
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

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

(State or other jurisdiction of incorporation or organization)

635 Hood Road, Markham, Ontario, Canada

(Address of Principal Executive Offices)

98-0197680

(IRS Employer Identification Number)

L3R 4N6

(Zip Code)

Registrant's telephone number, including area code: 905-479-1810

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

Common stock, par value \$.01 per share.

(Title of Class)

Indicate by check mark whether the registrant (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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of common stock of the registrant held by non-affiliates of the registrant was approximately \$15,593,132 on June 27, 2003, including the value of the common stock for which the exchangeable shares of the registrant's subsidiary, SMTC Manufacturing Corporation of Canada, are exchangeable. For purposes of the foregoing sentence, the term "affiliate" includes each director and executive officer of the registrant and each holder of more than 10% of the registrant's common stock. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The computation of the aggregate market value is based upon the closing price of the common stock as reported on The Nasdaq National Market on June 27, 2003, the last business day of the registrant's most recently completed second fiscal quarter.

As of March 15, 2004, SMTC Corporation had 24,375,718 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 March 15, 2004, SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, had 4,314,061 exchangeable shares outstanding, excluding exchangeable shares owned by SMTC Nova Scotia Company, each of which is exchangeable into one share of common stock of SMTC Corporation.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to the registrant's 2004 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A are incorporated by reference in Part III of this Report.

PART I

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements as defined under the federal securities laws. Actual results could vary materially. Factors that could cause actual results to vary materially are described herein and in other documents. Readers should pay particular attention to the considerations described in the section of this report entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors that May Affect Future Results.” Readers should also carefully review any risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

Item 1: Business

BUSINESS

Overview

SMTC Corporation (“We” or “SMTC” or the “Company”) provides advanced electronics manufacturing services, or EMS, to electronics industry original equipment manufacturers, or OEMs, primarily in the industrial, enterprise computing and networking, and communications market segments. We currently service our customers through five manufacturing and technology centers strategically located in key technology and cost-effective corridors in the United States, Canada and Mexico. Our full range of value-added supply chain services include product design, procurement, prototyping, 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.

We have customer relationships with industry leading OEMs such as IBM and Ingenico. We developed these relationships by capitalizing on the continuing trend of OEMs to outsource manufacturing services, to consolidate their supply base and to form long-term strategic partnerships with selected high quality EMS providers. We work closely with and are highly responsive to our customers throughout the design, manufacturing and distribution process, providing services that allow our customers to focus on their core competencies of sales, marketing and research and development. We seek to grow our business through the addition of new, high quality customers and the expansion of our activity with existing customers.

We believe that our key competitive advantages include our service quality and responsiveness, our commodity management capabilities, leading edge equipment and processes that are consistent from site to site, a customer-focused team-based approach, global supply chain management capabilities and web-based systems that electronically link us with our customers and suppliers in real time, enhancing our supply chain management capabilities.

During fiscal year 2001, in response to excess capacity caused by the slowing technology end market, we commenced a restructuring program aimed at reducing our cost structure. Actions taken by management to improve capacity utilization included closing our Denver, Colorado assembly facility and our Haverhill, Massachusetts interconnect facility, re-sizing our Mexico and Ireland facilities and reducing our excess equipment.

Due to the continuing economic downturn in 2002, the Company took further steps to realign its cost structure and plant capacity. 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 the closing of our Cork, Ireland facility and that we were taking steps to place the subsidiary that operated that facility in voluntary administration.

In 2002, we began pursuing a plan to restructure, refinance and restore profitability and growth to the Company which we continued to execute during 2003. The first phase involved a major operational restructuring that aligned our cost structure with expected revenue and focused operations in key cost-effective geographic locations. This phase was substantially completed in the fall of 2003 and involved the closure of our sites in Donegal, Ireland, Austin, Texas, Charlotte, North Carolina and the sale of our Appleton, Wisconsin manufacturing operations. Our operational restructuring plan has been substantially completed, and we expect to incur limited additional charges related to its implementation.

In late 2003, we initiated the second phase to recapitalize the Company through several refinancing transactions that, upon closing, we believe would strengthen our balance sheet and provide additional financial flexibility. The closing of the refinancing transactions is subject to stockholder approval and certain other conditions.

Industry Background

The EMS industry provides manufacturing services to OEMs in the electronics marketplace. During 2003, the EMS industry continued to be adversely affected by the reduced demand for electronics products. We believe the EMS market will return to growth over time, fueled by the increased outsourcing of manufacturing by OEMs, by OEMs' need for increasing flexibility to respond to rapidly changing markets, technologies and accelerating product life cycles and by the divestiture of OEM manufacturing assets to EMS businesses. We believe that OEMs decide to outsource manufacturing to take advantage of the technology and manufacturing expertise of EMS companies, eliminate manufacturing overhead, reduce time-to-market of products, improve supply chain efficiency, and access worldwide cost effective, high quality manufacturing capabilities.

Historically, OEMs were vertically integrated manufacturers that invested significantly in manufacturing assets and facilities around the world to manufacture, service and distribute their products. EMS originated as primarily labor intensive functions outsourced by OEMs to obtain additional capacity during periods of high demand. Early EMS providers were essentially subcontractors, providing production capacity on a transactional basis. However, with significant advances in manufacturing process technology, EMS providers developed additional capabilities and were able to improve quality and dramatically reduce OEMs' costs. Furthermore, as the capabilities of EMS companies expanded, an increasing number of OEMs adopted and relied upon EMS outsourcing strategies. Over time, OEMs engaged EMS providers to perform a broader array of manufacturing services, including design and development activities. In recent years, EMS providers have further expanded their range of services to include advanced manufacturing, packaging and distribution and overall supply chain management. In addition, many OEMs are reducing the number of vendors from which outsourced services are purchased, and are partnering with EMS suppliers that can provide a total service solution on a national or global basis, in order to lower costs and improve end-to-end efficiencies.

By using EMS providers, OEMs are able to focus on their core competencies, including product development, sales and marketing, while leveraging the manufacturing efficiency and capital investment of EMS providers. OEMs use EMS providers to enhance their competitive position by:

- *Reducing Time-to-Market.* Electronics products are experiencing increasingly shorter product life cycles, requiring OEMs to continually reduce the time required to bring new products to market. OEMs can significantly improve product development cycles and enhance time-to-market by

benefiting from the expertise and infrastructure of EMS providers. This expertise includes capabilities relating to design, quick-turn prototype development and rapid ramp-up of new products to high volume production, with the critical support of worldwide supply chain management.

- *Improving Supply Chain Management.* OEMs that manufacture internally are faced with greater complexities in planning, procurement and inventory management due to frequent design changes, short product life cycles and product demand fluctuations. OEMs can address these complexities by outsourcing to EMS providers which possess sophisticated supply chain management capabilities and can leverage significant component procurement advantages to lower product costs.
- *Accessing Advanced Manufacturing Capabilities and Process Technologies.* Electronics products and electronics manufacturing technology have become increasingly sophisticated and complex, making it difficult for many OEMs to maintain the necessary technology expertise and focus required to efficiently manufacture products internally. By working closely with EMS providers, OEMs gain access to high quality manufacturing expertise and capabilities in the areas of advanced process, interconnect and test technologies.
- *Improving Access to Global Markets.* OEMs are generally increasing their international activities in an effort to expand sales through access to foreign markets. EMS companies with worldwide capabilities are able to offer such OEMs global manufacturing solutions enabling them to meet local content requirements to distribute products efficiently around the world at lower costs.

The SMTC Customer Solution

SMTC has developed and implemented unique operating models and management systems to offer greater efficiency, flexibility and cost effectiveness. The goal of these systems is to provide a higher level of employee and team accountability and an enhanced capability to exceed customers' expectations. Our customers benefit from the following components of the SMTC solution:

Commodity Management. The Commodity Management Group provides customers with product life cycle analysis identifying high risk components due to obsolescence or technology upgrades and provides recommendations to maintain a continuous production flow.

Copy Exact Model. All of SMTC's sites operate under the same model with identical systems, processes and equipment. This enables customers to seamlessly transfer their production to alternative sites to reduce costs and respond to shifts in demand.

Team Oriented Production System. Our customer focused model defines each customer as a separate business unit with dedicated equipment, a dedicated materials and program management team, quality personnel and focused business systems. This approach enables teams to be tailored to specific customer requirements, allowing the smallest and largest customers to receive the same level of focus and breadth of service.

eBusiness. SMTC has a web-based systems through which it can communicate, collaborate and plan throughout the entire supply chain in real-time with its customers and suppliers. These systems accelerate the timeliness and effectiveness of decision making and efficiently reach SMTC's geographically dispersed facilities.

Supply Chain Management. SMTC works with its customers to establish customized inventory, logistics and distribution services to ensure that any unique delivery requirements are met. These systems focus on minimizing the risk of inventory shortfalls or excesses and improve overall cost effectiveness.

The SMTC Strategy

Our objective is to provide OEM customers worldwide a complete EMS solution, offering the advantages of electronics outsourcing, such as access to advanced manufacturing technologies, reduced costs and faster time-to-market. We intend to achieve this objective by pursuing the following business strategies:

Leverage our Presence in Strategic Markets. We have facilities in several regions of North America, and we offer logistics and inventory management services worldwide. Each assembly facility we operate is held to the same high standards of excellence and uses a similar plant layout and equipment configuration. This allows us to continue to enjoy the benefits of fully integrated factories and allows our customers to have choices in manufacturing locations to best suit their needs.

Continue to Provide Leading Edge Supply Chain Management Capabilities. We remain fully committed to maintaining our leadership position in supply chain management through the use of innovative management strategies. We believe our web-based collaborative planning system is enabling us to rapidly scale operations to meet customer needs, shift capacity in response to product demand fluctuations, reduce material costs and effectively distribute products to our customers or their end-customers.

Provide Advanced Technological Capabilities and Comprehensive Service Offerings. We remain committed to enhancing our capabilities and value-added services to become an integral part of our customers' operations. Through our investment in leading-edge assembly and logistics technologies, as well as our investment in design, engineering and test capabilities, we are able to supply our customers a variety of advanced design and manufacturing solutions. These capabilities include micro ball grid arrays, complex circuitry layouts, manufacturing and testing of wireless products and manufacturing of ethernet cards, among others. Additionally, building on our integrated engineering and manufacturing capabilities, we provide our customers with services ranging from initial product design and prototype production to final product assembly, test and distribution directly to our and their customers. We believe that this provides greater control over quality, delivery and costs and enables us to offer our customers a complete cost effective solution.

Our Services

Our full range of value-added supply chain services includes product design, procurement, prototyping, 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. More specifically, our services include:

Product Development. We provide services across the entire product life cycle including product design, prototyping, qualification testing, value and sustaining engineering.

Product Assembly. We provide advanced product assembly and test services combined with leading edge manufacturing equipment and processes. Our flexible environment can support low to high volume production and a wide range of product mix and complexity requirements.

Interconnect. We are experienced in the design, development and manufacture of interconnect assemblies such as optical and electrical cable and harness assemblies.

Enclosures. We offer customers sheet metal fabrication services used in the assembly of a broad range of electronic enclosures.

System Integration. We offer a broad range of full system build capabilities to support our end-to-end solutions. The system integration process is designed to meet all customer requirements and deliver a final product directly to the end user.

Our Customers

We target OEMs primarily in the industrial, enterprise computing and networking, and communications sectors. Revenue in 2003 was attributed to the following industry sectors: 45% from industrial, 38% from enterprise computing and networking, and 17% from communications. We have focused on developing relationships with a larger number of industrial customers to reduce exposure to the volatility of certain electronics sectors.

We have customer relationships with industry leading OEMs such as IBM and Ingenico. The electronic products we assemble and manufacture can be found in a wide array of end-products including:

- High-end storage devices
- Mid-range servers
- Various networking equipment
- Electronic gas pumps
- Currency recognition systems
- Point of sale terminals
- Ground fault adapters
- Voice messaging equipment
- Semiconductor production and test equipment

Marketing and Sales

We market our services through a focused strategy that emphasizes our team based approach to servicing our customers. In addition to developing relationships with established industry leading OEMs, we also target selected emerging companies. We target prospective customers in the industrial, enterprise computing and networking, and communications markets. We are focused on building relationships with customers that require a volume of production that complements our customer-focused team-based approach and supply chain offerings. In all cases, our goal is to allocate our program management, engineering and manufacturing resources, business systems and assets on a customer-by-customer basis, enabling each of our customers to have a dedicated environment that operates as a virtual extension of their businesses.

We have a mix of established direct sales representatives and manufacturer representative companies throughout Canada and the United States. Our sales offices are primarily located within our manufacturing facilities. When a customer opportunity is identified by our direct or indirect sales force, we dedicate a team to the potential customer that becomes part of our marketing effort and will continue to service the customer throughout our relationship.

Supply Chain Management

We believe that the basis of true collaboration is seamless integration across the enterprise-wide system, encompassing the customers' worldwide facilities, our manufacturing sites, and our suppliers. We provide our customers with a complete supply chain management solution, using advanced electronic schedule sharing methods with our customers and suppliers to plan, purchase, expedite and warehouse components and materials. The systems and processes we currently employ in supply chain management enable us to rapidly scale operations to meet customer needs, shift capacity in response to product demand fluctuations, reduce material costs and effectively distribute products to our customers or their end-customers.

We believe that to continue to offer our customers leading services, we must work with our customers and suppliers to create virtual enterprises, sharing information and making joint decisions to ensure a fast and cost-effective response to the market. Through a web-based user interface, our customers and suppliers have direct access to our supply chain management database. Customers are able to monitor the availability and supply of component parts in real time. Communication is streamlined throughout the supply chain, allowing our customers to receive timely feedback and allowing us to receive real time input from our suppliers.

Technology, Processes and Development

We use advanced technology in the assembly and testing of the products we manufacture. We believe that our processes and skills are among the most sophisticated in the industry. Surface mount technology is the principal technology for the assembly of printed circuit boards. Our customer-focused factories include predominantly surface mount technology lines, which are highly flexible and are continually reconfigured to meet customer-specific product requirements. We also work with a wide range of substrate types from thin flexible printed circuit boards to highly complex, dense multilayer boards. In addition, our assembly capabilities are complemented by advanced test capabilities. We believe that our inspection technology is among the most sophisticated in the EMS industry. In addition to expertise in surface mount assembly, we have extensive capabilities in box and system build, customer order fulfillment, design, enclosure and cable/interconnect manufacturing.

Our Suppliers

With our web-based collaborative planning systems, our customers' needs are integrated with our suppliers in a more efficient and cost effective manner than is achievable through traditional electronic data interchange. In 2003 we purchased approximately \$219 million in materials. We believe this volume of procurement enhances our ability to obtain better pricing, influence component packaging and design and obtain supply of components in constrained markets.

We generally order materials and components under our agreements with customers only to the extent necessary to satisfy existing customer orders or forecasts. We have implemented specific inventory management strategies with certain suppliers such as supplier owned inventory and other SMTC supply chain velocity and flexibility programs. Fluctuations in material costs are typically 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. Ultimately, however, our customers generally are responsible for all goods manufactured on their behalf.

During 2003, approximately 14% of our total purchases were from IBM. No other supplier represented greater than 10% of our total purchases.

Competition

The EMS industry is highly fragmented and comprised of a large number of domestic and foreign companies, several of which have achieved substantial market share. The intense competition we face is provided by many independent companies as well as in-house manufacturing capabilities of current and potential customers who evaluate our capabilities against the merit of manufacturing products internally. We compete with different companies depending on the type of service or geographic area. Our competitors include Celestica Inc., Flextronics International Ltd., Jabil Circuit, Inc., Sanmina-SCI, Inc., Solectron Corporation, Benchmark Electronics Inc., Pemstar Inc. and Plexus Corp., as well as numerous other smaller EMS providers. Certain of our competitors have greater manufacturing, financial, research and development and marketing resources than SMTC. We believe that the principal competitive factors in our segments of the EMS industry are product quality, flexibility and timeliness in responding to design and schedule changes, reliability in meeting product delivery schedules, pricing, technological sophistication, the provision of value-added services and geographic locations. Failure to satisfy any of the foregoing requirements could seriously harm our business.

Governmental Regulation

Our operations are subject to certain federal, state, provincial and local regulatory requirements relating to environmental compliance and site cleanups, waste management and health and safety matters. In particular, we are subject to regulations pertaining to health and safety in the workplace and the use, storage, discharge and disposal of hazardous chemicals used in the manufacturing process.

To date, the costs of compliance and environmental remediation have not been material to us. Nevertheless, additional or modified requirements may be imposed in the future. If such additional or modified

requirements are imposed on us, or if conditions requiring remediation are found to exist, we may be required to incur substantial additional expenditures.

Recent Developments

We are in the process of attempting to implement a recapitalization, which is described in detail in Item 7 of this Annual Report on Form 10-K.

Employees

As of December 31, 2003, we employed approximately 927 full time employees. In addition, we employ varying levels of temporary employees as our production demands. Given the variable nature of our project flow and the quick response time required by our customers, it is critical that we be able to quickly ramp-up and ramp-down our production to maximize efficiency. To achieve this, our strategy has been to employ a skilled temporary labor force, as required. We use outside contractors to qualify our temporary employees on a site-by-site basis. Our production level temporary employees are compensated by the hour. We believe we are team-oriented, dynamic and results-oriented with an emphasis on customer service and quality at all levels. We believe this environment is a critical factor for us to be able to fully utilize the intellectual capital of our employees. From time to time we relocate our management level employees as needed to fill open positions at our sites. Because of our training programs, we have not experienced difficulty in adequately staffing skilled employees.

As of December 31, 2003, our only unionized employees were at our Mexico facility (310 employees). In 2003, we terminated all of our employees in Donegal, Ireland, including 32 unionized employees. We have never experienced a work stoppage or strike and believe that our employee relations are good.

Our Structure and Our History

The SMTC family of companies includes the following companies, with their jurisdictions of incorporation or organization in parentheses:

- SMTC Corporation (Delaware)
- HTM Holdings, Inc. (Delaware)
- Qualtron, Inc. (Massachusetts)
- SMTC de Chihuahua S.A. de C.V. (Mexico)
- SMTC Ireland Company (Ireland)
- SMTC Manufacturing Corporation of California (California)
- SMTC Manufacturing Corporation of Canada (Ontario, Canada)
- STMC Manufacturing Corporation of Colorado (Delaware)
- SMTC Manufacturing Corporation of Massachusetts (Massachusetts)
- SMTC Manufacturing Corporation of North Carolina (North Carolina)
- SMTC Manufacturing Corporation of Texas (Texas)
- SMTC Manufacturing Corporation of Wisconsin (Wisconsin)
- SMTC Mex Holdings, Inc. (Delaware)
- SMTC Nova Scotia Company (Nova Scotia, Canada)
- SMTC R&D Teoranta (Ireland)
- SMTC Teoranta (Ireland)

Our company's present corporate structure resulted from the July 1999 combination of the former SMTC Corporation, or Surface Mount, and HTM Holdings, Inc., or HTM, in a transaction accounted for under the purchase method of accounting as the acquisition of Surface Mount by HTM. Subsequent to the combination, all of Surface Mount's operating subsidiaries, other than SMTC Canada, SMTC Manufacturing Corporation of Ireland Limited, SMTC Teoranta, SMTC R&D Teoranta and Qualtron, Inc., have become subsidiaries of HTM.

In August 1999, we acquired Zenith's facility in Chihuahua, Mexico, which expanded our cost-effective manufacturing capabilities in an important geographic region. In September 1999, we acquired the Boston, Massachusetts based systems integration and precision enclosures business of W.F. Wood, which expanded our operations into the Northeastern United States. In July 2000, we acquired Appleton, Wisconsin based Pensar Corporation. In November 2000, we acquired Haverhill, Massachusetts based Qualtron, Inc. in connection with the acquisition of its parent company, Qualtron Teoranta, by SMTC Canada. In 2001, we closed our Denver, Colorado and Haverhill, Massachusetts facilities. In 2002, we closed our Cork, Ireland facility. In 2003, we closed our interconnect facility in Donegal, Ireland, our Austin, Texas facility and our Charlotte, North Carolina facility. We also sold our Appleton, Wisconsin manufacturing operations during 2003.

We have initiated the liquidation process for SMTC Ireland Company, SMTC R&D Teoranta and SMTC Teoranta. Additionally, we placed SMTC Manufacturing Corporation of Ireland Limited into liquidation, and it is in the process of dissolution.

Certain Financial Information

Information regarding revenues, profits (loss) and total assets and financial information regarding geographic areas is included in our consolidated financial statements set forth in this Annual Report on Form 10-K and the notes thereto.

Backlog

Although we obtain firm purchase orders from our customers, our customers typically do not make firm orders for delivery of products more than 30 to 90 days in advance. We do not believe that the backlog of expected product sales covered by firm purchase orders is a meaningful measure of future sales since orders may be rescheduled or canceled.

Item 2: Properties

Facilities

We conduct our operations within approximately 547,500 square feet of building space (excluding square footage of properties we have exited). We believe our facilities are currently adequate for our operating needs and provide capacity for future volume growth. Our principal service at all locations is assembly of electronic components, with the exception of the Boston facility where we manufacture precision enclosures and the Appleton facility where we perform design engineering services. Our operating facilities are as follows:

<u>Location</u>	<u>Approx. Square Footage</u>	<u>Leased/Owned</u>
Toronto, Ontario	100,000	Leased
San Jose, California	37,500	Leased
Boston, Massachusetts	150,000	Leased
Appleton, Wisconsin	10,000	Leased
Chihuahua, Mexico	250,000	Owned

One of our subsidiaries continues to have a Monterrey, Mexico site under lease as of March 15, 2004, but has exited operations and is seeking to exit the lease. Additionally, SMTC Manufacturing Corporation of Texas exited operations and surrendered possession of an Austin, Texas site in 2003.

All of our principal facilities are ISO certified to ISO 9001 or ISO 9002 standards. ISO 9001 and ISO 9002 are commonly recognized standards in the EMS industry that are published by the International Standardization Organization and relate to quality management systems. ISO 9001 contains requirements for quality assurance in design, development, production, installation and servicing. ISO 9002 contains requirements for quality assurance in production, installation and servicing.

The principal executive office of SMTC and SMTC Canada is located at 635 Hood Road, Markham, Ontario, Canada L3R 4N6.

Item 3: Legal Proceedings

We are a party to various legal actions arising in the ordinary course of our business. We believe that the resolution of these legal actions will not have a material adverse effect on our financial position or results of operations.

Item 4: Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5: Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common stock began trading on The Nasdaq National Market under the symbol SMTX on July 21, 2000. The following table sets forth, for the periods indicated, the high and low per share sales prices for the common stock as reported on Nasdaq. On March 15, 2004, the Company's common stock closed at \$0.85 per share and had a high price of \$0.90 and a low price of \$0.81 on that date.

	2002	
	High	Low
First Quarter	\$2.86	\$1.10
Second Quarter	2.78	1.15
Third Quarter	1.80	0.75
Fourth Quarter	1.00	0.49
2003		
	High	Low
First Quarter	\$1.40	\$0.95
Second Quarter	1.01	0.62
Third Quarter	0.92	0.40
Fourth Quarter	1.95	0.68

As of March 15, 2004, there were approximately 85 holders of record of the Company's common stock.

As of March 15, 2004, the Company's capital stock consisted of 60,000,000 authorized shares of common stock, par value \$.01 per share, of which, as of such date, 24,375,718 shares were issued and outstanding, and 5,000,000 authorized shares of preferred stock, par value \$.01 per share, of which, as of such date, one share was issued and outstanding.

The Company has never declared a cash dividend on its common stock. The Board of Directors of the Company has no present intention to authorize the payment of dividends on common stock in the foreseeable future. It is the present policy of the Company to retain earnings, if any, to provide for growth and working capital needs. Further, the Company's senior credit facility restricts the Company from paying dividends.

The terms of the Company's credit agreement require that the Company issue warrants to its lenders if it does not meet certain EBITDA (earnings before interest, income tax, depreciation, and amortization) targets as of each fiscal quarter end on the dates falling 45 days after the end of each fiscal quarter in 2003 and the first two fiscal quarters of 2004. The Company did not meet the applicable EBITDA target for the third fiscal quarter of 2003. Accordingly, the Company issued warrants as of November 12, 2003, certificated in the form included in Exhibit 10.44 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 filed with the Securities and Exchange Commission on March 27, 2003, for an aggregate of 229,934 shares of its common stock to its lenders in consideration for their extension of, and continued performance under, the credit facility. The warrants are immediately exercisable, have an exercise price per share of \$1.04 and expire on November 12, 2008. The issuance of warrants was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2). The recipients of the warrants included only accredited investors.

Item 6: Selected Financial Data

SMTX is the result of the July 1999 combination of Surface Mount and HTM. Upon completion of the combination and concurrent recapitalization, the former stockholders of HTM held approximately 58.0% of the

outstanding shares of SMTC. We accounted for the combination under the purchase method of accounting as a reverse acquisition of Surface Mount by HTM. Because HTM acquired Surface Mount for accounting purposes, HTM's assets and liabilities are included in our consolidated financial statements at their historical cost and the comparative figures for the periods prior to the combination reflect the results of operations of HTM. The results of operations of Surface Mount are included in our consolidated financial statements from the date of the combination.

Selected Financial Data

The selected financial data includes the following:

- The results of operations and other financial data for 1999 include a full year of results of HTM, as well as the results for Surface Mount from July 30, 1999 through December 31, 1999 and results for W.F. Wood from September 4, 1999 through December 31, 1999. For accounting purposes, HTM is considered to have acquired Surface Mount in the July 1999 combination.
- The results of operations and other financial data for 2000 include a full year of results for HTM, Surface Mount and W.F. Wood and the results for Qualtron from November 22, 2000 through December 31, 2000. Pensar is included in the results from July 27, 2000 through December 31, 2000 but is characterized as discontinued operations.
- The results of operations and other financial data for 2001, 2002 and 2003 include a full year of results for HTM, Surface Mount, W.F. Wood and Qualtron. Pensar is included in the results but is characterized as discontinued operations.

The data set forth below should be read in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes thereto appearing elsewhere in this Annual Report.

Our consolidated financial statements and our selected consolidated financial data have been prepared in accordance with United States GAAP. These principles conform in all material respects to Canadian GAAP except as described in Note 19 to our consolidated financial statements. In 2001 the amortization and the write-down of goodwill related to the Qualtron Teoranta acquisition are \$0.2 million and \$2.2 million lower, respectively, under Canadian GAAP. Under United States GAAP, the shares issued as consideration in the Qualtron Teoranta acquisition were valued using the share price at the announcement date of the acquisition and under Canadian GAAP, the shares were valued on the consummation date. In 2002, the transitional goodwill impairment charge of \$55.6 million is recognized in opening retained earnings under Canadian GAAP. Under United States GAAP, the cumulative adjustment is recognized in earnings during 2002.

Consolidated Statement of Operations Data ^(a):
(in millions, except per share amounts)

	Year Ended				
	December 31, 1999	December 31, 2000	December 31, 2001	December 31, 2002	December 31, 2003
Revenue	\$ 248.5	\$ 735.1	\$ 528.1	\$ 525.2	\$ 306.1
Cost of sales, including restructuring and other charges ^(b)	226.8	670.1	557.6	504.9	279.5
Gross profit (loss)	21.7	65.0	(29.5)	20.3	26.6
Selling, general and administrative expenses, including other charges ^(b)	12.8	31.3	38.8	24.2	18.8
Amortization, including other charges ^{(b)(c)}	2.0	6.2	9.5	2.5	4.1
Restructuring and other charges, including the write-down of intangible assets ^(b)	—	—	41.8	30.4	1.0
Operating earnings (loss)	6.9	27.5	(119.6)	(36.8)	2.7
Interest	7.1	13.8	9.3	8.3	5.1
Debt extinguishment cost ^(d)	2.1	4.3	—	—	—
Earnings (loss) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy ^(e)	(2.3)	9.4	(128.9)	(45.1)	(2.4)
Income taxes (recovery) ^(e)	(0.7)	5.0	(28.8)	(1.2)	35.0
Earnings (loss) from continuing operations	(1.6)	4.4	(100.1)	(43.9)	(37.4)
Loss from discontinued operations ^(f)	(0.5)	(0.8)	(4.7)	(8.5)	(2.4)
Cumulative effect of a change in accounting policy ^(e)	—	—	—	(55.6)	—
Earnings (loss)	\$ (2.1)	\$ 3.6	\$ (104.8)	\$ (108.0)	\$ (39.8)
Earnings (loss) per share:					
Basic earnings (loss) per share from continuing operations	\$ (2.38)	\$ 0.11	\$ (3.50)	\$ (1.53)	\$ (1.30)
Loss per share from discontinued operations ^(f)	(0.30)	(0.7)	(0.16)	(0.30)	(0.09)
Loss from the cumulative effect of a change in accounting policy per share ^(e)	—	—	—	(1.93)	—
Basic earnings (loss) per common share	\$ (2.68)	\$ 0.04	\$ (3.66)	\$ (3.76)	\$ (1.39)
Diluted earnings (loss) per common share	\$ (2.68)	\$ 0.03	\$ (3.66)	\$ (3.76)	\$ (1.39)
Weighted average number of common shares outstanding:					
Basic	1.6	13.2	28.6	28.7	28.7
Diluted	1.6	13.7	28.6	28.7	28.7

^(a) The consolidated financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for a reasonable period of time. As a consequence, the consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company has incurred significant losses in fiscal 2001, 2002 and 2003, including costs associated with the restructuring of its operations resulting in a deficiency in shareholders' equity at December 31, 2003. The Company's long-term debt has been classified as a current liability at December 31, 2003 due to the maturity of the debt on October 1, 2004 (Refer to note 8 to our consolidated financial statements), resulting in a significant working capital deficiency as at December 31, 2003. In addition, absent the completion of the recapitalization (described below), the Company believes that it is unlikely that it will be in compliance with the existing financial covenants in the current credit agreement in the second quarter of 2004. Should the Company be unable to refinance the debt, subject to reasonable and achievable covenants, the Company expects that it will not be able to satisfy its indebtedness and other obligations. If the Company was unable to repay such amounts, the lenders could proceed against any collateral granted to them to secure the indebtedness. Substantially all of the Company's assets have been pledged to the lenders as collateral for the Company's obligations under the senior facility.

On February 17, 2004, the Company announced a proposed recapitalization, as described in note 20 to our consolidated financial statements. The effect of this recapitalization would be to lower the Company's overall indebtedness at closing by approximately \$37.0 million, extend the term of the majority of the remaining indebtedness and provide additional liquidity. The proposed transactions are subject to the receipt of all necessary stockholder, regulatory and stock exchange approvals and definitive agreements and other customary conditions. The ability of the Company to continue as a going concern and to realize the carrying value of its assets and the discharge of its liabilities in the normal course of business is dependent upon the Company being able to refinance its existing debt as described above. However, there can be no assurances that the Company will be successful in its refinancing efforts and, accordingly, may not have sufficient working capital to fund future operations.

Our consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for our financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses, and the balance sheet classifications used.

^(b) 2001 Charges:

During 2001, in response to excess capacity caused by the slowing technology end market, the Company commenced an operational restructuring program aimed at reducing its cost structure (the "2001 Plan"). Accordingly, the Company recorded restructuring and other charges related to the 2001 Plan of \$67.2 million, consisting of a write-down of goodwill and other intangible assets, the costs associated with exiting or resizing facilities and the write-down of inventory related to the closure of a facility. In addition, the Company recorded other charges of \$24.0 million related primarily to accounts receivable, inventory and asset impairment charges.

Restructuring charges related to the 2001 Plan of \$25.4 million and other charges of \$15.2 million are included in cost of sales for fiscal year 2001. Other charges of \$8.8 million are included in selling, general and administrative expenses for fiscal year 2001.

2002 Charges:

Due to the continuing economic downturn, the Company took further steps to realign its cost structure and plant capacity (the "2002 Plan") and announced third and fourth quarter net restructuring charges of \$36.9 million related to the cost of exiting equipment and facility leases, severance costs, asset impairment charges and inventory exposures, and other facility exit costs and other charges of \$2.1 million.

Restructuring charges related to the 2002 Plan of \$6.5 million and other charges of \$0.9 million are included in cost of sales for fiscal year 2002. Other charges of \$1.0 million are included in selling, general and administrative expenses and other charges of \$0.2 million are included in amortization expense for fiscal year 2002.

2003 Charges:

During 2003, the Company recorded a net restructuring and other charge of \$1.0 million, consisting of a net adjustment to previously recorded charges related to the 2001 Plan and the 2002 Plan of \$0.3 million and additional charges incurred during 2003 of \$1.3 million. During 2003, the Company also recorded an adjustment to other charges of \$0.1 million. The adjustment to other charges of \$0.1 million is included in selling general and administrative expenses for fiscal year 2003.

- (c) During 2002, the Company completed its transitional goodwill impairment test resulting in a goodwill impairment charge of \$55.6 million. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 10 years. Effective January 1, 2002, the Company discontinued amortization of all existing goodwill as a result of a new accounting standard issued in 2001. Refer to note 3(q) to our consolidated financial statements. Refer to Note 19 to our consolidated financial statements for a description of differences between United States GAAP and Canadian GAAP.
- (d) Debt extinguishment cost of \$2.1 million in 1999 arises from debt prepayment penalties of \$0.8 million, the write-off of unamortized debt financing fees of \$1.0 million and the write off of the unamortized debt discount of \$0.3 million. Debt extinguishment cost of \$4.3 million in 2000 arises from debt prepayment penalties of \$0.3 million, the write-off of unamortized debt financing fees of \$2.9 million and the write off of the value of the warrants issued in excess of the proceeds received of \$1.1 million.
- (e) During the second quarter of 2003 the Company performed its quarterly review of its deferred tax assets in accordance with SFAS No. 109. This review resulted in a decision to establish a full valuation allowance for deferred tax assets. Refer to note 9 to our consolidated financial statements.
- (f) During the third quarter of 2003, the Company sold the manufacturing operations of the Appleton facility for cash proceeds of \$3.1 million. The Company recorded a loss on disposal of \$0.2 million, which has been included in the loss from discontinued operations during fiscal year 2003. Refer to note 18 to our consolidated financial statements.

In February, 2002 the main customer of the Cork, Ireland facility was placed into administration as part of a financial restructuring. As a result, on March 19, 2002, the Company announced that it was closing the Cork, Ireland facility and that it was taking steps to place the subsidiary that operated that facility in voluntary administration. Refer to note 18 to our consolidated financial statements.

Consolidated Balance Sheet Data and Other Financial Data:

(in millions)

	Year Ended				
	December 31, 1999	December 31, 2000	December 31, 2001	December 31, 2002	December 31, 2003
Cash	\$ 2.1	\$ 2.7	\$ 12.1	\$ 0.4	\$ 0.2
Working capital (deficiency)	53.4	188.3	75.3	(8.2)	(55.2)
Total assets	228.1	547.5	341.4	191.0	108.8
Total debt, including current maturities	134.0	118.0	122.8	82.6	70.1
Shareholders' equity (deficiency)	7.8	228.5	124.7	18.0	(21.3)
Capital expenditures	4.1	25.7	19.1	2.8	0.2
Cash flows from operating activities	(6.6)	(104.9)	28.3	34.8	5.5
Cash flows from financing activities	49.6	159.1	0.2	(44.1)	(8.9)
Cash flows from investing activities	(41.4)	(53.6)	(19.2)	(2.4)	3.3

Quarterly Results

The following tables set forth our unaudited historical quarterly results for the eight quarters ended December 31, 2003. This information has been prepared on the same basis as our annual consolidated financial statements and it includes all adjustments necessary for a fair presentation of the financial results of such periods. This information should be read in conjunction with our annual consolidated financial statements for the years ended December 31, 2002 and 2003. The operating results for any previous quarter are not necessarily indicative of results for any future periods.

(in millions, except per share amounts)

	Quarter Ended							
	Mar 31, 2002	June 30, 2002	Sept 29, 2002	Dec 31, 2002	Mar 30, 2003	June 29, 2003	Sept 28, 2003	Dec 31, 2003
Revenue	\$124.3	\$148.3	\$143.5	\$109.1	\$ 81.4	\$ 70.8	\$ 77.0	\$ 76.9
Gross profit ^(a)	4.8	6.1	1.0	8.4	7.8	4.8	8.1	5.9
Earnings (loss) from continuing operations ^(b)	(3.4)	(2.1)	(14.0)	(24.4)	0.3	(36.4)	1.3	(2.6)
Earnings (loss) ^(b)	(68.3)	(1.8)	(13.4)	(24.5)	0.0	(39.8)	2.6	(2.6)
Earnings (loss) per share from continuing operations	\$ (0.12)	\$ (0.07)	\$ (0.49)	\$ (0.85)	\$ 0.01	\$ (1.27)	\$ 0.05	\$ (0.09)
Weighted average number of shares outstanding-diluted	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7

^(a) Includes restructuring charges of \$6.3 million and \$0.2 million for the quarters ended September 29, 2002 and December 31, 2002, respectively, and other charges of \$0.9 million for the quarter ended September 29, 2002.

^(b) Includes restructuring charges of \$12.7 million and \$24.2 million for the quarters ended September 29, 2002 and December 31, 2002, respectively, and other charges of \$0.9 million and \$1.2 million for the quarters ended September 29, 2002 and December 31, 2002, respectively. Includes restructuring and other charges of \$0.3 million and \$1.1 million for the quarters ended March 30, 2003 and December 31, 2003, respectively, adjustments to previously recorded restructuring charges of \$0.4 million for the quarter ended June 29, 2003 and adjustments to previously recorded other charges of \$0.1 million for the quarter ended December 31, 2003.

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with the "Selected Consolidated Financial Data" section of this Annual Report and our consolidated financial statements and notes to those statements included elsewhere in this Annual Report. The forward-looking statements in this discussion regarding the electronics manufacturing services industry, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion include numerous risks and uncertainties, some of which are as described in the "Factors That May Affect Future Results" section below. You should read this discussion completely and with the understanding that our actual future results may be materially different from what we expect. We may not update these forward-looking statements after the date of this Annual Report, even though our situation will change in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Overview

We provide advanced electronics manufacturing services, or EMS, to electronics industry original equipment manufacturers, or OEMs, primarily in the industrial, enterprise computing and networking, and communications market segments. We currently service our customers through five manufacturing and technology centers strategically located in key technology corridors in the United States, Canada and the cost-effective location of Mexico. 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, including Zenith Electronics' facility in Chihuahua, W.F. Wood's high precision enclosure manufacturing site in Boston, Massachusetts, Pensar Corporation, an EMS company specializing in design engineering and headquartered in Appleton, Wisconsin and Qualtron Teoranta, a provider of specialized cable and harness interconnect assemblies, based in Donegal, Ireland with a subsidiary in Haverhill, Massachusetts. When the technology sector declined, we found ourselves with significant excess capacity and incurred significant operating losses. As a result, in fiscal year 2001, we began an operational restructuring that is substantially complete today and involved closing six and selling one of our manufacturing facilities. As a result of the restructuring of our business, the debt outstanding under our credit facility cannot be supported by our current business model. Accordingly, we have negotiated a restructuring of the debt under our existing credit agreement as part of an overall recapitalization of the Company that is subject to stockholder approval.

The following summary briefly describes the material terms of the proposed recapitalization of the Company, which consists of three main components: a private placement of equity securities that closed into escrow pending stockholder approval, a new secured credit facility and a transaction with the Company's current lenders to repay a portion of the Company's existing debt and restructure the balance of the Company's existing debt. We refer to the proposed recapitalization in this annual report as the "Recapitalization Transaction."

Private Placement of Equity Securities

The private placement consisted of a committed private placement fully underwritten by a syndicate of Canadian investment dealers comprised of Orion Securities Inc., CIBC World Markets Inc., GMP Securities Limited and RBC Dominion Securities Inc. (collectively, the "Underwriters") of 33,350,000 Special Warrants of SMTC Manufacturing Corporation of Canada (each a "Special Warrant" and, collectively, the "Special Warrants"), an indirect wholly-owned subsidiary of the Company ("SMTC Canada"), to qualified investors at a price of Cdn\$1.20 (approximately US\$0.90) per Special Warrant, representing an aggregate amount of issue of Cdn\$40,020,000 (approximately US\$30 million) (the "Offering"). The Company completed the private placement of Special Warrants on March 3, 2004 (the "Closing Date"). The net proceeds from the Offering are being held in escrow pending receipt of stockholder approval and, upon release from escrow, will be used for debt reduction, as part of a concurrent agreement with the Company's lenders, and working capital. The private placement includes the following terms:

- Each Special Warrant is exercisable into one unit consisting of one exchangeable share of SMTC Canada, and one half of a warrant to purchase an exchangeable share. Each whole warrant will be exercisable for one exchangeable share of SMTC Canada at an exercise price of Cdn\$1.85 per share for a period of 60 months following the closing of the Offering.

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- Subject to satisfaction of applicable legal requirements, each exchangeable share can be exchanged on a one-for-one basis for one share of the common stock of the Company. Each exchangeable share, as nearly as practicable, is the economic equivalent of a share of our common stock, and holders of the exchangeable shares 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 for our common stock.
 - The Special Warrants will be exercisable for units on the earlier of: (i) the sixth business day after the date on which a receipt has been issued by applicable Canadian securities regulatory authorities for a (final) prospectus qualifying the distribution of the exchangeable shares and warrants issuable upon exercise of the Special Warrants (the “Prospectus Qualification Date”), and (ii) the first business day following the date that is 12 months following the closing date. If the Prospectus Qualification Date has not occurred on or before the date that is 90 days following the closing date or if the Company has not, within 120 days of the closing date, registered in the United States the common stock underlying the exchangeable shares issuable in connection with the offering, each Special Warrant shall thereafter entitle the holder to receive upon exercise, without payment of additional consideration, 1.1 units, in lieu of, one unit.

New Secured Credit Facility

The proposed Recapitalization Transaction also includes a new, 3-year \$40 million credit facility, subject to certain borrowing base conditions, with Congress Financial Corporation (Canada) for which a letter of intent has been signed.

Transactions with the Company's Current Lenders

The proposed Recapitalization Transaction includes a transaction with the Company's current lenders, for which a binding term sheet has been signed, under which the Company will satisfy its debt 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;
- canceling the warrants held by the current lenders; and
- converting up to a limit of \$27.5 million, into second lien subordinated debt with maturity ranging from 4 to 5 years. In the unlikely event the remaining debt exceeds this limit, the difference will be repaid at par.

Certain Effects of the Recapitalization Transaction

- The effect of this refinancing would be to lower the Company's overall indebtedness at closing by approximately \$37 million, extend the term of the majority of the remaining indebtedness and provide additional liquidity. The level of indebtedness under the existing lenders' facility at December 31, 2003 was \$70.1 million.
- Currently outstanding shares will be 39% of the outstanding shares after the Recapitalization Transaction and 30% of the outstanding shares upon the exercise of the private placement

warrants and the warrants that will be issued to our current lenders (with such exercise generating approximately Cdn\$41.1 million in additional proceeds for the Company).

Need for the Recapitalization Transaction

The Board of Directors has approved the proposal for the Recapitalization Transaction. We believe that the Recapitalization Transaction is in the best interests of the Company and the stockholders due to:

- the over-leveraged capital structure of the Company;
- the increased liquidity and working capital availability afforded by the refinancing;
- the high probability of default under our credit agreement absent a refinancing;
- the lack of a more favorable offer to the Recapitalization Transaction proposal following a process undertaken to identify potential purchasers of all or part of the Company; and
- the less favorable alternative to the Company and the stockholders that resulted from the negotiations with our current lenders regarding a stand alone refinancing.

We believe that the likely outcome for the Company if the Recapitalization Transaction is not completed would be negative. If the Recapitalization Transaction had not been agreed to with the Company's lenders prior to the issuance of the Company's financial results for fiscal year 2003, the Company believes that suppliers and customers would have reacted negatively to the going concern qualification in the Company's accountants' audit opinion. Further, the Company would likely have been in default of other covenants under the terms of its existing credit agreement no later than the end of June 2004. Absent the agreement with the current lenders on the Recapitalization Transaction, upon an event of default, the lenders could have decided to resort to their collateral, consisting of substantially all of the Company's assets and in which event reorganization proceedings under the Bankruptcy Code could have been one of the possible consequences. If the Recapitalization Transaction is not approved by the stockholders, the Company will likely face a high probability of an event of default with its current lenders no later than the end of June 2004.

As a result of the restructuring of the Company and market conditions in the period 2001 to 2002, we incurred significant operating losses. As a result of the late stages of the restructuring of the Company, the continued downturn in the technology sector and the over-leveraged capital structure of the Company, the Company continued to experience losses during fiscal 2003. The losses from fiscal 2001 through 2003 resulted in our repeated non-compliance with certain financial covenants contained in our credit agreement and repeated amendments to our credit agreement. The Company was in compliance with the amended financial covenants at December 31, 2003. Continued compliance with the amended financial covenants through October 1, 2004, the term of the credit facility, is unlikely. In the event of non-compliance (and absent the completion of the Recapitalization Transaction), the Company's lenders have the ability to demand repayment of the outstanding amounts under the amended credit facility.

Corporate History

SMTC Corporation is the result of the July 1999 combination of the former SMTC Corporation, or Surface Mount, and HTM Holdings, Inc., or 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 6,625,000 shares of our common stock and 4,375,000 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 1,650,000 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 customer. 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 19 to the consolidated financial statements. In 2001 the amortization and the write-down of goodwill related to the Qualtron Teoranta acquisition are \$0.2 million and \$2.2 million lower, respectively, under Canadian GAAP. Under United States GAAP, the shares issued as consideration in the Qualtron Teoranta acquisition were valued using the share price at the announcement date of the acquisition and under Canadian GAAP, the shares were valued on the consummation date. 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.

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

	December 31, 2001	December 31, 2002	December 31, 2003
Revenue	100.0%	100.0%	100.0%
Cost of sales (includes restructuring charges of \$25.4 million and \$6.5 million and other charges of \$15.2 million and \$0.9 million for the years ended December 31, 2001 and 2002, respectively)	105.6	96.1	91.3
Gross profit (loss)	(5.6)	3.9	8.7
Selling, general and administrative expenses (includes other charges of \$8.8 million and \$1.0 million for the years ended December 31, 2001 and 2002, respectively, and adjustments to previously recorded other charges of \$0.1 million for the year ended December 31, 2003)	7.3	4.6	6.1
Amortization (includes other charges of \$0.2 million for the year ended December 31, 2002)	1.8	0.5	1.3
Restructuring and other charges, including the write-down of intangible assets	7.9	5.8	0.3
Operating earnings (loss)	(22.6)	(7.0)	0.9
Interest	1.8	1.6	1.7
Loss before income taxes, discontinued operations and the cumulative effect of a change in accounting policy	(24.4)	(8.6)	(0.8)
Income taxes (recovery)	(5.5)	(0.2)	11.4
Earnings (loss) from continuing operations	(18.9)	(8.4)	(12.2)
Loss from discontinued operations	(0.9)	(1.6)	(0.8)
Cumulative effect of a change in accounting policy	—	(10.6)	—
Loss	(19.8)%	(20.6)%	(13.0)%

Year ended December 31, 2003 compared to the year ended December 31, 2002

Revenue

Revenue decreased \$219.1 million, or 41.7%, from \$525.2 million for the year ended December 31, 2002 to \$306.1 million for the year ended December 31, 2003. The decrease in revenue primarily is due to the effect of the continued decline experienced in the technology market, coupled with our decision to terminate our supply agreement with Dell during 2002 and a reduction in revenue from many of our larger customers. During the second quarter of 2002, the Company informed Dell of its intention to terminate its supply agreement and to end production over the third quarter of 2002. The Company's decision was taken after a review of the Company's return on capital requirements indicated that the customer's programs were not generating sufficient returns for the disproportionate amount of working capital utilized. While the decision to terminate the Company's supply agreement with Dell lowered the Company's 2003 revenue, the reduction in revenue was offset by reduced expenses and reduced working capital requirements. In 2003, SMTC's focus on the industrial sector resulted in a substantial change to the product mix over 2002. The industrial sector represented 45% of total sales in 2003, compared to 22% in 2002. The proportion of sales to both the enterprise computing and networking and the communications sectors declined to 38% and 17% respectively in 2003 from 53% and 25% respectively in 2002.

During 2003 we recorded approximately \$10.0 million of sales of raw materials inventory to customers, which carried no margin, compared to \$30.9 million for the same period in 2002.

Revenue from IBM of \$80.9 million, Ingenico of \$44.6 million and Square D of \$32.0 million for the year ended December 31, 2003 was 26.4%, 14.6% and 10.5%, respectively, of total revenue for the period. Revenue from IBM of \$121.6 million, Dell of \$87.7 million and Alcatel of \$69.6 million for the year ended December 31, 2002 was 23.2%, 16.7% and 13.2%, respectively, of total revenue for the period. No other customers represented more than 10% of revenue in either period.

During the year ended December 31, 2003, 48.1% of our revenue was produced from operations in Mexico, 28.0% from the United States, 23.1% from Canada, and 0.8% from Europe. For the year ended December 31, 2002, 48.9% of our revenue produced from operations in the United States, 34.4% from Mexico, 15.8% from Canada and 0.9% from Europe. We expect to continue to increase the portion of revenue attributable to our Chihuahua, Mexico and Markham, Ontario, Canada facilities, with the transfer of certain production from other facilities. We terminated manufacturing in Europe during the second quarter of 2003.

Gross Profit

Gross profit increased \$6.3 million from \$20.3 million for the year ended December 31, 2002 to \$26.6 million for the year ended December 31, 2003. Fiscal year 2002 gross profit includes the effect of restructuring charges of \$6.5 million related to an additional write-down of inventory in connection with the closure of our Denver facility and other inventory related charges of \$0.9 million resulting from the costs associated with the disengagement of Dell, coupled with the effects of the continued downturn in the technology sector.

Gross profit, excluding restructuring and other charges, decreased \$1.1 million from \$27.7 million, or 5.3% of revenue for fiscal year 2002, to \$26.6 million, or 8.7% of revenue for fiscal year 2003. The decline in absolute dollar gross profit, excluding restructuring and other charges, is due to the effect of the lower revenue in 2003, which was largely offset by cost savings due to capacity reductions that were significantly completed by the second quarter of 2003 and an improvement in customer mix as the Company continues to diversify its customer base. Gross margins improved as a result of a higher concentration of sales to the industrial sector relative to both the enterprise computing and networking and the communications sectors. Margins in the industrial sector are typically higher due to a greater degree of product customization and smaller, more diversified lot sizes. Gross profit was adversely affected by increased costs to meet customers' orders due to our credit related constraints. Specifically, credit constraints arose from our burdensome debt position, resulting in additional freight and material costs and labor inefficiencies that lowered our margins in the fourth quarter of 2003.

The Company writes down 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 \$5.4 million from \$24.2 million for the year ended December 31, 2002 to \$18.8 million for the year ended December 31, 2003. Selling, general and administrative expenses for fiscal year 2002 include \$1.0 million related to a write-down of certain assets. Selling, general and administrative expenses for fiscal year 2003 include an adjustment to previously recorded other charges of \$0.1 million. Excluding the charges and adjustment noted above, selling, general and administrative expenses decreased \$4.3 million from \$23.2 million, or 4.4% of revenue for fiscal year 2002, to \$18.9 million, or 6.2% of revenue for fiscal year 2003 due to the closure of our Donegal, Austin and Charlotte facilities and to our continued focus on reducing selling, general and administrative expenses at each operating site. The increase in selling, general and administrative expenses as a percentage of revenue is a result of lower revenue.

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 \$4.1 million for fiscal year 2003 include the amortization of deferred finance costs related to the establishment of our senior credit facility in July 2000 and subsequent amendments thereto.

Amortization of intangible assets of \$2.5 million for fiscal year 2002 included the amortization of \$2.2 million (including other charges of \$0.2 million) of deferred finance costs related to the establishment of our senior credit facility in July 2000 and subsequent amendments, and \$0.3 million of deferred equipment lease costs.

The costs associated with our amended and restated senior credit facility are being amortized over the remaining term of the debt.

Restructuring and Other Charges

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

(in millions)	Year ended	
	December 31, 2002	December 31, 2003
Inventory write-downs included in cost of sales	\$ 6.5	\$ —
Lease and other contract obligations	18.7	2.5
Adjustments of previously recorded lease and other contract obligations	(0.4)	(4.1)
Severance	2.8	2.4
Other facility exit costs	1.6	0.1
Adjustments to other facility exit costs	—	(0.9)
Asset impairment	7.7	—
Proceeds on assets previously written down	—	(0.3)
Other charges	—	1.3
Restructuring and other charges	\$ 30.4	\$ 1.0
	36.9	1.0
Other charges included in cost of sales	0.9	—
Other charges (adjustments) included in selling, general and administrative expenses	1.0	(0.1)
Other charges included in amortization expense	0.2	—
	2.1	(0.1)
	\$ 39.0	\$ 0.9

2002 restructuring and other charges:

Due to the continuing economic downturn, the Company took steps to realign its cost structure and plant capacity (the “2002 Plan”) and announced third and fourth quarter net restructuring charges of \$36.9 million 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 \$2.1 million primarily related to the costs associated with the disengagement of a customer and the continued downturn.

(a) Restructuring charges:

The write-down of inventory of \$6.5 million represents further costs associated with the closure of the assembly facility in Denver and costs associated with the closure of the interconnect facility in Donegal, Ireland.

Lease and other contract obligations of \$18.7 million represent the costs associated with exiting equipment leases and exiting facility leases in Austin and Donegal, Ireland.

Severance costs of \$2.8 million are associated with the closure of the interconnect facility in Donegal, Ireland and the resizing of various other locations. The severance costs related to 481 plant and operational employees, primarily at the Mexico and Donegal, Ireland facilities.

Other facility exit costs of \$1.6 million include other costs associated with the decommissioning and closure of the Austin and Donegal, Ireland facilities.

Asset impairment charges of \$7.7 million reflect the write-down of certain long-lived and other assets, primarily at the Austin location, that became impaired as a result of the rationalization of facilities. The asset impairment was identified by comparing book value on undiscounted projected future net cash flows relating to the assets, resulting in a write-down to estimated salvage values.

During 2002, the Company recorded an adjustment to lease and other contract obligation costs recorded as part of the 2001 Plan of \$0.4 million upon negotiating a final settlement on a facility lease for amounts less than originally estimated.

(b) Other charges:

Other charges included in cost of sales of \$0.9 million relate to inventory charges resulting from the disengagement with a customer, coupled with the effect of the continued downturn in the technology sector. Other charges of \$1.0 million included in selling, general and administrative expenses relate to the write-off of certain assets. Other charges of \$0.2 million included in amortization expense relate to additional amortization recorded to reflect the December 2002 amendment to our credit facility.

The restructuring charges are based on certain estimates and assumptions using the best available information at the time and are subject to change.

2003 restructuring and other charges:

During 2003, the Company recorded a net restructuring and other charge of \$1.0 million, consisting of a net adjustment to previously recorded charges related to the 2001 Plan (as defined below) and the 2002 Plan of \$0.3 million and additional charges incurred during 2003 of \$1.3 million. During 2003, the Company also recorded an adjustment to other charges of \$0.1 million.

(a) Restructuring and other charges:

During 2003, the Company recorded an additional charge for lease and other contract obligations of \$2.5 million, consisting of a charge related to the 2001 Plan of \$2.2 million due to a revision in the estimate of sub-lease recoveries associated with the facility lease in Monterrey, Mexico, and a charge related to the 2002 Plan of \$0.3 million primarily associated with the idling of equipment leases at the Donegal facility. During 2003, the Company also recorded a reduction to lease and other contract obligations related to the 2002 Plan of \$4.1 million for the expected or actual settlement of the amounts, including the Austin facility lease, for less than the originally estimated amounts.

Severance costs of \$2.4 million recorded during 2003 related to the additional severance for the closure or resizing of facilities pursuant to the 2002 Plan and the change in senior management during the year. Included in the severance costs was \$0.8 million related to the termination of 75 plant and operational employees at the Charlotte facility, \$0.3 million for the termination of 47 employees at the Austin facility, and \$0.3 million for the termination of 42 employees at the Mexico facility.

Other facility exit costs of \$0.1 million recorded during 2003 largely relate to additional costs incurred associated with the closure of the Charlotte facility. The Company also recorded an adjustment to other facility exit costs of \$0.9 million during 2003, consisting of \$0.2 million related to the 2001 Plan due to the settlement of certain obligations for less than the original estimated amounts, and \$0.7 million related to the 2002 Plan. The \$0.7 million relates to the Company revising its original estimates associated with the costs of closing the Austin and Charlotte facilities, based on the settlement of certain liabilities for less than the originally estimated amounts and the effects of ongoing negotiations for the settlement of other liabilities.

During 2003, the Company recorded a gain of \$0.3 million related to the disposal of assets previously written down at the Donegal facility.

Other charges recorded during 2003 of \$1.3 million relate to professional fees associated with the Company's refinancing negotiations with current and potential lenders and investors of \$0.9 million and a discount on the prepayment of stockholder loans of \$0.4 million. All amounts related to the 2003 other charges were paid during 2003.

Approximately \$2.9 million of the restructuring charges associated with lease and other contract obligations related to the 2001 Plan and \$7.6 million associated with lease and other contract obligations, severance and other facility exit costs related to the 2002 Plan remained unpaid at December 31, 2003. We expect the majority of the remaining restructuring accrual related to severance charges and equipment lease obligations to be paid by the end of fiscal year 2005. We are attempting to negotiate a settlement of the remaining facility lease obligations.

(b) Other charges:

During 2003, the Company recorded an adjustment of \$0.1 million in selling, general and administrative expenses related to the recovery of assets written off in 2002.

Interest Expense

Interest expense decreased \$3.2 million from \$8.3 million for the year ended December 31, 2002 to \$5.1 million for the year ended December 31, 2003 due to lower average debt outstanding during 2003 combined with lower interest rates. The weighted average interest rates with respect to the debt for the years ended December 31, 2002 and December 31, 2003 were 7.2% and 6.6%, respectively.

Income Tax Expense

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 current economic environment, 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. As a result, the total valuation allowance for deferred tax assets in all jurisdictions worldwide increased from approximately \$34.5 million at December 31, 2002 to approximately \$68.4 million at December 31, 2003. In addition, the Company expects to provide a full valuation allowance on future tax benefits 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.

At December 31, 2003, the Company had total net operating loss carryforwards of approximately \$142.4 million, of which \$4.2 million will expire in 2010, \$0.3 million will expire in 2011, \$1.3 million will expire in 2012, \$1.6 million will expire in 2018, \$81.2 million will expire in 2021, \$20.2 million will expire in

2022 and \$33.6 million will expire in 2023. The Recapitalization Transaction may limit our ability to utilize a significant portion of our tax losses in the future.

For the year ended December 31, 2002 an income tax recovery of \$1.2 million was recorded on a pre-tax loss before discontinued operations and the cumulative effect of a change in accounting policy of \$45.1 million resulting in an effective tax recovery rate of 2.7%, as losses in certain jurisdictions were not tax effected due to the uncertainty of our ability to utilize such losses.

Discontinued Operations

(a) Appleton

During the third quarter of 2003, the Company sold the manufacturing operations of the Appleton facility for cash proceeds of \$3.1 million. The Company recorded a loss on disposal of \$0.2 million, which has been included in the loss from discontinued operations. Details of the net assets disposed of are as follows:

<u>(in millions)</u>	
Proceeds on disposal of discontinued operation	\$ 3.1
Accounts receivable	1.9
Inventory	1.1
Prepaid expenses	0.1
Capital assets	1.7
Accounts payable	(1.4)
Accrued liabilities	(0.5)
	<u>2.9</u>
Net assets disposed of	2.9
Costs of disposal	0.4
	<u>0.4</u>
Loss on disposal of discontinued operation	<u>\$(0.2)</u>

The following information included in discontinued operations relates to the sale of the Appleton manufacturing operations:

<u>(in millions)</u>	<u>Year ended</u>	
	<u>December 31, 2002</u>	<u>December 31, 2003</u>
Revenue	\$ 44.3	\$ 10.8
Earnings (loss) from discontinued operations	\$ 1.7	\$ (4.0)

Included in the loss from discontinued operations for the year ended December 31, 2003 is the loss on disposition of discontinued operation of \$0.2 million, a restructuring charge of \$3.2 million recorded during the second quarter of 2003, reflecting the write-down of the Appleton assets to the estimated realizable value and loss from operations of \$0.5 million. The loss from discontinued operations for the year ended December 31, 2002 includes restructuring charges of \$0.1 million.

(b) Cork

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 operated that facility in voluntary administration. During the first quarter of 2002, we recorded a charge of \$9.7 million related to the closure of the facility.

The following information relates to the Cork discontinued operations:

(in millions)	Year ended	
	December 31, 2002	December 31, 2003
Revenue	\$ 5.0	\$ —
Earnings (loss) from discontinued operations	\$ (10.2)	\$ 1.6

In 2002, the loss from discontinued operations includes the costs of closing the facility of \$9.7 million. Included in this amount are the write-offs of the net assets of \$6.7 million (comprised of capital assets of \$1.1 million and net working capital of \$5.6 million) and other costs associated with exiting the facility of \$3.0 million. Included in the other costs is severance of \$1.4 million related to the termination of all employees.

During 2002, the Company recorded an accrual for costs associated with the exiting of the facility of \$3.0 million, consisting of lease and other contract obligations of \$0.3 million, severance of \$1.4 million and other facility exit costs of \$1.3 million. During 2002, aggregate cash payments of \$2.7 million were made, and the accrual at December 31, 2002 of \$0.3 million related to additional severance payments to be made.

In 2003, the earnings from discontinued operations include the distribution from the proceeds of the liquidation of \$2.3 million, less additional charges of \$0.7 million related to the closure of the facility. As at December 31, 2003, there is no remaining accrual related to the Cork facility.

Year ended December 31, 2002 compared to the year ended December 31, 2001

Revenue

Revenue decreased \$2.9 million, or 0.6%, from \$528.1 million for the year ended December 31, 2001 to \$525.2 million for the year ended December 31, 2002. The decrease in revenue primarily is due to the effects of the continued general decline in the technology market. During 2002 we recorded approximately \$30.9 million of sales of raw materials inventory to customers, which carried no margin, compared to \$27.1 million for the same period in 2001. The product mix in 2002 did not change substantially from 2001. The enterprise computing and networking sector represented 53% of sales in 2002 compared to 49% in 2001. The industrial sector increased to 22% in 2002 compared to 19% in 2001 and the communications sector decreased to 25% in 2002 from 32% in 2001.

Revenue from IBM of \$121.6 million, Dell of \$87.7 million and Alcatel of \$69.6 million for the year ended December 31, 2002 was 23.2%, 16.7% and 13.2%, respectively, of total revenue for the period. Revenue from IBM of \$115.2 million, Alcatel of \$63.8 million and Dell of \$61.9 million for the year ended December 31, 2001 was 21.8%, 12.1% and 11.7%, respectively, of total revenue for the period. No other customers represented more than 10% of revenue in either period.

During the second quarter of 2002, the Company informed Dell of its intention to terminate its supply agreement with Dell and to end production over the third quarter. The Company's decision was taken after a review of the Company's return on capital requirements indicated that the customer's programs were not generating sufficient returns for the disproportionate amount of working capital utilized.

During the year ended December 31, 2002, 48.9% of our revenue was produced from operations in the United States, 34.4% from Mexico, 15.8% from Canada, and 0.9% from Europe. For the year ended December 31, 2001, 62.5% of our revenue was produced from operations in the United States, 23.3% from Mexico, 11.5% from Canada and 2.7% from Europe.

Gross Profit

Gross profit increased \$49.8 million from a loss of \$29.5 million for the year ended December 31, 2001 to gross profit of \$20.3 million for the year ended December 31, 2002. Fiscal year 2001 gross profit includes restructuring charges of \$25.4 million related to a write-down of inventory in connection with the closure of our Denver facility and \$15.2 million of other inventory related charges. Fiscal year 2002 gross profit includes the effect of restructuring charges of \$6.5 million related to an additional write-down of inventory in connection with the closure of our Denver facility and other inventory related charges of \$0.9 million resulting from the costs associated with the disengagement of Dell, coupled with the effects of the continued downturn in the technology sector.

Gross profit, excluding restructuring and other charges, increased \$16.6 million from \$11.1 million, or 2.1% of revenue for fiscal year 2001, to \$27.7 million, or 5.3% of revenue for fiscal year 2002. The improvement in the gross profit, excluding restructuring and other charges, is due to a reduction in both fixed and variable manufacturing expenses, including fixed operating lease expenses and variable labor costs. The improvement in gross margin, excluding restructuring and other charges, is due to improved utilization of the fixed manufacturing expenses and lower labor costs as a percentage of revenue, due to the continued focus on expense management.

The Company writes down 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 \$14.6 million from \$38.8 million for the year ended December 31, 2001 to \$24.2 million for the year ended December 31, 2002. Selling, general and administrative expenses for fiscal year 2001 include \$8.8 million related to accounts receivable exposures and other charges recorded in response to the decline in the technology markets. Selling, general and administrative expenses for fiscal year 2002 include \$1.0 million related to a write-down of certain assets. Excluding the charges noted above, selling general and administrative expenses decreased \$6.8 million from \$30.0 million, or 5.7% of revenue fiscal year 2001, to \$23.2 million, or 4.4% of revenue for fiscal year 2002, due to our continued focus on reducing selling, general and administrative expenses.

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 \$2.5 million for fiscal year 2002 included the amortization of \$2.2 million of deferred finance costs related to the establishment of our senior credit facility in July 2000 and subsequent amendments, and \$0.3 million of deferred equipment lease costs. The costs associated with our amended and restated senior credit facility are being amortized over the remaining term of the debt.

Amortization of intangible assets of \$9.5 million for fiscal 2001 included the amortization of \$2.4 million of goodwill related to the combination of Surface Mount and HTM, \$1.7 million of goodwill related to the acquisition of W.F. Wood, \$2.7 million related to the acquisition of Pensar and \$1.6 million related to the acquisition of Qualtron. We were amortizing goodwill of \$24.9 million resulting from the combination of Surface Mount and HTM, \$17.4 million resulting from the acquisition of W.F. Wood, \$26.6 million resulting from the acquisition of Pensar and \$18.2 million resulting from the acquisition of Qualtron, on a straight-line

basis over a period of ten years. During fiscal year 2001, the Company recorded a write-down of goodwill associated with the acquisition of Qualtrion of \$16.3 million (see discussion of restructuring charges below). Amortization of intangible assets in 2001 also included the amortization of \$0.7 million of deferred finance costs related to the establishment of our senior credit facility in July 2000 and \$0.3 million of deferred equipment lease costs and \$0.1 million of other deferred costs.

Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 10 years. Effective January 1, 2002, the Company discontinued amortization of all existing goodwill as a result of a new accounting standard issued in 2001. Refer to note 3(q) to our consolidated financial statements. This change in accounting policy to not amortize goodwill has not been applied retroactively and the amounts presented for prior periods have not been restated for this change. The impact of this change would be a reduction to net loss of \$6.8 million in 2001.

Restructuring and Other Charges including the Write-down of Intangible Assets

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

(in millions)	Year ended	
	December 31, 2001	December 31, 2002
Inventory write-downs included in cost of sales	\$ 25.4	\$ 6.5
Lease and other contract obligations	8.6	18.7
Adjustments of previously recorded lease and other contract obligations	—	(0.4)
Severance	3.6	2.8
Other facility exit costs	6.2	1.6
Asset impairment	5.6	7.7
Write-down of intangible assets	17.8	—
Restructuring charges, including the write-down of intangible assets	\$ 41.8	\$ 30.4
	67.2	36.9
Other charges included in cost of sales	15.2	0.9
Other charges included in selling, general and administrative expenses	8.8	1.0
Other charges included in amortization expense	—	0.2
	24.0	2.1
	\$ 91.2	\$ 39.0

2001 restructuring and other charges:

(a) Restructuring charges:

During 2001, in response to excess capacity caused by the slowing technology end market, the Company commenced an operational restructuring program aimed at reducing its cost structure (the “2001 Plan”). Accordingly, the Company recorded restructuring and other charges related to the 2001 Plan of \$67.2 million, consisting of a write-down of goodwill and other intangible assets, the costs associated with exiting or resizing facilities and the write-down of inventory related to the closure of a facility. In addition, the Company recorded other charges of \$24.0 million related primarily to accounts receivable, inventory and asset impairment charges.

The write-down of inventory of \$25.4 million recorded in cost of sales is associated with the closure of the assembly facility in Denver.

Lease and other contract obligations of \$8.6 million include the costs associated with decommissioning, exiting and subletting the Denver facility and the costs of exiting equipment and facility leases at various other locations.

Severance costs of \$3.6 million are associated with the closure of the Denver assembly facility and the Haverhill interconnect facility and the resizing of the Mexico and Ireland facilities. The severance costs relate to all 429 employees at the Denver facility, 26 plant and operational employees at the Haverhill facility, 915 plant and operational employees at the Mexico facility and 68 plant and operational employees at the Donegal, Ireland facility.

Other facility exit costs of \$6.2 include personnel costs and other fees directly related to exit activities at the Denver and Haverhill locations.

Asset impairment charges of \$5.6 million reflect the write-down of certain long-lived assets, primarily at the Denver location, that became impaired as a result of the rationalization of facilities. The asset impairment was determined based on undiscounted projected future net cash flows relating to the assets resulting in a write-down to estimated salvage values.

(b) Write-down of intangible assets:

During 2001, the Company recorded a write-down of intangible assets of \$17.8 million, which includes the write-down of goodwill associated with a previous acquisition of Qualtron Teoranta of \$16.3 million and the write-down of intangible assets of \$1.5 million. In accordance with the then current accounting policy of the Company, long-lived assets and certain identifiable intangible assets, including goodwill, held and used by an entity, were reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount of an asset may not be recoverable. Due to the downturn in the electronics manufacturing services industry, the significant operating loss incurred in fiscal 2001 and the restructuring and other charges recorded in 2001, the Company reviewed the recoverability of the carrying value of long-lived assets, including allocated goodwill and other intangible assets. The evaluation indicated that the estimated future net cash flows associated with the long-lived assets acquired as part of the Qualtron Teoranta acquisition were less than their carrying value and, accordingly, a write-down to estimated fair values was recorded for unamortized goodwill associated with the acquisition of Qualtron Teoranta and certain intangible assets.

(c) Other charges:

During 2001, the Company recorded other charges totaling \$24.0 million related primarily to accounts receivable, inventory and asset impairment charges, resulting from the downturn in the technology sector. Included in cost of sales are other charges of \$15.2 million related to inventory and included in selling, general and administrative expenses are other charges of \$7.9 million related to accounts receivable exposures and other charges of \$0.9 million related to asset impairment charges at various facilities other than the Denver and Haverhill facilities.

2002 restructuring and other charges:

Due to the continuing economic downturn, the Company took further steps to realign its cost structure and plant capacity (the "2002 Plan") and announced third and fourth quarter net restructuring charges of \$36.9 million 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 \$2.1 million primarily related to the costs associated with the disengagement of a customer and the continued downturn.

(a) Restructuring charges:

The write-down of inventory of \$6.5 million represents further costs associated with the closure of the assembly facility in Denver and costs associated with the closure of the interconnect facility in Donegal, Ireland.

