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SECOND QUARTER  
REPORT TO SHAREHOLDERS 2009

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## RESULTS OF OPERATIONS

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Samuel Manu-Tech Inc.'s results for the second quarter of 2009 continued to be negatively impacted by the ongoing global and North American recession.

### Net Sales

Sales for the second quarter ended June 30, 2009 were \$157.6 million, which represents a decrease of \$102.2 million or 39.3% from the \$259.8 million achieved in the comparable period of last year. Sales for the six months to June 30, 2009 were \$351.4 million which represents a decrease of \$136.1 million or 27.9% from the \$487.5 million achieved in the comparable period of last year. In both cases, the decrease resulted from lower overall volumes and selling prices partially offset by the favourable impact of foreign exchange. The reduction in volumes is due primarily to the continuing North American recession and the resulting lack of demand for most steel products, particularly in the automotive, forestry, capital equipment and construction sectors. This ongoing lack of demand in turn led to falling commodity prices in the second quarter. The weak Canadian dollar had a partially offsetting favourable impact on Canadian exports and U.S. based sales in the second quarter as compared to the comparable period of last year. The average exchange rate of the U.S. dollar in the second quarter of 2009 was Cdn. \$1.17 compared to Cdn. \$1.01 in the second quarter of last year. Compared to the first quarter of this year sales are down 18.7%.

Sales of the Packaging segment in the second quarter, at \$80.7 million, were down \$40.5 million or 33.4% compared to last year due mainly to significantly lower volumes as well as reduced selling prices. Strapping sales were down in both Canada and the U.S. reflecting the continued slowdown in the forestry and construction sectors. The weak Canadian dollar however had a positive impact on Canadian exports and U.S. based sales compared to last year. On July 7, 2009, the Company announced the signing of a letter of intent to acquire Sekisui Jushi America, Inc.'s 50% interest in Samuel/Sekisui Jushi Strapping LLC which is expected to close before the end of the third quarter. The joint venture company is a leader in the manufacture of polypropylene strapping products and this will allow the Samuel Strapping Systems Group sole control of the production of one of its key product lines. Sales of the Unalloy-IWRC division were lower in the second quarter compared to last year reflecting the exiting of the stainless and tool steel product lines in February 2009. Compared to the first quarter of this year sales of the Packaging segment are down 19.2%.

Metal Processing sales for the second quarter were \$76.8 million, which is down \$61.7 million or 44.5% compared to last year with all groups reporting lower sales. Sales of stainless steel tubular products were down, reflecting lower volumes and selling prices. Sales of roll formed products were lower with decreases in all product lines. Steel pickling sales were also reduced reflecting decreased demand for its services due mainly to the slowdown in the manufacturing sector and the steep decline in the automotive industry. Sales of carbon steel tubular products were lower compared to last year with most of the decrease occurring at Tube.tec which resulted from the lack of demand at its major customers. Steel pressure vessel sales were also down compared to last year reflecting lower volumes and selling prices. Compared to the first quarter of this year, sales of the Metal Processing segment are down 18.2%.

### Earnings

Net loss for the second quarter was \$10.0 million or \$0.31 per share compared to net earnings of \$12.1 million or \$0.37 per share in the comparable quarter of last year. Net loss for the six months to June 30, 2009 was \$19.1 million or \$0.59 per share compared to net earnings of \$15.1 million or \$0.47 per share last year. Restructuring had no impact on results in the second quarter of 2009. This compares to the second quarter results last year which included a pre-tax restructuring gain of \$0.5 million (\$0.3 million after tax) and which positively impacted earnings by \$0.01 per share. For the six months in 2009 results include a pre-tax restructuring gain of \$0.7 million (\$0.5 million after tax) consisting of the balance of the gain on the sale of the equipment at the Scarborough, Ontario strapping manufacturing facility as outlined in Note 5 to the interim consolidated financial statements and which positively impacted earnings by \$0.01 per share. For the six months results last year restructuring had no impact on earnings.

Operating loss for the second quarter amounted to \$14.0 million compared to an operating profit of \$19.1 million in the comparable quarter of last year with losses incurred in both the Packaging and Metal Processing segments.

The operating losses reported by the U.S. operations were increased due to the impact of the average foreign exchange rate of Cdn. \$1.17 used in the conversion to Canadian dollars.

The Packaging segment had an operating loss of \$5.7 million, compared to an operating profit of \$8.1 million last year with decreases in both Canada and the U.S. The decreased profitability reflects the ongoing contraction of the forestry, metals and construction sectors in North America and the negative impact of downsizing costs at the Canadian operations. Margins were also negatively impacted by the liquidation of higher costed inventories, and reduced production levels. In addition, the Unalloy-IWRC division incurred a small operating loss in the second quarter. Compared to the first quarter of this year, the operating loss for the Packaging segment was down 29.0%.

