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ATS AUTOMATION TOOLING SYSTEMS INC.

Interim Condensed Consolidated Financial Statements

For the period ended July 1, 2018

(Unaudited)

ATS AUTOMATION TOOLING SYSTEMS INC.
Interim Consolidated Statements of Financial Position
(in thousands of Canadian dollars - unaudited)

As at	Note		July 1 2018		March 31 2018
ASSETS	9				
Current assets					
Cash and cash equivalents		**$**	**324,644**	$	330,148
Accounts receivable			**228,977**		213,006
Contract assets	2, 4		**176,208**		164,917
Inventories	4		**55,968**		58,509
Deposits, prepaids and other assets	5		**19,820**		22,510
			805,617		789,090
Non-current assets					
Property, plant and equipment			**85,880**		85,102
Other assets	6		**3,982**		—
Goodwill			**448,698**		459,159
Intangible assets			**139,643**		148,869
Deferred income tax assets			**2,467**		2,987
Investment tax credit receivable			**57,624**		57,012
			738,294		753,129
Total assets		**$**	**1,543,911**	$	1,542,219
LIABILITIES AND EQUITY					
Current liabilities					
Bank indebtedness	9	**$**	**2,582**	$	2,668
Accounts payable and accrued liabilities			**209,711**		246,384
Provisions	8		**16,638**		20,994
Contract liabilities	2, 4		**127,743**		95,912
Current portion of long-term debt	9		**392**		393
			357,066		366,351
Non-current liabilities					
Employee benefits			**27,542**		28,151
Long-term debt	9		**321,676**		315,129
Deferred income tax liabilities			**45,297**		42,907
Other long-term liabilities	6		**23,043**		30,908
			417,558		417,095
Total liabilities		**$**	**774,624**	$	783,446
Commitments and contingencies	9, 13				
EQUITY					
Share capital	10	**$**	**550,095**	$	548,747
Contributed surplus			**12,534**		12,535
Accumulated other comprehensive income			**68,322**		75,830
Retained earnings			**138,039**		121,369
Equity attributable to shareholders			**768,990**		758,481
Non-controlling interests			**297**		292
Total equity			**769,287**		758,773
Total liabilities and equity		**$**	**1,543,911**	$	1,542,219

See accompanying notes to the interim condensed consolidated financial statements.

ATS AUTOMATION TOOLING SYSTEMS INC.
Interim Consolidated Statements of Income
(in thousands of Canadian dollars, except per share amounts - unaudited)

For the three months ended	Note		July 1 2018		July 2 2017
Revenues					
Revenues from construction contracts		**$**	**186,292**	$	143,823
Sale of goods			**21,624**		18,867
Services rendered			**92,064**		101,272
Total revenues			**299,980**		263,962
Operating costs and expenses					
Cost of revenues			**222,043**		197,133
Selling, general and administrative			**47,491**		44,325
Stock-based compensation	12		**3,435**		1,229
Earnings from operations			**27,011**		21,275
Net finance costs	15		**5,233**		6,195
Income before income taxes			**21,778**		15,080
Income tax expense	11		**5,103**		3,570
Net income		**$**	**16,675**	$	11,510
Attributable to					
Shareholders		**$**	**16,670**	$	11,494
Non-controlling interests			**5**		16
		$	**16,675**	$	11,510
Earnings per share attributable to shareholders					
Basic and diluted	16	**$**	**0.18**	$	0.12

See accompanying notes to the interim condensed consolidated financial statements.

ATS AUTOMATION TOOLING SYSTEMS INC.
Interim Consolidated Statements of Comprehensive Income
(in thousands of Canadian dollars - unaudited)

For the three months ended		**July 1 2018**		July 2 2017
Net income	**$**	**16,675**	$	11,510
Other comprehensive income (loss):				
Items to be reclassified subsequently to net income:				
Currency translation adjustment (net of income taxes of $nil)		**(15,552)**		10,333
Net unrealized gain on derivative financial instruments designated as cash flow hedges		**1,363**		2,684
Tax impact		**(341)**		(712)
Loss transferred to net income for derivatives designated as cash flow hedges		**5**		421
Tax impact		**(5)**		(104)
Cash flow hedge reserve adjustment		**9,362**		(2,027)
Tax impact		**(2,340)**		507
Other comprehensive income (loss)		**(7,508)**		11,102
Comprehensive income	**$**	**9,167**	$	22,612
Attributable to				
Shareholders	**$**	**9,162**	$	22,596
Non-controlling interests		**5**		16
	$	**9,167**	$	22,612

See accompanying notes to the interim condensed consolidated financial statements.

