MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2018

This Management's Discussion and Analysis ("MD&A") for the year ended March 31, 2018 (fiscal 2018) is as of May 16, 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 audited consolidated financial statements of the Company for fiscal 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. 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, costs and earnings in excess of billing on contracts in progress, inventories, deposits, prepaids and other assets, less accounts payable, accrued liabilities, provisions and billings in excess of costs and earnings on contracts in progress. 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 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- and 12-month periods ended March 31, 2018 and March 31, 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- and 12-month periods ending March 31, 2018 and March 31, 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.

Business overview

ATS and its subsidiaries serve customers in the following markets: life sciences, transportation, energy, consumer products, electronics, chemicals, food, beverage, and oil and gas. With broad and in-depth knowledge across multiple industries and technical fields, ATS delivers single-source solutions to customers that lower their production costs, accelerate delivery of their products, and improve quality control. ATS engages with customers on both greenfield programs, such as equipping new factories, and brownfield programs, such as capacity expansions, line moves, equipment upgrades, software upgrades, efficiency improvements and factory optimization.

ATS engages at varying points in customers' automation cycles. During the pre-automation phase, ATS offers comprehensive services, including discovery and analysis, concept development, simulation and total cost of ownership modelling, all of which help to verify the feasibility of different types of automation, set objectives for factors such as line speed and yield, assess production processes for manufacturability and calculate the total cost of ownership.

For customers that have decided to proceed with an automation project, ATS offers a number of automation and integration services, including engineering design, prototyping, process verification, specification writing, software and manufacturing process controls development, equipment design and build, standard automation products/platforms, third-party equipment qualification, procurement and integration, automation system installation, product line commissioning, validation and documentation. Following the installation of custom automation, ATS may supply duplicate or repeat automation systems to customers that leverage engineering design completed in the original customer program. For customers seeking complex equipment production or build-to-print manufacturing, ATS provides value engineering, supply chain management, integration and manufacturing capabilities, and other automation products and solutions.

Post automation, ATS offers a number of services, including customer training, preventative maintenance, process optimization, emergency and on-call support, spare parts, retooling, retrofits and equipment relocation.

Contract values for individual automation systems vary and are often in excess of $1 million, with some contracts for enterprise-type programs well in excess of $10 million. Due to the custom nature of customer projects, contract durations vary, with typical durations ranging from six to 12 months, and some larger contracts extending up to 18 to 24 months. Contract values for pre-automation services and post-automation services range in value and can exceed $1 million with varying durations, which can sometimes extend over a number of years.

Competitive strengths

Management believes ATS has the following competitive strengths:

Global presence, size and critical mass: ATS' global presence and scale provide advantages in serving multinational customers, as many of the Company's competitors are smaller and operate with a narrower geographic and/or industrial market focus. ATS has manufacturing operations in Canada, the United States, Germany, China and Thailand. ATS can deliver localized service through a network of over 50 locations around the world. Management believes that ATS' scale and global footprint provide it with competitive advantages in winning large, multinational customer programs and in delivering a life-cycle-oriented service platform to customers' global operations.

Technical skills, capabilities and experience: ATS has designed, manufactured, assembled and serviced over 23,000 automation systems worldwide and has an extensive knowledge base and accumulated design expertise. Management believes ATS' broad experience in many different industrial markets and with diverse technologies, its talented workforce, which includes over 1,500 engineers and over 200 program management personnel, and its ability to provide custom automation, repeat automation, automation products and value-added services, position the Company well to serve complex customer programs in a variety of markets.

Product and technology portfolio: Through its history of bringing thousands of unique automation projects to market, ATS has developed an extensive product and technology portfolio. ATS has a number of standard automation platforms and products, including: innovative linear mover transport systems; robust cam-driven assembly platforms; advanced vision systems used to ensure product or process quality; progressive material handling technologies; test systems and software solutions; and high-performance tube filling and cartoning systems. Management believes the Company's extensive product and technology portfolio provides advantages in developing unique and leading solutions for customers and in maintaining competitiveness.

Recognized brands: Management believes ATS is well known within the global automation industry due to its long history of innovation and broad scope of operations. In addition, ATS' subsidiaries include several strong brands: "sortimat", which specializes in the life sciences market; "IWK", which specializes in the packaging market; and "Process Automation Solutions" ("PA"), which provides innovative automation solutions for process and production sectors. Management believes that ATS' brand names and global reputation improve sales prospecting, allowing the Company to be considered for a wide variety of customer programs.

Trusted customer relationships: ATS serves some of the world's largest multinational companies. Most of ATS' customers are repeat customers, returning to ATS time after time to meet their automation manufacturing, assembly or processing needs. Many customers have long-standing relationships with ATS, often spanning a decade or more.