The Metal Processing segment incurred an operating loss of \$8.0 million compared to an operating profit of \$13.9 million in the comparable quarter of last year with all groups reporting operating losses. Operating losses from roll formed products reflected a less favourable product mix, lower pricing levels and a slowdown at the U.S. operations. Significant additional costs were also incurred in the second quarter associated with workforce reductions as the Canadian operations downsized to meet lower demand levels. Steel pressure vessel operations posted a loss reflecting lower volumes and selling prices as well as the negative impact of a significant inventory devaluation adjustment. Carbon steel tubular operations also posted an operating loss, with the operating profit achieved by Tubular Products Company more than offset by the operating loss incurred at Tube.tec reflecting the continued lack of demand at its major customers. Stainless steel tubular operations incurred an operating loss reflecting a less favourable product mix, lower volumes and selling prices and slowdowns at its U.S. and Mexican operations. Steel pickling operations also incurred an operating loss in the second quarter reflecting lower overall volumes primarily as a result of reduced demand for pickling in both Canada and the U.S. reflecting the slowdown in the North American automotive sector. Compared to the first quarter of this year, the operating loss for the Metal Processing segment was up 223%.

Including corporate costs of \$0.3 million, the total operating loss in the quarter was \$14.0 million.

## FINANCIAL CONDITION

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### **Liquidity and Capital Resources**

Cash used in operations before changes in non-cash working capital for the first six months of 2009 amounted to \$9.5 million. This represents a decrease of \$37.6 million from the \$28.1 million generated in the comparable period of last year with the decrease mainly attributable to the net loss incurred. Overall, cash flow generated from operating activities increased to \$92.0 million compared to \$2.7 million generated last year. The increase reflects decreased requirements for non-cash working capital offset in part by decreased levels of profitability.

Cash used in investing activities at \$6.1 million was below last year's \$67.5 million due to no spending on business acquisitions this year and decreased spending on capital assets. Cash used in financing activities amounted to \$79.6 million in the six months compared to cash flow generated of \$67.4 million last year with the decrease in cash this year due to the net reduction in long-term debt of \$75.6 million. The increase in cash last year resulted from the net increase in long-term debt of \$74.4 million which was required to fund business acquisitions.

Dividends paid on common shares for the six months amounted to \$3.2 million or \$0.10 per share, compared to \$6.4 million or \$0.20 per share in the prior year. On June 5, 2009, the Company announced the suspension of quarterly dividend payments on its common shares. The Company made this difficult decision in response to Company performance and adverse market conditions. The reinstatement of dividends will be contingent upon improved Company performance and compliance with new bank covenants as detailed in Note 7 to the interim consolidated financial statements.

In aggregate, the cash position increased by \$6.2 million compared to a \$2.7 million increase last year.

The Company renegotiated the terms of its various credit agreements in the second quarter in order to be able to access a greater portion of its committed bank term facility while maintaining compliance with bank financial covenants. Under the terms of the new syndicated bank agreement the Company has a \$225 million senior secured

revolving credit facility maturing on December 16, 2011 that bears interest at money market rates plus a margin that varies with the Company's results and its placement on a pricing grid. While the revolving credit facility permits the Company to borrow funds up to an aggregate of \$225 million, covenant compliance reduced the aggregate funds available for borrowing to \$173.2 million. At June 30, 2009, \$128.2 million had been drawn against the Company's long-term facilities in the form of long-term debt (\$126.2 million) and letters of credit (\$2.0 million).

### **Capital Expenditures**

Capital expenditures in the six months to June 30, 2009 were \$6.7 million compared to \$8.4 million during the comparable period last year. The Company continues to restrict capital expenditures to those of significant operational or growth strategic value required in order to maintain facilities and equipment. Expenditures in the current six months related primarily to new and replacement machinery and equipment at several locations.

### **Subsequent Event**

On July 24, 2009 the Company reached an unconditional agreement to sell the land and building of one of the Nelson Steel facilities located at 199 Arvin Avenue in Stoney Creek, Ontario for \$3.9 million. The net book values of these assets were reclassified from capital assets to assets held for sale at December 31, 2008. Additional details are outlined in Note 10 – Subsequent Event to the interim consolidated financial statements.