Lease and other contract obligations of \$18.7 million represent the costs associated with exiting equipment leases and exiting facility leases in Austin and Donegal, Ireland.

Severance costs of \$2.8 million are associated with the closure of the interconnect facility in Donegal, Ireland and the resizing of various other locations. The severance costs related to 481 plant and operational employees, primarily at the Mexico and Donegal, Ireland facilities.

Other facility exit costs of \$1.6 million include other costs associated with the decommissioning and closure of the Austin and Donegal, Ireland facilities.

Asset impairment charges of \$7.7 million reflect the write-down of certain long-lived and other assets, primarily at the Austin location, that became impaired as a result of the rationalization of facilities. The asset impairment was determined based on undiscounted projected future net cash flows relating to the assets, resulting in a write-down to estimated salvage values.

During 2002, the Company recorded an adjustment to lease and other contract obligation costs recorded as part of the 2001 Plan of \$0.4 million upon negotiating a final settlement on a facility lease for amounts less than originally estimated.

The major components of the 2002 restructuring plan were completed during fiscal 2003.

(b) Other charges:

Other charges included in cost of sales of \$0.9 million relate to inventory charges resulting from the disengagement with a customer, coupled with the effects of the continued downturn in the technology sector. Other charges of \$1.0 million included in selling, general and administrative expenses relate to the write-off of certain assets. Other charges of \$0.2 million included in amortization expense relate to additional amortization recorded to reflect the December 2002 amendment to our credit facility.

The restructuring charges are based on certain estimates and assumptions using the best available information at the time and are subject to change.

Interest Expense

Interest expense decreased \$1.0 million from \$9.3 million for the year ended December 31, 2001 to \$8.3 million for the year ended December 31, 2002 due to lower average debt outstanding during 2002 combined with lower interest rates. The weighted average interest rates with respect to the debt for the years ended December 31, 2001 and December 31, 2002 were 8.3% and 7.2%, respectively.

Income Tax Expense

For the year ended December 31, 2002, an income tax recovery of \$1.2 million was recorded on a pre-tax loss before discontinued operations and the cumulative effect of a change in accounting policy of \$45.1 million. 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. Based upon consideration of these factors, management believes the recorded valuation allowance related to the loss carryforwards is appropriate. However, in the event that actual results differ from estimates or management adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance, which could materially impact its financial position and results of operations.

For the year ended December 31, 2001 an income tax recovery of \$28.8 million was recorded on a pre-tax loss before discontinued operations of \$128.9 million resulting in an effective tax recovery rate of 22.3%, as losses in certain jurisdictions were not tax effected due to the uncertainty of our ability to utilize such losses.

We also were unable to deduct \$4.0 million of goodwill amortization and \$17.8 million of goodwill and intangible asset write-downs.

Discontinued Operations

(a) Appleton

The following information included in discontinued operations relates to the Appleton manufacturing operations:

(in millions)	Year ended	
	December 31, 2001	December 31, 2002
Revenue	\$ 71.2	\$ 44.3
Earnings (loss) from discontinued operations	\$ (0.3)	\$ 1.7

The loss from discontinued operations for the year ended December 31, 2002 includes restructuring charges of \$0.1 million. The loss from discontinued operations for the year ended December 31, 2001 includes other charges of \$3.2 million.

(b) Cork

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 operated that facility in voluntary administration. During the first quarter of 2002, we recorded a charge of \$9.7 million related to the closure of the facility.

The following information relates to the Cork discontinued operations:

(in millions)	Year ended	
	December 31, 2001	December 31, 2002
Revenue	\$ 12.8	\$ 5.0
Loss from discontinued operations	\$ (0.3)	\$ (10.2)

In 2001, the loss from discontinued operations includes restructuring charges of \$0.3 million and other charges of \$0.1 million. In 2002, the loss from discontinued operations includes the costs of closing the facility of \$9.7 million. Included in this amount are the write-offs of the net assets of \$6.7 million (comprised of capital assets of \$1.1 million and net working capital of \$5.6 million) and other costs associated with exiting the facility of \$3.0 million. Included in the other costs is severance of \$1.4 million related to the termination of all employees.

During 2002, the Company recorded an accrual for costs associated with the exiting of the facility of \$3.0 million, consisting of lease and other contract obligations of \$0.3 million, severance of \$1.4 million and other facility exit costs of \$1.3 million. During 2002, aggregate cash payments of \$2.7 million were made, and the accrual at December 31, 2002 of \$0.3 million related to additional severance payments to be made.

Liquidity and Capital Resources

Our principal sources of liquidity are cash provided from operations and borrowings under our senior credit facility. In the past, we have also relied on our access to the capital markets. Our principal uses of cash have been to finance mergers and acquisitions, to meet debt service requirements and to finance capital expenditures and working capital requirements. We anticipate our principal uses of cash in the future will be to meet debt service requirements and to finance capital expenditures and working capital requirements.

2003 Liquidity: Net cash provided by operating activities for the year ended December 31, 2003 was \$5.5 million. Inventory turns (excluding the inventory related to discontinued operations) declined to nine times at the end of the fourth quarter of 2003 from 11 times for the same period in 2002. Accounts receivable days sales outstanding (excluding the accounts receivable related to discontinued operations) increased to 49 days at the end of the fourth quarter of 2003 from 44 days for the same period in 2002. Despite the increase in accounts receivable days, the percentage of past due accounts receivable relative to total accounts receivable decreased to 21% at December 31, 2003 from 25% at December 31, 2002. During 2003, the Company made \$10.7 million of restructuring payments.

Net cash used in financing activities for year ended December 31, 2003 of \$8.9 million consists of the repayment of long-term debt of \$12.5 million and the repayment of capital leases of \$0.2 million, offset by the repayment of stockholder loans of \$3.8 million.

Net cash provided by investing activities for the year ended December 31, 2003 was \$3.3 million resulting from proceeds of \$3.1 million from a disposition of discontinued operations and proceeds from the sale of capital assets of \$0.3 million, offset by purchases of capital assets of \$0.2 million.

2002 Liquidity: Net cash provided by operating activities for the year ended December 31, 2002 was \$34.8 million. Our continued focus on improving our accounts receivable and inventory levels during the year led to the reduced working capital usage. Inventory turns (excluding the inventory related to discontinued operations) improved to 11 times at the end of the fourth quarter of 2002 from 6 times for the same period in 2001. Accounts receivable days sales outstanding (excluding the accounts receivable related to discontinued operations) improved to 44 days at the end of the fourth quarter of 2002 from 54 days for the same period in 2001. Past due accounts receivable as a percentage of total accounts receivable remained unchanged at 24% from 2001 to 2002. During 2002, the Company made \$9.0 million of restructuring payments.

Net cash used in financing activities for year ended December 31, 2002 of \$44.1 million consists of the repayment of long-term debt of \$40.2 million, the repayment of capital leases of \$0.2 million and the costs associated with the amendments to our credit agreement of \$3.7 million.

Net cash used in investing activities for the year ended December 31, 2002 was \$2.4 million due to the net purchase of capital and other assets.

Capital Resources

As a result of restructuring actions and market conditions we have incurred losses during 2001, 2002 and 2003, which resulted in our repeated non-compliance with financial covenants contained in our credit agreement and repeated amendments to our credit agreement to revise the financial covenants to be more consistent with our actual and forecasted revenue levels. In connection with an amendment to our credit facility in December 2002, the Company agreed to issue warrants to the lenders to purchase common stock at an exercise price equal to the fair market value on the date of the grant if we did not meet certain EBITDA targets. As a result of our shortfall in achieving such EBITDA targets, we have issued, or are currently obligated to issue, a total of 2,199,804 warrants. If the Recapitalization Transaction is approved and consummated, all of the warrants issued pursuant to the December 2002 amendment will be cancelled and the debt under the current credit agreement will be restructured.

As a result of the restructuring of our business and the continuing downturn in the market, the debt outstanding under our credit facility cannot be supported by our current business model and it is no longer sufficient to continue to seek amendments to our credit agreement. Accordingly, we have negotiated a

restructuring of the debt under our existing credit agreement as part of an overall recapitalization of the Company that is subject to stockholder approval.

As described in greater detail under “Overview,” in 2004, the Company proposes to effectuate a Recapitalization Transaction through three main components: a private placement of equity securities, a new secured credit facility and a transaction with the Company’s current lenders to repay a portion of and restructure a portion of the Company’s existing debt:

- The Company completed a fully underwritten, committed private placement of 33,350,000 Special Warrants of SMTC Canada to qualified investors at a price of Cdn\$1.20 (approximately US\$0.90) per Special Warrant, representing an aggregate amount of issue of Cdn\$40,020,000 (approximately US\$30 million), which closed on March 3, 2004. The net proceeds are being held in escrow pending receipt of stockholder approval and, upon release from escrow, will be used for debt reduction, as part of a concurrent agreement with the Company’s lenders, and working capital.
- The Company has entered into a letter of intent with Congress Financial Corporation (Canada) for a new, 3-year \$40 million credit facility, subject to certain borrowing base conditions.
- The Company has entered into a binding term sheet with its current lenders under which the Company will satisfy its debt 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 up to a limit of \$27.5 million, into second lien subordinated debt with maturity ranging from 4 to 5 years. In the unlikely event the remaining debt exceeds this limit, the difference will be repaid at par.

We expect that the effect of the refinancing will be to lower the Company’s overall indebtedness at closing by approximately \$37 million, extend the term of the majority of the remaining indebtedness and provide additional liquidity. The level of indebtedness under the existing lenders’ facility at December 31, 2003 was US\$70.1 million.

If we complete the Recapitalization Transaction, our management believes that cash generated from operations, available cash and amounts available under our senior credit facility 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 facility, as discussed above. 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.

If we do not complete the Recapitalization Transaction, we would likely be in default of covenants under our credit agreement no later than the end of June 2004. Upon an event of default, our lenders would have the right to proceed against all of the collateral granted to them to secure our indebtedness, consisting of substantially all of our assets, and reorganization proceedings under the Bankruptcy Code could be a possible consequence. In this circumstance, our management believes that cash generated from operations, available cash and amounts available under our senior credit facility would not 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.

As at December 31, 2003, contractual repayments due within each of the next five years and thereafter are as follows:

(in millions)						
Contractual obligations	2004	2005	2006	2007	2008 and thereafter	Total
Long-term debt	\$70.1	\$—	\$—	\$—	\$ —	\$ 70.1
Capital lease obligations	0.2	—	—	—	—	0.2
Operating lease obligations	12.4	3.8	3.7	3.2	8.5	31.6
Total contractual cash obligations	\$82.7	\$ 3.8	\$ 3.7	\$ 3.2	\$ 8.5	\$101.9

Included in the operating lease obligations are \$6.7 million, \$0.7 million, \$0.7 million and \$0.3 million, representing lease costs for the years 2004 to 2007, respectively, which have been recorded as part of the restructuring charges and accrued in the consolidated financial statements at December 31, 2003.

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.

Contingent liabilities in the form of letters of credit and letters of guarantee are provided to certain third parties. These guarantees were entered into prior to January 1, 2003, and cover various payments, including customs and excise taxes and raw material purchases. The total amount of future payments to be made under these guarantees is approximately \$0.9 million.

Recently Issued Accounting Standards

In August 2001, FASB issued Statement No. 143, Accounting for Asset Retirement Obligations (“Statement 143”), which requires that the fair value of an asset retirement obligation be recorded as a liability, at fair value, in the period in which the Company incurs the obligation. Statement 143 is effective for fiscal 2003. The adoption of Statement 143 on January 1, 2003 did not have a material impact on the Company’s financial position or results of operations.

In July 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (“Statement 146”), which supercedes Emerging Issues Task Force (“EITF”) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (“EITF 94-3”). Statement 146 allows for recognition of a liability for an exit or disposal activity only when a liability is incurred and can be measured at fair value. Prior to the issuance of Statement 146, a commitment to an exit or disposal plan was sufficient to record the majority of the costs. Statement 146 is effective for exit or disposal activities initiated after December 31, 2002. The adoption of this standard did not have a material impact on its existing restructuring plans as these plans were initiated under an exit plan that met the criteria of EITF 94-3.

In December 2002, Statement 148 was issued to amend Statement 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. Statement 148 also amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements. The disclosure modifications are included in note 3(k) to these consolidated financial statements.

In April 2003, the FASB issued Statement No. 149, Amendments of Statement 133 on Derivative Instruments and Hedging Activities (“Statement 149”), which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under Statement 133. This statement is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The

adoption of Statement 149 on July 1, 2003 did not have any impact on the Company's financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity ("Statement 150"), which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Financial instruments meeting certain specified criteria that are within the scope of the statement, which previously were often classified as equity, must now be classified as liabilities. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period after June 15, 2003. The adoption of Statement 150 in the third quarter of 2003 did not have any impact on the Company's financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others ("FIN 45"), which requires certain disclosures of obligations under guarantees. The disclosure requirements of FIN 45 were effective for the Company's year ended December 31, 2002. Effective for 2003, FIN 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees entered into or modified after December 31, 2002, based on the fair value of the guarantee. The Company has not entered into or modified any guarantees after December 31, 2002. Disclosures of guarantees are included in note 13. The initial recognition and measurement provisions during fiscal 2003 did not have any impact on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). This interpretation addresses the consolidation by business enterprises of variable interest entities, as defined in the Interpretation. FIN 46 applied immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. In December 2003, the FASB issued FASB Interpretation No. 46R, Consolidation of Variable Interest Entities Revised ("FIN 46R"). FIN 46R modifies the scope exceptions provided in FIN 46. Entities would be required to replace FIN 46 provisions with FIN 46R provisions for all newly created post-January 31, 2003 entities as of the end of the first interim or annual reporting period ending after March 15, 2004. The adoption of FIN 46 and FIN 46R did not have any impact on the Company's financial position or results of operations.

In November 2002, the EITF reached a consensus on Issue No. 00-21 ("EITF 00-21"), Revenue Arrangements with Multiple Deliverables, which provides guidance on both how and when an arrangement involving multiple deliverables should be divided into separate units of accounting and how the arrangement's consideration should be allocated among separate units. EITF 00-21 is effective for arrangements entered into in periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material impact on the Company's financial position or results of operations.

Critical Accounting Policies

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 reporting period. Actual results could differ from those estimates.

Note 3 to the Consolidated Financial Statements 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

The Company evaluates the collectibility of accounts receivable and records an allowance for doubtful accounts, which reduces the accounts receivable to the amount management reasonably believes will be collected. A specific allowance is recorded against customer accounts receivable that are considered to be

impaired based on the Company's knowledge of the financial condition of its customers. In determining the amount of the allowance, the Company considers factors, including the length of time the accounts receivable have been outstanding, customer and industry concentrations, the current business environment and historical experience.

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. The Company writes 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 caused by the slowing technology end market, the Company recorded restructuring and other charges aimed at reducing its cost structure. In connection with exit activities, the Company 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 the Company 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, the Company evaluates the remaining accrued balances to ensure that no excess accruals are retained and the utilization of the provision are for their intended purposes in accordance with the developed exit plans.

Long-lived Assets

The Company reviews 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. Prior to January 1, 2002, recoverability of assets to be held and used was measured by a comparison of the carrying amount of an asset (or asset groupings) to future net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized was measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. In accordance with the provisions of Statement 144, the Company has presented the closure of its Cork facility in 2002 and sale of its Appleton facility in 2003 as discontinued operations.

Income Tax Valuation Allowance

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. Based upon consideration of these factors, management believes the recorded valuation allowance related to all of its loss carryforwards is appropriate.

FORWARD-LOOKING STATEMENTS

A number of the matters and subject areas discussed in this Form 10-K 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 annual report on Form 10-K 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) the failure of stockholders to approve our pending recapitalization transactions; (2) increased competition; (3) increased costs; (4) the inability to implement our business plan and maintain covenant compliance under our credit agreement; (5) the loss or retirement of key members of management; (6) increases in SMTC's cost of borrowings or lack of availability of additional debt or equity capital on terms considered reasonable by management; (7) adverse state, federal or foreign legislation or regulation or adverse determinations by regulators; (8) changes in general economic conditions in the markets in which SMTC may compete and fluctuations in demand in the electronics industry; (9) the inability to manage inventory levels efficiently in light of changes in market conditions; 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 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 THE RECAPITALIZATION TRANSACTION

If we fail to complete the Recapitalization Transaction, we would likely have an event of default under the terms of our existing credit agreement and would not likely be able to negotiate a transaction on equal or more favorable terms.

If the Recapitalization Transaction is not approved at the stockholders' meeting, we expect that we would not be able to negotiate a transaction on terms as favorable as the Recapitalization Transaction. We also expect that we would likely be in default under our existing credit agreement no later than June 2004. Upon a default, the lenders under our current credit facility could resort to their collateral consisting of substantially all of our assets and reorganization proceedings under the Bankruptcy Code and/or the Companies' Creditors Arrangement Act could be one of the possible consequences.

If we complete the Recapitalization Transaction, current stockholders will be subject to significant dilution.

Currently outstanding shares will be 39% of the outstanding shares after the Recapitalization Transaction and 30% of the outstanding shares upon the exercise of the warrants sold pursuant to the private placement and the debt exchange that are part of the Recapitalization Transaction (with such exercise generating approximately Cdn\$41.1 million in additional proceeds for the Company).

The Company is currently exposed to foreign currency exchange risk on the proceeds of the recapitalization in escrow.

As part of the Recapitalization Transaction, we have agreed to repay \$40 million in cash to our existing lenders. This amount will be generated by borrowings under our new working capital facility and from the

proceeds of our equity offering, which, net of underwriting expenses, total Cdn\$37 million and are held in escrow. We will be required to convert the escrowed proceeds, upon stockholder approval, to satisfy the obligations to our existing lenders. In the event the Canadian dollar weakens relative to the U.S. dollar, it will have an adverse effect on our ability to purchase U.S. dollars in the amount of approximately US\$200,000 for every \$.01 change in the Canadian dollar/U.S. dollar exchange rate. The Company will monitor the exchange rate and the extent it deems necessary, it will hedge all or a portion of the Cdn\$37 million; however, there can be no assurance that the Company will be successful in its hedging strategy.

We will not be entitled to a refund of the underwriters' fees if the Recapitalization Transaction is not completed.

We paid 6% of the gross proceeds on the sale of Special Warrants, or approximately \$1,800,000, as cash commission to the underwriters at the closing into escrow. In the event our stockholders do not approve the Recapitalization Transaction, all of the escrowed funds will be returned to the purchasers of the Special Warrants, and we will not be entitled to a refund of the commission and expenses paid to the underwriters.

We may have to issue to the purchasers of the Special Warrants, units exchangeable for exchangeable shares and exchangeable share purchase warrants of SMTC Canada on the same terms as the private placement.

In the event that we do not obtain our stockholders' approval for the Recapitalization Transaction, then, subject to Nasdaq approval, the purchasers of Special Warrants will be allowed, for a period of five business days following the date on which our stockholders declined to approve the offering of the Special Warrants, to subscribe, on a pro rated basis, for units representing (i) an aggregate number of underlying exchangeable shares that does not exceed 25% of all such issued and outstanding exchangeable shares and (ii) an aggregate number of underlying shares of our common stock that, together with the underlying share of common stock issuable on exchange of the securities described in (i), does not exceed 19.9% of the issued and outstanding shares of common stock of the Company. The purchasers will be able to subscribe (the "Allowable Subscription") for these units on the same terms as the offering of the Special Warrants.

We may have to pay the purchasers of the Special Warrants an additional amount if we enter into an alternative business transaction.

If we fail to obtain stockholder approval for the Recapitalization Transaction and then, on or prior to February 17, 2005, we complete an equity issuance for greater than 10% of the number of shares of our common stock and exchangeable shares outstanding as of February 17, 2004 or a transaction that results in a change of control of the Company, we will be required to pay to each purchaser of Special Warrants (with respect to the number of exchangeable shares included in Special Warrants that were held in escrow for the benefit of such purchaser (or its assignees) at the time the stockholders declined to approve the Recapitalization Transaction minus the number of exchangeable shares purchased by such purchaser (or its assignees) pursuant to the Allowable Subscription) an amount equal to one-half of the difference between the average market price of the exchangeable shares at the close of business for the period that is ten trading days immediately preceding the date of the stockholders' meeting called to approve the Recapitalization Transaction and the subscription price of the units for which the Special Warrants are exercisable, in part. This fee would likely have the effect of making it more difficult for us to find another party interested in a transaction and would further reduce the likelihood that we would be able to negotiate a transaction on equal or more favorable terms.

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 and reduced capital spending, our sales have declined in 2003 from 2002. In particular, sales to OEMs in the telecommunications and enterprise computing and networking industries worldwide were impacted during 2003. If 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.

Our largest three customers in 2003 were IBM, Ingenico and Square D, which represented approximately 26.4%, 14.6% and 10.5%, respectively, of our total revenue in 2003. Our top ten largest customers (including IBM, Ingenico and Square D) collectively represented approximately 89.5% of our total revenue in 2003. 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 largest 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.

In 2003, our costs to meet customer orders increased due to our vendor credit constraints arising from our burdensome debt position, resulting in additional freight and material costs and labor inefficiencies that lowered our margins in the fourth quarter of 2003.

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 growth and significant retrenchment in a short period of time.

Since 1995, we have completed seven acquisitions. Acquisitions may involve numerous risks, including difficulty in integrating operations, technologies, systems, and products and services of acquired companies; diversion of management's attention and disruption of operations; increased expenses and working capital requirements; entering markets in which we have limited or no prior experience and where competitors in such markets have stronger market positions; and the potential loss of key employees and customers of acquired companies. In addition, acquisitions may involve financial risks, such as the potential liabilities of the acquired businesses, the dilutive effect of the issuance of additional equity securities, the incurrence of additional debt, the financial impact of transaction expenses and the amortization of goodwill and other intangible assets involved in any transactions that are accounted for using the purchase method of accounting, and possible adverse tax and accounting effects.

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. During the third quarter of 2002, the Company took further steps to realign its cost structure and plant capacity. Furthermore, in 2003, we closed our sites in Austin, Texas, Donegal, Ireland and Charlotte, North Carolina and sold our manufacturing operations in Appleton, Wisconsin. Retrenchment has caused, and is expected to continue to cause, strain on our infrastructure, including our managerial, technical and other resources. We may experience inefficiencies as we complete the operational integration from closed facilities to currently operating facilities and may experience delays in meeting the needs of transferred customers. In addition, we are reducing the geographic dispersion of our operations, which may make it harder for us to compete and may cause us to lose customers. The loss of customers could have a material adverse effect on our business, financial condition and results of operations.

Our rapid growth and subsequent retrenchment has placed and will continue to place a significant strain on management, on our financial resources, and on our information, operating and financial systems. If we are unable to manage effectively, it may have a material adverse effect on our business, financial condition and results of operations.

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 products and 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. We are currently seeking a new President and Chief Executive Officer to replace our current interim President and Chief Executive Officer and a new Chief Financial Officer to replace our current interim Chief Financial Officer. Our ability to successfully implement our business plan depends in part on our ability to attract a new President and Chief Executive Officer and a new Chief Financial Officer and to retain key management and existing employees. There can be no assurance that we will be able to attract a new President and Chief Executive Officer and a new Chief Financial Officer or to retain our 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 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 December 31, 2003, we had \$70.1 million of indebtedness under our senior credit facility. If the Recapitalization Transaction is approved by stockholders at our Annual Meeting and ultimately consummated, it will reduce our debt, but we will remain leveraged. This debt, whether under our existing senior credit facility or the facilities that would be put in place as part of the Recapitalization Transaction, 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;
- 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 financial and other restrictive covenants in our credit arrangements in our borrowing of additional funds; and
- We may fail to comply with the 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, the 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 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 our senior credit facility or successor facilities.

We face significant restrictions on our ability to operate under the terms of our current credit agreement and would face similar restrictions under the terms of the credit arrangements that would be implemented in the Recapitalization Transaction.

The terms of our current credit agreement 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, incur cash restructuring costs, enter into certain transactions with affiliates, merge, consolidate or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets. We are also required to maintain specified financial ratios and satisfy certain monthly and quarterly financial condition tests, which further restrict our ability to operate as we choose. We would face similar restrictions and requirements under the credit arrangements that are part of the Recapitalization Transaction.

If we are not able to comply with these covenants and tests, 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 senior credit facility and would be similarly pledged under the credit arrangements that would be effected in the Recapitalization Transaction.

Institutional investors and certain members of management have significant influence over our business, and could delay, deter or prevent a change of control or other business combination.

Certain of our institutional investors have representatives on our board of directors, including investment funds affiliated with Bain Capital, LLC and investment funds affiliated with Celerity Partners. Further, certain members of our management serve on our board. By virtue of such stock ownership and board representation, certain of our institutional investors and certain members of management have a significant influence over all matters submitted to our stockholders, including the election of our directors, and exercise significant control over our business policies and affairs. Such concentration of voting power could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our stockholders.

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.

RISKS ASSOCIATED WITH OUR PROPOSED CHARTER AMENDMENTS

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.

We are seeking stockholder approval to increase the number of shares of common stock authorized for issuance under our charter. 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. 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.

We cannot predict the effect that a reverse stock split would have on the market value of our common stock and our ability to comply with Nasdaq's maintenance standards.

We are seeking stockholder approval to effect a reverse stock split. While our Board of Directors believes that the common stock and exchangeable shares would trade at higher prices after the consummation of the reverse stock split, there can be no assurance that the increase in the trading price will occur, or, if it does occur, that it will equal or exceed the price that is the product of the market price of our common stock and exchangeable shares prior to the reverse stock split times the selected reverse stock split ratio. In some cases, the total market capitalization of a company following a reverse stock split is lower, and may be substantially lower, than the total market capitalization before the reverse stock split. In addition, the fewer number of shares that will be available to trade will possibly cause the trading market of our common stock and exchangeable shares to become less liquid, which could have an adverse effect on the price of our common stock and exchangeable shares.

There can be no assurance that the reverse stock split will result in us complying with the \$1.00 minimum bid requirement for continued listing. Even if we continue to satisfy Nasdaq's \$1.00 minimum bid price requirement, we must continue to satisfy other Nasdaq maintenance standards to remain on The Nasdaq National Market. In addition to a minimum bid price of at least \$1.00 per share, we are required to have (a) total assets and total revenue of at least \$50 million, (b) at least 1,100,000 shares publicly held by persons other

than officers, directors and beneficial owners of greater than 10% of our total outstanding shares; (c) a market value of publicly held shares of at least \$15 million; and (d) at least 400 stockholders who own at least 100 shares. We cannot offer any assurance that the common stock will continue to meet The Nasdaq National Market continued listing requirements following the reverse stock split.

Item 7A: Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

Our senior credit facility bears interest at a floating rate. The weighted average interest rate on our senior credit facility for the year ended December 31, 2003 was 6.6%. Our debt of \$70.1 million bore interest at 6.5% on December 31, 2003 based on the U.S. base rate. If the U.S. base rate increased by 10%, our interest rate would have risen to 6.9%, and our interest expense would have increased by approximately \$0.3 million for fiscal year 2003.

Foreign Currency Exchange Risk

Most of our sales and purchases are denominated in U.S. dollars, and as a result we have relatively little exposure to foreign currency exchange risk with respect to sales made.

As part of the Recapitalization Transaction, we have agreed to repay \$40 million in cash to our existing lenders. This amount will be generated by borrowings under our new working capital facility and from the proceeds of our equity offering, which, net of underwriting expenses, total Cdn\$37 million and are held in escrow. We will be required to convert the escrowed proceeds, upon stockholder approval, to satisfy the obligations to our existing lenders. In the event the Canadian dollar weakens relative to the U.S. dollar, it will have an adverse effect on our ability to purchase U.S. dollars in the amount of approximately US\$200,000 for every \$.01 change in the Canadian dollar/U.S. dollar exchange rate. The Company will monitor the exchange rate and the extent it deems necessary, it will hedge all or a portion of the Cdn\$37 million; however, there can be no assurance that the Company will be successful in its hedging strategy.

Item 8: Financial Statements and Supplementary Data

The information called for by this item is indexed on page F-1 of this Report and is contained on pages F-2 through F-58.

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A: Controls and Procedures

- (a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this annual report, the Company's Chief Executive Officer and Principal Financial Officer have conducted an evaluation of the Company's disclosure controls and procedures. 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 recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms.
- (b) Changes in Internal Controls and Procedures. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the most recent evaluation of these controls by the Company's Chief Executive Officer and Principal Financial Officer.

PART III

Item 10: Directors and Executive Officers of the Registrant

The information required by this Item is included under the captions "Proposal No. 5: Election of Directors," "Directors and Executive Officers" and "Additional Information – Section 16(a) Beneficial Ownership Reporting Compliance" in the proxy statement for use in connection with the Company's 2004 Annual Meeting of Stockholders (the "Proxy Statement") and is incorporated herein by reference.

The Company has adopted a Code of Conduct applicable to all employees, including the principal executive officer, principal financial officer, and principal accounting officer. The Code of Conduct is available on the Company's website at <http://www.smtc.com/investor/corpgov/corpgov.htm> and in print to any stockholder who requests it. The Company intends to post on its website any amendments to, or waivers from, its Code of Conduct.

Item 11: Executive Compensation

The information required by this Item is included under the caption "Executive Compensation and Related Information" in the Proxy Statement and is incorporated herein by reference.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item concerning security ownership of certain beneficial owners and management is included under the caption "Securities Ownership of Certain Beneficial Owners and Management" in the Proxy Statement and the information required by this Item concerning compensation plans and arrangements is included therein under the caption "Securities Authorized For Issuance Under Equity Compensation Plans." Such information is incorporated herein by reference.

Item 13: Certain Relationships and Related Transactions

The information required by this Item is included under the caption "Directors and Executive Officers – Related Party Transactions" in the Proxy Statement and is incorporated herein by reference.

Item 14: Principal Accountant Fees and Services

The information required by this Item concerning principal accountant fees and services is included in the Proxy Statement under the caption "Independent Auditors" and is incorporated herein by reference.

PART IV

Item 15: Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) Financial Statements.

The financial statements filed as part of this Report are listed and indexed at page F-1.

(a) (2) Financial Statement Schedule.

The following financial statement schedule is filed as part of this report. All other financial statement schedules have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Company's consolidated financial statements set forth in this Annual Report on Form 10-K and the notes thereto.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
(Expressed in thousands of U.S. dollars)

	Years ended December 31,		
	2001	2002	2003
Reserves for Accounts Receivable			
Balance, beginning of year	(2,368)	(7,258)	(2,097)
Recovery (charge) to expense	(8,218)	61	(431)
Written off	3,328	5,100	432
Balance, end of year	(7,258)	(2,097)	(2,096)

(a) (3) Exhibits.

Listed below are all exhibits filed as part of this Report. Certain exhibits are incorporated herein by reference to (i) the Company's Registration Statement on Form S-1 originally filed on March 24, 2000 (File No. 333-33208), and (ii) documents previously filed by the Company with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended.

Exhibit #	Description
2.1.1	Reorganization and Merger Agreement dated as of July 26, 1999. (4)
2.1.2	Amendment to Reorganization and Merger Agreement, dated as of July 27, 2000. (9)
2.2	Stock Purchase Agreement dated as of May 23, 2000 (Pensar Corporation). (3)
2.3	Stock Purchase Agreement dated as of November 22, 2000 (Qualtron Teoranta and Qualtron, Inc.). (8)
3.1	Amended and Restated Certificate of Incorporation. (7)
3.2	Amended and Restated By-Laws. (7)
3.3	Certificate of Designation. (7)
4.1.1	Stockholders Agreement dated as of July 27, 2000. (6)
4.1.2	Amended and Restated Stockholders Agreement dated as of November 22, 2000. (9)
4.2	Form of certificate representing shares of common stock. (3)
4.3	Exchangeable Share Provisions attaching to the exchangeable shares of SMTC Manufacturing Corporation of Canada. (7)
4.4	Exchangeable Share Support Agreement dated as of July 27, 2000 among SMTC, SMTC Manufacturing Corporation of Canada and SMTC Nova Scotia Company. (7)
4.5	Voting & Exchange Trust Agreement dated as of July 27, 2000 among SMTC, SMTC Manufacturing Corporation of Canada, CIBC Mellon Trust Company and SMTC Nova Scotia Company. (7)
10.1.1	Credit and Guarantee Agreement dated as of July 28, 1999. (4)
10.1.2	First Amendment to Credit and Guarantee Agreement, dated as of November 4, 1999. (5)
10.1.3	Second Amendment to Credit and Guarantee Agreement, dated as of December 14, 1999. (5)
10.1.4	Third Amendment to Credit and Guarantee Agreement, dated as of May 15, 2000. (4)
10.1.5	Amended and Restated Credit and Guarantee Agreement, dated as of July 27, 2000. (7)

<u>Exhibit #</u>	<u>Description</u>
10.1.6	Amended and Restated Guarantee and Collateral Agreement dated as of July 27, 2000. (7)
10.1.7	First Amendment dated as of November 17, 2000 to the Amended and Restated Credit and Guarantee Agreement. (9)
10.1.8	Second Amendment dated as of December 28, 2000 to the Amended and Restated Credit and Guarantee Agreement. (9)
10.1.9	Third Amendment dated as of February 6, 2001 to the Amended and Restated Credit and Guarantee Agreement. (9)
10.1.10	Fourth Amendment and First Waiver dated as of February 11, 2002 to the Amended and Restated Credit and Guarantee Agreement. (12)
10.1.11	First Amendment dated as of February 11, 2002 to the Amended and Restated Guarantee and Collateral Agreement. (12)
10.1.12	Fifth Amendment and Second Waiver dated as of March 8, 2002 to the Amended and Restated Credit and Guarantee Agreement. (12)
10.1.13	Sixth Amendment and Third Waiver dated as of April 9, 2002 to the Amended and Restated Credit and Guarantee Agreement. (13)
10.1.14	Seventh Amendment and Fourth Waiver dated as of April 30, 2002 to the Amended and Restated Credit and Guarantee Agreement. (14)
10.1.15	Eighth Amendment and Fifth Waiver dated as of December 31, 2002 to the Amended and Restated Credit and Guarantee Agreement. (15)
10.1.16	Consent and Release dated as of August 22, 2003 to the Amended and Restated Credit and Guarantee Agreement.
10.1.17	Seventh Waiver and Consent dated as of October 29, 2003 to the Amended and Restated Credit and Guarantee Agreement.
10.1.18	Ninth Amendment and Eighth Waiver and Consent dated as of November 17, 2003 to the Amended and Restated Credit and Guarantee Agreement.
10.1.19	Ninth Waiver and Consent dated as of February 23, 2004 to the Amended and Restated Credit and Guarantee Agreement.
10.2	Amended and Restated SMTC (HTM) 1998 Equity Incentive Plan. (1)
10.3	SMTC Corporation/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan. (7)
10.4	Sale/Purchase of Assets Agreement dated as of August 19, 2003 by and among SMTC Corporation, SMTC Manufacturing Corporation of Wisconsin and Pensar Electronic Solutions, LLC.
10.5	Employment Agreement dated as of October 16, 2003 between John E. Caldwell and SMTC Corporation.*
10.6	Underwriting Agreement dated as of March 3, 2004 by and among Orion Securities Inc., CIBC World Market Inc., GMP Securities Limited, RBC Dominion Securities Inc., SMTC Corporation and SMTC Manufacturing Corporation of Canada.
10.7	Form of Subscription Agreement for Special Warrants (Non-U.S. Purchaser).
10.8	Form of Subscription Agreement for Special Warrants (U.S. Purchaser).
10.9	Special Warrant Indenture and Escrow Agreement dated as of March 3, 2004 between SMTC Manufacturing Corporation of Canada and CIBC Mellon Trust Company.
10.10	Share Purchase Warrant Indenture dated as of March 3, 2004 between SMTC Manufacturing Corporation of Canada and CIBC Mellon Trust Company.
10.11	Form of Real Property Lease dated December 22, 1998 between Third Franklin Trust and W.F. Wood, Inc. (4)
10.12	Real Property Lease dated May 9, 1995 between Logitech Ireland Limited and Ogden Atlantic Design (Europe) Limited. (5)

<u>Exhibit #</u>	<u>Description</u>
10.13	Lease Agreement dated as of January 1, 2003 between the Estate of Edwin A. Helwig, Barbara G. Helwig and SMTC Corporation. (16)
10.14	Real Property Lease dated as of September 15, 1998 between Warden-McPherson Developments Ltd. and The Surface Mount Technology Centre Inc. (5)
10.15	Real Property Lease dated September 3, 1999 between Airedale Realty Trust and W.F. Wood, Inc. (5)
10.16.1	Real Property Revised Lease Agreement dated January 14, 1994 between HTM Building Investors LLC and Hi-Tech Manufacturing, Inc. (2)
10.16.2	First Amendment to Lease. (2)
10.16.3	Second Amendment to Lease. (2)
10.17.1	Derrick D'Andrade Employment Agreement dated July 30, 1999. (1)*
10.17.2	Amendment to Employment Agreement dated as of January 29, 2004 by and between Derrick D'Andrade and SMTC Manufacturing Corporation of Canada.*
10.18	Gary Walker Employment Agreement dated July 30, 1999. (1)*
10.19	Paul Walker Employment Agreement dated July 30, 1999. (1)*
10.20.1	Philip Woodard Employment Agreement dated July 30, 1999. (1)*
10.20.2	Amendment to Employment Agreement dated as of January 30, 2004 by and between Philip Woodard and SMTC Manufacturing Corporation of Canada.*
10.21	Stanley Plzak Employment Agreement dated as of July 27, 2000. (9)*
10.22	Separation Agreement dated as of June 26, 2003 by and between SMTC Corporation and Stanley Plzak. (17)
10.23	Lease Agreement dated as of August 11, 2000 between SMTC Manufacturing Corporation of Massachusetts and Lincoln-Franklin LLC. (7)
10.24	Class N Common Stock Redemption Agreement dated July 26, 2000. (9)
10.25.1	Management Agreement dated July 30, 1999. (1)
10.25.2	Termination Agreement dated as of July 27, 2000. (9)
10.26	Share Purchase Agreement dated July 26, 2000 for the purchase of Gary Walker's Class Y shares. (9)
10.27	Funding Agreement dated July 26, 2000. (9)
10.28	Promissory Note dated July 26, 2000. (9)
10.29	Pledge Agreement dated July 26, 2000 with respect to shares of common stock of SMTC owned by Gary Walker. (9)
10.30	Class N Common Stock Redemption Agreement dated July 26, 2000. (9)
10.31	Real Property Lease dated as of November 24, 2000 between Udaras Na Gaeltachta and Qualtron Teoranta. (10)
10.32	Employment offer letter from SMTC to Frank Burke dated July 26, 2001. (11)*
10.33	Pledge Agreement dated April 16, 2001 between the Company and Stanley Plzak. (12)
10.34	Secured Promissory Note dated April 16, 2001 from Stanley Plzak to the Company. (12)
10.35	Pledge Agreement dated April 16, 2001 between the Company and Richard V. Baxter, Jr. (12)
10.36	Secured Promissory Note dated April 16, 2001 from Richard V. Baxter, Jr. to the Company. (12)
10.37	Pledge Agreement dated April 16, 2001 between the Company and William M. Moeller. (12)
10.38	Secured Promissory Note dated April 16, 2001 from William M. Moeller to the Company. (12)
10.39	Pledge Agreement dated April 16, 2001 between the Company and Bruce D. Backer. (12)

<u>Exhibit #</u>	<u>Description</u>
10.40	Secured Promissory Note dated April 16, 2001 from Bruce D. Backer to the Company. (12)
10.41	Pledge Agreement dated April 16, 2001 between the Company and David E. Steel. (12)
10.42	Secured Promissory Note dated April 16, 2001 from David E. Steel to the Company. (12)
10.43	Registration Rights Agreement dated as of December 31, 2002 between the Company and Lehman Commercial Paper Inc. (15)
10.44	Warrant Agreement dated as of December 31, 2002 between the Company and Mellon Investor Services LLC. (15)
10.45	Separation Agreement dated as of July 23, 2003 by and between SMTC Corporation and Frank Burke. (18)*
21.1	Subsidiaries of the registrant.
23.1	Consent of KPMG LLP, Independent Auditors
31.1	Certification of John Caldwell pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 30, 2004.
31.2	Certification of Marwan Kubursi pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 30, 2004.
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 March 30, 2004.
32.2	Certification of Marwan Kubursi, 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 March 30, 2004.
(1)	Filed as an Exhibit to the Company's Registration Statement on Form S-1 filed on March 24, 2000 (File No. 333-33208) and incorporated by reference herein.
(2)	Filed as an Exhibit to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on May 24, 2000 (File No. 333-33208) and incorporated by reference herein.
(3)	Filed as an Exhibit to Amendment No. 2 to the Company's Registration Statement on Form S-1 filed on June 19, 2000 (File No. 333-33208) and incorporated by reference herein.
(4)	Filed as an Exhibit to Amendment No. 3 to the Company's Registration Statement on Form S-1 filed on July 10, 2000 (File No. 333-33208) and incorporated by reference herein.
(5)	Filed as an Exhibit to Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on July 18, 2000 (File No. 333-33208) and incorporated by reference herein.
(6)	Filed as an Exhibit to the Company's Registration Statement on Form S-8 filed on August 22, 2000 (File No. 333-44250) and incorporated by reference herein.
(7)	Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2000 filed on November 15, 2000 (File No. 0-31051) and incorporated by reference herein.
(8)	Filed as an Exhibit to the Company's Current Report on Form 8-K filed on December 7, 2000 (File No. 0-31051) and incorporated by reference herein.
(9)	Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 filed on April 2, 2001 (File No. 0-31051) and incorporated by reference herein.
(10)	Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2001 filed on August 15, 2001 (File No. 0-31051) and incorporated by reference herein.
(11)	Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed on November 19, 2001 (File No. 0-31051) and incorporated by reference herein.
(12)	Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 filed on March 29, 2002 (File No. 0-31051) and incorporated by reference herein.
(13)	Filed as an Exhibit to Post-Effective Amendment No. 3 to the Company's Registration Statement on Form S-1 on Form S-3 filed on April 23, 2002 (File No. 333-33208) and incorporated by reference herein.
(14)	Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed on August 14, 2002 (File No. 0-31051) and incorporated by reference herein.

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- (15) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 27, 2003 (File No. 0-31051) and incorporated by reference herein.
- (16) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2003 filed on May 14, 2003 (File No. 0-31051) and incorporated by reference herein.
- (17) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2003 filed on August 13, 2003 (File No. 0-31051) and incorporated by reference herein.
- (18) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2003 filed on November 17, 2003 (File No. 0-31051) and incorporated by reference herein.

* Management contract or compensatory plan

(b) Reports on Form 8-K.

On October 17, 2003, the Company filed a Current Report on Form 8-K under Item 5 regarding the issuance of a press release announcing a change in management and continuing discussions with lenders and investors.

On November 18, 2003, the Company furnished a Current Report on Form 8-K under Item 12 regarding the issuance of a press release on November 17, 2003 announcing the Company's financial results for the three months ended September 28, 2003.

On November 18, 2003, the Company furnished a Current Report on Form 8-K under Item 12 regarding a teleconference held by the Company on November 17, 2003 announcing its financial results for its third quarter ended September 28, 2003.

On November 25, 2003, the Company filed a Current Report on Form 8-K under Item 5 regarding the issuance of a press release on November 24, 2003 announcing receipt of a Nasdaq Staff Determination that the Company did not meet certain listing criteria for the Nasdaq Stock Market's National Market and the Company's request for an oral hearing.

SMTC CORPORATION

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AUDITORS' REPORT

To the Board of Directors and Shareholders of SMTC Corporation

We have audited the accompanying consolidated balance sheets of SMTC Corporation and subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of operations, changes in shareholders' equity (deficiency) and cash flows for each of the years in the three-year period ended December 31, 2003. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule. These consolidated financial statements and the related financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2002 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1 to the consolidated financial statements, the Company has incurred significant recurring losses and has a significant working capital deficiency due to the maturity of the Company's debt on October 1, 2004. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's actions in regard to these matters, including a proposed recapitalization, are also described in note 1. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in note 3(q) to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, on January 1, 2002.

/s/ KPMG LLP

Chartered Accountants

Toronto, Canada

February 6, 2004, except
as to note 20 which is
as of March 3, 2004

SMTC CORPORATION
Consolidated Balance Sheets
(Expressed in thousands of U.S. dollars)

December 31, 2002 and 2003

	2002	2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 370	\$ 167
Accounts receivable (note 4)	57,398	41,318
Inventories (note 5)	38,362	31,463
Prepaid expenses	2,611	1,922
Income taxes recoverable	841	—
	<u>99,582</u>	<u>74,870</u>
Capital assets (note 6)	43,677	30,805
Other assets (note 7)	13,378	3,088
Deferred income taxes (note 9)	34,325	—
	<u>\$ 190,962</u>	<u>\$ 108,763</u>
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable	\$ 56,165	\$ 40,565
Accrued liabilities	33,814	18,843
Income taxes payable	—	355
Current portion of long-term debt (note 8)	17,500	70,077
Current portion of capital lease obligations (note 8)	257	193
	<u>107,736</u>	<u>130,033</u>
Long-term debt (note 8)	65,089	—
Capital lease obligations (note 8)	176	35
Shareholders' equity (deficiency):		
Capital stock (note 10)	66,802	55,911
Warrants (note 10)	1,255	1,523
Loans receivable (note 10)	(5)	(5)
Additional paid-in capital (note 10)	163,360	174,483
Deficit	(213,451)	(253,217)
	<u>17,961</u>	<u>(21,305)</u>
Future operations (note 1)		
Commitments, contingencies and guarantees (note 13)		
United States and Canadian accounting policy differences (note 19)		
Subsequent events (note 20)		
	<u>\$ 190,962</u>	<u>\$ 108,763</u>

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

Consolidated Statements of Operations

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

Years ended December 31, 2001, 2002 and 2003

	2001	2002	2003
Revenue	\$ 528,169	\$ 525,175	\$ 306,121
Cost of sales, including restructuring and other charges (note 17)	557,669	504,920	279,497
Gross profit (loss)	(29,500)	20,255	26,624
Selling, general and administrative expenses (note 17)	38,780	24,175	18,780
Amortization (note 17)	9,518	2,538	4,062
Restructuring and other charges, including the write-down of intangible assets (note 17)	41,843	30,364	1,002
Operating earnings (loss)	(119,641)	(36,822)	2,780
Interest (note 8)	9,281	8,297	5,113
Loss before income taxes, discontinued operations and the cumulative effect of a change in accounting policy	(128,922)	(45,119)	(2,333)
Income taxes (recovery) (note 9):			
Current	2,184	(48)	686
Deferred	(30,973)	(1,170)	34,325
	(28,789)	(1,218)	35,011
Loss from continuing operations	(100,133)	(43,901)	(37,344)
Loss from discontinued operations (note 18)	(4,678)	(8,502)	(2,422)
Cumulative effect of a change in accounting policy (note 3(q))	—	(55,560)	—
Loss for the year	\$ (104,811)	\$ (107,963)	\$ (39,766)
Loss per share (note 16):			
Basic loss per share from continuing operations	\$ (3.50)	\$ (1.53)	\$ (1.30)
Loss per share from discontinued operations	(0.16)	(0.30)	(0.09)
Loss from the cumulative effect of a change in accounting policy per share	—	(1.93)	—
Basic loss per common share	\$ (3.66)	\$ (3.76)	\$ (1.39)
Diluted loss per common share	\$ (3.66)	\$ (3.76)	\$ (1.39)
Weighted average number of common shares outstanding:			
Basic	28,608,072	28,689,779	28,689,779
Diluted	28,608,072	28,689,779	28,689,779

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

 Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
 (Expressed in thousands of U.S. dollars)

Years ended December 31, 2001, 2002 and 2003

	Capital stock	Warrants	Treasury stock	Loans receivable	Additional paid-in capital	Deficit	Total shareholders' equity (deficiency)
	(note 10)	(note 10(d))					
Balance, December 31, 2000	\$ 77,427	\$ 367	\$ —	\$ (27)	\$151,396	\$ (677)	\$ 228,486
Warrants issued	—	—	—	—	659	—	659
Warrants exercised	4	(367)	—	—	363	—	—
Options exercised	—	—	—	—	313	—	313
Conversion of shares from exchangeable to common stock	(8,935)	—	—	—	8,935	—	—
Repayment of loans receivable	—	—	—	14	—	—	14
Loss for the year	—	—	—	—	—	(104,811)	(104,811)
Balance, December 31, 2001	68,496	—	—	(13)	161,666	(105,488)	124,661
Warrants issued	—	1,255	—	—	—	—	1,255
Conversion of shares from exchangeable to common stock	(1,694)	—	—	—	1,694	—	—
Repayment of loans receivable	—	—	—	8	—	—	8
Loss for the year	—	—	—	—	—	(107,963)	(107,963)
Balance, December 31, 2002	66,802	1,255	—	(5)	163,360	(213,451)	17,961
Conversion of shares from exchangeable to common stock	(10,891)	—	—	—	10,891	—	—
Warrants issued	—	268	—	—	—	—	268
Warrants to be issued	—	—	—	—	232	—	232
Loss for the year	—	—	—	—	—	(39,766)	(39,766)
Balance, December 31, 2003	\$ 55,911	\$ 1,523	\$ —	\$ (5)	\$174,483	\$(253,217)	\$ (21,305)

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

 Consolidated Statements of Cash Flows
 (Expressed in thousands of U.S. dollars)

Years ended December 31, 2001, 2002 and 2003

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Cash provided by (used in):			
Operations:			
Loss for the year	\$(104,811)	\$(107,963)	\$(39,766)
Items not involving cash:			
Amortization	9,518	2,538	4,062
Depreciation	12,102	11,629	8,037
Deferred income taxes	(30,973)	(1,170)	34,325
Loss (gain) on disposition of capital assets	30	(5)	(25)
Impairment of assets (note 17)	6,474	8,876	37
Non-cash charges included in loss from discontinued operations (note 18)	—	—	3,461
Discount on prepayment of shareholder loans (note 7)	—	—	389
Gain on disposal of assets previously written down (note 17)	—	—	(293)
Write-down of goodwill and intangible assets	17,765	55,560	—
Change in non-cash operating working capital:			
Accounts receivable	113,375	23,976	14,178
Inventories	110,921	42,538	5,857
Prepaid expenses	(468)	1,419	633
Income taxes recoverable/payable	(6,455)	156	1,196
Accounts payable	(85,087)	(16,510)	(14,200)
Accrued liabilities	(14,061)	13,726	(12,428)
	<u>28,330</u>	<u>34,770</u>	<u>5,463</u>
Financing:			
Increase in long-term debt	14,492	—	—
Repayment of long-term debt	(7,500)	(40,208)	(12,512)
Principal payments on capital lease obligations	(354)	(171)	(205)
Loans to shareholders (note 7)	(5,236)	—	—
Prepayment of loans to shareholders (note 7)	—	—	3,795
Proceeds from issuance of common stock	313	—	—
Repayment of loans receivable	14	8	—
Debt issuance costs	(1,500)	(3,731)	—
	<u>229</u>	<u>(44,102)</u>	<u>(8,922)</u>
Investments:			
Purchase of capital assets	(19,119)	(2,788)	(167)
Proceeds from sale of capital assets	89	137	335
Proceeds from disposition of discontinued operations (note 18)	—	—	3,058
Other	(124)	250	30
	<u>(19,154)</u>	<u>(2,401)</u>	<u>3,256</u>
Increase (decrease) in cash and cash equivalents	9,405	(11,733)	(203)
Cash and cash equivalents, beginning of year	2,698	12,103	370
Cash and cash equivalents, end of year	<u>\$ 12,103</u>	<u>\$ 370</u>	<u>\$ 167</u>

Supplemental cash flow information (note 12)

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)

Years ended December 31, 2001, 2002 and 2003

1. Future operations:

The accompanying consolidated financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for a reasonable period of time. As a consequence, the consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

SMTC Corporation (the "Company") has incurred significant losses in fiscal 2001, 2002 and 2003, including costs associated with the restructuring of its operations resulting in a deficiency in shareholders' equity at December 31, 2003. The Company's long-term debt has been classified as a current liability at December 31, 2003 due to the maturity of the debt on October 1, 2004 (note 8), resulting in a significant working capital deficiency as at December 31, 2003. In addition, the Company believes that it is unlikely that it will be in compliance with the existing financial covenants in the current credit agreement in the second quarter of 2004. Should the Company not be able to refinance the debt, subject to reasonable and achievable covenants, the Company expects that it will not be able to satisfy its indebtedness and other obligations. If the Company is unable to repay such amounts, the lenders could proceed against any collateral granted to them to secure the indebtedness. Substantially all of the Company's assets have been pledged to the lenders as collateral for the Company's obligations under the senior facility.

On February 17, 2004, the Company announced a proposed recapitalization, as described in note 20. The effect of this recapitalization would be to lower the Company's overall indebtedness by approximately \$37,000, extend the term of the majority of the remaining indebtedness and provide additional liquidity. The proposed transactions are subject to the receipt of all necessary shareholder, regulatory and stock exchange approvals and definitive agreements and other customary conditions. The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities in the normal course of business is dependent upon the Company being able to refinance its existing debt as described above. However, there can be no assurance that the Company will complete the proposed recapitalization and, accordingly, may not have sufficient working capital to fund future operations.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses, and the balance sheet classifications used.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

2. Nature of the business:

The Company is a worldwide provider of advanced electronics manufacturing services to original equipment manufacturers. The Company services its customers through manufacturing and technology centres located in the United States, Canada and Mexico. With the closure of the Donegal facility in 2003 (note 17), the Company no longer has an operating facility in Europe.

The Company's accounting principles are in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and, except as outlined in note 19, are, in all material respects, in accordance with accounting principles generally accepted in Canada ("Canadian GAAP").

3. Significant accounting policies:**(a) Basis of presentation:**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances are eliminated on consolidation.

(b) Use of estimates:

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.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

3. Significant accounting policies (continued):

(c) Revenue recognition:

Revenue is derived primarily from the sale of electronics equipment that has been built to customer specifications. 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 has no significant obligations after product shipment other than its standard manufacturing warranty. In addition, the Company has contractual arrangements with the majority of its customers that require the customer to purchase unused inventory that the Company has purchased to fulfill that customer's forecasted manufacturing demand. Revenue from the sale of excess inventory to the customer is recognized when the inventory is shipped to the customer. The Company also derives revenue from engineering and design services. Service revenue is recognized as services are performed.

(d) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and deposits with banks with original maturities of less than three months.

(e) Allowance for doubtful accounts:

The Company evaluates the collectibility of accounts receivable and records an allowance for doubtful accounts, which reduces the accounts receivable to the amount management reasonably believes will be collected. A specific allowance is recorded against customer receivables that are considered to be impaired based on the Company's knowledge of the financial condition of its customers. In determining the amount of the allowance, the Company considers factors, including the length of time the receivables have been outstanding, customer and industry concentrations, the current business environment and historical experience.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

3. Significant accounting policies (continued):

(f) Inventories:

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.

The Company writes 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 back inventory to customers or suppliers. If these assumptions change, additional write-downs may be required.

(g) Capital assets:

Capital assets are recorded at cost and depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	20 years
Machinery and equipment	7 years
Office furniture and equipment	7 years
Computer hardware and software	3 years
Leasehold improvements	Over term of lease

(h) Goodwill:

Goodwill represents the excess of the purchase price of an acquired business over the fair values of the identifiable assets acquired and liabilities assumed. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 10 years. Effective January 1, 2002, the Company discontinued amortization of all existing goodwill as a result of a new accounting standard issued in 2001 (note 3(q)).

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

3. Significant accounting policies (continued):

(i) Other assets:

Costs incurred relating to long-term debt are deferred and amortized over the term of the related debt. Amortization of debt issuance costs is included in amortization expense in the consolidated statements of operations.

(j) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end, based on enacted tax laws and statutory tax rates applicable to the years in which the differences are expected to affect taxable earnings. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. The effect of changes in tax rates is recognized in the year in which the rate change occurs.

(k) 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").

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

3. Significant accounting policies (continued):

The table below sets out the pro forma amounts of net 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.

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Net loss attributable to common shareholders, as reported	\$(104,811)	\$(107,963)	\$(39,766)
Stock-based compensation expense	(3,101)	(6,800)	(709)
Pro forma loss	<u>(107,912)</u>	<u>(114,763)</u>	<u>(40,475)</u>
Basic and diluted loss per share, as reported	\$ (3.66)	\$ (3.76)	\$ (1.39)
Stock-based compensation expense	(0.11)	(0.24)	(0.02)
Pro forma basic and diluted loss per share	<u>(3.77)</u>	<u>(4.00)</u>	<u>(1.41)</u>

No compensation expense has been recorded in the statements of operations for the years ended December 31, 2001, 2002 and 2003.

The weighted average grant date fair value of options granted for the years ended December 31, 2001, 2002 and 2003 are \$0.77, \$1.00 and \$0.48, respectively.

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:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Risk-free interest rate	4.9%	5.0%	4.0%
Dividend yield	—	—	—
Expected life	4	4	4
Volatility	147.0%	120.0%	125.0%

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

3. Significant accounting policies (continued):

(l) Loss per share:

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the weighted average number of common shares plus the dilutive potential common shares outstanding during the year. Anti-dilutive potential common shares are excluded. Potential common shares consist of stock options and warrants issued pursuant to the amended credit agreement (note 10(d)), for which the potential dilutive effect is computed using the treasury stock method.

(m) Foreign currency translation:

The functional currency of all foreign subsidiaries is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the year-end rates of exchange. Non-monetary assets and liabilities denominated in foreign currencies are translated at historic rates and revenue and expenses are translated at average exchange rates prevailing during the month of the transaction. Exchange gains or losses are reflected in the consolidated statements of operations.

(n) Financial instruments and hedging:

In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("Statement 133"). Statement 133 established methods of accounting for derivative financial instruments and hedging activities related to those instruments, as well as other hedging activities. Statement 133 requires all derivatives to be recognized either as assets or liabilities and measured at fair value. The Company implemented Statement 133 for its first quarter ended March 31, 2001 and marked to market its interest rate swaps. The initial adjustment was not material.

In fiscal 2000, the Company entered into interest rate swap contracts to hedge its exposure to changes in interest rates on its long-term debt. The swaps expired on September 22, 2001. The contracts had the effect of converting the floating rate of interest on \$65,000 of the senior credit facility to a fixed rate. Prior to 2001, net receipts, payments and accruals under the swap contracts were recorded as adjustments to interest expense. During 2001, the swap contracts were marked to market and the corresponding amounts recorded in the consolidated statements of operations, as the Company did not qualify for hedge accounting under Statement 133.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

3. Significant accounting policies (continued):

In fiscal 2000, one of the Company's subsidiaries entered into forward foreign currency contracts to hedge foreign currency exposures on future anticipated sales. These contracts matured at various dates through July 31, 2001. As the contracts did not meet the criteria for hedge accounting, the Company recorded those contracts on the consolidated balance sheets at their fair values and any corresponding unrealized gains or losses were recognized in the consolidated statements of operations.

There were no derivative financial instruments outstanding at December 31, 2002 and 2003.

(o) Impairment of long-lived assets:

Effective January 1, 2002, the Company reviews 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. Prior to January 1, 2002, recoverability of assets to be held and used was measured by a comparison of the carrying amount of an asset (or asset groupings) to future net cash flows expected to be generated by the asset. If such assets were considered impaired, the impairment to be recognized was measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. In accordance with the provisions of Statement 144, the Company has presented the closure of its Cork facility in 2002 and sale of its Appleton facility in 2003 as discontinued operations (note 18).

(p) Comprehensive income:

Comprehensive income includes all changes in equity (net assets) during a period from non-owner sources. During each of the years in the three-year period ended December 31, 2003, comprehensive income was equal to the net loss.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

3. Significant accounting policies (continued):

(q) Change in accounting policies:

In July 2001, the FASB issued Statement No. 141, Business Combinations ("Statement 141"), and Statement No. 142, Goodwill and Other Intangible Assets ("Statement 142"). Statement 141 requires that the purchase method of accounting be used for all business combinations. Statement 141 also specifies criteria for intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement 144. Upon adoption of Statements 141 and 142 in their entirety on January 1, 2002, the Company determined that there are no intangible assets relating to previous acquisitions that needed to be reclassified and accounted for apart from goodwill under the provisions of those Statements.

In connection with the transitional goodwill impairment evaluation, Statement 142 required the Company to perform an assessment of whether there is an indication that goodwill was impaired as of January 1, 2002. To accomplish this, the Company was required to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill to those reporting units as of January 1, 2002. The Company identified its reporting units to be consistent with its business units, as defined in note 14, with the exception of the Boston, Massachusetts facility. This facility is not economically similar to the other U.S. facilities and, as a result, is a separate reporting unit. In connection with the implementation of the new accounting standards, the Company completed the transitional goodwill impairment test, resulting in a goodwill impairment charge of \$55,560, which comprises the goodwill in the Canadian, U.S. and Boston reporting units of \$15,482, \$26,698 and \$13,380, respectively. The fair value of each reporting unit was determined using a discounted cash flow method. The transitional impairment loss was recognized as the cumulative effect of a change in accounting principle in the Company's consolidated statements of operations as at January 1, 2002.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

3. Significant accounting policies (continued):

Effective January 1, 2002, the Company had unamortized goodwill of \$55,560, which was no longer being amortized and has been written off effective January 1, 2002 as a cumulative effect of a change in accounting policy. This change in accounting policy to not amortize goodwill has not been applied retroactively and the results presented for prior periods have not been restated for this change. The impact of this change for the year ended December 31, 2001 is as follows:

Net loss	\$(104,811)
Add back goodwill amortization, net of tax	6,772
	<hr/>
Net loss before goodwill amortization	\$ (98,039)
	<hr/>
Basic and diluted loss per common share:	
Loss per common share, as reported	\$ (3.66)
Amortization of goodwill	0.23
	<hr/>
Basic and diluted loss per common share before goodwill amortization	\$ (3.43)
	<hr/>

Amortization expense related to goodwill for the years ended December 31, 2001, 2002 and 2003 was \$8,448, nil and nil, respectively.

During 2001, the Company wrote off the remaining balance of unamortized goodwill related to a previous acquisition of Qualtron Teoranta (note 17).

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

3. Significant accounting policies (continued):

(r) Recently issued accounting pronouncements:

In August 2001, FASB issued Statement No. 143, Accounting for Asset Retirement Obligations, which requires that the fair value of an asset retirement obligation be recorded as a liability, at fair value, in the period in which the Company incurs the obligation. Statement 143 is effective for fiscal 2003. The adoption of Statement 143 on January 1, 2003 did not have a material impact on the Company's financial position or results of operations.

In July 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("Statement 146"), which supercedes Emerging Issues Task Force ("EITF") Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity ("EITF 94-3"). Statement 146 allows for recognition of a liability for an exit or disposal activity only when a liability is incurred and can be measured at fair value. Prior to the issuance of Statement 146, a commitment to an exit or disposal plan was sufficient to record the majority of the costs. Statement 146 is effective for exit or disposal activities initiated after December 31, 2002. The adoption of this standard did not have a material impact on its existing restructuring plans as these plans were initiated under an exit plan that met the criteria of EITF 94-3.

In December 2002, Statement 148 was issued to amend Statement 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. Statement 148 also amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements. The disclosure modifications are included in note 3(k) to these consolidated financial statements.

In April 2003, the FASB issued Statement No. 149, Amendments of Statement 133 on Derivative Instruments and Hedging Activities ("Statement 149"), which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under Statement 133. This statement is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The adoption of Statement 149 on July 1, 2003 did not have any impact on the Company's financial position or results of operations.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

3. Significant accounting policies (continued):

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity ("Statement 150"), which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Financial instruments meeting certain specified criteria that are within the scope of the statement, which previously were often classified as equity, must now be classified as liabilities. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period after June 15, 2003. The adoption of Statement 150 in the third quarter of 2003 did not have any impact on the Company's financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others ("FIN 45"), which requires certain disclosures of obligations under guarantees. The disclosure requirements of FIN 45 were effective for the Company's year ended December 31, 2002. Effective for 2003, FIN 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees entered into or modified after December 31, 2002, based on the fair value of the guarantee. The Company has not entered into or modified any guarantees after December 31, 2002. Disclosures of guarantees are included in note 13. The initial recognition and measurement provisions during fiscal 2003 did not have any impact on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). This interpretation addresses the consolidation by business enterprises of variable interest entities, as defined in the Interpretation. FIN 46 applied immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. In December 2003, the FASB issued FASB Interpretation No. 46R, Consolidation of Variable Interest Entities Revised ("FIN 46R"). FIN 46R modifies the scope exceptions provided in FIN 46. Entities would be required to replace FIN 46 provisions with FIN 46R provisions for all newly created post-January 31, 2003 entities as of the end of the first interim or annual reporting period ending after March 15, 2004. The adoption of FIN 46 and FIN 46R did not have any impact on the Company's financial position or results of operations.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

3. Significant accounting policies (continued):

In November 2002, the EITF reached a consensus on Issue No. 00-21 ("EITF 00-21"), Revenue Arrangements with Multiple Deliverables, which provides guidance on both how and when an arrangement involving multiple deliverables should be divided into separate units of accounting and how the arrangement's consideration should be allocated among separate units. EITF 00-21 is effective for arrangements entered into for periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material impact on the Company's financial position or results of operations.

4. Accounts receivable:

Accounts receivable at December 31, 2002 and 2003 are net of an allowance for doubtful accounts of \$2,097 and \$2,096, respectively.

5. Inventories:

	2002	2003
Raw materials	\$15,665	\$16,229
Work in progress	9,712	7,037
Finished goods	12,093	7,621
Other	892	576
	<u>\$38,362</u>	<u>\$31,463</u>

6. Capital assets:

2002	Cost	Accumulated depreciation	Net book value
Land	\$ 2,223	\$ —	\$ 2,223
Buildings	12,862	1,247	11,615
Machinery and equipment	25,986	10,539	15,447
Office furniture and equipment	3,359	1,647	1,712
Computer hardware and software	9,450	6,735	2,715
Leasehold improvements	13,454	3,489	9,965
	<u>\$67,334</u>	<u>\$ 23,657</u>	<u>\$43,677</u>

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

6. Capital assets (continued):

2003	Cost	Accumulated depreciation	Net book value
Land	\$ 2,060	\$ —	\$ 2,060
Buildings	10,248	1,618	8,630
Machinery and equipment	21,458	12,061	9,397
Office furniture and equipment	2,782	1,744	1,038
Computer hardware and software	8,046	7,145	901
Leasehold improvements	13,466	4,687	8,779
	<u>\$58,060</u>	<u>\$ 27,255</u>	<u>\$30,805</u>

Machinery and equipment under capital leases included in capital assets at December 31, 2002 and 2003 were \$1,583 and \$1,583, respectively, and accumulated depreciation of equipment under capital leases at December 31, 2002 and 2003 was \$989 and \$1,150, respectively.

Included in the total depreciation expense for the years ended December 31, 2001, 2002 and 2003 of \$12,102, \$11,629 and \$8,037 is \$211, \$187 and \$161, respectively, relating to the depreciation of equipment under capital leases.

7. Other assets:

	2002	2003
Deferred financing costs, net of accumulated amortization (2002—\$3,752; 2003—\$7,814)	\$ 5,957	\$2,365
Restricted cash and cash held in escrow	2,152	—
Loans to shareholders	5,236	690
Other	33	33
	<u>\$13,378</u>	<u>\$3,088</u>

Loans to shareholders:

Pursuant to an agreement in connection with the share reorganization on July 30, 1999, the Company agreed to lend, on an interest-free basis, \$690 to a certain shareholder to fund the tax liability incurred as a result of the reorganization. The loan is secured by a first priority security interest over all of the shares of capital stock of the Company held by the shareholder, and will be repayable on a pro rata basis at such time and to the extent that the shareholder receives after-tax cash proceeds in respect of such shares.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

7. Other assets (continued):

Pursuant to an agreement in connection with the acquisition of Pensar Corporation on July 27, 2000, the Company requested that the former shareholders of Pensar Corporation file an election, allowing the Company to deduct, for income tax purposes, the goodwill related to the acquisition. In conjunction with this agreement, the Company lent, on an interest-free basis, \$4,546 to the former shareholders of Pensar Corporation to fund the tax liability incurred as a result of the election. The loans were secured by a first priority security interest over all of the shares of capital stock of the Company held by the shareholders, and were repayable on a pro rata basis at such time and to the extent that the shareholders receive cash proceeds in respect of such shares, with the balance due on July 27, 2004. In light of the Company's plan to lower its bank indebtedness, it requested that these shareholder loans be repaid prior to the expiration of the term. Accordingly, the Company provided a discount of \$389 on the prepayment of shareholder loans that had a carrying value of \$4,184, resulting in net proceeds of \$3,795 received in 2003.

8. Long-term debt and capital leases:

	<u>2002</u>	<u>2003</u>
Revolving credit facilities	\$55,089	\$63,135
Term loans	27,500	6,942
	<u>82,589</u>	<u>70,077</u>
Less current portion	17,500	70,077
	<u>\$65,089</u>	<u>\$ —</u>

(a) Period from July 27, 2000 to November 18, 2001:

In connection with the initial public offering completed on July 27, 2000, the Company and certain of its subsidiaries entered into a credit agreement that provided for \$50,000 in an initial term loan and \$100,000 in revolving credit loans, swing-line loans and letters of credit. The senior credit facility is secured by a security agreement over all assets and requires the Company to meet certain financial ratios and benchmarks and to comply with certain restrictive covenants. The revolving credit facilities were to terminate in July 2004. The term loans mature in quarterly installments from September 2000 to June 2004.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

8. Long-term debt and capital leases (continued):

The revolving credit loans and term loans bore interest at varying rates based on either the Eurodollar base rate plus 2.00% to 3.00%, the U.S. base rate plus 0.25% to 1.25% or the Canadian prime rate plus 0.25% to 1.25%.

The Company is required to pay the lenders a commitment fee of 0.5% of the average unused portion of the revolving credit facilities.

(b) Period from November 19, 2001 to December 30, 2002:

The Company incurred operating losses during 2001, which resulted in its non-compliance with certain financial covenants contained in its credit agreement as at September 30, 2001. On November 19, 2001, the Company and its lending group signed a definitive term sheet for an agreement under which certain terms of the credit facility would be revised and the non-compliance as at September 30, 2001 would be waived. The final amended agreement was signed on February 11, 2002 (the "February 2002 Amendment") and was consistent with the terms and conditions in the term sheet. The February 2002 Amendment amended financial and other covenants, based on the Company's business plan at that time, and covered the period up to December 31, 2002. Effective January 1, 2003, the Company would revert back to the original credit agreement. During this period, the facility bore interest at the U.S. base rate plus 2.5%. In connection with the February 2002 Amendment, the Company was committed to issue to the lenders warrants to purchase common stock of the Company (note 10(d)).

Prior to taking steps to place the subsidiary that operates the Cork facility in voluntary liquidation (note 18), the Company and its lending group executed an amendment to the credit facility to waive the default that would have been caused by this action and amend the agreement to permit such facility closure.