Total solutions capabilities: Management believes the Company gains competitive advantages because ATS provides total turnkey solutions in automation. This allows customers to single-source their most complex projects to ATS rather than rely on multiple engineering firms and equipment builders. In addition, ATS can provide customers with other value-added services including pre-automation consulting, total cost of ownership studies, life-cycle material management, post-automation service, training and support.

Overview – operating results

Consolidated revenues

(In millions of dollars)

Revenues by market		Q4 2018		Q4 2017		Fiscal 2018		Fiscal 2017
Consumer products & electronics	$	55.6	$	41.9	$	160.6	$	137.8
Energy		40.8		15.3		136.9		173.5
Life sciences		132.2		127.5		518.0		415.1
Transportation		69.8		81.0		299.4		284.5
Total revenues	$	298.4	$	265.7	$	1,114.9	$	1,010.9

Revenues by customer location		Q4 2018		Q4 2017		Fiscal 2018		Fiscal 2017
North America	$	138.0	$	103.0	$	528.5	$	365.6
Europe		111.8		116.2		410.5		406.5
Asia/Other		48.6		46.5		175.9		238.8
Total revenues	$	298.4	$	265.7	$	1,114.9	$	1,010.9

Fourth quarter

Fiscal 2018 fourth quarter revenues were 12% higher than in the corresponding period a year ago. Higher revenues primarily reflected higher Order Backlog entering the fourth quarter of fiscal 2018 compared to a year ago and higher Order Bookings in the fourth quarter. Foreign exchange rate changes positively impacted the translation of revenues earned by foreign-based subsidiaries by approximately 3% compared to the corresponding period a year ago, primarily reflecting the weakening of the Canadian dollar relative to the Euro.

By market, fiscal 2018 fourth quarter revenues from the consumer products & electronics and energy markets increased 33% and 167%, respectively, due to higher Order Backlog entering the fourth quarter of fiscal 2018. Revenues in the life sciences market increased 4%, primarily due to the timing of Order Bookings. Transportation revenues decreased 14% compared to a year ago, primarily due to lower activity compared to the previous year.

Full year

Fiscal 2018 revenues were 10% higher than in the corresponding period a year ago, primarily reflecting higher Order Backlog entering fiscal 2018 compared to a year ago. By market, fiscal 2018 revenues from the consumer products & electronics market increased 17%, primarily reflecting higher Order Bookings in the consumer products market. Revenues generated in the energy market decreased 21% compared to the corresponding period a year ago, primarily due to lower Order Backlog entering fiscal 2018 compared to a year ago. Revenues in the life sciences market increased 25%, primarily reflecting higher Order Backlog entering fiscal 2018 compared to a year ago. Transportation revenues increased 5% compared to a year ago, primarily due to higher Order Backlog entering fiscal 2018 compared to a year ago.

Consolidated operating results

(In millions of dollars)

		Q4 2018		Q4 2017		Fiscal 2018		Fiscal 2017
Earnings from operations	$	25.5	$	16.8	$	85.5	$	71.9
Amortization of acquisition-related intangible assets		5.1		4.8		20.6		20.0
Restructuring charges		2.2		–		11.2		2.3
Share purchase allowance		–		2.9		–		2.9
Adjusted earnings from operations[1]	$	32.8	$	24.5	$	117.3	$	97.1

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

		Q4 2018		Q4 2017		Fiscal 2018		Fiscal 2017
Earnings from operations	$	25.5	$	16.8	$	85.5	$	71.9
Depreciation and amortization		9.3		8.8		36.6		34.6
EBITDA[2]	$	34.8	$	25.6	$	122.1	$	106.5

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

Fourth quarter

Fiscal 2018 fourth quarter earnings from operations were $25.5 million (9% operating margin) compared to $16.8 million (6% operating margin) in the fourth quarter of fiscal 2017. Fourth quarter fiscal 2018 earnings from operations included $2.2 million of restructuring costs primarily related to the previously announced closure of a U.S. facility and $5.1 million related to amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. Included in fourth quarter fiscal 2017 earnings from operations was a share purchase allowance of $2.9 million, which was paid to the Company's Chief Executive Officer as an inducement to join the Company, and $4.8 million related to amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. Excluding these items, fourth quarter fiscal 2018 adjusted earnings from operations were $32.8 million (11% margin), compared to adjusted earnings from operations of $24.5 million (9% margin) a year ago. Higher adjusted earnings from operations primarily reflected higher revenues and improved gross margin, partially offset by higher selling, general and administrative expenses and increased stock compensation expenses (see "Consolidated results: Stock-based compensation").