### **Working Capital**

Working capital at June 30, 2009 was \$199.9 million, a decrease of \$100.2 million from the year-end position, with a decrease in receivables and inventories offset in part by higher cash, prepaids, income taxes receivable and lower payables and bank indebtedness. The Company continues to focus on its working capital reduction program particularly with regard to reducing both receivables and inventories. Working capital was also lower due to the change in the U.S. dollar exchange rate which was Cdn. \$1.16 at the end of the second quarter this year as opposed to Cdn. \$1.22 at December 31, 2008. The stronger Canadian dollar has a positive impact on the conversion of the U.S. denominated working capital balances as it results in lower reported amounts in Canadian dollars. Overall, the working capital ratio decreased to 4.1 from the year-end position of 4.5 but increased compared to the end of the second quarter last year when it was 3.7.

### **Net Borrowings to Capitalization**

The Company's net borrowings as at June 30, 2009 amounted to \$124.1 million, a decrease of \$83.8 million from \$207.9 million at December 31, 2008. This decrease reflects the lower investment in working capital, offset in part by the cash used in operations during the first six months due to the net loss incurred. The Company's long-term debt is denominated in U.S. dollars, and was also lower due to the change in the U.S. exchange rate. Funded debt to capitalization at the end of the second quarter decreased to 28.4% from both the year-end position and the end of the second quarter last year when it was 37.8% and 37.3% respectively.

### **Capital Stock**

Details of issued and outstanding common shares are outlined in Note 2 to the interim consolidated financial statements. As at the date of this report the number of outstanding common shares is 32,140,245. No stock options were issued or exercised during the second quarter.

### **Outlook**

Carbon steel pricing levels which declined significantly in the first quarter as a result of the global and North American recession continued their downward trend during the second quarter. This reduction was driven by continuing soft demand in all key steel consuming industries particularly in the automotive, forestry, capital equipment and construction markets. Demand in other key end use markets such as energy, power and residential construction also remained soft. Meanwhile certain sectors of the market have actively reduced their inventory levels which has negatively impacted mill capacity levels and steel prices.

In early June, North American steel producers announced price increases effective for the third quarter. These recent increases are consistent with rising global carbon steel prices resulting from higher input costs and marginally

improved demand from the automotive and energy sectors. The increases were also supported by a lack of lower-priced imports coming into North America coupled with lower service center inventory levels. It remains to be seen however whether this is an indication that real demand will start to increase in the second half of the year. Capacity utilization rates for North American steel mills have recently increased to 50%, but it is generally viewed that this has been caused more by mildly increased service center demand as opposed to a real increase in demand from end use customers.

Based on the current economic forecast, the Company expects to incur additional losses in the third quarter, although substantially less than the losses incurred in the first and second quarters. The Company does not anticipate a material improvement in market demand in the North American economy until late 2010. Notwithstanding the Company's ongoing cost reduction efforts and new business development activities, a return to profitability is not expected until next year.

## Quarterly Results

(in thousands of dollars except per share amounts)

	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3
Net Sales from continuing operations	\$ 157,570	\$ 193,838	\$ 236,556	\$ 265,639	\$ 259,771	\$ 227,764	\$ 209,360	\$ 226,663
Net Earnings (Loss) from continuing operations	(10,024)	(9,103)	(46,918)	22,430	12,070	3,078	3,278	4,104
Basic Earnings (Loss) per Share	(0.31)	(0.28)	(1.46)	0.70	0.37	0.10	0.10	0.12
Diluted Earnings (Loss) per Share	(0.31)	(0.28)	(1.46)	0.70	0.37	0.10	0.10	0.12
Net Earnings (Loss)	(10,024)	(9,103)	(46,918)	22,430	12,070	3,078	3,278	7,800
Basic Earnings (Loss) per Share	(0.31)	(0.28)	(1.46)	0.70	0.37	0.10	0.10	0.24
Diluted Earnings (Loss) per Share	(0.31)	(0.28)	(1.46)	0.70	0.37	0.10	0.10	0.24

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



Mark C. Samuel  
Chairman & CEO

July 30, 2009

The "Second Quarter Results" utilize the term "operating profit/loss" 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/loss is defined as earnings/loss before restructuring, interest and income taxes.