The Company and its lending group agreed in April 2002 to further amend the credit agreement to increase the Company's permitted loan balances to correspond to its higher working capital needs.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

8. Long-term debt and capital leases (continued):

- (c) Period from December 31, 2002 to November 16, 2003:

During the fourth quarter of 2002, the Company was in violation of certain covenants contained in the credit agreement. The violation was waived and effective December 31, 2002, the Company and its lending group signed a further amendment (the "December 2002 Amendment") to the credit agreement that provided for \$27,500 in term loans and \$90,000 in revolving credit loans, swing-line loans and letters of credit and amends certain financial and other covenants based on the Company's business plan. In connection with the December 2002 Amendment, the Company is committed to issue to the lenders warrants to purchase common stock of the Company in exchange for the warrants issued pursuant to the February 2002 Amendment (note 10(d)).

- (d) Period from November 17, 2003 to December 31, 2003:

During November 2003, the Company and its lending group executed a further amendment to the credit agreement with an effective date of November 17, 2003 (the "November 2003 Amendment"), providing for a waiver of certain events of default, if any, arising prior to this date. The Company and its lending group also amended the credit agreement to provide for term loans of \$11,942 and \$73,500 of revolving credit loans, swing-line loans and letters of credit with an extension of the maturity date of the revolving credit facilities to October 1, 2004, and amendments of certain financial and other covenants based on the Company's then current business plan. During the amendment period, the facility bears interest at the U.S. base rate plus 0.25% to 2.5%.

The Company is in compliance with the financial covenants of the current credit agreement at December 31, 2003 and expects to be in compliance through the first quarter of 2004. The Company believes that it is unlikely that it will be in compliance with the existing financial covenants in the current credit agreement in the second quarter of 2004. In the event of non-compliance, the Company's lenders have the right to demand repayment of all outstanding amounts under the amended credit facility. If the Company was unable to repay such amounts, the lenders could proceed against any collateral granted to them to secure the indebtedness. Substantially all of the Company's assets have been pledged to the lenders as collateral for the Company's obligations under the senior credit facility.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

8. Long-term debt and capital leases (continued):

The Company's revolving credit facility matures on October 1, 2004 and, accordingly, as at December 31, 2003, this amount has been classified as a current liability. On February 17, 2004, the Company announced a proposed recapitalization of the Company under which a portion of the debt would be repaid and a portion would be refinanced, as described in note 20. As the proposed transactions are subject to the receipt of shareholder, regulatory and stock exchange approvals and definitive agreements and other customary conditions, the Company will continue to operate under the terms of the current credit agreement until these approvals are received and the conditions are satisfied. Should the Company not be able to refinance the debt prior to October 1, 2004, the Company expects that it will be unable to repay the full amount of the debt upon maturity (note 1).

(e) Amendment and commitment fees:

The Company recorded at December 31, 2001, amendment fees related to the February 2002 Amendment of \$1,500, comprised of \$700, representing 0.5% of the lenders' commitments under the revolving credit facilities and term loans outstanding of \$140,000 at December 31, 2001 and February 11, 2002, and other amendment-related fees of \$800. The Company paid amendment fees, related to the Cork amendment, of \$140, comprised of 0.1% of the lenders' commitments under the revolving credit facilities and term loans outstanding of \$140,000 at March 11, 2002, and paid amendment fees related to the April 2002 amendment of \$77. The Company also paid amendment fees related to the December 2002 Amendment of \$3,514, comprised of \$588, representing 0.5% of the lenders' commitments under the revolving credit facilities and term loans outstanding of \$117,500 at December 31, 2002 and other amendment-related fees of \$2,926, and may be required to pay default fees if it violates certain covenants after the effective date of the amendment. The amendment fees and the fair value of the warrants issued (and to be issued (note 10(d)) in connection with amending the agreement are recorded as deferred financing fees and are amortized over the remaining term of the facility.

Commitment fees of \$109 and \$117 were incurred in 2002 and 2003, respectively. The weighted average interest rates on the borrowings were 7.2% and 6.5% in 2002 and 2003, respectively.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

8. Long-term debt and capital leases (continued):

(f) Obligations under capital leases:

Minimum lease payments for capital leases consist of the following at December 31, 2003:

2004	\$203
2005	36
	<u> </u>
Total minimum lease payments	239
Less amount representing interest of 8% to 11%	11
	<u> </u>
	228
Less current portion	193
	<u> </u>
	\$ 35
	<u> </u>

(g) Interest expense:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Long-term debt	\$9,178	\$8,256	\$5,077
Obligations under capital leases	103	41	36
	<u> </u>	<u> </u>	<u> </u>
	\$9,281	\$8,297	\$5,113
	<u> </u>	<u> </u>	<u> </u>

9. Income taxes:

The Company recorded the following income tax expense (recovery):

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Current:			
Federal	\$ 2,453	\$(1,464)	\$ —
Foreign	(269)	1,416	686
	<u> </u>	<u> </u>	<u> </u>
	2,184	(48)	686
Deferred:			
Federal	(29,713)	(1,109)	33,183
State	(1,596)	(115)	—
Foreign	336	54	1,142
	<u> </u>	<u> </u>	<u> </u>
	(30,973)	(1,170)	34,325
	<u> </u>	<u> </u>	<u> </u>
	\$(28,789)	\$(1,218)	\$35,011
	<u> </u>	<u> </u>	<u> </u>

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

9. Income taxes (continued):

The overall income tax expense (recovery) as recorded in the statement of operations varied from the tax expense (recovery) calculated using U.S. federal and state income tax rates as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Federal tax recovery	\$(43,858)	\$(15,321)	\$ (793)
State income tax expense (recovery), net of federal tax benefit	(1,547)	(1,399)	78
Income of international subsidiaries taxed at different rates	—	1,246	257
Change in valuation allowance	3,367	15,122	33,883
Non-deductible goodwill amortization and write-downs	7,381	—	—
Other	5,868	(866)	1,586
	<u> </u>	<u> </u>	<u> </u>
Income tax expense (recovery)	\$(28,789)	\$ (1,218)	\$35,011
	<u> </u>	<u> </u>	<u> </u>

Losses (income) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy consisted of the following:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
U.S.	\$101,569	\$40,142	\$(4,250)
Non-U.S.	27,353	4,977	6,583
	<u> </u>	<u> </u>	<u> </u>
	\$128,922	\$45,119	\$ 2,333
	<u> </u>	<u> </u>	<u> </u>

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

9. Income taxes (continued):

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's deferred tax liabilities and assets are comprised of the following at December 31:

	<u>2002</u>	<u>2003</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 42,150	\$ 53,370
Capital and other assets	14,556	10,778
Reserves, allowances and accruals	12,146	4,262
	<u>68,852</u>	<u>68,410</u>
Valuation allowance	(34,527)	(68,410)
	<u>34,325</u>	<u>—</u>
Deferred tax liabilities	—	—
Net deferred tax assets	<u>\$ 34,325</u>	<u>\$ —</u>

At December 31, 2003, the Company had total net operating loss carryforwards of approximately \$142,400 (2002 - \$130,000), of which \$4,200 will expire in 2010, \$300 will expire in 2011, \$1,300 will expire in 2012, \$1,600 will expire in 2018, \$81,200 will expire in 2021, \$20,200 will expire in 2022 and \$33,600 will expire in 2023.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

9. Income taxes (continued):

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 current economic environment, 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. As a result, the total valuation allowance for deferred tax assets in all jurisdictions worldwide increased from approximately \$34.5 million at December 31, 2002 to approximately \$68.4 million at December 31, 2003. In addition, the Company expects to provide a full valuation allowance on future tax benefits 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.

10. Capital stock:

(a) Authorized:

The authorized share capital of the Company at December 31, 2001, 2002 and 2003 consists of:

(i) 60,000,000 shares of common stock, par value \$0.01 per share:

 Holders are entitled to one vote per share and the right to share in dividends pro rata subject to any preferential dividend rights of any then outstanding preferred stock.

(ii) 5,000,000 shares of preferred stock, par value \$0.01 per share:

 The Company may, from time to time, issue preferred stock in one or more series and fix the terms of that series at the time it is created.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

10. Capital stock (continued):

(b) Issued and outstanding:

	Number of shares			Amount		
	Exchangeable	Common	Special voting stock	Exchangeable shares	Common stock	Special voting stock
Balance, December 31, 2000	6,370,959	21,852,901	1	\$ 77,209	\$ 218	\$ —
Warrants exercised (i)	—	427,915	—	—	4	—
Conversion of shares from exchangeable to common stock (ii)	(737,900)	737,900	—	(8,943)	8	—
Options exercised	—	38,003	—	—	—	—
Balance, December 31, 2001	5,633,059	23,056,719	1	68,266	230	—
Conversion of shares from exchangeable to common stock (iii)	(139,823)	139,823	—	(1,695)	1	—
Balance, December 31, 2002	5,493,236	23,196,542	1	66,571	231	—
Conversion of shares from exchangeable to common stock (iv)	(899,425)	899,425	—	(10,900)	9	—
Balance, December 31, 2003	4,593,811	24,095,967	1	\$ 55,671	\$ 240	\$ —

Capital transactions from January 1, 2001 to December 31, 2001:

- (i) During 2001, the Company issued 427,915 shares of common stock on the exercise of 578,441 warrants (note 10(d)).
- (ii) During 2001, 737,900 exchangeable shares (note 10(c)) were exchanged for common stock with a par value of \$8, with the difference recorded as additional paid-in capital.

Capital transactions from January 1, 2002 to December 31, 2002:

- (iii) During 2002, 139,823 exchangeable shares (note 10(c)) were exchanged for common stock with a par value of \$1, with the difference 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)

Years ended December 31, 2001, 2002 and 2003

10. Capital stock (continued):

Capital transactions from January 1, 2003 to December 31, 2003:

(iv) During 2003, 899,425 exchangeable shares (note 10(c)) were exchanged for common stock with a par value of \$9, with the difference recorded as additional paid-in capital.

(c) Exchangeable shares:

In 1999, SMTC Manufacturing Corporation of Canada ("SMTC Canada"), a 100%-owned subsidiary of the Company, issued two classes of non-voting shares. In July 2000, pursuant to an initial public offering, the non-voting shares were converted to 1,469,445 exchangeable shares of SMTC Canada. The shares are exchangeable into shares of the Company's common stock on a one-for-one basis for no additional consideration.

In July 2000, pursuant to an initial public offering, SMTC Canada issued an additional 4,375,000 exchangeable shares at a price of Cdn. \$23.60 per share. The shares are exchangeable into shares of the Company's common stock on a one-for-one basis for no additional consideration.

In November 2000, 547,114 exchangeable shares were issued to finance the share portion of the purchase price of the previous acquisition of Qualtron Teoranta.

During 2001, 2002 and 2003, 737,900, 139,823 and 899,425 exchangeable shares were exchanged for common stock, respectively (note 10(b)).

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

10. Capital stock (continued):

(d) Warrants:

	Common stock warrants
Balance, December 31, 2000	578,441
Warrants exercised (i)	(578,441)
Balance, December 31, 2001	—
Warrants issued (iii)	1,509,988
Balance, December 31, 2002	1,509,988
Warrants issued (iv)	458,144
Warrants to be issued (v)	231,672
Balance, December 31, 2003	2,199,804

2001 transactions:

- (i) At December 31, 2000, the Company had 578,441 common stock warrants outstanding, with a weighted average exercise price of \$3.41 and a term of 10 years. During 2001, the Company issued 427,915 shares of common stock on the exercise of the 578,411 common stock warrants.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

10. Capital stock (continued):

- (ii) In connection with the proposed amendment to the credit agreement in November 2001, as finalized in the February 2002 Amendment (note 8(b)), the Company agreed to issue to the lenders warrants to purchase common stock of the Company at an exercise price equal to the fair market value (defined as the average of the last reported sales price of the common stock of the Company for 20 consecutive trading days commencing 22 trading days before the date in question) at the date of the grant for 1.5% of the total outstanding shares on February 11, 2002 and 0.5% of the total outstanding shares on December 31, 2002. If an event of default occurred during the period from the effective amendment date to December 31, 2002, and was continuing for more than 30 days, the lenders would receive warrants to purchase an additional 1% of the total outstanding shares at an exercise price equal to the fair market value (as defined above) at the date of the grant. If all amounts outstanding under the credit agreement were repaid in full on or before March 31, 2003, all warrants received by the lenders, other than the warrants received on February 11, 2002, would have been returned to the Company. The warrants were not to be tradable separately from the related debt until the later of December 31, 2002 or nine months after the issuance of the warrants being transferred. After the debt under the credit agreement has been paid in full, the Company may repurchase the warrants or warrant shares at a price that values the warrant shares at three times the exercise price.

The fair value of the warrants was initially measured using the Black-Scholes pricing model at November 19, 2001 and were remeasured each reporting period until issued. At December 31, 2001, the fair value of the warrants of \$659 was classified as warrants to be issued in 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)

Years ended December 31, 2001, 2002 and 2003

10. Capital stock (continued):

2002 transactions:

- (iii) In connection with the December 2002 amendment to the credit agreement (note 8(c)), and in exchange for the cancellation of the warrants issued pursuant to the February 2002 amendment, the Company agreed to issue to the lenders Series A and Series B warrants to purchase common stock of the Company at an exercise price equal to the fair market value (defined as the average of the last reported sales price of the common stock of the Company for 20 consecutive trading days commencing 22 trading days before the date in question) at the date of the grant for 4% and 1%, respectively, of the total outstanding shares on December 31, 2002. As part of the December 2002 amendment, the Company also agreed to issue to the lenders Series C through Series H warrants to purchase common stock of the Company at an exercise price equal to the fair market value (as defined above) at the date of the grant provided that Series C through Series H warrants shall only be issued if the Company fails to meet certain financial covenants for the relevant fiscal quarter as follows:

<u>Series</u>	<u>Number of days after end of fiscal quarter</u>	<u>% of common stock</u>
Series C	45 days after first quarter 2003	0.75%
Series D	45 days after second quarter 2003	0.75%
Series E	45 days after third quarter 2003	0.75%
Series F	90 days after fourth quarter 2003	0.75%
Series G	45 days after first quarter 2004	1.00%
Series H	45 days after second quarter 2004	1.00%

The Series A through Series H warrants have a term of five years. If the Company met certain conditions by December 31, 2003, all Series B through Series E warrants would have been returned to the Company without consideration and all warrant shares that had been obtained upon exercise of such warrants were to be sold back to the Company at the exercise price of the original warrants exercised to obtain such shares. These conditions were not met as of December 31, 2003.

The warrants will not be tradable separate from the related debt until the later of December 31, 2003 or nine months after the issuance of the warrants being transferred.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

10. Capital stock (continued):

An aggregate of 1,509,998 Series A and Series B warrants were issued during 2002. The fair value of the Series A and Series B warrants was measured using a Black-Scholes pricing model at December 31, 2002. At December 31, 2002, the fair value of the warrants of \$1,255 was classified as warrants issued in shareholders' equity.

2003 transactions:

- (iv) In connection with the December 2002 Amendment to the credit agreement (note 8(c)), as described above, the Company did not meet certain financial covenants for the quarters ended June 29, 2003 and September 28, 2003 and, as such, issued 228,210 Series D warrants to purchase common stock of the Company at an exercise price of \$0.61 per share and 229,934 Series E warrants to purchase common stock of the Company at an exercise price of \$1.04 per share. The fair value of the Series D and Series E warrants was measured using a Black-Scholes pricing model on the date of issuance. The fair value of the Series D and Series E warrants issued of \$268 was classified as warrants issued in shareholders' equity.
- (v) In connection with the November 2003 amendment to the credit agreement (note 8(d)), certain financial covenants of the Company were revised, for which the Company was in compliance at December 31, 2003. The November 2003 Amendment, however, did not revise the covenants included in the December 2002 amendment upon which the issuance of the Series F through Series H warrants is determined (the "Warrant Covenants"). The Company did not meet the Warrant Covenants for the quarter ended December 31, 2003, and, as such, will issue 231,672 Series F warrants to purchase common stock of the Company at an exercise price equal to the fair market value (as defined above) at the date of the grant.

The fair value of the Series F warrants was initially measured using a Black-Scholes pricing model at December 31, 2003, and will be remeasured each reporting period until issued. At December 31, 2003, the fair value of the Series F warrants to be issued of \$232 was classified as warrants to be issued in additional paid-in capital.

In conjunction with the proposed recapitalization of the Company, the warrants issued under the December 2002 Amendment to the credit agreement will be cancelled (note 20).

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

10. Capital stock (continued):

(e) Stock options:

1998 SMTC Plan:

In July 1999, the Company replaced a previous option plan adopted in 1998 with an equivalent stock option plan (the "1998 SMTC Plan") for which two classes of options were authorized to purchase non-voting shares. In July 2000, pursuant to an initial public offering, the options outstanding under the previous option plan were converted to options to purchase common stock of the Company. The options generally vest over a four-year period and expire after 10 years from the original grant date of the 1998 SMTC Plan options.

2000 Equity Incentive Plan:

In July 2000, the Company approved a new stock option plan, the SMTC/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan (the "2000 Equity Incentive Plan"), pursuant to which a variety of stock-based incentive awards may be granted. The plan permits the issuance of up to 1,727,052 shares plus an additional number of shares determined by the Board of Directors but not to exceed 1% of the total number of shares outstanding per year. Options generally vest over a four-year period and expire 10 years from their respective date of grant.

	1998 SMTC Plan		2000 Equity Incentive Plan	
	Common stock	Weighted average exercise price	Common stock	Weighted average exercise price
Balance, December 31, 2000	466,395	\$ 5.78	1,397,000	\$ 19.05
Issued	—	—	225,000	6.12
Exercised	(38,003)	5.78	—	—
Cancelled	(139,332)	5.78	—	—
Balance, December 31, 2001	289,060	5.78	1,622,000	17.25
Issued	—	—	1,089,500	5.96
Cancelled	(48,468)	5.78	(1,097,000)	—
Balance, December 31, 2002	240,592	5.78	1,614,500	7.85
Issued	—	—	40,000	0.75
Cancelled	(84,700)	(5.78)	(696,500)	(8.37)
Balance, December 31, 2003	155,892	\$ 5.78	958,000	\$ 7.17

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

10. Capital stock (continued):

The following options were outstanding as at December 31, 2003:

Range of exercise price	Outstanding options	Weighted average exercise price	Exercisable options	Weighted average exercise price	Remaining contractual life (years)
1998 SMTC Plan					
\$5.78	155,892	\$ 5.78	155,892	\$ 5.78	5.6
2000 Equity Incentive Plan					
\$ 0.75 - \$0.80	65,000	\$ 0.77	10,000	\$ 0.80	8.8
\$3.00	209,600	3.00	52,400	3.00	8.5
\$5.00	159,600	5.00	39,900	5.00	8.5
\$8.00	373,800	8.00	93,450	8.00	8.5
\$16.00	150,000	16.0	112,500	16.00	6.6
	958,000	7.17	308,250	9.31	8.2

On January 8, 2002, the Board of Directors gave the holders of options to purchase an aggregate of 1,097,000 shares of common stock of the Company the opportunity to return their options to the Company for cancellation. These options, which were granted on August 30, 2000, had an exercise price of \$19.88 (the "\$19.88 options"). The Board of Directors believed that the \$19.88 options were unlikely to be exercised in the foreseeable future as the exercise price was significantly above the Company's trading price at that time and during several months prior to that time and, as a result, they did not function as an adequate management incentive. Upon cancellation of the \$19.88 options surrendered by various holders, the pool of shares as to which options may be granted under the 2000 Equity Incentive Plan was increased by 1,087,000.

On July 26, 2002, the Company granted 362,500 options at a weighted average exercise price of \$6.07 to certain holders of options cancelled on January 8, 2002.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

11. Financial instruments:

(a) Interest rate swaps:

On September 30, 1999, the Company entered into two interest rate swap transactions with a Canadian chartered bank for hedging purposes. The swaps expired on September 22, 2001 and involved the exchange of 90-day floating LIBOR rates for a two-year fixed interest rate of 6.16% before credit spread of 2.00% to 3.00% per annum on a notional amount of \$65,000.

(b) Forward exchange contracts:

In previous years, one of the Company's subsidiaries entered into forward foreign currency contracts with a foreign bank to sell U.S. dollars for Irish punts. The aggregate principal amount of the contracts was \$6,250 at December 31, 2000 with an average contract rate of \$1.38 compared to a closing dollar exchange rate of \$1.19. These contracts matured at various dates through July 31, 2001.

(c) Fair values:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- (i) The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short-term nature of these instruments.
- (ii) The carrying amounts of long-term debt and capital lease obligations, including the current portion, is based on rates currently available to the Company for debt with similar terms and maturities and approximate fair value.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

12. Supplemental cash flow information:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Interest paid	\$9,573	\$8,174	\$3,733
Income taxes paid	8,397	1,840	281

Non-cash financing and investing activities:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Cash released from escrow	\$3,583	\$ —	\$2,152
Warrants issued or to be issued (note 10(d))	—	1,255	500

13. Commitments, contingencies and guarantees:

The Company leases manufacturing equipment and office space under various non-cancellable operating leases. Minimum future payments under non-cancellable operating lease agreements are as follows:

2004	\$12,369
2005	3,740
2006	3,685
2007	3,188
2008	2,253
Thereafter	6,336
	<u>\$31,571</u>

Included in the amounts noted above are, \$6,791, \$699, \$660 and \$275, representing lease costs for the years 2004 to 2007, respectively, which have been recorded as part of the restructuring charges and accrued in the consolidated financial statements at December 31, 2003 (note 17).

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

13. Commitments, contingencies and guarantees (continued):

Operating lease expense for the years ended December 31, 2001, 2002 and 2003 was \$15,421, \$11,203 and \$5,677, respectively.

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.

Contingent liabilities in the form of letters of credit and letters of guarantee are provided to certain third parties. These guarantees were entered into prior to January 1, 2003, and cover various payments, including customs and excise taxes and raw material purchases. The total amount of future payments to be made under these guarantees is \$858.

14. 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, Europe and Mexico. The Company monitors the performance of its geographic operating segments based on EBITA (earnings before interest, taxes and amortization) before restructuring charges, discontinued operations and the effects of a change in accounting policies. Discontinued operations relate to the Cork, Ireland facility, which was previously included in the results of the European segment and the sale of the Appleton manufacturing operations, previously included in the results of the United States segment (note 18). 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:

	2001			2002			2003		
	Total revenue	Intersegment revenue	Net external revenue	Total revenue	Intersegment revenue	Net external revenue	Total revenue	Intersegment revenue	Net external revenue
United States	\$469,175	\$ (43,425)	\$425,750	\$441,328	\$ (15,324)	\$426,004	\$138,565	\$ (12,394)	\$126,171
Canada	66,632	(3,778)	62,854	105,529	(14,440)	91,089	196,115	(17,741)	178,374
Europe	15,691	(1,445)	14,246	4,658	(759)	3,899	2,542	(1,079)	1,463
Mexico	134,061	(108,742)	25,319	190,964	(186,781)	4,183	162,282	(162,169)	113
	<u>\$685,559</u>	<u>\$ (157,390)</u>	<u>\$528,169</u>	<u>\$742,479</u>	<u>\$ (217,304)</u>	<u>\$525,175</u>	<u>\$499,504</u>	<u>\$ (193,383)</u>	<u>\$306,121</u>

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

14. Segmented information (continued):

	<u>2001</u>	<u>2002</u>	<u>2003</u>
EBITA, before discontinued operations, restructuring charges and the cumulative effect of a change in accounting policy:			
United States	\$ (24,354)	\$ (1,147)	\$(2,208)
Canada	(6,271)	(66)	(352)
Europe	1,559	280	149
Mexico	(13,826)	3,549	8,972
	<u>(42,892)</u>	<u>2,616</u>	<u>6,561</u>
Interest	9,281	8,297	5,113
Amortization	9,518	2,538	4,062
Restructuring charges (recoveries) (note 17)	67,231	36,900	(281)
	<u>\$ (128,922)</u>	<u>\$ (45,119)</u>	<u>\$ (2,333)</u>
Capital expenditures:			
United States	\$ 11,043	\$ 1,363	\$ 71
Canada	2,001	1,137	70
Europe	644	30	-
Mexico	5,431	258	26
	<u>\$ 19,119</u>	<u>\$ 2,788</u>	<u>\$ 167</u>

This segmented information incorporates the operations of the Company, as discussed in note 2. The Company has operated facilities in Canada, the United States and Mexico for 18 years, 8 years and 5 years, respectively.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

14. 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.

	2001	2002	2003
Geographic revenue:			
United States	\$418,002	\$403,913	\$224,212
Canada	38,334	37,811	25,318
Europe	47,484	42,976	11,373
Asia	21,693	26,846	24,147
Mexico	2,656	13,629	21,071
	<u>\$528,169</u>	<u>\$525,175</u>	<u>\$306,121</u>
Long-lived assets:			
United States	\$ 73,269	\$ 21,080	\$ 11,767
Canada	21,832	4,618	2,810
Europe	1,998	—	—
Mexico	18,877	17,979	16,228
	<u>\$115,976</u>	<u>\$ 43,677</u>	<u>\$ 30,805</u>

15. Significant customers and concentration of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Sales of the Company's products are concentrated among specific customers in the same industry. The Company generally does not require collateral. The Company considers concentrations of credit risk in establishing the reserves for bad debts and believes the recorded reserves are adequate.

The Company expects to continue to depend upon a relatively small number of customers for a significant percentage of its revenue. In addition to having a limited number of customers, 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.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

15. Significant customers and concentration of credit risk (continued):

During 2001, three customers individually comprised 22%, 12% and 12% of total revenue across all geographic segments. At December 31, 2001, these customers represented 34%, 10% and 5%, respectively, of the Company's accounts receivable.

During 2002, three customers individually comprised 23%, 17% and 13% of total revenue across all geographic segments. At December 31, 2002, these customers represented 13%, 1% and 14% of the Company's accounts receivable.

During 2003, three customers individually comprised 26%, 15% and 11% of total revenue across all geographic segments. At December 31, 2003, these customers represented 5%, 17% and 14% of the Company's accounts receivable.

16. Loss per common share:

The following table sets forth the computation of basic loss per common share before discontinued operations and the cumulative effect of a change in accounting policy:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Numerator:			
Net loss from continuing operations	\$ (100,133)	\$ (43,901)	\$ (37,344)
Net loss	(104,811)	(107,963)	(39,766)
Denominator:			
Weighted average shares - basic	28,608,072	28,689,779	28,689,779
Effect of dilutive securities:			
Employee stock options	—	—	—
Warrants	—	—	—
Weighted average shares - diluted	<u>28,608,072</u>	<u>28,689,779</u>	<u>28,689,779</u>
Loss per common share:			
Basic and diluted from continuing operations	\$ (3.50)	\$ (1.53)	\$ (1.30)
Basic and diluted	<u>(3.66)</u>	<u>(3.76)</u>	<u>(1.39)</u>

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

16. Loss per common share (continued):

During 2001, the calculation of weighted average shares - diluted did not include 1,911,060 options, as the effect would have been anti-dilutive. During 2002, the calculation did not include 1,855,092 options and 1,509,998 warrants, as the effect would have been anti-dilutive. During 2003, the calculation did not include 1,113,892 options and 2,199,804 warrants issued and warrants to be issued, as the effect would have been anti-dilutive.

17. Restructuring and other charges:

The following table details the components of the restructuring and other charges including the write-down of intangible assets:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Inventory write-downs included in cost of sales	\$25,388	\$ 6,536	\$ —
Lease and other contract obligations	8,635	18,656	2,504
Adjustment of previously recorded lease and other contract obligations	—	(393)	(4,123)
Severance	3,556	2,844	2,418
Other facility exit costs	6,278	1,568	96
Adjustments to other facility exit costs	—	—	(920)
Asset impairment	5,609	7,689	37
Proceeds on assets previously written down	—	—	(293)
Write-down of intangible assets	17,765	—	—
Other charges	—	—	1,283
	<u>41,843</u>	<u>30,364</u>	<u>1,002</u>
	67,231	36,900	1,002
Other charges included in cost of sales	15,151	900	—
Other charges (adjustments) included in selling, general and administrative expenses	8,802	1,000	(122)
Other charges included in amortization expense	—	235	—
	<u>23,953</u>	<u>2,135</u>	<u>(122)</u>
	<u>\$91,184</u>	<u>\$39,035</u>	<u>\$ 880</u>

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

17. Restructuring and other charges (continued):

2001 charges:

During 2001, in response to excess capacity caused by the slowing technology end market, the Company commenced a restructuring program aimed at reducing its cost structure (the "2001 Plan"). Accordingly, the Company recorded restructuring and other charges related to the 2001 Plan of \$67,231, consisting of a write-down of goodwill and other intangible assets, the costs associated with exiting or resizing facilities and the write-down of inventory related to the closure of a facility. In addition, the Company recorded other charges of \$23,953 related primarily to accounts receivable, inventory and asset impairment charges.

(a) Restructuring and other charges:

The write-down of inventory of \$25,388 recorded in cost of sales is associated with the closure of the assembly facility in Denver.

Lease and other contract obligations of \$8,635 include the costs associated with decommissioning, exiting and subletting the Denver facility and the costs of exiting equipment and facility leases at various other locations.

Severance costs of \$3,556 are associated with the closure of the Denver assembly facility and the Haverhill interconnect facility and the resizing of the Mexico and Ireland facilities. The severance costs relate to all 429 employees at the Denver facility, 26 plant and operational employees at the Haverhill facility, 915 plant and operational employees at the Mexico facility and 68 plant and operational employees at the Donegal, Ireland facility.

Asset impairment charges of \$5,609 reflect the write-down of certain long-lived assets, primarily at the Denver location, that became impaired as a result of the rationalization of facilities. The asset impairment was determined based on undiscounted projected future net cash flows relating to the assets resulting in a write-down to estimated salvage values.

Other facility exit costs of \$6,278 include personnel costs and other fees directly related to exit activities at the Denver and Haverhill locations.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

17. Restructuring and other charges (continued):

(b) Write-down of intangible assets:

During 2001, the Company recorded a write-down of intangible assets of \$17,765, which includes the write-down of goodwill associated with a previous acquisition of Qualtron Teoranta of \$16,265 and the write-down of intangible assets of \$1,500. In accordance with the then current accounting policy of the Company (note 3(o)), long-lived assets and certain identifiable intangible assets, including goodwill, held and used by an entity, were reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount of an asset may not be recoverable. Due to the downturn in the electronics manufacturing services industry, the significant operating loss incurred in fiscal 2001 and the restructuring and other charges recorded in 2001, the Company reviewed the recoverability of the carrying value of long-lived assets, including allocated goodwill and other intangible assets. The evaluation indicated that the estimated future net cash flows associated with the long-lived assets acquired as part of the Qualtron Teoranta acquisition were less than their carrying value and, accordingly, a write-down to estimated fair values was recorded for unamortized goodwill associated with the acquisition of Qualtron Teoranta and certain intangible assets.

(c) Other charges:

During 2001, the Company recorded other charges totaling \$23,953 related primarily to accounts receivable, inventory and asset impairment charges, resulting from the downturn in the technology sector. Included in cost of sales are other charges of \$15,151 related to inventory and included in selling, general and administrative expenses are other charges of \$7,937 related to accounts receivable exposures and other charges of \$865 related to asset impairment charges at various facilities other than the Denver and Haverhill facilities.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

17. Restructuring and other charges (continued):

2002 charges:

In response to the continuing industry economic downturn, the Company took further steps to realign its cost structure and plant capacity (the "2002 Plan") and announced third and fourth quarter 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.

(a) Restructuring charges:

The write-down of inventory of \$6,536 represents further costs associated with the closure of the assembly facility in Denver and costs associated with the closure of the interconnect facility in Donegal, Ireland.

Lease and other contract obligations of \$18,656 represent the costs associated with exiting equipment leases and exiting facility leases in Austin and Donegal, Ireland.

Severance costs of \$2,844 are associated with the closure of the interconnect facility in Donegal, Ireland and the resizing of various other locations. The severance costs related to 481 plant and operational employees, primarily at the Mexico and Donegal, Ireland facilities.

Asset impairment charges of \$7,689 reflect the write-down of certain long-lived and other assets, primarily at the Austin location, that became impaired as a result of the rationalization of facilities. The asset impairment was determined based on undiscounted projected future net cash flows relating to the assets, resulting in a write-down to estimated salvage values.

Other facility exit costs of \$1,568 include other costs associated with the decommissioning and closure of the Austin and Donegal, Ireland facilities.

During 2002, the Company recorded an adjustment to lease and other contract obligation costs recorded as part of the 2001 Plan of \$393 upon negotiating a final settlement on a facility lease for amounts less than originally estimated.

The major components of the 2002 restructuring plan were completed during fiscal 2003.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

17. Restructuring and other charges (continued):

(b) Other charges:

Other charges included in cost of sales of \$900 relate to inventory charges resulting from the disengagement with a customer, coupled with the effects of the continued downturn in the technology sector. Other charges of \$1,000 included in selling, general and administrative expenses relate to the write-off of certain assets. Other charges of \$235 included in amortization expense relate to additional amortization recorded to reflect the December 2002 Amendment to the credit facility (note 8).

During 2003, the Company recorded an adjustment of \$122 in selling, general and administrative expenses related to the recovery of assets written off in 2002.

2003 charges:

During 2003, the Company recorded a net restructuring and other charge of \$1,002, consisting of a net adjustment to previously recorded charges related to 2001 Plan and 2002 Plan of \$281 and additional charges incurred during 2003 of \$1,283. During 2003, the Company also recorded an adjustment to other charges of \$122.

(a) Restructuring and other charges:

During 2003, the Company recorded an additional charge for lease and other contract obligations of \$2,504, consisting of a charge related to the 2001 Plan of \$2,178 due to a revision in the estimate of sub-lease recoveries associated with the facility lease in Monterrey, Mexico, and a charge related to the 2002 Plan of \$326 primarily associated with the idling of equipment leases at the Donegal facility. During 2003, the Company also recorded an adjustment to lease and other contract obligations related to the 2002 Plan of \$4,123 for the expected or actual settlement of the amounts, including the Austin facility lease, for less than the originally estimated amounts.

Severance costs of \$2,418 recorded during 2003 related to the additional severance for the closure or resizing of facilities pursuant to the 2002 Plan and the change in senior management during the year. Included in the severance costs was \$757 related to the termination of 75 plant and operational employees at the Charlotte facility, \$273 for the termination of 47 employees at the Austin facility, and \$260 for the termination of 42 employees at the Mexico facility.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

17. Restructuring and other charges (continued):

Other facility exit costs of \$96 recorded during 2003 largely relate to additional costs incurred associated with the closure of the Charlotte facility. The Company also recorded an adjustment to other facility exit costs of \$920 during 2003, consisting of \$219 related to the 2001 Plan due to the settlement of certain obligations for less than the original estimated amounts, and \$701 related to the 2002 Plan. The \$701 relates to the Company revising its original estimates associated with the costs of closing the Austin and Charlotte facilities, based on the settlement of certain liabilities for less than the originally estimated amounts and the effects of ongoing negotiations for the settlement of other liabilities.

During 2003, the Company recorded an asset impairment charge of \$37 related to the write-down of assets of the Charlotte facility, and recorded a gain of \$293 related to the disposal of assets previously written down at the Donegal facility.

Other charges recorded during 2003 of \$1,283 relate to professional fees associated with the Company's refinancing negotiations with current and potential lenders and investors of \$894 and a discount on the prepayment of shareholder loans of \$389 (note 7).

(b) Other charges:

During 2003, the Company recorded an adjustment of \$122 in selling, general and administrative expenses related to the recovery of assets written of in 2002.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

17. Restructuring and other charges (continued):

The following table details original charges, additional charges and adjustments, and the related amounts included in accrued liabilities as at December 31, 2002 and 2003, relating to the 2001 Plan:

	2001 total charges	Non-cash charges	2001 and 2002 cash payments	2002 adjustments	Accrual, December 31, 2002	2003 charges	2003 adjustments	2003 cash payments	Accrual, December 31, 2003
Inventory write-downs included in cost of sales	\$25,388	\$(25,388)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Lease and other contract obligations	8,635	—	(6,819)	(393)	1,423	2,178	—	(728)	2,873
Severance	3,556	—	(3,556)	—	—	—	—	—	—
Asset impairment	5,609	(5,609)	—	—	—	—	—	—	—
Write-down of intangible assets	17,765	(17,765)	—	—	—	—	—	—	—
Other facility exit costs	6,278	(3,059)	(2,795)	—	424	—	(219)	(205)	—
	<u>\$67,231</u>	<u>\$(51,821)</u>	<u>\$(13,170)</u>	<u>\$ (393)</u>	<u>\$ 1,847</u>	<u>\$2,178</u>	<u>\$ (219)</u>	<u>\$ (933)</u>	<u>\$ 2,873</u>

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

17. Restructuring and other charges (continued):

The following table details the original charges, additional charges and adjustments recorded, and related amounts included in accrued liabilities as at December 31, 2002 and 2003 in respect of the 2002 Plan:

	<u>2002 total charges</u>	<u>Non-cash charges</u>	<u>2002 cash payments</u>	<u>Accrual, December 31, 2002</u>	<u>2003 total charges</u>	<u>Non-cash charges</u>	<u>2003 adjustments</u>	<u>2003 cash receipts (payments)</u>	<u>Accrual, December 31, 2003</u>
Inventory write-downs included in cost of sales	\$ 6,536	\$ (6,536)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Lease and other contract obligations	18,656	—	(1,826)	16,830	326	—	(4,123)	(6,287)	6,746
Severance	2,844	—	(1,855)	989	2,418	—	—	(2,848)	559
Asset impairment	7,689	(7,689)	—	—	37	(37)	—	—	—
Proceeds on assets previously written down	—	—	—	—	(293)	—	—	293	—
Other facility exit costs	1,568	—	(1)	1,567	96	—	(701)	(629)	333
	<u>\$37,293</u>	<u>\$(14,225)</u>	<u>\$(3,682)</u>	<u>\$ 19,386</u>	<u>\$2,584</u>	<u>\$ (37)</u>	<u>\$ (4,824)</u>	<u>\$ (9,471)</u>	<u>\$ 7,638</u>

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

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18. Discontinued operations:

(a) Appleton:

During the third quarter of 2003, the Company sold the manufacturing operations of the Appleton facility for cash proceeds of \$3,058. The Appleton facility has historically been included in the results of the United States segment (note 14). The Company recorded a loss on disposal of \$235, which has been included in the loss from discontinued operations. Details of the net assets disposed of are as follows:

Proceeds on disposal of discontinued operation	\$ 3,058
Accounts receivable	1,902
Inventory	1,042
Prepaid expenses	56
Capital assets	1,722
Accounts payable	(1,400)
Accrued liabilities	(476)
	<hr/>
Net assets disposed of	2,846
Costs of disposal	447
	<hr/>
Loss on disposal of discontinued operation	\$ (235)

The following information included in discontinued operations relates to the sale of the Appleton manufacturing operations:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Revenue	\$71,178	\$44,309	\$10,750
Earnings (loss) from discontinued operations	\$ (328)	\$ 1,695	\$ (3,986)

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

18. Discontinued operations (continued):

Included in the loss from discontinued operations for the year ended December 31, 2003 is the loss on disposition of discontinued operation of \$235, a restructuring charge of \$3,226 recorded during the second quarter of 2003, reflecting the write-down of the Appleton assets to the estimated realizable value and loss from operations of \$525. In 2002, the earnings from discontinued operations includes restructuring charges of \$141. In 2001, the loss from discontinued operations includes other charges of \$3,228.

(b) Cork:

In February 2002, the main customer of the Cork, Ireland facility was placed into administration as part of a financial restructuring. As a result, on March 19, 2002, the Company announced that it was closing the Cork, Ireland facility and that it was taking steps to place the subsidiary that operates that facility in voluntary administration. During the first quarter of 2002, the Company recorded a charge of \$9,717 related to the closure of the facility.

The following information relates to the discontinued operations:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Revenue	\$12,834	\$ 5,035	\$ —
Earnings (loss) from discontinued operations	\$(4,350)	\$(10,197)	\$1,564

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

18. Discontinued operations (continued):

In 2001, the loss from discontinued operations includes restructuring charges of \$317 and other charges of \$117. In 2002, the loss from discontinued operations includes the costs of closing the facility of \$9,717. Included in this amount are the write-offs of the net assets of \$6,717 (comprised of capital assets of \$1,129 and net working capital of \$5,588) and other costs associated with exiting the facility of \$3,000. Included in the other costs is severance of \$1,350 related to the termination of all employees. In 2003, the earnings from discontinued operations include the distribution from the proceeds of the liquidation of \$2,304, less additional charges of \$740 related to the closure of the facility.

During 2002, the Company recorded an accrual for costs associated with the exiting of the facility of \$3,000, consisting of lease and other contract obligations of \$323, severance of \$1,350 and other facility exit costs of \$1,327. During 2002, aggregate cash payments of \$2,732 were made, and the accrual at December 31, 2002 of \$268 related to additional severance payments to be made.

At December 31, 2003, there is no remaining accrual related to the Cork facility.

19. United States and Canadian accounting policy differences:

The consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. The significant differences between U.S. GAAP and Canadian GAAP and their effect on the consolidated financial statements of the Company are described below:

The following table reconciles net loss as reported in the accompanying consolidated statements of operations to net loss that would have been reported under Canadian GAAP:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Loss for the year in accordance with U.S. GAAP	\$(104,811)	\$(107,963)	\$(39,766)
Amortization (a)	220	—	—
Write-down of goodwill (a) and (b)	2,205	55,560	—
Loss for the year in accordance with Canadian GAAP	<u>\$(102,386)</u>	<u>\$ (52,403)</u>	<u>\$(39,766)</u>

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

19. United States and Canadian accounting policy differences (continued):

Net earnings (loss) under Canadian GAAP is comprised of the following:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Operating earnings (loss)	\$(117,216)	\$(36,822)	\$ 2,780
Interest expense	9,281	8,297	5,113
Loss before income taxes and discontinued operations	(126,497)	(45,119)	(2,333)
Income taxes (recovery)	(28,789)	(1,218)	35,011
Loss from discontinued operations	(4,678)	(8,502)	(2,422)
Loss for the year	\$(102,386)	\$(52,403)	\$(39,766)

(a) Acquisitions:

Under U.S. GAAP, shares issued as consideration in a business combination are valued using the share price at the announcement date of the acquisition. Under Canadian GAAP in effect on the date of acquisition, shares were valued on the consummation date. As a result, under Canadian GAAP, the total purchase price for Qualtron Teoranta would be \$24,455, resulting in goodwill of \$15,630. Under the U.S. GAAP, the purchase price was \$26,900, resulting in goodwill of \$18,075. Goodwill amortization in fiscal 2003 under U.S. GAAP was nil (2002 - nil; 2001 - \$1,783) and under Canadian GAAP was nil (2002 - nil; 2001 - \$1,563). The write-down of goodwill during 2001 relating to Qualtron Teoranta was \$16,265 under U.S. GAAP and \$14,060 under Canadian GAAP.

(b) Transitional goodwill impairment change:

Under Canadian GAAP, any transitional goodwill impairment charge is recognized in opening retained earnings; under U.S. GAAP, the cumulative adjustment is recognized in earnings during the current year.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

20. Subsequent events:

On February 17, 2004, the Company announced the terms of a proposed recapitalization of the Company. The proposed recapitalization consists of three main components: a private placement of equity securities, a new secured credit facility and a transaction with the Company's current lenders to repay a portion of and restructure a portion of the Company's existing debt obligations, as follows:

(a) Private placement of equity securities:

On March 3, 2004 (the "Closing Date"), the Company completed a private placement, fully underwritten by a syndicate of Canadian investment dealers (the "Underwriters"), 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 (the "Offering"). Each Special Warrant was issued at a price of Cdn. \$1.20 per Special Warrant (approximately U.S. \$0.92 per Special Warrant based on the exchange rate on February 17, 2004), resulting in aggregate proceeds of Cdn. \$40,020 (approximately U.S. \$30,600 based on the exchange rate on February 17, 2004).

Each Special Warrant is exercisable into one unit, consisting of one exchangeable share of SMTC Canada, and one-half of a warrant to purchase an exchangeable share of SMTC Canada. Each whole warrant will be exercisable into one exchangeable share of SMTC Canada at an exercise price of Cdn. \$1.85 per share (approximately U.S. \$1.41 based on the exchange rate on February 17, 2004) for a period of 60 months following the Closing Date of the Offering.

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 17, 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.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

20. Subsequent events (continued):

The exchangeable shares are listed on The Toronto Stock Exchange, and the common shares of the Company are traded on the NASDAQ market. As such the Company will file a Canadian prospectus with the applicable securities regulatory authorities to qualify the issuance and distribution of the units within 90 days of the Closing Date of the Offering and will file a U.S. registration statement to register the underlying common shares within 120 days of the Closing Date of the Offering. In the event that the prospectus is not qualified within 90 days of the Closing Date of the Offering or the U.S. registration statement is not effective within 120 days of the Closing Date of the Offering, each Special Warrant will be exercisable into 1.1 units without payment of additional consideration.

The Company completed the private placement of Special Warrants, which closed into escrow on March 3, 2004. The proceeds of the Offering, net of commissions to the Underwriters and expenses of the Underwriters were placed into escrow pending receipt of shareholder approval. The proceeds from the Offering will be used to repay a portion of the existing debt.

(b) New secured credit facility:

The Company has signed a letter of intent to enter into a new, 3-year \$40,000 revolving credit and term loan facility (the "New Credit Facility") which is to be used to repay a portion of the existing debt and for future working capital needs. The availability under the New Credit Facility is subject to certain borrowing base conditions based on the eligible inventory and accounts receivable of the Company. The New Credit Facility will be secured by the present and future assets of the Company, and will require the Company to be in compliance with financial covenants during the term of the facility. The initial term of the New 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.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2001, 2002 and 2003

20. Subsequent events (continued):

(c) Transactions with the Company's current lenders:

The Company has signed a binding letter of intent with the current lenders under which the Company will satisfy its debt by:

- (i) payment of \$40,000 of the current debt obligation at par;
- (ii) exchanging \$10,000 of existing debt into units consisting of one share of common stock of the Company and a fraction of a share purchase warrant at the same price and as the units received upon the exercise of the Special Warrants as described above.
- (iii) converting the remaining debt up to a limit of \$27,500 into subordinated debt with maturities ranging from 4 to 5 years, with mandatory prepayments required beginning in fiscal 2005, (the "Amended Credit Facility"). In the unlikely event the remaining debt exceeds this limit, the difference will be repaid at par. The Amended Credit Facility will be secured by liens, second to those of the New Credit Facility covering all present and future assets of the Company, and requires the Company to be in compliance meet certain financial ratios and to comply with certain restrictive covenants. The obligations under the Amended Credit Facility are subordinated to the New Credit Facility.

The proposed transactions are subject to the receipt of all necessary shareholder, regulatory and stock exchange approvals and definitive agreements and other customary conditions. In the event that the recapitalization transactions are not consummated, the net proceeds from the Offering held in escrow will be returned to the purchasers, and the Company will be required to make whole the purchasers for the commissions and other expenses paid to the Underwriters.

CONSENT AND RELEASE

THIS CONSENT AND RELEASE (this "Agreement") dated as of August 22, 2003 is entered into among SMTC Corporation ("Holdings"), SMTC Manufacturing Corporation of Wisconsin ("SMTC-Wisconsin") and Lehman Commercial Paper Inc., as Administrative Agent (as defined below).

RECITALS

WHEREAS, Holdings, HTM Holdings Inc., SMTC Manufacturing Corporation of Canada, the several banks and other financial institutions or entities from time to time parties to the Credit Agreement (as defined below) (the "Lenders"), Lehman Brothers Inc., as adviser, lead arranger and book manager, The Bank of Nova Scotia, as syndication agent and Canadian administrative agent ("BNS"), Lehman Commercial Paper Inc., as general administrative agent (in such capacity, the "Administrative Agent") and collateral monitoring agent and General Electric Capital Corporation as documentation agent are parties to that certain and Amended and Restated Credit and Guarantee Agreement (as amended, supplemented or otherwise modified prior to the date hereof, the "Credit Agreement") dated as of July 27, 2000;

WHEREAS, Holdings and SMTC-Wisconsin have requested that the Lenders consent to the sale by SMTC-Wisconsin to Pensar Electronic Solutions, LLC ("Pensar") of certain assets as set forth in the Sale/Purchase of Assets Agreement dated as of August 19, 2003 (the "Pensar Agreement") by and among SMTC-Wisconsin, Holdings and Pensar (the "Transaction"); and

NOW THEREFORE, in consideration of the mutual promises contained herein and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

SECTION 1. Definitions. Capitalized terms used and not otherwise defined in this Agreement shall have the meanings given to them in the Credit Agreement.

SECTION 2. Consent. Subject to the satisfaction of the conditions precedent set forth in Section 3 hereof, and provided that Holdings and SMTC-Wisconsin comply with Section 4 hereof, the Lenders hereby (x) consent to the Transaction subject to definitive documentation in form and substance acceptable to the Administrative Agent in its sole discretion and (y) agree that the Administrative Agent may execute all documents necessary to consummate the Transaction, including, without limitation, the releases of any Liens on assets sold by SMTC-Wisconsin under the Transaction.

SECTION 3. Conditions Precedent to Effectiveness of Agreement. This Agreement shall not be effective unless and until the date when each of the following conditions shall have been satisfied in the sole discretion of the Administrative Agent:

(a) the Administrative Agent shall have received counterparts of (i) this Agreement duly executed by Holdings and SMTC-Wisconsin, and (ii) the Acknowledgement attached hereto, duly executed by each of the Guarantors;

(b) the Administrative Agent shall have received execution copies of the Pensar Agreement and all related agreements, in form and substance acceptable to the Administrative Agent in its sole discretion (collectively, the "Pensar Documents");

(c) Holdings and SMTC-Wisconsin shall have delivered to the Administrative Agent such other documents as the Administrative Agent shall have reasonably requested in advance of the closing of the Transaction;

(d) there shall be no pending or, to the actual knowledge of the Loan Parties after due inquiry, threatened litigation, proceeding, inquiry or other action (i) seeking an injunction or other restraining order, damages or other relief with respect to the transactions contemplated by this Agreement and the other documents and agreements executed or delivered in connection herewith or (ii) which affects or could affect the business, prospects, operations, assets, liabilities or condition (financial or otherwise) of any Loan Party, except, in the case of clause (ii), where such litigation, proceeding, inquiry or other action would not reasonably be expected to cause a Material Adverse Effect; and

(e) no Default or Event of Default shall have occurred and be continuing on the date hereof.

SECTION 4. Reduction of Loans; Payment of Fees; Other Deliveries.

(a) (i) Contemporaneously with the consummation of the Transaction, SMTC-Wisconsin shall pay, or cause to be paid, to the Administrative Agent an amount not less than \$3,058,306 in cash, being the purchase price as defined in the Pensar Agreement.

(ii) All such amounts received in cash by the Administrative Agent shall be applied to the Loans in the manner set forth in Section 7.5(c) of the Credit Agreement.

(b) Contemporaneously with the consummation of the Transaction, Holdings shall pay in cash all accrued fees of the Administrative Agent's legal counsel, advisors and professionals in connection with the negotiation, preparation, execution and delivery of this Agreement and the Pensar Documents and all other documents and agreements relating hereto and thereto.

SECTION 5. Representations and Warranties. Holdings and SMTC-Wisconsin hereby represent and warrant to the Administrative Agent and to the Lenders as follows:

(a) The Recitals in this Agreement are true and correct in all respects.

(b) All representations and warranties of each of the Loan Parties in the Credit Agreement and the other Loan Documents to which it is a party are incorporated herein in full by this reference and are true and correct in all material respects as of the date hereof other than such representations and warranties that expressly relate solely to an earlier date, in which case, they are true and correct as of such earlier date.

(c) No Default or Event of Default has occurred or is continuing.

(d) Each of the Loan Parties has the power, and has been duly authorized by all requisite action, to execute and deliver this Agreement and Acknowledgement, as applicable, and the other documents and agreements executed and delivered in connection herewith to which it is a party. This Agreement has been duly executed by Holdings and SMTC-Wisconsin and the other documents and agreements executed and delivered in connection herewith to which Holdings, SMTC-Wisconsin or any Loan Party is a party have been duly executed and delivered by each of Holdings, SMTC-Wisconsin and the other Loan Parties.

(e) This Agreement is the legal, valid and binding obligation of Holdings and SMTC-Wisconsin and the other documents and agreements executed or delivered in connection herewith to which any of the other Loan Parties is a party are the legal, valid and binding obligations of Holdings, SMTC-Wisconsin and the other Loan Parties, in each case enforceable against each of Holdings, SMTC-Wisconsin and the other Loan Parties in accordance with their respective terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium, or similar law affecting creditors' rights generally.

(f) The execution, delivery and performance of this Agreement and the other documents and agreements executed and delivered in connection herewith does not and will not (i) violate any law, rule, regulation or court order to which any of the Loan Parties is subject; (ii) conflict with or result in a breach of the certificate of formation or bylaws of the Loan Parties or any agreement or instrument to which it is party or by which the properties of the Loan Parties are bound; or (iii) result in the creation or imposition of any Lien, security interest or encumbrance on any property of the Loan Parties, whether now owned or hereafter acquired, other than Liens in favor of the Administrative Agent.

(g) No consent or authorization of, filing with or other act by or in respect of any Governmental Authority or any other Person is required in connection with the execution, delivery, performance, validity or enforceability of (i) this Agreement by the Loan Parties or (ii) the other documents or agreements executed or delivered in connection herewith to which any of the Loan Parties is party, or the consummation of the transactions contemplated hereby or thereby, or the continuing operations of any of the Loan Parties following the consummation of such transactions.

(h) The obligation of the Loan Parties to repay the Loans, together with all interest and fees accrued thereon, is absolute and unconditional, and there exists no right of set off or recoupment, counterclaim or defense of any nature whatsoever to payment of the Loans.

SECTION 6. Effect and Construction of Agreement

(a) Except as expressly provided herein, the Credit Agreement and the other Loan Documents shall remain in full force and effect in accordance with their respective terms, and this Agreement shall not be construed to:

- (i) impair the validity, perfection or priority of any Lien or security interest securing the Loans;
- (ii) waive or impair any rights, powers or remedies of the Administrative Agent or any Lender under the Credit Agreement or any other Loan Document; or
- (iii) require any Lender to make any Loans, issue any Letters of Credit, or provide other extensions of credit to the Borrowers except as set forth herein.

(b) This Agreement shall constitute a Loan Document.

(c) Any breach, violation or non-compliance by any Loan Party of any term, provision, representation or covenant contained in this Agreement shall be an Event of Default with no grace period.

(d) The Loan Parties acknowledge that they have consulted with counsel and with such other experts and advisors as they have deemed necessary in connection with the negotiation, execution and delivery of this Agreement. This Agreement shall be construed without regard to any presumption or rule requiring that it be construed against the party causing this Agreement or any part hereof to be drafted.

SECTION 7. Miscellaneous

(a) In addition to, and not in limitation of, the terms and provisions of the Credit Agreement, each of Holdings and SMTC-Wisconsin covenant and agree so long as any Loan is outstanding and thereafter until satisfaction and payment in cash in full of the Loans that it shall comply and shall cause each of its Subsidiaries to comply with all covenants in this Agreement, the Credit Agreement and each of the other Loan Documents.

(b) The Loan Parties agree to execute (and to cause each of the other Loan Parties to execute) such other and further documents and instruments as the Administrative Agent may reasonably request to implement the provisions of this Agreement.

(c) This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns. No other person or entity shall be entitled to claim any right or benefit hereunder, including, without limitation, the status of a third-party beneficiary of this Agreement.

(d) This Agreement, together with the Credit Agreement and the other Loan Documents, constitutes the entire agreement and understanding among the parties relating

to the subject matter hereof, and supersedes all prior proposals, negotiations, agreements and understandings relating to such subject matter. In entering into this Agreement, the Loan Parties acknowledge that they are not relying on any statement, representation, warranty, covenant or agreement of any kind made by the Administrative Agent, any Lender, or any employee, agent or professional of the Administrative Agent or any Lender, except for the express written agreements of the Administrative Agent and the Lenders set forth herein.

(e) The provisions of this Agreement are intended to be severable. If any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or enforceability without in any manner affecting the validity or enforceability of such provision in any other jurisdiction or the remaining provisions of this Agreement in any jurisdiction.

(f) This Agreement may be executed in counterparts and by any party to this Agreement on separate counterparts, all of which, when so executed, shall be deemed an original, but all of such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission shall be deemed to be, and effective as, an original signature hereto.

(g) Any notices with respect to this Agreement shall be given in the manner provided for in Section 15.2 of the Credit Agreement.

(h) All representations, warranties, covenants, agreements, undertakings, waivers and releases of the Loan Parties contained herein shall survive the occurrence of the payment in full of the Loans under the Credit Agreement.

(i) No amendment, modification, rescission, waiver or release of any provision of this Agreement shall be effective unless the same shall be in writing and signed by the parties hereto.

SECTION 8. Release and Acknowledgements.

(a) In order to induce the Lenders to enter into this Agreement, each Loan Party hereby remises, releases and forever discharges, and by this Agreement does for its Subsidiaries (direct or indirect), and for itself and its predecessors, successors, affiliates and assigns (each, a "Releasor"), remise, release and forever discharge, each Agent, each Lender, and each predecessor, affiliate, subsidiary (direct or indirect), successor, assign, participant, officer, director, employee or agent of the Administrative Agent, BNS or any Lender (collectively, the "Released Parties"), of and from all manner of actions at law or equity, all causes of action for damages, costs, debts, sums of money, accounts, bills, rights of indemnity, breach of contract, provision of labor or materials, loss of use, loss of services, expenses, compensation, consequential or punitive damages, equitable subordination, avoidance of preferential or fraudulent transfers, or any other thing whatever, arising by virtue of actions taken, actions omitted to be taken or the occurrence of any other event on or prior to the date hereof, relating in any way to (i) this Agreement, the Credit Agreement, any other Loan Document or the obligations of the Loan Parties under the Credit Agreement and the other Loan Documents (the

“Obligations”), (ii) any claims (including, without limitation, for contribution or indemnification) which have or could have arisen out of any of the transactions contemplated by this Amendment or the Loan Documents or any other proceedings that have been brought or may be brought by any party hereto or to any Loan Document or any third party relating to the Loan Documents or the transactions contemplated thereby, (iii) any acts, transactions or events that are the subject matter of this Amendment or the Loan Documents or (iv) the prosecution of any claims or any settlement negotiations which such Releasor ever had, now or which it, its Subsidiaries (direct or indirect), or its successors or assigns hereafter can, shall or may have against the Released Parties by reason of (with respect to each of clauses (i)-(iv) above) any matter, cause or thing whatsoever on or prior to the Amendment Effective Date relating to this Amendment or the Loan Documents; provided, however, that nothing herein shall be construed or deemed to release any covenants or agreements contained herein or in any Loan Document so long as such Loan Document shall remain in full force and effect.

(b) Each Loan Party hereby acknowledges and agrees that except as set out in this Agreement, the Obligations are secured by valid and enforceable first priority liens and security interests granted by the Loan Parties to the Administrative Agent, for the ratable benefit of the Lenders, upon all of the Collateral, subject only to Liens permitted under the Credit Agreement. The Obligations and the liens and security interests of the Agents, for the ratable benefit of the Lenders, in the Collateral are not subject to avoidance, defense, objection, action, counterclaim, setoff or subordination, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting creditors’ rights generally. The Obligations constitute legal, valid and binding obligations of each Loan Party, enforceable in accordance with the terms of the Loan Documents and pursuant to applicable law, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting creditors’ rights generally, and subject to the limitations imposed by general equitable principles (regardless whether such enforceability is considered in a proceeding at law or in equity). Furthermore, no Loan Party will use any of its cash or other assets to object to or contest in any manner, or raise any objections, counterclaims or defenses to, the validity, perfection, priority or enforceability of the claims or liens of the Agents and the Lenders relating to this Agreement, the Credit Agreement or any other Loan Document, or to investigate or assert any claims or causes of action arising on or prior to the date hereof against the Agents or the Lenders relating to this Agreement, the Credit Agreement or any other Loan Document.

(c) Except as expressly set forth in this Agreement, each of the Loan Parties acknowledges and agrees that the execution and delivery by the Agents of, or the consent by the Lenders to, this Agreement shall not be deemed (i) to create a course of dealing or otherwise obligate the Agents or the Lenders to forbear or execute similar agreements under the same or similar circumstances in the future, (ii) to modify, relinquish or impair any right of the Agents or the Lenders to receive any indemnity or similar payment from any Person or entity as a result of any matter arising from or relating to this Agreement, (iii) to waive any right of the Lenders to receive interest at an increased rate as a result of any Events of Default that may occur under the Credit Agreement as amended by this Agreement, (iv) to obligate the Lenders in any way to forbear from individually or collectively enforcing remedies under the Credit Agreement as amended by this Agreement in any manner or (v) a commitment from any of the Lenders to forbear or “stand still”. Except as expressly set forth in this Agreement, no past or

future forbearance on the part of any of the Lenders should be viewed as a limitation upon or waiver of the absolute right and privilege of the Lenders in exercising rights and remedies that currently exist or may exist after the date hereof.

SECTION 9. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with the laws of the state of New York.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

SMTC CORPORATION

By: /s/ Paul Walker

Name: Paul Walker
Title: Authorized Signatory

SMTC MANUFACTURING
CORPORATION OF WISCONSIN

By: /s/ Paul Walker

Name: Paul Walker
Title: Authorized Signatory

LEHMAN COMMERCIAL PAPER, INC.,
as General Administrative Agent

By: /s/ Frank Turner

Name: Frank Turner
Title: Authorized Signatory

[SIGNATURE PAGE TO CONSENT]

ACKNOWLEDGMENT

Each of the undersigned parties to the Amended and Restated Guarantee and Collateral Agreement, dated as of July 27, 2000, as amended, supplemented or otherwise modified from time to time, made by the undersigned in favor of Lehman Commercial Paper Inc., as General Administrative Agent, for the benefit of the Lenders, hereby (a) consents to the transactions contemplated by the Agreement and (b) acknowledges and agrees that other than the guarantees and grants of security interests released in the Agreement, the guarantees and grants of security interests contained in such Amended and Restated Guarantee and Collateral Agreement and in the other Security Documents are, and shall remain, in full force and effect after giving effect to the Agreement and all prior modifications to the Amended and Restated Credit and Guarantee Agreement.

SMTC MANUFACTURING CORPORATION OF
CALIFORNIA
SMTC MANUFACTURING CORPORATION OF
COLORADO
SMTC MANUFACTURING CORPORATION OF
MASSACHUSETTS
SMTC MANUFACTURING CORPORATION OF
NORTH CAROLINA
SMTC MANUFACTURING CORPORATION OF
TEXAS
SMTC MANUFACTURING CORPORATION OF
WISCONSIN
SMTC MEX HOLDINGS, INC.
QUALTRON, INC.

By: /s/ Paul Walker

Name: Paul Walker
Title: Authorized Signatory

[SIGNATURE PAGE TO ACKNOWLEDGMENT]

SEVENTH WAIVER AND CONSENT

SEVENTH WAIVER AND CONSENT, dated October 29, 2003 (the "Agreement"), to and under the Amended and Restated Credit and Guarantee Agreement, dated as of July 27, 2000 (as heretofore amended, supplemented or otherwise modified, the "Credit Agreement"), among SMTC Corporation ("Holdings"), HTM Holdings, Inc. (the "U.S. Borrower"), SMTC Manufacturing Corporation of Canada (the "Canadian Borrower"; together with the U.S. Borrower, the "Borrowers"), the several banks and other financial institutions or entities from time to time parties thereto (the "Lenders"), Lehman Brothers Inc., as advisor, lead arranger and book manager, The Bank of Nova Scotia, as syndication agent, Lehman Commercial Paper Inc., as general administrative agent (in such capacity, the "General Administrative Agent"), The Bank of Nova Scotia, as Canadian administrative agent, Lehman Commercial Paper Inc., as collateral monitoring agent, and General Electric Capital Corporation, as documentation agent.

WITNESSETH:

WHEREAS, Holdings and its subsidiary SMTC Ireland Company ("SMTC Ireland") desire to settle two outstanding claims with Avnet and Varitronix remaining with respect to the bankruptcy of SMTC Ireland as described in a waiver request dated as of October 9, 2003 from Holdings to the General Administrative Agent, attached hereto as Exhibit B (the "Waiver Request"); and

WHEREAS, Holdings and the Borrowers have requested that the Lenders agree to waive certain of the provisions of the Credit Agreement upon the terms and subject to the conditions set forth below to allow payments of US \$596,578 to Avnet, GBP 82,163 to Varitronix, and US \$15,000 for legal fees and liquidator fees (collectively, the "Payments") to settle the two remaining outstanding claims with respect to the bankruptcy of SMTC Ireland; and

WHEREAS, the Required Lenders have consented to the requested amendments in the manner set forth below;

NOW, THEREFORE, in consideration of the premises and the material covenants herein contained, the parties hereto hereby agree as follows:

1. Defined Terms. Defined terms used and not otherwise defined in this Agreement shall have the meanings given to them in the Credit Agreement.

2. Waiver. The Lenders hereby waive the requirement that Holdings and the Borrowers comply with the provisions of Section 11.8 of the Credit Agreement with respect to the Payments.

3. Consent. The Lenders hereby consent to the Payments to Avnet and Varitronix as set out in Exhibit B to this Agreement.

4. Effectiveness. This Agreement shall become effective on the date of satisfaction of the following conditions precedent (the "Effective Date"):

- (a) The General Administrative Agent shall have received counterparts of this Agreement, duly executed and delivered by Holdings and each of the Borrowers;
- (b) The General Administrative Agent shall have received executed Lender Consent Letters, substantially in the form of Exhibit A hereto ("Lender Consent Letters"), from Lenders constituting the Required Lenders;
- (c) The General Administrative Agent shall have received an executed Acknowledgment and Consent (i) in the form set forth at the end of this Agreement, from each Loan Party other than the Borrowers and any Loan Party party to the Canadian Facility Guarantees (the "Canadian Guarantors") and (ii) in form and substance reasonably satisfactory to the Canadian Administrative Agent, from each Canadian Guarantor;
- (d) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to the General Administrative Agent; and
- (e) The Lenders and the General Administrative Agent shall have received all fees required to be paid, and all expenses for which invoices have been presented, on or before the Effective Date.

5. Representations and Warranties. (a) The Borrowers hereby represent and warrant that Avnet and Varitronix have agreed to waive their respective rights to any dividend payments as set out in the Waiver Request relating to the bankruptcy of SMTC Ireland in favour of SMTC pursuant to written waivers to be delivered to SMTC at the time of the Payments. The Borrowers shall deliver copies of such waivers to the General Administrative Agent upon delivery of the Payments.

(b) After giving effect to the amendments contained herein, on the Effective Date, Holdings and each of the Borrowers hereby confirms, reaffirms and restates the representations and warranties set forth in Section 8 of the Credit Agreement, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date; provided that each reference in such Section 8 to "this Agreement" shall be deemed to be a reference both to this Agreement and to the Credit Agreement as amended and modified by this Agreement.

6. Continuing Effect; No Other Amendments. Except as expressly amended hereby, all of the terms and provisions of the Credit Agreement and the other Loan Documents are and shall remain in full force and effect.

7. No Default. No Default or Event of Default shall have occurred and be continuing as of the Effective Date after giving effect to this Agreement.

8. Counterparts. This Agreement may be executed in any number of counterparts by the parties hereto, each of which shall be an original, and all of which when taken together shall constitute one and the same instrument. Delivery of an executed counterpart by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

9. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the state of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

SMTC CORPORATION

By: /s/ Philip Woodard

Name: Philip Woodard
Title: Chief Operating Officer

HTM HOLDINGS, INC.

By: /s/ Philip Woodard

Name: Philip Woodard
Title: Authorized Signatory

SMTC MANUFACTURING CORPORATION, OF
CANADA

By: /s/ Philip Woodard

Name: Philip Woodard
Title: Authorized Signatory

LEHMAN COMMERCIAL PAPER INC.,
as General Administrative Agent

By: /s/ Frank Turner

Name: Frank Turner
Title: Authorized Signatory

ACKNOWLEDGEMENT AND CONSENT

Each of the undersigned parties to the Amended and Restated Guarantee and Collateral Agreement, dated as of July 27, 2000, as amended, supplemented or otherwise modified from time to time, made by the undersigned in favor of Lehman Commercial Paper Inc., as General Administrative Agent, for the benefit of the Lenders, hereby (a) consents to the transactions contemplated by the Seventh Waiver And Consent to and under the Amended and Restated Credit and Guarantee Agreement and (b) acknowledges and agrees that the guarantees and grants of security interests contained in such Amended and Restated Guarantee and Collateral Agreement and in the other Security Documents are, and shall remain, in full force and effect after giving effect to the Seventh Waiver and Consent and all prior modifications to the Amended and Restated Credit and Guarantee Agreement.

SMTC MANUFACTURING CORPORATION OF
CALIFORNIA
SMTC MANUFACTURING CORPORATION OF
COLORADO
SMTC MANUFACTURING CORPORATION OF
MASSACHUSETTS
SMTC MANUFACTURING CORPORATION OF
NORTH CAROLINA
SMTC MANUFACTURING CORPORATION OF
TEXAS
SMTC MANUFACTURING CORPORATION OF
WISCONSIN
SMTC MEX HOLDINGS, INC.
QUALTRON, INC.

By: /s/ Philip Woodard

Name: Philip Woodard
Title: Authorized Signatory

LENDER CONSENT LETTER

HTM HOLDINGS, INC.
SMTC MANUFACTURING CORPORATION OF CANADA
AMENDED AND RESTATED
CREDIT AND GUARANTEE AGREEMENT
DATED AS OF JULY 27, 2000

To: Lehman Commercial Paper Inc.,
as General Administrative Agent
c/o Simpson Thacher & Bartlett
425 Lexington Avenue
New York, New York 10017

Ladies and Gentlemen:

Reference is made to the Amended and Restated Credit and Guarantee Agreement, dated as of July 27, 2000 (as heretofore amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among SMTC Corporation, HTM Holdings, Inc. (the "U.S. Borrower"), SMTC Manufacturing Corporation of Canada (the "Canadian Borrower"; together with the U.S. Borrower, the "Borrowers"), the several banks and other financial institutions or entities from time to time parties thereto (the "Lenders"), Lehman Commercial Paper Inc., as general administrative agent (in such capacity, the "General Administrative Agent"), and others. Unless otherwise defined herein, capitalized terms used herein and defined in the Credit Agreement are used herein as therein defined.

The Borrowers have requested that the Lenders consent to amend certain provisions of the Credit Agreement on the terms described in the Seventh Waiver and Consent to which a form of this Lender Consent Letter is attached as Exhibit A (the "Agreement").

Pursuant to Section 15.1 of the Credit Agreement, the undersigned Lender hereby consents to the execution by the General Administrative Agent of the Agreement.