Depreciation and amortization expense was $9.3 million in the fourth quarter of fiscal 2018, compared to $8.8 million a year ago. The increase primarily reflected depreciation of internal development projects.

EBITDA was $34.8 million (12% EBITDA margin) in the fourth quarter of fiscal 2018 compared to $25.6 million (10% EBITDA margin) in the fourth quarter of fiscal 2017. Higher revenues in the fourth quarter of fiscal 2018 were partially offset by higher selling, general and administrative expenses compared to a year ago. Excluding restructuring costs, fourth quarter fiscal 2018 EBITDA was $37.0 million (12% EBITDA margin). Comparably, excluding the share purchase allowance, fourth quarter fiscal 2017 EBITDA was $28.5 million (11% EBITDA margin).

Full year

Earnings from operations were $85.5 million (8% operating margin) in fiscal 2018, compared to $71.9 million (7% operating margin) in the corresponding period a year ago. Excluding $11.2 million of restructuring costs and $20.6 million related to amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat, adjusted earnings from operations were $117.3 million (11% margin) in fiscal 2018, compared to adjusted earnings from operations of $97.1 million (10% margin) in the corresponding period a year ago. Higher adjusted earnings from operations primarily reflected higher revenues and improved gross margin in fiscal 2018, partially offset by higher selling, general and administrative expenses and increased stock compensation expenses compared to a year ago.

Depreciation and amortization expense was $36.6 million in fiscal 2018, compared to $34.6 million a year ago. The increase primarily reflected depreciation of internal development projects.

Fiscal 2018 EBITDA was $122.1 million (11% EBITDA margin) compared to $106.5 million (11% EBITDA margin) in fiscal 2017. Excluding restructuring costs, fiscal 2018 EBITDA was $133.3 million (12% EBITDA margin). Comparably, excluding the share purchase allowance and restructuring costs, fiscal 2017 EBITDA was $111.7 million (11% EBITDA margin).

Order Bookings by quarter

(In millions of dollars)

	Fiscal 2018	Fiscal 2017
Q1	$ 266	$ 239
Q2	257	289
Q3	311	284
Q4	348	322
Total Order Bookings	$ 1,182	$ 1,134

Fourth quarter

Fourth quarter fiscal 2018 Order Bookings were $348 million, an 8% increase from the fourth quarter of fiscal 2017. By customer market, higher Order Bookings in the consumer products & electronics and life sciences markets were partially offset by lower Order Bookings in the energy and transportation markets. Foreign exchange rate changes positively impacted the translation of Order Bookings from foreign-based ATS subsidiaries by approximately 4% compared to the corresponding period a year ago.

Full year

Fiscal 2018 Order Bookings were $1,182 million, a 4% increase from prior year Order Bookings of $1,134 million. By market, higher Order Bookings in the energy and consumer products & electronics markets more than offset lower Order Bookings in the life sciences and transportation markets.

Order Backlog continuity

(In millions of dollars)

	Q4 2018	Q4 2017	Fiscal 2018	Fiscal 2017
Opening Order Backlog	$ 689	$ 632	$ 681	$ 652
Revenues	(298)	(266)	(1,115)	(1,011)
Order Bookings	348	322	1,182	1,134
Order Backlog adjustments[1]	7	(7)	(2)	(94)
Total	$ 746	$ 681	$ 746	$ 681

1 Order Backlog adjustments include foreign exchange adjustments and cancellations.

Order Backlog by market

(In millions of dollars)

As at	Fiscal 2018	Fiscal 2017
Consumer products & electronics	$ 118	$ 54
Energy	82	94
Life sciences	358	355
Transportation	188	178
Total	$ 746	$ 681

At March 31, 2018, Order Backlog was a record $746 million, 10% higher than at March 31, 2017. Higher Order Backlog was driven primarily by higher Order Bookings in the consumer products & electronics market. Foreign exchange rate changes also positively impacted the translation of Order Backlog from foreign-based ATS subsidiaries by approximately 5% compared to fiscal 2017.

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.

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 $746 million at the end of the fourth quarter of fiscal 2018 to partially mitigate the impact of volatile Order Bookings on revenues in the short term. In the first 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.

As previously announced, following a thorough review of the Company's operations, including its global capabilities and leadership, in the third quarter of fiscal 2018 management initiated a restructuring plan that addresses the rationalization of divisions and business lines, and improvements to leadership and management. Specific actions under this plan include the closure of a division in each of the U.S. and Southeast Asia and the rationalization of a business line at a division in Europe. The restructuring is designed to improve the Company's leadership and cost structure, and to enhance capacity utilization by realigning resources to areas of the business that will enable it to deliver increased value to customers and shareholders. The Company has incurred expenses of $11.2 million in fiscal 2018 related to these initiatives. Management expects an 18- to 24-month payback, following completion of the restructuring, which is expected to be materially complete in the first quarter of fiscal 2019.

