SMTC CORP
Form 424B3
November 16, 2005
Table of Contents

Filed pursuant to Rule 424(b)(3) and Rule 424(c)

Registration No. 333-115400

PROSPECTUS SUPPLEMENT NO. 6

50,025,000 Shares

SMTC CORPORATION

Common Stock

This prospectus supplement amends the prospectus dated June 28, 2004 related to common stock that may be issued in exchange for exchangeable shares of SMTC Manufacturing Corporation of Canada to include information related to the financial condition and the results of operations for SMTC Corporation as of and for the quarter ended October 2, 2005.

This prospectus supplement should be read in conjunction with the prospectus dated June 28, 2004, Prospectus Supplement No. 1/A dated November 24, 2004, Prospectus Supplement No. 2 dated November 17, 2004, Prospectus Supplement No. 3 dated April 15, 2005, Prospectus Supplement No. 4 dated May 18, 2005 and Prospectus Supplement No. 5 dated August 17, 2005, which are to be delivered with this prospectus supplement.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

November 16, 2005

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

---

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 2, 2005

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM ___________ TO ___________

COMMISSION FILE NUMBER 0-31051

SMTC CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**98-0197680**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**

635 HOOD ROAD

MARKHAM, ONTARIO, CANADA L3R 4N6

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(905) 479-1810

(REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether SMTC Corporation: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ¨ No x

As of November 10, 2005, SMTC Corporation had 10,865,103 shares of common stock, par value $0.01 per share, and one share of special voting stock, par value $0.01 per share, outstanding. As of November 10, 2005, SMTC Corporation s subsidiary, SMTC Manufacturing Corporation of Canada, had 3,776,229 exchangeable shares outstanding, excluding 4,172,081 exchangeable shares held by SMTC Corporations s wholly-owned subsidiary, SMTC Nova Scotia Company, each of which is exchangeable into one share of common stock of SMTC Corporation.

Table of Contents

SMTC Corporation

Form 10-Q

Table of Contents

		Page No.
PART I	Financial Information	
Item 1.	Financial Statements	3
	Consolidated Balance Sheets as of December 31, 2004 and October 2, 2005 (unaudited)	3
	Consolidated Statements of Operations for the three and nine months ended October 2, 2005 and October 3, 2004 (unaudited)	4
	Consolidated Statement of Changes in Shareholders Equity for the nine months ended October 2, 2005 (unaudited)	6
	Consolidated Statements of Cash Flows for the three and nine months ended October 2, 2005 and October 3, 2004 (unaudited)	7
	Notes to Consolidated Financial Statements	9
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	52
Item 4.	Controls and Procedures	52
PART II	Other Information	
Item 6.	Exhibits	53
Signatures		54

Table of Contents

SMTC CORPORATION

Consolidated Balance Sheets

(Expressed in thousands of U.S. dollars)

(Unaudited)

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

	October 2, 2005	December 31, 2004
Assets		
Current assets:		
Accounts receivable, net of an allowance for doubtful accounts of $1,276 (December 31, 2004 - $1,276)	$ 30,627	$ 23,856
Inventories (note 3)	28,896	33,025
Prepaid expenses	1,636	1,702
	61,159	58,583
Capital assets, net of accumulated depreciation of $35,271 (December 31, 2004 - $32,694)	26,649	29,269
Other assets	2,593	4,729
Deferred income taxes	140	135
	$ 90,541	$ 92,716
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 27,791	$ 25,943
Accrued liabilities	12,026	13,738
Income taxes payable	1,139	1,571
Current portion of long-term debt (note 4)	3,800	3,800
Current portion of capital lease obligations	1,838	1,897
	46,594	46,949
Long-term debt (note 4)	31,220	30,091
Capital lease obligations	122	1,542
Shareholders equity:		
Capital stock (note 6)	38,850	63,394
Warrants (note 6)	10,372	10,372
Loans receivable	(5)	(5)

Additional paid-in capital	217,516	192,972
Deficit	(254,128)	(252,599)
	12,605	14,134
	$ 90,541	$ 92,716

See accompanying notes to consolidated financial statements.

Table of Contents

SMTC CORPORATION

Consolidated Statements of Operations

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

(Unaudited)

	Three months ended		Nine months ended	
	October 2, 2005	**October 3, 2004**	**October 2, 2005**	**October 3, 2004**
Revenue	$ 64,559	$ 60,849	$ 170,705	$ 196,578
Cost of sales	59,071	53,513	158,464	175,055
Gross profit	5,488	7,336	12,241	21,523
Selling, general and administrative expenses (note 9)	3,664	3,956	10,231	12,461
Amortization				2,330
Restructuring charges (note 9)	(112)	(668)	67	(668)
Operating earnings	1,936	4,048	1,943	7,400
Interest	1,187	1,065	3,399	3,555
Earnings (loss) before income taxes and discontinued operations	749	2,983	(1,456)	3,845
Income tax (recovery) expense (note 5)	(39)	99	73	868
Earnings (loss) from continuing operations	788	2,884	(1,529)	$ 2,977
Earnings from discontinued operations (note 10)				837
Net earnings (loss)	$ 788	$ 2,884	$ (1,529)	$ 3,814

See accompanying notes to consolidated financial statements.

4

Table of Contents

SMTC CORPORATION

Consolidated Statements of Operations (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

(Unaudited)

	Three months ended		Nine months ended	
	October 2, 2005	**October 3, 2004**	**October 2, 2005**	**October 3, 2004**
Earnings (loss) per share:				
Basic earnings (loss) per share from continuing operations	$ 0.05	$ 0.20	$ (0.10)	0.31
Earnings per share from discontinued operations				0.08
Basic earnings (loss) per share	$ 0.05	$ 0.20	$ (0.10)	$ 0.39
Diluted earnings (loss) per share	$ 0.05	$ 0.20	$ (0.10)	$ 0.39
Weighted average number of common shares used in the calculations of earnings (loss) per share (note 7):				
Basic	14,641,345	14,641,345	14,641,345	9,755,731
Diluted	14,817,117	14,641,345	14,641,345	9,763,539

See accompanying notes to consolidated financial statements.

Table of Contents

SMTC CORPORATION

Consolidated Statement of Changes in Shareholders Equity

(Expressed in thousands of U.S. dollars)

Nine months ended October 2, 2005

(Unaudited)

	Capital stock	Warrants	Additional paid-in capital	Loans receivable	Deficit	Shareholders equity
Balance, December 31, 2004	$ 63,394	$ 10,372	$ 192,972	$ (5)	$ (252,599)	$ 14,134
Conversion of shares from exchangeable to common stock	(24,544)		24,544			
Net loss for the period					(1,529)	(1,529)
Balance, October 2, 2005	$ 38,850	$ 10,372	$ 217,516	$ (5)	$ (254,128)	$ 12,605

See accompanying notes to consolidated financial statements.

Table of Contents

SMTC CORPORATION

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Three months ended		Nine months ended	
	October 2, 2005	**October 3, 2004**	**October 2, 2005**	**October 3, 2004**
Cash provided by (used in):				
Operations:				
Net earnings (loss)	$ 788	$ 2,884	$ (1,529)	$ 3,814
Items not involving cash:				
Amortization				2,330
Depreciation	1,202	1,316	3,770	4,235
Loss (gain) on disposition of capital assets	25		68	(15)
Gain on disposal of assets previously written down (note 9)			(12)	
Other	396	428	1,389	428
Deferred income taxes			(5)	
Change in non-cash operating working capital:				
Accounts receivable	(3,961)	3,478	(6,732)	12,715
Inventories	3,321	2,466	4,129	(661)
Prepaid expenses	168	1,231	66	346
Income taxes recoverable/payable	76	590	(432)	1,257
Accounts payable	(1,893)	(6,691)	1,848	(19,001)
Accrued liabilities	1,716	(1,731)	(1,175)	(6,490)
	1,838	3,971	1,385	(1,042)
Financing:				
Increase in long-term debt			4,280	9,721
Repayment of long-term debt	(1,297)	(3,863)	(2,888)	
Repayment of pre-existing long term debt				(40,000)
Principal payments on capital lease obligations	(410)	(74)	(1,479)	(207)
Net proceeds from issuance of shares				25,849
Net proceeds from issuance of warrants				8,972
Deferred financing fees				(3,265)
Repayment of shareholder loans		153		153
	(1,707)	(3,784)	(87)	1,223
Investments:				
Purchase of capital assets	(131)	(238)	(2,310)	(363)
Proceeds from sale of capital assets			1,012	15

	(131)	(238)	(1,298)	(348)
Increase in cash		(51)		(167)
Cash, beginning of period		51		167
Cash, end of period	$	$	$	$

Table of Contents

SMTC CORPORATION

Consolidated Statements of Cash Flows (continued)

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Three months ended		Nine months ended	
	October 2, 2005	**October 3, 2004**	**October 2, 2005**	**October 3, 2004**
Supplemental disclosures:				
Cash paid during the period:				
Income taxes	$ 87	$ 295	$ 701	$ 373
Interest	643	612	1,860	3,967
Non-cash transactions:				
Repayment of long term debt and existing warrants by issuance of shares and warrants				10,000
Increase in other assets and accrued liabilities				1,636
Settlement of shareholder loan			537	
Acquisition of equipment under capital lease		597		597

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

1. Basis of presentation:

The Company s accounting principles are in accordance with accounting principles generally accepted in the United States.

The accompanying unaudited consolidated balance sheet as at October 2, 2005, unaudited consolidated statements of operations for the three and nine month periods ended October 2, 2005 and October 3, 2004, unaudited consolidated statement of changes in shareholders equity for the nine month period ended October 2, 2005, and unaudited consolidated statements of cash flows for the three and nine month periods ended October 2, 2005 and October 3, 2004 have been prepared on substantially the same basis as the annual consolidated financial statements. Management believes the consolidated financial statements reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the Company s financial position, operating results and cash flows for the periods presented. The results of operations for the three and nine month periods ended October 2, 2005 are not necessarily indicative of results to be expected for the entire year. These unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2004.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates include, but are not limited to, the allowance for doubtful accounts, inventory valuation, deferred tax asset valuation allowance, restructuring accruals, the useful lives of capital assets and impairment of long-lived assets. Actual results may differ from those estimates and assumptions.

2. Stock-based compensation:

The Company accounts for stock options issued to employees using the intrinsic value method of Accounting Principles Board Opinion No. 25. Compensation expense is recorded on the date stock options are granted only if the current fair value of the underlying stock exceeds the exercise price. The Company has provided the pro forma disclosures required by Financial Accounting Standards Board (FASB) Statement No. 123, Accounting for Stock-Based Compensation (Statement 123), as amended by FASB Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure (Statement 148).

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

2. Stock-based compensation (continued):

The table below sets out the pro forma amounts of net earnings (loss) per share that would have resulted if the Company had accounted for its employee stock plans under the fair value recognition provisions of Statement 123.

	Three months ended		Nine months ended	
	October 2, 2005	October 3, 2004	October 2, 2005	October 3, 2004
Net earnings (loss), attributable to common shareholders, as reported	$ 788	$ 2,884	$ (1,529)	$ 3,814
Stock-based compensation expense	(53)	(37)	(177)	(81)
Pro forma earnings (loss)	735	2,847	(1,706)	3,733
Basic and diluted earnings (loss) per share, as reported	$ 0.05	$ 0.20	$ (0.10)	$ 0.39
Stock-based compensation expense			(0.01)	(0.01)
Pro forma basic earnings (loss) per share	0.05	0.20	(0.11)	0.38

No compensation expense has been recorded in the statement of operations for the three and nine months ended October 2, 2005 and October 3, 2004.

The estimated fair value of options is calculated at the date of grant, is amortized over the vesting period, on a straight-line basis, and was determined using the Black-Scholes option pricing model with assumptions made as to the risk-free interest rate, dividend yield, expected life and volatility. There were no options granted during the three months ended October 2, 2005. During the nine months ended October 2, 2005, the Company granted 200,000 options to purchase exchangeable shares of SMTC Manufacturing Corporation of Canada at an exercise price of Cdn $1.53 per exchangeable share, the fair market value on the date of the grant and 210,000 options to purchase common shares at an exercise price of $1.17 per share, the fair market value on the date of the grant. During the three months ended October 3, 2004, the Company granted 30,000 options to purchase common stock at an exercise price of $2.75 per share, the fair market value on the date of grant. During the nine months ended October 3, 2004, the Company granted 30,000 options to purchase common stock at an exercise price of $2.75 per share, the fair

market value on the date of grant and 30,000 options to purchase common stock at an exercise price of $4.00 per share, the fair market value on the date of grant.

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

2. Stock-based compensation (continued):

During the three and nine months ended October 2, 2005, the Company recorded a pro-forma stock-based compensation expense of $53 and $177, respectively, for the value of new options issued, offset by unvested stock options that were forfeited during the periods. During the three and nine months ended October 3, 2004, the Company recorded a pro-forma stock-based compensation expense of $37 and $81, respectively, for the value of new options issued, offset by unvested stock options that were forfeited during the quarter. The estimated fair value of options is amortized over the vesting period, on a straight-line basis, and was determined using the Black-Scholes option pricing model with the following assumptions:

	Nine months ended	
	October 2, 2005	October 3, 2004
Risk-free interest rate	4.0%	4.9%
Dividend yield		
Expected life	4	4
Volatility	116.0%	120.0%

3. Inventories:

	October 2, 2005	December 31, 2004
Raw materials	$ 15,443	$ 19,827
Work in process	9,662	4,867
Finished goods	3,319	7,814
Other	472	517
	$ 28,896	$ 33,025

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

4. Long-term debt:

	October 2, 2005	December 31, 2004
Senior debt:		
Revolving	$ 8,098	$ 4,339
Term	778	1,166
Subordinated debt	25,182	27,164
Other	962	1,222
	35,020	33,891
Less current portion	3,800	3,800
	$ 31,220	$ 30,091

In connection with the initial public offering completed on July 27, 2000, the Company and certain of its subsidiaries entered into a credit agreement (the Credit Agreement) that provided for an initial term loan and amounts made available under revolving credit loans, swing line loans and letters of credit. Between July 27, 2000 and May 31, 2004, the Company and its pre-existing lenders amended the Credit Agreement from time to time.