Operating profit/loss should not be construed as a substitute for net earnings/loss 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/loss, operating profit/loss 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 June 30, 2009 and the interim consolidated statements of earnings (loss), retained earnings, cash flows and other comprehensive income (loss) for the six 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  
*Chairman & CEO*

July 30, 2009



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

## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

Six Months ended June 30, 2009 and 2008 (unaudited)

(in thousands of dollars except per share amounts)

	2nd QUARTER		SIX MONTHS	
	2009	2008	2009	2008
NET SALES	\$ 157,570	\$ 259,771	\$ 351,408	\$ 487,535
COSTS AND EXPENSES (INCOME):				
Cost of sales, selling & administration	171,509	239,182	376,510	459,299
Amortization	1,211	1,551	2,497	2,579
Foreign exchange gain	(1,114)	(104)	(476)	(380)
Interest on long-term debt	1,592	2,148	3,441	4,115
Interest on short-term debt	—	26	—	94
Interest income	(4)	(24)	(22)	(32)
	173,194	242,779	381,950	465,675
EARNINGS (LOSS) BEFORE RESTRUCTURING AND INCOME TAXES	(15,624)	16,992	(30,542)	21,860
RESTRUCTURING (note 5)	—	(478)	(665)	12
EARNINGS (LOSS) BEFORE INCOME TAXES	(15,624)	17,470	(29,877)	21,848
INCOME TAXES (RECOVERY):				
Current	(5,972)	5,495	(8,662)	7,305
Future	372	(95)	(2,088)	(605)
	(5,600)	5,400	(10,750)	6,700
NET EARNINGS (LOSS)	\$ (10,024)	\$ 12,070	\$ (19,127)	\$ 15,148
BASIC EARNINGS (LOSS) PER SHARE	\$ (0.31)	\$ 0.37	\$ (0.59)	\$ 0.47
DILUTED EARNINGS (LOSS) PER SHARE	\$ (0.31)	\$ 0.37	\$ (0.59)	\$ 0.47

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Six Months ended June 30, 2009 and 2008 (unaudited)

(in thousands of dollars)

	2nd QUARTER	
	2009	2008
RETAINED EARNINGS, BEGINNING OF PERIOD	\$ 319,733	\$ 341,925
NET EARNINGS (LOSS)	(19,127)	15,148
DIVIDENDS PAID ON COMMON SHARES	(3,214)	(6,425)
RETAINED EARNINGS, END OF PERIOD	\$ 297,392	\$ 350,648

See accompanying notes to consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

June 30, 2009 and December 31, 2008 (unaudited)

(in thousands of dollars)

	June 30, 2009	Dec. 31, 2008
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,130	\$ 2,808
Accounts receivable	95,468	134,218
Inventories	142,050	233,441
Prepaid expenses and sundry	6,286	4,398
Income taxes receivable	6,035	—
Future income taxes	9,749	10,018
	<b>263,718</b>	<b>384,883</b>
CAPITAL ASSETS	<b>160,976</b>	171,762
ACCRUED PENSION ASSET	<b>10,376</b>	8,362
ASSETS HELD FOR SALE	<b>2,771</b>	2,771
FUTURE INCOME TAXES	<b>10,360</b>	10,343
GOODWILL	<b>51,710</b>	54,035
INTANGIBLE ASSETS	<b>14,679</b>	17,559
OTHER ASSETS	<b>2,351</b>	1,681
	<b>\$ 516,941</b>	<b>\$ 651,396</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Bank indebtedness	\$ —	\$ 4,879
Accounts payable and accrued liabilities	<b>60,010</b>	67,319
Deferred revenue	<b>3,804</b>	8,206
Dividends payable	<b>46</b>	3,258
Income taxes payable	—	1,148
	<b>63,860</b>	84,810
LONG-TERM DEBT (note 6)	<b>124,367</b>	205,859
POST-RETIREMENT BENEFITS OTHER THAN PENSIONS	<b>2,845</b>	2,842
FUTURE INCOME TAXES	<b>11,329</b>	13,035
OTHER LONG-TERM LIABILITIES	<b>1,964</b>	2,928
	<b>204,365</b>	309,474
SHAREHOLDERS' EQUITY:		
Capital stock (note 2)	<b>30,126</b>	30,126
Contributed surplus	<b>195</b>	195
Retained earnings	<b>297,392</b>	319,733
Accumulated other comprehensive loss (note 3)	<b>(15,137)</b>	(8,132)
	<b>312,576</b>	341,922
SUBSEQUENT EVENT (note 10)		
	<b>\$ 516,941</b>	<b>\$ 651,396</b>

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months ended June 30, 2009 and 2008 (unaudited)

(in thousands of dollars)