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 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

Selected fourth quarter and annual information

(In millions of dollars, except per share data)

	Q4 2018	Q4 2017	Fiscal 2018	Fiscal 2017	Fiscal 2016
Revenues	$ 298.4	$ 265.7	$ 1,114.9	$ 1,010.9	$ 1,039.6
Cost of revenues	219.9	201.7	826.8	760.3	780.9
Selling, general and administrative	49.7	45.3	194.3	171.9	179.3
Stock-based compensation	3.3	1.9	8.3	6.8	2.6
Earnings from operations	$ 25.5	$ 16.8	$ 85.5	$ 71.9	$ 76.8
Net finance costs	$ 5.6	$ 6.3	$ 23.8	$ 25.6	$ 26.7
Provision for income taxes	4.9	2.7	14.5	11.3	10.5
Net income	$ 15.0	$ 7.8	$ 47.2	$ 35.0	$ 39.6
Basic and diluted earnings per share	$ 0.16	$ 0.08	$ 0.50	$ 0.38	$ 0.43
From operations:					
Total assets			$ 1,542.2	$ 1,374.6	$ 1,367.5
Total cash and short-term investments			$ 330.1	$ 286.7	$ 170.0
Total debt			$ 318.2	$ 328.7	$ 323.7

Revenues. At $298.4 million, consolidated revenues for the fourth quarter of fiscal 2018 were $32.7 million, or 12%, higher than in the corresponding period a year ago. At $1,114.9 million, year-to-date revenues were $104.0 million, or 10%, higher than in the corresponding period a year ago (see "Overview – operating results").

Cost of revenues. At $219.9 million, fourth quarter fiscal 2018 cost of revenues increased compared to the corresponding period a year ago by $18.2 million, or 9%. Annual cost of revenues of $826.8 million increased $66.5 million, or 9%, primarily on higher revenues compared to the corresponding period last year. At 26%, gross margin in the fourth quarter of fiscal 2018 increased 2% from the corresponding period a year ago, due primarily to improved program execution and operational utilization. Fiscal 2018 gross margin of 26% increased 1% compared to fiscal 2017.

Selling, general and administrative ("SG&A") expenses. SG&A expenses for the fourth quarter of fiscal 2018 were $49.7 million, which included $5.1 million of amortization costs related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat and $2.2 million of restructuring costs. Excluding these costs, SG&A expenses were $42.4 million in the fourth quarter of fiscal 2018. Comparably, SG&A expenses for the fourth quarter of fiscal 2017 were $37.6 million, which excluded $4.8 million of amortization costs related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat and $2.9 million for the share purchase allowance. Higher SG&A expenses in the fourth quarter of fiscal 2018 primarily reflected increased employee costs and sales related expenses.

Fiscal 2018 SG&A expenses were $194.3 million, which included $20.6 million of amortization costs related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat and $11.2 million of restructuring and severance costs. Excluding these items, SG&A expenses were $162.5 million for fiscal 2018. Comparably, SG&A expenses for fiscal 2017 were $146.7 million, which excluded $20.0 million of amortization costs related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat; $2.3 million of restructuring and severance costs; and $2.9 million for the share purchase allowance. Higher SG&A expenses in fiscal 2018 primarily reflected increased employee costs and professional fees.

Stock-based compensation. Stock-based compensation expense amounted to $3.3 million in the fourth quarter of fiscal 2018 compared to $1.9 million in the corresponding period a year ago. Fiscal 2018 stock-based compensation expense was $8.3 million compared to $6.8 million 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 three- and 12-month periods ended March 31, 2018, consolidated earnings from operations were $25.5 million (9% operating margin) and $85.5 million (8% operating margin), respectively, compared to earnings from operations of $16.8 million (6% operating margin) and $71.9 million (7% operating margin) in the corresponding periods a year ago (see "Overview – Operating Results").

Net finance costs. Net finance costs were $5.6 million in the fourth quarter of fiscal 2018, $0.7 million lower than in the corresponding period a year ago. Fiscal 2018 finance costs were $23.8 million compared to $25.6 million in the corresponding period a year ago. The decrease was primarily due to higher interest income earned in fiscal 2018 compared to the corresponding period a year ago.

