Automation Tooling Systems

First Quarter Report – Fiscal 2005

Dear Shareholder:

For the three months ended June 30, 2004, ATS Automation Tooling Systems Inc. ("ATS") reported a 29% increase in consolidated revenue, 46% growth in automation systems order backlog, a 30% increase in net earnings, and record performance by its Solar Group.

We estimate changes in foreign currency exchange rates reduced first quarter net earnings by $4.5 million (7 cents per share) compared to the first quarter of fiscal 2004 and reduced revenue by $10.5 million.

First Quarter Financial Highlights

- Net earnings increased 30% to $2.8 million (5 cents basic and diluted) from $2.1 million (4 cents basic and diluted) in the first quarter of fiscal 2004. Net earnings included a one-time pre-tax charge of $1.0 million ($0.6 million after tax, 1 cent per share) related to the disposition of a fixed asset.
- Automation Systems Group operating earnings were up 12% to $6.4 million, compared to $5.7 million in the first quarter of fiscal 2004 on an 18% increase in revenue, which stood at $123.9 million.
- Automation Systems Order Backlog increased 46% to $231 million versus $158 million at June 30, 2003.
- New automation systems Order Bookings were $117 million, 11% higher than a year ago.
- Solar Group operating earnings were a record high $3.3 million compared to $0.1 million last year, as the Company's Photowatt International operations benefited from operational improvements and strong demand that pushed quarterly revenue up 119% to $37.1 million.
- Precision Components Group sustained an operating loss of $1.6 million compared to an operating profit of $0.7 million a year ago on a 7% increase in revenue, which stood at $36.7 million.
- Consolidated revenue increased 29% to $191.9 million from $148.6 million in the first quarter a year ago.

We believe our first quarter results continue to show that our business is improving. This is the result of significant growth in Automation Systems revenue, Order Backlog and bookings and strong performance coming from our solar business. However we are not satisfied with our current earnings performance. We remain committed to returning the Precision Components Group to profitability, producing significantly stronger performance from our Automation Systems operations and achieving each of our performance objectives for fiscal 2005. We are continuing to take the steps necessary to achieve these goals and expect the benefits to be reflected in the coming quarters as our various initiatives gain momentum.

Profit Enhancement Program
To improve earnings and investment returns in this new fiscal year – while keeping the Company well positioned for long-term growth – ATS has established a number of objectives for its three operating Groups to achieve. These objectives are outlined more fully in our 2004 Annual Report and include:

- **Automation Systems Group**: improve capacity utilization and efficiency, and lower costs by achieving a better balance in European, Asian and US factory workloads
- **Precision Components Group**: return to profitability; reduce costs; improve global procurement and complete the ramp up of new customer programs
- **Solar Group**: take advantage of expected strong global demand for conventional solar power through its Photowatt International business and commence initial shipments of revolutionary new Spheral Solar Power (SSP) products.

Looking Forward
The second quarter or three months ended September 30 is traditionally the Company's weakest period due to vacations and plant shutdowns and ATS continues to experience some delays in customers issuing new orders. However, management expects to continue to make progress against its fiscal 2005 objectives and entered the second quarter with a substantial Automation Systems Order Backlog of $231 million and good order prospects. Automation Systems Order Bookings in the six weeks following the first quarter of fiscal 2005 were approximately $42 million.

We believe ATS is entering the second quarter in a strong position, thanks to an excellent order backlog. As well, we remain optimistic about new automation systems order potential – based on the continuation of strong quotation activity in North America that began late last year. For that reason, we continue to selectively but aggressively seek out new assignments, from high quality customers, in what we believe are sustainable areas of our markets. We are particularly pleased with first quarter activities in healthcare where our revenue doubled to $30 million and our backlog tripled to $92 million. We believe our success in healthcare is a clear display of our ability to create opportunities in this important and attractive high-growth market.

ATS is also gaining traction with both its contract equipment build initiative and ATS Compliant Solutions™ service offering, both of which have added important new customers.

For Precision Components Group, a return to profitability is the immediate objective. We are behind schedule in meeting this important goal, but we are progressing with our recovery plan. We've identified potential new Asian suppliers and are on track towards our goal of achieving $2 million in annualized cost savings from better global procurement. Our initiative to rationalize contracts with unacceptable earnings by seeking pricing increases is progressing. In fact, subsequent to quarter end, we obtained pricing adjustments on a number of programs and we continue to negotiate for further pricing increases on other programs. These price increases are necessary to recover from the negative impact of higher material costs and foreign currency. We have decided to divest our thermal products business. Our near term goal is to complete a sale with one of the interested parties we are currently in discussions with as soon as possible.

