



**FIRST QUARTER  
REPORT TO SHAREHOLDERS 2006**

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## RESULTS OF OPERATIONS

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### Net Sales

Sales for the three months to March 31, 2006 were \$212.8 million, which represents a decrease of \$4.4 million or 2.0% from the \$217.2 million achieved in the comparable period of last year. Steel prices softened somewhat in the first quarter and were below the comparable period of last year. More significantly, the strong Canadian dollar has continued to negatively impact Canadian exports and U.S. based sales, resulting in all segments posting lower sales levels except for Distribution. If not for changes in the exchange rate, sales in all segments would have been higher in the first quarter compared to last year. The average exchange rate of the U.S. dollar in the first quarter of 2006 was Cdn. \$1.15 compared to \$1.23 in the first quarter of last year.

Sales of the Packaging segment, at \$103.9 million, were down \$3.5 million or 3.3% largely due to changes in the exchange rate and lower exports outside of North America. Metal Processing sales for the quarter were \$82.4 million, which is down 1.4%. This was due to lower sales of roll formed products and decreased pickling revenues offset in part by higher sales of stainless steel tubular products and steel pressure vessels. Distribution sales were \$26.5 million. This was up \$0.4 million or 1.4% over last year with higher sales in Canada more than offsetting decreases in the U.S. which were due entirely to changes in the exchange rate.

### Earnings

Net earnings for the first three months of 2006 were \$10.1 million or \$0.32 per share, compared to the \$18.7 million or \$0.59 per share achieved in the comparable quarter of last year. The first quarter results last year included a restructuring gain of \$5.8 million on the sale of the Brockhouse facility as outlined in Note 3 to the interim financial statements. This restructuring gain of \$5.5 million after tax positively impacted earnings in the first quarter last year by \$0.17 per share.

Operating profit (see below for cautionary language regarding non-GAAP measures) for the first quarter amounted to \$15.5 million which is \$5.4 million or 26.1% below last year's \$20.9 million. Declining steel pricing and surcharges coupled with lower demand in certain sectors and the impact of the appreciating Canadian dollar contributed to the decline in earnings.

The Packaging segment had profits of \$8.6 million which is 21.8% below the comparable quarter of last year, with decreases in both Canada and the U.S. reflecting lower margins resulting from increased steel costs and lower margins on exports outside of North America.

The Metal Processing segment generated profits of \$8.9 million which is 15.9% below the comparable quarter of last year. The major reasons for the decrease are decreased profits from stainless steel tubular products, reflecting lower stainless pricing and the negative impact of the stronger Canadian dollar, lower profits from steel pickling operations and reduced technology income. Profits from roll formed products were higher compared to last year reflecting higher margins on custom forming sales. Profits from steel pressure vessels were relatively flat compared to last year.

Within the Distribution segment there was an operating profit of \$1.0 million compared to a profit of \$2.0 million in the comparable quarter of last year with both Canada and the U.S. posting lower results reflecting a more competitive market and lower margins.

## FINANCIAL CONDITION

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### Liquidity and Capital Resources

Cash flow before changes in non-cash working capital for the first quarter of 2006 amounted to \$15.9 million which is down \$3.4 million from \$19.3 million in the comparable quarter of last year. Overall cash flow from operating activities was \$12.9 million compared to cash flow used in operating activities of \$17.1 million last year. Decreased requirements for non-cash working capital more than offset lower levels of profitability.

Cash used in investing activities at \$3.8 million compares to last year's \$1.8 million gain from investing activities, mainly due to the proceeds on sale of capital assets of \$7.4 million in 2005. Cash used in financing activities amounted to \$4.9 million in the quarter compared to an inflow of \$9.0 million last year with the increase in cash last year due to the increase in long-term debt. During the quarter, 48,000 stock options were exercised which resulted in the issuance of 48,000 common shares in exchange for proceeds of \$0.4 million. Dividends paid on common shares amounted to \$3.2 million or \$0.10 per share in the quarter compared to \$2.9 million or \$0.09 per share in the comparable period of last year. In aggregate, the cash position increased by \$4.1 million compared to a \$6.3 million decrease last year. The Company continues to maintain credit facilities with various banks and at March 31, 2006 had available unused credit facilities of approximately \$148 million.