Senior debt:

On June 1, 2004, the Company entered into a 3-year $40,000 revolving credit facility and a $1,400 term loan facility (collectively the Congress Facilities) with Congress Financial Corporation and its affiliates (Congress). The availability under the Congress revolving credit facilities is subject to certain borrowing base conditions based on the eligible inventory and accounts receivable of the Company and requires a lock-box arrangement where all customer remittances are swept daily to reduce the borrowings outstanding. The revolving credit facilities bear interest at a rate of 0.5% in excess of the Canadian prime rate for Canadian-denominated loans and 0.5% in excess of the U.S. prime rate for U.S.-denominated loans. The Congress Facilities are secured by the present and future assets of the Company, require the Company to be in compliance with a financial covenant based on achieving certain EBITDA (earnings before interest, taxes, depreciation and amortization) targets

and contain subjective acceleration clauses which would allow Congress to forego additional advances should they determine certain conditions exist, including those with a material adverse change of the Company s business, assets, operations, prospects or financial condition. The initial term of the revolving credit facility is three years, with a one-year renewal period at the option of the lender, at which time, the facility would become annually renewable. The term loan bears interest at a rate of 1% in excess of the U.S. prime rate.

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

4. Long-term debt (continued):

On November 16, 2004, the Company, together with Congress, executed a letter of understanding amending the terms of the Congress Facilities. The letter of understanding provided that, at the Company s option, it may elect to use a springing lock-box arrangement, whereby remittances from customers are forwarded to the Company s general bank account rather than the lock-box arrangement, as previously required, whereby customer remittances are swept daily to reduce the borrowings under the revolving credit facilities.

Should the Company elect to change to the springing lock-box arrangement, as allowed under the letter of understanding, availability under the facility may be reduced by the elimination of eligible inventory. The Company would be required to revert back to a required lock-box arrangement if (i) availability under the revolving credit facility is less than the greater of (a) $2,500 or (b) 25% of the outstanding borrowings under the credit facility or (ii) the occurrence of an event of default.

In March 2005, the Company and Congress signed amendments to the Congress Facilities (the March 2005 Amendments) which formalized the November 16, 2004 letter of understanding on the terms described above and reduced the EBITDA targets for the quarters ended December 31, 2004 through December 31, 2005.

In August 2005, the Company and Congress signed a further amendment to the Congress Facilities (the August 2005 Amendments) which removed the elimination of inventory from the availability calculation should the Company elect to change to the springing lock-box arrangement.

Management believes that no conditions have occurred that would result in subjective acceleration by the lenders, nor any such conditions will exist over the next 12 months. Furthermore, Congress has not informed the Company that any such condition or event has occurred. Because of the option to use a springing lock-box arrangement and based on management s assessment of the subjective acceleration clauses, the debt has been classified as long-term as at October 2, 2005.

Management does not foresee being precluded from exercising the option of converting to a springing lock-box based on its expected financing needs over the next 12 months; however, due to the effective cash management aspect of the current lock-box arrangement, the Company has no plans to move to a springing lock-box arrangement.

The Congress Facilities and the Credit Agreement (as amended on June 1, 2004) are jointly and severally guaranteed by and secured by the assets of the Company and the assets and capital stock of each of the Company s subsidiaries (other than certain foreign subsidiaries) and

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

4. Long-term debt (continued):

its future subsidiaries. The security interest granted to Congress ranks senior to the security interest of the pre-existing lenders.

Subordinated debt:

On June 1, 2004, the Company completed a transaction with the Company s pre-existing lenders under which the Company satisfied a portion of its indebtedness outstanding under the Credit Agreement. The Company paid consideration with a fair value of $50,000, comprised of a cash payment of $40,000 and $10,000 of common stock of the Company and warrants (note 6), in exchange for a reduction of debt with a par value of $50,000 and cancellation of the warrants issued and to be issued to such lenders under the Credit Agreement.

The pre-existing lenders converted the remaining $27,500 of outstanding indebtedness into a Tranche A term loan in the amount of $15,000 and a Tranche B term loan in the amount of $12,500 under the Amended Credit Agreement. The Tranche A term loan matures on December 31, 2007 and bears interest at the U.S. base rate plus 2.5% except for the period from January 1, 2005 to January 1, 2006, during which it bears interest at the U.S. base rate plus 2.75%. The Tranche B term loan matures December 31, 2008 and bears interest at a rate equal to 8% payment in kind (PIK) interest plus 4% cash interest, except for the period from January 1, 2005 to January 1, 2006, during which it bears interest at 8% PIK plus 4.25% cash interest, during the period the Tranche A term loan is outstanding and 6% PIK interest plus 6% cash interest thereafter. The Tranche B PIK interest is added to the outstanding principal balance during the term of the loan.

The Company accounted for the transactions with the pre-existing lenders as a modification of debt. The Company allocated the fair value of the $50,000 consideration to the outstanding debt and cancelled warrants using the relative fair value method, resulting in a reduction of debt outstanding of $48,600 and allocation of $1,400 to the cancelled warrants. The amount allocated to the cancelled warrants was recorded as long-term debt, and is being amortized as a reduction of interest expense over the term of the term loans.

The Company incurred costs in relation to completion of the term loan transactions with the pre-existing lenders of $1,800, and these costs and the remaining net book value of the previous deferred financing fees of $180 were recorded as a non-current deferred charge and are being amortized as additional interest expense over the term of the term loans.

On March 10, 2005, the Company executed an amendment to the Credit Agreement, which reduced the EBITDA targets for each of the four quarters in the year ending December 31, 2005.

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

4. Long-term debt (continued):

The Company is in compliance with the financial covenants included in its lending agreements at October 2, 2005. Continued compliance with the financial covenants through the next twelve months is dependant on the Company achieving certain forecasts. The Company believes the forecasts are based on reasonable assumptions and are achievable; however, the forecasts are dependent on a number of factors, some of which are outside the control of the Company. These include but are not limited to, general economic conditions and specifically the strength of the electronics industry and the related demand for products and services by the Company s customers. In the event of non-compliance, the Company s lenders have the right to amend the financial covenants, demand repayment of the amounts outstanding under the lending agreements or pursue other remedies.

5. Income taxes:

During the three months ended October 2, 2005, the Company recorded a net recovery of income tax expense of $39 on income before income taxes of $749. The net recovery includes a refund of income taxes of $117, offset by a tax expense of $78 related to minimum taxes in certain jurisdictions. During the nine months ended October 2, 2005, the Company recorded income tax expense of $73 on a loss before income taxes of $1,456. The net income tax expense includes a refund of $117, offset by a tax expense of $190 related to minimum taxes in certain jurisdictions.

At December 31, 2004, the Company had total net operating loss (NOL) carryforwards of approximately $105,200, of which $2,376 will expire in 2010, $6,660 will expire in 2011, $1,368 will expire in 2012, $1,078 will expire in 2018, $60 will expire in 2019, $30 will expire in 2020, $54,097 will expire in 2021, $20,069 will expire in 2022, and $19,462 will expire in 2023. There has been no significant transactions in the three and nine months ended October 2, 2005 that would materially impact these loss carryforwards.

Whether the recapitalization transactions described in note 6 (the Recapitalization Transaction) result in an ownership change for purposes of Section 382 of the Internal Revenue Code (Section 382), which imposes a limitation on a corporation s use of NOL carryforwards following an ownership change, depends upon whether the exchangeable shares of SMTC Canada are treated as shares of the Company under U.S. tax principles. The tax law governing the exchangeable shares is unclear and, accordingly, it is uncertain whether Section 382 will apply to the Recapitalization Transaction. If deemed applicable, Section 382 would limit the amount of NOLs available to offset taxable income in the post-ownership change period and would preclude the full utilization of the Company s NOLs. However, the Company has filed the appropriate tax election to ensure that the taxable intercompany dividend, paid in connection with the Recapitalization Transaction (note 6), would be allocated to the pre-ownership change period in the year ended December 31, 2004, and thus the utilization of NOLs against this income amount would not be limited.

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

6. Capital Stock:

a) Private Placement of Special Warrants:

On March 3, 2004, the Company completed a private placement, fully underwritten by a syndicate of Canadian investment dealers, of 33,350,000 Special Warrants (each a Special Warrant and collectively, the Special Warrants) of SMTC Manufacturing Corporation of Canada (SMTC Canada), an indirect wholly owned subsidiary of the Company. Each Special Warrant was issued at a price of Cdn. $1.20 per Special Warrant, resulting in aggregate proceeds of Cdn. $40,020. The proceeds, net of underwriters commissions and certain other expenses, were placed into escrow on March 3, 2004, pending receipt of shareholder approval.

Subject to the satisfaction of applicable legal requirements, each Special Warrant was exercisable for one unit, consisting of one-fifth of an exchangeable share of SMTC Canada, and one-half of a warrant to purchase one-fifth of an exchangeable share of SMTC Canada. Each whole warrant (a Purchase Warrant) is exercisable for one-fifth of an exchangeable share of SMTC Canada at an exercise price of Cdn. $9.25 per share until March 3, 2009. The Special Warrants were exercised into units on June 2, 2004.

Subject to the satisfaction of applicable legal requirements, each exchangeable share of SMTC Canada can be exchanged on a one-for-one basis for one share of the common stock of the Company. Each exchangeable share of SMTC Canada, as nearly as practicable, is intended to be the economic equivalent of a share of common stock of the Company and holders of the exchangeable shares of SMTC Canada are able to exercise essentially the same voting rights with respect to the Company as they would have if they had exchanged their exchangeable shares of SMTC Canada for common stock of the Company. On or after July 27, 2015, subject to certain adjustment and acceleration provisions, SMTC Canada will redeem all of the outstanding exchangeable shares by delivering common shares of the Company on a one-for-one basis.

The proceeds, net of underwriter commissions and other expenses and including interest earned while held in escrow, were released from escrow on June 1, 2004, and were used to repay a portion of the debt under the Credit Agreement (note 4).

The gross proceeds of Cdn. $40,020 ($29,372 based on the exchange rate at June 1, 2004) were allocated between the exchangeable shares and Purchase Warrants using the relative fair value method.

The gross proceeds were allocated between the exchangeable shares and warrants in the amounts of $20,962 and $8,410, respectively.

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

6. Capital Stock (continued):

The Company incurred total costs related to the private placement of $2,772, resulting in net proceeds of $26,600. These costs were offset against the exchangeable shares and warrants in proportion to their relative fair values, resulting in net proceeds allocated to these instruments of $18,983 and $7,617, respectively.

(b) Conversion of outstanding debt:

On June 1, 2004, the pre-existing lenders exchanged $10,000 of outstanding debt (note 4) and all warrants previously issued or required to be issued for 2,233,389 shares of common stock and 11,166,947 warrants (the Conversion Warrants). Each warrant is exercisable for one-tenth of one share of common stock of the Company at an exercise price of $6.90 per share of common stock. The warrants may be exercised by the holders at any time on or before March 4, 2009.

The common stock and the Conversion Warrants issued to the pre-existing lenders are subject to transfer restrictions on trading. The pre-existing lenders have agreed to retain:

- all of the shares of common stock, Conversion Warrants and shares of common stock underlying such Conversion Warrants until September 1, 2004;
- at least 2/3 of the shares of common stock, Conversion Warrants and shares of common stock underlying such Conversion Warrants until December 1, 2004; and
- at least 1/6 of the shares of common stock, and Conversion Warrants and shares of common stock underlying such Conversion Warrants until March 1, 2005.

The fair value of the consideration paid upon conversion of $10,000 of debt was allocated between the common stock and Conversion Warrants using the relative fair value method. The fair value of the consideration paid was allocated between the common stock and Conversion Warrants

in the amounts of $7,137 and $2,863, respectively.

The Company incurred total costs of $379 related to the conversion. These costs were offset against the common stock and Conversion Warrants in proportion to their relative fair values, resulting in net proceeds allocated to these instruments of $6,866 and $2,755, respectively. The excess of the amount allocated to the common stock over the par value of $6,754 was recorded as additional paid-in capital.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

6. Capital Stock (continued):

(c) Exchange of exchangeable shares:

During the three and nine months ended October 2, 2005, 1,203,733 and 2,597,142 exchangeable shares were exchanged for common stock, respectively. During the three and nine months ended October 3, 2004, 666,660 and 722,610 exchangeable shares were exchanged for common stock, respectively.

(d) Reverse stock split:

On October 4, 2004, the Company completed a reverse stock split of its issued and outstanding common and exchangeable shares whereby every five shares of common stock were exchanged for one share of common stock and every five exchangeable shares were exchanged for one exchangeable share. All share information relating to shares outstanding and all employee stock options and warrants have been retroactively adjusted to reflect the reverse stock split.

(e) Warrants

Pursuant to the private placement described above, SMTC Canada issued 16,675,000 warrants. Each warrant is exercisable for one-fifth of an exchangeable share of SMTC Canada at an exercise price of Cdn. $9.25 per share until March 3, 2009.

Pursuant to the exchange by the pre-existing lenders of $10,000 of outstanding debt and all warrants previously issued or required to be issued, the Company issued 11,166,947 warrants. Each warrant is exercisable for one-tenth of one share of common stock of the Company at an exercise price of $6.90 per share of common stock. The warrants may be exercised by the holders at any time on or before March 4, 2009.

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

7. Earnings (loss) per share:

The following table sets forth the calculation of basic and diluted earnings (loss) per share:

	Three months ended		Nine months ended	
	October 2, 2005	**October 3, 2004**	**October 2, 2005**	**October 3, 2004**
Numerator:				
Net earnings (loss) from continuing operation	$ 788	$ 2,884	$ (1,529)	$ 2,977
Net earnings (loss)	788	2,884	(1,529)	3,814
Denominator:				
Weighted average shares - basic	14,641,345	14,641,345	14,641,345	9,755,731
Effect of dilutive securities Employee stock options	175,772			2,045
Warrants				5,763
Weighted average shares - diluted	14,817,117	14,641,345	14,641,345	9,763,539
Earnings (loss) per share:				
Basic and diluted from continuing operations	$ 0.05	$ 0.20	$ (0.10)	$ 0.31
Basic and diluted	0.05	0.20	(0.10)	0.39

For the three and nine months ended October 2, 2005, the calculation did not include 593,567 and 769,339 options, respectively, and 16,675,000 warrants, each warrant exercisable for one-fifth of an exchangeable share of SMTC Canada and 11,166,947 warrants, each warrant exercisable for one-tenth of one share of common stock of the Company, as the effect would have been anti-dilutive.