For Solar Group, demand for Photowatt solar modules is at record highs and we believe we will see this strong demand continue based upon attractive subsidy programs in Europe. Our SSP initiative is expected to introduce its first commercial products later this quarter and is making good progress in commissioning its new advanced manufacturing systems and in developing its potential customer base and markets.

Overall, our objective is clear – build on our first quarter performance and drive better results as we get deeper into fiscal 2005.

Klaus D. Woerner [SIGNED]	Lawrence G. Tapp [SIGNED]
President and Chief Executive Officer	Non-executive Chairman of the Board

Management's Discussion and Analysis

This MD&A for the three months ended June 30, 2004 (first quarter of fiscal 2005) should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended June 30, 2004 and ATS Automation Tooling Systems Inc's ("ATS" or the "Company") fiscal 2004 Annual Report. The Company assumes that the reader of this MD&A has access to, and has read the MD&A in the Company's 2004 Annual Report and, accordingly, the purpose of this document is to provide a first quarter update to the information contained in the MD&A section of the 2004 Annual Report.

Notice to Readers
The Company has three reportable segments: Automation Systems Group (ASG), Precision Components Group (PCG) and Solar. The terms operating income, operating earnings, operating loss, operating results, Order Backlog and Order Bookings used in this MD&A have no standardized meanings prescribed within GAAP and therefore may not be comparable to similar measures presented by other companies.

Certain forward-looking statements are made in this MD&A and the letter to shareholders, including statements regarding possible future results and business. Investors are cautioned that such forward-looking statements involve risks and uncertainties. The Company's results could differ materially from those currently anticipated due to a number of factors including, but not limited to, the risks and uncertainties contained in the Company's fiscal 2004 Annual Report and other risks detailed from time to time in ATS's periodic reports filed with Canadian regulatory authorities. Readers should consult the Company's fiscal 2004 Annual Report and other regulatory documents as they become available. The Company's fiscal 2004 Annual Report and additional information relating to the Company, including the Annual Information Form, may be found on SEDAR at www.sedar.com.

For a discussion of new accounting standards adopted for the first quarter see note 2 to the unaudited interim consolidated financial statements for the three months ended June 30, 2004.

Impact of Foreign Exchange
The substantial change in effective foreign exchange rates, primarily the US dollar, between the first quarter of last year and the first quarter of fiscal 2005 continues to have a significant impact on the comparison of results. The effective exchange rate reflects market exchange rates and the offsetting impact of the Company's forward exchange hedging contracts. The estimated impact of changes in foreign exchange rates, net of the offsetting impact of forward exchange contracts, on both revenue and operating earnings, for each of the Company's reportable segments and on a consolidated basis has been summarized in the table below for the first quarter compared to the previous year. The Company estimates the changes in foreign currency exchange rates reduced first quarter consolidated net earnings by $4.5 million (7 cents per share) compared to the first quarter of fiscal 2004.

Estimated Quarterly Foreign Exchange Impact
For the three months ended June 30, 2004 (in millions of dollars)

	Reported	% Change vs last year	Estimated impact of Foreign Exchange included in reported results	% Change vs last year excluding Foreign Exchange impact
Revenue				
Automation Systems	$ 123.9	+18%	$ (8.6)	+26%
Precision Components	36.7	+7%	(2.9)	+15%
Solar	37.1	+120%	1.0	+114%
Elimination of Inter-segment revenue	(5.8)			
Consolidated	$ 191.9	+29%	$ (10.5)	+36%
Earnings from Operations				
Automation Systems	$ 6.4	+12%	$ (6.0)	+118%
Precision Components	(1.6)	-329%	(1.0)	-186%
Solar	3.3	+3,200%	0.1	+3,100%
Inter-segment elimination and other corporate expenses	(3.5)			
Consolidated	$ 4.6	+24%	$ (6.9)	+211%