ATS AUTOMATION TOOLING SYSTEMS INC.
Interim Consolidated Statements of Changes in Equity
(in thousands of Canadian dollars - unaudited)

Three months ended July 1, 2018

	Share capital	Contributed surplus	Retained earnings	Currency translation adjustments	Cash flow hedge reserve	Total accumulated other comprehensive income	Non-controlling interests	Total equity
Balance, as at March 31, 2018	**$ 548,747**	**$ 12,535**	**$ 121,369**	**$ 79,918**	**$ (4,088)**	**$ 75,830**	**$ 292**	**$ 758,773**
Net income	**—**	**—**	**16,670**	**—**	**—**	**—**	**5**	**16,675**
Other comprehensive income (loss)	**—**	**—**	**—**	**(15,552)**	**8,044**	**(7,508)**	**—**	**(7,508)**
Total comprehensive income (loss)	**—**	**—**	**16,670**	**(15,552)**	**8,044**	**(7,508)**	**5**	**9,167**
Stock-based compensation	**—**	**292**	**—**	**—**	**—**	**—**	**—**	**292**
Exercise of stock options	**1,348**	**(293)**	**—**	**—**	**—**	**—**	**—**	**1,055**
Balance, as at July 1, 2018	**$ 550,095**	**$ 12,534**	**$ 138,039**	**$ 64,366**	**$ 3,956**	**$ 68,322**	**$ 297**	**$ 769,287**

Three months ended July 2, 2017

	Share capital	Contributed surplus	Retained earnings	Currency translation adjustments	Cash flow hedge reserve	Total accumulated other comprehensive income	Non-controlling interests	Total equity
Balance, as at March 31, 2017	$ 543,317	$ 12,871	$ 74,599	$ 55,504	$ (530)	$ 54,974	$ 248	$ 686,009
Net income	—	—	11,494	—	—	—	16	11,510
Other comprehensive income	—	—	—	10,333	769	11,102	—	11,102
Total comprehensive income	—	—	11,494	10,333	769	11,102	16	22,612
Stock-based compensation	—	377	—	—	—	—	—	377
Exercise of stock options	287	(79)	—	—	—	—	—	208
Balance, as at July 2, 2017	$ 543,604	$ 13,169	$ 86,093	$ 65,837	$ 239	$ 66,076	$ 264	$ 709,206

See accompanying notes to the interim condensed consolidated financial statements.

ATS AUTOMATION TOOLING SYSTEMS INC.
Interim Consolidated Statements of Cash Flows
(in thousands of Canadian dollars - unaudited)

Three months ended	Note	July 1 2018	July 2 2017
Operating activities			
Net income		**$ 16,675**	$ 11,510
Items not involving cash			
Depreciation of property, plant and equipment		**2,787**	2,486
Amortization of intangible assets		**7,059**	6,390
Deferred income taxes	11	**1,388**	862
Other items not involving cash		**(1,779)**	63
Stock-based compensation	12	**3,435**	1,229
		29,565	22,540
Change in non-cash operating working capital		**(29,946)**	(25,899)
Cash flows used in operating activities		**$ (381)**	$ (3,359)
Investing activities			
Acquisition of property, plant and equipment		**$ (4,563)**	$ (3,308)
Acquisition of intangible assets		**(1,576)**	(855)
Proceeds from disposal of property, plant and equipment		**130**	15
Cash flows used in investing activities		**$ (6,009)**	$ (4,148)
Financing activities			
Bank indebtedness		**$ 18**	$ (420)
Repayment of long-term debt		**(199)**	(348)
Proceeds from long-term debt		**36**	6
Proceeds from exercise of stock options		**1,055**	208
Cash flows provided by (used in) financing activities		**$ 910**	$ (554)
Effect of exchange rate changes on cash and cash equivalents		**(24)**	722
Decrease in cash and cash equivalents		**(5,504)**	(7,339)
Cash and cash equivalents, beginning of period		**330,148**	286,697
Cash and cash equivalents, end of period		**$ 324,644**	$ 279,358
Supplemental information			
Cash income taxes paid		**$ 752**	$ 3,457
Cash interest paid		**$ 11,146**	$ 9,907

See accompanying notes to the interim condensed consolidated financial statements.