For the three months ended October 3, 2004, the calculation of weighted average shares - diluted did not include 174,961 options, 16,675,000 warrants, each warrant exercisable for one-fifth of an exchangeable share of SMTC Canada, 11,166,947 warrants, each warrant exercisable for one-tenth of one share of common stock of the Company and 436,664 warrants issued and warrants to be issued, as the effect would have been

anti-dilutive. For the nine months ended October 3, 2004, the calculation of weighted average shares - diluted did not include 172,916 options, 16,675,000 warrants, each warrant exercisable for one-fifth of an exchangeable share of SMTC Canada, 11,166,947 warrants, each warrant exercisable for one-tenth of one share of common stock of the Company and 430,901 warrants issued and warrants to be issued, as the effect would have been anti-dilutive.

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

8. Segmented information:

The Company derives its revenue from one dominant industry segment, the electronics manufacturing services industry. The Company is operated and managed geographically and has facilities in the United States, Canada and Mexico. The Company monitors the performance of its geographic operating segments based on EBITA (earnings before interest, taxes and amortization) before restructuring charges (recoveries), discontinued operations and the effects of a change in accounting policies. Intersegment adjustments reflect intersegment sales that are generally recorded at prices that approximate arm s-length transactions. Information about the operating segments is as follows:

	Three months ended October 3, 2005			Nine months ended October 3, 2005		
	Total revenue	Intersegment revenue	Net external revenue	Total revenue	Intersegment revenue	Net external revenue
United States	$ 28,436	$ (66)	$ 28,370	$ 87,681	$ (313)	$ 87,368
Canada	11,217	(799)	10,418	24,407	(3,343)	21,064
Mexico	28,858	(3,087)	25,771	74,019	(11,746)	62,273
	$ 68,511	$ (3,952)	$ 64,559	$ 186,107	$ (15,402)	$ 170,705

Revenue is attributed to the country from which the customer is invoiced.

EBITA (before restructuring charges):

	Three months ended October 3, 2005	Nine months ended October 3, 2005
United States	$ 1,565	$ 3,954
Canada	(1,269)	(4,919)
Mexico	1,528	2,975
	1,824	2,010
Interest	1,187	3,399
Restructuring charges (note 9)	(112)	67
Earnings (loss) before income taxes	$ 749	$ (1,456)

Capital expenditures:		
United States	$	$ 49
Canada	51	91
Mexico	80	2,170
	$ 131	$ 2,310

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

8. Segmented information:

	Three months ended October 3, 2004			Nine months ended October 3, 2004		
	Total revenue	Intersegment revenue	Net external revenue	Total revenue	Intersegment revenue	Net external revenue
United States	$ 17,471	$ (29)	$ 17,442	$ 48,565	$ (87)	$ 48,478
Canada	14,553	(2,346)	12,207	71,233	(8,591)	62,642
Mexico	33,361	(2,161)	31,200	106,863	(21,405)	85,458
	$ 65,385	$ (4,536)	$ 60,849	$ 226,661	$ (30,083)	$ 196,578

	Three months ended October 3, 2004	Nine months ended October 3, 2004
EBITA (before discontinued operations and restructuring charges):		
United States	$ 1,453	$ 2,327
Canada	(626)	(1,347)
Mexico	731	6,260
	1,558	7,240
Interest	1,065	3,555
Amortization		2,330
Restructuring charges (recoveries)	(2,490)	(2,490)
Earnings before income taxes and discontinued operations	$ 2,983	$ 3,845
Capital expenditures:		
Canada	$ 23	$ 128
Mexico	215	235
	$ 238	$ 363

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

8. Segmented information (continued):

The following enterprise-wide information is provided. Geographic revenue information reflects the destination of the product shipped. Long-lived assets information is based on the principal location of the asset.

	Three months ended		Nine months ended	
	October 2, 2005	October 3, 2004	October 2, 2005	October 2, 2004
Geographic revenue:				
United States	$ 35,285	$ 47,106	$ 100,611	$ 148,944
Canada	22,152	8,291	48,962	13,836
Europe	1,009	1,245	2,607	7,291
Asia	640	885	1,535	9,843
Mexico	5,473	3,322	16,990	16,664
	$ 64,559	60,849	$ 170,705	$ 196,578

	October 2, 2005	December 31, 2004
Long-lived assets:		
United States	$ 8,689	$ 9,939
Canada	1,829	2,462
Mexico	16,131	16,868
	$ 26,649	$ 29,269

The Company manufactures a limited number of products for each customer. If the Company loses any of its largest customers or any product line manufactured for one of its largest customers, it could experience a significant reduction in revenue. Also, the insolvency of one or more of its largest customers or the inability of one or more of its largest customers to pay for its orders could decrease revenue. As many costs and operating expenses are relatively fixed, a reduction in net revenue can decrease profit margins and adversely affect business, financial condition and results of operations.

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

9. Restructuring and other charges:

The following table details the components of the restructuring and other charges:

	Three months ended		Nine months ended	
	October 2, 2005	**October 3, 2004**	**October 2, 2005**	**October 3, 2004**
Recovery of inventory previously written-down, included in cost of sales	$	$ (1,822)	$	$ (1,822)
Lease and other contract obligations	$	$	$ 30	$
Reversal of previously recorded lease and other contract obligations	(112)	(1,694)	(112)	(1,694)
Severance		1,026	431	1,026
Adjustment to previously recorded severance			(320)	
Proceeds on assets previously written down			(12)	
Other			50	
	(112)	(668)	67	(668)
	(112)	(2,490)	67	(2,490)
Other charges (adjustments) included in selling, general and administrative expenses			(42)	(287)
	$ (112)	$ (2,490)	$ 25	$ (2,777)

(a) Restructuring charges:

2002 Plan:

In response to the industry-wide economic downturn, the Company took steps to realign its cost structure and plant capacity (the 2002 Plan) and recorded net restructuring charges of $36,900 related to the cost of exiting equipment and facility leases, severance costs, asset impairment charges, inventory exposures and other facility exit costs and other charges of $2,135 primarily related to the costs associated with the disengagement of a customer and the continued downturn.

During the three and nine months ended October 2, 2005, the Company recorded a reversal of previously recorded lease and other contract obligations of $112 related to the settlement of various equipment leases for less than originally estimated. During the nine months ended October 2, 2005, the Company also recorded severance charges of $150, other charges of $50 and the reversal of previously recorded severance charges of $320 related to a change in the estimate of amounts to be paid out.

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

9. Restructuring and other charges (continued):

The following table details the related amounts included in accrued liabilities as at October 2, 2005 in respect of the 2002 Plan:

	Accrual at July 3, 2005	Reversals	Cash payments	Accrual at October 2, 2005
Lease and other contract obligations	$ 2,191	$ (112)	$ (50)	$ 2,029
Severance	134		(14)	120
Other facility exit costs	58		(55)	3
	$ 2,383	$ (112)	$ (119)	$ 2,152

2004 Plan:

During the third quarter of 2004, the Company announced changes to its manufacturing operations as it continued to execute its transformation plan (the 2004 Plan). This plan seeks to provide greater focus on new customer and new product introduction and technical activities, to improve capacity utilization and to align cost structure to expected revenue.

During the three and nine months ended October 3, 2004, the Company recorded severance charges of $1,026 relating to 99 and 69 employees at the Chihuahua, Mexico and Markham, Ontario facilities, respectively.

During the three and nine months ended October 2, 2005, the Company recorded lease and other contract obligations of $30 and severance charges of $281 relating to 44 employees at the Chihuahua, Mexico and Appleton, Wisconsin and Markham, Ontario locations.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

9. Restructuring and other charges (continued):

The following table details the related amounts included in accrued liabilities as at October 2, 2005 in respect of the 2004 Plan:

	Accrual at July 3, 2005	Cash payments	Accrual at October 2, 2005
Lease and other contract obligations	$ 30	$	$ 30
Severance	129	(67)	61
	$ 159	$ (67)	$ 92

We expect the majority of the remaining restructuring accrual related to the 2004 Plan to be paid by the end of fiscal year 2005.

During the three and nine months ended October 2, 2005, the Company received proceeds of $12 from the sale of assets previously written off.

Subsequent to the third quarter of 2004, the Company settled a legal suit related to the facility lease in Monterrey, Mexico. A recovery of $1,694 has been recorded to adjust the provision to the amount of the settlement.

(b) Other charges (recoveries):

During the nine months ended October 2, 2005 and October 3, 2004, the Company received proceeds of $42 and $287, respectively, from the sale of an asset previously written off. As the write-off was originally recorded in selling, general and administrative expenses, these amounts

have also been recorded in selling, general and administrative expenses, as recoveries.

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

10. Discontinued Operations:

Included in earnings from discontinued operations for the three and nine months ended October 3, 2004 are proceeds from the settlement of a lawsuit of $243 and an adjustment to the remaining accrual for closing costs of $217, both relating to the closure of the Appleton manufacturing facility and proceeds from the liquidation of the Cork, Ireland facility of $377.

11. Contingencies:

In the normal course of business, the Company may be subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that ultimate resolution of such contingencies would not have a material adverse effect on the financial position, results of operations and cash flows of the Company.

12. Recent accounting pronouncements:

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current period charges, and that fixed production overheads should be allocated to inventory based on normal capacity of production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact of SFAS No. 151 on its results of operations and financial position.

In December 2004, the FASB issued SFAS No. 153, Exchange of Non-Monetary Assets an Amendment of APB Opinion 29 (SFAS 153). Accounting Principles Board Opinion 29 (APB 29) is based on the principle that exchange of non-monetary assets generally should be measured based on the fair value of assets exchanged. SFAS 153 amends APB 29 to eliminate the exception from fair value measurement for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The standard is effective for the Company for non-monetary exchanges occurring in fiscal periods beginning after June 15, 2005 and will be applied prospectively.

Table of Contents

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three and nine months ended October 2, 2005 and October 3, 2004

(Unaudited)

12. Recent accounting pronouncements (continued):

In December 2004, the FASB issued SFAS No. 123R Share Based Payment (SFAS 123R). The new Statement is effective for fiscal years beginning on or after June 15, 2005. SFAS 123R addresses the accounting for transactions in which an enterprise receives services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. This Statement eliminates the ability to account for share-based compensation transactions using APB 25 and requires that such transactions be accounted for using a fair-value based method. As required by SFAS 123R, the Company will be required to recognize an expense for compensation cost related to share-based payment arrangements including stock options and compensatory employee stock purchase plans. The new rules will be effective for the Company beginning January 1, 2006. The Company is currently evaluating option valuation methodologies and assumptions in light of the evolving accounting standards related to share-based payments and also the impact of other aspects of SFAS 123R, including transitional adoption alternatives.

In March 2005, the Securities and Exchange Commission (SEC) released SEC Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107). SAB 107 provides the SEC staff position regarding the application of SFAS 123R. SAB 107 contains interpretive guidance related to the interaction between SFAS 123R and certain SEC rules and regulations, as well as provides the staff s views regarding the valuation of share-based payment arrangements for public companies. SAB 107 also highlights the importance of disclosures made related to the accounting for share-based payment transactions. The Company is currently evaluating SAB 107 and will be incorporating it as part of its adoption of SFAS 123R.

In May, 2005, the FASB issued FASB Statement No. 154, Accounting Changes and Error Corrections: a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 requires retrospective application for voluntary changes in accounting principles unless it is impracticable to do so. In addition, SFAS 154 requires that a change in depreciation method be accounted for as a change in estimate, not as a change in accounting principle as previously required by APB 20. However, a change in depreciation methods must continue to be justified by its preferability and related disclosures must be provided. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005.

Table of Contents

Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations

SELECTED CONSOLIDATED FINANCIAL DATA

The consolidated financial statements and our selected consolidated financial data have been prepared in accordance with United States GAAP.

Consolidated Statement of Operations Data(a):

(in millions, except per share amounts)

(Unaudited)

	Three months ended		Nine months ended	
	October 2, 2005	October 3, 2004	October 2, 2005	October 3, 2004
Revenue	$ 64.6	$ 60.8	$ 170.7	$ 196.5
Cost of sales (a)	59.1	53.5	158.4	175.0
Gross profit	5.5	7.3	12.3	21.5
Selling, general and administrative expenses (a)	3.6	4.0	10.2	12.5
Amortization				2.3
Restructuring charges (adjustments) (a)	(0.1)	(0.7)	0.1	(0.7)
Operating earnings	2.0	4.0	2.0	7.4
Interest	1.2	1.0	3.4	3.5
Earnings (loss) before income taxes	0.8	3.0	(1.4)	3.9
Income tax expense		0.1	0.1	0.9
Earnings (loss) from continuing operations	0.8	2.9	(1.5)	3.0
Earnings from discontinued operations (b)				0.8
Net earnings (loss)	$ 0.8	$ 2.9	$ (1.5)	$ 3.8
Earnings (loss) per common share (c):				
Basic earnings (loss) per share from continuing operations	$ 0.05	$ 0.20	$ (0.10)	$ 0.31
Earnings per share from discontinued operations				0.08
Basic earnings (loss) per share	$ 0.05	$ 0.20	$ (0.10)	$ 0.39

Diluted earnings (loss) per share	$ 0.05	$ 0.20	$ (0.10)	$ 0.39
Weighted average number of shares outstanding (c):				
Basic	14.6	14.6	14.6	9.8
Diluted	14.8	14.6	14.6	9.8

(a) Restructuring charges for the three and nine months ended October 2, 2005 include the reversal of previously recorded lease and other contract obligations of $0.1 million. Restructuring charges for the nine months ended October 2, 2005 also include severance charges of $0.4 million, a reversal of previously recorded severance charges of $0.3 million and other restructuring charges of $0.1 million. Refer to note 9 to our October 2, 2005 interim consolidated financial statements.

Table of Contents

Restructuring charges for the three and nine months ended October 3, 2004 include severance charges of $1.0 million, offset by an adjustment of $1.7 million to previously recorded lease and other contract obligations. Refer to note 9 to our October 2, 2005 interim consolidated financial statements.

Cost of sales for the three and nine months ended October 3, 2004 includes proceeds of $1.8 million related to the settlement of a legal claim for obsolete inventory previously written off. Refer to note 9 to our October 2, 2005 interim consolidated financial statements.

Selling, general and administrative expenses for the nine months ended October 3, 2004 includes a decrease to other charges of $0.3 million relating to proceeds from the sale of an asset previously written off. Refer to note 9 to our October 2, 2005 interim consolidated financial statements.

(b) Earnings from discontinued operations for the three and nine months ended October 2, 2004 includes proceeds from the settlement of a lawsuit of $0.2 million and an adjustment to the remaining accrual for closing costs of $0.2 million, both related to the Appleton discontinued operation, and the receipt of distribution of proceeds of $0.4 million related to the Cork liquidation. Refer to note 10 to our October 2, 2005 interim consolidated financial statements.