The Company does not hedge translation exposure on its foreign subsidiaries because it is not economical. The impact on consolidated operating earnings from translation was not material in the first quarter of fiscal 2005. ATS continues to follow a transaction hedging program to help mitigate the impact of short-term foreign currency movements primarily on its Canadian operations which often transact business in US dollars. This hedging activity consists primarily of forward exchange contracts for the sale of US dollars and by purchasing third-party goods and services in US dollars. Management estimates that the transaction hedging program is primarily effective in mitigating movements in currency rates within a four to six month period. The offsetting impact of the Company's US$ forward exchange contracts has declined significantly as contracts at higher rates have matured and rates on new contracts are at lower exchange rates reflecting the longer term change in exchange rates. As a result, the effective rate of exchange on US currency declined 12% while average market rates were 3% lower in the first quarter compared to the first quarter of last year. At June 30, 2004 the Company had, on hand, unrealized forward exchange contracts for the future sale of US dollars totaling US $100.8 million at an average exchange rate of 1.34. The unrecognized gain on these forward contracts totaled approximately $1.5 million at June 30, 2004.

Period Average Exchange Rates in CDN$

	Three months ended		
	06/30/2004	06/30/2003	**% change**
US $	**1.3596**	1.3953	-3%
Euro	**1.6403**	1.5890	+3%
Singapore $	**0.7978**	0.7989	0%

Revenue

Consolidated revenue for the three months ended June 30, 2004 was $191.9 million, 29% or $43.3 million higher than a year earlier reflecting growth in each reporting segment. Higher revenues were generated in spite of the decline in US to Canadian dollar exchange rates compared to the first quarter of last year. Changes in effective foreign exchange rates reduced consolidated revenue by an estimated $10.5 million compared to the same quarter a year ago (see Estimated Quarterly Foreign Exchange Impact table).

Revenue by Industry
($ millions)

	Three months ended			
		06/30/2004		06/30/2003
Automation Systems Group:				
Automotive	**$**	**37.5**	$	44.9
Computer-electronics		**42.9**		39.2
Healthcare		**29.6**		14.2
Other		**13.9**		6.7
Subtotal		**123.9**		105.0
Precision Components Group:				
Automotive		**30.7**		28.0
Computer-electronics		**4.1**		4.7
Other		**1.9**		1.7
Subtotal		**36.7**		34.4
Solar Group		**37.1**		16.9
Intersegment Elimination		**(5.8)**		(7.7)
Total Consolidated Revenue	**$**	**191.9**	$	148.6

ASG revenue increased 18% in the first quarter compared to the first quarter of last year, despite the estimated negative foreign exchange impact of $8.6 million. Growth was driven by a 108% increase in healthcare revenue – reflecting the benefits of the Company's strategic marketing, sales and technology development initiatives in this sector – a 10% increase in computer-electronics revenue, and a 108% increase in the "other" sector (primarily consumer products). These higher contributions more than offset a 16% decline in automotive revenue. The Company seeks to maintain well-diversified sources of revenue across its markets to help mitigate cyclical risk and moderate normal quarterly fluctuations in any one industrial segment.

First quarter PCG revenue increased 7% or $2.3 million compared to the first quarter of fiscal 2004, as growth more than offset the estimated negative foreign exchange impact of $2.9 million. Automotive revenue increased 10% -- despite weaker market conditions and a number of customer plant shutdowns that occurred at the end of the first quarter of fiscal 2005. Sales growth reflected the continuing ramp up of customer volumes, including volumes on a power seat subassembly contract that was launched in May 2003. This growth more than offset a 13% decline in the Company's computer-electronics revenue.

Solar Group revenue was $37.1 million or 119% higher in the first quarter compared to last year reflecting strong demand, primarily as a result of attractive government incentive programs in Germany.

Consolidated Revenue by Region
($ millions)

	Three months ended	
	06/30/2004	06/30/2003
US & Mexico	**$ 114.4**	$ 84.2
Europe	**55.0**	36.4
Canada	**11.9**	17.3
Asia-Pacific and other	**10.6**	10.7
Total	**$ 191.9**	$ 148.6

Earnings from Operations (Operating Earnings)
Consolidated operating earnings for the three months ended June 30, 2004 were $4.6 million, 24% or $0.9 million higher than in the comparable period of fiscal 2004. This was driven by a $3.2 million increase in operating earnings contribution from Solar Group and a 12% increase from ASG, which more than offset an operating loss in PCG. The improvements were also achieved in spite of the estimated negative impact of the year-over-year change in foreign exchange rates of approximately $6.9 million (see Estimated Quarterly Foreign Exchange Impact table).

