded; that one or more customers, or other entities with which the Company has contracted, experience insolvency or bankruptcy with resulting delays, costs or losses to the Company; political, labour or supplier disruptions; the development of superior or alternative technologies to those developed by ATS; the success of competitors with greater capital and resources in exploiting their technology; market risk for developing technologies; risks relating to legal proceedings to which ATS is or may become a party; exposure to product liability claims; risks associated with greater than anticipated tax liabilities or expenses; and other risks detailed from time to time in ATS' filings with Canadian provincial securities regulators. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions, and other than as required by applicable securities laws, ATS does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change.