### **Capital Expenditures**

Capital expenditures in the three months to March 31, 2006 were \$3.9 million compared to \$3.0 million during the first quarter last year. Expenditures in the current quarter related primarily to new and replacement machinery and equipment at several locations.

### **Business Acquisition**

On April 26, 2006, the Company announced the signing of a definitive purchase agreement to acquire Silvan Industries, Inc. Additional details are outlined in Subsequent Event Note 5 to the interim consolidated financial statements.

### **Working Capital**

Working capital at March 31, 2006 was \$183.5 million, an increase of \$9.1 million from the year-end position. An increase in receivables and inventories and lower bank indebtedness was offset in part by higher payables. Overall, the working capital ratio decreased slightly to 2.9 from 3.0 at the year-end position, but increased compared to the end of the first quarter last year when it was 2.5.

### **Net Borrowings to Capitalization**

The Company's net borrowings as at March 31, 2006 amounted to \$17.3 million, a decrease of \$6.2 million from \$23.5 million at December 31, 2005. The net debt to capitalization ratio at the end of the quarter decreased to 5.2% from both the year-end position and the end of the first quarter last year when it was 7.1% and 20.7% respectively.

### **Capital Stock**

Details of issued and outstanding common shares are outlined in Note 2 to these interim consolidated financial statements. As at the date of this report the number of outstanding common shares is 31,854,445. Under the Company's Normal Course Issuer Bid no common shares of Samuel Manu-Tech Inc. were purchased to date. The Issuer Bid approves the purchase by the Company of up to 1,589,622 common shares during the one-year period commencing August 19, 2005. No stock options were issued during the first quarter, however, 48,000 stock options were exercised, resulting in the issuance of 48,000 common shares in exchange for proceeds of \$0.4 million.

### **Outlook**

As expected, the steel market showed signs of softening in the first quarter, relative to 2005. While prices have increased in the second quarter, the outlook for the rest of the year will likely include the possibility of further price volatility. The steel market is also adjusting to increased imports which have gained a significant foothold in the North American market. In addition, if the Canadian dollar continues at current levels or strengthens even more in relation to the U.S. dollar, it will have a continued negative impact on the conversion of our sales and profits originating in the U.S. as well as on our Canadian export sales and margins. The Company's recent announcements in February of new production facilities in Iuka, Mississippi and Saltillo, Mexico represent the type of strategic expansions that will help to improve margins in the future and offset some of the negative impact of the appreciating Canadian dollar. Considering the above factors, management is pleased with the performance for the first three

months and remains cautiously optimistic for the balance of the year. While the results for the balance of the year are expected to be below those of 2005, the Company should still generate solid earnings per share.

## Quarterly Results

(in thousands of dollars except per share amounts)

	<b>2006 Q1</b>	2005 Q4	2005 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2
Net Sales	<b>\$ 212,801</b>	\$ 205,672	\$ 212,974	\$ 226,634	\$ 217,151	\$ 213,111	\$ 224,918	\$ 210,690
Net Earnings	<b>10,081</b>	12,702	12,546	12,801	18,667	17,236	19,190	15,096
Basic Earnings per Share	<b>0.32</b>	0.40	0.39	0.40	0.59	0.55	0.61	0.47
Diluted Earnings per Share	<b>0.31</b>	0.40	0.39	0.40	0.58	0.54	0.61	0.47

Samuel Manu-Tech Inc. (SMT-TSX) is a leading North American industrial products company producing and distributing a wide range of steel, plastic and related industrial products and services from locations in Canada and the United States.