Very truly yours,

(NAME OF LENDER)

By: _____

Name:

Title:

Dated as of October , 2003

NINTH AMENDMENT AND EIGHTH WAIVER AND CONSENT

NINTH AMENDMENT AND EIGHTH WAIVER AND CONSENT, dated November 17, 2003 (the "Agreement"), to and under the Amended and Restated Credit and Guarantee Agreement, dated as of July 27, 2000 (as heretofore amended, supplemented or otherwise modified, the "Credit Agreement"), among SMTC Corporation ("Holdings"), HTM Holdings, Inc. (the "U.S. Borrower"), SMTC Manufacturing Corporation of Canada (the "Canadian Borrower"; together with the U.S. Borrower, the "Borrowers"), the several banks and other financial institutions or entities from time to time parties thereto (the "Lenders"), Lehman Brothers Inc., as advisor, lead arranger and book manager, The Bank of Nova Scotia, as syndication agent, Lehman Commercial Paper Inc., as general administrative agent (in such capacity, the "General Administrative Agent"), The Bank of Nova Scotia, as Canadian administrative agent, Lehman Commercial Paper Inc., as collateral monitoring agent, and General Electric Capital Corporation, as documentation agent.

WITNESSETH:

WHEREAS, Holdings and the Borrowers requested that the Lenders agree to amend certain of the provisions of the Credit Agreement upon the terms and subject to the conditions set forth below; and

WHEREAS, the Required Lenders have consented to the requested amendments in the manner set forth below;

NOW, THEREFORE, in consideration of the premises and the material covenants herein contained, the parties hereto hereby agree as follows:

1. Defined Terms. Defined terms used and not otherwise defined in this Agreement shall have the meanings given to them in the Credit Agreement.

2. Waiver of Defaults or Events of Default. (a) The Lenders hereby waive the Defaults and Events of Default arising by reason of (a) the failure of Holdings and the Borrowers to comply with the provisions of Section 11.1(e) of the Credit Agreement for any period prior to the Effective Date (as defined below), (b) any representation and warranty made by any Borrower, in connection with any extension of credit under the Credit Agreement prior to the Effective Date, to the effect that no Default or Event of Default had occurred by reason of the failure of Holdings and the Borrowers to comply with the provisions of Section 11.1(e) of the Credit Agreement or (c) any failure of Holdings or any Borrower to give notice under the Credit Agreement of the failure of Holdings and the Borrowers to comply with the provisions of Section

11.1(e) of the Credit Agreement; provided that the foregoing waiver is conditioned upon Holdings and the Borrowers being in compliance with Section 11.1(e) of the Credit Agreement on or before November 30, 2003.

(b) No amendment or waiver of this Agreement, the Credit Agreement or the other Loan Documents shall be binding unless executed in writing by the party bound thereby. No waiver of any provision of this Agreement shall constitute a waiver of any other provision nor shall any waiver or any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

3. Amendment to "Availability Adjustment" of the Credit Agreement. The definition of "Availability Adjustment" is hereby amended by deleting the definition therein and inserting in lieu thereof the following: "at any time, the sum of (a) the aggregate amount of scheduled amortization payments on the Term Loans made by the U.S. Borrower at such time on and after December 31, 2002, (b) 65% of Inventory of the Borrowers and their Subsidiaries and located in Mexico at such time which satisfies all of the requirements of the definition of Eligible Inventory in this Section 1.1 and (c) \$1,500,000 (from the proceeds of the sale of the Appleton, Wisconsin facility); provided however, that for the period from the Eighth Amendment Effective Date through and ending 90 days thereafter, such Inventory shall not be required to satisfy the requirements set forth in subsections (b) and (h) of such definition (and thereafter shall be required to satisfy such requirements in the manner provided in Section 10.13)."

4. Amendment to "Canadian Revolving Credit Termination Date" and "U.S. Revolving Termination Date" of the Credit Agreement. The definitions of "Canadian Revolving Credit Termination Date" and "U.S. Revolving Termination Date" are hereby amended by deleting "fifth anniversary of the Original Closing Date" therein and inserting in lieu thereof "October 1, 2004".

5. Amendment to "Canadian Revolving Credit Commitment" of the Credit Agreement. The definition of "Canadian Revolving Credit Commitment" is hereby amended by deleting the second proviso "provided, further, that in no event shall the aggregate amount to the Canadian Revolving Credit Commitments be greater than \$10,000,000 as a result of the operation of Section 5.16." therein and inserting in lieu thereof "provided, further, that in no event shall the aggregate amount of the Canadian Revolving Credit Commitments be greater than \$6,750,000 as a result of the operation of Section 5.16."

6. Amendment to "U.S. Revolving Credit Commitment" of the Credit Agreement. The definition of "U.S. Revolving Credit Commitment" is hereby amended by deleting the second proviso "provided, further, that in no event shall the aggregate amount to the U.S. Revolving Credit Commitments be less than U.S. \$90,000,000 as a result of the operation of Section 5.16." therein and inserting in lieu thereof "provided, further, that in no event shall the aggregate amount of the U.S. Revolving Credit Commitments be less than U.S. \$73,250,000 as a result of the operation of Section 5.16."

7. Amendment to Section 10.1(a) of the Credit Agreement (Financial Statements). Section 10.1(a) of the Credit Agreement is hereby amended by deleting “within 90 days” in the first line therein and inserting in lieu thereof “within 45 days”.

8. Amendment to Section 15.1 of the Credit Agreement (Amendments and Waivers). Section 15.1 of the Credit Agreement is hereby amended by deleting “or” at the end of Section 15.1(vi) and inserting “or” at the end of Section 15.1(vii) as well as inserting a new Section 15.1(viii) as follows:

“(viii) (x) amend, modify or waive the definitions of “Availability Adjustment”, “Borrowing Base” and “Borrowing Formula” in Section 1.1 herein or (y) amend, modify or waive any covenant in Section 11.1 (Financial Condition Covenants) herein, in each case without the consent of all Lenders.”.

9. Amendment to Schedule 1.1A of the Credit Agreement (a Component of the Definition of Borrowing Formula). Schedule 1.1A of the Credit Agreement is hereby amended by deleting Schedule 1.1A therein and inserting in lieu thereof Exhibit A hereto.

10. Amendment to Schedule 11.1(a) of the Credit Agreement (Consolidated Leverage Ratio). Schedule 11.1(a) of the Credit Agreement is hereby amended by deleting Schedule 11.1(a) therein and inserting in lieu thereof Exhibit B hereto.

11. Amendment to Schedule 11.1(c) of the Credit Agreement (Consolidated Interest Coverage Ratio). Schedule 11.1(c) of the Credit Agreement is hereby amended by deleting Schedule 11.1(c) therein and inserting in lieu thereof Exhibit C hereto.

12. Amendment to Schedule 11.1(e) of the Credit Agreement (Minimum Cumulative Consolidated EBITDA). Schedule 11.1(e) of the Credit Agreement is hereby amended by deleting Schedule 11.1(e) therein and inserting in lieu thereof Exhibit D hereto.

13. Amendment to Schedule 11.1(f)(i) of the Credit Agreement (Maximum Total Revolving Extensions of Credit End of Month). Schedule 11.1(f)(i) of the Credit Agreement is hereby amended by deleting Schedule 11.1(f)(i) therein and inserting in lieu thereof Exhibit E hereto.

14. Amendment to Schedule 11.1(f)(ii) of the Credit Agreement (Maximum Total Revolving Extensions of Credit Intra-Month). Schedule 11.1(f)(ii) of the Credit Agreement is hereby amended by deleting Schedule 11.1(f)(ii) therein and inserting in lieu thereof Exhibit F hereto.

15. Amendment to Schedule 11.1(g) of the Credit Agreement (Minimum Availability Test). Schedule 11.1(g) of the Credit Agreement is hereby amended by deleting Schedule 11.1(g) therein and inserting in lieu thereof Exhibit G hereto.

16. Effectiveness. This Agreement shall become effective on the date of satisfaction of the following conditions precedent (the "Effective Date"):

- (a) The General Administrative Agent shall have received counterparts of this Agreement, duly executed and delivered by Holdings and each of the Borrowers;
- (b) The General Administrative Agent shall have received executed Lender Consent Letters, substantially in the form of Exhibit H hereto ("Lender Consent Letters"), from Lenders constituting the Required Lenders;
- (c) The General Administrative Agent shall have received an executed Acknowledgment and Consent (i) in the form set forth at the end of this Agreement, from each Loan Party other than the Borrowers and any Loan Party party to the Canadian Facility Guarantees (the "Canadian Guarantors") and (ii) in form and substance reasonably satisfactory to the Canadian Administrative Agent, from each Canadian Guarantor;
- (d) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to the General Administrative Agent; and
- (e) The Lenders and the General Administrative Agent shall have received all fees required to be paid, and all expenses for which invoices have been presented, on or before the Effective Date.

17. Representations and Warranties. (a) After giving effect to the amendments contained herein, on the Effective Date, Holdings and each of the Borrowers hereby confirms, reaffirms and restates the representations and warranties set forth in Section 8 of the Credit Agreement, except to the extent such representations and warranties specifically relate to an

earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date; provided that each reference in such Section 8 to "this Agreement" shall be deemed to be a reference both to this Agreement and to the Credit Agreement as amended and modified by this Agreement.

(b) Each of the Borrowers hereby represents and warrants that as of October 31, 2003, the aggregate principal outstanding balance of the (i) Tranche A Term Loans is \$11,941,694, (ii) Tranche B Term Loans is \$0, (iii) U.S. Revolving Credit Loans is \$64,931,901, and (iv) Canadian Revolving Credit Loans is \$0. The obligation of each of the Borrowers and the Loan Parties to repay the Loans, together with all interest and fees accrued thereon, is absolute and unconditional, and there exists no right of set off or recoupment, counterclaim or defence of any nature whatsoever to payment of the Loans.

18. Continuing Effect; No Other Amendments. Except as expressly amended hereby, all of the terms and provisions of the Credit Agreement and the other Loan Documents are and shall remain in full force and effect.

19. No Default. No Default or Event of Default shall have occurred and be continuing as of the Effective Date after giving effect to this Agreement.

20. Counterparts. This Agreement may be executed in any number of counterparts by the parties hereto, each of which shall be an original, and all of which when taken together shall constitute one and the same instrument. Delivery of an executed counterpart by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

21. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the state of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

SMTC CORPORATION

By: /s/ Marwan Kubursi

Name: Marwan Kubursi
Title: Chief Financial Officer

HTM HOLDINGS, INC.

By: /s/ Marwan Kubursi

Name: Marwan Kubursi
Title: Authorized Signatory

SMTC MANUFACTURING CORPORATION, OF
CANADA

By: /s/ Marwan Kubursi

Name: Marwan Kubursi
Title: Authorized Signatory

LEHMAN COMMERCIAL PAPER INC.,
as General Administrative Agent

By: /s/ Frank Turner

Name: Frank Turner
Title: Authorized Signatory

ACKNOWLEDGEMENT AND CONSENT

Each of the undersigned parties to the Amended and Restated Guarantee and Collateral Agreement, dated as of July 27, 2000, as amended, supplemented or otherwise modified from time to time, made by the undersigned in favor of Lehman Commercial Paper Inc., as General Administrative Agent, for the benefit of the Lenders, hereby (a) consents to the transactions contemplated by the Ninth Amendment and Eighth Waiver And Consent to and under the Amended and Restated Credit and Guarantee Agreement and (b) acknowledges and agrees that the guarantees and grants of security interests contained in such Amended and Restated Guarantee and Collateral Agreement and in the other Security Documents are, and shall remain, in full force and effect after giving effect to the Ninth Amendment and Eighth Waiver and all prior modifications to the Amended and Restated Credit and Guarantee Agreement.

SMTC MANUFACTURING CORPORATION OF
CALIFORNIA

SMTC MANUFACTURING CORPORATION OF
COLORADO

SMTC MANUFACTURING CORPORATION OF
MASSACHUSETTS

SMTC MANUFACTURING CORPORATION OF
NORTH CAROLINA

SMTC MANUFACTURING CORPORATION OF
TEXAS

SMTC MANUFACTURING CORPORATION OF
WISCONSIN

SMTC MEX HOLDINGS, INC.

QUALTRON, INC.

By: /s/ Marwan Kubursi

Name: Marwan Kubursi

Title: Authorized Signatory

NINTH WAIVER AND CONSENT

NINTH WAIVER AND CONSENT, dated February 23, 2004 (the "Agreement"), to and under the Amended and Restated Credit and Guarantee Agreement, dated as of July 27, 2000 (as heretofore amended, supplemented or otherwise modified, the "Credit Agreement"), among SMTC Corporation ("Holdings"), HTM Holdings, Inc. (the "U.S. Borrower"), SMTC Manufacturing Corporation of Canada (the "Canadian Borrower"; together with the U.S. Borrower, the "Borrowers"), the several banks and other financial institutions or entities from time to time parties thereto (the "Lenders"), Lehman Brothers Inc., as advisor, lead arranger and book manager, The Bank of Nova Scotia, as syndication agent, Lehman Commercial Paper Inc., as general administrative agent (in such capacity, the "General Administrative Agent"), The Bank of Nova Scotia, as Canadian administrative agent, Lehman Commercial Paper Inc., as collateral monitoring agent, and General Electric Capital Corporation, as documentation agent.

WITNESSETH:

WHEREAS, Holdings and the Borrowers requested that the Lenders agree to waive certain of the provisions of the Credit Agreement upon the terms and subject to the conditions set forth below; and

WHEREAS, the Required Lenders have consented to the requested waivers in the manner set forth below;

NOW, THEREFORE, in consideration of the premises and the material covenants herein contained, the parties hereto hereby agree as follows:

1. Defined Terms. Defined terms used and not otherwise defined in this Agreement shall have the meanings given to them in the Credit Agreement.

2. Waiver of Defaults or Events of Default. (a) The Lenders hereby waive, for the period from the Effective Date (as defined below) through March 12, 2004, the Defaults and Events of Default arising by reason of (a) the failure of Holdings and the Borrowers to comply with the provisions of Section 10.1(a) of the Credit Agreement for any period prior to the Effective Date (as defined below), (b) any representation and warranty made by any Borrower, in connection with any extension of credit under the Credit Agreement prior to the Effective Date, to the effect that no Default or Event of Default had occurred by reason of the failure of Holdings and the Borrowers to comply with the provisions of Section 10.1(a) of the Credit Agreement or (c) any failure of Holdings or any Borrower to give notice under the Credit Agreement of the failure of Holdings and the Borrowers to comply with the provisions of Section 10.1(a) of the Credit Agreement.

(b) No waiver of this Agreement, the Credit Agreement or the other Loan Documents shall be binding unless executed in writing by the party bound thereby. No waiver of any provision of this Agreement shall constitute a waiver of any other provision nor shall any waiver or any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

3. Effectiveness. This Agreement shall become effective on the date of satisfaction of the following conditions precedent (the "Effective Date"):

- (a) The General Administrative Agent shall have received counterparts of this Agreement, duly executed and delivered by Holdings and each of the Borrowers;
- (b) The General Administrative Agent shall have received executed Lender Consent Letters, substantially in the form of Exhibit A hereto ("Lender Consent Letters"), from Lenders constituting the Required Lenders;
- (c) The General Administrative Agent shall have received an executed Acknowledgment and Consent (i) in the form set forth at the end of this Agreement, from each Loan Party other than the Borrowers and any Loan Party party to the Canadian Facility Guarantees (the "Canadian Guarantors") and (ii) in form and substance reasonably satisfactory to the Canadian Administrative Agent, from each Canadian Guarantor;
- (d) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to the General Administrative Agent; and
- (e) The Lenders and the General Administrative Agent shall have received all fees required to be paid, and all expenses for which invoices have been presented, on or before the Effective Date.

4. Representations and Warranties. (a) After giving effect to the waiver contained herein, on the Effective Date, Holdings and each of the Borrowers hereby confirms, reaffirms and restates the representations and warranties set forth in Section 8 of the Credit Agreement, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date; provided that each reference in such Section 8 to "this Agreement" shall be deemed to be a reference both to this Agreement and to the Credit Agreement as amended and modified by this Agreement.

(b) Each of the Borrowers hereby represents and warrants that as of February 19, 2004, the aggregate principal outstanding balance of the (i) Tranche A Term Loans is \$6,941,694.00, (ii) Tranche B Term Loans is \$0, (iii) U.S. Revolving Credit Loans is \$69,028,219.43 and (iv) Canadian Revolving Credit Loans is \$0. The obligation of each of the Borrowers and the Loan Parties to repay the Loans, together with all interest and fees accrued thereon, is absolute and unconditional, and there exists no right of set off or recoupment, counterclaim or defence of any nature whatsoever to payment of the Loans.

5. Continuing Effect; No Other Waivers or Amendments. Except as expressly waived hereby, all of the terms and provisions of the Credit Agreement and the other Loan Documents are and shall remain in full force and effect.

6. No Default. No Default or Event of Default shall have occurred and be continuing as of the Effective Date after giving effect to this Agreement.

7. Counterparts. This Agreement may be executed in any number of counterparts by the parties hereto, each of which shall be an original, and all of which when taken together shall constitute one and the same instrument. Delivery of an executed counterpart by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

8. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the state of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

SMTC CORPORATION

By: /s/ Marwan Kubursi

Name: Marwan Kubursi
Title: Authorized Signatory

HTM HOLDINGS, INC.

By: /s/ Marwan Kubursi

Name: Marwan Kubursi
Title: Authorized Signatory

SMTC MANUFACTURING
CORPORATION OF CANADA

By: /s/ Marwan Kubursi

Name: Marwan Kubursi
Title: Authorized Signatory

LEHMAN COMMERCIAL PAPER INC.,
as General Administrative Agent

By: /s/ Frank Turner

Name: Frank Turner
Title: Authorized Signatory

ACKNOWLEDGEMENT AND CONSENT

Each of the undersigned parties to the Amended and Restated Guarantee and Collateral Agreement, dated as of July 27, 2000, as amended, supplemented or otherwise modified from time to time, made by the undersigned in favor of Lehman Commercial Paper Inc., as General Administrative Agent, for the benefit of the Lenders, hereby (a) consents to the transactions contemplated by the Ninth Waiver And Consent to and under the Amended and Restated Credit and Guarantee Agreement and (b) acknowledges and agrees that the guarantees and grants of security interests contained in such Amended and Restated Guarantee and Collateral Agreement and in the other Security Documents are, and shall remain, in full force and effect after giving effect to the Ninth Waiver and all prior modifications to the Amended and Restated Credit and Guarantee Agreement.

SMTC MANUFACTURING CORPORATION OF
CALIFORNIA
SMTC MANUFACTURING CORPORATION OF
COLORADO
SMTC MANUFACTURING CORPORATION OF
MASSACHUSETTS
SMTC MANUFACTURING CORPORATION OF
NORTH CAROLINA
SMTC MANUFACTURING CORPORATION OF
TEXAS
SMTC MANUFACTURING CORPORATION OF
WISCONSIN
SMTC MEX HOLDINGS, INC.
QUALTRON, INC.

By: /s/ Marwan Kubursi

Name: Marwan Kubursi
Title: Authorized Signatory

LENDER CONSENT LETTER
HTM HOLDINGS, INC.
SMTC MANUFACTURING CORPORATION OF CANADA
AMENDED AND RESTATED
CREDIT AND GUARANTEE AGREEMENT
DATED AS OF JULY 27, 2000

To: Lehman Commercial Paper Inc.,
as General Administrative Agent
c/o Simpson Thacher & Bartlett
425 Lexington Avenue
New York, New York 10017

Ladies and Gentlemen:

Reference is made to the Amended and Restated Credit and Guarantee Agreement, dated as of July 27, 2000 (as heretofore amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among SMTC Corporation, HTM Holdings, Inc. (the "U.S. Borrower"), SMTC Manufacturing Corporation of Canada (the "Canadian Borrower"; together with the U.S. Borrower, the "Borrowers"), the several banks and other financial institutions or entities from time to time parties thereto (the "Lenders"), Lehman Commercial Paper Inc., as general administrative agent (in such capacity, the "General Administrative Agent"), and others. Unless otherwise defined herein, capitalized terms used herein and defined in the Credit Agreement are used herein as therein defined.

The Borrowers have requested that the Lenders consent to amend certain provisions of the Credit Agreement on the terms described in the Ninth Waiver and Consent to which a form of this Lender Consent Letter is attached as Exhibit A (the "Agreement").

Pursuant to Section 15.1 of the Credit Agreement, the undersigned Lender hereby consents to the execution by the General Administrative Agent of the Agreement.

Very truly yours,

(NAME OF LENDER)

By: _____

Name:

Title:

Dated as of February , 2004

SALE/PURCHASE OF ASSETS AGREEMENT

This Sale/Purchase of Assets Agreement is entered into this 19th day of August, 2003, by SMTC Corporation, a Delaware corporation (“Parent”), SMTC Manufacturing Corporation of Wisconsin, a Wisconsin corporation (“Seller”), and Pensar Electronic Solutions, LLC, a Wisconsin limited liability company (“Purchaser”).

WHEREAS, Seller operates an electronics manufacturing facility located at 2222 East Pensar Drive, Appleton, Wisconsin (the “Appleton Facility”), and owns various real estate, equipment, inventories, contract rights, and miscellaneous assets used in connection with the operation of its business at such facility; and

WHEREAS, Purchaser desires to acquire substantially all the assets used or useful, or intended to be used, in the continuing operation of Seller’s Appleton, Facility (with the exception of Seller’s product design department and sales personnel located within the Appleton Facility), and Seller desires to sell such assets to Purchaser; and

NOW THEREFORE, in consideration of these premises and of the mutual covenants contained hereafter and other good and valuable consideration, Parent, Seller and Purchaser agree as follows:

Section 1. Sale of Accounts Receivable. Seller agrees to sell to Purchaser and Purchaser agrees to purchase from Seller, the accounts receivable identified on the attached Schedule 1, Accounts Receivable – as of June 29, 2003 listing, (the “Accounts Receivable”).

Section 2. Assets Purchased; Liabilities Assumed.

2.1. Assets Purchased. Seller agrees to sell and assign to Purchaser and Purchaser agrees to purchase from Seller, on the terms and conditions set forth in this Agreement, the assets set forth on Schedule 2.1 attached hereto and incorporated by reference herein which shall include, to the extent permitted, Seller’s rights to the software so listed. (the “Assets”). The Assets are being sold to Purchaser, and Purchaser agrees to purchase the Assets from Seller “as is, where is” and without any warranties other than as set forth in this Agreement.

2.2. Liabilities Assumed. The Purchaser will assume the following liabilities of the Seller (the “Assumed Liabilities”):

2.2.1. All accounts payable or accrued liabilities of the Seller (a) included on Schedule 2.2 or (b) incurred since June 29, 2003;

2.2.2. All liabilities of the Seller under the contracts assumed by Purchaser arising after the Effective Date;

2.2.3. All liabilities of the Seller under the leases identified on Schedule 2.2;

2.2.4. Any obligation to provide any former employees, their spouses and dependants so-called COBRA continuation coverage if the selling group (as defined in section 54.4980B-9 of Treasury Regulations) ceases to provide any group health plan to any employee in connection with the transaction contemplated by this Agreement;

2.2.5. all obligations with respect to unfilled purchase orders assigned to Purchaser pursuant to Section 2.1;

2.2.6. all current, potential and pending liabilities related to suppliers.

Section 3. Excluded Assets. Excluded from this sale and purchase are the assets of Seller's product design department located within the Appleton facility listed on Schedule 3 and any other assets of the Appleton facility set forth on Schedule 3 attached hereto and incorporated by reference herein.

Section 4. Purchase Price.

4.1. The purchase price for the Accounts Receivable shall be One Million Eight Hundred Sixty-Six Thousand Dollars (\$1,866,000), (the "Accounts Receivable Purchase Price").

4.2. The purchase price for the Assets shall be One Million One Hundred Ninety-Two Thousand Three Hundred Six Dollars (\$1,192,306), subject to adjustment pursuant to Section 6 hereof, together with the Assumed Liabilities (the "Asset Purchase Price"). The Asset Purchase Price shall be allocated as set forth on Schedule 4.2 attached hereto and incorporated by reference herein.

Section 5. Closing.

5.1. Time and Place. This Agreement shall be closed at the Appleton Facility (the "Closing") or such other mutually agreed upon location at such date that is mutually agreed upon by the parties and is no earlier than one (1) week after the receipt by the Seller of a required approvals and releases from its lenders, but in no event later than August 21, 2003 ("Closing Date").

5.2. Payment of Purchase Price. The Accounts Receivable Purchase Price plus the cash portion of the Asset Purchase Price (an aggregate of Three Million Fifty-Eight Thousand Three Hundred and Six Dollars (\$3,058,306), subject to adjustment pursuant to Section 6 hereof) shall be paid in full on the Closing Date by cashier's check or wire transfer of immediately available funds to the account of Seller per the written instructions of the Seller.

Section 6. Adjustments. The net income or net loss, calculated in accordance with past practice of the Seller, of the Appleton Facility from the close of business on June 29, 2003 (the "Effective Date") to the day preceding the Closing Date (the "Interim Period") shall be for the account of Purchaser (so that the economic benefits and burdens for the Interim Period are transferred to the Purchaser.) For the avoidance of doubt, the calculation of net income or loss shall include all income and expenses, including but not limited to utilities, personal property taxes, rents, real property taxes, wages, vacation pay, payroll taxes, lease payments and fringe benefits of employees of Seller. For purposes of clarification, the calculation of net income or loss shall include as expenses (but not be limited to) all amounts paid by the Seller or any of its affiliates under equipment leases from June 30, 2003, through the Closing Date for those pieces

of equipment being transferred to the Purchaser from the Seller. An estimated net purchase price adjustment, decreasing the Asset Purchase Price in the amount of any estimated net income for the Interim Period and increasing the Asset Purchase Price for the amount of any estimated net loss for the Interim Period shall be made on the Closing Date. Furthermore, the estimated net purchase price adjustment shall include the real estate property tax proration for the year 2003, as of the Effective Date, based upon the 2002 net personal property tax bill of \$63,411.78 and a personal property tax proration for the year 2003, as of the Effective Date, based upon the 2002 net personal property tax bill of \$13,270.01 (the "Tax Prorations"). Anything herein to the contrary notwithstanding, the Seller and Purchaser agree that an adjusting payment in the amount of \$442,000 shall be made by Purchaser to Seller pursuant to the calculations on the worksheet attached hereto as Schedule 6 and incorporated by reference herein. No later than one week following the Closing Date, the final net purchase price adjustment through the Closing Date shall be calculated (by calculating final net income or loss and the Tax Prorations) and the difference between the final net purchase price adjustment and the estimated net purchase price adjustment shall be paid by the Seller to the Purchaser or by the Purchaser to the Seller, as appropriate. The calculation of such final net purchase price adjustment shall follow the same methodology as the worksheet attached hereto as Schedule 6.

Section 7. Miscellaneous Post-Closing Matters.

7.1. Seller's Continued Occupancy Right. Seller's Appleton product design personnel shall be entitled to continue to occupy the currently allocated design facilities and design office space within the Appleton Facility through June 30, 2005. Such right of continued occupancy shall be "rent-free". In the event that the Seller and Parent cease all product design activities within a 50 mile radius of Appleton, Wisconsin, all remaining so-called engineering assets identified on Schedule 3 shall revert to and shall be retained by Purchaser without any further consideration.

7.2. Customer Inventories. In the event that any customer listed on Schedule 7.2 re-resources from Purchaser to Seller prior to July 1, 2004, Seller shall purchase from Purchaser, at Purchaser's cost, all of such customer's inventory on hand and on order.

Section 8. Other Agreements. At Closing, the parties shall execute a Software Licensing Agreement, under which, the Seller will license to the Purchaser, to the extent permitted, the Appleton Software Applications listed on Schedule 2.1.

Section 9. Seller's Representations and Warranties. Seller represents and warrants to Purchaser as follows:

9.1. Corporate Existence. Seller is a corporation duly organized and validly existing and in good standing under the laws of the State of Wisconsin. Seller has all requisite corporate power and authority to own, operate and/or lease the Assets, as the case may be, and to carry on its business as now being conducted.

9.2. Authorization. The execution, delivery, and performance of this Agreement have been duly authorized and approved by the board of directors and the shareholder of Seller, and this Agreement constitutes a valid and binding Agreement of Seller in accordance with its terms.

9.3. Brokers and Finders. Seller has not employed any broker or finder in connection with the transactions contemplated by this Agreement, or taken action that would give rise to a valid claim against any party for a brokerage commission, finder's fee, or other like payment.

9.4. Litigation. Seller has no knowledge of any claim, litigation, proceeding, or investigation pending or threatened against Seller that might result in any material adverse change in the business or condition of Assets being conveyed under this Agreement.

9.5. Accuracy of Representations and Warranties. None of the representations or warranties of Seller contains any untrue statement of a material fact or omit or will omit or misstate a material fact necessary in order to make statements in this Section 9 not misleading.

Section 10. Representations of Purchaser. Purchaser represents and warrants as follows:

10.1. Company Existence. Purchaser is a limited liability company duly organized, validly existing, and in good standing under the laws of the State of Wisconsin. Purchaser has all requisite power and authority to enter into this Agreement and perform its obligations hereunder.

10.2. Authorization. The execution, delivery, and performance of this Agreement have been duly authorized and approved by the members of Purchaser, and this Agreement constitutes a valid and binding Agreement of Purchaser in accordance with its terms.

10.3. Brokers and Finders. Purchaser has not employed any broker or finder in connection with the transaction contemplated by this Agreement and has taken no action that would give rise to a valid claim against any party for a brokerage commission, finder's fee, or other like payment.

10.4. Litigation. Purchaser has no knowledge of any claim, litigation, proceeding, or investigation pending or threatened against Seller that might result in any material adverse change in the business or condition of Assets being conveyed under this Agreement.

10.5. Accuracy of Representations and Warranties. None of the representations or warranties of Purchaser contains or will contain any untrue statement of a material fact or omit or will omit or misstate a material fact necessary in order to make the statements contained in this Section 10 not misleading.

Section 11. Covenants of Seller.

11.1. Seller's Operation of Business Prior to Closing. Seller agrees that between the date of this Agreement and the Closing Date, Seller will:

11.1.1. Continue to operate the business of the Appleton Facility that is the subject of this Agreement in the usual and ordinary course and in substantial conformity with all applicable laws, ordinances, regulations, rules, or orders.

11.1.2. Not assign, sell, lease, or otherwise transfer or dispose of any of the assets used in the conduct of its business at the Appleton Facility, whether now owned or hereafter acquired, except in the normal and ordinary course of business and in connection with its normal operation.

11.1.3. Maintain all of its assets other than inventories in their present condition, reasonable wear and tear and ordinary usage excepted, and maintain the inventories at levels normally maintained.

11.2. Employee Matters.

11.2.1. Prior to the Closing Date, Seller will not, without Purchaser's prior written consent, enter into any material agreement with its employees, increase the rate of compensation or bonus payable to or to become payable to any employee, or effect any changes in the management, personnel policies, or employee benefits, except in accordance with existing employment practices.

11.2.2. With respect to Seller's Appleton employees who are employed by Purchaser upon the Closing pursuant to Section 12.1 herein ("Affected Employees"), such Affected Employees shall cease participation in the SMTC 401(k) Plan immediately upon Closing. All of such Affected Employees shall be fully vested in the employer matching contributions account under the SMTC 401(k) Plan, effective as of the Effective Date. SMTC 401(k) Plan account balances for all Affected Employees shall be transferred from the SMTC 401(k) Plan to Purchaser's 401(k) Plan as soon as reasonably practicable following the Closing Date.

11.2.3. As of the Effective Date, Seller shall bear sole responsibility for the salaries and benefits of its employees within the product design department and the sales department located within the Appleton Facility as listed on Schedule 11.2.3 (the "Design Employees"). Purchaser hereby agrees that, for a period of three (3) years from the date hereof, it will not solicit to employ any of Design Employees for so long as they are employed by Seller or any of Seller's affiliates without obtaining the prior written consent of Seller.

11.2.4. All of the so-called "manufacturing employees" which shall be understood to mean all of the employees at the Appleton Facility except the Design Employees will be terminated by Seller as of the Closing Date.

11.2.5. Effective as of the Closing Date, any currently existing non-compete obligations of David E. Steel and William M. Moeller are hereby waived by Seller. Furthermore, effective as of the Closing Date, Seller waives any and all other non-compete obligations of Seller's employees who will continue as employees of Purchaser.

11.3. Conditions. Seller will use commercially reasonable efforts to effectuate the transactions contemplated by this Agreement, to fulfill all the conditions of the obligations of Seller under this Agreement, to do all acts and things as may be required to carry out its obligations under this Agreement and to consummate and complete this Agreement.

Section 12. Covenants of Purchaser.

12.1. Employee Matters. As of the Closing Date, Purchaser agrees to offer current employment to all employees of the Appleton Facility, excluding the Design Employees.

12.2. Conditions. Purchaser will use commercially reasonable efforts to effectuate the transactions contemplated by this Agreement, to fulfill all the conditions of Purchaser's obligations under this Agreement, to do all acts and things as may be required to carry out Purchaser's obligations and to consummate and complete this Agreement.

Section 13. Conditions Precedent to Purchaser's Obligations. The obligation of Purchaser to purchase the Assets is subject to the fulfillment, prior to or at the Closing Date, of each of the following conditions, any one or portion of which may be waived in writing by Purchaser:

13.1. Representations, Warranties, and Covenants of Seller. All representations and warranties made in this Agreement by Seller shall be true as of the Closing Date as fully as though such representations and warranties had been made on and as of the Closing Date, and, as of the Closing Date, Seller shall not have violated or shall not have failed to perform in accordance with any covenant contained in this Agreement.

13.2. Financing. Purchaser shall have obtained financing from Bank One Wisconsin, N.A., in an amount of not less than \$2,400,000.00 upon terms and conditions satisfactory to Purchaser.

13.3. Consents. Purchaser or Seller shall have obtained the consent of the lessors of those leases, agreements, and other contracts listed on Schedule 2.1 which Purchaser shall assume and for which it would cause a material adverse change on the business of the Appleton Facility not to obtain.

13.4. Conditions of the Business. There shall have been no material adverse change by the Parent with regard to the operation of Seller's Appleton Facility prior to the Closing Date.

13.5. Bill of Sale. Seller shall have provided Purchaser with a Bill of Sale for the Assets reasonably satisfactory to Purchaser.

13.6. Deed. Upon payment of the Asset Purchase Price allocated to the Real Estate, Seller shall convey such Real Estate by warranty deed free and clear of all liens and encumbrances except as disclosed on Schedule 13.6.

13.7. No Suits or Actions. At the Closing Date no suit, action, or other proceeding shall have been threatened or instituted to restrain, enjoin, or otherwise prevent the consummation of this Agreement or the contemplated transactions.

Section 14. Conditions Precedent to Obligations of Seller. The obligations of Seller to consummate the transactions contemplated by this Agreement are subject to the fulfillment, prior to or at the Closing Date, of each of the following conditions, any one or a portion of which may be waived in writing by Seller:

14.1. Representations, Warranties, and Covenants of Purchaser. All representations and warranties made in this Agreement by Purchaser shall be true as of the Closing Date as fully as

though such representations and warranties had been made on and as of the Closing Date, and Purchaser shall not have violated or shall not have failed to perform in accordance with any covenant contained in this Agreement.

14.2. Consent of Lenders. Seller shall have obtained any required consents and releases from its lenders to allow for Seller's consummation of this Agreement. Lenders shall have released the mortgage on the Real Estate and terminated any security interests in the Accounts Receivable and the Assets.

14.3. Novation from Lessors. With respect to the equipment leases assumed by Purchaser, Purchaser shall obtain and provide to Seller a novation from each of the equipment lessors releasing the Seller from any future liabilities under such leases.

14.4. Opinion of Counsel for Purchaser. Purchaser shall have furnished Seller with an opinion of counsel in form and substance reasonably satisfactory to Seller's counsel to the effect that the representations and warranties contained in Sections 10.1 and 10.2 are true.

Section 15. Purchaser's Acceptance. Purchaser represents and acknowledges that it has entered into this Agreement on the basis of its own examination, personal knowledge, and opinion of the value of the Appleton Facility. Purchaser has not relied on any representations made by Seller other than those specified in this Agreement. Purchaser further acknowledges that Seller has not made any agreement or promise to repair or improve any of the leasehold improvements, equipment, or other personal property being sold to Purchaser under this Agreement, and that Purchaser takes all such property in the condition existing on the date of this Agreement, except as otherwise provided in this Agreement.

Section 16. [Intentionally Omitted.]

Section 17. Indemnification and Survival.

17.1. Post-closing Third Party Claims Promptly after the receipt by the Purchaser or the Seller of any notification of any pending or threatened claim, action, cause of action, arbitration proceeding or suit (in contract, tort or otherwise), inquiry, proceeding or investigation against such party by a third party or Governmental Authority with respect to the Appleton Facility (a "Third Party Claim") the receiving party shall give the other party written notice thereof in reasonable detail in light of the circumstances then known by the receiving party. Subject to Section 17.2 below, the Purchaser shall have the right to defend such Third Party Claim, at their own expense and with counsel of their choice. If the Purchaser assumes the defense of such Third Party Claim, the Seller agrees to reasonably cooperate in such defense so long as the Seller is not materially prejudiced thereby. The Seller may retain separate co-counsel at its or their sole cost and expense and may participate in the defense of such Third Party Claim. Purchaser shall not consent to the entry of any judgment or enter into any settlement with respect to any Third Party Claim Purchasers have agreed to defend pursuant to this Section 17.1 without the prior written consent of Seller, which consent will not be unreasonably withheld or delayed. If the Purchaser agrees to defend against the Third Claim, the Seller will not consent to the entry of any judgment or enter into any settlement with respect to such Third Party Claim without the prior written consent of the Purchaser, which consent will not be unreasonably withheld or delayed. Purchaser shall give Seller 5 business days prior written notice of any decision to relinquish the defense of any Third Party Claim.

17.2. Purchaser Indemnity. Purchaser hereby agrees to indemnify Seller, its respective affiliates and officers, directors, employees, stockholders (each a "Seller Indemnified Party") for any amounts constituting an Assumed Liability. Promptly after the receipt by the Seller of any notification of any pending or threatened claim, action, cause of action, arbitration proceeding or suit (in contract, tort or otherwise) (a "Claim") for an amount constituting an Assumed Liability, the Seller shall give Purchaser written notice thereof in reasonable detail in light of the circumstances then known to Seller; provided, however, that the failure to provide such notice shall not affect the indemnification provided herein, except to the extent such failure shall have actually materially prejudiced the Purchaser's ability to defend such Claim. Purchaser shall have the right to defend such Claim, at its own expense and with counsel of its choice, unless the Seller has been advised by counsel that an actual or potential conflict exists between the Seller and the Purchaser in connection with the defense of the Third Party Claim. If the Purchaser assumes the defense of such claim, the Seller agrees to: (i) reasonably cooperate in such defense so long as the Seller is not materially prejudiced thereby and (ii) agrees not to enter into any settlement with respect to such Claim (provided the Purchaser is diligently pursuing the defense thereof). The Purchaser's obligations under this Section 17.2 shall not apply in the event the Seller enters into any settlement with respect to such claim (except where the Seller has entered into a settlement under circumstances described in the parenthetical set forth in clause (ii) of the immediately preceding sentence). Purchaser shall not consent to the entry of any judgment or enter into any settlement with respect to such Claim without the prior written consent of the other Party, which consent will not be unreasonably withheld or delayed, except that the Purchaser may enter into a settlement with respect to such Claim without the consent of the Seller, so long as the settlement gives the Seller a complete release from such Claim.

17.3. Parent and Seller Indemnity. Parent and Seller hereby agree to indemnify the Purchaser, its affiliates and their respective officers, directors, employees, stockholders (each a "Purchasers Indemnified Party") for any claims, liabilities, and obligations of every kind and description, contingent or otherwise, arising out of or related to the operation of Seller's Appleton Facility prior to the Effective Date, except for claims, liabilities, and obligations of Seller expressly assumed by Purchaser under this Agreement or paid by insurance maintained by Purchaser (a "Retained Liability"). Promptly after the receipt by the Purchaser of any notification of any pending or threatened Claim, for an amount constituting an Retained Liability, the Purchaser shall give Parent and Seller written notice thereof in reasonable detail in light of the circumstances then known to the Purchaser; provided, however, that the failure to provide such notice shall not affect the indemnification provided herein, except to the extent such failure shall have actually materially prejudiced the Parent or Seller's ability to defend such Claim. The Parent or Seller shall have the right to defend such claim, at its own expense and with counsel of its choice, unless the Purchaser has been advised by counsel that an actual or potential conflict exists between the Parent or Seller and the Purchaser in connection with the defense of the Third Party Claim. If the Parent or Seller assumes the defense of such Claim, the Purchaser agrees to: (i) reasonably cooperate in such defense so long as the Purchaser is not materially prejudiced thereby and (ii) agrees not to enter into any settlement with respect to such Claim (provided that Parent or Seller is diligently pursuing the defense thereof). The Parent's and Seller's obligations under this Section 17.3 shall not apply in the event the Purchaser enters

into any settlement with respect to such claim (except where the Purchaser has entered into a settlement under circumstances described in the parenthetical set forth in clause (ii) of the immediately preceding sentence). Parent or Seller shall not consent to the entry of any judgment or enter into any settlement with respect to such Claim without the prior written consent of the Purchaser, such consent will not be unreasonably withheld or delayed, except that Parent or Seller may enter into a settlement with respect to such Claim without the consent of the Purchasers, so long as the settlement gives the Purchaser a complete release from such Claim.

17.4. Survival of Representations, Warranties. The Parties agree that none of the representations or warranties made by the Seller in Section 9 hereto, or made by the Purchasers in Section 10 nor any of the covenants of either Party hereto (other than those covenants which relate to post-closing matters) shall survive the Closing.

Section 18. Real Estate Conveyance.

18.1. Obligations With Respect to Real Estate Conveyance. Anything in the Agreement to the contrary notwithstanding, with respect to the conveyance of the real estate described on Schedule 2.1 ("Real Estate"), Seller agrees as follows:

18.1.1. Seller shall pay the costs up to \$2,350 of providing title evidence. For purposes of closing, title evidence shall be in the form of a commitment for an owner's policy of title insurance in the amount of the price allocated to the Real Estate on a current ALTA form issued by Evans Title Companies, a division of First American Title Insurance Company.

18.1.2. Seller shall pay up to \$7,050 of the Wisconsin real estate transfer fee associated with the conveyance of the Real Estate (\$3.00 per \$1,000.00 of sale price).

Section 19. Closing Obligations/Termination.

19.1. Obligations of Seller at the Closing. At the Closing and coincidentally with the performance by Purchaser of its obligations described in Section 19.2, Seller shall deliver to Purchaser any and all transfer documents specifically identified herein or reasonably necessary or required for the conveyance of the assets being transferred to Purchaser and any and all other documents and materials reasonably necessary to consummate and complete this Agreement.

19.2. Obligations of Purchaser at the Closing. At the Closing and coincidentally with the performance by Seller of its obligations described in Section 19.1, Purchaser shall deliver to Seller those documents and materials reasonably necessary to consummate and complete this Agreement.

19.3. Termination of Agreement. The parties may terminate this Agreement by mutual written consent at any time prior to Closing. Either party may terminate this Agreement if the Closing shall not have occurred on or before August 21, 2003.

Section 20. Rights and Obligations Subsequent to Closing

20.1. Seller's Right to Pay. In the event Purchaser fails to make any payment of taxes, assessments, insurance premiums, or other charges that Purchaser is required to pay to third parties under this Agreement, Seller shall have the right, but not the obligation, to pay the same. Purchaser will reimburse Seller for any such payment immediately upon Seller's demand, together with interest at the rate of twelve percent (12%) per annum from the date of Seller's payment until Purchaser reimburses Seller. Any such payment by Seller shall not constitute a waiver by Seller of any remedy available by reason of Purchaser's default for failure to make the payments.

20.2. Books and Records. The Seller and the Purchaser shall each make their respective books and records (including work papers in the possession of their respective accountants) with respect to the Assets available for inspection by the other Party, or by its duly accredited representatives, for reasonable business purposes at all reasonable times during normal business hours, for a four (4) year period after the Closing, with respect to the historical financial condition, assets, liabilities, operations, and cash flows of the Seller. The representatives of a Party inspecting the records of the other Party shall be reasonably satisfactory to the other Party.

20.3. Resale of Assets. In the event the Purchaser resells all or substantially all of the Assets within one year of the Closing Date, any aggregate proceeds from such sale exceeding \$4,000,000 shall be paid to the Seller by cashier's check or by wire transfer of immediately available funds to the account designated by Seller at the closing of such sale, or if sold in multiple transactions, upon the last such closing date to cause the aggregate amounts received by the Purchaser to exceed \$4,000,000.

Section 21. Bulk Transfers. Purchaser waives compliance by Seller with the Wisconsin Bulk Transfers Article of the Uniform Commercial Code ("Bulk Transfers Article"), Chapter 406, Wis. Stats. In the event any creditor of Seller claims the benefit of the Bulk Transfers Article as against Purchaser or any of the assets being conveyed to Purchaser under this Agreement, Purchaser shall promptly pay or otherwise satisfy such claim or undertake its defense. Seller and Parent shall indemnify and hold Purchaser harmless from and against fifty percent (50%) of any and all loss, expense, or damage resulting from the failure to comply with the Bulk Transfers Article.

Section 22. Miscellaneous Provisions.

22.1. Amendment and Modification. Subject to applicable law, this Agreement may be amended, modified, or supplemented only by a written agreement signed by all of the parties hereto.

22.2. Confidentiality. Each of the undersigned parties agrees that they will not, without the prior consent of the other party, disclose publicly or to any third party the existence, terms and conditions of this Agreement or the subsequent negotiations between the parties, except (i) to the extent required by law, including applicable securities laws, (ii) as may be required by the Purchaser in connection with its arranging financing for the acquisition contemplated hereby, (iii) as may be required by Steel and Moeller in connection with their contacts with current vendors and customers of the Company (to ascertain the likelihood of their continued business

relationships) or possible additional investors, or (iv) any communications between the Seller and its lenders. Notwithstanding anything to the contrary contained herein, the parties hereto may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction which is the subject matter hereof and all materials of any kind (including opinions or other tax analyses) that are provided to the parties relating to such tax treatment and tax structure, all as contemplated by Treasury Regulation Section 1.6011-4(b)(3)(iii); provided, however, that if the transaction which is the subject matter hereof is an asset or stock acquisition described in Treasury Regulation Section 1.6011-4(b)(3)(ii)(B), then disclosure of the tax treatment and tax structure and material referred to above shall be permitted as provided above only upon the earlier to occur of (1) the date of the public announcement of discussions relating to the transaction, (2) the date of the public announcement of the transaction, or (3) the date of the execution of an agreement (with or without conditions) to enter into the transaction. The preceding disclosure authorization shall not affect, or prevent any person from asserting any attorney-client privilege, work-product doctrine, or other applicable privilege or defense against disclosure of such information.

22.3. Notices. All notices, requests, demands, and other communications required or permitted hereunder will be in writing and will be deemed to have been duly given when delivered by hand or two days after being mailed by certified or registered mail, return receipt requested, with postage prepaid or delivered by facsimile:

If to Purchaser, to: Pensar Electronic Solutions, LLC
 2222 East Pensar Drive
 Appleton, WI 54911
 Attention: David E. Steel
 facsimile: (920) 739-3507

Copy to: Attorney Steven P. Krause
 Krause & Metz
 15 Park Place, Suite 500
 Appleton, WI 54914-8250
 facsimile: (920) 739-2927

or to such other person or address as Purchaser furnishes to Seller pursuant to the above.

If to Seller to: SMTC Manufacturing Corporation of Wisconsin
 c/o SMTC Corporation
 635 Hood Road
 Markham, Ontario L3R 4N6 Canada
 Attention: Marwan Kubursi
 facsimile: (905) 479-5326

Copy to: Ropes & Gray LLP
One International Place
Boston, MA 02110-2624
Attn: Alfred O. Rose
facsimile: (617)951-7050

or to such other address as Seller furnishes to Purchaser pursuant to the above.

If to Parent to: SMTC Corporation
635 Hood Road
Markham, Ontario L3R 4N6 Canada
Attention: Marwan Kubursi
facsimile: (905) 479-5326

Copy to: Ropes & Gray LLP
One International Place
Boston, MA 02110-2624
Attn: Alfred O. Rose
facsimile: (617) 951-7050

or to such other address as Parent furnishes to Purchaser pursuant to the above.

22.4. Attorney Fees. In the event an arbitration, suit or action is brought by any party under this Agreement to enforce any of its terms, or in any appeal therefrom, it is agreed that the prevailing party shall be entitled to reasonable attorneys fees to be fixed by the arbitrator, trial court, and/or appellate court.

22.5. Law Governing. This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin.

22.6. Titles and Captions. All section titles or captions contained in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

22.7. Pronouns and Plurals. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the person or persons may require.

22.8. Entire Agreement. This Agreement contains the entire understanding between and among the parties and supersedes any prior understandings and agreements among them respecting the subject matter of this Agreement.

22.9. Agreement Binding/Assignment. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the successors and permissible assigns of the Seller and the Purchaser. This Agreement and any rights hereunder shall not be assigned, hypothecated or otherwise transferred by any party hereto without the prior written consent of the other party hereto.

22.10. Arbitration. If at any time any dispute, difference, or disagreement shall arise upon or in respect of the Agreement, and the meaning and construction hereof, every such dispute, difference, and disagreement shall be referred to a single arbiter agreed upon by the parties, or if no single arbiter can be agreed upon, an arbiter or arbiters shall be selected in accordance with the rules of the American Arbitration Association and such dispute, difference, or disagreement shall be settled by arbitration in the State of Delaware in accordance with the then prevailing commercial rules of the American Arbitration Association, and judgment upon the award rendered by the arbiter may be entered in any court having jurisdiction thereof.

22.11. Presumption. This Agreement or any Section thereof shall not be construed against any party due to the fact that said Agreement or any Section thereof was drafted by said party.

22.12. Further Action. The parties hereto shall execute and deliver all documents, provide all information and take or forbear from all such action as may be necessary or appropriate to achieve the purpose of the Agreement.

22.13. Counterparts. This Agreement may be executed in several counterparts and all so executed shall constitute one Agreement, binding on all the parties hereto even though all the parties are not signatories to the original or the same counterpart.

Remainder of the page intentionally left blank.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

SMTC MANUFACTURING CORPORATION OF WISCONSIN,
a Wisconsin corporation

PENSAR ELECTRONIC SOLUTIONS, LLC,
a Wisconsin limited liability company

By: /s/ Paul Walker

By: /s/ David E. Steel

David E. Steel, Managing Member

SMTC CORPORATION,
a Delaware corporation

By: /s/ Paul Walker

Attached Schedules:	1.	Accounts Receivable Sold for Collection
	2.1.	Assets
	2.2.1.	Accounts Payable and Accrued Liabilities
	2.2.3.	Leases
	3.	Excluded Assets
	4.2	Asset Purchase Price Allocation
	6	Estimated Purchase Price Adjustment
	7.2	Transferred Customers
	11.2.3	Design Employees
	13.6	Permitted Title Exceptions

Schedule 1 – Accounts Receivable Sold for Collection

Accounts receivable identified on the attached “Accounts Receivable - as of 06-29-03” listing.

Schedule 2.1 – Assets

All of the real estate, and substantially all of the machinery and equipment, furniture and fixtures, inventory and leasehold improvements, prepaid expenses, and contract rights of Seller currently located upon or associated with the operations of the Appleton Facility including, but not limited to, the following:

- Real estate located at 2222 East Pensar Drive, Appleton, Wisconsin more particularly described on the attached Evans Title Companies ALTA Commitment SCHEDULE A;
- Equipment pursuant to the attached “Appleton Equipment General Detail 07-10-03”;
- All assets described on the attached “Appleton Book Assets Detail- Total Listing – Book Asset Detail Manufacturing”;
- Software listed on the attached “Appleton Software Applications” detail; and
- The “Pensar” tradename and any related “Pensar” trademarks.

Schedule 2.2.1- Accounts Payable and Accrued Liabilities

- Accounts payable identified on attached “Accounts Payable listing- as of 06-29-03”; and
- Accrued liabilities identified as “Pensar Group Own Accrued Liabilities” on attached “SMTC Appleton-Accrued Liabilities” listing.

Schedule 2.2.3. - Leases

- Those equipment lease obligations identified as “Appleton assumes Lease” on the “Appleton Equipment General Detail 07-10-03” listing attached to Schedule 2.1.

Schedule 3 – Excluded Assets

See attached “Appleton Book Assets Detail-Appendix A Listing (Engineering) and Appleton Book Assets Detail-Appendix B Listing (Engineering).

Schedule 4.2 – Asset Purchase Price Allocation

**Assets Acquired
June 30, 2003**

	<u>June, 2003 ACTUAL</u>	<u>ADJUSTMENTS</u>	<u>ASSETS ACQUIRED</u>
ASSETS			
Current assets:			
Inventory:	922	(83)	839
Prepaid expenses	55	0	55
	<u>977</u>	<u>(83)</u>	<u>894</u>
Property, plant, and equipment:			
Property, plant, and equipment (gross)	12,149		
Less Accumulated depreciation	(7,960)		
	<u>4,189</u>	<u>(1,365)</u>	<u>2,824</u>
* (See below for further allocation)			
Total assets	<u>\$ 5,166</u>	<u>\$ (1,448)</u>	<u>\$ 3,718</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,401	0	1,401
Accrued unposted receipts	0	0	0
Accrued expenses	507	0	507
	<u>1,908</u>	<u>0</u>	<u>1,908</u>
Non-current liabilities:			
Lease obligation	0	617	617
	<u>0</u>	<u>617</u>	<u>617</u>
Total liabilities	<u>1,908</u>	<u>617</u>	<u>2,525</u>
Asset Purchase price	<u>\$ 3,258</u>	<u>\$ (2,065)</u>	<u>\$ 1,193</u>

* Land and Buildings \$2,350,000; Equipment 474,000

Schedule 7.2 – Transferred Customers

PEPSI-COLA Company
U.S. Wireless Data, Inc.
Wescam

Schedule 11.2.3 – Design Employees

<u>Department Code</u>	<u>Last Name</u>	<u>First Name</u>
WI-00-905MKT	Plamann	Kristin
WI-00-905SLS	Baxter	Richard
WI-20-201DGN	Beal	Robert
WI-20-201DGN	Berg	Daniel
WI-20-201DGN	Blank	Gary
WI-20-201DGN	Demarb	Jeffrey
WI-20-201DGN	Johnson	Nathan
WI-20-201DGN	Laak	Trevor
WI-20-201DGN	Loeck	Jon
WI-20-201DGN	Lukas	Richard
WI-20-201DGN	Miller	Andrew
WI-20-201DGN	Nelson	Andrew
WI-20-201DGN	Prochnow	Gregg
WI-20-201DGN	Salsich	Tony
WI-20-201DGN	Spelbring	Steven
WI-20-802DGN	Grunske	Christine
WI-20-803DGN	Cerny	Michael
WI-20-803DGN	Ostrom	Glenn

Schedule 13.6 – Permitted Title Exceptions

Any discrepancies or conflicts in boundary lines, any shortages in area, any encroachment, overlapping of improvements, or any other facts, rights, interest or claims which are not shown by the public record but which could be ascertained by an accurate survey of the land.

Rights or claims of parties in possession not shown by the public records.

Easements or claims thereof, which are not shown by the public records.

Any lien, or right to lien for services, labor or material imposed by law and not shown by the public records.

Special taxes, assessments or charges, if any.

Taxes, general and special for the year 2003, not yet due and payable as of the Closing Date.

Utility easement granted by City of Appleton, a municipal corporation duly organized and existing under and by virtue of the laws of the State of Wisconsin to Wisconsin Electric Power Company by an instrument dated July 10, 1989 and recorded in the office of the Register of Deeds on August 16, 1989, in Jacket 9636, Image 36, as Document No. 964628.

Covenants, conditions and restrictions contained in deed executed by City of Appleton to Pensar Corporation, a Wisconsin corporation, dated May 31, 1989 and recorded in the office of the Register of Deeds for Outagamie County, Wisconsin on June 2, 1989 in Jacket 9433, Image 7-11, as Document No. 959824.

Utility easement granted by Pensar Corporation, a Wisconsin Corporation to Wisconsin Electric Power Company by an instrument dated July 20, 1989, recorded in the office of the Register of Deeds for Outagamie County, Wisconsin on August 16, 1989, in Jacket 9636, Image 32-35, as Document No. 964627.

Covenants, conditions and restrictions contained in Warranty Deed executed by City of Appleton to Pensar Corporation, a Wisconsin corporation, dated November 30, 1993 and recorded in the office of the Register of Deeds on December 3, 1993 in Jacket 15040, Image 48, as Document No. 1150273.

Reservations for easements, building setback lines and other matters shown on the plat of Northeast Industrial Park Plat No. 2, recorded in the office of the Register of Deeds for Outagamie County, Wisconsin.

Rights of Seller's Appleton product design personnel to continue to occupy portions of the Appleton Facility in accordance with the terms and provisions of Section 7.1 of the Agreement.

[LETTERHEAD OF SMTC CORPORATION]

October 16, 2003

Mr. John E. Caldwell
26 York Ridge Road
Toronto, Ontario
M2P 1R7

Re: Employment Agreement

Dear Mr. Caldwell:

This letter sets forth the terms and conditions of your employment with SMTC Corporation, a Delaware corporation (the "Company") to be effective as of the date hereof (the "**Effective Date**").

1. **Employment and Services.** You shall be employed as the President and Chief Executive Officer of the Company and its subsidiaries (the "**SMTC Group**") for the period beginning on the Effective Date and ending on February 16, 2004 or on such earlier date as your employment is terminated pursuant to paragraph 4 hereof (the "**Employment Period**"). The Employment Period may be extended for successive terms upon mutual agreement between you and the Company. If you and the Company agree to continue your employment on a permanent basis, a new employment agreement will be executed that will supercede this Agreement.

During the Employment Period, you shall render such services of a senior executive nature to the SMTC Group and shall have such powers, duties and responsibilities as are traditional for a President and Chief Executive Officer or as may from time to time be prescribed by the Company's Board of Directors (the "**Board**") provided such powers, duties and responsibilities shall not be lessened without mutual consent. You shall perform and discharge, faithfully, diligently and competently, such services, duties and responsibilities. You shall devote all of your business time and attention and your best efforts and ability to the business and affairs of the SMTC Group and shall not engage in other business activities (whether or not compensated) during the Employment Period without prior written consent of the Board; provided however, you may continue to serve on the board of Directors of ATI Technologies Inc., Cognos Incorporated, Faro Technologies, Inc. and Stelco Inc. and you may continue the one confidential advisory assignment that you are currently engaged in and that you have disclosed its existence to William Brock, Chairman of the Board. You agree to serve, as elected or appointed thereto, in one or more positions as an officer or director of any one or more current or

SMTC Manufacturing Corporation

World Headquarters 635 Hood Road, Markham, Ontario, Canada L3R 4N6

Tel: 905.479.1810 Fax: 905.479.1877 WebSite: www.smtc.com

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[LETTERHEAD OF SMTC CORPORATION]

future members of the SMTC Group, or any one or more of the present or future subsidiaries or affiliates of the Company, or as an officer, trustee, director or other fiduciary of any pension or other employee benefit plan of the Company, or any one or more of the present or future subsidiaries or affiliates of the Company. Service in such additional positions will be without additional compensation except for reimbursement of reasonably related business expenses on the same terms as provided elsewhere in this Agreement.

2. **Compensation.** As compensation for your services performed under this Agreement during the Employment Period, the Company shall pay you a base salary at the rate of Cdn \$45,000 per month. Such salary shall be payable in installments in accordance with the Company's regular payroll practices. During the Employment Period, you will be eligible to receive an annual bonus payment at the sole discretion of the Board.

3. **Benefits.** During the Employment Period, you shall be entitled to participate in or receive benefits under any life insurance plan, health and accident insurance plan, retirement plan and all other benefit arrangements generally available to the Company's executive officers and employees (other than severance plans or arrangements) as in effect from time to time. In addition, the Company will reimburse your reasonable out-of-pocket expenses incurred in connection with the performance of your services hereunder, in each case subject to and consistent with Company policy. During the Employment Period you shall be entitled to five paid vacation days and shall also be entitled to all paid holidays given by the Company to its employees. You will not be entitled to cash compensation for any vacation time not taken during the term hereof.

4. **Termination and Severance.** The Employment Period shall terminate prior to its scheduled expiration date on the first to occur of (i) your death or permanent disability (defined as your inability to perform such duties for such period as determined in good faith by the Board) or (ii) a vote of the Board directing such termination for Cause. For purposes of this Agreement, "**Cause**" shall mean (i) your willful and repeated failure to comply with the lawful directives of the Board, (ii) any criminal act or act of dishonesty, disloyalty, misconduct or moral turpitude by you that is injurious to the property, operations, business or reputation of any member of the SMTC Group, or (iii) your material breach of this Agreement that is not cured within 30 days after written notice thereof to you by the Company.

5. **Withholding; Currency.** All payments made by the Company under this Agreement shall be net of any tax or other amounts required to be withheld by the Company under any applicable law or legal requirement. Except as specifically noted, all amounts set forth in this Agreement are denominated in Canadian Dollars.

6. **Governing Law.** All questions concerning the construction, validity and interpretation of this Agreement shall be governed by the laws of the Province of Ontario without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

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[LETTERHEAD OF SMTC CORPORATION]

7. **Notices.** All notices, requests and demands to or upon the parties hereto to be effective shall be in writing, by facsimile, by overnight courier or by registered or certified mail, postage prepaid and return receipt requested, and shall be deemed to have been duly given or made upon: (i) delivery by hand, (ii) one business day after being sent by overnight courier; or (iii) in the case of transmission by facsimile, when confirmation of receipt is obtained. Such communications shall be addressed and directed to the parties as follows (or to such other address as either party shall designate by giving like notice of such change to the other party):

If to you, at the address first stated above.

If to the Company:

SMTC Corporation
625 Hood Road
Markham, Ontario L3R 4N6
Canada

with copies to:

Ropes & Gray
One International Place
Boston, MA 02110
Attention: Alfred O. Rose
Facsimile: 617-951-7050

Goodmans LLP
250 Yonge Street
Suite 2400, Box 24
Toronto, Ontario, M5B ZM6
Attention: Celia Rhea
Facsimile: 416-979-1234

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[LETTERHEAD OF SMTC CORPORATION]

Please execute the extra copy of this letter Agreement in the space below and return it to the undersigned at the address set forth above to confirm your understanding and acceptance of the agreements contained herein.

Very truly yours,

SMTC Corporation

By: /s/ William Brock

Name: William Brock

Title: Chairman of the Board

Accepted and agreed to:

Employee

/s/ John E. Caldwell

John E. Caldwell

SMTC Manufacturing Corporation

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UNDERWRITING AGREEMENT

March 3, 2004

SMTC Corporation
- and -
SMTC Manufacturing Corporation of Canada
635 Hood Road
Markham, Ontario
Canada L3R 4N6

Attention: John E. Caldwell
President and Chief Executive Officer, SMTC Corporation
President and Chief Executive Officer, SMTC Manufacturing
Corporation of Canada

Dear Sirs/Mesdames:

The undersigned, Orion Securities Inc. (the "**Lead Underwriter**"), CIBC World Markets Inc., GMP Securities Limited and RBC Dominion Securities Inc. (the Lead Underwriter, CIBC World Markets Inc., GMP Securities Limited and RBC Dominion Securities Inc. are hereinafter collectively referred to as the "**Underwriters**" and each individually, an "**Underwriter**") understand that SMTC Manufacturing Corporation of Canada (the "**Company**"), an indirect wholly-owned subsidiary of SMTC Corporation ("**SMTC**"), proposes to create, issue, offer and sell 33,350,000 special warrants (the "**Special Warrants**"), subject to the terms and conditions set out below, at a price of Cdn. \$1.20 (the "**Issue Price**") per Special Warrant (the "**Offering**"). The total gross proceeds of the Offering to the Company will be Cdn. \$40,020,000.

The Special Warrants will be issued pursuant to the provisions of a special warrant indenture and escrow agreement to be dated the date hereof (the "**Special Warrant Indenture**") and made between the Company and CIBC Mellon Trust Company (the "**Trustee**"). The specific attributes of the Special Warrants will be set forth in the Special Warrant Indenture. The Special Warrant Indenture will provide, among other things, that holders of Special Warrants will be entitled to receive for each Special Warrant held, upon the conversion thereof and without payment of any additional consideration, one unit (and including any amounts forming part of a Penalty Unit (as defined below), a "**Unit**") comprised of one exchangeable share in the capital of the Company (including any such shares forming part of a Penalty Unit, a "**Special Warrant Share**") and one-half of one exchangeable share purchase warrant (each whole warrant, a "**Warrant**") for each Special Warrant held, subject to adjustment as described in Section 5 and in certain other circumstances specified in the Special Warrant Indenture. The Special Warrant Indenture will otherwise be in such form and contain such terms as may be approved by the Underwriters, the Company, SMTC and their respective counsel. The Special Warrants will be exercisable by the holders thereof, at any time on or before 5:00 p.m. (Toronto time) on the date (the "**Special Warrant Expiry Date**") that is the earlier of: (i) the sixth Business Day (as defined below) after the date that a receipt is issued by the securities regulatory authority in the Qualifying Jurisdiction (as defined below) in which the holder is resident

(holders of Special Warrants resident outside of Canada will be deemed to be residents of the Province of Ontario for these purposes) for a (final) prospectus qualifying the distribution of the Units issuable upon exercise of the Special Warrants (the “**Prospectus Qualification Date**”); and (ii) the first Business Day following the date that is 12 months after the Closing Date (as defined below). Special Warrants not exercised prior to the Special Warrant Expiry Date will be deemed to have been exercised by the Trustee on behalf of the holders thereof, without any further action on the part of the holders, at 4:59 p.m. (Toronto time) on the Special Warrant Expiry Date.

The exchangeable shares in the capital of the Company are referred to herein as “**Exchangeable Shares**”; the Exchangeable Shares issuable upon the conversion of the Warrants are referred to herein as “**Warrant Shares**”; the common shares in the capital of SMTC are referred to herein as “**Common Shares**”; and the Common Shares issuable upon the exchange of the Exchangeable Shares are referred herein as “**Underlying Common Shares**”.

The Warrants will be issued pursuant to the provisions of a warrant indenture to be dated the date hereof (the “**Warrant Indenture**”) and made between the Company and the Trustee. The specific attributes of the Warrants will be set forth in the Warrant Indenture. The Warrant Indenture will provide, among other things, that each whole Warrant will entitle the holder thereof to acquire one Exchangeable Share for each Warrant held, subject to adjustment in certain other circumstances specified in the Warrant Indenture, and will be exercisable by the holders thereof at any time on or before 5:00 p.m. (Toronto time) on the date (the “**Warrant Expiry Date**”) that is the first Business Day following the date that is five years after the Closing Date at a price of Cdn. \$1.85 per Warrant Share, subject to adjustment in certain circumstances specified in the Warrant Indenture. The Warrant Indenture shall otherwise be in such form and contain such terms as may be approved by the Underwriters, the Company, SMTC and their respective counsel.

Each Special Warrant Share and Warrant Share will be exchangeable at the option of the holder for one Underlying Common Share, subject to adjustment in certain circumstances specified in the Support Agreement. On or after July 27, 2015, subject to acceleration in certain circumstances, the Company or one of its affiliates will redeem all of the outstanding Exchangeable Shares by delivering Common Shares to holders of the Exchangeable Shares on a one-for-one basis, subject to adjustment in certain circumstances.

Based on the foregoing and subject to the terms and conditions set out below, the Underwriters offer to purchase severally in the respective percentages set out in Section 17, and by its acceptance hereof the Company hereby agrees to issue and sell to the Underwriters, all but not less than all of, the Special Warrants at the Closing Time (as defined below).

In consideration of the Underwriters’ agreement to purchase the Special Warrants that will result from acceptance by the Company and SMTC of this offer, and in consideration of the other services to be rendered by the Underwriters in connection therewith, including assisting in preparing documentation relating to the Special Warrants, including the Preliminary Prospectus and the Prospectus (each as defined below), and performing administrative work in connection with the distribution of the Special Warrants, the Company and SMTC, jointly and severally, agree to pay to the Underwriters at the Closing Time a cash fee (the “**Underwriters’ Fee**”) of \$2,401,200, representing \$0.072 (exclusive of federal goods and services tax, if applicable) for each Special Warrant issued and sold at the Closing Time.

It is acknowledged and agreed that the Underwriters may arrange for substituted purchasers (the “**Substituted Purchasers**”) to purchase Special Warrants on their behalf, it being agreed and understood that to the extent that the Underwriters do not arrange for Substituted Purchasers the purchase obligations hereunder shall continue to be obligations of the Underwriters and if, and only to the extent that, Substituted Purchasers purchase Special Warrants at the Closing Time, the obligations of the Underwriters to do so will be reduced, ratably in accordance with the respective percentages set out in Section 17, by the number of Special Warrants purchased from the Company by Substituted Purchasers. It is acknowledged and agreed that the Underwriters will be permitted to appoint other registered dealers (or other dealers duly qualified in their respective jurisdictions) (a “**Selling Firm**”) as their agents to assist in the Offering of Special Warrants to Substituted Purchasers and the Underwriters may determine the remuneration to such other dealers appointed by them, provided that any remuneration payable to any Selling Firm shall be for the account of the Underwriters and the Company and SMTC shall not be required to pay to the Underwriters more than the Underwriters’ Fee.

TERMS AND CONDITIONS

The following are additional terms and conditions of this Agreement.