	2nd QUARTER		SIX MONTHS	
	2009	2008	2009	2008
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>				
Net earnings (loss)	\$ (10,024)	\$ 12,070	\$ (19,127)	\$ 15,148
Items not involving cash:				
Depreciation and amortization	6,833	7,479	13,876	14,160
Loss (gain) on disposal of capital assets	10	(506)	27	(61)
Future income taxes	372	(95)	(2,088)	(605)
Loss (gain) on derivatives not designated as hedges	(736)	—	(246)	—
Increase in accrued pension asset	(1,380)	(259)	(2,037)	(558)
Decrease in post-retirement benefits other than pensions	54	15	111	34
	<b>(4,871)</b>	18,704	<b>(9,484)</b>	28,118
Change in non-cash operating working capital:				
Decrease (increase) in accounts receivable	14,847	(22,830)	36,889	(25,970)
Decrease (increase) in inventories	38,616	(11,165)	88,128	(20,136)
Decrease (increase) in prepaid expenses and sundry	(3,021)	(1,030)	(2,028)	(604)
Decrease (increase) in income taxes receivable	(2,771)	4,817	(3,638)	4,924
Increase (decrease) in accounts payable and accrued liabilities	(27,213)	8,352	(9,828)	18,141
Increase (decrease) in deferred revenue	(2,136)	(1,150)	(4,203)	(1,732)
Increase (decrease) in income taxes payable	(171)	—	(3,856)	—
	<b>13,280</b>	(4,302)	<b>91,980</b>	2,741
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>				
Proceeds on sale of capital assets	53	1,154	652	1,089
Purchase of capital assets	(2,668)	(5,122)	(6,732)	(8,430)
Business acquisitions	—	(25)	—	(60,130)
	<b>(2,615)</b>	(3,993)	<b>(6,080)</b>	(67,471)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>				
Increase in other assets	(210)	(741)	(774)	(566)
Increase in long-term debt	11,784	14,478	13,653	74,429
Repayment of long-term debt	(27,055)	—	(89,258)	—
Dividends paid on common shares	—	(3,213)	(3,214)	(6,425)
	<b>(15,481)</b>	10,524	<b>(79,593)</b>	67,438
EFFECT OF EXCHANGE RATE CHANGES ON CASH POSITION	(332)	62	(106)	24
INCREASE (DECREASE) IN CASH POSITION	<b>(5,148)</b>	2,291	<b>6,201</b>	2,732
CASH POSITION, BEGINNING OF PERIOD	<b>9,278</b>	(1,598)	<b>(2,071)</b>	(2,039)
CASH POSITION, END OF PERIOD	<b>\$ 4,130</b>	\$ 693	<b>\$ 4,130</b>	\$ 693

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.

## SEGMENTED INFORMATION

Six Months ended June 30, 2009 and 2008 (unaudited)

(in thousands of dollars)

NET SALES	2nd QUARTER		SIX MONTHS	
	2009	2008	2009	2008
Packaging	\$ 80,731	\$ 121,207	\$ 180,680	\$ 230,706
Metal Processing	76,839	138,564	170,728	256,829
Consolidated	\$ 157,570	\$ 259,771	\$ 351,408	\$ 487,535

EARNINGS (LOSS) BEFORE RESTRUCTURING, INTEREST AND INCOME TAXES	2nd QUARTER		SIX MONTHS	
	2009	2008	2009	2008
Packaging	\$ (5,681)	\$ 8,097	\$ (13,678)	\$ 9,881
Metal Processing	(8,018)	13,895	(10,501)	20,736
Corporate	(337)	(2,850)	(2,944)	(4,580)
Earnings (loss) before restructuring, interest and income taxes	(14,036)	19,142	(27,123)	26,037
Restructuring (note 5)	—	(478)	(665)	12
Interest on long-term debt	1,592	2,148	3,441	4,115
Interest on short-term debt	—	26	—	94
Interest income	(4)	(24)	(22)	(32)
Earnings (loss) before income taxes	\$ (15,624)	\$ 17,470	\$ (29,877)	\$ 21,848

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Six Months ended June 30, 2009 and 2008 (unaudited)

(in thousands of dollars)

NET EARNINGS (LOSS)	2nd QUARTER		SIX MONTHS	
	2009	2008	2009	2008
NET EARNINGS (LOSS)	\$ (10,024)	\$ 12,070	\$ (19,127)	\$ 15,148
OTHER COMPREHENSIVE INCOME (LOSS):				
Unrealized gain (loss) on translation of net foreign operations	(13,033)	995	(7,315)	6,110
Change in unrealized gain or loss on derivatives designated as cash flow hedges	593	1,234	490	(310)
Income taxes on change in unrealized gain or loss	(188)	(422)	(155)	106
Reclassification of realized gain (loss) on cash flow hedges	(14)	70	(38)	210
Income taxes on reclassification of realized gain (loss)	5	(24)	13	(72)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(12,637)	1,853	(7,005)	6,044
COMPREHENSIVE INCOME (LOSS)	\$ (22,661)	\$ 13,923	\$ (26,132)	\$ 21,192