ASG first quarter operating earnings were $6.4 million, a $0.7 million improvement over the first quarter a year ago reflecting higher revenues. This growth was achieved despite the estimated $6.0 million negative impact of foreign currency. The Group's results in the most recent quarter were also materially affected by the impact of a significant cost overrun (where a $1 million provision was taken) on a large project in Europe, continuing weak economic conditions in Europe and continued underutilization of some of the Group's smaller North American automation facilities. As well, the Company's US West Coast operations continued to under perform. Asian facilities operated at breakeven levels on reduced revenues due to delays in some new order receipts. The Group's largest and most established facilities in eastern North America achieved good earnings and margin performance on significantly higher revenue and utilization.

PCG incurred an operating loss of $1.6 million compared to operating earnings of $0.7 million in the first quarter a year ago, also reflecting a number of factors, including the $1.0 million estimated negative impact of foreign currency. The automotive market, where the Group generated 84% of its quarterly revenue, was unexpectedly weak during the most recent quarter and some customers extended their summer shutdowns and pulled them forward into June (end of the first quarter) resulting in lower than expected revenue and operating results. Thermal solutions sales were lower than a year earlier. PCG continued to be challenged by higher prices for certain key raw materials. The Group also incurred unexpected operating inefficiencies and increased costs related to unusually high changeovers on certain customer orders and arising from the late delivery of certain new production equipment.

Management has implemented a number of steps to bring PCG performance back to acceptable levels. A new Asian sourcing strategy was implemented before year-end with a goal to secure $2 million in annualized savings through lower-cost suppliers. The program is proceeding on plan and an estimated $4 million of such potential savings have now been identified from qualified sources. The Group has also identified over $2 million in additional potential annualized labour cost savings which it plans to implement as soon as conditions permit. The benefits of these initiatives are expected to begin to be realized during the second quarter and to increase during the second half of fiscal 2005.

PCG also continues to review the profitability of its various product lines and take corrective action. The Group is seeking price increases on a number of programs from its customers where profitability has been negatively impacted as a result of the substantial changes in US exchange rates and increased raw material costs. Meaningful price increases were obtained from customers on a number of programs following the end of the quarter and this will provide benefits commencing in the second quarter of fiscal 2005. The Group is also negotiating with certain other customers to obtain price increases on additional programs. Requiring higher prices from customers increases the risk that the Group may lose existing contracts.

Management completed a strategic review of the Group's non-core thermal management products business during the first quarter and concluded that this operation should be divested due to the continuing shift of the market to Asia and continuing poor financial performance. The Company is currently in discussions with parties who have expressed interest in acquiring this business, however, the outcome of such discussions remains uncertain at the present time.

Solar Group achieved record high operating earnings of $3.3 million in the quarter, compared to $0.1 million a year ago, reflecting continued strong performance by the Group's operating business, Photowatt International. In addition to substantial revenue growth, Photowatt benefited from better factory utilization, cost reduction initiatives, increased automation, and improved manufacturing efficiency. These factors allowed the Group to drive operating margins to 8.9% in the first quarter from 0.5% a year ago and more than offset an estimated 2.5% decline in average solar selling prices over the same period. Changes in exchange rates did not have a material impact on first quarter Solar Group revenue or operating earnings (see Estimated Quarterly Foreign Exchange Impact table).

The continuing strong market demand for solar products has increased the risk of shortages in silicon feedstock (a primary raw material in producing the Company's solar products) and has begun to result in higher silicon prices. Solar prices have also started to rise reflecting both these higher silicon costs and continued strong market demand. The Group has begun to increase its inventory of silicon to help manage the risk of shortages.

Consolidated selling general and administrative expenses in the first quarter of fiscal 2005 included a $1.0 million charge, before income taxes, in respect of the costs of disposing of the Company's aging business jet aircraft which was becoming overly expensive to operate and maintain. The Company does not plan to replace the aircraft and, where warranted, due to the difficulty and cost of traveling to certain customer sites by commercial airline, intends to utilize readily-available charter services. The costs of the disposition are expected to be recovered through operating savings over the next 12 months.