1. Definitions and Interpretation

- (a) Whenever used in this Agreement, the following terms will have the following meanings, respectively, and the terms set out in Section 13 have the meanings given to them in that section:

“**affiliate**” means an affiliated entity for purposes of section 1.2 of Ontario Securities Commission Rule 45-501 under the *Securities Act* (Ontario), as constituted at the date of this Agreement;

“**Agreement**” means the agreement resulting from the acceptance by the Company and SMTC of the terms of the offer set forth herein;

“**Alternative Business Transaction**” means (a) the issuance of equity securities of the Company or SMTC or securities of the Company or SMTC convertible or exchangeable into equity securities of the Company or SMTC resulting in the issuance in excess of 10% of the aggregate number of Exchangeable Shares and Common Shares outstanding on February 17, 2004 on a fully diluted basis (without duplication and other than (i) pursuant to SMTC’s stock option plan or share purchase plan, and (ii) any instrument outstanding on February 17, 2004 that is convertible into or exchangeable for voting securities of SMTC) or (b) a business transaction involving a change in the control of SMTC including a merger, amalgamation, arrangement, take-over bid, insider bid, reorganization, joint venture, or sale of all or substantially all of the assets of SMTC (which, for greater certainty, excludes any such business transaction that is an internal reorganization currently contemplated in SMTC’s business plans). An

Alternative Business Transaction will not include a restructuring of SMTC's existing bank debt (i) without third party equity capital; or (ii) that is on terms and conditions and that provides SMTC's existing lenders with consideration that in aggregate is less favourable than as provided in Exhibit "B";

"Amendment" means any amendment to the Preliminary Prospectus or the Prospectus;

"Auditors" means KPMG LLP, the firm of chartered accountants duly appointed as auditors of the Company and SMTC for the time being;

"Business Day" means any day except Saturday, Sunday or a day on which chartered banks are not open for business in Toronto, Ontario;

"Canadian Securities Laws" means, the applicable securities laws of the Qualifying Jurisdictions and the respective rules and regulations made and forms prescribed thereunder, together with all applicable published policy statements, blanket orders and rulings of the Securities Commissions and all discretionary orders or rulings, if any, of the Securities Commissions made in connection with the transactions contemplated by this Agreement;

"Closing Date" means the date hereof;

"Closing Time" means 10:00 a.m. (Toronto time) on the Closing Date or such other time on the Closing Date as the Company and the Lead Underwriter may agree;

"Debt Restructuring Agreement" means an agreement between the Company, HTM Holdings Inc., SMTC, 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 dated February 17, 2004 with respect to the financial restructuring of the Company and SMTC;

"Disclosure Letter" means the letter dated the date hereof from the Company and SMTC to the Underwriters in respect of the representations and warranties related to the Company and SMTC contained in this Agreement, in form satisfactory to the Underwriters, and which letter forms an integral part of this Agreement;

"distribution" means distribution or distribution to the public, as applicable, for the purposes of the Canadian Securities Laws or any of them;

"Escrow Agent" means CIBC Mellon Trust Company and its successors and assigns;

"Insolvency Event" means the occurrence of any of the following:

(i) SMTC or the Company (a) applies for or consents to the appointment of, or the taking of possession by, a receiver, custodian, administrator, trustee, liquidator

or other similar official for itself or for all or substantially all of its assets (b) makes a general assignment for the benefit of creditors or a proposal under the *United States Bankruptcy Code*, the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada) or the *Winding-up and Restructuring Act* (Canada) or a similar law of any applicable jurisdiction, (c) institutes any proceeding seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, dissolution, winding-up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any statute, rule or regulation relating to bankruptcy, insolvency, reorganization, relief or protection of debtors; or

(ii) any proceeding against the Company or SMTC has been commenced to: (a) adjudicate it a bankrupt or insolvent; (b) result in the liquidation, dissolution winding-up, reorganization, arrangement, adjustment, protection or relief or composition of it or its debts under any statute, rule or regulation relating to bankruptcy, insolvency, reorganization, relief or protection of debtors; or (c) result in the appointment of a receiver, custodian, administrator, trustee, liquidator or other similar official for it or for all or any material part of its assets, and, in each case, such proceeding remains undismissed or unstayed for a period of 45 days or any of the actions sought in such proceeding shall occur;

"Lock-up Agreements" means the voting/lock-up agreement dated February 17, 2004 made by Bain Capital, Inc. and Celerity EMSIcon, LLC, as the managers of EMSIcon Investments, LLC, a stockholder of SMTC;

"Material Agreements" means each of the following documents:

- (i) this Agreement;
- (ii) the Subscription Agreements;
- (iii) the U.S. Subscription Agreements;
- (iv) the Special Warrant Indenture;
- (v) the Warrant Indenture;
- (vi) the Lock-Up Agreements;
- (vii) the Support Agreement; and
- (viii) the Voting and Exchange Agreement;

"material change" means a material change for the purposes of the Canadian Securities Laws or any of them or where undefined under the applicable securities laws of a jurisdiction means a change in the business, operations or capital of the Company or any of its subsidiaries that would reasonably be expected to have a significant effect on the market price or value of any of the Company's securities, and includes a decision to implement such a change made by the board of directors or senior management of the Company;

“**material fact**” means a material fact for the purposes of the Canadian Securities Laws or any of them or, where undefined under the applicable securities laws of a jurisdiction, means a fact that significantly affects, or would reasonably be expected to have a significant effect on, the market price or value of the Company’s securities;

“**misrepresentation**” means a misrepresentation for the purposes of the Canadian Securities Laws or any of them or, where undefined under the applicable Canadian Securities Laws of a jurisdiction, means: (i) an untrue statement of a material fact, or (ii) an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made;

“**MRRS**” means the mutual reliance review system procedures provided for under National Policy 43-201 “Mutual Reliance Review System for Prospectuses and Annual Information Forms” among the securities commissions and other securities regulatory authorities in each of the provinces and territories of Canada;

“**NASDAQ**” means The NASDAQ Stock Market, Inc. and its successor and assigns;

“**Person**” means any individual, partnership, limited partnership, joint venture, sole proprietorship, company or corporation, trust, trustee, unincorporated organization, a government or an agency or political subdivision thereof and every other form of legal or business entity of any nature or kind whatsoever;

“**Preliminary Prospectus**” means the preliminary prospectus of the Company which qualifies the distribution of the Units upon the conversion of the Special Warrants and, unless the context otherwise requires, includes any Amendments or supplements thereto;

“**Prospectus**” means the (final) prospectus of the Company which qualifies the distribution of the Units upon the conversion of the Special Warrants and, unless the context otherwise requires any Amendments or supplements thereto;

“**Prospectus Qualification Deadline**” means 5:00 p.m. (Toronto time) on the date that is 90 consecutive days after the Closing Date;

“**Qualification**” means obtaining a receipt for the Prospectus under applicable Canadian Securities Laws;

“**Qualifying Jurisdictions**” means each of the provinces of Canada;

“**Registration Qualification Deadline**” means 5:00 pm. (Toronto time) on the date that is 120 consecutive days after the Closing Date;

“**Registration Statement**” means a registration statement on Form S-1 relating to the Underlying Common Shares filed with the SEC pursuant to subsection 7(d);

“**SEC**” means the United States Securities and Exchange Commission;

“**Securities Commissions**” means the Securities Commissions of the Qualifying Jurisdictions;

“**Subscription Agreements**” means the subscription agreements entered into between the Company and the Substituted Purchasers with respect to the Special Warrants, in such form as may be agreed to by the Company and the Lead Underwriter;

“**Subsidiaries**” means all of the direct and indirect subsidiaries of SMTC, including each of the following:

- (i) SMTC Nova Scotia Company;
- (ii) SMTC Manufacturing Corporation of Canada;
- (iii) 940862 Ontario Inc.;
- (iv) HTM Holdings, Inc.;
- (v) SMTC Manufacturing Corporation of California;
- (vi) SMTC Manufacturing Corporation of Texas;
- (vii) SMTC Manufacturing Corporation of North Carolina;
- (viii) SMTC Manufacturing Corporation of Colorado;
- (ix) SMTC Manufacturing Corporation of Massachusetts;
- (x) SMTC Mex Holdings;
- (xi) SMTC de Chihuahua S.A. de C.V.;
- (xii) SMTC Ireland Company;
- (xiii) SMTC Teoranta;
- (xiv) SMTC R & D Teoranta;
- (xv) SMTC Manufacturing Corporation of Wisconsin;
- (xvi) Qualtron Inc.

and “**Subsidiary**” means any of them;

“**subsidiary**” means a subsidiary entity for purposes of section 1.2 of Ontario Securities Commission Rule 45-501 under the *Securities Act* (Ontario), as constituted at the date of this Agreement and, for greater certainty, includes the Subsidiaries;

“**Supplementary Material**” means, collectively, all supplemental or additional or ancillary material, information, evidence, return, report, application, statement or document related to the Preliminary Prospectus, the Prospectus, any Amendment or the Registration Statement or each of them;

“**Support Agreement**” means the exchangeable share support agreement dated as of July 27, 2000 between the Company, SMTC and SMTC Nova Scotia Company;

“**TSX**” means the Toronto Stock Exchange and its successors and assigns;

“**Underlying Securities**” means, collectively, the Special Warrant Shares and the Warrants;

“**Underwriters’ Disclosure**” means, in respect of a document, information and statements relating solely to the Underwriters, or any of them, and furnished by them specifically for use in such document;

“**United States**” means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia.

“**U.S. GAAP**” means United States generally accepted accounting principles;

“**Voting and Exchange Agreement**” means the voting and exchange trust agreement dated as of July 27, 2000 between the Company, SMTC, SMTC Nova Scotia Company and CIBC Mellon Trust Company, for and on behalf of the holders of Exchangeable Shares;

- (b) The division of this Agreement into Sections and headings are for the convenience of reference only and do not affect the construction or interpretation of this Agreement. The terms “hereof”, “hereunder” and similar expressions refer to this Agreement and not to any particular Section or other portion hereof. Unless something in the subject matter or context is inconsistent therewith, references herein to Sections and Schedules are to Sections of and Schedules to this Agreement.
- (c) In this Agreement, unless something in the subject matter or context is inconsistent therewith or unless otherwise herein provided, a reference to any statute is to that statute as now enacted or as the same may from time to time be amended, re-enacted or replaced and includes any regulations made thereunder.
- (d) In this Agreement words importing the singular number only include the plural and *vice versa*, words importing any gender include all genders and words importing persons include all Persons. The term “including” means “including without limiting the generality of the foregoing”.

(e) All references to monetary amounts in this Agreement are to lawful money of Canada except where noted otherwise.

2. **Nature of Transaction**

- (a) Each Substituted Purchaser of Special Warrants will (and each Underwriter, to the extent the Substituted Purchasers are not arranged for) purchase the Special Warrants in the Qualifying Jurisdictions, the United States, and such foreign jurisdictions as may be agreed to by the Company and SMTC, acting reasonably, in compliance with all applicable Canadian Securities Laws and the applicable securities laws of the United States and such foreign jurisdictions, respectively.
- (b) The Underwriters will obtain from each Substituted Purchaser an executed Subscription Agreement. The Company and SMTC hereby authorize the Underwriters, by means of the Subscription Agreements, to assign to the Substituted Purchasers the rights of the Underwriters to purchase the Special Warrants hereunder, and the benefits of the representations, warranties and covenants of the Company and SMTC contained herein with respect to the Special Warrants to be purchased by such Substituted Purchasers. It is a condition of the right of the Underwriters to make such assignment that the Substituted Purchasers make the covenants, representations and warranties to be made under the Subscription Agreements for the benefit of the Underwriters, the Company and SMTC.
- (c) The Underwriters will notify the Company and SMTC with respect to the identity of any such Substituted Purchasers as soon as practicable and with a view to leaving sufficient time to allow the Company and SMTC to secure compliance with all relevant Canadian Securities Laws and the relevant securities laws of the United States and any foreign jurisdiction, respectively, relating to the sale of the Special Warrants. Each of the Company and SMTC will use its commercially reasonable best efforts to secure compliance with all relevant regulatory requirements of the Canadian Securities Laws and the applicable securities laws of the United States and any foreign jurisdiction, respectively, relating to the distribution of the Special Warrants to the Substituted Purchasers prior to the Closing Date.
- (d) Each of the Company and SMTC undertake to file or cause to be filed, at the expense of the Company and SMTC, all forms or undertakings required to be filed by the Company or SMTC in connection with this transaction so that the sale of the Special Warrants may lawfully occur without the necessity of filing a prospectus or an offering memorandum.

3. **Escrow and Shareholder Approvals**

- (a) On the Closing Date, the net proceeds of the sale of Special Warrants (the “**Escrowed Funds**”) will be delivered by the Lead Underwriter to the Trustee to

be held in escrow pursuant to the terms of the Special Warrant Indenture. The Trustee will hold the Escrowed Funds in trust for the holders of Special Warrants and disburse and deal with the same all on the terms of the Special Warrant Indenture. Until the Escrow Conditions (as defined below) are met, the Escrowed Funds will not become the property of the Company. Upon the Trustee having been provided with satisfactory evidence that (i) the Shareholder Approval (as defined below) and approval of the Debt Restructuring Agreement have been obtained, and (ii) no Insolvency Event has occurred and is continuing, and (iii) the Lead Underwriter is satisfied in its sole discretion, acting reasonably, that the terms of the Debt Restructuring Agreement have been complied with and simultaneously with the closing under the Debt Restructuring Agreement (collectively the “**Escrow Conditions**”), all Escrowed Funds, together with any interest thereon, will be released by the Trustee to the Company. If such evidence is not delivered to the Trustee within 90 days following the Closing, all Escrowed Funds then held by the Trustee, together with interest thereon, will be released by the Trustee to the holders of the Special Warrants pro rata to their holdings of Special Warrants.

- (b) It is understood by the Underwriters, the Company and SMTC that the issuance of Underlying Common Shares will require the approval of SMTC’s shareholders (such shareholder approval referred to herein as the “**Shareholder Approval**”). SMTC hereby covenants and agrees that it and its management and board of directors will seek and (subject to fiduciary duties) publicly recommend such approval forthwith, and will use its commercially reasonable best efforts to hold a meeting (a “**Shareholders Meeting**”) of its shareholders for such purpose within 60 days following the Closing Date, but in any event no later than 90 days following the Closing Date (the “**Shareholder Approval Deadline**”).
- (c) If SMTC does not obtain the Shareholder Approval on or prior to the Shareholder Approval Deadline, then the obligations of the Underwriters hereunder to purchase 33,350,000 Special Warrants will terminate and the Company hereby grants to the Underwriters, in the respective percentages set out in Section 17, a non-assignable (except to a Substituted Purchaser) option (the “**Option**”) to purchase, at a price of \$1.20 per Special Warrant, a number of Special Warrants (the “**Reduced Special Warrants**”) that, if exercised in full and assuming (i) the exercise in full of any Warrants issuable upon the conversion of the Reduced Special Warrants, and (ii) the issuance of Penalty Units, if any, would entitle the holders thereof to acquire (A) an aggregate number of Exchangeable Shares that does not exceed 25% of the aggregate number of Exchangeable Shares issued and outstanding on February 17, 2004, and (b) an aggregate number of Underlying Common Shares that, together with the Underlying Common Shares issuable on exchange of the Exchangeable Shares described in clause (A) of this Section does not exceed 19.9% of the aggregate number of Common Shares issued and outstanding on February 17, 2004. The Option may be exercised in whole or in part at any time prior to 5:00 p.m. (Toronto time) on the date (the “**Option Exercise Date**”) that is five Business Days following the date of the most recent Shareholders Meeting by delivery by each Underwriter of a written notice setting out the number of Reduced Special Warrants to be purchased by such

Underwriter. Upon furnishing such notice, such Underwriter will be committed to purchase and the Company will be committed to sell in accordance with and subject to the terms of this Agreement the number of Reduced Special Warrants indicated in the notice. Delivery of, and payment for, any Reduced Special Warrants will be made at the offices of Goodmans LLP, Toronto, Ontario at 8:00 a.m. (Toronto time) on the third Business Day after the Option Exercise Date. The Company and SMTC will, within one Business Day of the date on which the Shareholders Meeting is held deliver to each Underwriter and Substituted Purchaser written notice as to whether the Shareholders Approval has been obtained. Without limiting the generality of the foregoing, the Company will deliver to the Lead Underwriter a copy of each document delivered by the Company to the Trustee pursuant to section 3.3 or section 6.1(j) of the Special Warrant Indenture concurrently with the delivery of the document to the Trustee.

4. **Alternative Business Transaction**

If (i) the Offering is cancelled by the Company and SMTC and an Alternative Business Transaction is completed on or prior to February 17, 2005, the Company and SMTC will pay to the Lead Underwriter, in addition to amounts paid or payable to Lead Underwriter hereunder in reimbursement of the Lead Underwriter's expenses, Cdn. \$900,000 on completion of such Alternative Business Transaction, or (ii) the Offering is completed and SMTC fails to obtain the Shareholder Approval on or before the Shareholder Approval Deadline, as applicable, and an Alternative Business Transaction is completed on or prior to February 17, 2005, the Company and SMTC will jointly and severally pay to each Underwriter or Substituted Purchaser, as applicable, (with respect to the number of Exchangeable Shares included in Special Warrants that were held in escrow for the benefit of such Underwriter or Substituted Purchaser (or its assignees) at the time the shareholders of SMTC declined to approve the Offering minus the number of Exchangeable Shares purchased by such Underwriter or Substituted Purchaser (or its assignees) pursuant to the Option) an amount equal to one-half of the difference between (A) the average market price of the Exchangeable Shares based on the closing price of the Exchangeable Shares on the TSX for the period that is ten trading days leading up to the date of the Shareholders Meeting called to approve the Offering, and (B) Cdn. \$1.20, such payment to be made in immediately available funds on completion of such Alternative Business Transaction.

5. **Qualification Deadlines**

If (i) the Prospectus Qualification Date does not occur on or before the Prospectus Qualification Deadline, or (ii) the date on which the Registration Statement becomes effective does not occur on or before the Registration Qualification Deadline, each Special Warrant exercised after the Prospectus Qualification Deadline will entitle the holder thereof to receive 1.1 Units without payment of additional consideration (in lieu of one Unit otherwise receivable, provided that the number of Units issuable on the conversion of a Special Warrant in such circumstances will be rounded to the nearest whole number, without any compensation therefor) (with the additional Units issuable in such circumstance being referred to herein as the "Penalty Units") and each of the Company and SMTC will continue to use its commercially reasonable best efforts to (i) file, clear, and obtain a receipt for the Prospectus in the Qualifying Jurisdictions and (ii) file, and have declared effective, the Registration Statement; provided that the Company and SMTC will not be required to continue such efforts on or after July 4, 2004.

6. **Covenants of the Underwriters**

Each of the Underwriters severally, but not jointly or jointly and severally, represents, warrants, covenants and agrees with the Company and SMTC that:

- (a) it will offer and sell, and will require any Selling Firm appointed by it to offer and sell, the Special Warrants only in those jurisdictions where they may be lawfully offered for sale or sold and only at the price per Special Warrant set out on herein;
- (b) it will, and will require any Selling Firm appointed by it to, conduct activities in connection with the Offering in compliance with all applicable Canadian Securities Laws and the applicable securities laws of the United States and will not (i) place an advertisement in a publication with general circulation in the United States that refers to the Offering, (ii) directly or indirectly, solicit offers to purchase or sell the Special Warrants or deliver to any prospective Substituted Purchaser any document or material that constitutes an offering memorandum under the laws of any jurisdiction, and would require the registration of the Special Warrants, or the filing of a prospectus with respect to the Special Warrants under the laws of any jurisdiction. Any offer or sales of the Special Warrants in the United States will be made in accordance with Section 13;
- (c) it will, and will require any Selling Firm appointed by it to require, that all offers and sales of the Special Warrants and the securities underlying the Special Warrants prior to the first anniversary of the Closing Date must be made only in accordance with the provisions of Rule 903 or Rule 904 under the Securities Act; pursuant to registration of the securities under the Securities Act; or pursuant to an available exemption from the registration requirements of the Securities Act; and it will not, and will require any Selling Firm appointed by it not to, engage in hedging transactions with regard to such securities prior to the first anniversary of the Closing Date unless in compliance with the Securities Act;
- (d) it will, and will require any Selling Firm appointed by it to, obtain from each Substituted Purchaser an executed and duly completed Subscription Agreement for the purchase of Special Warrants together with the purchase price therefor;
- (e) promptly upon the Company and SMTC obtaining a receipt therefor from the Securities Commissions and delivering copies of the Prospectus to such Underwriter it will deliver or cause to be delivered one copy of the Prospectus to each holder of Special Warrants as indicated on the register of holders of Special Warrants maintained by the Trustee;
- (f) it will notify the Company and SMTC when, in the Underwriters' opinion, the distribution of Special Warrants shall have ceased and provide a breakdown of the number of Special Warrants distributed in the Qualifying Jurisdictions where such breakdown is required for the purpose of calculating fees payable to the Securities Commissions;
- (g) it will not make any representations or warranties with respect to the Company, SMTC, the Special Warrants, the Warrants, the Exchangeable Shares or the Common Shares other than as set forth in this Agreement, the Subscription Agreements, the Preliminary Prospectus or the Prospectus; and

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- (h) subject to satisfaction of each of the conditions in Section 12, it will execute and deliver to the Company and SMTC the Underwriters' certificate and any other certificate required to be executed by it under the applicable Canadian Securities Laws in connection with the Preliminary Prospectus, the Prospectus, any Amendment and any Supplementary Material;
 - (i) it will require, and will require any Selling Firm appointed by it to require, with respect to each offer or sale of the Special Warrants or the securities underlying the Special Warrants made prior to the first anniversary of the Closing Date the purchaser of such securities (other than a distributor) to (i) certify that it is not a U.S. person and is not acquiring such securities for the account or benefit of any U.S. person or is a U.S. person who purchased securities in a transaction that did not require registration under the Securities Act; (ii) agree to resell such securities only in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration, and (iii) agree not to engage in hedging transactions with regard to such securities unless in compliance with the Securities Act; and
 - (j) it will, and it will require any Selling Firm appointed by it to require, that each distributor selling the Special Warrants or the securities underlying the Special Warrants to a distributor, a dealer, or a person receiving a selling concession, fee or other remuneration, prior to the first anniversary of the Closing Date, must send a confirmation or other notice to the purchaser stating that the purchaser is subject to the same restrictions on offers and sales that apply to an underwriter.

7. **Covenants of the Company and SMTC**

Each of the Company and SMTC, jointly and severally, covenant and agree with each Underwriter and each Substituted Purchaser that:

- (a) each of the Special Warrants, the Warrants, the Special Warrant Shares, the Warrant Shares and the Underlying Common Shares will be duly and validly created, authorized and issued on the payment therefor, if any, and will have attributes corresponding in all material respects to the descriptions thereof herein and in the Subscription Agreements;
- (b) the Special Warrant Shares issuable upon the conversion of the Special Warrants, the Warrant Shares issuable upon the conversion of the Warrants and the Underlying Common Shares issuable upon the exchange of the Special Warrant Shares and the Warrant Shares (i) will be duly reserved for issuance, and (ii) will be duly issued and outstanding as fully paid and non-assessable shares in the capital of the Company and SMTC, as applicable;
- (c) the Company and SMTC shall fulfil all legal requirements to permit the creation, issuance and sale of the Special Warrants, the Warrants, the Special Warrant Shares, the Warrant Shares and the Underlying Common Shares, including

compliance with all applicable Canadian Securities Laws and the applicable securities laws of the United States to enable the Special Warrants to be offered for sale and sold to Substituted Purchasers in the Qualifying Jurisdictions and the United States pursuant to Rule 903 or Rule 904 under the *Securities Act* and with the understanding that the Underwriter will comply with its covenants in Section 6 hereto;

- (d) the Company and SMTC shall (i) file the Preliminary Prospectus in respect of the issuance and distribution of the Special Warrant Shares and the Warrant Shares in each of the Qualifying Jurisdictions as soon as practicable following the Closing Date; (ii) resolve all comments received or deficiencies raised by the various securities regulatory authorities in the Qualifying Jurisdictions as expeditiously as possible; (iii) file and obtain receipts for the Prospectus in each Qualifying Jurisdiction which qualifies the issuance and distribution of the Special Warrant Shares and the Warrant Shares as soon as possible after such regulatory comments and deficiencies have been resolved and in no event later than 5:00 p.m. (Toronto time) on the Prospectus Qualification Deadline; and (iv) file the Registration Statement with the SEC for the purposes of registering the Underlying Common Shares under the 1933 Act and to take such other steps as may be necessary to ensure the free tradability of the Underlying Common Shares and to cause such Registration Statement to be declared effective by the SEC as soon as possible but in no event later than the Registration Qualification Deadline. The certificates of the Company and SMTC in the Preliminary Prospectus and the Prospectus will be signed by the chair of the audit committee of the Company as one of the two individuals signing on behalf of the board of directors of the Company;
- (e) the Company and SMTC will allow and assist the Underwriters and their legal counsel to participate fully in the preparation of the Preliminary Prospectus, the Prospectus, the Registration Statement and any Amendment and will allow the Underwriters and their representatives to conduct all “due diligence” investigations which the Underwriters may reasonably require to fulfil the Underwriters’ obligations as Underwriters and to enable the Underwriters to responsibly execute any certificate required to be executed by the Underwriters in such documentation;
- (f) the Company and SMTC will take all necessary action to ensure that the Exchangeable Shares issuable upon the conversion of the Special Warrants and the Warrants, as applicable, will be qualified investments under the *Income Tax Act* (Canada) for trusts governed by RRSPs, RRIFs and DPSPs, as well as under the usual investment statutes;
- (g) the Company and SMTC will comply with Section 57 of the *Securities Act* (Ontario) and with the other comparable provisions of the applicable Canadian Securities Laws and the applicable securities laws of the United States and, during the period of distribution of the Underlying Securities, will promptly inform the Underwriters in writing of the full particulars of (i) any adverse material change contemplated or proposed by, (and, after the date of issuance of a receipt for the Prospectus by the Securities Commissions, of any material change), whether

actual, anticipated or threatened against the Company, in the financial condition, ownership, assets, liabilities (contingent or otherwise), business, affairs, prospects, capital or operations of SMTC, the Company or any Subsidiary, (ii) any adverse change (and, after date of issuance of a receipt for the Prospectus by the Securities Commissions, of any change) in any material fact contained or referred to in the Preliminary Prospectus, the Prospectus, any Amendment or any Supplementary Material, and (iii) the existence of any material fact which is, or may be, of such a nature as to render the Preliminary Prospectus, the Prospectus, any Amendment or any Supplementary Material untrue, false or misleading or result in a misrepresentation, it being understood and agreed that if the Company or SMTC determines, after consultation with the Underwriters, that an adverse material change or change in a material fact (and, after the date of issuance of a receipt for the Prospectus by the Securities Commissions, any material change or change in a material fact) has occurred which makes untrue or misleading any statement of a material fact contained in the Preliminary Prospectus, the Prospectus, any Amendment or any Supplementary Material, the Company and SMTC will:

- (i) prepare and file promptly, subject to the approval of the Underwriters, acting reasonably, any Amendment which may be necessary or advisable; and
- (ii) contemporaneously with filing the Amendment under the applicable Canadian Securities Laws, deliver to the Underwriters:
 - (A) a copy of the Amendment, originally signed as required by the Canadian Securities Laws;
 - (B) an originally signed copy of all documents relating to the proposed distribution of the Underlying Securities and filed with the Amendment under the applicable Canadian Securities Laws; and
 - (C) such other documents as the Underwriters shall reasonably require;
- (h) at all times until the distribution of the Underlying Securities is complete, the Company and SMTC will, in good faith, discuss with the Underwriters and their counsel any change in circumstances (actual, anticipated, contemplated or threatened) relating to SMTC, the Company, any Subsidiary, the Special Warrants, the Warrants, the Special Warrant Shares, the Warrant Shares or the Underlying Common Shares, which is of such a nature that there is reasonable doubt as to whether notice in writing need be given to the Underwriters pursuant to subsection 7(g);
- (i) at all times until the distribution of the Underlying Securities is complete, the Company and SMTC will promptly notify the Underwriters, in writing, of the institution or threat of any court, Securities Commission or any other applicable securities regulatory authority to institute any stop order proceeding or any order or ruling preventing the use of the Preliminary Prospectus, the Prospectus, any Amendment or any Supplementary Material, or suspending, preventing or

restricting the offering, issuance or sale of the Special Warrants or the issuance or distribution of the Warrants, the Special Warrant Shares, the Warrant Shares or the Underlying Common Shares in the Qualifying Jurisdictions or the United States. Each of the Company or SMTC will use its commercially reasonable best efforts to prevent the issuance of any such stop order or such other order or ruling or, if issued, to obtain its lifting as soon as possible;

- (j) at all times until the distribution of the Underlying Securities is complete, the Company and SMTC will promptly inform the Underwriters, in writing, of any request by any court, Securities Commission or any other applicable securities regulatory authority to amend or supplement the Preliminary Prospectus, the Prospectus, any Amendment or any Supplementary Material or for any additional information;
- (k) the Company and SMTC will, as soon as practicable, prepare and file any Amendment or any Supplementary Material required by the circumstances contemplated herein and by any change in the Canadian Securities Laws;
- (l) at the Closing Time and immediately prior to the time the Prospectus is filed, each of the Company and SMTC will deliver to the Underwriters certificates signed by the Chief Executive Officer or Chief Financial Officer of the Company and SMTC, as applicable, or by such other officer as is acceptable to the Underwriters, dated such date and addressed to the Underwriters to the effect that:
 - (i) the representations and warranties of the Company or SMTC, as applicable, contained in this Agreement are true and correct as of the date of the certificate in all respects, subject, in the case of the delivery of such certificate immediately prior to the time the Prospectus is filed, to any change to such representations and warranties occurring from the Closing Time to the time the Prospectus is filed, provided that such changes have previously been disclosed in writing to the Underwriters and are disclosed in such certificate;
 - (ii) the Company or SMTC, as applicable, has duly complied with all covenants and satisfied all the conditions herein on its part to be performed or satisfied at or prior to such time;
 - (iii) no order suspending the sale or ceasing the trading of any securities of the Company or SMTC, as applicable, in the Qualifying Jurisdictions or the United States has been issued and no proceeding for that purpose is pending, contemplated or threatened under the Canadian Securities Laws or the securities laws of the United States, by the Securities Commissions, the SEC or by any other regulatory body (including the TSX and the NASDAQ) which has jurisdiction over the Company or SMTC, as the case may be; and
 - (iv) since the date of SMTC's last audited financial statements, except as set forth in any report filed with the Securities Commissions on a non-confidential basis and provided to the Underwriters, SMTC has not, either

on a consolidated basis or in respect of any partial ownership interests in material properties, whether held through partnerships, co-ownerships, corporations or otherwise, incurred any material liabilities or obligations (absolute, accrued, contingent or otherwise) or entered into any material transaction not in the ordinary course of business; there has been no material change (financial or otherwise) in the consolidated assets, financial position, voting control, business, affairs or results of operations of SMTC and the Subsidiaries on a consolidated basis, and there has occurred no event and no state of facts exists that, under the Canadian Securities Laws or the securities laws of the United States, is required to be publicly disclosed that has not been so publicly disclosed;

- (m) the Company and SMTC will, immediately after the Closing Time, file such documents as may be required under the Canadian Securities Laws in respect of the sale of the Special Warrants in reliance upon private placement exemptions which, without limiting the generality of the foregoing, will include Form 45-501F1 and Form 45-102F2 as prescribed under the Rules to the *Securities Act* (Ontario), and will legend securities issuable hereunder in accordance with the requirements of Multilateral Instrument 45-102 and in a manner satisfactory to the Underwriters and their counsel, acting reasonably and without undue delay;
- (n) the Company and SMTC will fully comply in a timely fashion with all of its continuous disclosure and other obligations under the provisions of applicable Canadian Securities Laws and the applicable securities laws of the United States, and will provide to holders of Special Warrants copies of all disclosure or other materials distributed to holders of Exchangeable Shares and holders of Common Shares;
- (o) the Company will, for a period of twelve months after the Closing Date, use its commercially reasonable best efforts to remain a reporting issuer (or the equivalent) under the Canadian Securities Laws not in default of any requirement of such Canadian Securities Laws;
- (p) the Company and SMTC will obtain all necessary regulatory consents and approvals in respect of the listing of (i) the Special Warrant Shares, the Warrants and the Warrant Shares on the TSX, subject to the approval of the TSX, and (ii) the Underlying Common Shares on the NASDAQ, and will involve the Underwriters' counsel in all communications with the TSX and the NASDAQ and promptly deliver or cause to be delivered such communications to the Underwriters' counsel;
- (q) the Company and SMTC will each use its commercially reasonable best efforts to maintain the listing of (i) the Exchangeable Shares on the TSX, and (ii) the Common Shares on the NASDAQ;
- (r) the Company and SMTC will each use its commercially reasonable best efforts to obtain the Shareholder Approvals;

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- (s) each of the Company and SMTC will take all necessary steps to comply with its respective obligations under the Support Agreement and the Voting and Exchange Agreement;
 - (t) SMTC will use its commercially reasonable best efforts to hire (i) a suitable, full-time chief financial officer to replace SMTC's current chief financial officer, and (ii) a suitable chief executive officer to replace SMTC's current chief executive officer; and
 - (u) SMTC will not amend or waive any provision of the Lock-up Agreements without the prior approval of the Lead Underwriter.

8. **Prospectus Deliveries**

The Company and SMTC will cause to be delivered to the Underwriters:

- (a) as soon as practicable, copies of the Preliminary Prospectus, in the English and French languages, signed as required by the Canadian Securities Laws;
- (b) as soon as practicable, copies of the Prospectus, in the English and French languages, signed as required by the Canadian Securities Laws;
- (c) as soon as they are available, copies of any Amendment, in the English and French languages, signed as required by the Canadian Securities Laws;
- (d) as soon as they are available, copies of any Supplementary Material required to be delivered to Substituted Purchasers;
- (e) at the time of the delivery to the Underwriters, pursuant to this Section 8, of the Prospectus or any Amendment, a comfort letter of the Auditors dated the date of the Prospectus or Amendment, as applicable, and addressed to the Underwriters, the Substituted Purchasers, and the respective directors of the Company and SMTC, in form and substance satisfactory to the Underwriters, acting reasonably, relating to the verification of the financial information and accounting data and other numerical data contained in the Prospectus or Amendment, as applicable, and matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus or Amendment, as applicable, to a date not more than two Business Days prior to the date of such letter, which letter shall be in addition to the Auditors' report contained in the Prospectus or Amendment and the comfort letter of the Auditors addressed to the Securities Commissions;
- (f) as soon as they are available, such numbers of commercial copies of the Preliminary Prospectus, the Prospectus, any Amendment and any Supplementary Material for distribution to the Substituted Purchasers, as the Underwriters may reasonably require, without charge, in such cities in Canada as the Underwriters may reasonably request; and

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- (g) the Company's and SMTC's consent to the use by the Underwriters of the documents referred to in subsections 8(a), 8(b), 8(c) and 8(d) in connection with the distribution of the Underlying Securities in the Qualifying Jurisdictions in compliance with the provisions of this Agreement.

9. **Representations and Warranties - Prospectus**

- (a) The delivery to the Underwriters of the documents referred to in subsections 8(a), 8(b), 8(c) and 8(d) hereof will constitute the joint and several representation and warranty of the Company and SMTC to the Underwriters and the Substituted Purchasers that:
- (i) each such document at the time of its filing fully complied with the requirements of the Canadian Securities Laws pursuant to which it was or is filed and that all the information and statements contained therein (except Underwriters' Disclosure) are at the respective dates of delivery thereof, true and correct, contain no misrepresentation and constitute full, true and plain disclosure of all material facts relating to the Company and to SMTC and its subsidiaries considered as a whole, and to the Special Warrant Shares, the Warrant Shares and the Underlying Common Shares as required by applicable Canadian Securities Laws,
 - (ii) no material fact or information has been omitted therefrom (except Underwriters' Disclosure) and no other fact or information (except Underwriters' Disclosure) has been omitted therefrom which is necessary to make the statements contained therein not misleading in light of the circumstances in which they were made,
 - (iii) the financial statements contained therein present fairly the financial position of SMTC and its subsidiaries, on a consolidated basis, in each case as at the dates thereof, and the results of operations and changes in financial position over the periods reported upon, all in accordance with, U.S. GAAP applied on a consistent basis;
 - (iv) since the date hereof (other than as publicly disclosed), there has been no: (A) material adverse change (actual, anticipated, contemplated or threatened) in the condition (financial or otherwise), business, affairs, prospects, operations, assets, liabilities or obligations (absolute, contingent or otherwise) of the Company, SMTC or any of its subsidiaries (a "Material Adverse Change"), (B) material change in the capital stock, voting control or financial condition of the Company, SMTC or any of its subsidiaries, or (C) action, suit, proceeding, investigation, inquiry or review, pending or threatened against or affecting the Company, SMTC or any of its subsidiaries or any of their respective officers, directors or principal shareholders at law or in equity or before or by any federal, provincial, municipal, foreign or other governmental or quasi-governmental department, commission, board, bureau or agency which has resulted in, or may result in, a Material Adverse Change, or which affects or may affect the distribution of any of the Special Warrants, the

Warrants, the Special Warrant Shares, the Warrant Shares or the Underlying Common Shares and none of the Company, SMTC nor any of its subsidiaries is aware of any existing grounds on which such action, suit, proceeding or inquiry might be commenced;

- (v) the Subsidiaries include all the operating subsidiaries of SMTC; and
- (vi) none of the Securities Commissions nor any court or other regulatory body has issued an order preventing or suspending the use of any Preliminary Prospectus, Prospectus or Amendment or preventing the distribution of the Special Warrant Shares, the Warrant Shares or the Underlying Common Shares nor instituted proceedings for that purpose, and no such proceedings are pending or contemplated.

10. **Representations and Warranties - Special Warrant Offering**

- (a) Each of the Company and SMTC, jointly and severally, represents and warrants to each of the Underwriters and to the Substituted Purchasers, and acknowledges that each of them is relying upon such representations and warranties in purchasing the Special Warrants, that:
 - (i) each of the Company and SMTC has been duly incorporated and each of the Subsidiaries has been duly incorporated, as applicable, and each of the Subsidiaries (except SMTC Ireland Company, SMTC Teoranta, and SMTC R & D Teoranta), is validly existing under the laws of its jurisdiction of incorporation has all requisite power and authority and is duly qualified to carry on its business as now conducted and to own its properties and assets and each of the Company and SMTC has all requisite power and authority to carry out its obligations under this Agreement, and to issue the Special Warrants, the Warrants, the Special Warrant Shares, the Warrant Shares and the Underlying Common Shares, as applicable;
 - (ii) except for the Subsidiaries, neither the Company nor SMTC has any subsidiaries nor any investment in any person which is or would be material to the business and affairs of the SMTC on a consolidated basis;
 - (iii) no person other than SMTC or a direct or indirect wholly-owned subsidiary thereof legally or beneficially owns any securities in the capital of the Subsidiaries or has any option or other right to acquire any interest in such securities, whether upon the occurrence of a contingency or otherwise; all of the outstanding shares of each subsidiary of SMTC have been duly and validly authorized and issued and are fully-paid and non-assessable and have not been issued in violation of or subject to any pre-emptive right arising under the charter documents, by-laws of such subsidiary with the law of its jurisdiction of incorporation, co-sale right, right of first refusal or other similar right and all outstanding shares of such subsidiaries are owned by SMTC either directly or through wholly-owned subsidiaries free and clear of any pledge, security interests, claims, liens, encumbrances or equitable interests;

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- (iv) all consents, approvals, permits, authorizations or filings (except for notices of private placement and documents in connection with the Preliminary Prospectus, Prospectus and any Amendment to be filed by the Company with the Securities Commissions) as may be required under the Canadian Securities Laws or the securities laws of the United States necessary to the execution and delivery of and the performance by the Company and SMTC of their respective obligations under this Agreement have been made or obtained, as applicable;
 - (v) other than the Underwriters and Lazard Frères & Co., LLC, there is no person acting or purporting to act at the request of the Company or SMTC who is entitled to any brokerage or finder's fee in connection with the transactions contemplated hereby;
 - (vi) except for the Shareholder Approvals, all necessary corporate action has been taken by the Company and SMTC, including the passage of all requisite resolutions of the directors, to create, issue, sell and deliver the Special Warrants upon receipt of payment of the purchase price therefor and issue and deliver the Underlying Securities upon the conversion of the Special Warrants, the Warrant Shares upon the conversion of the Warrants and the Underlying Common Shares upon the exchange of the Special Warrant Shares and the Warrant Shares, as applicable, and upon the issuance, such shares will be validly issued, fully paid and non-assessable;
 - (vii) each of the Company and SMTC has filed all forms, reports and documents required to be filed by it pursuant to the Canadian Securities Laws or the securities laws of the United States, as applicable (collectively, the "**Reports**") since December 31, 2002.
 - (viii) each Report (i) at the time that it was filed with the Securities Commission complied in all material respects with the applicable requirements of the Canadian Securities Laws or the applicable securities laws of the United States, as applicable, and (ii) did not at the time they were filed (or if amended or superseded by a subsequent filing, then on the date of such filing) if required under the Canadian Securities Laws or the securities laws of the United States contain any untrue statement of a "material fact" as defined in the applicable Canadian Securities Laws or the applicable securities laws of the United States, as applicable, or omit to state such a material fact required to be stated in such Reports or necessary in order to make the statements in such Reports, in the light of the circumstances under which they were made, not misleading;
 - (ix) the Company is a "qualifying issuer" within the meaning ascribed to that term under Multilateral Instrument 45-102;
 - (x) other than as set forth in the Disclosure Letter, there are no, nor have there ever been, any action, suit, proceeding, investigation, inquiry or review or, pending or threatened against or affecting the Company or SMTC, or any of their respective officers or directors at law or in equity, before or by any

federal, provincial, municipal, foreign or other governmental or quasi-governmental department, commission, board, bureau or agency which has resulted in, or may result in, a Material Adverse Change, or which affects or may affect the distribution of any of the Special Warrants, the Warrants, the Special Warrant Shares, the Warrant Shares and the Underlying Common Shares and neither the Company nor SMTC is aware of any existing grounds on which such action, suit, proceeding or inquiry might be commenced;

- (xi) the execution and delivery of the Material Agreements, the creation, issuance, sale and delivery of the Special Warrants and the Warrants, the use of the proceeds from the sale of the Special Warrants, the issuance and delivery of the Special Warrant Shares upon the conversion of the Special Warrants, the Warrant Shares upon the conversion of the Warrants, and the issuance and delivery of the Underlying Common Shares upon the exchange of the Special Warrant Shares or the Warrant Shares, as applicable, by the Company or SMTC, as applicable, and the performance and compliance by the Company or SMTC, as applicable, with the terms of the Material Agreements;
- (A) do not require any consent, approval, authorization or order of any court or government agency or body, other than the filing of (i) the Prospectus under the Canadian Securities Laws and (ii) the Registration Statement under the securities laws of the United States, or other than those which have been or will, prior to the Closing Date, be obtained;
- (B) will not contravene any statute, rule or regulation binding on the Company or SMTC; or
- (C) will not result in the breach of, or be in conflict with, or constitute a default or Repayment Event (as defined below) under, or create a state of facts which, after notice or lapse of time, or both, would constitute a breach of, or default or Repayment Event under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of SMTC or any of its subsidiaries pursuant to, any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which SMTC or any of its subsidiaries is a party or by which it or any of them may be bound, or to which any of the property or assets of SMTC or any of its subsidiaries is subject (collectively, “**Agreements and Instruments**”), nor will such action result in any violation of the provisions of the constating documents, by-laws, other governing agreements or resolutions of SMTC or any of its subsidiaries, or judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over SMTC or any of its subsidiaries or any of their assets, properties or operations.
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- used herein, a “**Repayment Event**” means any event or condition which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder’s behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by SMTC or any subsidiary thereof;
- (xii) each of the Company and SMTC has the full corporate power, capacity and authority (a) to enter into the Material Agreements and to perform its obligations set out therein and the Material Agreements have been duly authorized, executed and delivered on behalf of the Company or SMTC, as applicable, and are valid and binding obligations of the Company or SMTC, as applicable, enforceable in accordance with their respective terms except to the extent that enforceability may be limited by bankruptcy or insolvency or other similar laws relating to or affecting creditors’ rights generally, and subject to the award of equitable remedies being within the discretion of the court and subject to the enforcement of rights to contribution and indemnity being found contrary to public policy, (b) to create, sell and deliver the Special Warrants, (c) to issue and deliver the Special Warrant Shares upon the conversion of the Special Warrants, the Warrant Shares upon the conversion of the Warrants and the Underlying Common Shares upon the exchange of the Special Warrant Shares or Warrant Shares, as applicable, and (d) to carry out all the terms and provisions of the Material Agreements to be performed by the Company or SMTC;
 - (xiii) other than as set out in the Disclosure Letter, neither SMTC nor any of its subsidiaries is in violation of its constating documents, by-laws, other governing agreements or resolutions of SMTC or any subsidiary thereof or in default in the performance or observance of any obligation, agreement, covenant or condition contained in the Agreements and Instruments;
 - (xiv) the audited consolidated financial statements of SMTC and notes thereto as at and for the year ended December 31, 2002 and the unaudited consolidated financial statements of SMTC as at and for the period ended September 28, 2003, present fairly the consolidated financial position of SMTC as at the dates indicated and the results of its operations and changes in its financial position for the periods specified and reflect all material liabilities (absolute, accrued, contingent or otherwise) of SMTC and its subsidiaries and such financial statements have been prepared in conformity with U.S. GAAP applied on a consistent basis;
 - (xv) as of the close of business on March 2, 2004, the authorized capital of (i) the Company consists of an unlimited number of Exchangeable Shares of which 4,593,811 are issued and outstanding on the date hereof as fully-paid and non-assessable shares, and (ii) SMTC consists of 60,000,000 shares of common stock of which 24,095,968 are issued and outstanding on the date hereof as fully paid and non-assessable shares;

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- (xvi) no order prohibiting the sale of securities by the Company or SMTC has been issued and no proceedings for this purpose have been instituted or are pending, contemplated or threatened;
 - (xvii) (i) each of SMTC and the Subsidiaries has filed all necessary tax notices and has paid all applicable taxes of whatever nature for all tax years to the date hereof to the extent such taxes have become due or have been alleged to be due, and (ii) each of SMTC and the Subsidiaries is not aware of any tax deficiencies or interest or penalties accrued or accruing, or alleged to be accrued or accruing, thereon with respect to itself, where in any of the above cases, it (or the failure to file or pay) has resulted in, or may result in a Material Adverse Change;
 - (xviii) as at the Closing Date, except as contemplated by this Agreement and the Subscription Agreements, no holder of outstanding shares in the capital of the Company or SMTC is entitled to any pre-emptive or any similar rights to subscribe for any Exchangeable Shares or Common Shares or other securities of the Company or SMTC and except as disclosed in the Disclosure Letter, no rights, warrants or options to acquire, or instruments convertible into or exchangeable for any shares in the capital of the Company or SMTC are outstanding;
 - (xix) except for the Material Agreements and except as disclosed in the Disclosure Letter, there are currently no agreements, arrangements or understandings among or between any shareholders of the Company or SMTC with respect to the Company or SMTC or the voting or disposition of the Exchangeable Shares or Common Shares, as applicable;
 - (xx) there are no Persons with registration or other similar rights to have any equity or debt securities registered or qualified for sale under the Prospectus or included in the Offering;
 - (xxi) the holders of outstanding securities of the Company and SMTC, respectively, are not entitled to pre-emptive or other rights to acquire Exchangeable Shares or Underlying Common Shares, as applicable, pursuant to the charter documents or by-laws of the Company or SMTC, as applicable, or under applicable law; and there are no restrictions on subsequent transfers of Exchangeable Shares or Underlying Common Shares pursuant to the charter documents or by-laws of the Company or SMTC, as applicable;
 - (xxii) except as disclosed in the Disclosure Letter, no legal, governmental or quasi-governmental proceedings are pending to which SMTC or any of its subsidiaries is a party or to which the property of SMTC or any subsidiary is subject and no such proceedings have been threatened against or are contemplated with respect to SMTC or any subsidiary;
 - (xxiii) there is no legal, governmental or quasi-governmental proceedings to which SMTC or any of its subsidiaries is a party that would question the

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- validity of the creation, issuance, sale or delivery of the Special Warrants or Warrants, the issuance or delivery of the Special Warrant Shares upon the conversion of the Special Warrants and the Warrant Shares upon the conversion of the Warrants or the validity of any action taken or to be taken by the Company or SMTC in connection with the Material Agreements;
- (xxiv) each of SMTC and its subsidiaries possesses all certificates, authority, permits or licences issued by the appropriate regulatory authorities necessary to conduct the business now operated by it and has not received any notice of proceedings relating to the revocation or modification of any such certificate, authority, permit or licence, except where not having such certificate, authority, permit or license has not resulted in, and would not reasonably be expected to result in, a Material Adverse Change;
 - (xxv) CIBC Mellon Trust Company has been duly appointed as registrar and transfer agent of the Exchangeable Shares at its principal offices in Toronto, Ontario;
 - (xxvi) Mellon Investor Services LLC has been duly appointed as registrar and transfer agent of the Common Shares at its offices in Ridgefield Park, New Jersey;
 - (xxvii) CIBC Mellon Trust Company has been duly appointed as trustee and Escrow Agent, for and behalf of the Special Warrants and Warrants, under the Special Warrant Indenture and Warrant Indenture, respectively, prior to the Closing Date;
 - (xxviii) with respect to each premise which is material to SMTC and its subsidiaries and which SMTC or a subsidiary thereof occupies as tenant (the “**Material Leased Premises**”), SMTC or a subsidiary thereof occupies the Material Leased Premises and has the exclusive right to occupy and use the Material Leased Premises;
 - (xxix) SMTC and its subsidiaries have good and marketable title to all real property owned by SMTC or its subsidiaries and good title to all other material properties owned by them, in each case, free and clear of all mortgages, pledges, liens, security interests, claims, restrictions or encumbrances of any kind except encumbrances in favour of the lenders named in the Debt Restructuring Letter;
 - (xxx) except as has not and would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Change, (A) neither SMTC nor any of its subsidiaries is in violation of any federal, provincial, state, local or foreign statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment (including, without limitation, ambient air, surface water,

groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum or petroleum products (collectively, "**Hazardous Materials**") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, "**Environmental Laws**"), (B) SMTC and its subsidiaries have all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or, to the knowledge of SMTC, threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of non-compliance or violation, investigation or proceedings relating to any Environmental Laws against SMTC or any of its subsidiaries, and (D) there are no events or circumstances that would reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company or any of its subsidiaries relating to Hazardous Materials or any Environmental Laws;

- (xxxi) SMTC and each of its subsidiaries owns or possesses or, with respect to general statements filed by third parties with standards bodies, has been offered adequate rights to use all patents, patent rights or licenses, inventions, collaborative research agreements, trade-secrets, know-how, trademarks, service marks, trade names, industrial designs, business styles, distinguishing guises, copyrights and other intellectual property which are necessary to conduct its businesses as now or proposed to be conducted; the expiration of any patents, patent rights, trade secrets, trademarks, service marks, trade names or copyrights would not have a material adverse effect on SMTC or any of its subsidiaries; SMTC has not received any notice of, and has no knowledge of, any infringement of or conflict with asserted rights of SMTC or any of its subsidiaries by others with respect to any patent, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names or copyrights; neither SMTC nor any of its subsidiaries has received any notice of, and has knowledge of, any infringement of or conflict with asserted rights of others with respect to any patent, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names or copyrights; there is no claim being made against SMTC or any of its subsidiaries regarding patents, patent rights or licenses, inventions, collaborative research, trade secrets, know-how, trademarks, service marks, trade names or copyrights; neither SMTC nor any of its subsidiaries in the conduct of their business as now or proposed to be conducted infringe or conflict with any right or patent of any third party, or any discovery, invention, product or process which is the subject of a patent application filed by any third party, known to SMTC or any of its subsidiaries; and any third party patent rights necessary to comply with a mandated standard are available on normal non-discriminatory license terms;

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- (xxxii) there is presently no material plan in place for retirement bonus, buy-sell agreement, deferred compensation, severance or termination pay, insurance, medical, hospital, dental, vision care, drug, sick leave, disability, salary continuation, legal benefits, unemployment benefits, vacation, incentive or otherwise contributed to or required to be contributed to, by SMTC or any of its subsidiaries for the benefit of any current or former director, officer, employee or consultant of SMTC or the Subsidiaries and, to the extent that any such employee benefit plan is in place, each such employee plan has been maintained in compliance with its terms and with the requirements by any and all statutes, orders, rules and regulations that are applicable to each such employee plan;
- (xxxiii) except as disclosed in the Reports, neither SMTC nor any of its subsidiaries owes any money to, nor has SMTC or any of its subsidiaries any present loans to, or borrowed any monies from, is or otherwise indebted to any officer, director, employee, shareholder or any person not dealing at "arm's length" (as such term is defined in the *Income Tax Act* (Canada)) with SMTC or such subsidiary, as applicable;
- (xxxiv) except as disclosed in the Reports, none of SMTC or any of its subsidiaries is party to any material contract, agreement or understanding with any officer, director, employee, shareholder or any other person not dealing at arm's length with SMTC or such subsidiary, as applicable;
- (xxxv) except as set out in the Disclosure Letter, no present or former officer, director or shareholder of SMTC or any of its subsidiaries has any cause of action, or other claim whatsoever, against, or owes any amount to, SMTC or any subsidiary in connection with SMTC or any subsidiary;
- (xxxvi) there are no actual, threatened or pending unfair labour practice complaints, strikes, work stoppages, picketing, lock-outs, hand-billings, boycotts, slowdowns, arbitrations, grievances, complaints, charges or similar labour-related disputes or proceedings pertaining to SMTC or any of its subsidiaries, and there have not been any such activities or disputes or proceedings within the last year;
- (xxxvii) except as disclosed in the Reports, since December 31, 2002;
- (A) there has not been any material change in the assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of SMTC and its subsidiaries taken as a whole,
- (B) there has not been any material change in the capital or long-term debt of SMTC and its subsidiaries taken as a whole;
- (C) there has not been any material change in the business, business prospects, conditions (financial or otherwise) or results of the operations of SMTC and its subsidiaries taken as a whole; and

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- (D) SMTC and its subsidiaries taken as a whole has carried on its business in the ordinary course;
 - (xxxviii) no order ceasing or suspending trading in securities of the Company or SMTC or prohibiting the sale of securities by the Company or SMTC has been issued and no proceedings have been instituted, are pending, contemplated or threatened for this purpose; and
 - (xxxix) none of the directors or officers of the Company or SMTC is now, or has ever been, subject to an order or ruling of any Securities Commission, the SEC or a stock exchange prohibiting such individual from acting as a director or officer of a public company or of a company listed on a particular stock exchange.

11. **Special Warrant Closing**

- (a) The closing of the purchase and sale of the Special Warrants provided for in this Agreement shall be completed at the offices of Goodmans LLP, Toronto, Ontario at the Closing Time.
- (b) The following are conditions precedent to the obligations of the Underwriters and the Substituted Purchasers to purchase the Special Warrants, which conditions the Company and SMTC jointly and severally covenant to use commercially reasonable best efforts to fulfil within the times set out herein, and which conditions may be waived in writing in whole or in part by the Underwriters on behalf of the Substituted Purchasers:
 - (i) receipt by the Underwriters of the following documents:
 - (A) favourable legal opinions, dated the Closing Date from counsel to the Company and SMTC, Goodmans LLP and Ropes and Gray LLP, as applicable, addressed to the Underwriters, the Substituted Purchasers and the Underwriters' counsel in a form mutually agreeable to all the Underwriters, their counsel, the Company and SMTC;
 - (B) the certificates required by subsections 7(l) hereof dated as of the Closing Date;
 - (C) executed copies of the Material Agreements;
 - (D) certificates representing the Special Warrants, registered as directed by the Lead Underwriter, bearing a legend stating: "Unless permitted under securities legislation, the holder of the Special Warrants represented by this certificate shall not trade the Special Warrants before July 4, 2004";
 - (E) form of certificate representing the Warrants;

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- (F) evidence satisfactory to the Underwriters that the respective boards of directors of the Company and SMTC have authorized and approved the Material Agreements, the issuance of the Penalty Units, the issuance of the Special Warrants, the issuance of the Warrants upon the conversion of the Special Warrants, the issuance of the Special Warrant Shares upon the conversion of the Special Warrants, the issuance of the Warrant Shares upon the conversion of the Warrants and the issuance of the Underlying Common Shares upon the exchange of the Special Warrant Shares and the Warrant Shares and all matters relating hereto and forms of certificates in respect thereof; and
- (G) such further and other documentation as may be contemplated hereby or as counsel to the Underwriters or applicable regulatory authorities may reasonably require,
- all in form and substance satisfactory to the Underwriters, acting reasonably;
- (ii) the representations and warranties of the Company and SMTC contained herein being true and correct as of the Closing Time with the same force and effect as if made at and as of the Closing Time after giving effect to the transactions contemplated hereby;
- (iii) the Company and SMTC having complied with all covenants and satisfied all terms and conditions to be complied with and satisfied by it at or prior to the Closing Time; and
- (iv) the Underwriters shall not have previously terminated their obligations pursuant to this Agreement.
- (c) It will be a condition precedent to the obligation of the Company and SMTC to issue the Special Warrants that:
- (i) the Underwriters shall have delivered to the Company Subscription Agreements executed by each Substituted Purchaser;
- (ii) the Underwriters shall have delivered or caused to be delivered to the Escrow Agent a reimbursement wire transfer representing in the aggregate the total purchase price payable for all of the Special Warrants net of the Underwriters' Fee and reimbursement for expenses pursuant to Section 15 hereof;
- (iii) the Underwriters having complied with the covenants and satisfied all terms and conditions to be complied with and satisfied by them at or prior to the Closing Time; and
- (iv) no order shall have been made by any Securities Commission, the SEC, the TSX or the NASDAQ which restricts in any manner the distribution of the Special Warrants, the Warrants, the Special Warrant Shares, the Warrant Shares or the Underlying Common Shares.

12. **Conditions of Executing Prospectus Certificates**

The obligation of the Underwriters to execute the Underwriters' certificates to be contained in the Preliminary Prospectus, the Prospectus and any Amendments thereto shall be conditional upon:

- (a) the Underwriters being satisfied in their sole discretion, acting reasonably, that the disclosure therein contained constitutes full, true and plain disclosure of all material facts relating to the Company and SMTC and the securities being distributed thereunder and that such disclosure does not contain a misrepresentation;
- (b) with respect to the Prospectus, the Underwriters having received:
 - (i) the certificate required by subsections 7(l) dated as of the date of the Prospectus; and
 - (ii) the comfort letter required by subsection 8(e) dated as of the date of the Prospectus;
- (c) the Underwriters having been afforded the ability to conduct all "due diligence" investigations which the Underwriters have reasonably required to fulfil the Underwriters' obligations as underwriters and to enable the Underwriters to responsibly execute any such certificate of the Underwriters in the Prospectus.

13. **Offering in the United States**

- (a) For the purposes of this Section 13, the following terms will have the meanings indicated:
 - (i) "**Accredited Investor**" means "accredited investor" as that term is defined in Rule 501(a) of Regulation D;
 - (ii) "**affiliate**" means "**affiliate**" as that term is defined in Rule 405 under the 1933 Act;
 - (iii) "**Directed Selling Efforts**" means directed selling efforts as that term is defined in Regulation S. Without limiting the foregoing, but for greater clarity in this Section 13, it means, subject to the exclusions from the definition of directed selling efforts contained in Regulation S, any activity undertaken for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the United States for any of the Securities and includes the placement of any advertisement in a publication with a general circulation in the United States that refers to the offering of the Special Warrants;

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- (iv) **“General Solicitation”** or **“General Advertising”** means “general solicitation or general advertising”, as used under Rule 502(c) of Regulation D, including, but not limited to, any advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio, television or the Internet, or any seminar or meeting whose attendees had been invited by general solicitation or general advertising;
 - (v) **“Regulation D”** means Regulation D adopted by the SEC under the 1933 Act;
 - (vi) **“Regulation S”** means Regulation S adopted by the SEC under the 1933 Act;
 - (vii) **“Securities”** means the Special Warrants, the Units, the Special Warrant Shares, the Warrants and the Warrant Shares;
 - (viii) **“Substantial U.S. Market Interest”** means “substantial U.S. market interest” as that term is defined in Regulation S;
 - (ix) **“U.S. Affiliate”** of any Underwriter means its U.S. registered broker-dealer affiliate;
 - (x) **“U.S. Person”** means a “U.S. person” as that term is defined in Regulation S;
 - (xi) **“U.S. Subscription Agreement”** means the subscription agreements entered into between the Company and the U.S. purchasers with respect to the Special Warrants, in such form as may be agreed to by the Company and the Lead Underwriter;
 - (xii) **“1933 Act”** means the United States Securities Act of 1933, as amended; and
 - (xiii) **“1934 Act”** means the United States Securities Exchange Act of 1934, as amended.
- (b) The Underwriters may offer and sell the Special Warrants within the United States through the U.S. Affiliates on the terms and subject to the conditions of this Section 13.
- (c) Each Underwriter acknowledges that the Special Warrants have not been registered under the 1933 Act and the Special Warrants may be offered and sold only in transactions exempt from or not subject to the registration requirements of the 1933 Act. Accordingly, each Underwriter separately and not jointly represents, warrants and covenants, that:
- (i) it has not offered and sold, and will not offer and sell, any Special Warrants forming part of its allotment in the Underwriting Agreement

except (a) in an offshore transaction in accordance with Rule 903 of Regulation S or (b) pursuant to an available exemption from the registration requirements of the Securities Act. Accordingly, the Special Warrants will be offered or sold in the United States as provided in paragraphs (ii) through (xii) below and neither the Underwriter nor any of its affiliates nor any persons acting on its behalf, has made or will make (except as permitted in paragraphs (ii) through (xii) below) (A) any offer to sell or any solicitation of an offer to buy, any Special Warrants to any person in the United States or a U.S. Person, (B) any sale of Special Warrants to any purchaser unless, at the time the buy order was or will have been originated, the purchaser was outside the United States and not a U.S. Person, or such Underwriter, affiliate or person acting on behalf of either, reasonably believed that such purchaser was outside the United States and not a U.S. Person, or (C) any Directed Selling Efforts in the United States with respect to any of the Special Warrants;

- (ii) it will not offer or sell Special Warrants in the United States or to or for the account or benefit of a U.S. Person except that it may offer or sell Special Warrants to Substituted Purchasers who are Accredited Investors and who will purchase Special Warrants directly from the Company, in each case in the manner contemplated in this Section 13;
- (iii) it has not entered and will not enter into any contractual arrangement with respect to the distribution of the Special Warrants, except with its affiliates, any selling group members or with the prior written consent of the Company and SMTC;
- (iv) all offers of Special Warrants in the United States have been and will be made solely through the Underwriter's U.S. Affiliate and all sales of Special Warrants in the United States shall be made pursuant to this Section 13, by the Company solely to Substituted Purchasers who are Accredited Investors designated by one of the Underwriters' U.S. Affiliates;
- (v) it and its Affiliates have not, either directly or through a person acting on its or their behalf, solicited and will not solicit offers for, and have not offered to sell and will not offer to sell, Special Warrants in the United States by any form of General Solicitation or General Advertising or in any manner involving a public offering within the meaning of Section 4(2) of the 1933 Act;
- (vi) any offer, sale or solicitation of an offer to buy Special Warrants that has been made or will be made in the United States or to a U.S. Person was or will be made only to Accredited Investors in transactions that are exempt from registration under the 1933 Act and any applicable state securities laws and in accordance with any applicable U.S. federal and state laws and regulations governing the registration or conduct of securities brokers and dealers;

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- (vii) immediately prior to soliciting such offerees, the Underwriter, its affiliates, and any person acting on its or their behalf had reasonable grounds to believe and did believe that each offeree was an Accredited Investor, and at the time of completion of each sale to a person in the United States or a U.S. Person, the Underwriter, its affiliates, and any person acting on its or their behalf will require each purchaser designated by such Underwriter or its U.S. Affiliate to purchase Special Warrants from the Company as a Substituted Purchaser to certify that it is an Accredited Investor;
 - (viii) prior to completion of any sale of Special Warrants in the United States or to a U.S. Person, each U.S. purchaser will be required to execute a Subscription Agreement for U.S. purchasers;
 - (ix) at the Time of Closing, each Underwriter together with its U.S. Affiliate, will provide a certificate, substantially in the form of Exhibit A and addressed to the Company and SMTC, relating to the manner of the offer and sale of Special Warrants in the United States and to U.S. Persons or a written confirmation that it did not offer or sell any Special Warrants in the United States or to or for the account or benefit of a U.S. Person or arrange for any Substituted Purchasers in the United States or that are U.S. Persons.
 - (x) it will not, and will require any Selling Firm appointed by it not to, engage in hedging transactions with regard to the Special Warrants or the securities underlying the Special Warrants prior to the first anniversary of the Closing Date unless in compliance with the Securities Act;
 - (xi) it will require, and will require any Selling Firm appointed by it to require, with respect to each offer or sale of the Special Warrants or the securities underlying the Special Warrants made prior to the first anniversary of the Closing Date the purchaser of such securities (other than a distributor) to (i) certify that it is a U.S. person who purchased securities in a transaction that did not require registration under the Securities Act; (ii) agree to resell such securities only in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration, and (iii) agree not to engage in hedging transactions with regard to such securities unless in compliance with the Securities Act; and
 - (xii) it will, and it will require any Selling Firm appointed by it to require, that each distributor selling the Special Warrants or the securities underlying the Special Warrants to a distributor, a dealer, or a person receiving a selling concession, fee or other remuneration, prior to the first anniversary of the Closing Date, must send a confirmation or other notice to the purchaser stating that the purchaser is subject to the same restrictions on offers and sales that apply to an underwriter.

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- (d) Each of the Company and SMTC, jointly and severally, represent, warrants, covenants and agrees that:
- (i) it is not, and as a result of the sale of the Special Warrants contemplated hereby will not be, an open-end investment company, a unit investment trust registered or required to be registered or a closed end investment company required to be registered, but not registered, under the United States Investment Company Act of 1940, as amended;
 - (ii) except with respect to offers and sales to Accredited Investors in reliance upon an exemption from registration available under the 1933 Act, neither the Company, SMTC nor any of their respective affiliates, nor any person acting on their behalf, has made or will make: (A) any offer to sell, or any solicitation of an offer to buy, any Securities to a person in the United States or a U.S. Person; or (B) any sale of Securities unless, at the time the buy order was or will have been originated, the purchaser is (i) outside the United States and not a U.S. Person or (ii) the Company, SMTC, its affiliates, and any person acting on their behalf reasonably believe that the purchaser is outside the United States and not a U.S. Person;
 - (iii) during the period in which Special Warrants are offered for sale or any Units, Special Warrant Shares, Warrants or Warrant Shares are outstanding, neither it nor any of its affiliates, nor any person acting on its or their behalf has engaged in or will engage in any Directed Selling Efforts with respect to the Securities in the United States, or has taken or will take any action that would cause the exemptions afforded by the 1933 Act to be unavailable for offers and sales of Special Warrants in the United States in accordance with this Section 13, or the exclusion from registration afforded by Rule 903 or Rule 904 of Regulation S to be unavailable for offers and sale of Special Warrants outside the United States in accordance with this Agreement;
 - (iv) none of the Company, SMTC, any of their respective affiliates nor any person acting on its or their behalf has offered or will offer to sell, or has solicited or will solicit offers to buy, any of the Securities in the United States by means of any form of General Solicitation or General Advertising or in any manner involving a public offering within the meaning of Section 4(2) of the 1933 Act;
 - (v) except with respect to the offer and sale of Special Warrants offered hereby, it has not, for a period of six months prior to the commencement of the offering of Special Warrants, sold, offered for sale or solicited any offer to buy any of its securities in the United States or to a U.S. Person in a manner that would be integrated with the offer and sale of the Special Warrants and would cause the exemptions from registration set forth in the 1933 Act to become unavailable with respect to the offer and sale of the Special Warrants; and

(vi) the Company and SMTC shall not register the transfer of any of the Securities not made in accordance with Regulation S.

14. **Indemnity**

- (a) The Company and SMTC, jointly and severally, agree to indemnify and save harmless the Underwriters, any U.S. broker-dealer affiliate of an Underwriter that offers any Special Warrants for sale to U.S. Persons and their respective affiliates and their respective partners, directors, officers, employees and agents against all losses (other than a loss of profit), claims, damages, liabilities, costs and expenses caused or incurred by reason of:
- (i) any statement or information (other than the Underwriters' Disclosure) contained in the Preliminary Prospectus, the Prospectus, the Registration Statement, any Amendment or any Supplementary Material that may be filed by or on behalf of the Company or SMTC under the applicable Canadian Securities Laws and the applicable securities laws of the United States in connection with the Offering being or alleged to be a misrepresentation or untrue or any omission or alleged omission to state therein any fact or information (other than Underwriters' Disclosure), required to be stated therein or necessary to make any statement therein not misleading in light of the circumstances under which it was made;
 - (ii) any order made or inquiry, investigation or proceeding commenced or threatened by the Securities Commissions, the SEC, the TSX, the NASDAQ or other competent authority, not based upon the activities or the alleged activities of an Underwriter, other than those losses, claims, damages, liabilities, costs and expenses caused or incurred by reason of, or directly relating to any Underwriter, whether or not related to the Offering, based upon any untrue statement or omission or alleged untrue statement or omission or any misrepresentation or alleged misrepresentation in the Preliminary Prospectus, the Prospectus, the Registration Statement, any Amendment or any Supplementary Material (other than Underwriters' Disclosure or omission thereof) which prevents or restricts the sale of, the trading in, or the distribution of the Special Warrants, the Warrants, the Special Warrant Shares, the Warrant Shares or the Underlying Common Shares in the Qualifying Jurisdictions and the United States;
 - (iii) the Company or SMTC not complying with any requirement of any Canadian Securities Laws or any securities laws of the United States in connection with the offering, issuance, sale and delivery of the Special Warrants, the Warrants, the Special Warrant Shares, the Warrant Shares or the Underlying Common Shares or any other matter contemplated hereby; or
 - (iv) any breach of any of the covenants, representations, warranties or obligations of the Company or SMTC contained herein or made pursuant hereto,

If any matter or thing contemplated by this Section 14 shall be asserted against any Person in respect of which indemnification is or might reasonably be considered to be provided, such Person (the “**Indemnified Person**”) shall notify the party from whom indemnity is being sought (the “**Indemnifying Party**”) as soon as possible of the nature of such claim, and the Indemnifying Party shall be entitled, but not required, to assume the defence of any suit brought to enforce such claim; provided, however, that the defence shall be through legal counsel reasonably acceptable to the Indemnified Person. The omission to so notify the Indemnifying Party will not relieve it from liability which it may have to any Indemnified Person provided that the Indemnifying Party is not materially prejudiced by such omission.

- (b) In any claim referred to in subsection 14(a) hereof, the Indemnified Person shall have the right to retain other legal counsel to act on his, her or its behalf provided that the fees and disbursements of such other legal counsel shall be paid by the Indemnified Person unless:
- (i) the Indemnifying Party and the Indemnified Person shall have mutually agreed to the retention of the other legal counsel;
 - (ii) the Indemnifying Party fails to defend such claim within a reasonable period of time; or
 - (iii) the Indemnified Person and Indemnifying Party are parties to any such claims and the representation of both parties by the same legal counsel would be inappropriate due to the actual or potential differing interests between them;

in which event such fees and disbursements shall be paid on an on-going basis by the Indemnifying Party to the extent that such fees have been reasonably incurred provided that in no event shall the Company or SMTC be responsible for the fees and expenses of more than one separate legal counsel in respect of all Indemnified Persons.

- (c) The rights of indemnity contained in this Section 14 shall not enure to the benefit of any Indemnified Person if the Underwriters were provided with a copy of any Amendment which corrects any untrue statement or omission or alleged omission which is the basis of such claim and which is required, under the applicable Canadian Securities Laws and the applicable securities laws of the United States, to be delivered to such Person by the Underwriters and if the Underwriters do not so deliver the Amendment within five days of the Underwriters’ receipt.
- (d) The Company and SMTC hereby waives any right to recover contribution from the Underwriters with respect to any liability of the Company and SMTC by reason of or arising out of any misrepresentation contained in the Preliminary Prospectus, the Prospectus, the Registration Statement, any Amendment or any Supplementary Material; provided, however, that such waiver shall not apply in respect of liability caused or incurred by reason or arising out of any misrepresentation which is based upon or results from the Underwriters’ Disclosure.