1. CORPORATE INFORMATION

ATS Automation Tooling Systems Inc. and its subsidiaries (collectively, "ATS" or the "Company") design and build custom-engineered turn-key automated manufacturing and test systems and provide pre-automation and post-automation services to their customers.

The Company is listed on the Toronto Stock Exchange and is incorporated and domiciled in Ontario, Canada. The address of its registered office is 730 Fountain Street North, Cambridge, Ontario, Canada.

The interim condensed financial statements of the Company for the three months ended July 1, 2018 were authorized for issue by the Board of Directors (the "Board") on August 14, 2018.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements were prepared on a going concern basis under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss or other comprehensive income. All interim consolidated financial information is presented in Canadian dollars and has been rounded to the nearest thousand, except where otherwise stated.

Statement of compliance
These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 - *Interim Financial Reporting*. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended March 31, 2018.

Standards adopted in fiscal 2019
The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the presentation of the Company's annual consolidated financial statements for the year ended March 31, 2018, except as noted below:

(a) 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.

Basis of consolidation
These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are those entities where the Company directly or indirectly owns the majority of the voting power or can otherwise control the activities. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Non-controlling interests in the equity and results of the Company's subsidiaries are presented separately in the interim consolidated statements of income and within equity on the interim consolidated statements of financial position.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All material intercompany balances, transactions, revenues and expenses and profits or losses, including dividends resulting from intercompany transactions, have been eliminated on consolidation.

Standards issued but not yet effective
A number of new standards and amendments to standards have been issued but are not yet effective for the financial year ended March 31, 2019 and, accordingly, have not been applied in preparing these consolidated financial statements. This listing is of standards issued which the Company reasonably expects to be applicable at a future date.

(i) 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 IFRS 16 will result in higher non-current assets and non-current liabilities on the consolidated statements of financial position.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's interim condensed 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. However, 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 key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year, have not changed from those disclosed in the Company's fiscal 2018 audited consolidated financial statements. The Company based its estimates, judgments and assumptions on parameters available when the interim condensed consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the estimates when they occur.

(in thousands of Canadian dollars, except per share amounts – unaudited)

4. CONSTRUCTION CONTRACTS AND INVENTORIES

As at		July 1 2018		March 31 2018
Contracts in progress:				
Costs incurred	**$**	**1,114,136**	$	1,139,038
Estimated earnings		**398,674**		391,009
		1,512,810		1,530,047
Progress billings		**(1,464,345)**		(1,461,042)
	$	**48,465**	$	69,005
Disclosed as:				
Contract assets	**$**	**176,208**	$	164,917
Contract liabilities		**(127,743)**		(95,912)
	$	**48,465**	$	69,005

As at		July 1 2018		March 31 2018
Inventories are summarized as follows:				
Raw materials	**$**	**11,610**	$	15,880
Work in progress		**42,387**		40,858
Finished goods		**1,971**		1,771
	$	**55,968**	$	58,509

The amount charged to net income and included in cost of revenues for the write-down of inventories for valuation issues during the three months ended July 1, 2018 was $183 (July 2, 2017 - $61). The amount of inventories carried at net realizable value as at July 1, 2018 was $1,323 (March 31, 2018 - $1,336).

5. DEPOSITS, PREPAIDS AND OTHER ASSETS

As at		July 1 2018		March 31 2018
Prepaid assets	**$**	**11,050**	$	9,424
Restricted cash [(i)]		**461**		477
Supplier deposits		**4,911**		10,396
Forward foreign exchange contracts		**3,398**		2,213
	$	**19,820**	$	22,510

(i) Restricted cash primarily consists of cash collateralized to secure letters of credit.

6. CROSS-CURRENCY INTEREST RATE SWAP

As at		July 1 2018		March 31 2018
Cross-currency interest rate swap instrument	**$**	**(19,061)**	$	(30,908)
	$	**(19,061)**	$	**(30,908)**
Disclosed as:				
Other assets	**$**	**3,982**	$	—
Other long-term liabilities		**(23,043)**		(30,908)
	$	**(19,061)**	$	(30,908)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

During the three months ended July 1, 2018 and the year ended March 31, 2018, there were no changes in the classification of financial assets as a result of a change in the purpose or use of those assets.