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Six Months ended June 30, 2009 and 2008 (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, 2008. All accounting policies and methods of their application used in the interim financial statements are consistent with the Company's annual financial statements except as noted below:

### *Adoption of new accounting policies*

#### (i) Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064 "Goodwill and Intangible Assets", which replaces Section 3062 "Goodwill and Other Intangible Assets", and Section 3450 "Research and Development Costs", and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Financial Reporting Standard, IAS 38 "Intangible Assets". This new standard is effective for the Company beginning January 1, 2009. The adoption of this accounting standard did not have an impact on the Company's consolidated financial statements.

#### (ii) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee (EIC) of the Canadian Accounting Standards Board (AcSB) issued EIC Abstract 173 "Credit Risk and Fair Value of Financial Assets and Financial Liabilities", which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This new standard is effective for the Company beginning January 1, 2009 and has been adopted retrospectively, without restatement of prior years. The adoption of this accounting standard did not have an impact on the Company's consolidated financial statements.

### *Future Changes in Accounting Policy*

#### (i) International Financial Reporting Standards (IFRS)

In February 2008, the AcSB confirmed that publicly accountable enterprises will be required to report under IFRS effective for fiscal periods beginning on or after January 1, 2011. Upon adoption of IFRS, it is likely that changes in accounting policies will be required that may materially impact the Company's consolidated financial statements.

#### (ii) Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

In January 2009, the AcSB issued new Sections, 1582 "Business Combinations", 1601 "Consolidated Financial Statements", and 1602 "Non-Controlling Interests". These sections will be effective beginning January 1, 2011, and must be applied prospectively. Earlier adoption is permitted, provided that all three of these Sections must be adopted at the same time. Section 1582 "Business Combinations" will replace the existing Section 1581 "Business Combinations" and will establish standards for accounting for business combinations equivalent to International Financial Reporting Standard IFRS 3 "Business Combinations". Sections 1601 and 1602 will replace the existing Section 1600 "Consolidated Financial Statements" and will establish standards for consolidation and minority interest accounting equivalent to International Financial Reporting Standard IAS 27 "Consolidated and Separate Financial Statements". These changes will not impact the Company's current year consolidated financial statements. The Company is currently assessing the future impact of these standards on its consolidated financial statements.

#### (iii) Financial Instruments – Recognition and Measurement

In April 2009, the AcSB amended Section, 3855 "Financial Instruments – Recognition and Measurement" to change the basis for determining when a prepayment option embedded in a host debt instrument is closely related to the host instrument. Amended Section 3855 requires that an option that provides the ability for either the issuer or the holder of a debt instrument to cause prepayment of the instrument to be treated as a separate derivative if certain conditions are met. This change will be effective beginning January 1, 2011 and must be applied prospectively, with earlier adoption permitted. This change will not impact the Company's current year consolidated financial statements. The Company is currently assessing the future impact of this standard on its consolidated financial statements.

## 2. CAPITAL STOCK:

	June 30, 2009	December 31, 2008
Number of common shares outstanding	32,140,245	32,140,245
Number of options outstanding	324,400	324,400

The Company did not issue any stock options during the three and six months ended June 30, 2009, nor were any options exercised. Weighted average number of shares:

	2nd QUARTER		SIX MONTHS	
	2009	2008	2009	2008
Basic shares	32,140,245	32,123,445	32,140,245	32,123,445
Effect of dilutive stock options <sup>(a)</sup>	—	74,138	—	94,203
Diluted shares	32,140,245	32,197,583	32,140,245	32,217,648

<sup>(a)</sup>As the Company had a net loss in the quarter ended June 30, 2009, options granted and outstanding under the Company's stock option plan have been excluded from the diluted weighted average number of common shares calculation as their inclusion would be anti-dilutive.