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- (e) If for any reason the indemnification provided for in subsection 14(a) is unavailable, in whole or in part, to an Indemnified Person in respect of any losses, claims, damages, liabilities, costs or expenses (or claims, actions, suits or proceedings in respect thereof) referred to in subsection 14(a), and subject to the restrictions and limitations referred to therein, the Indemnifying Party shall contribute to the amount paid or payable (or, if such indemnity is unavailable only in respect of a portion of the amount so paid or payable, such portion of the amount so paid or payable) by such Indemnified Person as a result of such losses, claims, damages, liabilities, costs or expenses (or claims, actions, suits or proceedings in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Indemnifying Party on the one hand and the Underwriters on the other hand from the distribution of the Special Warrants provided that an Underwriter shall not in any event be liable to contribute, in the aggregate, any amount in excess of the amount of the Underwriters' Fee paid to it pursuant hereto.

The relative benefits received by the Indemnifying Party on the one hand and the Underwriters on the other hand shall be deemed to be in the proportion that the total proceeds received from the distribution of the Special Warrants (net of the Underwriters' Fee) is to the Underwriters' Fee in respect of the sale of the Special Warrants. The amount paid or payable by an Indemnified Person as a result of such losses, claims, damages, liabilities, costs or expenses (or claims, actions, suits or proceedings in respect thereof) referred to above shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Person in connection with investigating or defending any such losses, claims, damages, liabilities, costs or expenses (or claims, actions, suits or proceedings in respect thereof), whether or not resulting in any such action, suit, proceeding or claim.

- (f) No admission of liability and no settlement of any claims, actions, suits or proceedings in respect of any losses, claims or liabilities referred to in this Section 14 shall be made without the consent of the Indemnified Person affected, such consent not to be unreasonably withheld. No admission of liability shall be made by an Indemnified Person without the consent of the Indemnifying Party and it shall not be made liable for any settlement of any such claim, action, suit or proceeding made without its consent, such consent not to be unreasonably withheld.
- (g) The indemnity and contribution obligation of the Indemnifying Party hereof shall be in addition to any liability which the Indemnifying Party may have, shall, to the extent that the indemnity contained in subsection 14(a) hereof is given in favour of Persons who are not parties to this Agreement, be held by the Underwriters in trust for the Persons in favour of whom such indemnities are given and may be enforced directly by such Persons and be binding and enure to the benefit of any successors, assigns, heirs and personal representatives of an Indemnified Person.

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- (h) If a court of competent jurisdiction in a final judgment determines that any person has engaged in any fraud, fraudulent misrepresentation, wilful misconduct or gross negligence, such person shall not be entitled to claim contribution from any other person who has not engaged in such fraud, fraudulent misrepresentation, wilful misconduct or gross negligence.

15. **Expenses**

Whether or not the purchase and sale of the Special Warrants shall be completed as contemplated by this Agreement, all reasonable costs and expenses of or incidental to the issue and delivery of the Special Warrants to the Substituted Purchasers and of or incidental to all matters in connection with the transactions set out in this Agreement shall be borne by the Company and SMTC, including, without limitation, expenses payable in connection with the qualification of the Special Warrant Shares, the Warrant Shares and the Underlying Common Shares for distribution in the Qualifying Jurisdictions and the United States in which Special Warrants have been sold by the Underwriters on behalf of the Company and SMTC, the fees and expenses of legal counsel to the Company and SMTC and any local counsel, and all costs incurred in connection with the preparation and printing of the Preliminary Prospectus, the Prospectus, the Registration Statement, any Amendment, any Supplementary Material and the certificates representing the Special Warrants. The Company and SMTC shall be jointly responsible for and pay the Underwriters' reasonable out-of-pocket costs and expenses, and the reasonable fees and disbursements of the Underwriters' legal counsel and any Selling Firms. All reasonable costs and expenses incurred by the Underwriters prior to the Closing Date shall be deducted from the gross proceeds of the Offering at the Time of Closing. All reasonable costs and expenses incurred by the Underwriters on or after the Closing Date, including the reasonable fees and disbursements of the Underwriters' legal counsel in connection with the Prospectus and related due diligence, shall be reimbursed by the Company and SMTC within 15 days of receiving an invoice therefore.

16. **Termination**

(a) **Material Change**

If, prior to the Closing Time, there should occur any material change or a change in any material fact (including the discovery by the Underwriters of any material fact that was not disclosed previously by the Company or SMTC) in the business, operations, capital, affairs or prospects of the Company or SMTC or any of their affiliates, which results or, in the opinion of any of the Underwriters, might reasonably be expected to result to a materially adverse effect on the market price or value of the Exchangeable Shares or Common Shares, any of the Underwriters shall be entitled, at its option, in accordance with subsection 16, to terminate its obligations under this Agreement by written notice to that effect given to the other Underwriters and the Company at any time prior to the Closing Time.

(b) **No Proceedings**

If any inquiry, action, suit, investigation or other proceeding (whether formal or informal) is commenced, announced or threatened or any order is made by any federal, provincial or other governmental department, commission, board, bureau, agency or instrumentality including, without limitation, the TSX or the NASDAQ or any securities regulatory authority (other than any such inquiry, action, suit investigation or other proceeding or order relating solely to any of the Underwriters) or any law or regulation is enacted or changed which in the reasonable opinion of the Underwriters operates to prevent or restrict the trading of the Exchangeable Shares or the Common Shares or materially and adversely affects or could be expected to materially and adversely affect the market price or value of the Exchangeable Shares or the Common Shares, any of the Underwriters shall be entitled, at its option and in accordance with subsection 16, to terminate its obligations under this Agreement by notice to that effect given to the other Underwriters and the Company at any time prior to the Closing Time.

(c) **Disaster Out**

If there should develop, occur or come into effect or existence any event, action, state, condition or major financial occurrence of national or international consequence, any acts of terrorism or hostilities or escalation thereof or other calamity or crises, or any law or regulation which in the reasonable opinion of any Underwriter, materially adversely affects, or could be expected to materially adversely affect, the financial markets in Canada or the United States or the business, operations, capital, affairs or prospects of SMTC and the Subsidiaries taken as a whole, any of the Underwriters shall be entitled at its option, in accordance with subsection 16, to terminate its obligations under this Agreement by written notice to that effect given to the other Underwriters, the Company and SMTC at any time prior to the Closing Time.

(d) **Non-Compliance with Conditions**

Each of the Company and SMTC agree that all material terms and conditions of this Agreement shall be construed as conditions and complied with so far as they relate to acts to be performed or caused to be performed by it, that it will use its commercially reasonable best efforts to cause such conditions to be complied with, and that any breach or failure by the Company or SMTC to comply with any such conditions shall entitle any of the Underwriters to terminate their obligations to purchase the Special Warrants or to refuse to sign the certificate of Underwriters in the Prospectus (provided that, for greater clarity, failure to comply with any such material term or condition entitles such Underwriter to so refuse pursuant to Section 12 of this Agreement), by notice to that effect given to the other Underwriters, the Company and SMTC at or prior to the Closing Time, unless otherwise expressly provided in this Agreement. The Underwriters may waive, in whole or in part, or extend the time for compliance with, any terms and conditions without prejudice to their rights in respect of any other of such terms and conditions or any other or subsequent breach or non-compliance, provided that any such waiver or extension shall be binding upon the Underwriters only if such waiver or extension is in writing and signed by all of the Underwriters.

(e) **Exercise of Termination Rights**

The rights of termination contained in subsections 16(a), 16(b), 16(c) and 16(d) may be exercised by any of the Underwriters and are in addition to any other rights or remedies any of the Underwriters may have in respect of any default, act or failure to act or non-compliance by the Company or SMTC in respect of any of the matters contemplated by this Agreement or otherwise. Subject to Section 19, in the event of any such termination, there shall be no further obligations on the part of the Underwriters to the Company or SMTC or on the part of the Company and SMTC to the Underwriters except in respect of any liability which may have arisen or may arise after such termination under Section 16. A notice of termination given by an Underwriter under subsections 16(a), 16(b), 16(c) and 16(d) shall not be binding upon any other Underwriter.

17. **Liability of Underwriters**

- (a) The obligations of the Underwriters with respect to purchasing the Special Warrants shall be several, and not joint or joint and several, and shall extend to the following percentages of the Special Warrants to be sold on behalf of the Company and SMTC.

Orion Securities Inc.	42.55%
CIBC World Markets Inc.	42.55%
GMP Securities Limited	10.00%
RBC Dominion Securities Inc.	4.90%

- (b) If one of the Underwriters fails to perform its obligation to purchase (or arrange for Substituted Purchasers for) its representative percentage of the aggregate amount of the Special Warrants set forth above, the other Underwriters shall have the right, but not the obligation, at their option, to purchase any of the Special Warrants which the defaulting Underwriter failed or refused to purchase. If, with respect to the Special Warrants, the non-defaulting Underwriters elect not to exercise such right:
- (i) the non-defaulting Underwriter shall be entitled, by notice to the Company, to terminate, without liability on the part of such Underwriter or the Company, its obligations to purchase its original percentage of Special Warrants; and
 - (ii) the Company and SMTC shall have the right to terminate its obligations hereunder without liability except under the headings "Indemnity" and "Expenses" above in respect of the non-defaulting Underwriters.
- (c) Nothing in this Section 17 shall relieve any defaulting Underwriter from liability in respect of its default hereunder to the Company, SMTC or to any non-defaulting Underwriter.

18. **Standstill**

Each of the Company and SMTC agrees that for a period of 120 days following the Closing Date, it will not sell or issue, or enter into any agreement to sell or issue, any of their respective equity securities (or securities convertible into such equity securities) in excess of 5% of the total value or number of such securities outstanding following completion of the offering (other than the grant of options pursuant to either corporation's stock option plans or stock purchase plan or the issuance of securities on the exercise of previously granted options, warrants or other securities of such corporation or in connection with any acquisition, strategic investments or strategic alliance involving the Company or SMTC) (the "**Standstill Provision**") without the prior written consent of the Lead Underwriter, such consent not to be unreasonably withheld or delayed. SMTC hereby agrees that it will cause its other Subsidiaries to comply with the Standstill Provision contemplated herein. For greater certainty, this provision will no longer apply if the Offering is not completed or if the Shareholder Approvals are not obtained.

19. **Survival**

All of the representations, warranties, covenants and agreements of the Company and SMTC herein contained or contained in documents delivered pursuant to or in connection with this Agreement shall survive the issue and sale of the Special Warrants and shall continue in full force and effect for the benefit of the Underwriters for a period of two years from the Closing Date.

20. **Actions by the Underwriters**

All steps which must or may be taken by the Underwriters in connection herewith, with the exception of matters relating to any of Sections 14, 15, 16 or 17 may be taken by the Lead Underwriter on behalf of itself and the execution of this Agreement by the Company and SMTC shall constitute the authority and obligation of the Company and SMTC for accepting notification of any such steps from, and for delivering the definitive documents constituting the Special Warrants to or to the order of, the Lead Underwriter. The Lead Underwriter shall first consult with the other Underwriters with respect to all notices, extensions or communications to or with the Company.

21. **Notice**

Any notice or other communication required or permitted to be given hereunder shall be in writing and may be personally delivered or sent by facsimile on a Business Day to the following addresses:

(a) in the case of the Company:

SMTC Manufacturing Corporation of Canada
635 Hood Road
Markham, Ontario
L3R 4N6

Attention: John E. Caldwell
Facsimile Number: (905) 479-5326

with a copy to

Goodmans LLP
Suite 2400
250 Yonge Street
Toronto, Ontario
M5B 2M6

Attention: Allan Goodman
Facsimile Number: (416) 979-1234

(b) in the case of SMTC:

SMTC Corporation
635 Hood Road
Markham, Ontario
L3R 4N6

Attention: John E. Caldwell
Facsimile Number: (905) 479-5326

with a copy to

Ropes & Gray LLP
One International Place
Boston, MA 02110

Attention: Alfred O. Rose
Facsimile Number: (617) 951-7050

(c) in the case of the Underwriters:

Orion Securities Inc.
BCE Place
181 Bay Street
Suite 3100
Toronto, Ontario
M5J 2T3

Attention: Mark McQueen
Facsimile Number: (416) 848-3650

with a copy to

McCarthy Tétrault LLP
Box 48, Suite 4700
Toronto Dominion Bank Tower
Toronto, Ontario
M5K 1E6

Attention: Jonathan Grant
Facsimile Number: (416) 868-0673

The Company or SMTC, or any of the Underwriters may change its address for notice by notice given in the manner aforesaid. Any such notice or other communication shall be deemed to have been given on the day on which it was delivered or sent by facsimile if received during normal business hours, otherwise it shall be deemed to have been received by 9:00 a.m. on the next Business Day.

22. **Language**

The parties hereto confirm their express wish that this Agreement and all documents and agreements directly or indirectly relating thereto be drawn up in the English language.

Les parties reconnaissent leur volonté express que la présente entente ainsi que tous les documents et contrats s'y rattachant directement ou indirectement soient rédigées en anglais.

23. **Time of Essence**

Time shall be of the essence of this Agreement.

24. **Entire Agreement**

The parties agree that, with respect to the subject matter of this Agreement, this Agreement supersedes all prior understandings and communications between the parties or any of them, oral or written, and constitutes the entire agreement between the parties.

25. **Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the Qualifying Jurisdictions and the laws of Canada applicable therein and the courts of such province shall have non-exclusive jurisdiction over any dispute hereunder.

26. **Delivery by Facsimile Transmission and Counterparts**

This Agreement, once executed, may be delivered by facsimile transmission and may be considered by the Company and SMTC to be an original executed copy. In addition, this Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same document.

(the balance of this page was intentionally left blank)

If the foregoing is in accordance with your understanding and is agreed to by you, will you please confirm your acceptance by signing the enclosed copies of this letter at the place indicated and returning the same to the undersigned.

Yours truly,

ORION SECURITIES INC.

By: /s/ [signature appears here]

GMP SECURITIES LIMITED

By: /s/ Jason Robertson

Director, Investment Banking

Accepted and agreed to as of the 3rd day of March, 2004.

SMTC CORPORATION

By: /s/ John E. Caldwell

John E. Caldwell
President and Chief Executive Officer

CIBC WORLD MARKETS INC.

By: /s/ [signature appears here]

RBC DOMINION SECURITIES INC.

By: /s/ [signature appears here]

SMTC MANUFACTURING CORPORATION OF CANADA

By: /s/ John E. Caldwell

John E. Caldwell
President and Chief Executive Officer

FORM OF SUBSCRIPTION FOR SPECIAL WARRANTS

TO: SMTC MANUFACTURING CORPORATION OF CANADA (the “Corporation”)

**AND TO: ORION SECURITIES INC.
CIBC WORLD MARKETS INC.
GMP SECURITIES LIMITED and
RBC DOMINION SECURITIES INC. (the “Underwriters”)**

The undersigned (the “**Subscriber**”) hereby irrevocably subscribes for and agrees to purchase the number of special warrants (the “**Special Warrants**”) of the Corporation as more fully described herein, for the aggregate subscription price set forth below, representing a subscription price of \$1.20 (Canadian) per Special Warrant.

This subscription is made upon and subject to the terms and conditions set forth in the attached “Terms and Conditions of Subscription for Special Warrants of SMTC Manufacturing Corporation of Canada”.

In addition to this face page, the Subscriber must also complete all applicable exhibits hereto.

Number of Special Warrants:

Name of Subscriber (please print)

By: _____
Authorized Signature

Official Capacity or Title (please print)

Please print name of individual whose signature appears above if different than the name of the subscriber printed above

Subscriber’s Address

Address of Beneficial Purchaser, if applicable

Telephone Number

Register the Special Warrants as set forth below:

Name

Account reference, if applicable

Address

Aggregate Subscription Price:

\$ _____

If the Subscriber is signing as agent for a principal and is not a trust company or a portfolio manager, in either case, purchasing as trustee or agent for accounts fully managed by it, complete the following:

Name of Principal

Principal’s Address

Deliver the Special Warrants as set forth below:

Name

Account reference, if applicable

Contact Name

Address

Telephone Number

A completed and originally executed copy of this subscription agreement must be delivered or transmitted by telecopier (416) 848-3593 by no later than 12:00 noon (Toronto time) on March 1, 2004 to Orion Securities Inc., P.O. Box 830, BCE Place, 181 Bay Street, Suite 3100, Toronto, Ontario M5J 2T3 (Attention: Liliana Miglionico, Syndication).

ACCEPTANCE: The Corporation hereby accepts the subscription as set forth above on the terms and conditions contained in this Subscription Agreement and the Corporation represents and warrants to the Subscriber that the representations and warranties made by the Corporation to the Underwriters in the Underwriting Agreement (as defined herein) are true and correct in all material respects as of the Closing Date (as defined herein) (save and except as waived by the Underwriters) and that the Subscriber is entitled to rely thereon and on the terms, conditions and covenants contained in the Underwriting Agreement as if the Subscriber were a party thereto.

March __, 2004

**SMTC MANUFACTURING CORPORATION OF
CANADA**

(Closing Date)

By: _____

**TERMS AND CONDITIONS OF SUBSCRIPTION FOR
SPECIAL WARRANTS OF SMTC MANUFACTURING CORPORATION OF CANADA**

Underwritten Private Placement

1. The Subscriber acknowledges that the Special Warrants will be issued in connection with the creation, issue and sale of an aggregate of 33,350,000 Special Warrants of the Corporation at a subscription price of \$1.20 per Special Warrant (and up to 38,352,500 Special Warrants if an over-allotment option is exercised by the Underwriters) to be sold by the Corporation on a private placement basis pursuant to an agreement (the “**Underwriting Agreement**”) to be dated on or about March 3, 2004 between the Corporation, SMTC Corporation (“**SMTC**”) and the Underwriters and that the definitive terms and conditions of the Special Warrants will be set forth in the Special Warrant Indenture (as hereinafter defined).

Terms of Special Warrants

2. (a) The Special Warrants will be created and issued pursuant to the terms of a special warrant indenture (the “**Special Warrant Indenture**”) to be entered into between the Corporation and CIBC Mellon Trust Company (the “**Trustee**”), or such other trust company as is acceptable to the Corporation and the Underwriters, at or prior to the Closing Time (as hereinafter defined).
- (b) Each Special Warrant will be exercisable to acquire, for no additional consideration, one unit (the “**Units**”). Each Unit is comprised of one exchangeable share in the capital of the Corporation (the “**Exchangeable Shares**”) and one-half of one exchangeable share purchase warrant (the “**Warrants**”). Each full Warrant entitles the holder to acquire one Exchangeable Share at any time on or prior to the fifth anniversary of the Closing Date at an exercise price of \$1.85. Each Exchangeable Share is exchangeable at the option of the holder, at any time, for one common share of SMTC (the “**Common Shares**”).
- (c) The Special Warrants will be exercisable by the holders thereof surrendering the Special Warrants to the Trustee at any time on or before 5:00 p.m. (Toronto time) on the date (the “**Expiry Date**”) that is the earlier of: (i) the 6th business day after the date that a receipt is issued by the last of the securities regulatory authorities in each province or territory of Canada where a holder is resident (the “**Qualifying Jurisdictions**”) for a (final) prospectus qualifying the distribution of the Units (the “**Prospectus Qualification Date**”); and (ii) the first business day following the date which is 12 months after the Closing Date. Special Warrants not exercised prior to the Expiry Date will be deemed to have been exercised by the Trustee on behalf of the holders, without any further action on the part of the holders, at 4:59 p.m. (Toronto time) on the Expiry Date. For the purposes of clause (i) above, holders of Special Warrants resident outside of Canada shall be deemed to be residents of Ontario.
- (d) The Underwriting Agreement and the Special Warrant Indenture will provide, among other things, that each of the Corporation and SMTC will use its reasonable best efforts to (i) file a preliminary prospectus in respect of the issuance and distribution of the Units in each of the Qualifying Jurisdictions as soon as practicable following the Closing Date, (ii) resolve all comments received or deficiencies raised by the various securities regulatory authorities in the Qualifying Jurisdictions as expeditiously as possible, (iii) file and obtain receipts for a (final) prospectus (the “**Final Prospectus**”) in each Qualifying Jurisdiction that qualifies the issuance and distribution of the Units as soon as possible after such regulatory comments and deficiencies have been resolved and in no event later than 5:00 p.m. (Toronto time) on the date that is 90 days after the Closing Date (the “**Prospectus Qualification Deadline**”), and (iv) file a registration statement with the United States Securities and Exchange Commission (the “**SEC**”) registering the Common Shares into which the Exchangeable Shares are exchangeable (the “**Underlying Common Shares**”) and to take such other steps as may be necessary to ensure the free tradability of the Underlying Common Shares as soon as possible but in no event later than the date that is 120 days after the Closing Date (the “**Registration Qualification Deadline**”).
- (e) If the Prospectus Qualification Date does not occur on or before the Prospectus Qualification Deadline or if the date on which the Registration Statement becomes effective does not occur on

or before the Registration Qualification Deadline, the number of Units issuable on exercise of each Special Warrant exercised after the Prospectus Qualification Deadline shall be increased to 1.1 without payment of additional consideration.

- (f) The Special Warrants will be issued pursuant to exemptions from prospectus requirements and will be subject to resale restrictions. In the event that the Corporation is unable to obtain a receipt for the Final Prospectus in a Qualifying Jurisdiction, or if a Special Warrant is exercised prior to the issuance of a receipt for a Final Prospectus in a Qualifying Jurisdiction, the Exchangeable Shares and Warrants comprising Units may be subject to statutory hold periods during which these securities may not be resold in such Qualifying Jurisdiction.
- (g) If SMTC is unable to cause the registration statement filed with the SEC to become effective or is otherwise unable to ensure the free tradability of the Underlying Common Shares, the Underlying Common Shares will be subject to statutory hold periods during which they may not be resold in Canada or the United States.
- (h) If a preliminary prospectus is not filed as contemplated by paragraph 2(d) hereof during the four month period following the Closing Date, the Special Warrants not exercised prior thereto will be deemed to have been exercised by the Trustee on behalf of the holders, without any further action on the part of the holders at 4.59 p.m. (Toronto time) on such date.
- (i) It is acknowledged that the issuance of Underlying Common Shares and the implementation of a debt restructuring of the Corporation and SMTC will require the approval of the shareholders of SMTC and that SMTC will use its commercially reasonable best efforts to cause a meeting of shareholders of SMTC to be held for such purpose within 60 days following the Closing Date, but in any event no later than 90 days following the Closing Date. If the requisite approval of SMTC shareholders is not obtained, subject to NASDAQ approval, Subscribers will be allowed for a period of five business days following the date of the meeting of SMTC shareholders, to subscribe, on a pro rated basis, for Units representing (i) an aggregate number of Underlying Exchangeable Shares that does not exceed 25% of all such issued and outstanding shares and (ii) an aggregate number of Underlying Common Shares that, together with the Underlying Common Shares issuable on exchange of the Exchangeable Shares described in clause (i) of this paragraph, does not exceed 19.9% of the issued and outstanding Common Shares of SMTC (the “**Allowable Subscriptions**”).
- (j) The net proceeds from the sale of Special Warrants will be deposited with the Trustee who shall invest such net proceeds in government securities until they are distributed in accordance herewith. If the requisite shareholder approvals referred to in subsection 2(i) are not obtained or if certain insolvency events have occurred and are continuing, then the gross proceeds of the sale of Special Warrants in excess of the Allowable Subscription amounts shall be returned and/or paid by the Corporation to the Underwriters for the benefit of Subscribers, together with any interest earned on that portion of the escrowed funds.

The terms of the Special Warrant Indenture shall otherwise be in such form and contain such terms as shall be approved by the Underwriters and the Corporation.

The foregoing description of the Special Warrants is a summary only and is subject to the detailed provisions of the Special Warrant Indenture.

Representations, Warranties and Covenants by Subscriber

- 3. By executing this subscription, the Subscriber (and, if applicable, the others for whom it is contracting hereunder) represents, warrants and covenants to the Corporation and the Underwriters (and acknowledges that the Corporation, the Underwriters and their respective counsel are relying thereon) that:
 - (a) it has been independently advised as to restrictions with respect to trading in the Special Warrants, the Units, the Exchangeable Shares and Warrants comprising the Units, the Exchangeable Shares underlying the Warrants and the Common Shares into which the Exchangeable Shares are

exchangeable (collectively, the “**Securities**”) imposed by applicable securities legislation in the jurisdiction in which it resides, confirms that no representation has been made to it by or on behalf of the Corporation or the Underwriters with respect thereto, acknowledges that it is aware of the characteristics of the Securities, the risks relating to an investment therein, and of the fact that if a receipt for the Final Prospectus is not obtained it will not be able to resell the Securities, except in accordance with limited exemptions under applicable securities legislation and regulatory policy until expiry of the applicable restricted period and compliance with the other requirements of applicable securities laws;

- (b) it has not received or been provided with, nor has it requested, nor does it have any need to receive, any offering memorandum, or any other document describing the business and affairs of the Corporation, nor has any document been prepared for delivery to, or review by, prospective purchasers in order to assist them in making an investment decision in respect of the Special Warrants;
- (c) the offering and sale of Special Warrants to it was not made or solicited through, and it is not aware of, any advertisement of the Special Warrants in printed public media, radio, television or telecommunications, including electronic display (such as the Internet), or any other advertisement or general solicitation with respect to the distribution of the Special Warrants;
- (d) it has relied solely upon the publicly available information relating to, and issued by, the Corporation and not upon any verbal or written representation as to fact or otherwise made by or on behalf of the Corporation or the Underwriters or any employees, agents or affiliates thereof, such publicly available information having been delivered to the Subscriber without independent investigation or verification by the Underwriters, and agrees that the Underwriters and their counsel assume no responsibility or liability of any nature whatsoever for the accuracy, adequacy or completeness of the publicly available information upon which the investment decision has been made and acknowledges that the Underwriters’ counsel is acting as counsel to the Underwriters and not as counsel to the Subscriber;
- (e)
 - (i) it is resident in the province set forth as the “Subscriber’s Address” on the face page of this Subscription Agreement, and if the Subscriber is acting as agent for a disclosed principal/beneficial purchaser, such disclosed principal/beneficial purchaser is resident in the province set forth as the “Principal’s Address” on the face of this Subscription Agreement; and
 - (ii) it is aware that it is purchasing the Special Warrants pursuant to an exemption from the prospectus requirements under applicable securities legislation and, as a consequence: (A) it is restricted from using most of the civil remedies available under securities legislation; (B) it may not receive information that would otherwise be required to be provided to it under securities legislation; and (C) the Corporation is relieved from certain obligations that would otherwise apply under securities legislation;
- (f) unless it is purchasing under subsections 3(g), (h) or (i) it is purchasing the Special Warrants as principal for its own account, not for the benefit of any other person, for investment only, and not with a view to the resale or distribution of all or any of the Securities, and unless exempted by an order of the securities commission or similar regulatory authority of the province in which it resides:
 - (i) if it is resident in **British Columbia or Alberta** or otherwise subject to the securities legislation of **British Columbia or Alberta**:
 - (1) it is an individual and the aggregate acquisition cost of the Special Warrants purchased by it is not less than \$97,000 or, if the Subscriber is not an individual but is a corporation, partnership, trust, fund, association or any other organization of a group of persons, it was not created solely, nor is it used primarily, to permit the purchase of the Special Warrants without a prospectus by groups of individuals whose individual share of the aggregate acquisition

cost of such securities is less than \$97,000 or, if it is such an entity created or used primarily for such purpose and is resident in British Columbia, it would have an aggregate acquisition cost of purchasing the Special Warrants of not less than \$97,000 and each of the individuals who forms part of the group has contributed at least \$97,000 to such entity for the purpose of purchasing such securities; or

(2) it is one of the following and has so indicated by initialling the applicable paragraph:

- _____ (I) a director, senior officer or control person of the Corporation or an affiliate of the Corporation;
- _____ (II) a spouse, parent, grandparent, brother, sister or child of any person referred to in subclause (I) above;
- _____ (III) a parent, grandparent, brother, sister or child of the spouse of any person referred to in subclause (I);
- _____ (IV) a close personal friend of any person referred to in subclause (I) and, if requested, by the Corporation or the Underwriters, will provide a signed statement describing any of such persons;
- _____ (V) a close business associate of any person referred to in subclause (I) and, if requested by the Corporation or the Underwriters, will provide a signed statement describing any of such persons;
- _____ (VI) a founder of the Corporation or a spouse, parent, grandparent, brother, sister, child, close personal friend or close business associate of a founder of the Corporation and, if requested by the Corporation or the Underwriters, will provide a signed statement describing any of such persons;
- _____ (VII) a parent, grandparent, brother, sister or child of the spouse of a founder of the Corporation;
- _____ (VIII) a person or company of which a majority of the voting securities are beneficially owned by, or a majority of the directors are, persons or companies referred to in subclauses (I) through (VII) above; or
- _____ (IX) a trust or estate of which all of the beneficiaries or a majority of the trustees are persons or companies described in subclauses (I) through (VII) above; and

no commission or finder's fee has been paid to any director, officer, founder or control person of the Corporation in connection with the purchase of Units by the Subscriber;

(ii) if it is resident in or otherwise subject to the laws of **Alberta, Manitoba, Nova Scotia, Saskatchewan** or **British Columbia** it is an "accredited investor", as such term is defined in Multilateral Instrument 45-103 entitled "Capital Raising Exemptions" promulgated under the *Securities Act* (Alberta), the *Securities Act* (Manitoba), the *Securities Act* (Nova Scotia), *The Securities Act, 1988* (Saskatchewan) and the *Securities Act* (British Columbia) and has concurrently executed and delivered a Representation Letter in the form attached as **Exhibit "2"** to this Subscription Agreement;

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- (iii) if it is resident in **Ontario** or otherwise subject to the securities legislation of **Ontario**, it is an “accredited investor” as defined in Ontario Securities Commission Rule 45-501 entitled “Exempt Distributions” promulgated under the *Securities Act* (Ontario), and has concurrently executed and delivered a Representation Letter in the form attached as Exhibit “3” to this Subscription Agreement;
- (iv) if it is resident in **Quebec** or otherwise subject to the securities legislation of **Quebec**:
- (1) the total cost of the Special Warrants purchased by it is not less than \$150,000 and it is acting for its own account and, if it is an entity, it was not established solely to acquire the Special Warrants; or
 - (2) it is a sophisticated purchaser within the meaning of Sections 43, 44 or 45 of the *Securities Act* (Quebec) and the Subscriber, is purchasing the Special Warrants for its own account, or if it is a trust company licensed under an Act respecting trust companies and savings companies (Quebec) or an insurance company holding a license under an Act respecting insurance (Quebec) or a dealer or advisor registered in conformity with Section 148 of the *Securities Act* (Quebec), it is purchasing the Special Warrants for the portfolio of a third person managed solely by that company, dealer or advisor;
- (v) if it is a resident in or otherwise subject to the laws of **New Brunswick**, the aggregate acquisition cost of the Special Warrants is not less than \$97,000; and if it is not an individual or corporation but a partnership, syndicate or unincorporated organization, each member thereof is an individual who is purchasing sufficient Special Warrants such that the aggregate acquisition cost of such Special Warrants to the individual is not less than \$97,000; or
- (vi) it acknowledges that:
- (1) no securities commission or similar regulatory authority has reviewed or passed on the merits of the Securities;
 - (2) there is no government or other insurance covering the Securities;
 - (3) there are risks associated with the purchase of the Special Warrants;
 - (4) there are restrictions on the purchaser’s ability to resell the Securities and it is the responsibility of the Subscriber to find out what those restrictions are and to comply with them before selling any of the Securities;
 - (5) the Corporation has advised the Subscriber that the Corporation is relying on an exemption from the requirements to provide the purchaser with a prospectus and to sell Special Warrants through a person or company registered to sell securities under the *Securities Act* (Ontario) and other applicable securities laws and, as a consequence of acquiring Special Warrants pursuant to this exemption, certain protections, rights and remedies provided by the *Securities Act* (Ontario) and other applicable securities laws will not be available to the Subscriber; and
 - (6) the certificates representing the Special Warrants will be, and the certificates representing the Exchangeable Shares and Warrants comprising the Units and the Exchangeable Shares underlying the Warrants may be, endorsed by a legend stating that the Special Warrants, the Exchangeable Shares and Warrants comprising the Units and the Exchangeable Shares underlying the Warrants, if applicable, will be subject to restrictions on resale in accordance with applicable securities legislation;

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- (g) if it is not purchasing as principal, it is purchasing Special Warrants having an aggregate acquisition cost of at least \$97,000 if resident in **British Columbia** or **Alberta**, it is duly authorized to enter into this Subscription Agreement and to execute and deliver all documentation in connection with the purchase on behalf of each beneficial purchaser, each of whom is purchasing as principal for its own account, not for the benefit of any other person, and not with a view to the resale or distribution of all or any of the Securities, it acknowledges that the Corporation is required by law to disclose to certain regulatory authorities the identity of each beneficial purchaser of Special Warrants for whom it may be acting, and:
- (i) if it is resident in, or otherwise subject to the securities legislation of, **British Columbia**, it is a trust company or an insurer authorized to carry on business under the *Financial Institutions Act* (British Columbia), or it is a portfolio manager who manages the investment portfolio of clients through discretionary authority granted by one or more clients and who is registered as a portfolio manager under the *Securities Act* (British Columbia) or is exempted from such registration, and is purchasing as agent for an account that is fully managed by it; or
 - (ii) if it is acting as agent for one or more disclosed principals, each of such principals is purchasing as a principal for its own account, not for the benefit of any other person, and not with a view to the resale or distribution of all or any of the Securities, and each of such principals complies with such of subparagraphs (i), (ii), (iii), (iv), (v) and (vi) of paragraph 3(f) as are applicable to it by virtue of its province of residence;
 - (iii) if it is resident in Alberta or otherwise subject to the securities legislation of Alberta, then it is trading for accounts fully managed by it and it is (I) a trust company or trust corporation trading as a trustee or agent on behalf of a fully managed account; or (II) a portfolio manager trading as agent on behalf of a fully managed account; or (III) a person or company trading as agent on behalf of a fully managed account that, except for an exemption under the *Securities Act* (Alberta) or the regulations thereunder, is required to be registered as a portfolio manager;
- (h) if it is not purchasing as principal and is resident in or otherwise subject to the laws of **Nova Scotia** it is purchasing Special Warrants having an aggregate acquisition cost of at least \$150,000 or it is an “accredited investor” within the meaning of section 5.1 of Multilateral Instrument 45-103 “Capital Raising Exemptions” and it is (i) a trust company (as defined in the regulations made pursuant to the *Securities Act* (Nova Scotia)) and is purchasing the Special Warrants as trustee or as agent for accounts fully managed by it; or (ii) a portfolio manager (as defined in such Act) or is a person or a company who, but for the availability of an exemption pursuant to such Act or the regulations thereunder, would be obliged to be registered as a portfolio manager in order to be in compliance with such Act and, in either case, is purchasing the Special Warrants as agent for the accounts fully managed by the person or company;
- (i) if it is not purchasing as principal and is resident in or otherwise subject to the laws of **New Brunswick**,
- (i) it is a bank to which the *Bank Act* (Canada) applies;
 - (ii) it is the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act*;
 - (iii) it is a licensed provincial company or licensed extra-provincial company under the *Loan and Trust Companies Act* (New Brunswick);
 - (iv) it is an insurance company licensed under the *Insurance Act* (New Brunswick); or

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- (j) if it is resident of the **United Kingdom** or otherwise subject to the laws of the **United Kingdom**, it is purchasing the Special Warrants as principal for its own account, not for the benefit of any other person, for investment only, and not with a view to the resale or distribution of all or any of the Securities, and is a person falling within either Article 19 or Article 49 of the *Financial Services and Markets Act 2000 (Financial Promotion) Order 2001* and has concurrently executed and delivered a Representation Letter in the form attached as Exhibit “5” to this Subscription Agreement;
 - (k) if it is a resident of **any jurisdiction referred to in the preceding paragraphs** but not purchasing thereunder, it is purchasing pursuant to an exemption from prospectus and registration requirements (particulars of which are enclosed herewith) available to it under applicable securities legislation, and shall deliver to the Corporation and to the Underwriters such further particulars of the exemption(s) and the Subscriber’s qualifications thereunder as the Corporation or the Underwriters may request;
 - (l) if it is a resident of **any jurisdiction not referred to in the preceding paragraphs**, it complies with the requirements of all applicable securities legislation in the jurisdiction of its residence and will provide such evidence of compliance with all such matters as the Corporation or the Underwriters may request;
 - (m) it is aware that none of the Securities has been registered under the United States *Securities Act of 1933*, as amended, (the “**U.S. Securities Act**”) or the securities laws of any state and that these securities may not be offered or sold in the United States without registration under the U.S. Securities Act or compliance with requirements of an exemption from registration under the U.S. Securities Act and applicable state securities laws;
 - (n) it is not a “**U.S. Person**” (as that term is defined by Regulation S under the U.S. Securities Act, which definition includes, but is not limited to, an individual resident in the United States, an estate or trust of which any executor or administrator or trustee, respectively, is a U.S. Person and any partnership or corporation organized or incorporated under the laws of the United States), and is not acquiring the Units for the account or benefit of a U.S. Person or a person in the United States or for resale in the United States or to a U.S. Person in violation of United States federal or state securities laws;
 - (o) the Special Warrants have not been offered to the undersigned in the United States, and the individuals making the order to purchase the Special Warrants and executing and delivering this Subscription Agreement on behalf of the undersigned were not in the United States when the order was placed and this Subscription Agreement was executed and delivered;
 - (p) it undertakes and agrees that it will not exercise the Special Warrants or the Warrants, exchange the Exchangeable Shares for Common Shares or offer or sell any of the Securities in the United States unless such securities are registered under the U.S. Securities Act and the securities laws of all applicable states of the United States or an exemption from such registration requirements is available; that it will not resell any of the Securities except in accordance with the provisions of applicable securities legislation, regulations, rules, policies and orders, and stock exchange rules and, in particular, will not engage in hedging transactions with regard to the Securities except in compliance with applicable legislation;
 - (q) it understands and agrees that none of the Securities may be sold within the United States or by or on behalf of a U.S. Person unless such Securities are registered under the U.S. Securities Act and any applicable state securities laws or unless an exemption from such registration requirements is available;
 - (r) the entering into of this Subscription Agreement and the transactions contemplated hereby will not result in a material violation of any of the terms and provisions of any law applicable to it, or any of its constating documents, or of any agreement to which the Subscriber is a party or by which it is bound;

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- (s) if an individual, it is of the full age of majority and is legally competent to execute this Subscription Agreement, and take all action pursuant hereto;
 - (t) if a corporation, partnership, unincorporated association or other entity, it has the legal capacity to enter into and be bound by this Subscription Agreement and further certifies that all necessary approvals of such directors, shareholders, partners or otherwise have been given and obtained;
 - (u) this Subscription Agreement has been duly and validly authorized, executed and delivered by and constitutes a legal, valid, binding and enforceable obligation of the Subscriber;
 - (v) except as disclosed to the Corporation, it deals, and will continue to deal, at arm's length with the Corporation within the meaning of the *Income Tax Act* (Canada) at all relevant times;
 - (w) in the case of a subscription by it for Special Warrants acting as agent for a disclosed principal, it is duly authorized to execute and deliver this agreement and all other necessary documentation in connection with such subscription on behalf of such principal and this agreement has been duly authorized, executed and delivered by or on behalf of, and constitutes the legal, valid and binding agreement of, such principal;
 - (x) it has, or as a result of advice received from a registered person other than the Corporation or any affiliates thereof has, such knowledge in financial and business affairs as to be capable of evaluating the merits and risks of its investment and it, or, where it is not purchasing as principal, each beneficial purchaser, is able to bear the economic risk of loss of its investment;
 - (y) if required by applicable securities legislation, regulations, rules, instruments, policies or orders or by any securities commission, stock exchange or other regulatory authority, the Subscriber will execute, deliver, file and otherwise assist the Corporation in filing, such reports, undertakings and other documents with respect to the issue of the Special Warrants (including, without limitation, The Toronto Stock Exchange Private Placement Questionnaire and Undertaking, attached hereto as Exhibit "1") as may be required;
 - (z) it will not resell any of the Securities, except in accordance with the provisions of applicable securities legislation and stock exchange rules;
 - (aa) the delivery of this subscription, the acceptance hereof by the Corporation and the issuance of the Special Warrants to the Subscriber complies with all applicable laws of the Subscriber's jurisdiction of residence and domicile, and will not cause the Corporation or any of its officers or directors to become subject to or require any disclosure, prospectus or other reporting requirement;
 - (bb) (i) to the best of the Subscriber's knowledge, none of the subscription funds used for the purchase of the Subscriber's Special Warrants (A) have been or will be derived from or related to any activity that is deemed criminal under or otherwise in contravention of the laws of Canada, the United States, or any other jurisdiction, or (B) are being tendered on behalf of a person or entity who has not been identified to the Subscriber; and
(ii) the Subscriber shall promptly notify the Corporation if, on or prior to the Closing Date (as defined in paragraph 5 below), if the Subscriber discovers that any of the representations in subclause (bb)(i) above cease to be true, and to provide the Corporation with appropriate information in connection therewith; and
 - (cc) the Subscriber acknowledges that it has been encouraged to and should obtain independent legal, income tax and investment advice with respect to its subscription for the Special Warrants and accordingly, has been independently advised as to the meanings of all terms contained herein relevant to the Subscriber for purposes of giving representations, warranties and covenants under this Subscription Agreement.

Closing

4. The Subscriber agrees to deliver to the Underwriters, as soon as possible and, in any event, not later than 12:00 noon (Toronto time) on March 1, 2004: (a) this duly completed and executed Subscription Agreement; (b) The Toronto Stock Exchange Private Placement Questionnaire and Undertaking, attached hereto as Exhibit "1"; (c) if the Subscriber is a resident of British Columbia, Alberta, Manitoba, Nova Scotia or Saskatchewan and is purchasing as an "accredited investor", a duly executed Representation Letter, attached hereto as Exhibit "2"; (d) if the Subscriber is a resident of Ontario, a duly executed Representation Letter, attached hereto as Exhibit "3"; (e) if the Subscriber is a resident of Quebec, a duly executed Representation Letter attached hereto as Exhibit "4"; (f) if the Subscriber is a resident of United Kingdom, a duly executed Representation Letter attached hereto as Exhibit "5"; (g) such other documents as may be requested as contemplated by subsection 3(y) hereof; and (h) a certified cheque or bank draft payable to the Underwriters for the aggregate subscription price or payment of the same amount in such other manner as is acceptable to the Underwriters.
5. The sale of the Units will be completed at the offices of Goodmans LLP in Toronto, Ontario at 10:00 a.m. (Toronto time), or such other time as the Underwriters and the Corporation may agree (the "**Closing Time**") on March 3, 2004 or such other date as the Underwriters and the Corporation may agree (the "**Closing Date**"). If by the Closing Time, the terms and conditions contained in the Underwriting Agreement have been complied with to the satisfaction of the Underwriters or waived by the Underwriters, the Underwriters shall deliver to the Corporation all completed subscription agreements, including this Subscription Agreement and deliver to the Trustee the aggregate subscription proceeds (less the commission referred to in paragraph 6 and the expenses of the offering), against delivery by the Corporation of the Special Warrants and such other documentation as may be required.
6. The Subscriber acknowledges that the Underwriters have agreed to offer the Special Warrants on a private placement basis and, in connection therewith, the Corporation and the Underwriters have entered into the Underwriting Agreement pursuant to which the Underwriters, in connection with the issue and sale of Special Warrants, will receive a fee equal to 6% of the gross proceeds of the sale of Special Warrants from the Corporation. The Subscriber hereby irrevocably authorizes Orion Securities Inc., on behalf of the Underwriters: (a) to act as its representative at the closing and to execute in its name and on its behalf all closing receipts and documents required; (b) to complete or correct any errors or omissions in any form or document provided by the Subscriber; (c) to receive on its behalf certificates representing the Special Warrants purchased under this subscription; (d) to approve any opinions, certificates or other documents addressed to the Subscriber; (e) to waive, in whole or in part, any representations, warranties, covenants or conditions for the benefit of the Subscriber and contained in the Underwriting Agreement; and (f) to exercise any rights of termination contained in the Underwriting Agreement.
7. The Corporation and the Underwriters shall be entitled to rely on delivery of a facsimile copy of executed subscriptions, and acceptance by the Corporation of such facsimile subscriptions shall be legally effective to create a valid and binding agreement between the Subscriber and the Corporation in accordance with the terms hereof. Notwithstanding the foregoing, the Subscriber shall deliver originally executed copies of the documents listed in paragraph 4 hereof to Orion Securities Inc., on behalf of the Underwriters, by 12:00 noon on March 1, 2004. In addition, this Subscription Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same document.

General

8. The Subscriber agrees that the representations, warranties and covenants of the Subscriber herein and in any Exhibit hereto will be true and correct both as of the time of the execution of this Subscription Agreement and as of the Closing Time and will survive the completion of the issuance of the Special Warrants. The representations, warranties and covenants of the Subscriber herein are made with the intent that they be relied upon by the Corporation and the Underwriters in determining the eligibility of a purchaser of Special Warrants. The Subscriber agrees to indemnify and hold harmless the Corporation and the Underwriters and their respective directors, officers, employees, advisors, affiliates, shareholders, partners and agents from and against any and all loss, liability, claim, damage and expense whatsoever including, but not limited to, any fees, costs and expenses whatsoever reasonably incurred in investigating, preparing or defending against any litigation, administrative proceeding or investigation commenced or

threatened or any claim whatsoever arising out of or based upon any representation or warranty of the Subscriber contained herein or in any document furnished by the Subscriber to the Corporation or the Underwriters in connection herewith being untrue in any material respect or any breach or failure by the Subscriber to comply with any covenant or agreement made by the Subscriber contained herein or in any document furnished by the Subscriber to the Corporation or the Underwriters in connection herewith. The Subscriber undertakes to immediately notify the Corporation at SMTC Manufacturing Corporation of Canada, 635 Hood Road, Markham, Ontario, Canada L3R 4N6, Attention: Marwan Kubursi (Fax Number: 905-479-5326) and the Underwriters at Orion Securities Inc., BCE Place, 181 Bay Street, Suite 3100, P.O. Box 830, Toronto, Ontario, Canada M5J 2T3, Attention: Mark McQueen (Fax Number: 416-848-3650) of any change in any statement or other information relating to the Subscriber set forth herein which takes place prior to the Closing Time.

9. The contract arising out of this Subscription Agreement and all documents relating thereto, which by common accord has been or will be drafted in English, shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and the Subscriber, the Corporation and the Underwriters each irrevocably attorn to the jurisdiction of the courts of the Province of Ontario. La soussignee demande par les presentes que la presente souscription ainsi que tous documents y afferents soient rediges en langue anglaise seulement.
10. Time shall be of the essence hereof.
11. This Subscription Agreement represents the entire agreement of the parties hereto relating to the subject matter hereof and there are no representations, covenants or other agreements relating to the subject matter hereof except as stated or referred to herein.
12. The Subscriber acknowledges and agrees that all costs incurred by the Subscriber (including any fees and disbursements of any special counsel retained by the Subscriber) relating to the sale of the Special Warrants to the Subscriber shall be borne by the Subscriber.
13. The representations, warranties and covenants contained herein shall survive the closing of the transactions contemplated hereby.
14. The terms and provisions of this Subscription Agreement shall be binding upon and enure to the benefit of the Subscriber and the Corporation and their respective heirs, executors, administrators, successors and assigns; provided that, except for the assignment by a Subscriber who is acting as nominee or agent to the beneficial owner and as otherwise herein provided, this Subscription Agreement shall not be assignable by any party without prior written consent of the other parties.
15. The obligations of the parties hereunder are subject to acceptance of the terms of the offering by the Toronto Stock Exchange and all other required regulatory approvals.
16. The Subscriber acknowledges and agrees that the acceptance of the Subscription Agreement will be conditional, among other things, upon the sale of the Special Warrants to the Subscriber being exempt from any prospectus and offering memorandum requirements of all applicable securities laws. The Corporation will be deemed to have accepted this subscription agreement upon the delivery at closing of the certificates representing the Special Warrants to or upon the direction of the Subscriber in accordance with the provisions hereof.
17. The Subscriber, on its own behalf and, if applicable, on behalf of others for whom it is contracting hereunder, agrees that this offer is made for valuable consideration and may not be withdrawn, cancelled, terminated or revoked by the Subscriber, on its own behalf and, if applicable, on behalf of others for whom it is contracting hereunder.
18. Neither this Subscription Agreement nor any provision hereof shall be modified, changed, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.

Rescission Rights

19. In the event that a holder who acquires an Exchangeable Share or a Warrant upon the exercise of a Special Warrant is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of a misrepresentation in the Prospectus or any amendment thereto, such holder shall, subject to available defences and any limitation period under applicable securities legislation, be entitled to rescission not only of the Subscriber's exercise of its Special Warrant but also of the private placement transaction pursuant to which the Special Warrant was initially acquired, and shall be entitled in connection with such rescission to a full refund of all consideration paid on the acquisition of the Special Warrant. In the event such holder is a permitted assignee of the interest of the original Special Warrant subscriber, such permitted assignee shall be permitted to exercise the rights of rescission and refund granted hereunder as if such permitted assignee was such original subscriber. The foregoing is in addition to any other right or remedy available to a Subscriber under section 130 of the *Securities Act* (Ontario), section 203 of the *Securities Act* (Alberta), section 131 of the *Securities Act* (British Columbia), equivalent provisions under the securities laws of the other provinces or otherwise at law.

EXHIBIT "1"

THE TORONTO STOCK EXCHANGE

PRIVATE PLACEMENT QUESTIONNAIRE AND UNDERTAKING QUESTIONNAIRE

1. DESCRIPTION OF TRANSACTION

(a) Name of Issuer of the Securities: SMTC MANUFACTURING CORPORATION OF CANADA

(b) Number and Class of Securities to be Purchased:

_____ Special Warrants of SMTC Manufacturing Corporation of Canada. Each Special Warrant is exercisable to acquire, for no additional consideration one unit comprised of one exchangeable share of the Corporation ("**Exchangeable Share**") and one-half of one exchangeable share purchase warrant ("**Warrant**"). Each full Warrant entitles the holder to acquire one Exchangeable Share at a price of \$1.85 (Canadian) per Exchangeable Share for a period expiring five years following the Closing Date.

(c) Purchase Price: \$1.20 (Canadian) per Special Warrant

2. DETAILS OF PURCHASER

(a) Name of Purchaser: _____

(b) Address: _____

(c) Names and addresses of persons having a greater than 10% beneficial interest in the purchaser:

3. RELATIONSHIP TO ISSUER

(a) Is the purchaser (or any person named in response to 2(c) above) an insider of the issuer for the purposes of the Ontario Securities Act (before giving effect to this private placement)? If so, state the capacity in which the purchaser (or person named in response to 2(c)) qualifies as an insider:

(b) If the answer to (a) is "no", are the purchaser and the issuer controlled by the same person or company? If so, give details.

4. DEALINGS OF PURCHASER IN SECURITIES OF THE ISSUER

Give details of all trading by the purchaser, as principal, in the securities of the issuer (other than debt securities which are not convertible into equity securities), directly or indirectly, within the 60 days preceding the date hereof:

UNDERTAKING

TO: The Toronto Stock Exchange

The undersigned has subscribed for and agreed to purchase, as principal, the securities described in Item 1 of this Private Placement Questionnaire and Undertaking.

The undersigned undertakes not to sell or otherwise dispose of any of the said securities so purchased or any securities derived therefrom for a period of four months from the date of the closing of the transaction herein or for such period as is prescribed by applicable securities legislation, whichever is longer without the prior consent of The Toronto Stock Exchange and any other regulatory body having jurisdiction.

DATED AT

this __ day of _____, 2004

Name of Purchaser

Authorized Signature

Official Capacity

Please print here name of individual whose signature appears above, if different from name of purchaser printed above

EXHIBIT “2”

REPRESENTATION LETTER

(FOR BRITISH COLUMBIA, ALBERTA, MANITOBA, NOVA SCOTIA OR SASKATCHEWAN ACCREDITED INVESTORS)

TO: SMTC MANUFACTURING CORPORATION OF CANADA (the “Corporation”)

**AND TO: ORION SECURITIES INC.
CIBC WORLD MARKETS INC.
GMP SECURITIES LIMITED and
RBC DOMINION SECURITIES INC. (the “Underwriters”)**

In connection with the purchase by the undersigned subscriber (the “Subscriber”) of Special Warrants of the Corporation, the Purchaser hereby represents, warrants, covenants and certifies to the Corporation and the Underwriters that:

1. the Subscriber is resident in British Columbia, Alberta, Manitoba, Nova Scotia or Saskatchewan or is otherwise subject to the laws of the Province of British Columbia Alberta, Manitoba, Nova Scotia or Saskatchewan;
2. the Subscriber is purchasing the Special Warrants as principal for its own account; and
3. the Subscriber is an “accredited investor” within the meaning of Multilateral Instrument 45-103 entitled “Capital Raising Exemptions” by virtue of satisfying the indicated criterion as set out in Appendix “A” to this Representation Letter.

Dated: _____, 2004

Print name of Subscriber

By:

Signature

Title

IMPORTANT: PLEASE INITIAL APPENDIX “A” ON THE NEXT PAGE.

APPENDIX “A”

NOTE: The investor should initial beside the portion of the definition applicable to it.

Accredited Investor - (defined in Multilateral Instrument 45-103) means:

- _____ (a) a Canadian financial institution, or an authorized foreign bank listed in Schedule III of the Bank Act (Canada),
- _____ (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada),
- _____ (c) an association under the *Cooperative Credit Associations Act* (Canada) located in Canada or a central cooperative credit society for which an order has been made under subsection 473(1) of that Act,
- _____ (d) a subsidiary of any person or company referred to in paragraphs (a) to (c), if the person or company owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary,
- _____ (e) a person or company registered under the securities legislation of a jurisdiction of Canada, as an adviser or dealer, other than a limited market dealer registered under the *Securities Act* (Ontario) or the *Securities Act* (Newfoundland and Labrador),
- _____ (f) an individual registered or formerly registered under the securities legislation of a jurisdiction of Canada, as a representative of a person or company referred to in paragraph (e),
- _____ (g) the government of Canada or a jurisdiction of Canada, or any crown corporation, agency or wholly owned entity of the government of Canada or a jurisdiction of Canada,
- _____ (h) a municipality, public board or commission in Canada,
- _____ (i) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency of that government,
- _____ (j) a pension fund that is regulated by either the Office of the Superintendent of Financial Institutions (Canada) or a pension commission or similar regulatory authority of a jurisdiction of Canada,
- _____ (k) an individual who, either alone or jointly with a spouse, beneficially owns, directly or indirectly, financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds \$1,000,000,
- _____ (l) an individual whose net income before taxes exceeded \$200,000 in each of the two most recent years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of the two most recent years and who, in either case, reasonably expects to exceed that net income level in the current year,
- _____ (m) a person or company other than a mutual fund or non-redeemable investment fund, that, either alone or with a spouse, had net assets of at least \$5,000,000, and unless the person or company is an individual, that amount is shown on its most recently prepared financial statements,
- _____ (n) a mutual fund or non-redeemable investment fund that, in the local jurisdiction, distributes its securities only to persons or companies that are accredited investors,

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- _____ (o) a mutual fund or non-redeemable investment fund that, in the local jurisdiction, is distributing or has distributed its securities under one or more prospectuses for which the regulator has issued receipts,
 - _____ (p) a trust company or trust corporation registered or authorized to carry on business under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, trading as a trustee or agent on behalf of a fully managed account,
 - _____ (q) a person or company trading as agent on behalf of a fully managed account if that person or company is registered or authorized to carry on business under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction as a portfolio manager or under an equivalent category of adviser or is exempt from registration as a portfolio manager or the equivalent category of adviser,
 - _____ (r) a registered charity under the *Income Tax Act* (Canada) that, in regard to the trade, has obtained advice from an eligibility adviser or other advisor registered to provide advice on the securities being traded,
 - _____ (s) an entity organized in a foreign jurisdiction that is analogous to any of the entities referred to in paragraphs (a) through (e) and paragraph (j) in form and function, or
 - _____ (t) a person or company in respect of which all of the owners of interests, direct or indirect, legal or beneficial, except the voting securities required by law to be owned by directors, are persons or companies that are accredited investors.

For the purposes hereof:

- (a) “**control person**” has the meaning ascribed to that term in securities legislation except in Manitoba, Northwest Territories, Nova Scotia, Nunavut and Prince Edward Island, where “control person” means any person or company that holds or is one of a combination of persons or companies that holds:
 - (i) a sufficient number of any securities of an issuer so as to affect materially the control of the issuer, or
 - (ii) more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holding of those securities does not affect materially the control of that issuer;
- (b) “**designated securities**” means:
 - (i) voting securities,
 - (ii) securities that are not debt securities and that carry a residual right to participate in the earnings of the issuer or, on the liquidation or winding-up of the issuer, in its assets, or
 - (iii) securities convertible, directly or indirectly, into securities described in paragraph (i) or (ii);
- (c) “**eligible investor**” means:
 - (i) a person or company whose
 - (A) net assets, alone or with a spouse, exceed \$400,000,

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- (B) net income before taxes exceeded \$75,000 in each of the two most recent years and who reasonably expects to exceed that income level in the current year, or
 - (C) net income before taxes combined with that of a spouse exceeded \$125,000 in each of the two most recent years and who reasonably expects to exceed that income level in the current year,
- (ii) a person or company of which a majority of the voting securities are beneficially owned by eligible investors or a majority of the directors are eligible investors,
 - (iii) a general partnership of which all of the partners are eligible investors,
 - (iv) a limited partnership of which the majority of the general partners are eligible investors,
 - (v) a trust or estate in which all of the beneficiaries or a majority of the trustees are eligible investors,
 - (vi) an accredited investor,
 - (vii) a person or company described in section 4(d)(iv)(B) of the Subscription Agreement, or
 - (viii) a person or company that has obtained advice regarding the suitability of the investment and, if the person or company is resident in a jurisdiction of Canada, that advice has been obtained from an eligibility adviser;
- (d) **“eligibility adviser”** means
- (i) an investment dealer or equivalent category of registration, registered under the securities legislation of the jurisdiction of a purchaser and authorized to give advice with respect to the type of security being distributed, and
 - (ii) in Saskatchewan or Manitoba, also means a lawyer who is a practicing member in good standing with a law society of a jurisdiction of Canada or a public accountant who is a member in good standing of an institute or association of chartered accountants, certified general accountants or management accountants in a jurisdiction of Canada provided that the lawyer or public accountant:
 - (A) does not have a professional, business or personal relationship with the issuer, or any of its directors, senior officers, founders or control persons, and
 - (B) has not acted for or been retained personally or otherwise as an employee, senior officer, director, associate or partner of a person or company that has acted for or been retained by the issuer or any of its directors, senior officers, founders or control persons within the previous year;
- (e) **“financial assets”** means cash and securities;
- (f) **“founder”**, in respect of an issuer, means a person or company who,
- (i) acting alone, in conjunction or in concert with one or more other persons or companies, directly or indirectly, takes the initiative in founding, organizing or substantially reorganizing the business of the issuer, and
 - (ii) at the time of the proposed trade, is actively involved in the business of the issuer;
- (g) **“fully managed account”** means an account for which a person or company makes the investment decisions if that person or company has full discretion to trade in securities for the account without requiring the client’s express consent to a transaction;

-
- (h) “**individual**” means a natural person, but does not include
- (i) a partnership, unincorporated association, unincorporated syndicate, unincorporated organization or a trust, or
 - (ii) a natural person in the person’s capacity as trustee, executor, administrator or other legal representative;
- (i) “**mutual fund**” includes an issuer of securities that entitles the holder to receive on demand or within a specified period after demand, an amount computed by reference to the value of a proportionate interest in the whole or in part of the net assets, including a separate fund or trust account, of the issuer of the securities;
- (j) “**non-redeemable investment fund**” means an issuer,
- (i) whose primary purpose is to invest money provided by its security holders,
 - (ii) that does not invest for the purpose of exercising effective control, seeking to exercise effective control or being actively involved in the management of the issuers in which it invests, other than mutual funds or other non-redeemable investment funds, and
 - (iii) that is not a mutual fund; and
- (k) “**related liabilities**” means:
- (i) liabilities incurred or assumed for the purpose of financing the acquisition or ownership of financial assets; or
 - (ii) liabilities that are secured by financial assets.
- (l) “**reporting issuer**” in Northwest Territories, Nunavut and Prince Edward Island means a reporting issuer in a jurisdiction of Canada.

All monetary references are in Canadian Dollars.

EXHIBIT “3”

**REPRESENTATION LETTER
(FOR ONTARIO ACCREDITED INVESTORS)**

TO: SMTC MANUFACTURING CORPORATION OF CANADA (the “Corporation”)

**AND TO: ORION SECURITIES INC.
CIBC WORLD MARKETS INC.
GMP SECURITIES LIMITED and
RBC DOMINION SECURITIES INC. (the “Underwriters”)**

In connection with the purchase by the undersigned subscriber (the “Subscriber”) of Special Warrants of the Corporation, the Subscriber hereby represents, warrants, covenants and certifies to the Corporation and the Underwriters that:

1. the Subscriber is resident in Ontario or is otherwise subject to the laws of the Province of Ontario;
2. the Subscriber is purchasing the Special Warrants as principal for its own account; and
3. the Subscriber is an “accredited investor” within the meaning of Ontario Securities Commission Rule 45-501 promulgated under the *Securities Act* (Ontario) by virtue of satisfying the indicated criterion as set out in Appendix “A” to this Representation Letter.

Dated: _____, 2004

Print name of Subscriber

By: _____

Signature

Title

IMPORTANT: PLEASE INITIAL APPENDIX “A” ON THE NEXT PAGE.

APPENDIX "A"

NOTE: The investor should initial beside the portion of the definition applicable to it.

Accredited Investor - (defined in Ontario Securities Commission Rule 45-501) means:

- _____ (a) a bank listed in Schedule I or II of the *Bank Act* (Canada), or an authorized foreign bank listed in Schedule III of that Act;
- _____ (b) the Business Development Bank incorporated under the *Business Development Bank Act* (Canada);
- _____ (c) a loan corporation or trust corporation registered under the *Loan and Trust Corporations Act* (Ontario) or under the *Trust and Loan Companies Act* (Canada), or under comparable legislation in any other jurisdiction;
- _____ (d) a co-operative credit society, credit union central, federation of caisses populaires, credit union or league, or regional caisse populaire, or an association under the *Cooperative Credit Associations Act* (Canada), in each case, located in Canada;
- _____ (e) a company licensed to do business as an insurance company in any jurisdiction;
- _____ (f) a subsidiary of any company referred to in paragraph (a), (b), (c), (d) or (e), where the person or company owns all of the voting shares of the subsidiary entity;
- _____ (g) a person or company registered under the *Securities Act* (Ontario) or securities legislation in another jurisdiction as an adviser or dealer, other than a limited market dealer;
- _____ (h) the government of Canada or of any jurisdiction, or any crown corporation, instrumentality or agency of a Canadian federal, provincial or territorial government;
- _____ (i) any Canadian municipality or any Canadian provincial or territorial capital city;
- _____ (j) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any instrumentality or agency thereof;
- _____ (k) a pension fund that is regulated by either the Office of the Superintendent of Financial Institutions (Canada) or a provincial pension commission or similar regulatory authority;
- _____ (l) a registered charity under the *Income Tax Act* (Canada);
- _____ (m) an individual who beneficially owns, or who together with a spouse beneficially own, financial assets having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$1,000,000;
- _____ (n) an individual whose net income before taxes exceeded \$200,000 in each of the two most recent years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of those years and who, in either case, has a reasonable expectation of exceeding the same net income level in the current year;
- _____ (o) an individual who has been granted registration under the *Securities Act* (Ontario) or securities legislation in another jurisdiction as a representative of a person or company referred to in paragraph (g), whether or not the individual's registration is still in effect;
- _____ (p) a promoter of the issuer or an affiliated entity of a promoter of the issuer;

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- _____ (q) a spouse, parent, brother, sister, grandparent or child of an officer, director or promoter of the issuer;
 - _____ (r) a person or company that, in relation to the issuer, is an affiliated entity or a person or company referred to in clause (c) of the definition of distribution in subsection 1(1) of the *Securities Act* (Ontario) (“*Control Person*”);
 - _____ (s) an issuer that is acquiring securities of its own issue;
 - _____ (t) a company, limited liability company, limited partnership, limited liability partnership, trust or estate, other than a mutual fund or non-redeemable investment fund, that had net assets of at least \$5,000,000 as reflected in its most recently prepared financial statements;
 - _____ (u) a person or company that is recognized by the Ontario Securities Commission as an accredited investor;
 - _____ (v) a mutual fund or non-redeemable investment fund that, in Ontario, distributes its securities only to persons or companies that are accredited investors;
 - _____ (w) a mutual fund or non-redeemable investment fund that, in Ontario, distributes its securities under a prospectus for which a receipt has been granted by the Director (as defined in the *Securities Act* (Ontario)) or if it has ceased distribution of its securities, has previously distributed its securities in this manner;
 - _____ (x) a fully managed account if it is acquiring a security that is not a security of a mutual fund or non-redeemable investment fund;
 - _____ (y) an account that is fully managed by a trust corporation registered under the *Loan and Trust Corporations Act* (Ontario) or the *Loan and Trust Companies Act*;
 - _____ (z) an entity organized outside of Canada that is analogous to any of the entities referred to in paragraphs (a) through (g) and paragraph (k) in form and function; and
 - _____ (aa) a person or company in respect of which all of the owners of interests, direct or indirect, legal or beneficial, are persons or companies that are accredited investors.

For the purposes hereof:

- (a) “**company**” means any corporation, incorporated association, incorporated syndicate or other incorporated organization;
- (b) “**control person**” means any person, company or combination of persons or companies holding a sufficient number of any securities of the issuer to affect materially the control of the issuer but any holding of any persons, company or combination of persons or companies holding more than 20% of the outstanding voting securities of the issuer, in the absence of evidence to the contrary, shall be deemed to affect materially the control of the issuer;
- (c) “**director**” where used in relation to a person, includes a person acting in a capacity similar to that of a director of a company;
- (d) “**entity**” means a company, syndicate, partnership, trust or unincorporated or organization;
- (e) “**financial assets**” means cash, securities, or any contract of insurance or deposit or evidence thereof that is not a security for the purposes of the *Securities Act* (Ontario);

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- (f) “**fully managed account**” means an investment portfolio account of a client established in writing with a portfolio adviser who makes investment decisions for the account and has full discretion to trade in securities of the account without requiring the client’s express consent to a transaction;
- (g) “**individual**” means a natural person, but does not include a partnership, unincorporated association, unincorporated organization, trust or a natural person in his or her capacity as trustee, executor, administrator or other legal personal representative;
- (h) “**jurisdiction**” means a province or territory in Canada except where used in the term “foreign jurisdiction”;
- (i) “**mutual fund**” includes an issuer of securities that entitle the holder to receive on demand, or within a specified period after demand, an amount computed by reference to the value of a proportionate interest in the whole or in a part of the net assets, including a separate fund of trust account, of the issuer of the securities;
- (j) “**non-redeemable investment fund**” means an issuer:
- (i) whose primary purpose is to invest money provided by its securityholders;
 - (ii) that does not invest for the purpose of exercising effective control, seeking to exercise effective control, or being actively involved in the management of the issuers in which it invests, other than other mutual funds or non-redeemable investment funds; and
 - (iii) that is not a mutual fund;
- (k) “**officer**” means the chair, any vice-chair of the board of directors, the president, any vice president, the secretary, the assistant secretary, the treasurer, the assistant treasurer, and the general manager of a company, and any other person designated an officer or a company by-law or similar authority, or any individual acting in a similar capacity on behalf of the issuer;
- (l) “**person**” means an individual, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, trustee, executor, administrator, or other legal representative;
- (m) “**portfolio adviser**” means
- (i) a portfolio manager; or
 - (ii) a broker or investment dealer exempted from registration as an adviser under subsection 148(1) of the Regulation if that broker or investment dealer is not exempt from the by-laws or regulations of The Toronto Stock Exchange or the Investment Dealers’ Association of Canada referred to in that subsection;
- (n) “**promoter**” means (a) a person or company who, acting alone or in conjunction with one or more other persons, companies or a combination thereof, directly or indirectly, has taken the initiative in founding, organizing or substantially reorganizing the business of the issuer, or (b) a person or company who, in connection with the founding, organizing or substantial reorganizing of the business of the issuer, directly or indirectly, received in consideration of services or property, or both services and property, 10% or more of any class of securities of the issuer or 10% or more of the proceeds from the sale of any class of securities of a particular issue, but a person or company who receives such securities or proceeds either solely as underwriting commissions or solely in consideration of property shall not be deemed a promoter within the meaning of this definition if such person or company does not otherwise take part in founding, organizing or substantially reorganizing the business;
- (o) “**related liabilities**” means liabilities incurred or assumed for the purpose of financing the acquisition or ownership of financial assets and liabilities that are secured by financial assets;

-
- (p) “**spouse**” in relation to an individual, means another individual to whom that individual is married, or another individual of the opposite sex or the same sex with whom that individual is living in a conjugal relationship outside marriage;

Affiliated Entities, Control and Subsidiaries

1. A person or company is considered to be an affiliated entity of another person or company if one is a subsidiary entity of the other, or if both are subsidiary entities of the same person or company, or if each of them is controlled by the same person or company.
2. A person or company is considered to be controlled by a person or company if
 - (a) in the case of a person or company,
 - (i) voting securities of the first-mentioned person or company carrying more than 50% of the votes for the election of directors are held, otherwise than by way of security only, by or for the benefit of the other person or company, and
 - (ii) the votes carried by the securities are entitled, if exercised, to elect a majority of the directors of the first-mentioned person or company;
 - (b) in the case of a partnership that does not have directors, other than a limited partnership, the second-mentioned person or company holds more than 50% of the interests in the partnership; or
 - (c) in the case of a limited partnership, the general partner is the second-mentioned person or company.
3. A person or company is considered to be a subsidiary entity of another person or company if
 - (a) it is controlled by,
 - (i) that other, or
 - (ii) that other and one or more persons or companies each of which is controlled by that other, or
 - (iii) two or more persons or companies, each of which is controlled by that other, or
 - (b) it is a subsidiary entity of a person or company that is the other’s subsidiary entity.

All monetary references are in Canadian Dollars.

EXHIBIT "4"

**REPRESENTATION LETTER
(FOR QUEBEC RESIDENTS ONLY)**

TO: SMTC MANUFACTURING CORPORATION OF CANADA (the "Corporation")

**AND TO: ORION SECURITIES INC.
CIBC WORLD MARKETS INC.
GMP SECURITIES LIMITED and
RBC DOMINION SECURITIES INC. (the "Underwriters")**

In connection with the purchase by the undersigned subscriber (the "Subscriber") of Special Warrants of the Corporation, the Subscriber hereby represents, warrants, covenants and certifies to the Corporation and the Underwriters that:

1. the Subscriber, or its disclosed principal, is resident in Quebec or is otherwise subject to the laws of the Province of Quebec;
2. the Subscriber is purchasing the Special Warrants as principal for its own account or on behalf of a disclosed principal who is purchasing as principal for its own account; and
3. the Subscriber is a 'sophisticated purchaser' within the meaning Section 43, 44 or 45 of the *Securities Act* (Quebec) or the exemption of Section 51 of the *Securities Act* (Quebec) is available to him by virtue of satisfying the indicated criterion as set out in Appendix "A" to this Representation Letter.