(c) On October 4, 2004, the Company completed a reverse stock split of its issued and outstanding common and exchangeable shares whereby every five shares of common stock were exchanged for one share of common stock and every five exchangeable shares were exchanged for one exchangeable share, resulting in 7,775,181 common shares outstanding and 6,866,152 exchangeable shares outstanding at that date. All share information related to shares outstanding has been retroactively adjusted to reflect the reverse stock split.

Consolidated Balance Sheet Data:

(in millions)

	October 2, 2005 (Unaudited)	December 31, 2004
Working capital	$ 14.6	$ 12.4
Total assets	90.5	92.7
Total debt, including current maturities	35.0	33.9
Shareholders equity	12.6	14.1

29

Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We provide advanced electronics manufacturing services, or EMS, to original equipment manufacturers, or OEMs, primarily in the industrial, enterprise computing and networking, and communications market segments. We currently service our customers through manufacturing and technology centers strategically located in key technology corridors in the United States, Canada, the cost-effective location of Mexico and our manufacturing relationship with China-based Alco Electronic. Our full range of value-added supply chain services include product design, procurement, prototyping, advanced cable and harness interconnect, high-precision enclosures, printed circuit board assembly, test, final system build, comprehensive supply chain management, packaging, global distribution and after sales support.

As the technology sector grew rapidly in the years 1999 and 2000, we sought to take advantage of such growth and completed several acquisitions. When the technology sector declined, we found ourselves with significant excess capacity and incurred significant operating losses. As a result, in fiscal years 2001 and 2002, we began an operational restructuring that is substantially complete and involved closing six and selling one of our manufacturing facilities (the 2001 Plan and the 2002 Plan , respectively).

In the first and second quarters of 2004, we initiated a comprehensive transformation plan designed to restructure, recapitalize and restore profitability and growth. The transformation plan had several components, including operational optimization, recapitalization, strategy development and organization renewal. The recapitalization, which closed on June 1, 2004, consisted of three main components: a private placement of equity securities, a transaction with SMTC s pre-existing lenders to repay a portion of SMTC s pre-existing debt and restructure the balance of SMTC s pre-existing debt and a new secured credit facility with Congress Financial Corporation and its affiliates.

The private placement consisted of a committed private placement fully underwritten by a syndicate of Canadian investment dealers of 33,350,000 special warrants of SMTC Canada to qualified investors at a price of C$1.20 (approximately US$0.90) per special warrant, representing an aggregate amount of issue of C$40.02 million, C$37.3 million net of underwriting expenses, or approximately US$29.9 million, US$27.6 million net of underwriting expenses.

The transaction with SMTC s pre-existing lenders consisted of SMTC repaying $40 million of debt at par; exchanging $10 million of debt for $10 million of SMTC s common stock and warrants valued on the same terms as the private placement; and converting $27.5 million of debt into second lien subordinated debt with maturity ranging from four to five years.

The new secured credit facility with Congress Financial Corporation and its affiliates (Congress) included a $40 million credit facility available to the Company s U.S. and Canadian operating entities and a term loan of up to $2 million (the Congress Credit Facility). The revolving loan bears interest at the reference rate plus 0.5% and the term loan bears interest at the reference rate plus 1.00%. The reference rate is the Canadian prime rate for the loans in Canada and the U.S. prime rate for the loans in the United States. The Congress credit facility provides for customary fees, including a 1.00% closing fee, an unused line fee of 0.25% and a termination fee of up to 2.00%.

The Congress Credit Facility included the following terms:

The borrowing base for the revolving loan facilities provided by Congress is calculated using a formula based on (i) the lesser of 50% of the value of the eligible inventory of the Company s U.S. and Canadian operating entities valued at the lower of cost or market value, or 85% of such inventory s appraised value, both subject to a $5 million cap and (ii) 85% of the eligible accounts receivable of those entities.

The revolving loan facility originally required a lock-box arrangement where all customer remittances were swept daily to reduce the borrowings outstanding.

The Congress Credit Facility includes a single financial covenant that requires the Company to maintain a specified level of consolidated EBITDA and subjective acceleration clauses which would allow Congress to forego additional advances should they determine certain conditions exist, including those resulting in a material adverse change of the Company s business, assets, operations, prospects

or financial condition. The Company was required to achieve consolidated EBITDA of $5.0 million cumulatively for the first two quarters of 2004, $7.5 million cumulatively for the first three quarters of 2004, which the Company achieved, and $11.0 million cumulatively for 2004 in total. In March 2005, the Company and Congress signed an amendment to the Congress Credit Facility (the March 2005 Amendment) which amended the EBITDA covenant for the year ended December 31, 2004 to $10.0 million, and on a consolidated rolling four quarter basis, amended the EBITDA covenant for the first, second, third and fourth quarters of fiscal year 2005 to $6.5 million, $5.0 million, $5.0 million and $8.0 million, respectively. Thereafter, the Company will be required to maintain consolidated EBITDA of $11.0 million on a rolling four quarter basis. See March 2005 Amendments below.

The Congress Credit Facility is secured by the current and future assets of the Company s U.S. and Canadian operations. The security interest granted to Congress ranks senior to any security interest of the Pre-existing Lenders.

The Congress Credit Facility includes representations, warranties, covenants and events of default that are customary for asset based credit facilities.

Upon the closing of the recapitalization, SMTC s overall indebtedness was decreased by approximately $37.5 million.

During the period from November 2004 and August 2005, the Company, together with Congress executed amendments to the Congress Credit Facility reducing the EBITDA targets for the quarters ended December 31, 2004 to December 31, 2005 and allowing the Company to elect to use a springing lock box arrangement, whereby remittances from customers would be forwarded to the Company s general bank account rather than the lock-box arrangement as previously required. Also during this period the Company executed an amendment to the subordinated debt agreement, which reduced the EBITDA targets for each of the four quarters in the year ending December 31, 2005. At October 2, 2005, we had $8.9 million of indebtedness outstanding under the Congress Credit Facility and term debt and $25.2 million of subordinated debt. Refer to our Liquidity and Capital Resources section for further details.

During the third quarter of 2004, we announced further changes to our manufacturing operations to provide greater focus on new customer and new product introduction and technical activities, improve capacity utilization, align our cost structure to expected revenue, and to become profitable on a sustained basis (the 2004 Plan). Our Markham, Ontario site became the Company s technical center of excellence, with particular emphasis on assisting current and new customers to develop, prototype and bring new products to full production. This site also continues to manufacture low volume, high complexity printed circuit board assemblies. Our Chihuahua, Mexico facility serves as SMTC s primary assembly operation, offering customers high quality services in a highly efficient, cost effective site. Our operations in Franklin, Massachusetts and San Jose, California continue to specialize in high precision metal manufacturing and system integration activities and printed circuit board assemblies, respectively. Similarly, our engineering design services capability will continue as will our manufacturing relationship with China-based Alco Electronic.

In connection with the 2004 Plan we recorded restructuring charges of $1.5 million during the third and fourth quarters of 2004. During the third and fourth quarters of 2004, the Company also recorded a reversal of previously recorded lease and other contract obligations of $1.7 million and a recovery of inventory previously written off of $1.8 million, both in connection with the 2001 Plan, and net charges of $0.1 million in connection with the 2002 Plan.

During the first half of 2005, we continued to execute our transformation plan to restore the Company to growth and profitability and recorded further severance charges in connection with the 2004 Plan of $0.3 million. Also during the first half of 2005, the Company recorded a net recovery of restructuring charges in connection with the 2002 Plan of $0.1 million.

Having reduced capacity and costs, stabilized the stakeholder base and refinanced the balance sheet, our transformation plan was substantially complete as we exited the second quarter of 2005 with our primary focus moving to the execution of a strategy that grows revenue through a combination of increasing the level of business with current customers and new customer acquisition and restoring profitability to a satisfactory level. The Company has gained several important new customers and added a number of new program wins within our current customer base and was able to produce consecutive sequential revenue growth during the first, second and

third quarters of 2005 compared with the previous quarters. Revenue for the third quarter of 2005 was 6.3% higher than the same period last year, the first quarter to demonstrate growth in revenue as compared to the same period in the previous year, for a number of years. Also during the third quarter of 2005, the Company recorded a recovery of previously recorded lease and other contract obligations in connection with the 2002 Plan of $0.1 million.

Corporate History

SMTC Corporation is the result of the July 1999 combination of Surface Mount Technology Centre Inc. (Surface Mount) and HTM Holdings, Inc (HTM). Surface Mount was established in Toronto, Ontario in 1985. HTM was established in Denver, Colorado in 1990. SMTC was established in Delaware in 1998. After the combination, we purchased Zenith Electronics facility in Chihuahua, Mexico, which expanded our cost-effective manufacturing capabilities in an important geographic region. In September 1999, we established a manufacturing presence in the Northeastern United States and expanded our value-added services to include high precision enclosure capabilities by acquiring Boston, Massachusetts based W.F. Wood. In July 2000, we acquired Pensar Corporation, an EMS company specializing in design engineering and headquartered in Appleton, Wisconsin. On July 27, 2000, we consummated an initial public offering of 1,325,000 shares of our common stock and 875,000 exchangeable shares of our subsidiary SMTC Manufacturing Corporation of Canada, or SMTC Canada. Each exchangeable share of SMTC Canada is exchangeable at the option of the holder at any time into one share of our common stock, subject to compliance with applicable securities laws. On August 18, 2000, we sold an additional 330,000 shares of common stock upon exercise of the underwriters over-allotment option. In November 2000, we acquired Qualtron Teoranta, a provider of specialized cable and harness interconnect assemblies, based in Donegal, Ireland and with a subsidiary in Haverhill, Massachusetts. In fiscal 2001, we closed our facilities in Denver, Colorado and Haverhill, Massachusetts. In fiscal 2002, we closed our facility in Cork, Ireland. In fiscal 2003, we closed our facilities in Donegal, Ireland, Austin, Texas and Charlotte, North Carolina and sold the majority of our operations in Appleton, Wisconsin.

Results of Operations

Our contractual arrangements with our key customers generally provide a framework for our overall relationship with our customers. Revenue from the sale of products is recognized when goods are shipped to customers since title has passed to the customer, persuasive evidence of an arrangement exists, performance has occurred, all customer-specified test criteria have been met and the earnings process is complete. The Company also derives revenue from engineering and design services. Service revenue is recognized as services are performed. Actual production volumes are based on purchase orders for the delivery of products. Typically, these orders do not commit to firm production schedules for more than 30 to 90 days in advance. To minimize inventory risk, generally we order materials and components only to the extent necessary to satisfy existing customer forecasts or purchase orders. Fluctuations in material costs typically are passed through to customers. We may agree, upon request from our customers, to temporarily delay shipments, which causes a corresponding delay in our revenue recognition.

Our fiscal year end is December 31. The consolidated financial statements of SMTC, including the consolidated financial statements of HTM for periods prior to the combination, are prepared in accordance with United States GAAP, which conforms in all material respects to Canadian GAAP, except as disclosed in note 18 to the annual consolidated financial statements included in the Company s Annual Report on Form 10-K for fiscal year ended December 31, 2004. In 2002, the transitional goodwill impairment charge of $55.6 million was recognized in opening retained earnings under Canadian GAAP. Under United States GAAP, the cumulative adjustment was recognized in earnings during 2002. There are no Canadian GAAP differences in 2003. In 2004, Canadian GAAP requires companies to expense the fair value of stock-based compensation awarded to employees over the vesting period of the stock options. Under US GAAP, companies are required to calculate and disclose pro forma information related to fair value of stock-based compensation but they are not required to record a related compensation expense. Under Canadian GAAP, a compensation expense of $0.3 million would have been recorded as an expense in 2004.

Table of Contents

The following table sets forth certain operating data as a percentage of revenue for the periods ended:

(Unaudited)

	Three months ended		Nine months ended	
	October 2, 2005	October 3, 2004	October 2, 2005	October 3, 2004
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of sales	91.5	87.9	92.8	89.1
Gross profit	8.5	12.1	7.2	10.9
Selling, general and administrative expenses	5.6	6.5	6.0	6.3
Amortization				1.2
Restructuring charges	(0.2)	(1.1)		(0.3)
Operating earnings	3.1	6.7	1.2	3.7
Interest	1.9	1.7	2.0	1.8
Earnings (loss) before income taxes and discontinued operations	1.2	5.0	(0.8)	1.9
Income tax expense		0.2	0.1	0.4
Earnings (loss) from continuing operations	1.2	4.8	(0.9)	1.5
Earnings from discontinued operations				0.4
Earnings (loss)	1.2%	4.8%	(0.9)%	1.9%

Quarter ended October 2, 2005 compared to quarter ended October 3, 2004

Revenue

Revenue increased $3.8 million, or 6.3%, from $60.8 million for the third quarter of 2004 to $64.6 million for the third quarter of 2005. The increase in revenue is due largely to the growth in revenue earned from EMC² and Ingenico during the third quarter of 2005 compared to the same period last year. The growth in revenue from EMC² and Ingenico was partially offset by the decline in revenue from IBM as this program nears completion, the effect of the loss in fiscal year 2004 of Square D as a customer and a decline in revenue from certain other customers during the third quarter of 2005 compared to the same period last year. EMC² and Ingenico contributed $11.2 million and $5.9 million, respectively to the increase in revenue, offset by decreases in revenue from IBM and Square D of $7.1 million and $3.9 million, respectively.

During the third quarter of 2005, revenue from the industrial sector represented 51.4% of revenue compared to 59.3% of revenue for the third quarter of 2004. The percentage of sales attributable to the enterprise computing and networking sector and the communications sector was

31.1% and 17.5%, respectively, for the third quarter of 2005 compared to 29.92% and 10.8%, respectively, for the third quarter of 2004. The reduction in the percentage of revenue generated from the industrial sector in the third quarter of 2005 compared to the third quarter of 2004 is largely due to the effect of the loss of Square D as a customer in fiscal year 2004. The increase in the percentage of revenue generated from the computing and networking sector in the third quarter of 2005 compared to the third quarter of 2004 is due to the growth in revenue earned from EMC^2 for the third quarter of 2005 compared to the same period last year, partially offset by the reduction in revenue earned from IBM for the third quarter of 2005 compared to the same period last year. The increase in the percentage of revenue earned from the communications sector in the third quarter of 2005 compared to the third quarter of 2004 is due to the increase in revenue earned from a number of our customers in the third quarter of 2005 compared to the third quarter of 2004.