Income tax provision. For the three and 12 months ended March 31, 2018, the Company's effective income tax rates of 25% and 23%, respectively, differed from the combined Canadian basic federal and provincial income tax rate of 27% primarily due to certain non-deductible income and 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 2018 fourth quarter net income was $15.0 million (16 cents per share basic and diluted) compared to $7.8 million (8 cents per share basic and diluted) for the fourth quarter of fiscal 2017. Adjusted basic earnings per share were 22 cents in the fourth quarter of fiscal 2018 compared to 15 cents for the fourth quarter of fiscal 2017 (see "Reconciliation of non-IFRS measures to IFRS measures").

Fiscal 2018 net income was $47.2 million (50 cents per share basic and diluted) compared to $35.0 million (38 cents per share basic and diluted) for the corresponding period a year ago. Adjusted basic earnings per share were 74 cents in fiscal 2018 compared to 57 cents in the corresponding period a year ago (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):

		Fiscal 2018		Fiscal 2017		Fiscal 2016
EBITDA	$	122.1	$	106.5	$	116.1
Less: depreciation and amortization expense		36.6		34.6		39.3
Earnings from operations	$	85.5	$	71.9	$	76.8
Less: net finance costs		23.8		25.6		26.7
Provision for income taxes		14.5		11.3		10.5
Net income	$	47.2	$	35.0	$	39.6

		Q4 2018		Q4 2017
EBITDA	$	34.8	$	25.6
Less: depreciation and amortization expense		9.3		8.8
Earnings from operations	$	25.5	$	16.8
Less: net finance costs		5.6		6.3
Provision for income taxes		4.9		2.7
Net income	$	15.0	$	7.8

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 March 31, 2018						Three Months Ended March 31, 2017					
		IFRS		Adjustments		Adjusted (non-IFRS)		IFRS		Adjustments		Adjusted (non-IFRS)
Earnings from operations	$	25.5	$	–	$	25.5	$	16.8	$	–	$	16.8
Amortization of acquisition-related intangible assets		–		5.1		5.1		–		4.8		4.8
Restructuring charges		–		2.2		2.2		–		–		–
Share purchase allowance		–		–		–		–		2.9		2.9
	$	25.5	$	7.3	$	32.8	$	16.8	$	7.7	$	24.5
Less: net finance costs	$	5.6	$	–	$	5.6	$	6.3	$	–	$	6.3
Income before income taxes	$	19.9	$	7.3	$	27.2	$	10.5	$	7.7	$	18.2
Provision for income taxes	$	4.9	$	–	$	4.9	$	2.7	$	–	$	2.7
Adjustment to provision for income taxes[1]		–		2.0		2.0		–		2.2		2.2
	$	4.9	$	2.0	$	6.9	$	2.7	$	2.2	$	4.9
Net income	$	15.0	$	5.3	$	20.3	$	7.8	$	5.5	$	13.3
Basic earnings per share	$	0.16	$	0.06	$	0.22	$	0.08	$	0.07	$	0.15

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.

	Twelve Months Ended March 31, 2018			Twelve Months Ended March 31, 2017		
	IFRS	Adjustments	Adjusted (non-IFRS)	IFRS	Adjustments	Adjusted (non-IFRS)
Earnings from operations	$ 85.5	$ –	$ 85.5	$ 71.9	$ –	$ 71.9
Amortization of acquisition-related intangible assets	–	20.6	20.6	–	20.0	20.0
Restructuring charges	–	11.2	11.2	–	2.3	2.3
Share purchase allowance	–	–	–	–	2.9	2.9
	$ 85.5	$ 31.8	$ 117.3	$ 71.9	$ 25.2	$ 97.1
Less: net finance costs	$ 23.8	$ –	$ 23.8	$ 25.6	$ –	$ 25.6
Income before income taxes	$ 61.7	$ 31.8	$ 93.5	$ 46.3	$ 25.2	$ 71.5
Provision for income taxes	$ 14.5	$ –	$ 14.5	$ 11.3	$ –	$ 11.3
Adjustment to provision for income taxes[1]	–	9.2	9.2	–	7.8	7.8
	$ 14.5	$ 9.2	$ 23.7	$ 11.3	$ 7.8	$ 19.1
Net income	$ 47.2	$ 22.6	$ 69.8	$ 35.0	$ 17.4	$ 52.4
Basic earnings per share	$ 0.50	$ 0.24	$ 0.74	$ 0.38	$ 0.19	$ 0.57

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.