First Quarter Net Earnings

Net earnings for the first quarter ended June 30, 2004 was $2.8 million, 30% higher than net earnings of $2.1 million generated in the first quarter of fiscal 2004 as a result of the factors outlined above. Earnings per share were 5 cents basic and diluted in the first quarter of fiscal 2005 compared to 4 cents basic and diluted in the first quarter of last year. Earnings in the first quarter included one-time costs of $1.0 million ($0.6 million after tax and 1 cent per share) related to costs of disposing of the jet aircraft. The estimated impact of changes in foreign exchange rates on net earnings for the first quarter of fiscal 2005 was $4.5 million (7 cents per share). Net earnings in the first quarter of fiscal 2004 included a loss from discontinued operations of $0.3 million (0 cents per share).

Liquidity, Cash Flow and Financial Resources

ATS invested during the quarter to support increased business activity, future growth and to fund the strategic SSP development initiative. As a result, cash balances declined overall to $16.7 million at June 30, 2004 from $38.6 million at March 31, 2004 and operating bank lines totaling $29.9 million were utilized at the end of the quarter. A significant investment was made in non-cash operating working capital by both Automation Systems and Solar as each business continued to increase activity on the strength of growing backlog and strong demand, respectively. Working capital also increased in PCG as inventories were built in advance of the normal summer shut down periods and automotive demand softened late in the quarter.

Investments made in SSP in the first quarter of fiscal 2005, net of government funding, were $5 million for capital assets and deferred development. Total investment in the SSP initiative, net of government funding, was $79 million at June 30, 2004, including the costs of the development program announced by ATS in July 2002 and the acquisition costs for the initial technology and related assets. To date, all significant costs of the development program, including the costs of acquiring the initial technology, have been capitalized on the Company's balance sheet.

During the first quarter 56,600 stock options were exercised for total proceeds of $164 thousand. At June 30, 2004 the total number of shares outstanding was 60,709,991.

Management believes the Company's capabilities to generate cash flow from operations, sound balance sheet and access to unutilized credit provide ATS with the financial resources to execute its business plans and pursue strategic opportunities. The Company's debt to equity ratio at June 30, 2004 was 0.1:1. At June 30, 2004 the Company had $66 million of unutilized credit under the Company's existing operating and term credit facilities. These credit facilities are subject to annual review and are expected to be renewed during the third quarter. The Company is in compliance with its loan covenants.

As indicated in its MD&A for the year ended March 31, 2004, management expects its foreseeable cash needs for fiscal 2005 will be funded by cash from operations, existing cash resources and debt capacity.

Lease and Contractual Obligations
Information on the Company's lease and contractual obligations is detailed in the annual financial statements and MD&A for the year ended March 31, 2004. For the period ended June 30, 2004, the Company did not enter into any material leases or any material contractual obligations which would be considered outside the normal course of operations.

Consolidated Quarterly Results

($ in thousands, except per share amounts)	**Q1 2005**	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003
Revenue	**$ 191,912**	$ 193,657	$174,354	$ 148,481	$ 148,583	$ 137,984	$ 153,098	$ 146,916
Net earnings (loss) from continuing operations	**$ 2,780**	$ (3,069)	$ (1,701)	$ 372	$ 2,431	$ (4,401)	$ 693	$ 2,673
Net earnings (loss)	**$ 2,780**	$ (3,069)	$ (1,701)	$ 372	$ 2,145	$ (4,624)	$ 409	$ 2,430
Basic earnings per share from continuing operations	**$ 0.05**	$ (0.05)	$ (0.03)	$ 0.01	$ 0.04	$ (0.07)	$ 0.01	$ 0.04
Basic earnings per share	**$ 0.05**	$ (0.05)	$ (0.03)	$ 0.01	$ 0.04	$ (0.08)	$ 0.01	$ 0.04
Diluted earnings per share from continuing operations	**$ 0.05**	$ (0.05)	$ (0.03)	$ 0.01	$ 0.04	$ (0.07)	$ 0.01	$ 0.04
Diluted earnings per share	**$ 0.05**	$ (0.05)	$ (0.03)	$ 0.01	$ 0.04	$ (0.08)	$ 0.01	$ 0.04

Automation Systems Backlog
At June 30, 2004, Automation Systems Order Backlog was $231 million, 46% higher than $158 million at June 30, 2003 and $4 million higher than March 31, 2004 backlog of $227 million. Not included in Backlog is an estimated $6 million of automation systems work for SSP.