During the third quarter of 2005, we recorded approximately $1.9 million of sales of raw materials inventory to customers, which carried no margin, compared to $1.5 million in the third quarter of 2004. The Company purchases raw materials based on customer purchase orders. To the extent the customer requires these orders to be altered or changed, the customer is generally obligated to purchase the original on-order raw material.

Due to changes in market conditions, the life cycle of products, the nature of specific programs and other factors, customer volumes produced by the Company typically vary from year to year. For the third quarter of 2005, the Company s ten largest customers represented 80.9% of revenue compared to 83.8% for the same period last year. Revenue from our two largest customers during the third quarter of 2005 was $15.4 million from Ingenico and $13.0 million from EMC², representing 23.8% and 20.2%, respectively, of total revenue for the period. This compares with revenue of $9.5 million from Ingenico, $9.5 million from IBM and $7.0 million from Mars Electronics representing 15.7%, 15.6% and 11.5%, respectively, of total revenue for same period last year. No other customers represented more than 10% of revenue in either period.

During the third quarter of 2005, 43.4% of our revenue was produced from operations in Mexico, 40.9% from the United States and 15.7% from Canada. During the third quarter of 2004, 54.4% of our revenue was produced from operations in Mexico, 23.9% from Canada and 21.7% from the United States. The increase in production in the United States is the result of the increase in revenue earned from EMC² compared to the prior year. The decrease in production in Canada is due to certain product lines being transferred to our lower cost Mexico facility.

The Company operates in a highly competitive and dynamic marketplace in which current and prospective customers from time to time seek to lower their costs through a competitive tendering process among EMS providers. This process creates an opportunity to increase revenue to the extent we are successful in the tender process, however there is also the potential for revenue to decline to the extent we are unsuccessful in this process. Furthermore, even if we are successful, there is potential for our margins to decline. If we lose any of the larger product lines manufactured for any one of our customers, we could experience further declines in revenue.

Gross Profit

Gross profit decreased $1.8 million from $7.3 million, or 12.1% of revenue, for the third quarter of 2004 to $5.5 million, or 8.5% of revenue, for the third quarter of 2005. Gross profit for the third quarter of 2004 included the net proceeds of $1.8 million, or 3.0% of revenue for the period, related to the settlement of a legal claim for obsolete inventory previously written off. Excluding the settlement of the obsolete inventory claim, gross profit for the third quarter of 2004 was $5.5 million, or 9.1% of revenue for the third quarter of 2004 compared to $5.5 million, or 8.5% of revenue for the same period this year. The decline in the gross margin percentage in the third quarter of 2005 is largely due to a change in customer mix, partially offset by improved utilization of fixed costs.

The Company adjusts for estimated obsolete or excess inventory for the difference between the cost of inventory and estimated realizable value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers and the ability to sell back inventory to customers or suppliers. If these estimates change, additional write-downs may be required.

Selling, General & Administrative Expenses

Selling, general and administrative expenses decreased $0.4 million from $4.0 million, or 6.5% of revenue, for the third quarter of 2004 to $3.6 million, or 5.6% of revenue, for the third quarter of 2005. The decrease in selling, general and administrative expenses in both absolute dollars and as a percentage of revenue is the result of corporate-wide cost containment measures initiated during the second half of 2004.

The Company determines the allowance for doubtful accounts for estimated credit losses based on the length of time the receivables have been outstanding, customer and industry concentrations, the current business environment and historical experience.

Restructuring Charges

During 2001 and 2002 the Company announced restructuring programs aimed at reducing its cost structure and plant capacity (the 2001 Plan and the 2002 Plan , respectively) and recorded restructuring and other charges consisting of a write-down of goodwill and other intangible assets, the costs of exiting equipment and facility leases, severance costs, asset impairment charges, inventory exposures and other facility exit costs. During the third quarter of 2004, the Company announced further changes to its manufacturing operations as it continues to execute its transformation plan (the 2004 Plan). This plan seeks to provide greater focus on new customer and new product introduction and technical activities, to improve capacity utilization and to align its cost structure to expected revenue.

Table of Contents

The following table details the components of the restructuring and other charges:

(in millions)	Quarter ended October 2, 2005	Quarter ended October 3, 2004
Recovery of inventory previously written-down, included in cost of sales	$	$ (1.8)
Lease and other contract obligations	(0.1)	$ (1.7)
Severance		1.0
	$ (0.1)	$ (0.7)
	$ (0.1)	$ (2.5)

2001 Plan:

During the third quarter of 2004, the Company recorded the settlement of a legal suit relating to the facility in Monterrey, Mexico. A recovery of $1.7 million was recorded to adjust the provision to the amount of the settlement.

2002 Plan:

During the third quarter of 2005, the Company recorded a reversal of previously recorded lease and other contract obligations of $0.1 million related to the settlement of various equipment leases for less than originally estimated.

The following table details the related amounts included in accrued liabilities as at October 2, 2005 relating to the 2002 Plan:

(in millions)	Accrual at July 3, 2005	Reversals	Cash payments	Accrual at October 2, 2005
Lease and other contract obligations	$ 2.2	$ (0.1)	$ (0.1)	$ 2.0
Severance	0.1			0.1
Other facility exit costs	0.1		(0.1)	
	$ 2.4	$ (0.1)	$ (0.2)	$ 2.1

The following table discloses the restructuring amounts included in accrued liabilities by segment relating to the 2002 Plan:

(in millions)	**Accrual at July 3, 2005**	**Reversals**	**Cash payments**	**Accrual at October 2, 2005**
US	$ 2.0	$	$ (0.1)	$ 1.9
Canada	0.3		(0.1)	0.2
Mexico	0.1	(0.1)		
	$ 2.4	$ (0.1)	$ (0.2)	$ 2.1

We expect the outstanding severance and other facility exit costs will be paid out during 2005. We are in a legal dispute for the remaining lease and other contractual obligations outstanding.

Table of Contents

2004 Plan:

During the third quarter of 2004, the company recorded severance charges of $1.0 million relating to 99 and 69 employees at the Chihuahua, Mexico and Markham, Ontario facilities, respectively.

The following table details the related amounts included in accrued liabilities as at October 2, 2005 relating to the 2004 Plan:

(in millions)	Accrual at July 3, 2005	Cash payments	Accrual at October 2, 2005
Severance	$ 0.2	$ (0.1)	$ 0.1

The following table discloses the restructuring amounts included in accrued liabilities by segment relating to the 2004 Plan:

(in millions)	Accrual at July 3, 2005	Cash payments	Accrual at October 2, 2005
Canada	$ 0.2	$ (0.1)	$ 0.1

We expect the majority of the remaining restructuring accrual related to the 2004 Plan to be paid by the end of fiscal year 2005.

Interest Expense

Interest expense increased $0.2 million from $1.0 million for the third quarter of 2004 to $1.2 million for the third quarter of 2005. Interest expense for the third quarter of 2005 includes the amortization of deferred financing fees of $0.3 million offset by a reduction in interest expense of $0.1 million related to the amortization of the value of the cancelled warrants. Excluding the amortization of deferred financing fees and the reduction in interest expense related to the amortization of the value of the cancelled warrants, interest expense was $1.0 million for the third quarters of 2004 and 2005. The weighted average interest rates with respect to the debt for the third quarter of 2005 and 2004 were 9.8% and 7.2%, respectively.

Income Tax Expense

During the third quarter of 2005, the Company recorded a refund of income taxes of $0.1 million, offset by a tax expense of $0.1 million related to minimum taxes in certain jurisdictions. During the third quarter of 2004 the Company recorded income tax expense of $0.1 million related to taxes in certain jurisdictions.

At December 31, 2004, the Company had total net operating loss (NOL) carryforwards of approximately $105.2 million, of which $2.4 million will expire in 2010, $6.7 million will expire in 2011, $1.3 million will expire in 2012, $1.1 million will expire in 2018, $0.1 million will expire in 2019 and 2020, $54.1 million will expire in 2021, $20.1 million will expire in 2022, and $19.4 million will expire in 2023.

Whether the Recapitalization Transaction described in note 6 result in an ownership change for purposes of Section 382 of the Internal Revenue Code (Section 382), which imposes a limitation on a corporation s use of NOL carryforwards following an ownership change, depends upon whether the exchangeable shares of SMTC Canada are treated as shares of the Company under U.S. tax principles. The tax law governing the exchangeable shares is unclear and, accordingly, it is uncertain whether Section 382 will apply to the Recapitalization Transaction. If deemed applicable, Section 382 would limit the amount of NOLs available to offset taxable income in the post-ownership change period and would preclude the full utilization of the Company s NOLs.

However, the Company has filed the appropriate tax election to ensure that the taxable intercompany dividend, paid in connection with the Recapitalization Transaction, would be allocated to the pre-ownership change period in the year ended December 31, 2004, and thus the utilization of NOLs against this income amount would not be limited.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. FASB Statement No. 109, Accounting for Income Taxes, states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. As a result of the quarterly review undertaken at the end of the second quarter of 2003, the Company concluded that given the weakness and uncertainty in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets arising from its operations in the jurisdictions to which the deferred tax assets relate. The U.S. and Canadian jurisdictions continued to have a full valuation allowance established for the deferred tax asset. In addition, the Company expects to continue to provide a full valuation allowance for the assets relating to the U.S and Canadian jurisdictions until it can demonstrate a sustained level of profitability that establishes its ability to utilize the assets in the jurisdictions to which the assets relate.

Nine months ended October 2, 2005 compared to nine months ended October 3, 2004

Revenue

Revenue decreased $25.8 million, or 13.1%, from $196.5 million for the first nine months of 2004 to $170.7 million for the first nine months of 2005. The decline in revenue resulted from lower production volume from IBM as this program nears completion and the effect of the loss in fiscal year 2004 of Square D as a customer. This resulted in approximately $26.0 million and $22.4 million, respectively, in lower revenue from these customers for the first nine months of 2005 compared to the first nine months of 2004. This was somewhat offset by growth in revenue from EMC² of $32.9 million for the first nine months of 2005 compared to the same period last year.

During the first nine months of 2005, revenue from the industrial sector represented 45.2% of revenue compared to 59.7% of revenue for the first nine months of 2004. The percentage of sales attributable to the enterprise computing and networking sector and the communications sector was 36.8% and 18.0%, respectively, for the first nine months of 2005 compared to 28.9% and 11.4%, respectively, for the first nine months of 2004. The reduction in the percentage of revenue generated from the industrial sector in the first nine months of 2005 compared to the first nine months of 2004 is largely due to the effect of the loss of Square D as a customer in fiscal year 2004. The increase in the percentage of revenue generated from the computing and networking sector in the first nine months of 2005 compared to the first nine months of 2004 is due to the growth in revenue earned from EMC² for the first nine months of 2005 compared to the same period last year, partially offset by the reduction in revenue earned from IBM for the first nine months of 2005 compared to the same period last year. The increase in the percentage of revenue earned from the communications sector in the first nine months of 2005 compared to the first nine months of 2004 is due to the increase in revenue earned from a number of our smaller customers in the first nine months of 2005 compared to the first nine months of 2004.

During the first nine months of 2005, we recorded approximately $6.1 million of sales of raw materials inventory to customers, which carried no margin, compared to $6.0 million in the first nine months of 2004. The Company purchases raw materials based on customer purchase orders. To the extent the customer requires these orders to be altered or changed, the customer is generally obligated to purchase the original on-order raw material.

Due to changes in market conditions, the life cycle of products, the nature of specific programs and other factors, customer volumes produced by the Company typically vary from year to year. For the first nine months of 2005, the Company s ten largest customers represented approximately 83.8% of revenue compared to 84.9% for the same period last year. Revenue from our three largest customers during the first nine months of 2005 was $38.5 million from EMC², $30.7 million from Ingenico and $18.2 million from Mars Electronics, representing 22.5%, 18.0% and 10.6%, respectively, of total revenue for the period. This compares with revenue of $34.5 million from IBM, $33.6 million from Ingenico and $22.5 million from Square D representing 17.5%, 17.1% and

11.4%, respectively, of total revenue for the same period last year. No other customers represented more than 10% of revenue in either period.

During the first nine months of 2005, 44.4% of our revenue was produced from operations in the Mexico, 43.3% from the United States and 12.3% from Canada. During the first nine months of 2004, 54.3% of our revenue was produced from operations in Mexico, 26.0% from Canada and 19.7% from the United States. The increase in production in the United States is the result of the increase in revenue earned from EMC² compared to the prior year. The decrease in production in Canada is due to certain product lines being transferred to our lower cost Mexico facility.

The Company operates in a highly competitive and dynamic marketplace in which current and prospective customers from time to time seek to lower their costs through a competitive tendering process among EMS providers. This process creates an opportunity to increase revenue to the extent we are successful in the tender process, however there is also the potential for revenue decline to the extent we are unsuccessful in this process. Furthermore, even if we are successful, there is potential for our margins to decline. If we lose any of our larger product lines manufactured for one of our customers, we could experience further declines in revenue.

Gross Profit

Gross profit decreased $9.2 million from $21.5 million, or 10.9% of revenue, for the first nine months of 2004, to $12.3 million, or 7.2% of revenue, for the first nine months of 2005. Gross profit for the first nine months of 2004 included the net proceeds of $1.8 million, or 0.9% of revenue for the period, related to the settlement of a legal claim for obsolete inventory previously written off. Excluding the settlement of the obsolete inventory claim, gross profit for the first nine months of 2004 was $19.7 million, or 10.0% for the third quarter of 2004 compared to $12.3 million, or 7.2% for the same period this year. The decline in gross margin absolute dollars is due to the lower sales base coupled with a change in customer mix, partially offset by improved utilization of fixed costs. The decline in the gross margin percentage is largely due to a change in customer mix and higher variable costs as a percentage of revenue, partially offset by improved utilization of fixed costs.

The Company adjusts for estimated obsolete or excess inventory for the difference between the cost of inventory and estimated realizable value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers and the ability to sell back inventory to customers or suppliers. If these estimates change, additional write-downs may be required.

Selling, General & Administrative Expenses

Selling, general and administrative expenses decreased $2.3 million from $12.5 million, or 6.3% of revenue, for the first nine months of 2004 to $10.2 million, or 6.0% of revenue, for the first nine months of 2005. The decrease in selling, general and administrative expenses in both absolute dollars and as a percentage of revenue is the result of corporate-wide cost containment measures, partially offset by an adjustment of $0.3 million recorded in the first nine months of 2004 related to proceeds received on the sale of an asset previously written off.

The Company determines the allowance for doubtful accounts for estimated credit losses based on the length of time the receivables have been outstanding, customer and industry concentrations, the current business environment and historical experience.