Summary of investments, liquidity, cash flow and financial resources

Investments

(In millions of dollars)

	Fiscal 2018	Fiscal 2017
Investments – increase (decrease)		
Non-cash operating working capital	$ 27.0	$ (56.5)
Acquisition of property, plant and equipment	19.9	9.9
Acquisition of intangible assets	6.1	8.0
Proceeds from disposal of assets	(2.6)	(0.1)
Total net investments	$ 50.4	$ (38.7)

In fiscal 2018, the Company's investment in non-cash working capital increased $27.0 million, compared to a decrease of $56.5 million a year ago. Accounts receivable increased 28%, or $46.9 million, driven by the timing of billings on certain customer contracts. Net contracts in progress increased 43%, or $20.8 million, compared to March 31, 2017. The Company actively manages its accounts receivable and net contracts in progress balances through billing terms on long-term contracts, collection efforts and supplier payment terms. Inventories increased 22%, or $10.5 million, primarily due to the timing of inventory purchases. Deposits and prepaid assets increased 40%, or $6.4 million, compared to March 31, 2017 due to increased deposits on third-party materials for customer programs. Accounts payable and accrued liabilities increased 34%, or $62.5 million, compared to March 31, 2017. Provisions increased 49%, or $6.9 million, compared to March 31, 2017 due to restructuring activities undertaken in the year.

Capital expenditures totalled $19.9 million for fiscal 2018, primarily related to computer hardware and the improvement and expansion of certain manufacturing facilities. Capital expenditures totalled $9.9 million in fiscal 2017, primarily related to computer hardware.

Intangible asset expenditures for fiscal 2018 and fiscal 2017 were $6.1 million and $8.0 million, respectively, and primarily related to computer software and various internal development projects.

Proceeds from disposal of assets were $2.6 million in fiscal 2018, compared to $0.1 million in fiscal 2017. The increase primarily reflects the sale of redundant assets in fiscal 2018.

The Company performs impairment tests on its goodwill and intangible asset balances on an annual basis or as warranted by events or circumstances. The Company conducted its annual impairment assessment in the fourth quarter of fiscal 2018 and determined there is no impairment of goodwill or intangible assets as of March 31, 2018 (fiscal 2017 – $nil).

All the Company's investments involve risks and require that the Company make judgments and estimates regarding the likelihood of recovery of the respective costs. In the event management determines that any of the Company's investments have become permanently impaired or recovery is no longer reasonably assured, the value of the investment would be written down to its estimated net realizable value as a charge against earnings. Due to the magnitude of certain investments, such write-downs could be material.

Liquidity, cash flow and financial resources

(In millions of dollars, except ratios)

As at		Fiscal 2018		Fiscal 2017
Cash and cash equivalents	$	330.1	$	286.7
Debt-to-equity ratio		0.47:1		0.52:1
Cash flows provided by operating activities	$	59.7	$	127.9

At March 31, 2018, the Company had cash and cash equivalents of $330.1 million compared to $286.7 million at March 31, 2017. At March 31, 2018, the Company's debt-to-total equity ratio was 0.47:1.

In fiscal 2018, cash flows provided by operating activities were $59.7 million ($127.9 million provided by operating activities in the corresponding period a year ago). The decrease in operating cash flows related primarily to the timing of investments in non-cash working capital in certain customer programs.

At March 31, 2018, the Company had $656.3 million of unutilized multipurpose credit, including letters of credit, available under existing credit facilities and an additional $5.4 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 March 31, 2018, the Company had utilized $108.5 million under the Credit Facility by way of letters of credit (March 31, 2017 – $115.0 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 March 31, 2018, all of the covenants were met.

The Company has additional credit facilities available of $18.9 million (2.4 million Euros, $10.0 million U.S., 50.0 million Thai Baht and 1.7 million Czech Koruna). The total amount outstanding on these facilities at March 31, 2018 was $3.4 million, of which $2.7 million was classified as bank indebtedness (March 31, 2017 – $1.4 million) and $0.7 million was classified as long-term debt (March 31, 2017 – $2.6 million). The interest rates applicable to the credit facilities range from 1.66% to 6.25% per annum. A portion of the long-term debt is secured by certain assets of the Company. The 50.0 million Thai Baht credit facility is secured by letters of credit under the Credit Facility.

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 March 31, 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	$ 10.1	$ 113.2
One – two years	9.2	1.7
Two – three years	7.8	0.5
Three – four years	4.2	–
Four – five years	2.3	–
Due in over five years	0.9	–
	$ 34.5	$ 115.4

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 March 31, 2018, the total value of outstanding letters of credit was approximately $137.1 million (March 31, 2017 – $136.0 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.

Share data

During fiscal 2018, 399,666 stock options were exercised for common shares of the Company. At May 16, 2018, 94,001,692 common shares of the Company were outstanding and there were 1,818,958 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 in fiscal 2018.

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. In order 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.