During the three months ended July 1, 2018 and the year ended March 31, 2018, there were no transfers of financial instruments between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

(in thousands of Canadian dollars, except per share amounts – unaudited)

As part of the Company's risk management strategy, forward contract derivative financial instruments are used to manage foreign currency exposure related to the translation of foreign currency net assets to the subsidiary's functional currency. As these instruments have not been designated as hedges, the change in fair value is recorded in selling, general and administrative expenses in the interim consolidated statements of income.

During the three months ended July 1, 2018, the Company recorded risk management losses of $1,177 (losses of $2,594 for the three months ended July 2, 2017) on foreign currency risk management forward contracts in the interim consolidated statements of income. Included in these amounts were unrealized losses of $1,459 (gains of $1,577 during the three months ended July 2, 2017), representing the change in fair value. In addition, during the three months ended July 1, 2018, the Company realized gains in foreign exchange of $282 (losses of $4,171 during the three months ended July 2, 2017), which were settled.

8. PROVISIONS

	Warranty	Restructuring	Other	Total
Balance, at March 31, 2018	$ 9,165	$ 5,933	$ 5,896	$ 20,994
Provisions made	113	—	1,097	1,210
Provisions reversed	(1,029)	—	—	(1,029)
Provisions used	(356)	(2,906)	(1,140)	(4,402)
Exchange adjustments	(111)	(34)	10	(135)
Balance, at July 1, 2018	**$ 7,782**	**$ 2,993**	**$ 5,863**	**$ 16,638**

Warranty provisions

Warranty provisions are related to sales of products and are based on experience reflecting statistical trends of warranty costs.

Restructuring

Restructuring charges are recognized in the period incurred and when the criteria for provisions are fulfilled. Termination benefits are recognized as a liability and an expense when the Company is demonstrably committed through a formal restructuring plan.

Other provisions

Other provisions are related to medical insurance expenses that have been incurred during the year but are not yet paid and other miscellaneous provisions.

9. BANK INDEBTEDNESS AND LONG-TERM DEBT

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 $750,000. 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 $135,735 under the Credit Facility, by way of letters of credit (March 31, 2018 - $108,541).

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%.

(in thousands of Canadian dollars, except per share amounts – unaudited)

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 $18,818 (2,348 Euros, $10,000 U.S., 50,000 Thai Baht and 1,321 Czech Koruna). The total amount outstanding on these facilities at July 1, 2018 was $3,194, of which $2,582 was classified as bank indebtedness (March 31, 2018 - $2,668) and $612 was classified as long-term debt (March 31, 2018 - $739). 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.

On June 17, 2015, the Company completed a private placement of U.S. $250,000 aggregate principal amount of senior notes (the “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 $7,200 were deferred and are being amortized over the term of the Senior Notes.

On March 29, 2016, the Company entered into a cross-currency interest rate swap instrument to swap U.S. $150,000 into Canadian dollars to hedge a portion of its foreign exchange risk related to its U.S.-dollar-denominated Senior Notes. The Company will receive interest of 6.50% U.S. per annum and pay interest of 6.501% Canadian. On March 29, 2016, the Company entered into a cross-currency interest rate swap instrument to swap 134,084 Euros into Canadian dollars to hedge a portion of the foreign exchange risk related to its Euro-denominated net investment. The Company will receive interest of 6.501% Canadian per annum and pay interest of 5.094% Euros. The terms of the hedging relationships will end on June 15, 2023. The details of this instrument are presented in note 6 to the interim consolidated financial statements.

(i) Bank indebtedness

As at	**July 1 2018**	March 31 2018
Other facilities	**$ 2,582**	$ 2,668

(in thousands of Canadian dollars, except per share amounts – unaudited)

(ii) Long-term debt

As at	**July 1 2018**	March 31 2018
Senior Notes	**$ 328,650**	$ 322,425
Other facilities	**612**	739
Issuance costs	**(7,194)**	(7,642)
	322,068	315,522
Less: current portion	**392**	393
	$ **321,676**	$ 315,129

Scheduled principal repayments and interest payments on long-term debt as at July 1, 2018 are as follows:

	Principal	**Interest**
Less than one year	$ 392	$ 21,373
One – two years	220	21,365
Two – three years	—	21,362
Three – four years	—	21,362
Four – five years	328,650	21,362
	$ 329,262	$ 106,824