Automation Systems Backlog by Industry
($ millions)

	06/30/2004	06/30/2003
Healthcare	**$ 92**	$ 29
Automotive	**73**	85
Computer-Electronics	**35**	27
Other	**31**	17
Total	**$ 231**	$ 158

Outlook
Management believes that the Company's outlook has not changed materially since year-end fiscal 2004.

The Company will be negatively impacted by customary seasonal plant shutdowns during the three months ended September 30, 2004. PCG has also experienced longer than normal summer shutdowns by many automotive customers and reduced PCG shipment volumes in July and early August on a number of programs will negatively impact PCG performance in the second quarter. Based upon current customer shipment release schedules, PCG shipment volumes are currently expected to recover in mid August, however shipment release volumes may be changed on short notice.

Management believes overall ASG order prospects are stronger than those a year ago based on current quotation activity and customer discussions especially in North America, the Group's largest market. While the Company continues to experience some customer delays in placing orders in most of its automation markets, fewer projects are being cancelled by customers. In Europe, the weaker economy continues to constrain improved demand for automation and creates price pressure and lower utilization of the Group's European facilities. Management believes conditions in the Asian market will improve due to the continuing migration of multinational manufacturing companies to the area. The Asian market is strategically important to the Group and construction of a new larger ASG facility in Penang, Malaysia has begun.

The significantly higher Order Backlog entering fiscal 2005 has allowed ASG to be more selective in its quotation activity than during the weaker economic conditions of the past three years. New Order Bookings in the first quarter of fiscal 2005 were $117 million, 11% or $12 million higher than orders booked a year ago. Management believes that these Bookings and overall Order Backlog appear to be of a higher quality than a year ago, with a better mix between new and repeat orders for high quality customers in sustainable areas of the Company's markets. The Company's success in penetrating and expanding its customer and revenue base in the healthcare industry has been the largest contributor to the higher Order Backlog.

ATS Compliant Solutions™, established in April 2004 to help healthcare companies plan, implement and qualify their automation projects, has continued to secure new engineering assignments with healthcare industry leaders. Development of the Company's new Vaporous Hydrogen Peroxide (VHP)-compatible robotic system and new specialized high speed automated vision inspection system for pharmaceuticals are progressing on plan.

PCG continues to face challenges related to global pricing pressure and higher raw material costs. In addition, since the Group sells most of its products in US dollars under long-term contracts, typically with fixed prices, the higher value of the Canadian dollar has the effect of reducing the Group's competitiveness and margins. To combat these pressures, PCG is aggressively pursuing its return to profitability through cost reduction initiatives, price increases, product line rationalization, new program ramp ups, especially higher value added subassembly opportunities and diversification of its revenue base into higher margin markets.

Demand for Solar products is expected to remain very strong as a result of subsidy programs introduced in Germany at the beginning of calendar 2004. Many other countries are considering adopting subsidy programs to encourage the adoption of clean renewable solar energy, which, if enacted, would further drive demand. In spite of the risk of silicon material shortages, the Company believes that these conditions provide a favourable outlook for its Solar Group for fiscal 2005.

The Company's Spheral Solar Power ("SSP") development initiative is also progressing. The Company officially opened its new 193,000 sq. ft. facility in Cambridge, Ontario on June

23, 2004 and is now commissioning its new manufacturing systems and preparing to ship its first SSP products during the second quarter. The Company expects production ramp up toward the facility's nameplate annual capacity of 20 megawatts will be gradual – as manufacturing processes, throughput levels and yields are refined and improved to reduce unit production costs and improve efficiencies -- and will likely last, as anticipated, through fiscal 2005 and into fiscal 2006.

In summary, management continues to implement a number of aggressive measures to further improve the Company's earnings and return on investment and expects these steps to result in better operating performance as fiscal 2005 progresses. This is based upon an expectation that the economy will remain relatively stable and will continue to support recent positive trends in customer capital spending. The benefits of these measures to date have varied reflecting the different economic and market conditions affecting each operating unit. While seasonal factors will likely restrain performance improvement in the Company's second quarter of fiscal 2005, the benefits from these management initiatives are expected to increase in the second half of the fiscal year and support further improvements in financial performance this fiscal year.

August 13, 2004

ATS AUTOMATION TOOLING SYSTEMS INC.