Amortization

Amortization of intangible assets of $2.3 million for the first nine months of 2004 is in connection with the amortization of deferred finance costs related to the establishment of our senior credit facility in July 2000 and subsequent amendments thereto.

The deferred finance costs related to the Recapitalization Transaction that closed on June 1, 2004 are recorded as interest expense commencing the third quarter of 2004.

Restructuring and Other Charges

During 2001 and 2002 the Company announced restructuring programs aimed at reducing its cost structure and plant capacity (the 2001 Plan and the 2002 Plan , respectively) and recorded restructuring and other charges consisting of a write-down of goodwill and other intangible assets, the costs of exiting equipment and

Table of Contents

facility leases, severance costs, asset impairment charges, inventory exposures and other facility exit costs. During the third quarter of 2004, the Company announced further changes to its manufacturing operations as it continues to execute its transformation plan (the 2004 Plan). This plan seeks to provide greater focus on new customer and new product introduction and technical activities, to improve capacity utilization and to align its cost structure to expected revenue.

The following table details the components of the restructuring and other charges:

	Nine month ended	
(in millions)	**October 2, 2005**	**October 3, 2004**
Recovery of inventory previously written-down, included in cost of sales	$	$ (1.8)
Lease and other contract obligations	(0.1)	$ (1.7)
Severance	0.4	1.0
Adjustment to previously recorded severance	(0.3)	
Other	0.1	
	$ 0.1	$ (0.7)
	$ 0.1	$ (2.5)

2001 Plan:

During the third quarter of 2004, the Company recorded the settlement of a legal suit relating to the facility in Monterrey, Mexico. A recovery of $1.7 million was recorded to adjust the provision to the amount of the settlement.

2002 Plan:

During the first nine months of quarter of 2005, the Company recorded a reversal of previously recorded lease and other contract obligations of $0.1 million related to the settlement of various equipment leases for less than originally estimated.

During the first nine months of 2004, the Company recorded severance charges of $0.1 million, offset by a reversal of previously recorded severance charges of $0.3 million and other charges of $0.1 million, all in connection with the 2002 Plan.

The following table details the related amounts included in accrued liabilities as at October 2, 2005 relating to the 2002 Plan:

(in millions)	Accrual at December 31, 2004	2005 charges (reversals)	Cash payments	Accrual at October 2, 2005
Lease and other contract obligations	$ 2.4	$ (0.1)	$ (0.3)	$ 2.0
Severance	0.9	(0.2)	(0.6)	0.1
Other facility exit costs		0.1	(0.1)	
	$ 3.3	$ (0.2)	$ (1.0)	$ 2.1

39

Table of Contents

The following table discloses the restructuring amounts included in accrued liabilities by segment relating to the 2002 Plan:

(in millions)	Accrual at December 31, 2004	2005 charges (reversals)	Cash payments	Accrual at October 2, 2005
US	$ 2.3	$ 0.2	$ (0.6)	$ 1.9
Canada	0.8	(0.3)	(0.3)	0.2
Mexico	0.2	(0.1)	(0.1)	
	$ 3.3	$ (0.2)	$ (1.0)	$ 2.1

We expect the outstanding severance and other facility exit costs will be paid out during 2005. We are in a legal dispute for the remaining lease and other contractual obligations outstanding.

2004 Plan:

During the first nine months of 2005, the Company recorded severance charges of $0.3 million related to 44 employees at the Chihuahua, Mexico and Markham, Ontario locations.

During the first nine months of 2004, the company recorded severance charges of $1.0 million relating to 99 and 69 employees at the Chihuahua, Mexico and Markham, Ontario facilities, respectively.

The following table details the related amounts included in accrued liabilities as at October 2, 2005 relating to the 2004 Plan:

(in millions)	Accrual at December 31, 2004	2005 charges (reversals)	Cash payments	Accrual at October 2, 2005
Severance	$ 0.8	$ 0.3	$ (1.0)	$ 0.1

The following table discloses the restructuring amounts included in accrued liabilities by segment relating to the 2004 Plan:

(in millions)

	Accrual at December 31, 2004	2005 charges (reversals)	Cash payments	Accrual at October 2, 2005
Canada	$ 0.8	$ 0.1	$ (0.8)	$ 0.1

We expect the majority of the remaining restructuring accrual related to the 2004 Plan to be paid by the end of fiscal year 2005.

(b) Other charges (recoveries):

The Company recorded an adjustment to other charges of $0.3 million during the first nine months of 2004 relating to proceeds from the sale of an asset previously written off. This amount has been recorded in selling, general and administrative expenses.

Interest Expense

Interest expense decreased $0.1 million from $3.5 million for the first nine months of 2004 to $3.4 million for the first nine months of 2005. Interest expense for the first nine months of 2005 includes the amortization of deferred financing fees of $0.8 million offset by a reduction in interest expense of $0.3 million related to the

amortization of the value of the cancelled warrants. Excluding the amortization of deferred financing fees and the reduction in interest expense related to the amortization of the value of the cancelled warrants, interest expense decreased $0.6 million from $3.5 million to $2.9 million due to lower average debt balances outstanding, partially offset by higher interest rates during the first nine months of 2005. The weighted average interest rates with respect to the debt for the first nine months of 2005 and 2004 were 9.8% and 7.3%, respectively.

Income Tax Expense

During the first nine months of 2005, the Company recorded income tax expense of $0.1 million on a loss before income taxes of $1.5 million. The net income tax expense includes a refund of $0.1 million, offset by a tax expense of $0.2 million related to minimum taxes in certain jurisdictions. During the first nine months of 2004, the Company recorded an income tax expense of $0.9 million which includes $0.5 million related to an intercompany dividend and $0.4 million related to taxes in certain jurisdictions.

At December 31, 2004, the Company had total net operating loss (NOL) carryforwards of approximately $105.2 million, of which $2.4 million will expire in 2010, $6.7 million will expire in 2011, $1.3 million will expire in 2012, $1.1 million will expire in 2018, $0.1 million will expire in 2019 and 2020, $54.1 million will expire in 2021, $20.1 million will expire in 2022, and $19.4 million will expire in 2023.

Whether the Recapitalization Transaction described in note 6 result in an ownership change for purposes of Section 382 of the Internal Revenue Code (Section 382), which imposes a limitation on a corporation s use of NOL carryforwards following an ownership change, depends upon whether the exchangeable shares of SMTC Canada are treated as shares of the Company under U.S. tax principles. The tax law governing the exchangeable shares is unclear and, accordingly, it is uncertain whether Section 382 will apply to the Recapitalization Transaction. If deemed applicable, Section 382 would limit the amount of NOLs available to offset taxable income in the post-ownership change period and would preclude the full utilization of the Company s NOLs. However, the Company has filed the appropriate tax election to ensure that the taxable intercompany dividend, paid in connection with the Recapitalization Transaction, would be allocated to the pre-ownership change period in the year ended December 31, 2004, and thus the utilization of NOLs against this income amount would not be limited.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. FASB Statement No. 109, Accounting for Income Taxes, states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. As a result of the quarterly review undertaken at the end of the second quarter of 2003, the Company concluded that given the weakness and uncertainty in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets arising from its operations in the jurisdictions to which the deferred tax assets relate. The U.S. and Canadian jurisdictions continued to have a full valuation allowance established for the deferred tax asset. In addition, the Company expects to continue to provide a full valuation allowance for the assets relating to the U.S and Canadian jurisdictions until it can demonstrate a sustained level of profitability that establishes its ability to utilize the assets in the jurisdictions to which the assets relate.

Discontinued Operations

Earnings from discontinued operations for the first nine months of 2004 consists primarily of proceeds from the settlement of a lawsuit of $0.2 million and an adjustment to the remaining accrual for closing costs of $0.2 million, both relating to the closure of the Appleton manufacturing facility and proceeds from the liquidation of the Cork, Ireland facility of $0.4 million.

Liquidity and Capital Resources

Our principal sources of liquidity are cash provided from operations and borrowings under our existing credit facilities. We have also previously relied on our access to the capital markets. Our principal uses of cash have been to meet debt service requirements and to finance working capital requirements. We anticipate our

principal uses of cash in the future will continue to be to meet debt service requirements and to finance working capital requirements.

Nine months ended October 2, 2005 Liquidity:

Net cash generated from operating activities for the first nine months of 2005 was $1.4 million. The generation of cash was the result of a net loss of $1.5 million and a net use of working capital of $2.3 million, offset by non-cash depreciation and other charges of $5.2 million. The net use of working capital of $2.3 million consists of an increase in accounts receivable and a decrease in income tax payable of $6.7 million and $0.4 million, respectively, both of which used working capital. This was offset by a decrease in inventory of $4.1 million and a net increase in accounts payable and accrued liabilities of $0.7 million, both of which generated working capital. Accounts receivable days sales outstanding was 43 days for the third quarters of 2004 and 2005. Inventory turned, on an annualized basis, eight times for the first nine months of 2005 compared to seven times for the same period in 2004**.** Accounts payable days outstanding was 43 days for the third quarter ended October 2, 2005, compared to 37 days for the same period last year. The accounts payable days outstanding has increased from the prior year as the Company has successfully negotiated improved terms with certain of its suppliers since closing the Recapitalization Transaction in June, 2004. During the first nine months of 2005, the Company paid $2.0 million in connection with restructuring charges.

Net cash used in financing activities during the first nine months of 2005 of $0.1 million consists of the net increase in long-term debt of $1.4 million offset by the repayment of capital leases of $1.5 million. Under the Congress Credit Facility, we have a secured revolving credit facility of up to $40 million. At October 2, 2005, we had $8.9 million of indebtedness outstanding under our credit facilities. The Congress Credit Facility has a borrowing base formula that bases our ability to borrow on the characteristics of our accounts receivable and inventory.

Net cash used in investing activities for the first nine months of 2005 of $1.3 million consists of the purchase of capital assets of $2.3 million, offset by proceeds from the disposal of a vacant building in Mexico of $1.0 million.

Nine months ended October 3, 2004 Liquidity:

Net cash used in operating activities for the first nine months of 2004 was $1.0 million consisting of net earnings of $3.8 million and non-cash depreciation, amortization and other of $2.3 million, $4.3 million and $0.4 million, respectively, offset by a use of working capital of $11.8 million. The net use of cash to support working capital of $11.7 million consists of a decrease in accounts receivable and prepaid expenses and an increase in income tax payable of $12.7 million, $0.3 million and $1.3 million, respectively, all of which generated working capital. This was offset by a increase in inventory of $0.7 million and a net decrease in accounts payable and accrued liabilities of $25.4 million, both of which used working capital. Accounts receivable days sales outstanding improved to 43 days for the third quarter of 2004 from 60 days for the same period in 2003. Inventory turns declined to 6 times for the third quarter of 2004 from 9 times for the same period in 2003. Accounts payable days outstanding improved to 35 days for the third quarter of 2004 compared to 62 days for the same period last year. The improvement in accounts payable days is a result of additional liquidity provided by the Recapitalization Transaction. Upon completion of the Recapitalization Transaction in June, we focused our efforts on working with our suppliers to significantly reduce our payment cycle and reestablish market terms going forward.

Net cash generated from financing activities for the first nine months of 2004 of $1.2 million consists of the net repayment of long-term debt of $30.3 million, the payment of deferred financing fees of $3.3 million and the repayment of capital leases of 0.2 million, offset by the proceeds from the issuance of capital stock and warrants, net of fees, of $25.8 million and $9.0 million, respectively and the repayment of shareholder loans of $0.1 million.

Net cash used in investing activities for the first nine months of 2004 was $0.3 million related to the purchase of capital assets.

Capital Resources

As described in greater detail under Management s Discussion and Analysis of Financial Condition and Results of Operations Overview, in 2004, the Company effected a Recapitalization Transaction through three

main components: a private placement of equity securities, a transaction with our Pre-existing Lenders to repay a portion of and restructure a portion of the Company s existing debt and a new secured credit facility:

On March 3, 2004, we closed in escrow a fully underwritten, committed private placement of 33,350,000 Special Warrants of SMTC Canada to qualified investors at a price of C$1.20 (approximately US$0.90) per Special Warrant, representing an aggregate amount of issue of C$40.02 million, C$37.3 million net of underwriting expenses, or approximately US $29.9 million, US $27.6 million net of underwriting expenses, based on the exchange rate on March 3, 2004. The net proceeds were released from escrow on June 1, 2004 and were used for debt reduction and working capital.

We satisfied debt that was owed to the Pre-existing Lenders by repaying $40 million of debt at par, exchanging $10 million of debt for $10 million of the Company s common stock and warrants valued on the same terms as the private placement, and converting $27.5 million of debt into second lien subordinated debt with maturity ranging from four to five years.

We obtained a new, 3-year $40 million credit facility, subject to certain borrowing base conditions, from Congress.

The Recapitalization Transaction lowered our overall indebtedness by approximately $37.5 million, extended the term of the majority of the remaining indebtedness and provided additional liquidity. The level of indebtedness under our credit facility at December 31, 2003 was $70.1 million and at May 31, 2004 was $77.5 million. Immediately following the closing of the Recapitalization Transaction on June 1, 2004, we had approximately $40.0 million of indebtedness outstanding under the Credit Facilities. At October 2, 2005, we had $8.9 million of indebtedness outstanding under the Congress Credit Facility and term debt, $25.2 million of subordinated debt and $1.0 million related to the unamortized value of the cancelled warrants related to the Pre-existing Facility.

Having successfully completed the Recapitalization Transaction on June 1, 2004, we believe that cash generated from operations, available cash and amounts available under our Credit Facilities will be adequate to meet our debt service requirements, capital expenditures and working capital needs at our current level of operations and organic growth through the next twelve months, although no assurance can be given in this regard, particularly with respect to amounts available under our Credit Facilities. We have agreed to a borrowing base formula under which the amount we are permitted to borrow under the Congress Credit Facility is based on our accounts receivable and inventory. Further, there can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to enable us to service our indebtedness. Our future operating performance and ability to service or refinance indebtedness will be subject to future economic conditions and to financial, business and other factors, certain of which are beyond our control.