Mark C. Samuel  
Vice-Chairman & CEO

April 28, 2006

The "First Quarter Results" utilize the term "operating profit (EBIT)" which is a non-GAAP measure. Securities regulations require that corporations caution readers that these terms do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Operating profit (EBIT) is defined as earnings before restructuring gain, interest and income taxes.

Operating profit (EBIT) should not be construed as a substitute for net earnings or cash flows from operations (each as determined in accordance with generally accepted accounting principles) for the purpose of analyzing the Company's operating performance, financial position or cash flows. The Company believes that, in addition to cash flow from operations and net earnings, operating profit is a useful financial performance measurement for assessing operating performance as it provides investors with an additional basis to evaluate the ability of the Company to incur and service debt and to fund capital expenditures.

This report may contain forward-looking information that is subject to risks, uncertainties and assumptions. Such information represents our current views based on information as at the date of issuing this report. We do not intend to update this information and disclaim any legal obligation to the contrary.

## NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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The interim consolidated financial statements of Samuel Manu-Tech Inc., which include the interim consolidated balance sheet as at March 31, 2006 and the interim consolidated statements of earnings, retained earnings and cash flows for the three month period then ended are the responsibility of management. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect estimates based on the best judgment of management.

These interim consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors of the Company, KPMG LLP.



Mark C. Samuel  
*Vice-Chairman & CEO*

April 28, 2006



John D. Amodeo  
*Vice-President & Chief Financial Officer*

## CONSOLIDATED STATEMENTS OF EARNINGS

Three Months ended March 31, 2006 and 2005 (unaudited)

(in thousands of dollars except per share amounts)

	1ST QUARTER	
	2006	2005
NET SALES	\$ 212,801	\$ 217,151
COSTS AND EXPENSES (INCOME):		
Cost of sales, selling & administration	191,394	189,502
Depreciation and amortization	5,513	6,174
Foreign exchange loss	436	559
Interest on long-term debt	234	599
Interest on short-term debt	49	170
Interest income	(16)	(4)
	197,610	197,000
EARNINGS BEFORE RESTRUCTURING GAIN AND INCOME TAXES	15,191	20,151
RESTRUCTURING GAIN (note 3)	—	(5,786)
EARNINGS BEFORE INCOME TAXES	15,191	25,937
INCOME TAXES:		
Current	4,599	6,431
Future	511	839
	5,110	7,270
NET EARNINGS	\$ 10,081	\$ 18,667
BASIC EARNINGS PER SHARE	\$ 0.32	\$ 0.59
DILUTED EARNINGS PER SHARE	\$ 0.31	\$ 0.58

See accompanying notes to consolidated financial statements.

## SEGMENTED INFORMATION

Three Months ended March 31, 2006 and 2005 (unaudited)

(in thousands of dollars)

	1ST QUARTER	
	2006	2005
<b>NET SALES</b>		
Packaging	\$ 103,948	\$ 107,455
Metal Processing	82,374	83,583
Distribution	26,479	26,113
Consolidated	\$ 212,801	\$ 217,151

	1ST QUARTER	
	2006	2005
<b>EARNINGS BEFORE RESTRUCTURING GAIN, INTEREST AND INCOME TAXES</b>		
Packaging	\$ 8,649	\$ 11,054
Metal Processing	8,890	10,567
Distribution	994	2,018
Corporate	(3,075)	(2,723)
Earnings before restructuring gain, interest and income taxes	15,458	20,916
Restructuring gain	—	(5,786)
Interest on long-term debt	234	599
Interest on short-term debt	49	170
Interest income	(16)	(4)
Earnings before income taxes	\$ 15,191	\$ 25,937

See accompanying notes to consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

March 31, 2006 (unaudited) and December 31, 2005 (audited)

(in thousands of dollars)