Dated: _____, 2004

Print Name of Subscriber

By: _____

Signature

Title

IMPORTANT: PLEASE INITIAL APPENDIX "A" ON THE NEXT PAGE.

APPENDIX “A”

NOTE: The investor should initial beside the portion of the definition applicable to it.

Sophisticated Purchaser—as per Section 43 of the *Securities Act* (Quebec) means:

_____ (1) the Government of Québec or its departments or agencies that are mandataries of the State, the Government of Canada or the government of a Canadian province, or any of their departments or agencies;

As per Section 44 of the *Securities Act* (Quebec):

_____ (2) a company all of the voting securities of which belong to the Gouvernement du Québec or its departments or agencies that are mandataries of the State, to the Government of Canada or the government of a Canadian province, or to one of their departments or agencies;

_____ (3) a bank or an authorized foreign bank listed in Schedule I, II or III to the Bank Act (Statutes of Canada, 1991, chapter 46);

_____ (4) a savings company holding a licence under the Act respecting trust companies and savings companies (chapter S-29.01) and a loan and investment society registered in accordance with the *Loan and Investment Societies Act* (chapter S-30);

_____ (5) a financial services cooperative within the meaning of the Act respecting financial services cooperatives (chapter C-67.3);

_____ (6) the Caisse centrale Desjardins du Québec established under the Act respecting the Mouvement des caisses Desjardins (1989, chapter 113);

_____ (7) a trust company licensed under the *Trust companies and savings companies Act* (chapter S-29.01);

_____ (8) an insurance company licensed under the Act respecting insurance (chapter A-32);

_____ (9) a municipality, a metropolitan community, a school board, the Comité de gestion de la taxe scolaire de l’île de Montréal, an intermunicipal management board or a public agency or body established pursuant to an Act of the Government of Canada or of the government of a Canadian province;

_____ (10) a dealer or an adviser registered in conformity with section 148 of the *Securities Act* (Quebec);

_____ (11) a pension fund with assets of over \$100 000 000 and governed by the *Supplemental Pension Plans Act* (chapter R-15.1) or the *Pension Benefits Standards Act*, 1985 (Revised Statutes of Canada, 1985, chapter 32, 2nd Supplement);

_____ (12) the subsidiary of a person mentioned in paragraph 3, 7 or 8, to the extent that such person holds all the voting securities;

_____ (13) a person designated as a sophisticated purchaser under the *Securities Act* (Quebec) in an order of the Agence nationale d’encadrement du secteur financier on such conditions as it may determine; or

As per Sections 45 and 51 of the *Securities Act* (Quebec):

-
- _____ (14) a trust company licensed under the *Trust Companies and Savings Companies Act* (Quebec), an insurance company holding a license under the *Act respecting insurance* (Quebec) or a dealer or adviser registered in conformity with section 148 of the *Securities Act* (Quebec) and is purchasing the securities for the portfolio of a third person managed solely by the Subscriber; or
- _____ (15) any other person, where the total cost of the Special Warrants purchased by it is not less than \$150,000 and is acting for its own account and, if it is an entity, it was not established solely to acquire the Special Warrants.

All monetary references are in Canadian Dollars.

EXHIBIT "5"

**REPRESENTATION LETTER
(FOR UNITED KINGDOM ACCREDITED INVESTORS)**

TO: SMTC MANUFACTURING CORPORATION OF CANADA (the "Corporation")

**AND TO: ORION SECURITIES INC.
CIBC WORLD MARKETS INC.
GMP SECURITIES LIMITED and
RBC DOMINION SECURITIES INC. (the "Underwriters")**

In connection with the purchase by the undersigned subscriber (the "Subscriber") of Special Warrants of the Corporation, the Subscriber hereby represents, warrants, covenants and certifies to the Corporation and the Underwriters that:

1. the Subscriber is resident in the United Kingdom or is otherwise subject to the laws of the United Kingdom;
2. the Subscriber is purchasing the Special Warrants as principal for its own account; and
3. the Subscriber is a person falling within either Article 19 or 49 of the *Financial Services and Markets Act 2000 (Financial Promotion) Order 2001* detailed in appendix "A" to this Representation Letter.

Dated: _____, 2004

Print Name of Subscriber

By: _____

Signature

Title

IMPORTANT: PLEASE INITIAL APPENDIX "A" ON THE NEXT PAGE.

APPENDIX “A”

NOTE: The Subscriber should initial beside the portion of the definition applicable to it.

The Subscriber is a person falling within either Article 19 or 49 of the *Financial Services and Markets Act 2000 (Financial Promotion) Order 2001*, being either an investment professional or a high net worth company or unincorporated association, as indicated below:

- _____ (1) it is a body corporate which has more than 20 members or which is a subsidiary undertaking of a parent undertaking which has more than 20 members and which has called up share capital or net assets of not less than £500,000;
- _____ (2) it is an unincorporated association or partnership which has called up capital or net assets of not less than £5 million;
- _____ (3) it is the trustee of a high value trust that: (a) is £10 million or more; or (b) has been £10 million or more at any time during the year immediately preceding the date on which this communication was first made or directed;
- _____ (4) it is any person acting in the capacity of a director, officer or employee of one of the previous three categories of person and whose responsibilities include him or her engaging in investment activity; or
- _____ (5) it is a person whose ordinary activities involve him in carrying on the controlled activity to which this communication relates for the purpose of a business carried on by him.

All monetary references are in British Pounds.

FORM OF SUBSCRIPTION FOR SPECIAL WARRANTS – U.S. Purchaser

TO: SMTC MANUFACTURING CORPORATION OF CANADA (the “Corporation”)

AND TO: ORION SECURITIES INC., CIBC WORLD MARKETS INC., GMP SECURITIES LIMITED and RBC DOMINION SECURITIES INC., acting through their respective U.S. registered broker-dealer affiliates, Orion Securities (USA) Inc., CIBC World Markets Corp., Griffiths McBurney Corp. and RBC Capital Markets Corporation (the “Underwriters”)

The undersigned (the “Subscriber”) hereby irrevocably subscribes for and agrees to purchase the number of special warrants (the “Special Warrants”) of the Corporation as more fully described in this subscription agreement (the “Subscription Agreement”), for the aggregate subscription price set forth below, representing a subscription price of \$1.20 (Canadian) per Special Warrant.

This subscription is made upon and subject to the terms and conditions set forth in the attached “Terms and Conditions of Subscription for Special Warrants of SMTC Manufacturing Corporation of Canada”.

In addition to this face page, the Subscriber must also complete all applicable exhibits hereto.

Number of Special Warrants:

Name of Subscriber (please print)

By: _____

Authorized Signature

Aggregate Subscription Price:

\$ _____

Official Capacity or Title (please print)

If the Subscriber is signing as agent for a principal and is not a trust company or a portfolio manager, in either case, purchasing as trustee or agent for accounts fully managed by it, complete the following:

Please print name of individual whose signature appears above if different than the name of the subscriber printed above

Subscriber’s Address

Name of Principal

Principal’s Address

Address of Beneficial Purchaser, if applicable

Telephone Number

Register the Special Warrants as set forth below:

Deliver the Special Warrants as set forth below:

Name

Name

Account reference, if applicable

Account reference, if applicable

Contact Name

Address

Address

Telephone Number

A completed and originally executed copy of this subscription agreement must be delivered or transmitted by telecopier (416) 848-3593 by no later than 12:00 noon (Toronto time) on March 1, 2004 to Orion Securities Inc., P.O. Box 830, BCE Place, 181 Bay Street, Suite 3100, Toronto, Ontario, Canada, M5J 2T3 (Attention: Liliana Miglionico, Syndication).

ACCEPTANCE: The Corporation hereby accepts the subscription as set forth above on the terms and conditions contained in this Subscription Agreement and the Corporation represents and warrants to the Subscriber that the representations and warranties made by the Corporation to the Underwriters in the Underwriting Agreement (as defined herein) are true and correct in all material respects as of the Closing Date (as defined herein) (save and except as waived by the Underwriters) and that the Subscriber is entitled to rely thereon and on the terms, conditions and covenants contained in the Underwriting Agreement as if the Subscriber were a party thereto.

March __, 2004

SMTC MANUFACTURING CORPORATION OF CANADA

(Closing Date)

By: _____

**TERMS AND CONDITIONS OF SUBSCRIPTION FOR
SPECIAL WARRANTS OF SMTC MANUFACTURING CORPORATION OF CANADA**

Underwritten Private Placement

1. The Subscriber acknowledges that the Special Warrants will be issued in connection with the creation, issue and sale of an aggregate of 33,350,000 Special Warrants of the Corporation at a subscription price of \$1.20 (Canadian) per Special Warrant (and up to 38,352,500 Special Warrants if an over allotment option is exercised by the Underwriters) to be sold by the Corporation on a private placement basis pursuant to an agreement (the “**Underwriting Agreement**”) to be dated on or about March 3, 2004 between the Corporation, SMTC Corporation (“**SMTC**”) and the Underwriters and that the definitive terms and conditions of the Special Warrants will be set forth in the Special Warrant Indenture (as hereinafter defined). Certain terms and conditions of the subscription are contained in a term sheet dated [date], a copy of which is attached hereto as Exhibit _____ (the “**Term Sheet**”), which terms and conditions are hereby incorporated herein by reference.

Terms of Special Warrants

2. (a) The Special Warrants will be created and issued pursuant to the terms of a special warrant indenture (the “**Special Warrant Indenture**”) to be entered into between the Corporation and CIBC Mellon Trust Company (the “**Trustee**”), or such other trust company as is acceptable to the Corporation and the Underwriters, at or prior to the Closing Time (as hereinafter defined).
- (b) Each Special Warrant will be exercisable to acquire, for no additional consideration, one unit (the “**Units**”). Each Unit is comprised of one exchangeable share in the capital of the Corporation (the “**Exchangeable Shares**”) and one-half of one exchangeable share purchase warrant (the “**Warrants**”). Each full Warrant entitles the holder to acquire one Exchangeable Share at any time on or prior to the fifth anniversary of the Closing Date at an exercise price of \$1.85. Each Exchangeable Share is exchangeable at the option of the holder, at any time, for one common share of SMTC (the “**Common Shares**”).
- (c) The Special Warrants will be exercisable by the holders thereof surrendering the Special Warrants to the Trustee at any time on or before 5:00 p.m. (Toronto time) on the date (the “**Expiry Date**”) that is the earlier of: (i) the 6th business day after the date that a receipt is issued by the last of the securities regulatory authorities in each province or territory of Canada where a holder is resident (the “**Qualifying Jurisdictions**”) for a (final) prospectus qualifying the distribution of the Units (the “**Prospectus Qualification Date**”); and (ii) the first business day following the date which is 12 months after the Closing Date. Special Warrants not exercised prior to the Expiry Date will be deemed to have been exercised by the Trustee on behalf of the holders, without any further action on the part of the holders, at 4:59 p.m. (Toronto time) on the Expiry Date. For the purposes of clause (i) above, holders of Special Warrants resident outside of Canada shall be deemed to be residents of Ontario.
- (d) The Underwriting Agreement and the Special Warrant Indenture will provide, among other things, that each of the Corporation and SMTC will use its reasonable best efforts to (i) file a preliminary prospectus in respect of the issuance and distribution of the Units in each of the Qualifying Jurisdictions as soon as practicable following the Closing Date, (ii) resolve all comments received or deficiencies raised by the various securities regulatory authorities in the Qualifying Jurisdictions as expeditiously as possible, (iii) file and obtain receipts for a (final) prospectus (the “**Final Prospectus**”) in each Qualifying Jurisdiction that qualifies the issuance and distribution of the Units as soon as possible after such regulatory comments and deficiencies have been resolved and in no event later than 5:00 p.m. (Toronto time) on the date that is 90 days after the Closing Date (the “**Prospectus Qualification Deadline**”), and (iv) file a registration statement with the United States Securities and Exchange Commission (the “**SEC**”) registering the Common Shares into which the Exchangeable Shares are exchangeable (the “**Underlying Common Shares**”) and to take such other steps as may be necessary to ensure the free tradability of the Underlying Common Shares as soon as possible but in no event later than the date that is 120 days after the Closing Date (the “**Registration Qualification Deadline**”).

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- (e) If the Prospectus Qualification Date does not occur on or before the Prospectus Qualification Deadline, the number of Units issuable on exercise of each Special Warrant exercised after the Prospectus Qualification Deadline shall be increased to 1.1 without payment of additional consideration.
 - (f) The Special Warrants will be issued pursuant to exemptions from prospectus requirements in Canada and will be subject to resale restrictions. In the event that the Corporation is unable to obtain a receipt for the Final Prospectus in a Qualifying Jurisdiction in Canada, or if a Special Warrant is exercised prior to the issuance of a receipt for a Final Prospectus in a Qualifying Jurisdiction in Canada, the Exchangeable Shares and Warrants comprising Units may be subject to statutory hold periods during which these securities may not be resold in such Qualifying Jurisdiction in Canada.
 - (g) If SMTC is unable to cause the registration statement filed with the SEC to become effective or is otherwise unable to ensure the free tradability of the Underlying Common Shares, the Underlying Common Shares will be subject to statutory hold periods during which they may not be resold in Canada or the United States.
 - (h) If a preliminary prospectus is not filed as contemplated by paragraph 2(d) hereof during the four month period following the Closing Date, the Special Warrants not exercised prior thereto will be deemed to have been exercised by the Trustee on behalf of the holders, without any further action on the part of the holders at 4.59 p.m. (Toronto time) on such date.
 - (i) It is acknowledged that the issuance of Underlying Common Shares and the implementation of a debt restructuring of the Corporation and SMTC will require the approval of the shareholders of SMTC and that SMTC will use its commercially reasonable best efforts to cause a meeting of shareholders of SMTC to be held for such purpose within 60 days following the Closing Date, but in any event no later than 90 days following the Closing Date. If the requisite approval of SMTC shareholders is not obtained, subject to NASDAQ approval, Subscribers will be allowed for a period of five business days following the date of the meeting of SMTC shareholders, to subscribe, on a pro rated basis, for Units representing (i) an aggregate number of Underlying Exchangeable Shares that does not exceed 25% of all such issued and outstanding shares and (ii) an aggregate number of Underlying Common Shares that, together with the Underlying Common Shares issuable on exchange of the Exchangeable Shares described in clause (i) of this paragraph, does not exceed 19.9% of the issued and outstanding Common Shares of SMTC (the “**Allowable Subscriptions**”).
 - (j) The net proceeds from the sale of Special Warrants will be deposited with the Trustee who shall invest such net proceeds in government securities until they are distributed in accordance herewith. If the requisite shareholder approvals referred to in subsection 2(i) or bank restructuring approvals are not obtained, or certain insolvency events have occurred and are continuing, then, in accordance with the Term Sheet, the gross proceeds of the subscriptions shall be returned and/or paid by the Corporation to the Underwriters for the benefit of Subscribers, together with any interest earned on that portion of the escrowed funds, less the amount of any Allowable Subscriptions elected by the Subscribers.

The terms of the Special Warrant Indenture shall otherwise be in such form and contain such terms as shall be approved by the Subscribers, the Underwriters and the Corporation.

The foregoing description of the Special Warrants is a summary only and is subject to the detailed provisions of the Special Warrant Indenture.

Restrictive Legends.

3. The Subscriber acknowledges that:

(a) All certificates representing Special Warrants or Warrants shall bear a legend in substantially the following form:

“THIS WARRANT AND THE SECURITIES TO BE ISSUED UPON ITS EXERCISE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), AND MAY NOT BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED UNLESS REGISTERED UNDER THE ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. THIS WARRANT MAY NOT BE EXERCISED BY OR ON BEHALF OF ANY U.S. PERSON UNLESS REGISTERED UNDER THE ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.”

(b) All certificates representing Exchangeable Shares shall bear a legend in substantially the following form:

“THE SHARES REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES TO BE ISSUED UPON EXCHANGE OF SUCH SHARES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), AND MAY NOT BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED UNLESS REGISTERED UNDER THE ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE EXCHANGED FOR SHARES OF SMTC CORPORATION COMMON STOCK UNLESS SUCH SHARES OF COMMON STOCK ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.”

(c) All certificates representing the Underlying Common Shares which are issued in a transaction not registered under the U.S. Securities Act of 1933, as amended (the “1933 Act”) shall bear a legend in substantially the following form:

“THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), AND MAY NOT BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED UNLESS REGISTERED UNDER THE ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.”

Representations, Warranties and Covenants by Subscriber

4. By executing this subscription, the Subscriber (and, if applicable, the others for whom it is contracting hereunder) represents, warrants and covenants to the Corporation and the Underwriters (and acknowledges that the Corporation, the Underwriters and their respective counsel are relying thereon) that:

- (b) The Subscriber is an “accredited investor” as that term is defined in Rule 501 of Regulation D promulgated under the 1933 Act.
- (c) The Subscriber has full legal capacity, power and authority to execute and deliver this Subscription Agreement and to perform its obligations hereunder. This Subscription Agreement has been duly executed and delivered by the Subscriber and is the legal, valid and binding obligation of the Subscriber enforceable against it in accordance with the terms hereof.
- (d) The Subscriber has been advised that the Securities (as defined below) have not been registered under the 1933 Act or any state securities laws and, therefore, cannot be resold unless they are registered under the 1933 Act and applicable state securities laws or unless an exemption from such registration requirements is available. The Subscriber is aware that the Corporation is under no obligation to effect any such registration with respect to the Special Warrants or to file for or comply with any exemption from registration.
- (e) The Subscriber is purchasing the Special Warrants to be acquired by the Subscriber hereunder for its own account and not with a view to, or for resale in connection with, the distribution thereof in violation of the 1933 Act.
- (f) The Subscriber has such knowledge and experience in financial and business matters that the Subscriber is capable of evaluating the merits and risks of such investment, is able to incur a complete loss of such investment and is able to bear the economic risk of such investment for an indefinite period of time.
- (g) The Subscriber has been independently advised as to restrictions with respect to trading in the Special Warrants, the Units, the Exchangeable Shares and Warrants comprising the Units, the Exchangeable Shares underlying the Warrants and the Common Shares into which the Exchangeable Shares are exchangeable (collectively, the “Securities”) imposed by applicable securities legislation in the jurisdiction in which it resides, confirms that no representation has been made to it by or on behalf of the Corporation or the Underwriters with respect thereto, acknowledges that it is aware of the characteristics

of the Securities, the risks relating to an investment therein, and of the fact that if a receipt for the Final Prospectus is not obtained it will not be able to resell the Securities, except in accordance with limited exemptions under applicable securities legislation and regulatory policy until expiry of the applicable restricted period and compliance with the other requirements of applicable securities laws.

- (h) The Subscriber has not received or been provided with, nor has it requested, any offering memorandum, or any other document describing the business and affairs of the Corporation.
- (i) The Subscriber has relied solely upon the representations contained in the Underwriting Agreement and upon publicly available information relating to, and issued by, the Corporation and not upon any verbal or written representation as to fact or otherwise made by or on behalf of the Corporation or the Underwriters or any employees, agents or affiliates thereof, such publicly available information having been delivered to the Subscriber without independent investigation or verification by the Underwriters, and agrees that the Underwriters and their counsel assume no responsibility or liability of any nature whatsoever for the accuracy, adequacy or completeness of the publicly available information upon which the investment decision has been made and acknowledges that the Underwriters' counsel is acting as counsel to the Underwriters and not as counsel to the Subscriber.
- (j) The Subscriber agrees that it will exercise the Special Warrants, exercise the Warrants, exchange the Exchangeable Shares and transfer the Special Warrants, Warrants, Exchangeable Shares or Underlying Common Shares only in accordance with the provisions of the 1933 Act, or pursuant to an available exemption from registration.
- (k) The Subscriber agrees that it will not engage in hedging transactions with regard to the Securities unless in compliance with the 1933 Act or pursuant to an available exemption from registration.
- (l) The Subscriber acknowledges that no agency, governmental authority, regulatory body, stock exchange or other entity (including, without limitation, the United States Securities and Exchange Commission or any state securities commission) has made any finding or determination as to the merit for investment of, nor have any such agencies or governmental authorities made any recommendation or endorsement with respect to the Securities.
- (m) The Subscriber agrees that it did not learn of the opportunity to subscribe for the Special Warrants through, or as a result of, any form of general solicitation or general advertising including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media, or broadcast over radio, internet or television, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising.
- (n) The Subscriber acknowledges that the Corporation may be required to disclose to applicable securities regulatory authorities the identity of the beneficial purchasers of the Special Warrants.
- (o) The Subscriber agrees that it is solely responsible for obtaining such advice concerning the tax consequences of its investment in the Securities and it is not relying on the Corporation, the Underwriters or their respective counsel for advice concerning such tax consequences.

Closing

- 5. The Subscriber agrees to deliver to the Underwriters, as soon as possible and, in any event, not later than 12:00 noon (Toronto time) on March 1, 2004: (a) this duly completed and executed Subscription Agreement; and (b) a certified check or bank draft payable to the Underwriters for the aggregate subscription price or payment of the same amount in such other manner as is acceptable to the Underwriters.
- 6. The sale of the Units will be completed at the offices of Goodmans LLP in Toronto, Ontario at 10:00 a.m. (Toronto time), or such other time as the Underwriters and the Corporation may agree (the "**Closing Time**") on March 3, 2004 or such other date as the Underwriters and the Corporation may agree (the "**Closing Date**"). If by the Closing Time, the terms and conditions contained in the Underwriting Agreement have been complied with to the satisfaction of the Underwriters or waived by the Underwriters, the Underwriters shall deliver to the Corporation all completed subscription agreements, including this Subscription Agreement and deliver to the

Trustee the aggregate subscription proceeds (less the commission referred to in paragraph 7 and the expenses of the offering), against delivery by the Corporation of the Special Warrants and such other documentation as may be required.

7. The Subscriber acknowledges that the Underwriters have agreed to offer the Special Warrants on a private placement basis and, in connection therewith, the Corporation and the Underwriters have entered into the Underwriting Agreement pursuant to which the Underwriters, in connection with the issue and sale of Special Warrants, will receive a fee equal to 6% of the gross proceeds of the sale of Special Warrants from the Corporation.
8. The Corporation and the Underwriters shall be entitled to rely on delivery of a facsimile copy of executed subscriptions, and acceptance by the Corporation of such facsimile subscriptions shall be legally effective to create a valid and binding agreement between the Subscriber and the Corporation in accordance with the terms hereof. Notwithstanding the foregoing, the Subscriber shall deliver originally executed copies of the documents listed in paragraph 5 hereof to Orion Securities Inc., on behalf of the Underwriters, by 12:00 noon on March 1, 2004. In addition, this Subscription Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same document.

General

9. The Subscriber agrees that the representations, warranties and covenants of the Subscriber herein and in any Exhibit hereto will be true and correct in all material respects both as of the time of the execution of this Subscription Agreement and as of the Closing Time and will survive the completion of the issuance of the Special Warrants. The representations, warranties and covenants of the Subscriber herein are made with the intent that they be relied upon by the Corporation and the Underwriters in determining the eligibility of a purchaser of Special Warrants. The Subscriber agrees to indemnify and hold harmless the Corporation and the Underwriters and their respective directors, officers, employees, advisors, affiliates, shareholders, partners and agents from and against any and all loss, liability, claim, damage and expense whatsoever including, but not limited to, any fees, costs and expenses whatsoever reasonably incurred in investigating, preparing or defending against any litigation, administrative proceeding or investigation commenced or threatened or any claim whatsoever arising out of or based upon any breach by the Subscriber of any of its representations or warranties contained herein or any breach or failure by the Subscriber to comply with any covenant or agreement made by the Subscriber contained herein; *provided, however*, that in no event shall the liability of a Subscriber be greater in amount than the excess, if any, of the dollar amount of the proceeds (net of all expense paid by such Subscriber in connection with any claim relating to this Section 9 and the amount of any damages such Subscriber has otherwise been required to pay by reason of such breach) received by such Subscriber upon the sale of the Securities giving rise to such indemnification obligation over the purchase price paid by such Subscriber for or otherwise and attributable to such Securities. The Subscriber undertakes to promptly notify the Corporation at SMTC Manufacturing Corporation of Canada, 635 Hood Road, Markham, Ontario, Canada L3R 4N6, Attention: Marwan Kubursi (Fax Number: 905-479-5326) and the Underwriters at Orion Securities Inc., BCE Place, 181 Bay Street, Suite 3100, P.O. Box 830, Toronto, Ontario, Canada M5J 2T3, Attention: Mark McQueen (Fax Number: 416-848-3650) of any material change in any statement or other information relating to the Subscriber set forth herein which takes place prior to the Closing Time.
10. This Subscription Agreement and all documents relating hereto and all claims arising hereunder or in connection herewith shall be governed by and construed in accordance with the domestic substantive laws of the State of New York, without giving effect to any choice or conflict of law provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.
11. Time shall be of the essence hereof.
12. This Subscription Agreement represents the entire agreement of the parties hereto relating to the subject matter hereof and there are no representations, covenants or other agreements relating to the subject matter hereof except as stated or referred to herein.
13. The Subscriber acknowledges and agrees that all costs incurred by the Subscriber (including any fees and disbursements of any special counsel retained by the Subscriber) relating to the sale of the Special Warrants to the Subscriber shall be borne by the Subscriber.

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14. The representations, warranties and covenants contained herein shall survive the closing of the transactions contemplated hereby.
 15. The terms and provisions of this Subscription Agreement shall be binding upon and enure to the benefit of the Subscriber and the Corporation and their respective heirs, executors, administrators, successors and assigns; provided that, except for the assignment by a Subscriber who is acting as nominee or agent to the beneficial owner and as otherwise herein provided, this Subscription Agreement shall not be assignable by any party without prior written consent of the other parties.
 16. The obligations of the parties hereunder are subject to acceptance of the terms of the offering by the Toronto Stock Exchange and all other required regulatory approvals.
 17. The Subscriber acknowledges and agrees that the acceptance of the Subscription Agreement will be conditional, among other things, upon the sale of the Special Warrants to the Subscriber being exempt from any prospectus and offering memorandum requirements of all applicable securities laws. The Corporation will be deemed to have accepted this subscription agreement upon the delivery at closing of the certificates representing the Special Warrants to or upon the direction of the Subscriber in accordance with the provisions hereof.
 18. The Subscriber, on its own behalf and, if applicable, on behalf of others for whom it is contracting hereunder, agrees that this offer is made for valuable consideration and may not be withdrawn, cancelled, terminated or revoked by the Subscriber, on its own behalf and, if applicable, on behalf of others for whom it is contracting hereunder at any time prior to June 3, 2004.
 19. Neither this Subscription Agreement nor any provision hereof shall be modified, changed, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.

SMTC MANUFACTURING CORPORATION OF CANADA

and

CIBC MELLON TRUST COMPANY

SPECIAL WARRANT INDENTURE AND ESCROW AGREEMENT

**Providing for the Creation and Issue of
Special Warrants**

Dated as of March 3, 2004

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SPECIAL WARRANT INDENTURE AND ESCROW AGREEMENT

THIS INDENTURE dated as of March 3, 2004.

BETWEEN:

SMTC MANUFACTURING CORPORATION OF CANADA, a corporation incorporated under the laws of the Province of Ontario ("SMTC Canada" or the "Corporation")

- and -

CIBC MELLON TRUST COMPANY, a trust company incorporated under the laws of Canada (the "Trustee")

WHEREAS:

- A. SMTC Canada, an indirect wholly owned subsidiary of SMTC Corporation, a corporation organized under the laws of the State of Delaware ("SMTC") wishes to raise money to repay its indebtedness and for general corporate purposes, including working capital, and therefore proposes to create, issue and sell Special Warrants, each entitling the holder thereof to acquire, for no additional consideration, one Unit (collectively "Units") comprised of one exchangeable share of SMTC Canada (an "Exchangeable Share") and one half of one share purchase warrant (each whole warrant, a "Share Purchase Warrant") (subject to adjustment as provided herein), upon the terms and conditions herein set forth;
- B. The Share Purchase Warrants shall be created pursuant to and governed by a Share Purchase Warrant Indenture of even date herewith;
- C. SMTC Canada is duly authorized to create and issue the Special Warrants as herein provided and complete the transactions contemplated herein;
- D. All things necessary have been done and performed to make the Special Warrant Certificates, when certified by the Trustee and issued and delivered as herein provided, legal, valid and binding on SMTC Canada with the benefits of and subject to the terms of this Indenture;
- E. The net proceeds of the sale of Special Warrants shall be deposited with and held in escrow by the Trustee on the Closing Date as herein provided; and
- F. The Trustee has agreed to enter into this Indenture and to hold all rights, interests and benefits contained herein for and on behalf of those persons who from time to time become holders of Special Warrants issued pursuant to this Indenture.

NOW THEREFORE THIS INDENTURE WITNESSES that for good and valuable consideration mutually given, the receipt and sufficiency of which are, by each of SMTC Canada and the Trustee, hereby acknowledged, SMTC Canada hereby appoints the Trustee as trustee for the Special Warrantholders, to hold all rights, interests and benefits contained herein for and on behalf of those persons who from time to time become holders of Special Warrants issued pursuant to this Indenture, and the parties hereby covenant, agree and declare as follows.

The foregoing statement of fact and recitals are made by the Corporation and not the Trustee.

ARTICLE 1
INTERPRETATION

1.1 Definitions

In this Indenture, unless there is something in the subject matter or context inconsistent therewith:

- (1) “*affiliate*” shall have the meaning ascribed to such term in the *Business Corporations Act* (Ontario), as amended from time to time;
- (2) “*Applicable Legislation*” means such provisions of any statute of Canada, of a province thereof or of any other jurisdiction, and of regulations under any such statute, relating to trust indentures or to the rights, duties and obligations of corporations and of warrant trustees under trust indentures, as are from time to time in force and applicable to this Indenture;
- (3) “*business day*” means any day that is not a Saturday, Sunday or statutory holiday in Ontario or a day when the principal office of the Trustee in Toronto, Ontario is not generally open to the public for the transaction of business;
- (4) “*Closing Date*” means March 3, 2004 or such other date as agreed upon by the Underwriters and SMTC Canada;
- (5) “*counsel*” means a barrister or solicitor or a firm of barristers and solicitors (who may be counsel for SMTC Canada) acceptable to the Trustee, acting reasonably;
- (6) “*Debt Restructuring Agreement*” means an agreement between SMTC Canada, HTM Holdings Inc., SMTC, 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 dated February 17, 2004 with respect to the financial restructuring of SMTC Canada and SMTC;
- (7) “*Deemed Exercise Date*” means, with respect to any Special Warrant deemed to have been exercised by the holder thereof pursuant to Subsection 5.2(1), the date and time on which the Special Warrants are so deemed to have been exercised as provided in such Subsection;
- (8) “*director*” means a director of SMTC Canada for the time being, and reference to action by the directors means action by the directors of SMTC Canada as a board or, to the extent empowered, by a committee of the board, in each case by resolution duly passed;

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- (9) “**Exchangeable Shares**” means the exchangeable shares in the capital of SMTC Canada which are exchangeable at the option of the holder, at any time, for one Common Share, provided that in the event of any adjustment pursuant to section 5.7, “Exchangeable Shares” will thereafter mean the shares or other securities or property resulting from such adjustment;
- (10) “**Escrowed Funds**” has the meaning given in section 3.1;
- (11) “**Exercise Date**” means, with respect to any Special Warrant exercised by the holder thereof pursuant to Subsection 5.1(1), the date that is the earlier of (i) the 6th business day after the Prospectus Qualification Date, and (ii) the first business day following the date which is 12 months after the Closing Date;
- (12) “**Expiry Time**” means 5:00 p.m. (Toronto time) on the Exercise Date;
- (13) “**Extraordinary Resolution**” has the meaning attributed thereto in Sections 8.12 and 8.15;
- (14) “**Final Prospectus**” means the (final) prospectus to be filed by SMTC Canada with the Securities Commissions for the purpose of qualifying for distribution in the Qualifying Jurisdictions the Units comprised of Exchangeable Shares and Share Purchase Warrants, issuable on exercise or deemed exercise of the Special Warrants and includes any amendment thereto;
- (15) “**Insolvency Event**” means if: (i) SMTC or SMTC Canada (a) applies for or consents to the appointment of, or the taking of possession by, a receiver, custodian, administrator, trustee, liquidator or other similar official for itself or for all or substantially all of its assets (b) makes a general assignment for the benefit of creditors or a proposal under the United States Bankruptcy Code, the *Bankruptcy and Insolvency Act* (Canada), the *Companies’ Creditors Arrangement Act* (Canada) or the *Winding-up and Restructuring Act* (Canada) or a similar law of any applicable jurisdiction, (c) institutes any proceeding seeking to adjudicate it a bankrupt or insolvent or seeking liquidation, dissolution, winding-up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any statute, rule or regulation relating to bankruptcy, insolvency, reorganization, relief or protection of debtors; or (ii) any proceeding against SMTC or SMTC Canada has been commenced to: (a) adjudicate it a bankrupt or insolvent; (b) result in the liquidation, dissolution, winding-up, reorganization, arrangement, adjustment, protection, or relief or composition of it or its debts under any statute, rule or regulation relating to bankruptcy, insolvency, reorganization, relief or protection of debtors; or (c) result in the appointment of a receiver, custodian, administrator, trustee, liquidator or other similar official for it or for all or any material part of its assets, and in each case, such proceeding remains undismissed or unstayed for a period of 45 days or any of the actions sought in such proceeding shall occur.
- (16) “**Lead Underwriter**” means Orion Securities Inc.
- (17) “**person**” means an individual, corporation, partnership, trustee or unincorporated organization, and words importing persons have a similar extended meaning;

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- (18) “**Preliminary Prospectus**” means the preliminary prospectus to be filed by SMTC Canada in respect of the issuance and distribution of the Units in each of the Qualifying Jurisdictions as soon as practicable following the Closing Date;
- (19) “**Prospectus Qualification Deadline**” means 5:00 p.m. (Toronto time) on the date that is 90 days following the Closing Date;
- (20) “**Prospectus Qualification Date**” means the date on which the receipt for the Final Prospectus has been obtained by SMTC Canada from the Securities Commissions;
- (21) “**Qualified Investments**” has the meaning set out in Section 3.2;
- (22) “**Qualifying Jurisdictions**” means the Provinces of Ontario, British Columbia, Alberta, Quebec, Saskatchewan and Nova Scotia;
- (23) “**Registration Qualification Date**” means the date on which the Registration Statement is declared effective by the U.S. Securities and Exchange Commission or the Underlying Common Shares otherwise become freely tradeable in the United States;
- (24) “**Registration Qualification Deadline**” means 5:00 p.m. (Toronto time) on the date which is 120 days after the Closing Date;
- (25) “**Registration Statement**” means the registration statement to be filed by SMTC with the U.S. Securities and Exchange Commission to register the Underlying Common Shares;
- (26) “**Requisite Shareholder Approval**” means approval of the issuance of the Special Warrants, the Units and the Underlying Common Shares and of the Debt Restructuring Agreement by shareholders of SMTC Canada and SMTC, to the extent required, at a meeting to be held within 90 days following the Closing Date;
- (27) “**Securities Commissions**” means the securities regulatory authorities of the Qualifying Jurisdictions;
- (28) “**Share Purchase Warrant Indenture**” means the share purchase warrant indenture dated as of March 3, 2004 between SMTC Canada and CIBC Mellon Trust Company relating to the creation and issue of Share Purchase Warrants;
- (29) “**Share Purchase Warrant**” means a whole share purchase warrant of SMTC Canada created and governed by the Share Purchase Warrant Indenture;
- (30) “**SMTC**” means SMTC Corporation, a corporation incorporated under the laws of the State of Delaware, of which SMTC Canada is an indirect wholly owned subsidiary;
- (31) “**SMTC Canada**” or the “**Corporation**” means SMTC Manufacturing Corporation of Canada, and includes any successor corporation to or of SMTC Canada which shall have complied with the provisions of Section 9.2;
- (32) “**SMTC Canada’s auditors**” means KPMG LLP, the firm of chartered accountants duly appointed as auditors of SMTC Canada for the time being;

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- (33) “**SMTC director**” means a director of SMTC for the time being, and reference to action by the directors means action by the directors of SMTC as a board or, to the extent empowered, by a committee of the board, in each case by resolution duly passed;
- (34) “**Special Warrant Certificate**” means a certificate evidencing one or more Special Warrants, substantially in the form set out in Schedule A hereto;
- (35) “**Special Warrantholders**” or “**holders**” means the persons for the time being entered in a register of holders described in Section 4.1 as holders of Special Warrants;
- (36) “**Special Warrantholders’ Request**” means an instrument, signed in one or more counterparts by Special Warrantholders who hold in the aggregate not less than 10% of the total number of Special Warrants outstanding for the time being, requesting the Trustee to take some action or proceeding specified therein;
- (37) “**Special Warrants**” means 33,350,000 Special Warrants of SMTC Canada, created and issued pursuant to Subsections 2.1(1) and 2.1(2) containing the right to acquire Units and evidenced by Special Warrant Certificates issued and certified in accordance with the provisions hereof and that have not for the time being expired or been exercised or deemed to have been exercised;
- (38) “**this Special Warrant Indenture**”, “**this Indenture**”, “**hereto**”, “**hereunder**”, “**hereof**”, “**herein**”, “**hereby**” and similar expressions mean or refer to this Special Warrant Indenture and any indenture, deed or instrument supplemental or ancillary hereto, and the expressions “**Article**”, “**Section**”, “**Subsection**” and “**paragraph**” followed by a number mean the specified Article, Section, Subsection or paragraph of this Indenture;
- (39) “**Trustee**” means CIBC Mellon Trust Company, the party of the second part hereunder, and includes any successor or permitted assigns for the time being in the trusts created hereby;
- (40) “**Underlying Common Shares**” means the common shares in the capital of SMTC, issuable upon exercise of the exchange or other rights attaching to the Exchangeable Shares and any other securities into which such shares may be changed, from time to time;
- (41) “**Underwriters**” means Orion Securities Inc., CIBC World Markets Inc., GMP Securities Limited, and RBC Dominion Securities Inc.;
- (42) “**Units**” means the units that are issued, without payment of additional consideration, upon the exercise of the Special Warrants, each Unit consisting of one Exchangeable Share and one half of one Share Purchase Warrant, subject to adjustments;
- (43) “**Underwriting Agreement**” means the agreement dated March 3, 2004 between the Underwriters, SMTC Canada and SMTC, such agreement providing for the sale of Special Warrants by the Underwriters to the purchasers thereof;
- (44) “**voting shares**” of any corporation means shares of one or more classes or series of a class of shares in the capital of such corporation carrying voting rights under all

circumstances (and not by reason of the happening of a contingency) sufficient if exercised to elect all of the directors of such corporation, provided that such shares will be deemed not to cease to be voting shares solely by reason of a right to vote for the election of one or more of the directors of such corporation accruing to shares of another class or series of a class of shares of such corporation by reason of the happening of a contingency; and

- (45) “*written order of SMTC Canada*”, “*written request of SMTC Canada*”, “*written consent of SMTC Canada*”, “*written direction of SMTC Canada*” and “*certificate of SMTC Canada*” mean, respectively, a written order, request, consent, direction and certificate signed in the name of SMTC Canada by any director or officer of SMTC Canada or by any other individual to whom such signing authority is delegated by the directors from time to time, and may consist of one or more instruments so executed.

1.2 Meaning of Outstanding

Each Special Warrant certified and delivered by the Trustee under this Indenture will be deemed to be outstanding until it is cancelled or delivered to the Trustee for cancellation, as the case may be, or until the Special Warrants have been exercised pursuant to the terms of this Indenture, provided that:

- (a) when a new Special Warrant Certificate has been issued in substitution for a Special Warrant Certificate which has been lost, stolen or destroyed, only one of such Special Warrant Certificates will be counted for the purposes of determining the aggregate number of Special Warrants outstanding; and
- (b) for the purposes of any provision of this Indenture entitling holders of outstanding Special Warrants to vote, sign consents, requisitions or other instruments or take any other action under this Indenture, Special Warrants owned, directly or indirectly, legally or beneficially by SMTC Canada or an affiliate of SMTC Canada will be deemed not to be outstanding except that:
 - (i) for the purposes of determining whether the Trustee will be protected in acting or relying on any such vote, consent, requisition or other instrument or action, only the Special Warrants which have been certified by SMTC Canada in a certificate of SMTC Canada to the Trustee as so owned will be deemed not to be outstanding; and
 - (ii) Special Warrants so owned which have been pledged in good faith, other than to SMTC Canada or an affiliate thereof, will not be deemed not to be outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right to vote such Special Warrants in its discretion free from the control of SMTC Canada or an affiliate thereof.

1.3 Words Importing the Singular and Gender

Words importing the singular include the plural and vice versa and words importing a particular gender include all genders.

1.4 Interpretation Not Affected by Headings, Etc.

The division of this Indenture into Articles, Sections, Subsections, paragraphs, subparagraphs, clauses and subclauses and the insertion of headings are for convenience of reference only and will not affect the construction or interpretation of this Indenture.

1.5 Day Not a Business Day

If the day on or before which any action that would otherwise be required to be taken hereunder is not a business day in the place where the action is required to be taken, that action will be required to be taken on or before the requisite time on the next succeeding day that is a business day, with the same force and effect as if taken within the period for the taking of such action.

1.6 Time of the Essence

Time will be of the essence in all respects in this Indenture and the Special Warrant Certificates.

1.7 Currency

Except as otherwise stated, all dollar amounts herein are expressed in Canadian dollars.

1.8 Applicable Law

This Indenture and the Special Warrant Certificates will be construed and enforced in accordance with the laws prevailing in the Province of Ontario and with the federal laws of Canada applicable therein and will be treated in all respects as Ontario contracts. The parties irrevocably attorn and submit to the non-exclusive jurisdiction of the courts of the Province of Ontario with respect to any matter arising under or related to this Indenture.

1.9 Beneficiaries

This Indenture is entered into by the Trustee for the benefit of all such persons who subscribe for and purchase Special Warrants and each of them shall, upon such subscription and purchase, be entered in the register as Special Warrant holders. The Trustee hereby declares that it holds all rights, interest and benefits to be derived therefrom for and on behalf of all such persons in accordance with the terms and restrictions contained herein.

ARTICLE 2
THE SPECIAL WARRANTS

2.1 Creation and Issue of Special Warrants

- (1) 33,350,000 Special Warrants, each Special Warrant entitling the holder thereof to be issued one Unit, without payment of additional consideration, comprised of one Exchangeable Share and one half of one Share Purchase Warrant (subject to adjustment as provided herein) on the terms and subject to the conditions herein provided, are hereby created and authorized for issuance at a price of \$1.20 for each Special Warrant, payable in cash.

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- (2) Upon the issuance of the Special Warrants and upon receipt by the Trustee, in accordance with Section 3.1, of the issue price in cash therefor, Special Warrant Certificates shall be executed by SMTC Canada and delivered to the Trustee, certified by or on behalf of the Trustee upon the written order of SMTC Canada and delivered by the Trustee to SMTC Canada or to the order of SMTC Canada pursuant to a written direction of SMTC Canada, without any further act of or formality on the part of SMTC Canada and without the Trustee receiving any consideration therefor. The Special Warrants shall be issued in registered form only.

2.2 Terms of Special Warrants

- (1) Subject to Subsection 2.2(2) hereof, each Special Warrant authorized to be issued hereunder will entitle the registered holder thereof, upon the exercise or deemed exercise thereof in accordance with the provisions of Article 5, and without payment of any additional consideration, to be issued one Unit comprised of one Exchangeable Share and one half of one Share Purchase Warrant.
- (2) The number of Exchangeable Shares and Share Purchase Warrants issuable on exercise or deemed exercise of the Special Warrants pursuant to Subsection 2.2(1) hereof, will be adjusted in accordance with Subsection 2.2(3) and upon the occurrence of any of the events and in the manner specified in Section 5.7.
- (3) In the event that the Prospectus Qualification Date does not occur on or before the Prospectus Qualification Deadline, or if the Registration Qualification Date does not occur on or before the Registration Qualification Deadline, each Special Warrant exercised after the Prospectus Qualification Deadline shall be adjusted accordingly to entitle the holders of the Special Warrants to receive instead 1.1 Units, without the payment of additional consideration.

2.3 Form of Special Warrant Certificates

- (1) The Special Warrant Certificates (including the signature of the Trustee endorsed thereon) will be substantially in the form set out in Schedule A hereto with, subject to the provisions herein, such additions, variations or omissions as may from time to time be agreed upon by SMTC Canada and the Trustee; will be dated as of the Closing Date (regardless of the actual dates of their issue), will bear such legends (including the applicable legend described in Sections 2.8 or 2.9 below, as applicable) and distinguishing letters and numbers as SMTC Canada, with the approval of the Trustee, may prescribe and will be issuable in any whole number denomination. No fractional Special Warrants will be issued or otherwise provided for hereunder. Regardless of any adjustments pursuant to Subsection 2.2(3) or Article 5 of this Indenture, Special Warrant Certificates representing Special Warrants shall continue to be in the form set forth in Schedule A to this Indenture and shall continue to express the number of Exchangeable Shares and Share Purchase Warrants which may be acquired upon the exercise of the Special Warrants evidenced thereby prior to any such adjustments.

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- (2) The Special Warrant Certificates may be engraved, lithographed or printed (the expression “printed” including for purposes hereof both original typewritten material as well as mimeographed, mechanically, photographically, photostatically or electronically reproduced, typewritten or other written material), or partly in one form and partly in another, as SMTC Canada may determine.

2.4 Signing of Special Warrant Certificates

- (1) The Special Warrant Certificates will be signed by any director or senior officer of SMTC Canada or by any other individual to whom such signing authority is delegated by the directors from time to time.
- (2) The signatures of any of the officers or individuals referred to in Subsection 2.4(1) may be manual signatures, engraved, lithographed or printed in facsimile and Special Warrant Certificates bearing such facsimile signatures will be binding on SMTC Canada as if they had been manually signed by such officers or individuals.
- (3) Notwithstanding that any person whose manual or facsimile signature appears on a Special Warrant Certificate as one of the officers or individuals referred to in Subsection 2.4(1) no longer holds the same or any other office with SMTC Canada at the date of issuance of any Special Warrant Certificate or at the date of certification or delivery thereof, such Special Warrant Certificate will, subject to Section 2.5, be valid and binding on SMTC Canada and such fact shall not affect in any way the entitlement of the holder thereof to the benefits of this Indenture or the Special Warrant Certificate(s) in question.

2.5 Certification by Trustee

- (1) No Special Warrant Certificate, notwithstanding that such Special Warrant Certificate has been signed in accordance with Section 2.4, will be issued or, if issued, will be valid or entitle the holder to the benefits hereof until it has been certified by manual signature by or on behalf of the Trustee substantially in the form of the certificate set out in Schedule A or in such other form approved by the Trustee. The certification by the Trustee on a Special Warrant Certificate will be conclusive evidence in favour of the Trustee on behalf of the Special Warrant holders as against SMTC Canada that such Special Warrant Certificate has been duly issued hereunder and if issued, is valid and exercisable, and that the holder thereof is entitled to the benefits hereof.
- (2) The certification by the Trustee on any Special Warrant Certificate issued hereunder will not be construed as a representation or warranty by the Trustee as to the validity of this Indenture (except in respect of its due authorization, execution and delivery by, and enforceability against, the Trustee) or such Special Warrant Certificate (except the due certification thereof) or as to the performance by SMTC Canada of its obligations hereunder, and the Trustee will in no respect be liable or answerable for the use made of any Special Warrant Certificate or of the consideration therefor, except as otherwise specified herein.

2.6 **Special Warrants to Rank *Pari Passu***

All Special Warrants will rank *pari passu*, whatever may be the actual dates of issue of the Special Warrant Certificates by which the Special Warrants are evidenced.

2.7 **Canadian Transfer Restrictions**

In order to ensure compliance with applicable Canadian securities laws, no direct or indirect sale, transfer or repurchase of Special Warrants, Exchangeable Shares or Share Purchase Warrants, shall be permitted from or by a registered holder whose address is not in Canada (or who is not a resident of Canada) to a purchaser or transferee whose address is in Canada (or who is a resident of Canada) unless it is made in compliance with Applicable Legislation. Each Special Warrant holder, by its acceptance of the Special Warrants, shall be deemed to have acknowledged and agreed that if it is not a resident of Canada it shall not transfer Special Warrants, Exchangeable Shares or Share Purchase Warrants, except as provided in the immediately preceding sentence.

2.8 **Transfer Restrictions**

Each Special Warrant Certificate and all Special Warrant Certificates issued in exchange therefor or in substitution therefor, as well as certificates representing the Share Purchase Warrants issuable upon the exercise or deemed exercise of any Special Warrants represented by any such Special Warrant Certificate shall bear the legend set forth below (the "Legend"):

“THIS WARRANT AND THE SECURITIES TO BE ISSUED UPON ITS EXERCISE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. THIS WARRANT MAY NOT BE EXERCISED BY OR ON BEHALF OF ANY U.S. PERSON UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. “

provided, that if the Special Warrants, Exchangeable Shares or Share Purchase Warrants are being sold outside the United States in accordance with Rule 904 of Regulation S under the Securities Act, the Legend may be removed by providing a declaration to the Trustee in the form attached as Schedule "B" hereto, or in such other form as the Corporation may from time to time prescribe, to the effect that the sale of the securities is being made in compliance with Rule 904 of Regulation S under the United States Securities Act of 1933, as amended.

In order to ensure compliance with applicable United States securities laws, no direct or indirect transfer or sale of Special Warrants bearing the Legend may be made except in compliance with the Legend or unless otherwise reasonably determined by SMTC Canada to be in accordance with Applicable Legislation.

2.9 U.S. Transfer Restriction

Each Special Warrant Certificate originally issued to a person within the United States and all Special Warrant Certificates issued in exchange therefore or in substitution therefore, as well as certificates representing the Exchangeable Shares and Share Purchase Warrants issuable upon the exercise or deemed exercise of any Special Warrants represented by any such Special Warrant Certificate shall bear the legend set forth below (the "U.S. Legend"):

"DELIVERY OF THIS CERTIFICATE MAY NOT CONSTITUTE "GOOD DELIVERY" IN SETTLEMENT OF TRANSACTIONS ON STOCK EXCHANGES IN CANADA. A NEW CERTIFICATE BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY" MAY BE OBTAINED FROM CIBC MELLON TRUST COMPANY UPON THE DELIVERY TO CIBC MELLON TRUST COMPANY AND THE CORPORATION OF A DECLARATION TO THE EFFECT THAT (A) THE OFFER OR SALE ARE MADE IN AN OFFSHORE TRANSACTION, (B) NO DIRECTED SELLING EFFORTS ARE MADE IN THE UNITED STATES BY THE SELLER, AN AFFILIATE OR ANY PERSON ACTING ON THEIR BEHALF, AND (C) THE SELLER IS NOT A DEALER OR A PERSON RECEIVING SELLING CONCESSIONS AND THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT."

2.10 Legend for Special Warrant Certificates of Non-U.S. and Non-Canadian Persons

Each Special Warrant Certificate issued to a person outside of the United States and outside of Canada who is not a U.S. person or a Canadian person and all Special Warrant Certificates issued in exchange therefor or in substitution therefor, as well as the certificates representing the Exchangeable Shares and Share Purchase Warrants issuable upon the exercise or deemed exercise of any Special Warrants represented by any such Special Warrant Certificate shall bear the following legend (the "Non-U.S. Legend"):

"FOR SPECIAL WARRANTS ISSUED TO NON-RESIDENTS OF CANADA, THE HOLDER, BY ITS ACCEPTANCE OF THIS SECURITY, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT AND WILL NOT BE ENTITLED TO, DIRECTLY OR INDIRECTLY, SELL OR TRANSFER SPECIAL WARRANTS INTO CANADA OR TO RESIDENTS OF CANADA, EXCEPT IN COMPLIANCE WITH APPLICABLE CANADIAN SECURITIES LAWS. NO SALE OR TRANSFER INTO CANADA OR TO A CANADIAN RESIDENT WILL BE REGISTERED BY THE TRUSTEE AND ANY ATTEMPT TO EFFECT SUCH A TRANSFER IS INVALID UNLESS MADE IN COMPLIANCE WITH THE ABOVE-NOTED RESTRICTIONS."

2.11 Legend for Exchangeable Shares

Each Exchangeable Share issued upon exercise of the Special Warrants shall bear the following legends:

“THE SHARES REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES TO BE ISSUED UPON EXCHANGE OF SUCH SHARES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.”

“THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE REDEEMED FOR SHARES OF SMTC CORPORATION COMMON STOCK UNLESS SUCH SHARES ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.”

2.12 Legend for Underlying Common Shares

Each share of the common stock of SMTC Corporation issued upon the redemption of an Exchangeable Share (issued upon exercise of the Special Warrants) in a transaction that has not been registered under the Securities Act shall bear the following legend:

“THE SHARES REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES TO BE ISSUED UPON EXCHANGE OF SUCH SHARES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.”

2.13 Reliance by Trustee

The Trustee shall have no obligation to ensure or verify compliance with any applicable laws or regulatory requirements on the issue, exercise or transfer of any Special Warrants or any

Exchangeable Shares or Share Purchase Warrants issuable upon the exercise of any Special Warrants. The Trustee shall be entitled to process all proffered transfers and exercises of Special Warrants upon the presumption that such transfers or exercises are permissible pursuant to all applicable laws and regulatory requirements and the terms of this Indenture and the related Special Warrant Certificates, provided that such transfers and exercises of Special Warrants may only be processed by the Trustee upon written instruction of SMTC Canada to the Trustee, which instruction may be based, in SMTC Canada's discretion, upon certificates, opinions and other documentation of the holders of such Special Warrants that such transfer or exercise is in accordance with Applicable Legislation. The Trustee may assume for the purposes of this Indenture that the address on the register of Special Warrant holders of any Special Warrant holder is the Special Warrant holder's actual address and is also determinative of the Special Warrant holder's residency and that the address of any transferee to whom any Special Warrants, Exchangeable Shares or Share Purchase Warrants are to be registered, as shown on the transfer document, is the transferee's actual address and is also determinative of the transferee's residency.

2.14 Issue in Substitution for Lost Certificates, Etc.

- (1) If any Special Warrant Certificate becomes mutilated or is lost, destroyed or stolen, SMTC Canada, subject to applicable law and to Subsection 2.14(2), will issue, and thereupon the Trustee will certify and deliver, a new Special Warrant Certificate of like date and tenor as the one mutilated, lost, destroyed or stolen in exchange for and in place of and on surrender and cancellation of such mutilated Special Warrant Certificate or in lieu of and in substitution for such lost, destroyed or stolen Special Warrant Certificate and the substituted Special Warrant Certificate shall be in a form approved by the Trustee and shall entitle the holders to the benefits hereof and rank *pari passu* in accordance with its terms and with all other Special Warrants issued hereunder.
- (2) The applicant for the issue of a new Special Warrant Certificate pursuant to this Section 2.14 will bear the reasonable cost of the issue thereof and in case of mutilation, loss, destruction or theft will, as a condition precedent to the issue thereof:
 - (a) furnish to SMTC Canada and to the Trustee such evidence of ownership and of the mutilation, loss, destruction or theft of the Special Warrant Certificate to be replaced as is satisfactory to SMTC Canada and to the Trustee in their discretion, acting reasonably;
 - (b) if so required by SMTC Canada or the Trustee, furnish an indemnity in amount and form satisfactory to SMTC Canada and to the Trustee in their reasonable discretion; and
 - (c) pay the reasonable charges of SMTC Canada and the Trustee in connection therewith.

2.15 Cancellation of Surrendered Special Warrants

All Special Warrant Certificates surrendered to the Trustee pursuant to sections 2.14, 4.1, 4.2, 5.1 or 5.2 will be cancelled by the Trustee and, if requested by SMTC Canada in writing, the Trustee will furnish SMTC Canada with a cancellation certificate identifying each Special

Warrant Certificate so cancelled, the number of Special Warrants evidenced thereby and the number of Exchangeable Shares and Share Purchase Warrants issued pursuant to such Special Warrants.

2.16 Special Warrantholder Rights

Nothing in this Indenture or in the holding of a Special Warrant evidenced by a Special Warrant Certificate, or otherwise, other than the applicable rights received upon exercise or deemed exercise of the Special Warrants, as noted above, is intended or will be construed as conferring on any Special Warrantholder any right or interest whatsoever as a shareholder of SMTC Canada or SMTC, including but not limited to any right to vote at, to receive notice of, or to attend any meeting of shareholders or any other proceeding of SMTC Canada or SMTC or any right to receive any dividend or other distribution to which the shareholders of SMTC Canada or SMTC may be entitled.

ARTICLE 3 **ESCROW**

3.1 Escrow of Proceeds

On the Closing Date, the net proceeds of the sale of Special Warrants (the “Escrowed Funds”) shall be delivered by the Lead Underwriter to the Trustee to be held in escrow. The Trustee agrees to hold the Escrowed Funds in trust on behalf of the persons who have an interest therein pursuant hereto, and to disburse and deal with the same all on the terms hereof. For greater certainty, until the Escrow Conditions are met, the Escrowed Funds will be held in trust on behalf of the holders of Special Warrants and shall not become the property of SMTC Canada.

3.2 Qualified Investments

Pending disbursement of the Escrowed Funds, the Trustee agrees to hold, invest and reinvest the same in Qualified Investments.

Any securities, documents of title or other instruments that may at any time be held by the Trustee subject to the trusts hereof may be placed in the deposit vaults of the Trustee or of any Canadian chartered bank listed in Schedule 1 of the *Bank Act* (Canada) or deposited for safekeeping with any such bank. Unless herein otherwise expressly provided, any monies so held pending the application or withdrawal thereof under any provisions of this Indenture shall be, upon receipt of a direction from the Corporation, invested by the Trustee in Qualified Investments in its name in accordance with such direction. Any direction from the Corporation to the Trustee shall be in writing and shall be provided to the Trustee no later than 9:00 a.m. (Eastern Standard time) on the day on which the investment is to be made. Any such direction received by the Trustee after 9:00 a.m. (Eastern Standard time) or received on a non-business day, shall be deemed to have been given prior to 9:00 a.m. (Eastern Standard time) on the next business day. For the purpose hereof, “Qualified Investments” means short term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or a Province or a Canadian chartered bank (which may include an Affiliate or related party of the Trustee provided that such obligation is rated at least R1 (middle) by DBRS Inc. or an equivalent rating service.

In the event that the Trustee does not receive a direction or only a partial direction, the Trustee may hold cash balances constituting part or all of the Escrowed Funds and may, but need not, invest same in its deposit department or the deposit department of one of its Affiliates; but the Trustee and its Affiliates shall not be liable to account for any profit to any parties to this Indenture or to any person or entity other than at a rate, if any, established from time to time by the Trustee or one of its Affiliates. For the purposes of this Section 3.2, “Affiliate” means affiliated companies within the meaning of the *Business Corporations Act* (Ontario) (“**OBCA**”); and includes Canadian Imperial Bank of Commerce, CIBC Mellon Global Securities Services Company and Mellon Bank N.A. and each of their affiliates within the meaning of the OBCA.

3.3 Release of Escrow

- (1) At the time the Trustee has been provided with written satisfactory evidence that (i) the Requisite Shareholder Approval has been obtained, (ii) no Insolvency Event has occurred and its continuing, and (iii) the Lead Underwriter is satisfied that the terms of the Debt Restructuring Agreement have been complied with (collectively the “Escrow Conditions”), all Escrowed Funds, together with any interest thereon, shall be released by the Trustee to SMTC Canada. It is acknowledged that the completion of all transactions contemplated by the Debt Restructuring Agreement must occur simultaneously with the release of the Escrowed Funds, since the completion of those transactions are contingent upon the release of the Escrowed Funds. For the purpose of satisfying clauses (i) and (ii) of this Section 3.3(1), the Trustee may act and rely on a certificate to such effect delivered to it by SMTC Canada, and for the purpose of satisfying clause (iii) of this Section 3.3(1), the Trustee may rely on a certificate of the Lead Underwriter to such effect.
- (2) If the evidence contemplated by Subsection 3.3(1) is not delivered to the Trustee on or before the Prospectus Qualification Deadline then the Trustee will, within two business days of the Prospectus Qualification Deadline, send to each Special Warrantholder a written notice as to the non-receipt of such evidence. Upon receipt of such notice, each Special Warrantholder will be entitled, at any time thereafter up to the Expiry Time, to instruct the Trustee in writing (a “**Release Notice**”) to release to such Special Warrantholder its *pro rata* share of the Escrowed Funds, together with interest thereon, if any, based upon its holdings of Special Warrants. Contemporaneously with the release of any Escrowed Funds as aforesaid (i) all Special Warrants held by a Special Warrantholder that has delivered a Release Notice to the Trustee shall be cancelled and, except as specifically set forth in the Underwriting Agreement or in clause (ii) of this Section 3.3(2), such Special Warrantholder shall have no further rights in respect thereof, other than the right to receive their pro rata share of the Escrowed Funds and interest, if any, thereon, and (ii) SMTC Canada shall pay to such Special Warrantholder, in immediately available funds, pro rata to their holdings of Special Warrants an amount equal to the difference between the aggregate purchase price of the Special Warrants and the Escrowed Funds.

3.4 Direction

In order to permit the Trustee to carry out its obligations under this Article 3, SMTC Canada specifically authorizes and directs the Trustee to make the stipulated payment or to take the stipulated action.

ARTICLE 4 **REGISTRATION, TRANSFER, EXCHANGE AND** **OWNERSHIP OF SPECIAL WARRANTS**

4.1 Registration and Transfer of Special Warrants

- (1) SMTC Canada hereby appoints the Trustee as registrar and transfer agent of the Special Warrants.
- (2) The Trustee will cause to be kept:
 - (a) by and at the principal office in Toronto, Ontario of the Trustee a register (or registers) of holders in which shall be entered in alphabetical order the names and addresses of the holders of Special Warrants and particulars of the Special Warrants held by them; and
 - (b) by and at the principal office in Toronto, Ontario of the Trustee, a register of transfers in which all transfers of Special Warrants and the date and other particulars of each transfer shall be entered.
- (3) No transfer of any Special Warrant will be valid unless duly entered on the appropriate register of transfers referred to in Subsection 4.1(2), or on any branch registers maintained pursuant to Subsection 4.1(8), upon surrender to the Trustee of the Special Warrant Certificate evidencing such Special Warrant, duly endorsed by, or accompanied by a written instrument of transfer substantially in the form of Appendix 2 to the Special Warrant Certificate or otherwise in form satisfactory to the Trustee executed by, the registered holder or his executors, administrators or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and execution satisfactory to the Trustee, and a written acknowledgement by the transferee substantially in the form of Appendix 3 to the Special Warrant Certificate or otherwise in form satisfactory to the Trustee executed by the transferee and, subject to compliance with Sections 2.7, 2.8 and 2.9 and such requirements and such other reasonable requirements as the Trustee may prescribe, such transfer will be duly noted on one of such registers of transfers by the Trustee within two business days of the satisfaction of all such requirements.
- (4) The transferee of any Special Warrant will, after surrender to the Trustee of the Special Warrant Certificate evidencing such Special Warrant as required by Subsection 4.1(3) and upon compliance with all other conditions in respect thereof required by this Indenture or by law, be entitled to be entered on the register of holders referred to in Subsection 4.2(2), or on any branch registers of holders maintained pursuant to Subsection 4.1(8), as the owner of such Special Warrant free from all equities or rights of set-off or counterclaim between SMTC Canada and the transferor or any previous holder of such Special Warrant, except in respect of equities of which SMTC Canada is required to take notice by statute or by order of a court of competent jurisdiction.

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- (5) SMTC Canada will be entitled, and may direct the Trustee in writing, to refuse to recognize any transfer, or enter the name of any transferee, of any Special Warrant on the registers referred to in Subsection 4.1(2), or on any branch registers maintained pursuant to Subsection 4.1(8), if such transfer would constitute a violation of the securities laws of any jurisdiction or would require SMTC Canada to qualify the Exchangeable Shares or Share Purchase Warrants issuable on exercise or deemed exercise of the Special Warrants for distribution in any jurisdiction other than the Qualifying Jurisdictions.
 - (6) Neither SMTC Canada nor the Trustee will be bound to take notice of or see to the execution of any trust, whether express, implied or constructive, in respect of any Special Warrant, and may transfer any Special Warrant on the written direction of the person registered as the holder thereof and delivered in accordance with Subsection 4.1(3), whether named as trustee or otherwise, as though that person were the beneficial owner thereof.
 - (7) The registers referred to in Subsection 4.1(2), and any branch registers maintained pursuant to Subsection 4.1(8), will at all reasonable times be open for inspection by SMTC Canada and any Special Warrantholder. The Trustee will from time to time when requested so to do in writing by SMTC Canada or any Special Warrantholder (upon payment of the Trustee's reasonable charges), furnish SMTC Canada or such Special Warrantholder with a list of the names and addresses of holders of Special Warrants entered on such registers and showing the number of Special Warrants held by each such holder.
 - (8) The Trustee, with the approval of SMTC Canada, may at any time and from time to time change the place at which the registers referred to in Subsection 4.1(2) are kept, cause branch registers of holders or transfers to be kept at other places and close such branch registers or change the place at which such branch registers are kept. Notice of any such change or closure shall be given by the Trustee to SMTC Canada and the holders of Special Warrants.
 - (9) The Trustee shall retain until the sixth anniversary of the Expiry Time all instruments of transfer of Special Warrants which are tendered for registration including the details shown thereon of the persons by or through whom they were lodged, all cancelled Special Warrants and other related documents.

4.2 Exchange of Special Warrant Certificates

- (1) One or more Special Warrant Certificates may, on compliance by the holder with the reasonable requirements of the Trustee, be exchanged for one or more Special Warrant Certificates of different denomination evidencing in the aggregate the same number of Special Warrants as the Special Warrant Certificate or Special Warrant Certificates being exchanged, and such holder shall pay the reasonable cost thereof.

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- (2) Special Warrant Certificates may be exchanged only at the principal office in Toronto, Ontario of the Trustee or at any other place designated by SMTC Canada with the approval of the Trustee.
 - (3) Any Special Warrant Certificate tendered for exchange shall be surrendered to the Trustee or its agent and cancelled.
 - (4) SMTC Canada will sign all Special Warrant Certificates necessary to carry out exchanges pursuant to this Section 4.2 and the Trustee shall certify such Special Warrant Certificates.

4.3 No Charges for Transfer or Exchange

No charge, including any stamp tax or other governmental levy, will be levied on a presenter of a Special Warrant Certificate pursuant to this Indenture for the transfer of any Special Warrant or the exchange of any Special Warrant Certificate.

4.4 Ownership of Special Warrants

- (1) SMTC Canada and the Trustee may deem and treat the person in whose name any Special Warrant is registered as the absolute owner of such Special Warrant for all purposes, and such person will for all purposes of this Indenture be and be deemed to be the absolute owner thereof, and SMTC Canada and the Trustee will not be affected by any notice or knowledge to the contrary except as required by statute or by order of a court of competent jurisdiction.
- (2) The registered holder of any Special Warrant will be entitled to the rights evidenced thereby free from all equities and rights of set-off or counterclaim between SMTC Canada and the original or any intermediate holder thereof and all persons may act accordingly, and the delivery to any such registered holder of the Exchangeable Shares and Share Purchase Warrants issued on exercise or deemed exercise of such Special Warrant will be a good discharge to SMTC Canada and the Trustee therefor and, unless SMTC Canada or the Trustee are required by statute or by an order of a court of competent jurisdiction, neither SMTC Canada nor the Trustee will be bound to inquire into the title of any such registered holder.

4.5 Assumption by Transferee

Upon becoming a Special Warrantholder in accordance with the provisions of this Indenture, the transferee thereof shall be deemed to have acknowledged and agreed to be bound by this Indenture. Upon the registration by the Trustee of such transferee as the holder of a Special Warrant, the transferor thereof shall cease to have any further rights under this Indenture with respect to such Special Warrant or the Exchangeable Shares and Share Purchase Warrants to be issued on exercise or deemed exercise thereof.

ARTICLE 5
EXERCISE OF SPECIAL WARRANTS

5.1 Exercise

- (1) Subject to the limitation set forth in Subsection 5.1(2) and Section 5.6, holders of Special Warrants may at any time following the release of the Escrowed Funds pursuant to Section 3.3(1) and prior to the Expiry Time exercise the right thereby conferred to be issued Units, by surrendering to the Trustee at the principal office in Toronto, Ontario of the Trustee, or to any other person or at any other place designated by SMTC Canada with the approval of the Trustee, during normal business hours on a business day at such place, the Special Warrant Certificate evidencing such Special Warrants, with a duly completed and executed notice of exercise substantially in the form set out in Appendix 1 to such Special Warrant Certificate, provided such notice is also given to SMTC Canada by either the Special Warrantholder or the Trustee by delivering to SMTC Canada a copy of such documents. Notwithstanding the foregoing, a holder may exercise the Special Warrants by delivering to the Trustee a facsimile transmission of the Special Warrant Certificate(s) evidencing such Special Warrants together with a duly completed and executed notice of exercise in the form set out in Appendix 1 to such Special Warrant Certificate(s) to the Trustee provided that the original Special Warrant Certificate(s) and notice of exercise are received by the Trustee or other person as may be designated herein within three business days of the date of such facsimile transmission.
- (2) Any Special Warrant Certificate with a duly completed and executed notice of exercise referred to in Subsection 5.1(1) will be deemed to have been surrendered only on personal delivery thereof to, or, if sent by mail or other means of transmission, on actual receipt thereof by, the Trustee or one of the other persons at the office or one of the other places specified in Subsection 5.1(1) provided however that if exercise is made by facsimile transmission as set out in Subsection 5.1(1), the Special Warrant Certificate and executed notice of exercise will be deemed to be surrendered as at the date of the facsimile transmission only in the event the original Special Warrant Certificate and executed notice are received by the Trustee or other person as designated herein within three business days of the date of the facsimile transmission.
- (3) Any notice of exercise referred to in Subsection 5.1(1) must be signed by the Special Warrantholder, or his executors, administrators or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and execution satisfactory to the Trustee, acting reasonably, and, if any Exchangeable Shares and Share Purchase Warrants thereby issuable are to be issued to a person or persons other than the Special Warrantholder then the notice of exercise must specify the name or names and the address or addresses of each such person or persons and the number of Exchangeable Shares and Share Purchase Warrants to be issued to each such person if more than one is so specified.
- (4) Any issuance of Exchangeable Shares and Share Purchase Warrants upon the exercise of Special Warrants must be in accordance with applicable laws (as determined by SMTC Canada).

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- (5) The holder of any Special Warrant Certificate who wishes to exercise the Special Warrants evidenced by such Special Warrant Certificate may exercise less than all of such Special Warrants and in the case of any such partial exercise shall be entitled to receive, without charge therefor, a Special Warrant Certificate, in form, signed and certified in accordance with the provisions of Article 2, evidencing the number of Special Warrants held by the Special Warrantholder which remain unexercised. Such Special Warrant Certificate will be delivered by the Trustee to the holder concurrently with the certificates representing the Exchangeable Shares and the certificates representing the Share Purchase Warrants issued on partial exercise of such holder's Special Warrants.