10. SHARE CAPITAL

Authorized share capital of the Company consists of an unlimited number of common shares, without par value, for unlimited consideration. The changes in the common shares issued and outstanding during the period presented were as follows:

	Number of common shares	**Share capital**
Balance, at March 31, 2018	94,001,692	$ 548,747
Exercise of stock options	80,812	1,348
Balance, at July 1, 2018	**94,082,504**	**$ 550,095**

(in thousands of Canadian dollars, except per share amounts – unaudited)

11. TAXATION

Reconciliation of income taxes: Income tax expense differs from the amounts that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to income before income taxes. These differences result from the following items:

For the three months ended		**July 1 2018**		July 2 2017
Income before income taxes	**$**	**21,778**	$	15,080
Combined Canadian basic federal and provincial income tax rate		**26.50%**		26.50%
Income tax expense based on combined Canadian basic federal and provincial income tax rate	**$**	**5,771**	$	3,996
Increase (decrease) in income taxes resulting from:				
Adjustments in respect to current income tax of previous periods		**(57)**		97
Non-taxable income net of non-deductible expenses		**(754)**		(765)
Recognition/use of previously unrecognized assets		**320**		378
Income taxed at different rates and statutory rate changes		**3**		36
Manufacturing and processing allowance and all other items		**(180)**		(172)
At the effective income tax rate of 24% (July 2, 2017 – 24%)	**$**	**5,103**	$	3,570
Income tax expense reported in the consolidated statements of income:				
Current tax expense	**$**	**3,715**	$	2,708
Deferred tax expense		**1,388**		862
	$	**5,103**	$	3,570
Deferred tax related to items charged or credited directly to equity:				
Net loss on revaluation of cash flow hedges	**$**	**(2,686)**	$	(309)
Other items recognized through equity		**1,097**		(1,474)
Income tax charged directly to equity	**$**	**(1,589)**	$	(1,783)

12. STOCK-BASED COMPENSATION

In the calculation of the stock-based compensation expense in the interim consolidated statements of income, the fair values of the Company's stock option grants were estimated using the Black-Scholes option pricing model for time vesting stock. During the three months ended July 1, 2018, the Company granted 199,688 time vesting stock options (300,625 in the three months ended July 2, 2017). The stock options granted vest over four years and expire on the seventh anniversary from the date of issue.

For the three months ended	**July 1 2018**			July 2 2017		
	Number of stock options		**Weighted average exercise price**	Number of stock options		Weighted average exercise price
Stock options outstanding, beginning of period	**1,818,958**	**$**	**12.73**	2,274,724	$	12.60
Granted	**199,688**		**20.30**	300,625		12.77
Exercised [(i)]	**(80,812)**		**13.06**	(23,250)		8.95
Forfeited	—		—	(200,725)		15.15
Stock options outstanding, end of period	**1,937,834**	**$**	**13.50**	2,351,374	$	12.44
Stock options exercisable, end of period, time-vested options	**898,436**	**$**	**13.13**	993,125	$	12.15
Stock options exercisable, end of period, performance-based options	**333,333**	**$**	**11.60**	391,499	$	11.44

(i) For the three months ended July 1, 2018, the weighted average share price at the date of exercise was $20.26 (July 2, 2017 - $12.61).

The fair values of the Company's stock options issued during the periods presented were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions. Expected stock price volatility was determined at the time of the grant by considering historical share price volatility. Expected stock option grant life was determined at the time of the grant by considering the average of the grant vesting period and the grant exercise period.

(in thousands of Canadian dollars, except per share amounts – unaudited)

For the three months ended		**July 1 2018**		July 2 2017
Weighted average risk-free interest rate		**2.11%**		0.92%
Dividend yield		**0%**		0%
Weighted average expected volatility		**28%**		29%
Weighted average expected life		**4.75 years**		4.75 years
Number of stock options granted:				
Time-vested		**199,688**		300,625
Weighted average exercise price per option	**$**	**20.30**	$	12.77
Weighted average value per option:				
Time-vested	**$**	**5.61**	$	3.37

Restricted Share Unit Plan
During the three months ended July 1, 2018, the Company granted 162,279 time-vesting restricted share units ("RSUs") (205,398 in the three months ended July 2, 2017). The RSUs give the employee the right to receive a cash payment equal to the market value of a common share of the Company. During the three months ended July 1, 2018, the Company granted 145,900 performance-based RSUs (211,712 in the three months ended July 2, 2017). The performance-based RSUs vest upon successful achievement of certain operational and share price targets. The performance-based RSUs give the employee the right to receive a cash payment based on the market value of a common share of the Company. The weighted average remaining vesting period for the time-vesting RSUs and performance-based RSUs is 1.5 years. The RSU liability is recognized quarterly based on the expired portion of the vesting period and the change in the Company's stock price. At July 1, 2018, the value of the outstanding liability related to the RSU plan was $7,655 (March 31, 2018 - $5,699). The RSU liability is included in accounts payable and accrued liabilities on the interim consolidated statements of financial position.