	March 31, 2006	Dec. 31, 2005
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,186	\$ 1,131
Accounts receivable	117,073	106,540
Inventories	152,754	143,944
Prepaid expenses and sundry	3,051	3,736
Future income taxes	6,024	6,043
	<b>281,088</b>	261,394
CAPITAL ASSETS	<b>136,932</b>	138,064
ACCRUED PENSION ASSET	<b>4,970</b>	4,751
FUTURE INCOME TAXES	<b>1,013</b>	1,206
GOODWILL	<b>16,963</b>	16,941
INTANGIBLE ASSETS	<b>7,739</b>	8,078
	<b>\$ 448,705</b>	\$ 430,434
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Bank indebtedness	\$ 2,859	\$ 5,938
Accounts payable and accrued liabilities	83,534	69,797
Deferred revenue	1,008	936
Dividends payable	3,210	3,203
Income taxes payable	6,933	7,036
	<b>97,544</b>	86,910
LONG-TERM DEBT	<b>16,591</b>	18,702
POST-RETIREMENT BENEFITS OTHER THAN PENSIONS	<b>2,196</b>	2,176
FUTURE INCOME TAXES	<b>16,283</b>	15,971
	<b>132,614</b>	123,759
SHAREHOLDERS' EQUITY:		
Capital stock (note 2)	27,767	27,375
Contributed surplus	108	108
Retained earnings	300,429	293,533
Cumulative translation adjustment	(12,213)	(14,341)
	<b>316,091</b>	306,675
SUBSEQUENT EVENT (note 5)		
	<b>\$ 448,705</b>	\$ 430,434

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Three Months ended March 31, 2006 and 2005 (unaudited)

(in thousands of dollars)

	1ST QUARTER	
	2006	2005
RETAINED EARNINGS, BEGINNING OF PERIOD	\$ 293,533	\$ 248,580
NET EARNINGS	10,081	18,667
DIVIDENDS PAID ON COMMON SHARES	(3,185)	(2,860)
RETAINED EARNINGS, END OF PERIOD	<b>\$ 300,429</b>	\$ 264,387

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months ended March 31, 2006 and 2005 (unaudited)

(in thousands of dollars)

	1ST QUARTER	
	2006	2005
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>		
Net earnings	\$ 10,081	\$ 18,667
Items not involving cash:		
Depreciation and amortization	5,513	6,174
Gain on disposal of capital assets	(7)	(5,850)
Future income taxes	511	839
Increase in accrued pension asset	(218)	(476)
Increase (decrease) in post-retirement benefits other than pensions	13	(40)
	<b>15,893</b>	19,314
Change in non-cash operating working capital:		
Increase in accounts receivable	(9,850)	(9,780)
Increase in inventories	(8,102)	(16,079)
Decrease in prepaid expenses and sundry	725	2,088
Increase (decrease) in accounts payable and accrued liabilities	14,256	(2,816)
Increase in deferred revenue	42	—
Decrease in income taxes payable	(113)	(9,854)
	<b>12,851</b>	(17,127)
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>		
Proceeds on sale of capital assets	101	7,352
Purchase of capital assets and intangible assets	(3,909)	(2,957)
Business acquisition	—	(2,573)
	<b>(3,808)</b>	1,822
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>		
Issuance of common shares (note 2)	392	121
Increase in long-term debt	2,854	12,522
Repayment of long-term debt	(5,000)	(788)
Dividends paid on common shares	(3,185)	(2,860)
	<b>(4,939)</b>	8,995
EFFECT OF EXCHANGE RATE CHANGES ON CASH POSITION	30	(7)
INCREASE (DECREASE) IN CASH POSITION	<b>4,134</b>	(6,317)
CASH POSITION, BEGINNING OF PERIOD	<b>(4,807)</b>	(11,239)
CASH POSITION, END OF PERIOD	<b>\$ (673)</b>	\$ (17,556)

Cash position is comprised of cash and cash equivalents, with maturities at the date of purchase of three months or less, less bank indebtedness.

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three Months ended March 31, 2006 and 2005 (unaudited)

(in thousands of dollars except per share amounts)

## 1. SIGNIFICANT ACCOUNTING POLICIES:

The unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. These financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2005. All accounting policies and methods of their application used in the interim financial statements are consistent with the Company's annual financial statements.