Consolidated Statements of Earnings

(in thousands, except per share amounts - unaudited)

	Three months ended	
	June 30 2004	June 30 2003 (as restated, see note 3)
Revenue	**$ 191,912**	$ 148,583
Operating costs and expenses:		
Cost of revenue	**158,213**	118,695
Depreciation and amortization	**8,606**	8,173
Selling and administrative	**20,334**	17,930
Stock-based compensation (note 3)	**165**	75
	187,318	144,873
Earnings from operations	**4,594**	3,710
Other expenses (income):		
Interest on long-term debt	**191**	209
Other interest	**68**	(199)
	259	10
Earnings from continuing operations before income taxes and non-controlling interest	**4,335**	3,700
Provision for income taxes	**1,472**	1,274
Non-controlling interest in earnings of subsidiaries	**83**	(5)
Net earnings from continuing operations	**2,780**	2,431
Loss from discontinued operations, net of tax	**-**	(286)
Net earnings	**$ 2,780**	$ 2,145
Earnings per share (note 4):		
Basic – from continuing operations	**$ 0.05**	$ 0.04
Basic – from discontinued operations	**-**	-
	$ 0.05	$ 0.04
Diluted – from continuing operations	**$ 0.05**	$ 0.04
Diluted – from discontinued operations	**-**	-
	$ 0.05	$ 0.04

See accompanying notes to interim consolidated financial statements

Consolidated Statements of Retained Earnings

(in thousands of dollars - unaudited)

	Three months ended	
	June 30 2004	June 30 2003
Retained earnings, beginning of period	**$ 198,822**	$ 201,075
Net earnings	**2,780**	2,145
Retained earnings, end of period	**$ 201,602**	$ 203,220

See accompanying notes to interim consolidated financial statements

ATS AUTOMATION TOOLING SYSTEMS INC.

Consolidated Balance Sheets

(in thousands of dollars - unaudited)

	June 30 2004	March 31 2004
ASSETS		
Current assets:		
Cash and short-term investments	**$ 16,681**	$ 38,551
Accounts receivable	**146,315**	130,406
Income taxes recoverable	**4,111**	3,780
Costs and earnings in excess of billings on contracts in progress	**117,041**	102,404
Inventories	**79,301**	74,161
Other	**6,007**	3,873
	369,456	353,175
Property, plant, and equipment	**272,905**	267,069
Goodwill	**59,760**	59,533
Intangible assets	**5,860**	6,001
Future income tax assets	**9,846**	10,759
Other assets	**32,197**	30,742
	$ 750,024	$ 727,279
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	**$ 29,873**	$ -
Accounts payable and accrued liabilities	**82,905**	95,074
Billings in excess of costs and earnings on contracts in progress	**16,838**	19,026
Future income taxes	**21,537**	21,497
	151,153	135,597
Long-term debt	**44,758**	44,447
Future income taxes	**16,503**	16,061
Non-controlling interest	**494**	405
Shareholders' equity:		
Share capital	**331,929**	331,765
Retained earnings	**201,602**	198,822
Contributed surplus	**445**	280
Cumulative translation adjustment	**3,140**	(98)
	537,116	530,769
	$ 750,024	$ 727,279

See accompanying notes to interim consolidated financial statements

ATS AUTOMATION TOOLING SYSTEMS INC.

Consolidated Statements of Cash Flows

(in thousands of dollars - unaudited)

	Three months ended	
	June 30 2004	June 30 2003
Cash flows from operating activities:		
Net earnings	**$ 2,780**	$ 2,145
Items not involving cash	**10,294**	7,494
Stock-based compensation	**165**	75
Cash flow from operations	**13,239**	9,714
Change in non-cash operating working capital	**(52,304)**	2,456
	(39,065)	12,170
Cash flows from investing activities:		
Acquisition of interest in subsidiaries	**-**	(650)
Acquisition of property, plant, and equipment	**(11,203)**	(12,333)
Investments and other	**(2,440)**	(2,764)
	(13,643)	(15,747)
Cash flows from financing activities:		
Bank indebtedness	**29,873**	-
Issuance of common shares	**164**	-
Other	**5**	13
	30,042	13
Effect of exchange rate changes on cash and short-term investments	**796**	(3,352)
Decrease in cash and short-term investments	**(21,870)**	(6,916)
Cash and short-term investments, beginning of period	**38,551**	82,333
Cash and short-term investments, end of period	**$ 16,681**	$ 75,417
Supplementary information:		
Cash income taxes paid	**$ 1,003**	$ 1,907
Cash interest paid	**$ 249**	$ 196

See accompanying notes to interim consolidated financial statements

These statements have not been reviewed or audited by the Company's auditor.