Deferred Stock Unit Plan: During the three months ended July 1, 2018, the Company granted 42,905 units (three months ended July 2, 2017 – 77,950 units). The DSU liability is revalued at each reporting date based on the change in the Company's stock price. The change in the value of the DSU liability is included in the interim consolidated statements of income in the period of the change. As at July 1, 2018, the value of the outstanding liability related to the DSUs was $10,152 (March 31, 2018 - $9,542). The DSU liability is included in accounts payable and accrued liabilities on the interim consolidated statements of financial position.

13. COMMITMENTS AND CONTINGENCIES

The minimum operating lease payments, related primarily to facilities and equipment, and purchase obligations are as follows:

		Operating leases		**Purchase obligations**
Less than one year	$	9,315	$	121,264
One – two years		9,250		624
Two – three years		7,274		470
Three – four years		4,116		6
Four – five years		1,680		—
Due in over five years		829		—
	$	32,464	$	122,364

The Company's off-balance sheet arrangements consist of purchase obligations and various operating lease financing arrangements related primarily to facilities and equipment, which have been entered into in the normal course of business.

The Company's purchase obligations consist primarily of commitments for materials purchases.

(in thousands of Canadian dollars, except per share amounts – unaudited)

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. As at July 1, 2018, the total value of outstanding letters of credit was approximately $166,551 (March 31, 2018 - $137,148).

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.

14. SEGMENTED DISCLOSURE

The Company's operations are reported as one operating segment, Automation Systems, which plans, allocates resources, builds capabilities and implements best practices on a global basis.

Geographic segmentation of revenues is determined based on revenues by customer location. Non-current assets represent property, plant and equipment and intangible assets that are attributable to individual geographic segments, based on location of the respective operations.

As at				**July 1, 2018**
		Property, plant and equipment		**Intangible assets**
Canada	**$**	**32,152**	**$**	**9,872**
United States		**15,785**		**18,634**
Germany		**32,782**		**110,534**
China		**1,150**		**48**
Malaysia		**1,487**		**7**
Other Europe		**1,512**		**425**
Other		**1,012**		**123**
Total Company	**$**	**85,880**	**$**	**139,643**

As at				March 31, 2018
		Property, plant and equipment		Intangible assets
Canada	$	30,148	$	10,147
United States		15,701		19,018
Germany		33,748		118,961
China		1,215		53
Malaysia		1,669		72
Other Europe		1,657		496
Other		964		122
Total Company	$	85,102	$	148,869

Revenues from external customers for the three months ended		**July 1 2018**		July 2 2017
Canada	**$**	**16,676**	$	12,784
United States		**107,822**		109,212
Germany		**71,702**		43,528
China		**16,035**		25,540
Malaysia		**6,673**		6,465
Other Europe		**56,122**		50,143
Other		**24,950**		16,290
Total Company	**$**	**299,980**	$	263,962

(in thousands of Canadian dollars, except per share amounts – unaudited)

15. NET FINANCE COSTS

For the three months ended		**July 1 2018**		July 2 2017
Interest expense	**$**	**6,297**	$	6,489
Interest income		**(1,064)**		(294)
	$	**5,233**	$	6,195

16. EARNINGS PER SHARE

For the three months ended	**July 1 2018**	July 2 2017
Weighted average number of common shares outstanding	**94,028,721**	93,606,948
Dilutive effect of stock option conversion	**537,822**	172,066
Diluted weighted average number of common shares outstanding	**94,566,543**	93,779,014

For the three months ended July 1, 2018, stock options to purchase 199,688 common shares are excluded from the weighted average number of common shares in the calculation of diluted earnings per share as they are anti-dilutive (1,408,541 common shares were excluded for the three months ended July 2, 2017).