## 2. CAPITAL STOCK:

	March 31, 2006	Dec. 31, 2005
Number of common shares outstanding	31,849,445	31,801,445
Number of options outstanding	704,700	752,700

The Company did not issue any stock options during the three months ended March 31, 2006. During the quarter ended March 31, 2006, 48,000 stock options were exercised, resulting in the issuance of 48,000 common shares in exchange for proceeds of \$392.

Weighted average number of shares:

	1ST QUARTER	
	2006	2005
Basic shares	31,820,778	31,762,312
Effect of dilutive stock options	280,458	307,042
Diluted shares	32,101,236	32,069,354

The Company applied the settlement method of accounting for stock options granted to employees and directors during the year ended December 31, 2002. Accordingly no compensation cost has been recognized for the 177,500 stock options issued during that period. For the purposes of pro forma disclosures, the weighted average estimated fair value for the 177,500 stock options granted during the year ended December 31, 2002 was \$1.77 per share, with a total compensation cost of \$314, which is amortized to earnings over the options' vesting period. The following table outlines the pro forma disclosure provisions had the compensation costs for the Company's stock options been determined under the fair-value based method of accounting for awards granted from January 1, 2002 through to December 31, 2002.

	1ST QUARTER	
	2006	2005
Net earnings as reported	\$ 10,081	\$ 18,667
Pro forma net earnings	10,065	18,651
Pro forma earnings per share – basic	\$ 0.32	\$ 0.59
– diluted	\$ 0.31	\$ 0.58

## 3. RESTRUCTURING GAIN:

On February 19, 2004, the Company announced the approval of a formal plan to close its Brockhouse facility in Brampton, Ontario. The facility closure occurred in the third quarter of 2004. The land and building, which had a net book value of \$1,346, were sold for net proceeds of \$7,232 which resulted in a gain of \$5,886 during the first quarter of 2005, and the pension curtailment and settlement occurred during the fourth quarter of 2005. The remaining restructuring accrual is to provide for restructuring costs as noted in the table below. The restructuring costs are associated with the Metal Processing segment, and are reported in the restructuring gain line within the consolidated statements of earnings. Total costs expected to be incurred amount to \$406, net of the gain on the sale of land and building of \$5,886. Costs of \$5,942 were incurred in 2004, and a net gain of \$5,536 was realized in 2005.

The following table highlights the activity and balance of the restructuring accrual for the period ended March 31, 2006:

<i>Restructuring Accrual</i>	Balance, December 31, 2005	Additions to restructuring accrual (expensed in 1st Quarter)	Charges against restructuring accrual	Balance, March 31, 2006
Severance, termination costs & benefits, and retention bonuses	\$ 200	\$ —	\$ 2	\$ 198
Pension curtailment and settlement	187	—	17	170
Other	37	—	1	36
	<b>\$ 424</b>	<b>\$ —</b>	<b>\$ 20</b>	<b>\$ 404</b>

#### 4. FUTURE BENEFIT COSTS:

The Company has incurred pension and other post-retirement benefit costs as noted below.

	1ST QUARTER	
	2006	2005
Defined benefit pension plans	<b>\$ 1,333</b>	\$ 969
Defined contribution pension plans	<b>451</b>	472
Other benefit plans	<b>73</b>	80
Total	<b>\$ 1,857</b>	\$ 1,521

#### 5. SUBSEQUENT EVENT:

On April 26, 2006, the Company announced the signing of a definitive purchase agreement to acquire 100% of the shares of Silvan Industries, Inc. (Silvan) for consideration of U.S. \$22,000, which is subject to certain adjustments for working capital items. The transaction is subject to customary closing conditions and is expected to close in the first week of May, 2006. This strategic acquisition will complement the Company's existing Steel Fab steel pressure vessel operations and represents an expansion of the product range offered. The acquisition will be accounted for under the purchase method of accounting and the results of operations, since the date of acquisition, will be included in the consolidated statement of earnings commencing with the second quarter of this year.



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