## 3. ACCUMULATED OTHER COMPREHENSIVE LOSS:

	2nd QUARTER		SIX MONTHS	
	2009	2008	2009	2008
CUMULATIVE TRANSLATION ADJUSTMENT				
Balance, beginning of period	\$ (614)	\$ (29,176)	\$ (6,332)	\$ (34,291)
Unrealized gain (loss) on translation of net foreign operations	(13,033)	995	(7,315)	6,110
Balance, end of period	\$ (13,647)	\$ (28,181)	\$ (13,647)	\$ (28,181)
UNREALIZED DERIVATIVE GAIN (LOSS) ON CASH FLOW HEDGES, NET:				
Balance, beginning of period	\$ (1,886)	\$ (1,303)	\$ (1,800)	\$ (379)
Changes in unrealized gain or loss on derivatives designated as cash flow hedges	593	1,234	490	(310)
Income taxes on change in unrealized gain or loss	(188)	(422)	(155)	106
Reclassification of realized (gain) loss on cash flow hedges	(14)	70	(38)	210
Income taxes on reclassification of unrealized gain (loss)	5	(24)	13	(72)
Balance, end of period	\$ (1,490)	\$ (445)	\$ (1,490)	\$ (445)
ACCUMULATED OTHER COMPREHENSIVE LOSS	\$ (15,137)	\$ (28,626)	\$ (15,137)	\$ (28,626)

## 4. FUTURE BENEFIT COSTS:

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

	2nd QUARTER		SIX MONTHS	
	2009	2008	2009	2008
Defined benefit pension plans	\$ 865	\$ 904	\$ 1,731	\$ 1,809
Defined contribution pension plans	421	486	966	925
Other benefit plans	69	55	142	108
Total	\$ 1,355	\$ 1,445	\$ 2,839	\$ 2,842

## 5. RESTRUCTURING:

On January 5, 2007, the Company announced the approval of a formal plan to close its Warden Avenue manufacturing facility in Scarborough, Ontario. Costs of \$3,112 (\$1,100 after income taxes) net of a gain on sale of land, building and equipment of \$5,969 were incurred for facility closure, disposal of certain assets, severance and other related items. The restructuring costs are associated with the Packaging segment, and are reported in the restructuring line within the consolidated statements of earnings (loss).

The following table highlights the restructuring activity and balance for the period ended June 30, 2009:

<i>Restructuring Charge</i>	Total Costs Expected	Costs incurred to December 31, 2008	Costs incurred six months ended June 30, 2009	Cumulative costs incurred
Severance, termination costs, benefits, retention bonuses	\$ 2,974	\$ 2,974	\$ —	\$ 2,974
Pension curtailment and settlement	3,756	3,756	—	3,756
Gain on sale of machinery and equipment	(1,855)	(1,190)	(665)	(1,855)
Gain on sale of land and building	(4,114)	(4,114)	—	(4,114)
Other	2,351	2,351	—	2,351
Total	\$ 3,112	\$ 3,777	\$ (665)	\$ 3,112

Other restructuring includes facility closure costs, capital asset dismantling and write down, and inventory write down.

<i>Restructuring Accrual</i>	Balance December 31, 2008	Less costs paid or otherwise settled	Less costs incurred and charged to expense	Adjustments	Balance, June 30, 2009
Severance, termination costs, benefits, retention bonuses	\$ 238	\$ 238	\$ —	\$ —	\$ —

## 6. LONG-TERM DEBT:

On June 26, 2009, the Company signed a new syndicated bank agreement (the "Bank Agreement") for a \$225 million senior secured revolving credit facility (the "Facility") maturing on December 16, 2011, repayable in advance without penalty. The Bank Agreement is secured by a general security agreement covering all of the Company's present and future undertakings and assets, including all real property, and by a pledge of shares and guarantees of certain of the Company's legal entities. The Bank Agreement contains certain financial covenants as further explained in note 7, "Capital Management".

The Company can borrow against the Facility by direct advances in either Canadian or U.S. funds at rates tied to Canadian bank prime and U.S. bank base rate, and various bankers' acceptance rates and LIBOR, plus stamping fees. Stamping fees vary based on the Company's net funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) ratio. The undrawn portion of the Facility is subject to standby fees similarly indexed to the Company's EBITDA ratio.

At June 30, 2009 the Company had \$126,196 drawn against its long-term revolving credit facility, all of which was denominated in U.S. dollars. The weighted average interest rate on the Company's long-term borrowings at June 30, 2009 was 6.1% (December 31, 2008 – 3.0%)

Included in long-term debt are deferred financing costs of \$1,829.

Principal payments to maturity are nil in 2009; nil in 2010 and \$126,196 in 2011.

## 7. CAPITAL MANAGEMENT:

There were no changes in the Company's approach to capital management during the period compared to that of 2008. The Company's strategy for capital management continues to be driven by the cost effectiveness of externally available debt, cash from operations and expectations for future acquisitions and capital expenditures.