1. Significant accounting policies:

(a) The accompanying unaudited interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and the accounting policies are consistent with those described in the annual consolidated financial statements for the year ended March 31, 2004, except as described in note 2. The unaudited interim consolidated financial statements presented in this interim report do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the audited consolidated financial statements in the Company's fiscal 2004 Annual Report.

(b) Contract revenue in the Automation Systems segment is recognized using the percentage of completion method. The degree of completion is determined based on costs incurred, excluding costs that are not representative of progress to completion, as a percentage of total costs anticipated for each contract. Incentive awards, claims or penalty provisions are recognized when such amounts can reasonably be determined. Complete provision is made for losses on contracts in progress when such losses first become known. Revisions in cost and profit estimates, which can be significant, are reflected in the accounting period in which the relevant facts become known.

2. New accounting standards:

Effective April 1, 2004, the Company implemented, on a prospective basis, the Canadian Institute of Chartered Accountants' Accounting for Hedging Relationships guideline ("AG-13") and EIC-128. AG-13 deals with the identification, documentation, designation, and effectiveness of hedges. EIC-128 provides the accounting for financial instruments that do not qualify for hedge accounting under AG-13. Upon implementation of these new standards, the Company assessed all existing derivative financial instruments and formally designated certain qualifying financial instruments as hedges. Any gains or losses on these designated instruments are offset against the item being hedged. All derivative financial instruments that have not been specifically designated or that do not meet the criteria for hedge accounting are marked to market. For these undesignated financial instuments the related gains or losses are included in earnings for the period with an offsetting asset or liability being recorded. The adoption of the new recommendations had no material impact on the Company's interim consolidated financial statements for the three months ended June 30, 2004.

(tabular amounts in thousands, except per share amounts – unaudited)

3. Stock-based compensation:

In the calculation of compensation expense in the statement of earnings for the three months ended June 30, 2004, the fair values of the Company's stock option grants were estimated using the Black-Scholes option pricing model with the following weighted average assumptions and data:

	Three months ended	
	June 30 2004	June 30 2003
Risk-free interest rate	**3.6%**	4.4%
Dividend yield	**0.0%**	0.0%
Expected life	**5.5 years**	5 years
Expected volatility	**38%**	38%
Number of stock options granted (thousands)	**430**	430
Weighted average of exercise price per option	**$ 11.50**	8.60
Weighted average Black-Scholes value per option	**$ 4.67**	3.47

The Company began expensing employee stock-based compensation for all awards on or after April 1, 2003 using the fair value based method in the three months ended March 31, 2004, previously disclosed quarterly periods of fiscal 2004 have been restated for the change in accounting policy.

4. Weighted average number of shares:

Weighted average number of shares used in the computation of earnings per share is as follows:

	Three months ended	
	June 30 2004	June 30 2003
Basic	**60,685**	60,571
Diluted	**60,925**	60,820

(tabular amounts in thousands, except per share amounts – unaudited)

5. Segmented disclosure:

The Company evaluates performance based on three reportable segments: Automation Systems, Precision Components and Solar. The Automation Systems segment produces custom-engineered turn-key automated manufacturing and test systems. The Precision Components segment is a high volume manufacturer of plastic and metal components and sub-assemblies. The Solar segment is a high volume manufacturer of photovoltaic products and includes the Company's investment in the Spheral Solar™ Power initiative.

The Company accounts for inter-segment revenue at current market rates, negotiated between the segments.

	Three months ended	
	June 30 2004	June 30 2003
		(as restated, see note 3)
Revenue		
Automation Systems	**$ 123,882**	$ 104,966
Precision Components	**36,666**	34,386
Solar	**37,111**	16,916
Elimination of inter-segment revenue	**(5,747)**	(7,685)
Consolidated	**$ 191,912**	$ 148,583
Earnings (loss) from operations		
Automation Systems	**$ 6,409**	$ 5,710
Precision Components	**(1,642)**	668
Solar	**3,296**	84
Inter-segment elimination and other corporate expenses	**(3,469)**	(2,752)
Consolidated	**$ 4,594**	$ 3,710

6. Cyclical nature of the business:

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. General economic trends, product life cycles and product changes may impact Automation Systems bookings, Precision Components and Solar volumes, and the Company's earnings in any of its markets.