	Year-end actual exchange rates			Period average exchange rates		
	March 31, 2018	March 31, 2017	% change	**March 31, 2018**	March 31, 2017	% change
U.S. dollar	**1.290**	1.330	(3.0%)	**1.284**	1.313	(2.2%)
Euro	**1.589**	1.419	12.0%	**1.502**	1.440	4.3%

Consolidated quarterly results

(In millions of dollars, except per share amounts)

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues	**$ 298.4**	$ 277.6	$ 274.9	$ 264.0	$ 265.7	$ 237.4	$ 242.5	$ 265.4
Earnings from operations	**$ 25.5**	$ 14.8	$ 23.9	$ 21.3	$ 16.8	$ 15.3	$ 17.3	$ 22.6
Adjusted earnings from operations	**$ 32.8**	$ 29.3	$ 28.8	$ 26.3	$ 24.5	$ 22.5	$ 22.3	$ 27.9
Net income	**$ 15.0**	$ 6.9	$ 13.8	$ 11.5	$ 7.8	$ 6.6	$ 8.5	$ 12.1
Basic and diluted earnings per share	**$ 0.16**	$ 0.07	$ 0.15	$ 0.12	$ 0.08	$ 0.07	$ 0.09	$ 0.13
Adjusted basic earnings per share	**$ 0.22**	$ 0.18	$ 0.18	$ 0.16	$ 0.15	$ 0.12	$ 0.13	$ 0.17
Order Bookings	**$ 348.0**	$ 311.0	$ 257.0	$ 266.0	$ 322.0	$ 284.0	$ 289.0	$ 239.0
Order Backlog	**$ 746.0**	$ 689.0	$ 648.0	$ 683.0	$ 681.0	$ 632.0	$ 654.0	$ 610.0

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.

Notes 2 and 3 to the consolidated financial statements describe the basis of accounting and the Company's significant accounting policies.

Revenue recognition and contracts in progress

The nature of ATS contracts requires the use of estimates to quote new business, and most automation systems are typically sold on a fixed-price basis. Revenues on construction contracts and other long-term contracts are recognized on a percentage of completion basis as outlined in note 3(c) "Revenue recognition – Construction contracts" to the consolidated financial statements. In applying the accounting policy on construction contracts, judgment is required in determining the estimated costs to complete a contract. These cost estimates are reviewed at each reporting period and by their nature may give rise to income volatility. If the actual costs incurred by the Company to complete a contract are significantly higher than estimated, the Company's earnings may be negatively affected. The use of estimates involves risks, since the work to be performed involves varying degrees of technical uncertainty, including possible development work to meet the customer's specification, the extent of which is sometimes not determinable until after the project has been awarded. In the event the Company is unable to meet the defined performance specification for a contracted automation system, it may need to redesign and rebuild all or a portion of the system at its expense without an increase in the selling price. Certain contracts may have provisions that reduce the selling price or provide for refund of purchase price if the Company fails to deliver or complete the contract by specified dates. These provisions may expose the Company to liabilities or adversely affect the Company's results of operations or financial position.

ATS' contracts may be terminated by customers in the event of a default by the Company or, in some cases, for the convenience of the customer. In the event of a termination for convenience, the Company typically negotiates a payment provision reflective of the progress achieved on the contract and/or the costs incurred to the termination date. If a contract is cancelled, Order Backlog is reduced and production utilization may be negatively impacted.

A complete provision, which can be significant, is made for losses on such contracts when the losses first become known. Revisions in estimates of costs and profits on contracts, which can also be significant, are recorded in the accounting period in which the relevant facts impacting the estimates become known.

A portion of ATS' revenue is recognized when earned, which is generally at the time of shipment and transfer of title to the customer, provided collection is reasonably assured.

Income taxes

Deferred income tax assets, disclosed in note 16 to the consolidated financial statements, are recognized to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax-planning strategies.

If the assessment of the Company's ability to utilize the deferred income tax asset changes, the Company would be required to recognize more or fewer of the deferred income tax assets, which would increase or decrease income tax expense in the period in which this is determined. The Company establishes provisions based on reasonable estimates for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous taxation audits and differing interpretations of tax regulations by the taxable entity and the respective tax authority. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all the relevant factors. The Company reviews the adequacy of these provisions at each quarter. However, it is possible that at some future date an additional liability could result from audits by the taxation authorities. Where the final tax outcome of these matters is different from the amount initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Stock-based payment transactions

The Company measures the cost of transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for stock-based payment transactions requires the determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model, including the future forfeiture rate, the expected life of the share option, weighted average risk-free interest rate, volatility and dividend yield, and formation of assumptions. The assumptions and models used for estimating fair value for stock-based payment transactions are disclosed in note 17 to the consolidated financial statements.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculations involve significant estimates and assumptions. Items estimated include cash flows, discount rates and assumptions on revenue growth rates. These estimates could affect the Company's future results if the current estimates of future performance and fair values change. Goodwill is assessed for impairment on an annual basis as described in note 9 to the consolidated financial statements. The Company performed its annual impairment test of goodwill as at March 31, 2018 and determined there was no impairment (March 31, 2017 – $nil).