On November 16, 2004, we executed a letter of understanding with Congress amending the terms of the revolving credit facility. The letter of understanding provides that, at our option, we may elect to use a springing lock-box arrangement whereby remittances from customers are forwarded to our general bank account and we are not required to reduce the borrowings under the facility unless certain conditions exist. Previous to the letter of understanding, the revolving credit facility required a lock-box arrangement, where all customer remittances were swept daily to reduce the borrowings outstanding. The original lock-box arrangement, combined with the existence of subjective acceleration clauses, required us to classify the borrowings under the revolving credit facility as a current liability on the balance sheet, pursuant to the guidance in the Financial Accounting Standards Board s Emerging Issues Task Force Issue No. 95-22, Balance Sheet Classifications of Borrowings Outstanding under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement. Accordingly, we were required to restate our balance sheet as at October 3, 2004 to reclassify the borrowings outstanding under the revolving credit facility as a current liability rather than a long-term liability as originally recorded. The subjective acceleration clauses allow the lenders to forego additional advances should they determine certain conditions exist, including a material adverse effect on the Company s business, assets, operations, prospects or financial condition.

Should we elect to change to the springing lock-box arrangement, as allowed under the letter of understanding, availability under the facility may be reduced by the elimination of eligible inventory. Pursuant to the letter of understanding, we will be required to revert back to a required lock-box arrangement if (a) availability under the revolving credit facility is less than the greater of (i) $2.5 million or (ii) 25% of the outstanding borrowings under the credit facility or (b) the occurrence of an event of default.

In March 2005, the Company and Congress signed amendments to the Congress facilities (the March 2005 Amendments) which formalized the November 16, 2004 letter of understanding on the terms described above and reduced the EBITDA targets for the quarters ended December 31, 2004 through December 31, 2005.

In August 2005, the Company and Congress signed a further amendment to the Congress Facilities (the August 2005 Amendments) which removed the elimination of inventory from the availability calculation should the Company elect to change to the springing lock-box arrangement.

We believe that no conditions have occurred that would result in subjective acceleration by the lenders, nor do we believe that any such conditions will exist over the next 12 months. Furthermore, Congress has not informed us that any such condition or event has occurred. Because of the option to use a springing lock-box arrangement and based on our assessment of the subjective acceleration clauses, the debt has been classified as long-term as at October 2, 2005.

We do not foresee being precluded from exercising the option of converting to a springing lock-box based on our expected financing needs over the next 12 months; however, due to the effective cash management aspect of the current lock-box arrangement, we have no plans to move to a springing lock-box arrangement.

In the normal course of business, we may be subject to litigation and claims from customers, suppliers and former employees. We believe that adequate provisions have been recorded in the accounts, where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that ultimate resolution of such contingencies would not have a material adverse effect on our financial position, results of operations and cash flows.

The Company is in compliance with the financial covenants included in its lending agreements at October 2, 2005. Continued compliance with the financial covenants through the next twelve months is dependent on the Company achieving certain forecasts. The Company believes the forecasts are based on reasonable assumptions and are achievable; however, the forecasts are dependent on a number of factors, some of which are outside the control of the Company. These include but are not limited to, general economic conditions and specifically the strength of the electronics industry and the related demand for products and services by the Company s customers. In the event of non-compliance, the Company s lenders have the ability to amend the financial covenants, demand repayment of the amounts outstanding under the lending agreements or pursue other remedies.

In March 2005, the Company executed an amendment to the subordinated debt agreement, which reduced the EBITDA targets for each of the four quarters in the year ending December 31, 2005.

Critical Accounting Estimates

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 to our December 31, 2004 Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. The following critical accounting policies are affected significantly by judgments, assumptions and estimates used in the preparation of financial statements. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Allowance for Doubtful Accounts

We evaluate the collectibility of accounts receivable and record an allowance for doubtful accounts, which reduces the accounts receivable to the amount we reasonably believe will be collected. A specific allowance is recorded against customer accounts receivable that are considered to be impaired based on our knowledge of the financial condition of our customers. In determining the amount of the allowance, we consider factors, including the length of time the accounts receivable have been outstanding, customer and industry concentrations, the current business environment and historical experience.

Table of Contents

Inventory Valuation

Inventories are valued, on a first-in, first-out basis, at the lower of cost and replacement cost for raw materials and at the lower of cost and net realizable value for work in progress and finished goods. Inventories include an application of relevant overhead. We write down estimated obsolete or excess inventory for the difference between the cost of inventory and estimated net realizable value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers, and the ability to sell inventory to customers or on return to suppliers. If these assumptions change, additional write-downs may be required.

Restructuring and Other Charges

In response to excess capacity, we have recorded restructuring and other charges aimed at reducing our cost structure. In connection with exit activities, we have recorded charges for inventory write-downs, employee termination costs, lease and other contractual obligations, long-lived asset impairment and other exit-related costs. These charges were incurred pursuant to formal plans developed by management. The recognition of restructuring and other charges required us to make certain judgments and estimates regarding the nature, timing and amount of costs associated with the planned exit activities. The estimates of future liabilities may change, requiring the recording of additional charges or the reduction of liabilities already recorded. At the end of each reporting period, we evaluate the remaining accrued balances to ensure that no excess accruals are retained and the utilization of the provision are for their intended purposed in accordance with the developed exit plans.

Long-lived Assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with FASB Statement No. 144, Accounting for Impairment or Disposal of Long-Lived Assets (Statement 144). Under Statement 144 assets must be classified as either held-for-use or available-for-sale. An impairment loss is recognized when the carrying amount of an asset that is held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured by discounted cash flows when quoted market prices are not available. For assets available-for-sale, an impairment loss is recognized when the carrying amount exceeds the fair value less costs to sell. In accordance with the provisions of Statement 144, we have presented the closure of our Cork facility in 2002 and sale of our Appleton facility in 2003 as discontinued operations.

Income Tax Valuation Allowance

In assessing the realization of deferred tax assets, we consider whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. We consider the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. FASB Statement No. 109, Accounting for Income Taxes, states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. Based upon consideration of these factors, management believes the recorded valuation allowance related to all of its loss carryforwards is appropriate.

Recent accounting pronouncements

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current period charges, and that fixed production overheads should be allocated to inventory based on normal capacity of production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact of SFAS No. 151 on its results of operations and financial position.

In December 2004, the FASB issued SFAS No. 153, Exchange of Non-Monetary Assets an Amendment of APB Opinion 29 (SFAS 153). Accounting Principles Board Opinion 29 (APB 29) is based on the principle that exchange of non-monetary assets generally should be measured based on the fair value of assets exchanged. SFAS 153 amends APB 29 to eliminate the exception from fair value measurement for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary

assets that do not have commercial substance. The standard is effective for the Company for non-monetary exchanges occurring in fiscal periods beginning after June 15, 2005 and will be applied prospectively.

In December 2004, the FASB issued SFAS No. 123R Share Based Payment (SFAS 123R). The new statement is effective for fiscal years beginning on or after June 15, 2005. SFAS 123R addresses the accounting for transactions in which an enterprise receives services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. This statement eliminates the ability to account for share-based compensation transactions using APB 25 and requires that such transactions be accounted for using a fair-value based method. As required by SFAS 123R, the Company will be required to recognize an expense for compensation cost related to share-based payment arrangements including stock options and compensatory employee stock purchase plans. The new rules will be effective for the Company beginning January 1, 2006. The Company is currently evaluating option valuation methodologies and assumptions in light of the evolving accounting standards related to share-based payments and also the impact of other aspects of SFAS 123R, including transitional adoption alternatives.

In March 2005, the Securities and Exchange Commission (SEC) released SEC Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107). SAB 107 provides the SEC staff position regarding the application of SFAS 123R. SAB 107 contains interpretive guidance related to the interaction between SFAS 123R and certain SEC rules and regulations, as well as provides the staff s views regarding the valuation of share-based payment arrangements for public companies. SAB 107 also highlights the importance of disclosures made related to the accounting for share-based payment transactions. The Company is currently evaluating SAB 107 and will be incorporating it as part of its adoption of SFAS 123R.

In May, 2005, the FASB issued FASB Statement No. 154, Accounting Changes and Error Corrections: a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 requires retrospective application for voluntary changes in accounting principles unless it is impracticable to do so. In addition, SFAS 154 requires that a change in depreciation method be accounted for as a change in estimate, not as a change in accounting principle as previously required by APB 20. However, a change in depreciation methods must continue to be justified by its preferability and related disclosures must be provided. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005.

FORWARD-LOOKING STATEMENTS

A number of the matters and subject areas discussed in this Form 10-Q are forward-looking in nature. The discussion of such matters and subject areas is qualified by the inherent risks and uncertainties surrounding future expectations generally; these expectations may differ materially from SMTC s actual future experience involving any one or more of such matters and subject areas. SMTC cautions readers that all statements other than statements of historical facts included in this quarterly Form 10-Q regarding SMTC s financial position and business strategy may constitute forward-looking statements. All of these forward-looking statements are based upon estimates and assumptions made by SMTC s management, which although believed to be reasonable, are inherently uncertain. Therefore, undue reliance should not be placed on such estimates and statements. No assurance can be given that any of such estimates or statements will be realized, and it is likely that actual results will differ materially from those contemplated by such forward-looking statements. Factors that may cause such differences include: (1) increased competition; (2) increased costs; (3) the inability to implement our business plan and maintain covenant compliance under our credit agreements; (4) the loss or retirement of key members of management; (5) increases in SMTC s cost of borrowings or lack of availability of additional debt or equity capital on terms considered reasonable by management; (6) adverse provincial, state, federal or foreign legislation or regulation or adverse determinations by regulators; (7) changes in general economic conditions in the markets in which SMTC may compete and fluctuations in demand in the electronics industry; (8) the inability to manage inventory levels efficiently in light of changes in market conditions; (9) our ability to maintain compliance with requirements for continued listing on the Nasdaq National Market; and (10) the inability to sustain historical margins as the industry develops. SMTC has attempted to identify certain of the factors that it currently believes may cause actual future experiences to differ from SMTC s current expectations regarding the relevant matter or subject area. In addition to the items specifically discussed in the foregoing, SMTC s business and results of operations are subject to the risks and uncertainties described under the heading Factors That May

Table of Contents

Affect Future Results below. The operations and results of SMTC s business may also be subject to the effect of other risks and uncertainties. Such risks and uncertainties include, but are not limited to, items described from time to time in SMTC s reports filed with the Securities and Exchange Commission.

FACTORS THAT MAY AFFECT FUTURE RESULTS

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

We are exposed to general economic conditions, which could have a material adverse impact on our business, operating results and financial condition.

As a result of recent unfavorable economic conditions, reduced capital spending and changes in our customers manufacturing requirements, our sales declined during fiscal years 2002 to 2004. In particular, sales to OEMs in the telecommunications and enterprise computing and networking industries worldwide were impacted during 2003. If general economic conditions worsen or fail to improve, we may experience a material adverse impact on our business, operating results and financial condition.

A majority of our revenue comes from a small number of customers; if we lose any of our larger customers, our revenue could decline significantly.

We operate in a highly competitive and dynamic marketplace in which current and prospective customers often seek to lower their costs through a competitive bidding process among EMS providers. This process creates an opportunity to increase revenue to the extent we are successful in the bidding process, however, there is also the potential for revenue decline to the extent we are unsuccessful in the process. Furthermore, even if we are successful, there is the potential for our margins to decrease.

Our largest two customers were EMC² and Ingenico, which represented approximately 23.8% and 20.2%, respectively, of our total revenue for the third quarter of 2005. Our top ten largest customers (including EMC², and Ingenico) collectively represented approximately 80.9% of our total revenue the third quarter of 2005. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our revenue. In addition to having a limited number of customers, we manufacture a limited number of products for each of our customers. If we lose any of our largest customers or any product line manufactured for one of our largest customers, we could experience a significant reduction in our revenue. Also, the insolvency of one or more of our largest customers or the inability of one or more of our largest customers to pay for its orders could decrease revenue. As many of our costs and operating expenses are relatively fixed, a reduction in net revenue can decrease our profit margins and adversely affect our business, financial condition and results of operations.

Our industry is very competitive and we may not be successful if we fail to compete effectively.

The electronics manufacturing services (EMS) industry is highly competitive. We compete against numerous domestic and foreign EMS providers including Celestica Inc., Flextronics International Ltd., Jabil Circuit, Inc., Sanmina-SCI, Inc., Solectron Corporation, Benchmark

Electronics Inc., Pemstar Inc. and Plexus Corp. In addition, we may in the future encounter competition from other large electronics manufacturers that are selling, or may begin to sell, electronics manufacturing services. Many of our competitors have international operations, and some have substantially greater manufacturing, financial, research and development and marketing resources and lower cost structures than us. We also face competition from the manufacturing operations of current and potential customers, which are continually evaluating the merits of manufacturing products internally versus the advantages of using external manufacturers.

We may experience variability in our operating results, which could negatively impact the price of our shares.

Our annual and quarterly results have fluctuated in the past. The reasons for these fluctuations may similarly affect us in the future. Prospective investors should not rely on results of operations in any past period to indicate what our results will be for any future period. Our operating results may fluctuate in the future as a result of many factors, including:

variations in the timing and volume of customer orders relative to our manufacturing capacity;

variations in the timing of shipments of products to customers;

introduction and market acceptance of our customers new products;

- changes in demand for our customers existing products;
- the accuracy of our customers forecasts of future production requirements;
- effectiveness in managing our manufacturing processes and inventory levels;
- changes in competitive and economic conditions generally or in our customers markets;
- willingness of suppliers to supply the Company on normal credit terms; and
- changes in the cost or availability of components or skilled labor.

In addition, most of our customers typically do not commit to firm production schedules more than 30 to 90 days in advance. Accordingly, we cannot forecast the level of customer orders with certainty. This makes it difficult to schedule production to maximize utilization of our manufacturing capacity. In the past, we have been required to increase staffing, purchase materials and incur other expenses to meet the anticipated demand of our customers. Sometimes anticipated orders from certain customers have failed to materialize, and at times delivery schedules have been deferred as a result of changes in a customer s business needs. Any material delay, cancellation or reduction of orders from our larger customers could cause our revenue to decline significantly. In addition, as many of our costs and operating expenses are relatively fixed, a reduction in customer demand can decrease our gross margins and adversely affect our business, financial condition and results of operations. On other occasions, customers have required rapid and unexpected increases in production, which have placed burdens on our manufacturing capacity and adversely affected costs.

Any of these factors or a combination of these factors could have a material adverse effect on our business, financial condition and results of operations.

We are dependent upon the electronics industry, which produces technologically advanced products with short life cycles.

Many of our customers are in the electronics industry, which is characterized by intense competition, short product life-cycles and significant fluctuations in product demand. In addition, the electronics industry is generally subject to rapid technological change and product obsolescence. If our customers are unable to create products that keep pace with the changing technological environment, their products could become obsolete and the demand for our services could significantly decline. Our success is largely dependent on the success achieved by our customers in developing and marketing their products. Furthermore, this industry is subject to economic cycles and has in the past experienced downturns. A continued recession or a downturn in the electronics industry would likely have a material adverse effect on our business, financial condition and results of operations.