On June 26, 2009, the Company renegotiated its bank term facilities. The new syndicated bank agreement contains financial covenants including Funded Debt to Capitalization (less than 0.4 to 1.0), Funded Debt to EBITDA (varying between a maximum of 3.0 to 1.0 and 4.75 to 1.0), and Current Ratio (greater than 1.5 to 1.0) covenants, all of which the Company was in compliance with at June 30, 2009. The Funded Debt to EBITDA ratio covenant is replaced by minimum EBITDA of \$5,000 and maximum funded debt of \$180,000 for the quarter ending September 30, 2009 and minimum EBITDA of \$4,000 and maximum funded debt of \$160,000 for the quarter ending December 31, 2009.

As part of the Company's approach to capital management, the Board of Directors reviews, on a quarterly basis, whether any dividends should be paid with reference to the Company's Dividend Policy. Before recommending its quarterly dividend to be paid, Management considers such factors as consistency with the Company's capital financing strategy objectives, target yield to our shareholders, external benchmarks, targeted percentage of average annual net earnings, and Bank Agreement covenants restricting the declaration of dividends when the Company's Debt to EBITDA ratio is higher than 3.0 to 1.0. In the second quarter, the Company's Board determined that dividend payments would be suspended. In the six months ended June 30, 2009, dividends totaling \$3,214 were declared payable to the Company's shareholders.

#### **8. FINANCIAL INSTRUMENTS:**

The Company uses derivative financial instruments to manage risks from fluctuations in exchange rates. All such instruments are used for risk management purposes only; the Company does not enter into derivatives for speculative purposes.

At June 30, 2009, the Company was committed to the sale of U.S. \$7,500 under forward exchange contracts at rates of exchange ranging from Cdn. \$1.1097 to Cdn. \$1.2142 maturing from July 15, 2009 to November 30, 2009. The fair value of the contracts as at June 30, 2009 was an unrealized gain of \$102 (\$69 net of tax) and is recorded within accounts payable and accrued liabilities on the consolidated balance sheet.

The Company is subject to floating interest rates on its long-term debt facility and consequently, there is risk of cash flow exposure in the event that interest rates increase. The Company enters into interest rate swaps to hedge its exposure to changes in interest rates. At June 30, 2009, the Company had U.S. \$85,000 of interest rate swap agreements in place with the balance of long-term debt subject to floating interest rates.

Any change in the fair value of the effective portion of an interest rate swap that is designated and qualifies as a cash flow hedge is recognized in other comprehensive income. Any gain or loss in fair value relating to the ineffective portion, if any, is recognized immediately in the statement of earnings (loss). The fair value of the interest rate swaps at June 30, 2009 was an unrealized loss of \$2,041 (\$1,398 net of tax) based on the amount quoted by the Company's bankers and has been recognized in other comprehensive income with \$1,636 recorded within other long-term liabilities and \$405 recorded within accounts payable and accrued liabilities on the consolidated balance sheet.

At June 30, 2009, the Company had cash and cash equivalents of \$4,130. The Company's revolving credit facility permitted the Company to borrow funds up to an aggregate of \$225,000 subject to covenant compliance, which reduced the aggregate funds available for borrowing to \$173,161. At June 30, 2009, \$128,222 had been drawn against the Company's long-term facilities in the form of long-term debt (\$126,196) and letters of credit (\$2,026).

#### **9. RELATED PARTY TRANSACTIONS:**

In the normal course of operations, the Company has transactions with its parent and companies under its control which are measured at amounts agreed to by the respective parties subject to normal trade terms, as described in the notes of the Company's annual financial statements.

In addition, in the first quarter of 2009, the Company sold the tool steel inventory and related equipment and working capital of Unalloy-IWRC, a division of the Company to SSCL at a negotiated selling price of \$6,100 subject to working capital adjustments. This decision resulted from an extensive review whereby it was determined that these two product lines were no longer a strategic fit within the Company. The review also involved exploring various options for sale of the business to third party buyers before it was determined that the most attractive sale be concluded with SSCL. This transaction closed February 27, 2009 and resulted in a loss of approximately \$1,800.

#### **10. SUBSEQUENT EVENT:**

On July 24, 2009, the Company reached an unconditional agreement to sell the land and building of one of its Nelson Steel facilities for \$3,900 subject to customary closing adjustments. The facility is located at 199 Arvin Avenue in Stoney Creek, Ontario. The pickling operations at this facility had been permanently idled at the date the decision was made to sell the property, and therefore the Nelson Steel workforce will be unaffected by the sale. The transaction is expected to close on August 7, 2009. The net book value of these assets in the amount of \$2,771 is classified as held for sale on the balance sheet.

#### **11. COMPARATIVE FIGURES:**

Certain of the prior year's figures have been reclassified to conform to the current year presentation.



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