Provisions

As described in note 3(o) to the consolidated financial statements, the Company records a provision when an obligation exists, an outflow of economic resources required to settle the obligation is probable and a reliable estimate can be made of the amount of the obligation. The Company records a provision based on the best estimate of the required economic outflow to settle the present obligation at the consolidated statement of financial position date. While management believes these estimates are reasonable, differences in actual results or changes in estimates could have a material impact on the obligations and expenses reported by the Company.

Employee benefits

The cost of defined benefit pension plans and the present value of the pension obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in their respective currency, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details about the assumptions used are provided in note 13 to the consolidated financial statements.

Accounting standards issued but not yet effective

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"), which establishes a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. Under IFRS 15, revenues are recognized to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The standard currently requires a full or modified retrospective application for annual periods beginning on or after January 1, 2018. The Company has substantially completed its assessment of IFRS 15. The Company does not expect the implementation of IFRS 15 to have a significant impact on its consolidated statements of income, and will incorporate the new disclosure requirements of IFRS 15 in its consolidated financial statements upon adoption on April 1, 2018.

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").

Disclosure controls and procedures

An evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures was conducted as of March 31, 2018 under the supervision of the CEO and CFO as required by CSA National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*. The evaluation included documentation, review, enquiries and other procedures considered appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information relating to the Company and its consolidated subsidiaries that is required to be disclosed in reports filed under provincial and territorial securities legislation is recorded, processed, summarized and reported to senior management, including the CEO and the CFO, so that appropriate decisions can be made by them regarding required disclosure within the time periods specified in the provincial and territorial securities legislation.

Internal control over financial reporting

CSA National Instrument 52-109 requires the CEO and CFO to certify that they are responsible for establishing and maintaining internal control over financial reporting for the Company, and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

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.

The CEO and CFO have, using the framework and criteria established in "Internal Control – Integrated Framework (2013)" issued by COSO, evaluated the design and operating effectiveness of the Company's internal controls over financial reporting and concluded that, as of March 31, 2018, internal controls over financial reporting were effective to provide reasonable assurance that information related to consolidated results and decisions to be made based on those results were appropriate.

During the years ended March 31, 2018 and March 31, 2017, 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.

Other major considerations and risk factors

Any investment in ATS will be subject to risks inherent to ATS' business. The following risk factors are discussed in the Company's Annual Information Form, which may be found on SEDAR at www.sedar.com.

- Market volatility;
- Strategy execution risks;
- Acquisition risks;
- Expansion risks;
- Industry consolidation;
- Liquidity, access to capital markets and leverage;
- Restrictive covenants;
- Availability of performance and other guarantees from financial institutions;
- Share price volatility;
- Competition;
- First-time program and production risks;
- Automation systems pricing;
- Revenue mix risk;
- Pricing, quality, delivery and volume risks;
- Product failure;
- New product market acceptance, obsolescence and commercialization risk;
- Security breaches or disruptions of information technology systems;
- Insurance coverage;
- Availability of raw materials and other manufacturing inputs;
- Availability of human resources and dependence on key personnel;
- Customer risks;
- Cumulative loss of several significant contracts;
- Lengthy sales cycle;
- Lack of long-term customer commitment;
- Foreign exchange risk;
- Doing business in foreign countries;
- Legislative compliance;
- Environmental compliance;
- Corruption of Foreign Public Officials Act, United States Foreign Corrupt Practices Act and anti-bribery laws risk;
- Intellectual property protection risks;
- Infringement of third parties' intellectual property rights risk;
- Internal controls;
- Impairment of intangible assets risk;
- Income and other taxes and uncertain tax liabilities;
- Variations in quarterly results;
- Litigation;
- Natural disasters, pandemics, acts of war, terrorism, international conflicts or other disruptions;
- Manufacturing facilities disruption; and
- Dependence on performance of subsidiaries.

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; 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; the Company's expectations surrounding the restructuring currently being implemented, including with respect to impact, timing and payback; deployment of the ATS Business Model ("ABM") and the expected impact; 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 the Company's 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 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 current restructuring does not generate anticipated benefits, that it takes longer than anticipated, or that the payback is other than expected; 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; 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 gives 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.