Shortage or price fluctuation in component parts specified by our customers could delay product shipment and affect our profitability.

A substantial portion of our revenue is derived from turnkey manufacturing. In turnkey manufacturing, we provide both the materials and the manufacturing services. If we fail to manage our inventory effectively, we may bear the risk of fluctuations in materials costs, scrap and excess

inventory, all of which can have a material adverse effect on our business, financial condition and results of operations. We are required to forecast our future inventory requirements based upon the anticipated demands of our customers. Inaccuracies in making these forecasts or estimates could result in a shortage or an excess of materials. In addition, delays, cancellations or reductions of orders by our customers could result in an excess of materials. A shortage of materials could lengthen production schedules and increase costs. An excess of materials may increase the costs of maintaining inventory and may increase the risk of inventory obsolescence, both of which may increase expenses and decrease profit margins and operating income.

Many of the products we manufacture require one or more components that we order from sole-source suppliers. Supply shortages for a particular component can delay productions of all products using that component or cause cost increases in the services we provide. In addition, in the past, some of the materials we use, such as memory and logic devices, have been subject to industry-wide shortages. As a result, suppliers allocate available quantities among their customers, and we have not been able to obtain all of the materials required. Our inability to obtain these materials could slow production or assembly, delay shipments to our customers, increase costs and reduce operating income. Also, we may bear the risk of periodic component price increases. Accordingly, some component price increases could increase costs and reduce operating income. Also we rely on a variety of common carriers for materials transportation, and we route materials through various

world ports. A work stoppage, strike or shutdown of a major port or airport could result in manufacturing and shipping delays or expediting charges, which could have a material adverse effect on our business, financial condition and results of operations.

We have experienced significant retrenchment and growth in a short period of time.

In 2001 we implemented an operational restructuring plan that called for significant retrenchment. We closed our Denver and Haverhill facilities and resized operations in Mexico and Ireland in an effort to reduce our cost structure. In February, 2002 the main customer of our Cork, Ireland facility was placed into administration as part of a financial restructuring. As a result, on March 19, 2002, we announced that we were closing our Cork, Ireland facility and that we were taking steps to place the subsidiary that operates that facility in voluntary administration and in 2003, we closed our sites in Austin, Texas, Donegal, Ireland and Charlotte, North Carolina and sold our manufacturing operations in Appleton, Wisconsin. In late 2003, we developed a broad-based transformation plan designed to restructure, refinance and restore profitability and growth. This plan involved operational optimization programs, refinancing, stockholder stabilization initiatives, strategy development and organizational renewal. Through 2004 we initiated and executed on the components of the plan. Retrenchment and growth cause strain on our infrastructure, including our managerial, technical and other resources.

If we are unable to respond to rapidly changing technology and process development, we may not be able to compete effectively.

The market for our products and services is characterized by rapidly changing technology and continuing process development. The future success of our business will depend in large part upon our ability to maintain and enhance our technological capabilities, to develop and market services that meet changing customer needs, and to successfully anticipate or respond to technological changes on a cost-effective and timely basis. In addition, the EMS industry could in the future encounter competition from new or revised technologies that render existing technology less competitive or obsolete or that reduce the demand for our services. There can be no assurance that we will effectively respond to the technological requirements of the changing market. To the extent we determine that new technologies and equipment are required to remain competitive, the development, acquisition and implementation of such technologies and equipment may require us to make significant capital investments. There can be no assurance that capital will be available for these purposes in the future or that investments in new technologies will result in commercially viable technological processes.

Our business will suffer if we are unable to attract and retain key personnel and skilled employees.

Our business depends on our ability to continue to recruit, train and retain skilled employees, particularly executive management, engineering and sales personnel. Recruiting personnel in our industry is highly competitive. Our ability to successfully implement our business plan depends in part on our ability to attract and retain management and existing employees. There can be no assurance that we will be able to attract and retain executive officers and key personnel or attract qualified management in the future. In connection with our restructuring, we significantly reduced our workforce. If we receive a significant volume of new orders, we may

Table of Contents

have difficulty recruiting skilled workers back into our workforce to respond to such orders and accordingly may experience delays that could adversely effect our ability to meet customers delivery schedules.

Risks particular to our international manufacturing operations could adversely affect our overall results.

Our international manufacturing operations are subject to inherent risks, including:

- fluctuations in the value of currencies and high levels of inflation;
- longer payment cycles and greater difficulty in collecting amounts receivable;
- unexpected changes in and the burdens and costs of compliance with a variety of foreign laws;
- political and economic instability;
- increases in duties and taxation;
- imposition of restrictions on currency conversion or the transfer of funds;
- trade restrictions; and
- dependence on key customers.

We are subject to a variety of environmental laws, which expose us to potential financial liability.

Our operations are regulated under a number of federal, state, provincial, local and foreign environmental and safety laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of such materials. Compliance with these environmental laws is a major consideration for us because we use metals and other hazardous materials in our manufacturing processes. We may be liable under environmental laws for the cost of cleaning up properties we own or operate if they are or become contaminated by the release of hazardous materials, regardless of whether we caused such release. In addition we, along with any other person who arranges for the disposal of our wastes, may be liable for costs associated with an investigation and remediation of sites at which we have arranged for the disposal of hazardous wastes, if such sites become contaminated, even if we fully comply with applicable environmental laws. In the event of a contamination or violation of environmental laws, we could be held liable for damages including fines, penalties and the costs of remedial actions and could also be subject to revocation of our discharge permits. Any such revocations could require us to cease or limit production at one or more of our facilities, thereby having a material adverse effect on our operations. Environmental laws could also become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with any violation, which could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO OUR CAPITAL STRUCTURE

Our indebtedness could adversely affect our financial health and severely limit our ability to plan for or respond to changes in our business.

At October 2, 2005, we had $8.9 million of indebtedness outstanding under our credit facilities with Congress Financial Corporation and its affiliates, which we refer to in this report as the Congress Credit Facility. The amount of indebtedness outstanding under the Congress Credit Facility fluctuates based on our operations. Under the Congress Credit Facility, we have a secured revolving credit and term loan facility of up to $40 million. At October 2, 2005, we also had $25.2 million of second lien, subordinated term indebtedness outstanding under our restructured, pre-existing credit facility, which we refer to in this report as the Pre-existing Facility (and together with the Congress Credit Facility, the Credit Facilities), with our pre-existing lenders, Lehman Commercial Paper Inc., The Bank of Nova Scotia, General Electric Capital Corporation, IBM Credit Corporation, Silver Point Capital L.P., Royal Bank of Canada, Comerica Bank, AMMC CDO I Limited and AMMC CDO II Limited, which we refer to in this report as the Pre-existing Lenders. Our debt, whether under our Congress Credit Facility or Pre-existing Facility, could have adverse consequences for our business, including:

- We will be more vulnerable to adverse general economic conditions.

- We will be required to dedicate a substantial portion of our cash flow from operations to repayment of debt, limiting the availability of cash for other purposes.

Table of Contents

We may have difficulty obtaining financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes.

We may have limited flexibility in planning for, or reacting to, changes in our business and industry.

We could be limited by restrictive covenants and the borrowing base formula in our credit arrangements in our borrowing of additional funds.

We may fail to comply with covenants under which we borrowed our indebtedness which could result in an event of default. If an event of default occurs and is not cured or waived, it could result in all amounts outstanding, together with accrued interest, becoming immediately due and payable. If we were unable to repay such amounts, our lenders could proceed against any collateral granted to them to secure that indebtedness. There can be no assurance that we will maintain compliance with the covenants under our Credit Facilities.

Our Congress Credit Facility contains subjective acceleration clauses. There can be no assurance that the lender will not exercise their rights to accelerate repayment under the terms of the agreement.

There can be no assurance that our leverage and such restrictions will not materially adversely affect our ability to finance our future operations or capital needs or to engage in other business activities. In addition, our ability to pay principal and interest on our indebtedness to meet our financial and restrictive covenants and to satisfy our other debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, certain of which are beyond our control, as well as the availability of revolving credit borrowings under the Congress Credit Facility or successor facilities.

We face significant restrictions on our ability to operate under the terms of our Credit Facilities.

The terms of our Credit Facilities generally restrict, among other things, our ability to incur additional indebtedness, complete acquisitions, pay dividends or make certain other restricted payments, consummate certain asset sales, make capital expenditures, enter into certain transactions with affiliates, merge, consolidate or sell, assign, transfer, lease, convey or otherwise dispose of our assets (other than in the ordinary course of business). We are also required to maintain specified EBITDA (earnings before interest expense, income taxes, depreciation and amortization) levels under the Credit Facilities.

The Congress Credit Facility also has a borrowing base formula that limits our ability to borrow based on the characteristics of our accounts receivable and inventory. Further, Congress has discretion to reduce availability under the Congress Credit Facility.

If we are not able to comply with these covenants and requirements, customers may lose confidence in us and reduce or eliminate their orders with us which may have a material adverse effect on our business, financial condition and results of operations.

Substantially all of our assets and those of our subsidiaries are pledged as security under our Credit Facilities.

Provisions in our charter documents and state law may make it harder for others to obtain control of us even though some stockholders might consider such a development favorable.

Provisions in our charter, by-laws and certain provisions under Delaware law may have the effect of delaying or preventing a change of control or changes in our management that stockholders consider favorable or beneficial. If a change of control or change in management is delayed or prevented, the market price of our shares could suffer.

The Company s ability to use existing net operating losses to offset future taxable income may be subject to certain limitations.

Section 382 of the Internal Revenue Code (Section 382) imposes a limitation on a corporation s use of net operating loss (NOL) carryforwards following an ownership change . Whether or not the Recapitalization Transaction results in an ownership change for purposes of Section 382 depends upon whether the exchangeable shares of SMTC Canada are treated as shares of the Company under U.S. tax principles. Because the tax law governing the exchangeable shares is unclear, it is uncertain whether Section 382 will apply to the Recapitalization Transaction. If deemed applicable, Section 382 would limit the amount of NOLs available to offset taxable income in the post-ownership change period and would preclude the full utilization of the Company s NOLs. As of December 31, 2004, the Company had total net operating loss carryforwards (both U.S. and Canadian) of approximately $105.2 million.

The issuance of additional authorized shares of common stock may dilute the voting power and equity interest of present stockholders and may prevent a hostile takeover of the Company.

Shares of authorized but unissued common stock may be issued from time to time by our Board of Directors without further stockholder action unless such action is required by Delaware law, under which the Company is incorporated, our charter, or the rules of the Nasdaq National Market System. Additional authorized but unissued shares of common stock might be used in the context of a defense against or response to possible or threatened hostile takeovers. It is not possible to predict in advance whether the issuance of additional shares will have a dilutive effect on earnings per share as it depends on the specific events associated with a particular transaction.

Certain differences may exist between the trading market of our common stock and the trading market for the exchangeable shares of SMTC Canada

Although the exchangeable shares of SMTC Canada are intended to be functionally and economically equivalent to shares of our common stock, there can be no assurance that the market price of the exchangeable shares will be identical, or even similar, to the market price of our common stock.

Item 3: Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

Our credit facilities bear interest at both floating and fixed rates. The weighted average interest rate on our credit facilities for the third quarter of 2005 was 9.80%. At October 2, 2005, our revolving credit facility of $8.1 million bore interest at 7.25% based on the U.S. prime rate and our tranche A term debt bore interest at 9.50% based on the U.S. base rate. If the U.S. base rates increased by 10%, our interest expense would have increased by approximately $0.2 million annually.

Foreign Currency Exchange Risk

Most of our sales are denominated in U.S. dollars. Most of our purchases are denominated in U.S. dollars, with the exception of Canadian and Mexican payroll and other various expenses denominated in local currencies. As a result we have relatively little exposure to foreign currency exchange risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company s Chief Executive Officer and Chief Financial Officer have conducted an evaluation of the Company s disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on their evaluation, the Company s Chief Executive Officer and Principal Financial Officer have concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company s management, including the Company s Chief Executive Officer and the Company s Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There have been no changes in internal control over financial reporting that occurred during the Company s most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS

List of Exhibits:

31.1	Certification of John Caldwell pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 16, 2005.
31.2	Certification of Jane Todd pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 16, 2005.
32.1	Certification of John Caldwell, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 16, 2005.
32.2	Certification of Jane Todd, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 16, 2005.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, SMTC Corporation has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

SMTC CORPORATION

By: /s/ John Caldwell
Name: John Caldwell
Title: President and CEO

By: /s/ Jane Todd
Name: Jane Todd
Title: Chief Financial Officer

Date: November 16, 2005

54

Table of Contents

EXHIBIT INDEX

Exhibit Number	Document
31.1	Certification of John Caldwell pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 16, 2005.
31.2	Certification of Jane Todd pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 16, 2005.
32.1	Certification of John Caldwell, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 16, 2005.
32.2	Certification of Jane Todd, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 16, 2005.

Table of Contents

Exhibit 31.1

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATIONS

I, John Caldwell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SMTC Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5. The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: November 16, 2005

/s/ John Caldwell
John Caldwell
President and Chief Executive Officer

Table of Contents

Exhibit 31.2

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATIONS

I, Jane Todd, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SMTC Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5. The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: November 16, 2005

/s/ Jane Todd
Jane Todd
Chief Financial Officer

Table of Contents

Exhibit 32.1

CERTIFICATION PURSUANT TO

SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as chief executive officer of SMTC Corporation (the Company), does hereby certify that to the undersigned s knowledge:

1) the Company s quarterly report on Form 10-Q for the quarter ended October 2, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company s quarterly report on Form 10-Q for the quarter ended October 2, 2005 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Caldwell
John Caldwell
President and Chief Executive Officer

Date: November 16, 2005

A signed original of this written statement required by Section 906 has been provided to SMTC Corporation and will be retained by SMTC Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Table of Contents

Exhibit 32.2

CERTIFICATION PURSUANT TO

SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as principal financial officer of SMTC Corporation (the Company), does hereby certify that to the undersigned s knowledge:

1) the Company s quarterly report on Form 10-Q for the quarter ended October 2, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company s quarterly report on Form 10-Q for the quarter ended October 2, 2005 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jane Todd
Jane Todd
Chief Financial Officer

Date: November 16, 2005

A signed original of this written statement required by Section 906 has been provided to SMTC Corporation and will be retained by SMTC Corporation and furnished to the Securities and Exchange Commission or its staff upon request.