5.2 Deemed Exercise

- (1) If any Special Warrant has not been exercised pursuant to Section 5.1, such Special Warrant will be deemed to have been exercised by the Trustee on behalf of the holders (without any further action on the part of such holder) immediately prior to the Expiry Time. SMTC Canada will as soon as practicable and in all events no later than two business days after the Deemed Exercise Date give notice of the Deemed Exercise Date to the Trustee and cause the Trustee as soon as practicable and in all events no later than five business days after the Deemed Exercise Date to give notice to the holders of Special Warrants. Such notice shall specify that the Special Warrants are deemed to have been exercised automatically in accordance with their terms and will further specify that such holders will receive the certificates representing the Exchangeable Shares and the certificates representing the Share Purchase Warrants to which the holder is entitled (without further action on the part of the holder or SMTC Canada) within five business days of such notice.
- (2) The holder of any Special Warrant deemed to have been exercised pursuant to Subsection 5.2(1) will have no rights thereunder except (i) to receive certificates representing the Exchangeable Shares and certificates representing Share Purchase Warrants thereby issued to him, and (ii) as specifically set forth in the Underwriting Agreement..

5.3 Effect of Exercise or Deemed Exercise

- (1) Upon the exercise of any Special Warrant in accordance with Section 5.1 or upon the deemed exercise of any Special Warrant in accordance with Section 5.2, the Exchangeable Shares and the Share Purchase Warrants thereby issuable will be deemed to have been issued, and the person or persons to whom such Exchangeable Shares and Share Purchase Warrants are to be issued will be deemed to have become the holder or holders of record thereof, on the Exercise Date or the Deemed Exercise Date, as the case may be, unless the registers for the Exchangeable Shares and Share Purchase Warrants are closed on that date, in which case such Exchangeable Shares and Share Purchase Warrants will be deemed to have been issued and such person or persons will be deemed to have become the holder or holders of record thereof on the date on which such registers are reopened, but such Exchangeable Shares and Share Purchase Warrants will be issued on the basis of the number of Exchangeable Shares and Share Purchase Warrants to which such person or persons were entitled on the Exercise Date or the Deemed Exercise Date, as the case may be.

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- (2) As soon as practicable and in any event not later than, in the case of the exercise of any Special Warrant in accordance with Section 5.1, the fifth business day on which the registers for the Exchangeable Shares and Share Purchase Warrants have been open after such exercise or, in the case of the deemed exercise of any Special Warrant in accordance with Section 5.2, within five business days after the surrender to the Trustee of the Special Warrant Certificate evidencing such Special Warrant in accordance with Subsection 5.2(2), SMTC Canada will cause the Trustee to mail to the person or persons in whose name or names the Exchangeable Shares and Share Purchase Warrants thereby issued have been issued, at his or their respective addresses.
- (3) If any Exchangeable Shares or Share Purchase Warrants issuable pursuant to any Special Warrant are to be issued to a person or persons other than the Special Warrantholder, the Special Warrantholder must pay to SMTC Canada or to the Trustee on its behalf an amount equal to all exigible transfer taxes or other government charges, and SMTC Canada will not be required to issue or deliver any certificates representing any such Exchangeable Shares and Share Purchase Warrants unless or until such amount has been so paid or the Special Warrantholder has established to the satisfaction of SMTC Canada that such taxes and charges have been paid or that no such taxes or charges are owing.

5.4 No Fractional Exchangeable Shares or Share Purchase Warrants

SMTC Canada will not, whether pursuant to an adjustment in accordance with Section 5.7 or under any other circumstances, be obligated to issue any fraction of a Exchangeable Share or a Share Purchase Warrant on the exercise or deemed exercise of Special Warrants. To the extent that a holder of Special Warrants would otherwise have been entitled to receive, on the exercise or deemed exercise of Special Warrants, a fraction of a Exchangeable Share or a Share Purchase Warrant, such right may only be exercised in respect of such fraction in connection with another Special Warrant or Special Warrants which in the aggregate entitle the holder to receive a whole number of Exchangeable Shares or Share Purchase Warrants. If a Special Warrantholder is not able to combine Special Warrants so as to be entitled to acquire a whole number of Exchangeable Shares or Share Purchase Warrants, the number of Exchangeable Shares or Share Purchase Warrants which such Special Warrantholder is entitled to receive shall be rounded up to the nearest whole number.

5.5 Recording

The Trustee will record particulars of each Special Warrant exercised or deemed to have been exercised which will include the name and address of each person to whom Exchangeable Shares and Share Purchase Warrants are thereby issued, the number of Exchangeable Shares and Share Purchase Warrants so issued and the Exercise Date or Deemed Exercise Date in respect thereof. Within five business days after each Exercise Date or the Deemed Exercise Date the Trustee will provide such particulars in writing to SMTC Canada.

5.6 Restrictions

No Exchangeable Shares and no Share Purchase Warrants will be issued on exercise or deemed exercise of any Special Warrant, if in the written opinion of counsel to SMTC Canada (delivered to the Trustee prior to issue), the issuance of such Exchangeable Shares or Share Purchase Warrants would constitute a violation of the securities laws of any applicable

jurisdiction or require SMTC Canada to qualify the Exchangeable Shares and Share Purchase Warrants issuable on exercise or deemed exercise of the Special Warrants for distribution in any jurisdiction other than the Qualifying Jurisdictions. Without limiting the generality of the preceding sentence, if any Special Warrant is exercised before the Prospectus Qualification Date or the Registration Qualification Date, the certificates representing the Exchangeable Shares and Share Purchase Warrants thereby issued will bear such legends as may, in the opinion of counsel to SMTC Canada, be necessary or advisable in order to avoid a violation of any applicable securities laws of any province or territory of Canada, of the United States of America or any other jurisdiction or to comply with the requirements of any stock exchange on which the Exchangeable Shares are then listed, provided that if, at any time, in the opinion of counsel to SMTC Canada, such legends are no longer necessary or advisable in order to avoid a violation of any such laws or requirements, or the holder of any such legended certificate, at his expense, provides SMTC Canada with evidence reasonably satisfactory in form and substance to SMTC Canada (which may include an opinion of counsel reasonably satisfactory to SMTC Canada) to the effect that such holder is entitled to sell or otherwise transfer such Exchangeable Shares as applicable, in a transaction in which such legends are not required, such legended certificate may thereafter be surrendered to SMTC Canada in exchange for a certificate which does not bear such legends.

5.7 Adjustments

- (1) The rights of the holder of any Special Warrant, including the number of Exchangeable Shares issuable upon the exercise or deemed exercise of such Special Warrant, will be adjusted from time to time in the events and in the manner provided in, and in accordance with the provisions of this Section 5.7, and for such purposes and as used in this Section 5.7:
 - (a) “*Adjustment Period*” means the period commencing on the Closing Date and ending at the Expiry Time; and
 - (b) “*Exchange Rate*” means the rate at which Exchangeable Shares are issuable upon the exercise or deemed exercise of any Special Warrant, which rate, subject to adjustment in accordance with this Indenture, is one Exchangeable Share and one half of one Share Purchase Warrant for each Special Warrant as of the Closing Date.
- (2) The Exchange Rate in effect at any date will be subject to adjustment from time to time if and whenever at any time during the Adjustment Period, SMTC Canada shall (i) subdivide or redivide the outstanding Exchangeable Shares into a greater number of Exchangeable Shares, (ii) consolidate, combine or reduce the outstanding Exchangeable Shares into a lesser number of Exchangeable Shares, or (iii) issue Exchangeable Shares or other securities of SMTC Canada that are convertible into Exchangeable Shares (“convertible securities”) to all or substantially all of the holders of Exchangeable Shares or convertible securities (as the case may be) by way of a stock dividend or other distribution. In any such event, the Exchange Rate will, on the effective date of such event, be adjusted so that it will equal the rate determined by multiplying the Exchange Rate in effect immediately prior to such date by a fraction, of which the denominator shall be the total number of Exchangeable Shares outstanding on such date before giving

effect to such event, and of which the numerator shall be the total number of Exchangeable Shares outstanding on such date after giving effect to such event. Such adjustment will be made successively whenever any such event shall occur and any such issue of Exchangeable Shares or convertible securities by way of a stock dividend is deemed to have occurred on the record date for the stock dividend for the purpose of calculating the number of outstanding Exchangeable Shares under this Subsection 5.7(2). To the extent that this Subsection 5.7(2) has become operative because of an issue of convertible securities referred to in clause (iii) above, the number of Exchangeable Shares obtainable under each Special Warrant shall be readjusted based on the number of Exchangeable Shares issuable upon conversion or exchange of such convertible or exchangeable securities.

- (3) If and whenever at any time during the Adjustment Period, there is (i) any reclassification of the Exchangeable Shares at any time outstanding, any change of the Exchangeable Shares into other shares or any other capital reorganization of SMTC Canada (other than as described in Subsection 5.7(2)), (ii) any consolidation, amalgamation, arrangement, merger or other form of business combination of SMTC Canada with or into any other corporation resulting in any reclassification of the outstanding Exchangeable Shares, any change of the Exchangeable Shares into other shares or any other capital reorganization of SMTC Canada, or (iii) any sale, lease, exchange or transfer of the undertaking or assets of SMTC Canada as an entirety or substantially as an entirety to another corporation or entity, then, in each such event, each holder of any Special Warrants which are thereafter exercised or deemed to have been exercised will be entitled to receive, and shall accept, in lieu of the number of Exchangeable Shares and Share Purchase Warrants to which such holder was theretofore entitled (after giving effect to all adjustments under this Section 5.7 required as of such date) upon such exercise or deemed exercise, the kind and number or amount of shares or other securities or property which such holder would have been entitled to receive as a result of such event if, on the effective date thereof, such holder had been the registered holder of the number of Exchangeable Shares to which immediately before the transaction such holder was theretofore entitled upon exercise of the Special Warrants. If necessary as a result of any such event, appropriate adjustments will be made in the application of the provisions set forth in this Section 5.7 with respect to the rights and interests thereafter of the holders of Special Warrants to the end that the provisions set forth in this Section 5.7 and in this Indenture will thereafter correspondingly be made applicable, as nearly as may reasonably be possible, in relation to any shares or other securities or property thereafter deliverable upon the exercise or deemed exercise of any Special Warrant. Any such adjustments will be made by and set forth in an indenture supplemental hereto approved by the directors and shall for all purposes be conclusively deemed to be an appropriate adjustment. No such capital reorganization or event as described in this Section 5.7(3) shall be carried into effect unless all necessary steps to be taken by SMTC Canada shall have been taken to afford the Special Warrant holders the entitlement to receive the number of securities or property of SMTC Canada or of SMTC Canada's successor or transferee, as the case may be, contemplated hereby, in the same manner as holders of Exchangeable Shares, subject to adjustment thereafter in accordance with provisions the same, as nearly possible, as those contained in this Section 5.7.

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- (4) If and whenever at any time during the Adjustment Period SMTC Canada proposes to issue or distribute securities of SMTC Canada (including rights, options or warrants to purchase shares of SMTC Canada or securities convertible into or exchangeable for shares of SMTC Canada or property or assets, including cash or evidences of indebtedness (but specifically excluding dividends payable in cash)) to all or substantially all of the holders of the Exchangeable Shares, except in respect of any Exchangeable Shares issuable pursuant to any option, warrant, share option plan and/or share purchase plan in force from time to time for directors, officers, employees or consultants of SMTC Canada and its affiliates or as otherwise specified in the Underwriting Agreement, such securities, property or assets shall also be offered to the Special Warrantheolders, and the Special Warrantheolders shall be entitled to receive, and shall receive for the same aggregate consideration payable, if any, in addition to the number of Exchangeable Shares to which the Special Warrantheolder was therefore entitled upon such exercise, the kind and amount of shares or other securities or property which result from such issue or distribution as if, on the effective date or the record date, as the case may be, at which holders of Exchangeable Shares are determined for the purpose thereof, such Special Warrantheolder had been the registered holder of the number of Exchangeable Shares to which the Special Warrantheolder was theretofore entitled upon such exercise. If necessary as a result of any such event, appropriate adjustments will be made in the application of the provisions set forth in this Section 5.7 with respect to the rights and interests thereafter of the holders of Special Warrants to the end that the provisions set forth in this Section 5.7 and in this Indenture will thereafter correspondingly be made applicable, as nearly as may reasonably be, in relation to any shares or other securities or property thereafter deliverable upon the exercise or deemed exercise of any Special Warrant. Any such adjustments will be made by and set forth in an indenture supplemental hereto approved by the directors and shall for all purposes be conclusively deemed to be an appropriate adjustment.
- (5) In any case in which this Section 5.7 shall require that an adjustment shall become effective immediately after a record date for or effective date of an event referred to herein, SMTC Canada may defer, until the occurrence and consummation of such event, issuing to the holder of any Special Warrant exercised or deemed to have been exercised after such record date or effective date and before the occurrence and consummation of such event the additional Exchangeable Shares or other securities or property issuable upon such exercise or deemed exercise by reason of the adjustment required by such event, provided, however, that SMTC Canada will deliver to such holder, as soon as reasonably practicable after such record date or effective date, as applicable, an appropriate instrument evidencing such holder's right to receive such additional Exchangeable Shares or other securities or property upon the occurrence and consummation of such event and the right to receive any dividend or other distribution in respect of such additional Exchangeable Shares or other securities or property declared in favour of the holders of record of Exchangeable Shares or of such other securities or property on or after the Exercise Date or the Deemed Exercise Date, as the case may be, or such later date as such holder would, but for the provisions of this Subsection 5.7(5), have become the holder of record of such additional Exchangeable Shares or of such other securities or property pursuant to Subsection 5.3(1).

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- (6) If SMTC Canada shall set a record date to determine the holders of securities for the purpose of entitling them to receive any dividend or distribution or any subscription or exercise rights and shall, thereafter and before the distribution to such securityholders of any such dividend, distribution or subscription or exercise rights, legally abandon its plan to pay or deliver such dividend, distribution or subscription or exercise rights, then no adjustment in the number of Exchangeable Shares obtainable upon exercise of any Special Warrant shall be required by reason of the setting of such record date.
 - (7) The adjustments provided for in this Section 5.7 are cumulative, shall, in the case of any adjustment to the Exchange Rate, be computed to the nearest one one-hundredth of a Exchangeable Share and will apply (without duplication) to successive subdivisions, consolidations, distributions, issuances or other events resulting in any adjustment under the provisions of this Section 5.7, provided that, notwithstanding any other provision of this Section 5.7, no adjustment of the Exchange Rate will be required (i) unless such adjustment would require an increase or decrease of at least 1% in the Exchange Rate then in effect (provided, however, that any adjustment which by reason of this Subsection 5.7(7) is not required to be made will be carried forward and taken into account in any subsequent adjustment), (ii) in respect of any Exchangeable Shares issuable or issued pursuant to any option, warrant, share option plan, share purchase plan of SMTC Canada or as otherwise specified in the Underwriting Agreement, or (iii) in respect of any Exchangeable Shares issuable or issued pursuant to the Special Warrants.
 - (8) If any question arises with respect to the adjustments provided in this Section 5.7, such question shall be conclusively determined by SMTC Canada's auditors or, if they are unable or unwilling to act, by such firm of chartered accountants as is appointed by SMTC Canada and acceptable to the Trustee. Such accountants shall have access to all necessary records of SMTC Canada and such determination shall be binding upon SMTC Canada, the Trustee and the Special Warrantheolders.
 - (9) All shares of any class of securities or property which a Special Warrantheolder is at the time in question entitled to receive on the full exercise of such holder's Special Warrants, whether or not as a result of adjustments made pursuant to this Section 5.7 shall, for the purposes of the interpretation of this Indenture, be deemed to be securities which such Special Warrantheolder is entitled to acquire pursuant to such Special Warrants.
 - (10) If and whenever at any time during the Adjustment Period, SMTC Canada shall take any action affecting or relating to the Exchangeable Shares, other than any action described in this Section 5.7, which in the opinion of the directors of SMTC Canada would adversely affect the rights of any holders of Special Warrants, the Exchange Rate will be adjusted by the directors in such manner, if any, and at such time, as the directors may in their sole discretion, subject to the approval of any stock exchange on which the Exchangeable Shares are listed and posted for trading, determine to be equitable in the circumstances to such holders.
 - (11) As a condition precedent to the taking of any action which would require an adjustment in any of the rights under the Special Warrants, SMTC Canada will take any action which may, in the opinion of counsel to SMTC Canada, be necessary in order that SMTC Canada, or any successor to SMTC Canada or successor to the undertaking or assets of

SMTC Canada, will be obligated to and may validly and legally issue all the Exchangeable Shares, or other securities or property which the holders of Special Warrants would be entitled to receive thereafter on the exercise or deemed exercise thereof in accordance with the provisions hereof.

- (12) At least seven days before the earlier of the effective date of or record date for any event referred to in this Section 5.7 that requires or might require an adjustment in any of the rights under the Special Warrants or such longer notice period as may be applicable in respect of notices required to be delivered by SMTC Canada to holders of its Exchangeable Shares, SMTC Canada will:
- (a) file with the Trustee a certificate of SMTC Canada specifying the particulars of such event and, to the extent determinable, any adjustment required and the computation of such adjustment; and
 - (b) give notice to the Special Warrantholders of the particulars of such event and, to the extent determinable, any adjustment required and a description of how such adjustment will be calculated.

Such notice need only set forth such particulars as have been determined at the date such notice is given. If any adjustment for which such notice is given is not then determinable, promptly after such adjustment is determinable SMTC Canada will:

- (c) file with the Trustee a certificate of SMTC Canada showing the computation of such adjustment; and
- (d) give notice to the Special Warrantholders of such adjustment.

Where a notice pursuant to this Subsection has been given, the Trustee shall be entitled to act and rely on any adjustment calculation of SMTC Canada or SMTC Canada's auditors.

(13) Subject to Subsection 11.2(1), the Trustee shall not:

- (a) at any time be under any duty or responsibility to any Special Warrantholder to determine whether any facts exist which may require any adjustment in the Exchange Rate, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed in making same;
- (b) be accountable with respect to the validity or value (or the kind or amount) of any Exchangeable Shares or of any shares or other securities or property which may at any time be issued or delivered upon the exercise or deemed exercise of any Special Warrant; or
- (c) be responsible for any failure of SMTC Canada to make any cash payment or to issue, transfer or deliver Exchangeable Shares or certificates representing Exchangeable Shares upon the surrender of any Special Warrant for the purpose of exercise or deemed exercise, or to comply with any of the covenants contained in this Section 5.7.

ARTICLE 6
COVENANTS

6.1 General Covenants

SMTC Canada represents, warrants, covenants and agrees with the Trustee for the benefit of the Trustee and the Special Warrantholders that so long as any Special Warrant remains outstanding and may be exercised:

- (a) SMTC Canada is duly authorized to create and issue the Special Warrants and the Special Warrant Certificates, when issued and countersigned as herein provided, will be valid and enforceable against SMTC Canada;
- (b) SMTC Canada will at all times maintain its corporate existence, carry on and conduct its business in a proper and business-like manner, keep or cause to be kept proper books of account in accordance with generally accepted accounting practice and SMTC Canada will send to Special Warrantholders copies of all financial statements furnished to its shareholders during the term of this Indenture;
- (c) SMTC Canada will reserve for the purpose and will allot out of its authorized capital that number of Exchangeable Shares to enable it to satisfy its obligations on the exercise or deemed exercise of the Special Warrants and the due exercise of the Share Purchase Warrants issued on the exercise or deemed exercise of the Special Warrants;
- (d) SMTC Canada will cause the Exchangeable Shares and Share Purchase Warrants to be issued from time to time pursuant to the exercise or deemed exercise of the Special Warrants, and the certificates representing such Exchangeable Shares and the certificates representing the Share Purchase Warrants to be duly issued and delivered in accordance with the Special Warrants and the terms hereof;
- (e) until the expiry date of the Special Warrants, SMTC Canada will not amend this Indenture without the approval of the holders of Special Warrants then outstanding, such approval to be given by an Extraordinary Resolution of the holders of Special Warrants then outstanding pursuant to the Special Warrant Indenture, unless such amendment would otherwise be permitted under Article 9 hereof;
- (f) all Exchangeable Shares that are issued or created on due exercise or deemed exercise of the Special Warrants or the due exercise of the Share Purchase Warrants will be fully paid and non-assessable;
- (g) SMTC Canada will cause the Trustee to keep open on business days the registers of holders and registers of transfers referred to in Section 4.1 and will not take any action or omit to take any action which would have the effect of preventing the Special Warrantholders from exercising any of the Special Warrants or receiving any of the Exchangeable Shares and Share Purchase Warrants upon such exercise;

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- (h) SMTC Canada will make all filings required to be made by SMTC Canada, including filings with appropriate securities commissions, in connection with the issuance and sale of the Special Warrants, the exercise of the Special Warrants and issue of the Exchangeable Shares and Share Purchase Warrants;
 - (i) generally, SMTC Canada will well and truly perform and carry out all acts and things to be done by it as provided in this Indenture and will not take any action which might reasonably be expected to deprive the Special Warrantholders of their rights to acquire Exchangeable Shares and Share Purchase Warrants upon the exercise of the Special Warrants;
 - (j) SMTC Canada will, within one business day of the meeting of shareholders of SMTC held to obtain the Requisite Shareholder Approval, deliver to the Trustee a certificate setting forth the results of each vote held at such meeting and stating whether SMTC has obtained the requisite approval of its shareholders to the issuance of the Underlying Common Shares and of the Debt Restructuring Agreement;
 - (k) SMTC Canada will refuse to register any transfer of the Special Warrants or Share Purchase Warrants, any exercise of the Special Warrants or Share Purchase Warrants, any transfer of the Exchangeable Shares or any exchange of the Exchangeable Shares not made in accordance with Regulation S of the Securities Act, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration under the Securities Act;
 - (l) Without limiting the provisions of the Underwriting Agreement, SMTC Canada will prepare, in conformity with the requirements of all Applicable Legislation in all material respects, and file the Preliminary Prospectus with the Securities Commissions as soon as possible, and shall use its commercially reasonable efforts to obtain receipts therefor from the Securities Commission as soon as commercially practicable thereafter. SMTC Canada will use its commercially reasonable efforts to resolve as soon as commercially practicable any regulatory deficiencies in respect of the Preliminary Prospectus. As soon as possible after such deficiencies have been resolved and/or satisfied, and in no event later than the Prospectus Qualification Deadline, SMTC Canada will prepare and file in conformity with the requirements of Applicable Legislation, in all material respects, the Final Prospectus with the Securities Commissions. SMTC Canada will use its commercially reasonable efforts to obtain receipts therefor from the Securities Commissions as soon as commercially practicable thereafter, qualifying the distribution of the Units, comprised of Exchangeable Shares and Share Purchase Warrants, issuable on exercise of the Special Warrants in each of the Qualifying Jurisdictions and shall provide the Special Warrantholders with all documents customarily provided in connection with a distribution under a prospectus.

6.2 Trustee's Remuneration and Expenses

SMTC Canada will pay to the Trustee from time to time reasonable remuneration for its services hereunder and will, on the Trustee's request, pay to or reimburse the Trustee for all

reasonable documented expenses, disbursements and advances made or incurred by the Trustee in the administration or execution of the trusts hereof (including reasonable documented compensation and disbursements of its counsel and other advisers and assistants not regularly in its employ), both before any default hereunder and thereafter until all duties of the Trustee hereunder have been finally and fully performed, except any such expense, disbursement or advance that arises out of or results from negligence, wilful misconduct or bad faith of the Trustee or of persons for whom the Trustee is responsible.

6.3 Securities Qualification Requirements

- (1) SMTC Canada will as soon as practicable and in all events, no later than two business days after the Prospectus Qualification Date, give notice of the Prospectus Qualification Date and copies of the receipts for the Final Prospectus to the Trustee and to counsel for SMTC Canada and the Trustee will as soon as practicable and in all events, no later than five business days after the Prospectus Qualification Date, give notice of the Prospectus Qualification Date to the holders of Special Warrants together with a copy of the Final Prospectus.

SMTC will as soon as practicable and in all events, no later than two business days after the Registration Qualification Date, give notice of the Registration Qualification Date and evidence of such registration to the Trustee and to counsel for SMTC Canada and the Trustee will as soon as practicable and in all events, no later than five business days after the Registration Qualification Date, give notice of the Registration Qualification Date to the holders of Special Warrants together with a copy of the Registration Statement.

- (2) If, in the opinion of counsel, any instrument (other than the Final Prospectus is required to be filed with, or any permission, order or ruling is required to be obtained from, the Securities Commissions or any other step is required under the laws of the Qualifying Jurisdictions or federal laws of Canada applicable therein before the Exchangeable Shares and Share Purchase Warrants may be issued or delivered to a holder of Special Warrants in the Qualifying Jurisdictions (other than as a result of such holder's failure to comply with its representations and warranties contained in the subscription agreement pursuant to which it acquired the Special Warrants from SMTC Canada), SMTC Canada covenants that it will use its best efforts to file such instrument, obtain such permission, order or ruling and take all such other actions, at its expense, as are reasonably required or appropriate in the circumstances, other than matters not under its control, to issue and deliver the Exchangeable Shares and Share Purchase Warrants in such Qualifying Jurisdictions.
- (3) SMTC Canada will give written notice of the issue of the Exchangeable Shares and Share Purchase Warrants pursuant to the exercise or deemed exercise of the Special Warrants, in such detail as may be required, to the securities regulatory authorities in the Qualifying Jurisdictions in which there is legislation requiring the giving of any such notice in order that the issue of Exchangeable Shares and Share Purchase Warrants will not be subject to the prospectus qualification or registration requirements of such legislation or regulation.

6.4 Performance of Covenants by Trustee

If the Trustee is made aware of the failure of SMTC Canada to perform any of its obligations under this Indenture, the Trustee may notify the Special Warrantheolders of such failure or may itself perform any of such obligations capable of being performed by it, but will not be bound to do so or to notify the Special Warrantheolders that it is so doing. All sums expended or advanced by the Trustee in so doing will be repayable as provided in Section 6.2. No such performance, expenditure or advance by the Trustee will relieve SMTC Canada of any default or of its continuing obligations hereunder.

ARTICLE 7 **ENFORCEMENT**

7.1 Special Warrantheolders May Not Sue

No holder of any Special Warrant shall have any right to institute any action or proceeding against SMTC Canada in relation to the Special Warrants, unless:

- (a) such holder shall previously have given to the Trustee written notice of the nature of such action or proceeding;
- (b) the holders of at least 10% of the Special Warrants shall have made written request to the Trustee and shall have afforded to it reasonable opportunities either itself to proceed to exercise the powers hereinbefore granted or to institute an action, suit or proceeding in its own name for such purpose;
- (c) such Special Warrantheolders shall have offered to the Trustee, when so requested by the Trustee, sufficient funds and security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and
- (d) the Trustee shall have failed to act within a reasonable time after such notification, request and offer of indemnity; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to any such proceeding or for any other remedy hereunder by or on behalf of the holder of any Special Warrants.

7.2 Legal Proceedings by Special Warrantheolders

Subject to Subsection 8.11(g), all or any of the rights conferred upon a Special Warrantheolder by the terms of the Special Warrant Certificates evidencing the Special Warrants held by such Special Warrantheolder or this Indenture, or both, may be enforced by the Special Warrantheolder by appropriate legal proceedings, but without prejudice to the right which is hereby conferred upon the Trustee under Section 7.3.

7.3 Trustee May Institute All Proceedings

- (1) The Trustee shall also have the power at any time and from time to time to institute and to maintain such suits and proceedings as it may be advised shall be necessary or advisable to preserve and protect its interests and the interests of the Special Warrantheolders.

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- (2) Any such suit or proceeding instituted by the Trustee may be brought in the name of the Trustee as trustee of an express trust, and any recovery of judgment shall be for the rateable benefit of the holders of the Special Warrants subject to the provisions of this Indenture. In any proceeding brought by the Trustee (and also any proceeding in which a declaratory judgment of a court may be sought as to the interpretation or construction of any provision of this Indenture, to which the Trustee shall be a party) the Trustee shall be held to represent all the holders of the Special Warrants, and it shall not be necessary to make any holders of the Special Warrants parties to any such proceeding.

7.4 Immunity of Shareholders, etc.

Subject to the rights available at law or in express provisions of any contract or other instrument, including certain limited rights of action under the Final Prospectus, the Trustee and, by the acceptance of the Special Warrant Certificates and as part of the consideration for the issue of the Special Warrants, the Special Warrantholders, hereby waive and release any right, cause of action or remedy now or hereafter existing in any jurisdiction against any person in his capacity as an incorporator or any past, present or future shareholder or other securityholder, director, officer, employee or agent of SMTC Canada for the creation and issue of the Exchangeable Shares pursuant to any Special Warrant or on any covenant, agreement, representation or warranty by SMTC Canada herein or in the Special Warrant Certificates.

7.5 Limitation of Liability

The obligations hereunder are not personally binding upon, nor shall resort hereunder be had to, the directors or shareholders of SMTC Canada or any of the past, present or future directors or shareholders of SMTC Canada or any of the past, present or future officers, employees or agents of SMTC Canada, but only the property of SMTC Canada or any successor corporation thereof shall be bound in respect hereof.

ARTICLE 8
MEETINGS OF SPECIAL WARRANTHOLDERS

8.1 Right to Convene Meetings

- (1) The Trustee may at any time and from time to time convene a meeting of the Special Warrantholders, and will do so on receipt of a written request of SMTC Canada or a Special Warrantholders' Request and on being funded and indemnified to its reasonable satisfaction by SMTC Canada or by one or more of the Special Warrantholders signing such Special Warrantholders' Request against the costs which it may incur in connection with calling and holding the meeting.
- (2) If the Trustee fails, within five business days after receipt of such written request of SMTC Canada or Special Warrantholders' Request and indemnity, to give notice convening a meeting, SMTC Canada or any of such Special Warrantholders, as the case may be, may convene such meeting.

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- (3) Every such meeting will be held in Toronto, Ontario or such other place as is approved or determined by the Trustee and SMTC Canada. However, if the meeting is convened by SMTC Canada or a Special Warrantholder as a result of the Trustee's failure or refusal to convene such meeting, the meeting must be held in Toronto.

8.2 Notice

- (1) At least ten business days' notice of any meeting must be given to the Special Warrantholders, to the Trustee (unless the meeting has been called by it) and to SMTC Canada (unless the meeting has been called by it).
- (2) The notice must state the time when and the place where the meeting is to be held and describe (with sufficient detail to permit a Special Warrantholder to make a reasoned decision with respect to the matters for consideration) the general nature of the business to be transacted thereat, but it will not be necessary for the notice to set out the terms of any resolution to be proposed or any of the provisions of this Article 8.

8.3 Chairman

Some person (who need not be a Special Warrantholder) designated in writing by the Trustee will be chairman of the meeting or, if no person is so designated or the person so designated is not present within 15 minutes after the time fixed for the holding of the meeting, the Special Warrantholders present in person or by proxy may choose some person present to be chairman.

8.4 Quorum

- (1) Subject to the provisions of Section 8.12, at any meeting of Special Warrantholders a quorum will consist of Special Warrantholders present in person or by proxy at the commencement of business holding in the aggregate not less than 20% of the total number of Special Warrants then outstanding, provided that in the event there are two or more Special Warrantholders, at least two persons entitled to vote thereat are personally present.
- (2) If a quorum of Special Warrantholders is not present within 30 minutes after the time fixed for holding a meeting, the meeting, if summoned by Special Warrantholders or on a Special Warrantholders' Request, will be dissolved, but, subject to Section 8.12, in any other case will be adjourned to the seventh calendar day following the meeting, at the same time of day and place and no notice of the adjournment need be given.
- (3) At the adjourned meeting the Special Warrantholders present in person or by proxy will form a quorum and may transact any business for which the meeting was originally convened notwithstanding the number of Special Warrants that they hold.

8.5 Power to Adjourn

The chairman of a meeting at which a quorum of the Special Warrantholders is present may, with the consent of the meeting, adjourn the meeting, and no notice of such adjournment need be given except as the meeting prescribes.

8.6 Show of Hands

Every question submitted to a meeting, other than an Extraordinary Resolution, will be decided in the first place by a majority of the votes given on a show of hands and, unless a poll is duly demanded as herein provided, a declaration by the chairman that a resolution has been carried or carried unanimously or by a particular majority or lost or not carried by a particular majority will be conclusive evidence of the fact.

8.7 Poll

- (1) On every Extraordinary Resolution, and on every other question submitted to a meeting on which a poll is directed by the chairman or requested by one or more Special Warrantholders acting in person or by proxy, a poll will be taken in such manner as the chairman directs.
- (2) Questions other than those required to be determined by Extraordinary Resolution will be decided by a majority of the votes cast on the poll.

8.8 Voting

- (1) On a show of hands each person present and entitled to vote, whether as a Special Warrantholder or as proxy for one or more absent Special Warrantholders, or both, will have one vote, and on a poll each Special Warrantholder present in person or represented by a proxy duly appointed by instrument in writing will be entitled to one vote in respect of each Special Warrant held by such holder.
- (2) A proxy need not be a Special Warrantholder.

8.9 Regulations

- (1) The Trustee, or SMTC Canada with the approval of the Trustee, may from time to time make or vary such regulations as it thinks fit:
 - (a) for the issue of voting certificates by any bank, trust company or other depository satisfactory to the Trustee stating that the Special Warrants specified therein have been deposited with it by a named person and will remain on deposit until a specified date, which voting certificates will entitle the persons named therein to be present and vote at any meeting of Special Warrantholders and at any adjournment thereof held before that date or to appoint a proxy or proxies to represent them and vote for them at any such meeting and at any adjournment thereof held before that date in the same manner and with the same effect as though the persons so named in such voting certificates were the actual holders of the Special Warrants specified therein;
 - (b) for the form of instrument appointing a proxy, the manner in which it must be executed, and verification of the authority of a person who executes it on behalf of a Special Warrantholder;

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- (c) governing the places at which and the times by which voting certificates or instruments appointing proxies must be deposited;
 - (d) for the deposit of voting certificates or instruments appointing proxies at some approved place or places other than the place at which the meeting is to be held and enabling particulars of such voting certificates or instruments appointing proxies to be sent by mail, cable, telex or other means of prepaid, transmitted, recorded communication before the meeting to SMTC Canada or to the Trustee at the place where the meeting is to be held and for voting pursuant to instruments appointing proxies so deposited as though the instruments themselves were produced at the meeting; and
 - (e) generally for the calling of meetings of Special Warrantheolders and the conduct of business thereof.
- (2) Any regulations so made will be binding and effective and the votes given in accordance therewith will be valid and will be counted.
- (3) Except as such regulations provide, the only persons who will be recognized at a meeting as the holders of any Special Warrants, or as entitled to vote or, subject to Section 8.10, be present at the meeting in respect thereof, will be the registered holders of such Special Warrants or their duly appointed proxies.

8.10 SMTC Canada and Trustee may be Represented

SMTC Canada and the Trustee by their respective officers, employees or directors, and the counsel of SMTC Canada and the Trustee may attend any meeting of Special Warrantheolders, but will have no vote as such.

8.11 Powers Exercisable by Extraordinary Resolution

In addition to all other powers conferred on them by the other provisions of this Indenture or by the Special Warrants or by law, the Special Warrantheolders at a meeting will have the power, exercisable from time to time by Extraordinary Resolution:

- (a) subject to the agreement of SMTC Canada to assent to or sanction any amendment, modification, abrogation, alteration, compromise or arrangement of any right of the Special Warrantheolders or of the Trustee in its capacity as Special Warrant trustee hereunder, subject to the Trustee's approval, or on behalf of the Special Warrantheolders against SMTC Canada, whether such right arises under this Indenture or otherwise and to authorize the Trustee to concur in and execute any indenture supplemental hereto in connection therewith;
- (b) to amend, alter or repeal any Extraordinary Resolution previously passed;
- (c) to direct, authorize and require the Trustee to enforce any obligation of SMTC Canada under this Indenture or to enforce any right of the Special Warrantheolders in any manner specified in the Extraordinary Resolution;

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- (d) to refrain from enforcing any obligation or right referred to in paragraph (c);
 - (e) to waive and direct the Trustee to waive any default by SMTC Canada in complying with any provision of this Indenture or the Special Warrant Certificates, either unconditionally or on any condition specified in the Extraordinary Resolution;
 - (f) to appoint a committee with power and authority to exercise, and to direct the Trustee to exercise, on behalf of the Special Warranholders, such of the powers of the Special Warranholders as are exercisable by Extraordinary Resolution;
 - (g) to restrain any Special Warranholder from taking or instituting any suit, action or proceeding against SMTC Canada for the enforcement of any obligation of SMTC Canada under this Indenture or to enforce any right of the Special Warranholders;
 - (h) to direct any Special Warranholder who, as such, has brought any suit, action or proceeding, to stay or discontinue or otherwise deal therewith on payment of the costs, charges and expenses reasonably and properly incurred by him in connection therewith;
 - (i) from time to time and at any time to remove the Trustee and appoint a successor; and
 - (j) to assent to any compromise or arrangement with any creditor or creditors or any class or classes of creditors, whether secured or otherwise, and with holders of any shares or other securities of SMTC Canada.

8.12 Meaning of “Extraordinary Resolution”

- (1) The expression “Extraordinary Resolution” when used in this Indenture means, subject to the provisions of this Section and of Sections 8.15 and 8.16, a resolution proposed at a meeting of Special Warranholders duly convened for that purpose and held in accordance with the provisions of this Article 8 at which there are present in person or by proxy Special Warranholders holding in the aggregate not less than 40% of the total number of Special Warrants then outstanding and passed by the affirmative votes of Special Warranholders who hold in the aggregate not less than $66\frac{2}{3}\%$ of the total number of Special Warrants then outstanding represented at the meeting and voted on the poll on the resolution.
- (2) If, at a meeting called for the purpose of passing an Extraordinary Resolution, the quorum required by Subsection 8.12(1) is not present within 30 minutes after the time appointed for the meeting, the meeting, if convened by Special Warranholders or on a Special Warranholders’ Request, will be dissolved, but in any other case will stand adjourned to such day, being not less than seven calendar days or more than 30 calendar days later, and to such place and time, as is appointed by the chairman.
- (3) Not less than seven calendar days’ notice must be given to the Special Warranholders of the time and place of such adjourned meeting.

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- (4) The notice must state that at the adjourned meeting the Special Warranholders present in person or by proxy will form a quorum but it will not be necessary to set forth the purposes for which the meeting was originally called or any other particulars.
 - (5) At the adjourned meeting the Special Warranholders present in person or by proxy will form a quorum and may transact any business for which the meeting was originally convened, and a resolution proposed at such adjourned meeting and passed by the requisite vote as provided in Subsection 8.12(1) will be an Extraordinary Resolution within the meaning of this Indenture notwithstanding that Special Warranholders holding in the aggregate of not less than 40% of the total number of Special Warrants outstanding may not be present.
 - (6) Votes on an Extraordinary Resolution must always be given on a poll and no demand for a poll on an Extraordinary Resolution will be necessary.

8.13 Powers Cumulative

Any one or more of the powers, and any combination of the powers, in this Indenture stated to be exercisable by the Special Warranholders by Extraordinary Resolution or otherwise, may be exercised from time to time, and the exercise of any one or more of such powers or any combination of such powers from time to time will not prevent the Special Warranholders from exercising such power or powers or combination of powers thereafter from time to time.

8.14 Minutes

Minutes of all resolutions passed and proceedings taken at every meeting of the Special Warranholders will be made and duly entered in books from time to time provided for such purpose by the Trustee at the expense of SMTC Canada, and any such minutes, if signed by the chairman of the meeting at which such resolutions were passed or such proceedings were taken, will be *prima facie* evidence of the matters therein stated, and, until the contrary is proved, every such meeting in respect of the proceedings of which minutes have been so made, entered and signed will be deemed to have been duly convened and held, and all resolutions passed and proceedings taken thereat to have been duly passed and taken. SMTC Canada shall be provided with, in a timely manner and at its own expense, copies of any and all resolutions passed at any meeting of the Special Warranholders pursuant to this Section 8.14.

8.15 Instruments in Writing

Any action that may be taken and any power that may be exercised by Special Warranholders at a meeting held as provided in this Article 8 by way of an Extraordinary Resolution may also be taken and exercised by Special Warranholders who hold in the aggregate not less than $66\frac{2}{3}\%$ of the total number of Special Warrants at the time outstanding, by their signing, each in person or by attorney duly appointed in writing, an instrument in writing in one or more counterparts, and the expression "Extraordinary Resolution" when used in this Indenture includes a resolution embodied in an instrument so signed. SMTC Canada shall be provided with, in a timely manner and at its own expense, copies of any and all instruments in writing signed by the Special Warranholders pursuant to this Section 8.15.

8.16 Binding Effect of Resolutions

Every resolution and every Extraordinary Resolution passed in accordance with the provisions of this Article 8 at a meeting of Special Warrantheolders will be binding on all Special Warrantheolders, whether present at or absent from the meeting and whether voting for or against the resolution or abstaining, and every instrument in writing signed by Special Warrantheolders in accordance with Section 8.15 will be binding on all Special Warrantheolders, whether signatories thereto or not, and every Special Warrantheolder and the Trustee (subject to the provisions for its indemnity herein contained) will be bound to give effect accordingly to every such resolution and instrument in writing.

8.17 Holdings by SMTC Canada and Subsidiaries Disregarded

In determining whether Special Warrantheolders holding the required total number of Special Warrants are present in person or by proxy for the purpose of constituting a quorum, or have voted or consented to a resolution, Extraordinary Resolution, consent, waiver, Special Warrantheolders' Request or other action under this Indenture, a Special Warrant held by SMTC Canada, SMTC or by any affiliate of SMTC Canada will be deemed to be not outstanding. Upon a request in writing by the Trustee, SMTC Canada shall provide a certificate of the company detailing the registration and denomination of any Special Warrants held by the SMTC Canada, SMTC or by any affiliate of SMTC Canada.

ARTICLE 9 **SUPPLEMENTAL INDENTURES AND SUCCESSOR CORPORATIONS**

9.1 Provision for Supplemental Indentures for Certain Purposes

From time to time SMTC Canada (when authorized by the directors) and the Trustee may, subject to the provisions hereof, and will when so directed hereby, execute and deliver by their proper officers indentures or instruments supplemental hereto, which thereafter will form part hereof, for any or all of the following purposes:

- (a) setting forth any adjustments resulting from the application of the provisions of Section 5.7;
- (b) adding hereto such additional covenants and enforcement provisions as in the opinion of counsel are necessary or advisable, and are not in the opinion of the Trustee, based on the opinion of counsel, prejudicial to the rights or interests of the Special Warrantheolders as a group;
- (c) giving effect to any Extraordinary Resolution passed as provided in Article 8;
- (d) making such provisions not inconsistent with this Indenture as are necessary or desirable with respect to matters or questions arising hereunder, and are not in the opinion of the Trustee, based on the opinion of counsel, prejudicial to the rights or interests of the Special Warrantheolders as a group;
- (e) adding to, deleting or altering the provisions hereof in respect of the transfer of Special Warrants or the exchange of Special Warrant Certificates, and making any

modification in the form of the Special Warrant Certificates, provided that any such action in the opinion of counsel acceptable to the Trustee does not adversely affect the rights of the Special Warrantheolders;

- (f) modifying any provision of this Indenture or relieving SMTC Canada from any obligation, condition or restriction herein contained, except that no such modification or relief will be or become operative or effective if in the opinion of the Trustee, based on the opinion of counsel, it would impair any of the rights or interests of the Special Warrantheolders or of the Trustee, and the Trustee may in its uncontrolled discretion decline to enter into any such supplemental indenture which in its opinion will not afford adequate protection to the Trustee when it becomes operative; and
- (g) for any other purpose not inconsistent with the terms of this Indenture, including the correction or rectification of any ambiguity, defective or inconsistent provision, error or omission herein, if in the opinion of the Trustee, based on the opinion of counsel, the rights of the Trustee and of the Special Warrantheolders, as a group, are not prejudiced thereby.

9.2 Successor Corporations

In the case of the consolidation, amalgamation, arrangement, merger or transfer of the undertaking or assets of SMTC Canada as an entirety, or substantially as an entirety, to another corporation, which transaction may be carried out with the prior consent of the holders of not less than 50% of the Special Warrants outstanding, the successor corporation resulting from such consolidation, amalgamation, arrangement, merger or transfer (if not SMTC Canada) will be bound by the provisions hereof and for the due and punctual performance and observance of each and every covenant and obligation contained in this Indenture to be performed by SMTC Canada and will, as a condition precedent to any such transaction, agree to succeed to and be substituted for SMTC Canada by supplemental indenture in form satisfactory to the Trustee and executed and delivered to the Trustee with the same effect as closely as may be possible as if it had been named herein.

ARTICLE 10 **CONCERNING THE TRUSTEE**

10.1 Trust Indenture Legislation

- (1) If and to the extent that any provision of this Indenture limits, qualifies or conflicts with a mandatory requirement of Applicable Legislation, the mandatory requirement will prevail.
- (2) SMTC Canada and the Trustee each will at all times in relation to this Indenture and any action to be taken hereunder observe and comply with and be entitled to the benefits of Applicable Legislation.

10.2 Trustee's Authority to Carry on Business

The Trustee represents and warrants to SMTC Canada that at the date hereof it is authorized to carry on the business of a trust company in Toronto, Ontario. If, notwithstanding the provisions of this Section 10.2, it ceases to be authorized to carry on such business, the validity and enforceability of this Indenture and the Special Warrants issued hereunder shall not be affected in any manner whatsoever by reason only of such event provided that the Trustee, within 30 days after ceasing to be authorized to carry on such business, either becomes so authorized or resigns in the manner and with the effects specified in Section 10.8.

10.3 Rights and Duties of Trustee

- (1) In the exercise of the rights and duties prescribed or conferred by the terms of this Indenture, the Trustee will act honestly and in good faith with a view to the best interests of the Special Warrantheolders, and will exercise that degree of care, diligence and skill that a reasonably prudent warrant trustee would exercise in comparable circumstances. Subject to the foregoing, the Trustee shall not be bound to give any notice or do or take any act, action or proceeding by virtue of the powers conferred on it hereby unless and until it shall have been required so to do under the terms hereof; nor shall the Trustee be required to take notice of any default hereunder, unless and until notified in writing of such default, which notice shall distinctly specify the default desired to be brought to the attention of the Trustee and in the absence of any such notice the Trustee may for all purposes of this Indenture conclusively assume that no default has been made in the observance or performance of any of the representations, warranties, covenants, agreements or conditions contained therein. Any such notice shall in no way limit any discretion herein given to the Trustee to determine whether or not the Trustee shall take action with respect to any default.
- (2) No provision of this Indenture will be construed to relieve the Trustee from liability for its own negligent act, negligent failure to act, wilful misconduct or bad faith.
- (3) The obligation of the Trustee to commence or continue any act, action or proceeding for the purpose of enforcing any right of the Trustee or the Special Warrantheolders hereunder is on the condition that, when required by notice to the Special Warrantheolders by the Trustee, the Trustee is furnished by one or more Special Warrantheolders with sufficient funds to commence or continue such act, action or proceeding and indemnity reasonably satisfactory to the Trustee to protect and hold it harmless against the costs, charges and expenses and liabilities to be reasonably incurred thereby and any loss and damage it may suffer by reason thereof.
- (4) No provision of this Indenture will require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers unless it is so indemnified.
- (5) The Trustee may, before commencing or at any time during the continuance of any such act, action or proceeding, require the Special Warrantheolders at whose instance it is acting to deposit with the Trustee the Special Warrant Certificates held by them, for which certificates the Trustee will issue receipts.

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- (6) Every provision of this Indenture that relieves the Trustee of liability or entitles it to rely on any evidence submitted to it is subject to the provisions of Applicable Legislation, of this Section and of Section 10.3.

10.4 Evidence, Experts and Advisers

- (1) In addition to the reports, certificates, opinions and other evidence required by this Indenture, SMTC Canada will furnish to the Trustee such additional evidence of compliance with any provision hereof, and in such form, as is prescribed by Applicable Legislation or as the Trustee reasonably requires by written notice to SMTC Canada.
- (2) In the exercise of any right or duty hereunder the Trustee, if it is acting in good faith, may act and rely, as to the truth of any statement or the accuracy of any opinion expressed therein, on any statutory declaration, opinion, report, certificate or other evidence furnished to the Trustee pursuant to a provision hereof or of Applicable Legislation or pursuant to a request of the Trustee, if such evidence complies with Applicable Legislation and the Trustee examines such evidence and determines that it complies with the applicable requirements of this Indenture.
- (3) Whenever Applicable Legislation requires that evidence referred to in subsection 10.3(1) be in the form of a statutory declaration, the Trustee may accept such statutory declaration in lieu of a certificate of SMTC Canada required by any provision hereof.
- (4) Any such statutory declaration may be made by any director or officer of SMTC Canada.
- (5) The Trustee may act and rely and shall be protected in acting and relying upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, letter, telegram, cablegram or other paper or document believed by it to be genuine and to have been signed, sent or presented by or on behalf of the proper party or parties.
- (6) Proof of the execution of any document or instrument in writing, including a Special Warranholders' Request, by a Special Warranholder may be made by the certificate of a notary public, or other officer with similar powers, that the person signing such instrument acknowledged to him the execution thereof, or by an affidavit of a witness to such execution, or in any other manner that the Trustee considers adequate.
- (7) The Trustee may employ or retain such counsel, accountants, engineers, appraisers, or other experts or advisers as it reasonably requires for the purpose of determining and discharging its duties hereunder and may pay reasonable remuneration for all services so performed by any of them, without taxation of costs of any counsel, and will not be responsible for any misconduct or negligence on the part of any of them who has been selected with due care by the Trustee. Any remuneration so paid by the Trustee shall be repaid to the Trustee in accordance with Section 6.2 of this Indenture.
- (8) The Trustee may act and rely and shall be protected in acting and relying in good faith on the opinion or advice of or information obtained from any counsel, accountant or other expert or advisor, whether retained or employed by SMTC Canada or by the Trustee, in relation to any matter arising in the administration of the trusts hereof.

10.5 Documents, Money, Etc. held by Trustee

- (1) Any security, document of title or other instrument that may at any time be held by the Trustee subject to the trusts hereof may be placed in the deposit vaults of any Canadian chartered bank or deposited for safekeeping with any such bank.
- (2) Any securities, documents of title or other instruments that may at any time be held by the Trustee subject to the trusts hereof may be placed in the deposit vaults of the Trustee or of any Canadian chartered bank listed in Schedule 1 of the *Bank Act* (Canada) or deposited for safekeeping with any such bank. Unless herein otherwise expressly provided, any monies so held pending the application or withdrawal thereof under any provisions of this Indenture shall be, upon receipt of a direction from the Corporation, invested by the Trustee in Authorized Investments in its name in accordance with such direction. Any direction from the Corporation to the Trustee shall be in writing and shall be provided to the Trustee no later than 9:00 a.m. (Eastern Standard time) on the day on which the investment is to be made. Any such direction received by the Trustee after 9:00 a.m. (Eastern Standard time) or received on a non-business day, shall be deemed to have been given prior to 9:00 a.m. (Eastern Standard time) on the next business day. For the purpose hereof, "Authorized Investments" means short term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or a Province or a Canadian chartered bank (which may include an Affiliate or related party of the Trustee provided that such obligation is rated at least R1 (middle) by DBRS Inc. or an equivalent rating service).
- (3) In the event that the Trustee does not receive a direction or only a partial direction, the Trustee may hold cash balances constituting part or all of the Escrowed Funds and may, but need not, invest same in its deposit department or the deposit department of one of its Affiliates; but the Trustee and its Affiliates shall not be liable to account for any profit to any parties to this Indenture or to any person or entity other than at a rate, if any, established from time to time by the Trustee or one of its Affiliates. For the purposes of this Section 10.5, "Affiliate" means affiliated companies within the meaning of the *Business Corporations Act* (Ontario) ("OBCA"); and includes Canadian Imperial Bank of Commerce, CIBC Mellon Global Securities Services Company and Mellon Bank N.A. and each of their affiliates within the meaning of the OBCA.

10.6 Action by Trustee to Protect Interests

The Trustee will have power to institute and to maintain such actions and proceedings as it considers necessary or expedient to protect or enforce its interests and the interests of the Special Warrantholders.

10.7 Trustee not Required to Give Security

The Trustee will not be required to give any bond or security in respect of the performance of the agency created hereby, the execution of the trusts and powers of this Indenture or otherwise in respect of the premises.

10.8 Protection of Trustee

- (1) By way of supplement to the provisions of any law for the time being relating to trustees or agents, it is expressly declared and agreed that:
 - (a) the Trustee will not be liable for or by reason of, or required to substantiate, any statement of fact or recital in this Indenture or in the Special Warrant Certificates (except the representation contained in Section 10.9 or in the certificate of the Trustee on the Special Warrant Certificates), but all such statements or recitals are and will be deemed to be made by SMTC Canada;
 - (b) nothing herein contained will impose on the Trustee any obligation to see to, or to require evidence of, the registration or filing (or renewal thereof) of this Indenture or any instrument ancillary or supplemental hereto;
 - (c) subject to Section 10.9, the Trustee will not be bound to give notice to any person of the execution hereof;
 - (d) the Trustee will not incur any liability or responsibility whatever or be in any way responsible for the consequence of any breach by SMTC Canada of any obligation herein contained or of any act of any director, officer, employee or agent of SMTC Canada; and
 - (e) the Trustee shall not be liable or accountable for any loss or damage whatsoever to any person caused by the performance or failure by it to perform its responsibilities under this Indenture save only to the extent that such loss or damage is attributable to the negligence, wilful misconduct or bad faith of the Trustee.
- (2) SMTC Canada agrees to indemnify the Trustee and its directors, officers, employees and agents and save them harmless from all liabilities, losses, claims, demands, suits, damages, costs and actions which may be brought against or suffered by it arising out of or connected with the performance by it of its duties hereunder except to the extent that such liabilities, suits, damages, costs and actions are attributable to the negligence, wilful misconduct or bad faith of the Trustee. This provision shall survive the resignation or termination of the Trustee or the termination of this Indenture.

10.9 Replacement of Trustee

- (1) The Trustee may resign its trust hereunder and be discharged from all further duties and liabilities hereunder, except as provided in this Section, by giving to SMTC Canada and the Special Warranholders not less than 30 business days notice in writing or, if a new Trustee has been appointed, such shorter notice as SMTC Canada accepts as sufficient.
- (2) The Special Warranholders by Extraordinary Resolution may at any time remove the Trustee and appoint a new Trustee.
- (3) If the Trustee so resigns or is so removed or is dissolved, becomes bankrupt, goes into liquidation or otherwise becomes incapable of acting hereunder, SMTC Canada will forthwith appoint a new Trustee unless a new Trustee has already been appointed by the Special Warranholders.

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- (4) Failing such appointment by SMTC Canada, the retiring Trustee at the expense of the Corporation or any Special Warrantholder may apply to the Ontario Superior Court of Justice, on such notice as the Court directs, for the appointment of a new Trustee, at the expense of SMTC Canada.
 - (5) Any new Trustee so appointed by SMTC Canada or by the Court will be subject to removal as aforesaid by the Special Warrantholders.
 - (6) Any new Trustee appointed under any provision of this Section must be a corporation authorized to carry on the business of a trust company in Ontario and, if required by the Applicable Legislation of any other province, in such other province.
 - (7) On any such appointment the new Trustee will be vested with the same powers, rights, duties and responsibilities as if it had been originally named herein as Trustee without any further assurance, conveyance, act or deed, but there will be immediately executed, at the expense of SMTC Canada, all such conveyances or other instruments as, in the opinion of counsel, are necessary or advisable for the purpose of assuring such powers, rights, duties and responsibilities to the new Trustee, provided that, any resignation or termination of the Trustee and appointment of a successor Trustee shall have executed an appropriate instrument accepting such appointment and, at the request of SMTC Canada, the predecessor Trustee, upon payment of its outstanding remuneration and expenses, shall execute and deliver to the successor Trustee an appropriate instrument transferring to such successor Trustee all rights and powers of the Trustee hereunder.
 - (8) On the appointment of a new Trustee, SMTC Canada will promptly give notice thereof to the Special Warrantholders.
 - (9) A corporation into or with which the Trustee is merged or consolidated or amalgamated, or a corporation succeeding to the trust business of the Trustee, will be the successor to the Trustee hereunder without any further act on its part or on the part of any party hereto if such corporation would be eligible for appointment as a new Trustee under subsection 10.9(6).
 - (10) A Special Warrant Certificate certified but not delivered by a predecessor Trustee may be delivered by the new or successor Trustee in the name of the predecessor Trustee or successor Trustee.

10.10 Conflict of Interest

The Trustee represents to SMTC Canada that at the time of the execution and delivery hereof no material conflict of interest exists between its role as a fiduciary hereunder and its role in any other capacity and if a material conflict of interest arises hereafter it will, within 90 days after ascertaining that it has such material conflict of interest, either eliminate the conflict of interest or resign its trust hereunder. If any such material conflict of interest exists or hereafter shall exist, the validity and enforceability of this Indenture and of the Special Warrants shall not be affected in any manner whatsoever by reason thereof.

The Trustee, in its personal or any other capacity, may buy, lend upon and deal in securities of SMTC Canada and SMTC and generally may contract and enter into financial transactions with SMTC Canada and SMTC without being liable to account for any profit made thereby.

10.11 Acceptance of Trusts

The Trustee hereby accepts the trusts in this Indenture declared and provided for and agrees to perform them on the terms and conditions herein set forth.

ARTICLE 11
GENERAL

11.1 Notice to SMTC Canada and Trustee

(1) Unless herein otherwise expressly provided, a notice to be given hereunder to SMTC Canada or the Trustee will be validly given if delivered or if sent by first class mail, postage prepaid, or if sent by facsimile transmission (receipt of such transmission is confirmed in writing):

(a) If to SMTC Canada:

SMTC Manufacturing Corporation of Canada
635 Hood Road
Markham, Ontario
L3R 4N6

Attention: Marwan Kubursi, Chief Financial Officer
Facsimile: (905) 479-5326

(b) If to the Trustee:

CIBC Mellon Trust Company
320 Bay Street
P.O. Box 1
Toronto, Ontario
M5H 4A6

Attention: Vice President, Client Services
Facsimile: (416) 643-5570

and any such notice delivered or sent in accordance with the foregoing will be deemed to have been received on the date of delivery or facsimile transmission or, if mailed, on the fifth business day following the day of the mailing of the notice.

(2) SMTC Canada or the Trustee, as the case may be, may from time to time notify the other in the manner provided in Subsection 11.1(1) of a change of address which, from the effective date of such notice and until changed by like notice, will be the address of SMTC Canada or the Trustee, as the case may be, for all purposes of this Indenture.

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- (3) If, by reason of a strike, lockout or other work stoppage, actual or threatened, involving Canadian postal employees, a notice to be given to the Trustee or to SMTC Canada hereunder could reasonably be considered unlikely to reach or likely to be delayed in reaching its destination, the notice will be valid and effective only if it is delivered to an officer of the party to which it is addressed or if it is delivered to such party at the appropriate address provided in subsection 11.1(1) by confirmed facsimile transmission, and any notice delivered in accordance with the foregoing will be deemed to have been received on the date of delivery to such officer or if delivered by such facsimile, on the first business day following the date of the sending of the notice.

11.2 Notice to Special Warranholders

- (1) Unless herein otherwise expressly provided, a notice to be given hereunder to Special Warranholders will be deemed to be validly given if the notice is sent by ordinary surface or air mail, postage prepaid, addressed to the Special Warranholders or delivered (or so mailed to certain Special Warranholders and so delivered to the other Special Warranholders) at their respective addresses appearing on any of the registers of holders described in Section 4.1, provided, however, that if, by reason of a strike, lockout or other work stoppage, actual or threatened, involving Canadian postal employers, the notice could reasonably be considered unlikely to reach or likely to be delayed in reaching its destination, the notice will be valid and effective only if it is so delivered or is given by publication twice in the Report on Business section in the national edition of The Globe and Mail newspaper.
- (2) A notice so given by mail or so delivered will be deemed to have been given on the fifth business day after it has been mailed or on the day which it has been delivered, as the case may be, and a notice so given by publication will be deemed to have been given on the first day on which it has been published as required. In determining under any provision hereof the date when notice of a meeting or other event must be given, the date of giving notice will be included and the date of the meeting or other event will be excluded. Accidental error or omission in giving notice or accidental failure to mail notice to any Special Warranholder will not invalidate any action or proceeding founded thereon.

11.3 Satisfaction and Discharge of Indenture

On the earlier of:

- (a) the date by which there has been delivered to the Trustee for exercise or surrender for cancellation all Special Warrant Certificates theretofore certified hereunder; or
- (b) the Expiry Time;

and if all certificates representing Exchangeable Shares and all certificates representing Share Purchase Warrants required to be issued in compliance with the provisions hereof have been issued and delivered hereunder or to the Trustee in accordance with such provisions, this

Indenture will cease to be of further effect and, on demand of and at the cost and expense of SMTC Canada and on delivery to the Trustee of a certificate of SMTC Canada stating that all conditions precedent to the satisfaction and discharge of this Indenture have been complied with and on payment to the Trustee of the fees and other remuneration payable to the Trustee, the Trustee will execute proper instruments acknowledging satisfaction of and discharging this Indenture.

11.4 Sole Benefit of Parties and Special Warrantholders

Nothing in this Indenture or the Special Warrant Certificates, expressed or implied, will give or be construed to give to any person other than the parties hereto and the Special Warrantholders, as the case may be, any legal or equitable right, remedy or claim under this Indenture or the Special Warrant Certificates, or under any covenant or provision herein or therein contained, all such covenants and provisions being for the sole benefit of the parties hereto and the Special Warrantholders.

11.5 Discretion of Directors

Any matter provided herein to be determined by the directors will be determined by the directors in their sole discretion, and a determination so made will be conclusive.

11.6 Counterparts and Formal Date

This Indenture may be executed in several counterparts, each of which when so executed will be deemed to be an original and such counterparts together will constitute one and the same instrument and notwithstanding the date of their execution will be deemed to be dated as of the date first written above.

11.7 Language

The parties hereby request that this Indenture and any related documents be drawn up and executed only in the English language. Les parties demandent par les présentes que la présente convention ainsi que tous les documents y afférents soient rédigés et exécutés en langue anglaise seulement.

11.8 Assignment

Subject to Section 9.2 hereof, neither this Indenture nor any right, interest or obligation hereunder may be assigned by either party without the prior written consent of the other party and any purported assignment of this Indenture which does not comply with this Section 11.8 shall be considered null and void.

11.9 Benefit of the Agreement

This Indenture will enure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto.

IN WITNESS WHEREOF the parties hereto have caused their respective corporate seals to be hereunto affixed attested by their signatures.

SMTC MANUFACTURING CORPORATION OF CANADA

Per: /s/ Marwan Kubursi

Name: Marwan Kubursi
Title: Authorized Signatory

CIBC MELLON TRUST COMPANY

Per: /s/ Warren Jansen

Name: Warren Jansen
Title: Authorized Signatory

Per: /s/ Susan Clough

Name: Susan Clough
Title: Authorized Signatory

SCHEDULE A
FORM OF SPECIAL WARRANT CERTIFICATE

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE JULY 4, 2004.

[Legend for all Special Warrants Share Purchase Warrants (the “Legend” referred to in Section 2.8 of the Special Warrant Indenture.)]

THIS WARRANT AND THE SECURITIES TO BE ISSUED UPON ITS EXERCISE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH REGULATIONS UNDER THE SECURITIES ACT OR UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. THIS WARRANT MAY NOT BE EXERCISED BY OR ON BEHALF OF ANY U.S. PERSON UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

[Legend for Special Warrants and underlying securities held by a U.S. Person (the “U.S. Legend” referred to in Section 2.9 of the Special Warrant Indenture.)]

DELIVERY OF THIS CERTIFICATE MAY NOT CONSTITUTE “GOOD DELIVERY” IN SETTLEMENT OF TRANSACTIONS ON STOCK EXCHANGES IN CANADA. A NEW CERTIFICATE BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE “GOOD DELIVERY” MAY BE OBTAINED FROM CIBC MELLON TRUST COMPANY UPON THE DELIVERY TO CIBC MELLON TRUST COMPANY AND THE CORPORATION OF A DECLARATION TO THE EFFECT THAT (A) THE OFFER OR SALE ARE MADE IN AN OFFSHORE TRANSACTION, (B) NO DIRECTED SELLING EFFORTS ARE MADE IN THE UNITED STATES BY THE SELLER, AN AFFILIATE OR ANY PERSON ACTING ON THEIR BEHALF, AND (C) THE SELLER IS NOT A DEALER OR A PERSON RECEIVING SELLING CONCESSIONS AND THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT.

[Legend for Special Warrants and underlying securities held other than by a U.S. Person or a Canadian Person (the “Non-U.S. Legend” referred to in Section 2.10 of the Special Warrant Indenture.)]

FOR SPECIAL WARRANTS ISSUED TO NON-RESIDENTS OF CANADA, THE HOLDER, BY ITS ACCEPTANCE OF THIS SECURITY, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT AND WILL NOT BE ENTITLED TO, DIRECTLY OR INDIRECTLY, SELL OR TRANSFER SPECIAL WARRANTS INTO CANADA OR TO RESIDENTS OF CANADA, EXCEPT IN COMPLIANCE WITH APPLICABLE CANADIAN SECURITIES LAWS. NO SALE OR TRANSFER INTO CANADA OR TO A CANADIAN RESIDENT WILL BE

REGISTERED BY THE TRUSTEE AND ANY ATTEMPT TO EFFECT SUCH A TRANSFER IS INVALID UNLESS MADE IN COMPLIANCE WITH THE ABOVE-NOTED RESTRICTIONS.

Certificate No.: _____

No. of Special Warrants: _____

SPECIAL WARRANTS
Exercisable to Acquire
Exchangeable Shares and Share Purchase Warrants
of
SMTC MANUFACTURING CORPORATION OF CANADA
(Incorporated under the *Business Corporations Act* (Ontario))

THIS IS TO CERTIFY THAT, for value received, _____ (the "holder") is the registered holder of the number of Special Warrants of SMTC Manufacturing Corporation of Canada ("SMTC Canada") specified above and, for each Special Warrant held, is thereby entitled, without payment of any additional consideration, to be issued one Unit consisting of one fully paid and non-assessable exchangeable share ("Exchangeable Share") in the capital of SMTC Canada and one half of one Exchangeable Share Purchase Warrant (each whole warrant a "Share Purchase Warrant"), by surrendering to CIBC Mellon Trust Company (the "Trustee") at its principal transfer office in Toronto, Ontario during the exercise period hereinafter referred to, this Special Warrant Certificate, with a notice of exercise in the form set forth in Appendix 1 annexed hereto duly completed and executed.

Capitalized terms which are not otherwise defined herein shall have the same meaning as in the Special Warrant indenture (which indenture, together with all instruments supplemental or ancillary thereto, is herein referred to as the "Special Warrant Indenture") dated as of March 3, 2004 between SMTC Canada and the Trustee, as trustee.

Surrender of this Special Warrant Certificate will be deemed to have been effected only on personal delivery thereof to, or, if sent by mail or other means of transmission, on actual receipt thereof by, the Trustee at the office specified above.

This Special Warrant Certificate evidences Special Warrants of SMTC Canada issued or issuable under the provisions of the Special Warrant Indenture. Reference is made to the Special Warrant Indenture for particulars of the rights of the holders of the Special Warrants and of SMTC Canada and of the Trustee in respect thereof and of the terms and conditions upon which the Special Warrants are issued and held, all to the same effect as if the provisions of the Special Warrant Indenture were herein set forth, to all of which the holder, by acceptance hereof, assents. To the extent of any inconsistency between the terms of the Special Warrant Indenture and the terms of this Special Warrant Certificate, the terms of the Special Warrant Indenture shall prevail. SMTC Canada will furnish to the holder, on request and without charge a copy of the Special Warrant Indenture.

The Special Warrants evidenced by this Special Warrant Certificate may be exercised by the holder in certain circumstances until 5:00 p.m. (Toronto time) (the "Expiry Time") on the date that is the earlier of (i) the 6th business day following the Prospectus Qualification Date and (ii) March 3, 2005, provided that if such Special Warrants have not been exercised by the Expiry Time, such Special Warrants will be deemed to have been exercised by the holder (without any

further action on the part of the holder) immediately prior to the Expiry Time. Provided the Escrowed Funds have been released, SMTC Canada will as soon as practicable and in all events, no later than two business days after the Prospectus Qualification Date, give notice of the Prospectus Qualification Date and copies of the Final Prospectus to the Trustee and cause the Trustee as soon as practicable and in all events no later than five business days after the Prospectus Qualification Date to give notice of the Prospectus Qualification Date to the holders of Special Warrants, together with a copy of the Final Prospectus. Such notice shall specify that the Special Warrants are deemed to have been exercised automatically in accordance with their terms and will further specify that such holders will receive the certificates representing the Exchangeable Shares and the certificates representing the Share Purchase Warrants to which the holder is entitled (without further action on the part of the holder or SMTC Canada) within five business days of such notice. Subject to the limitation referred to below, and where there has not been a deemed exercise by the holder, the holder may exercise less than all of the Special Warrants evidenced by this Special Warrant Certificate, in such event the holder shall be entitled to receive, without charge therefore a new Special Warrant Certificate evidencing the balance of the Special Warrants not exercised.

On and after the date of any exercise or deemed exercise of the Special Warrants evidenced by this Special Warrant Certificate, the holder will have no rights hereunder except to receive certificates representing the Exchangeable Shares and certificates representing Share Purchase Warrants thereby issued to it upon surrender of this Special Warrant Certificate to the Trustee at its principal office in Toronto, Ontario, or upon deemed exercise of the Special Warrants or as otherwise provided in the Special Warrant Indenture.

SMTC Canada will not be obligated to issue any fraction of an Exchangeable Share or any fraction of a Share Purchase Warrant on the exercise or deemed exercise of Special Warrants. To the extent that a holder of Special Warrants would otherwise have been entitled to receive, on the exercise or deemed exercise of Special Warrants, a fraction of an Exchangeable Share or Share Purchase Warrant such right may only be exercised in respect of such fraction in connection with another Special Warrant or Special Warrants which in the aggregate entitle the holder to receive a whole number of Exchangeable Shares or Share Purchase Warrants. If a Special Warranholder is not able to combine Special Warrants so as to be entitled to acquire a whole number of Exchangeable Shares or Share Purchase Warrants, the number of Exchangeable Shares and Share Purchase Warrants which such Special Warranholder is entitled to receive shall be rounded up to the nearest whole number.

The Special Warrant Indenture provides for adjustments to the number of Exchangeable Shares issuable upon the exercise or deemed exercise of the Special Warrant, and the Exercise Price in certain events set forth therein.

The Special Warrant Indenture contains provisions making binding on all holders of Special Warrants outstanding thereunder resolutions passed at meetings of such holders held in accordance with such provisions and instruments in writing signed by holders of a specified majority of all outstanding Special Warrants.

On presentation at the principal office of the Trustee in Toronto, Ontario, subject to the provisions of the Special Warrant Indenture and on compliance with the reasonable requirements of the Trustee, one or more Special Warrant Certificates may be exchanged for one or more

Special Warrant Certificates of different denominations evidencing in the aggregate the same number of Special Warrants as the Special Warrant Certificate or Special Warrant Certificates being exchanged.

The Special Warrants evidenced by this Special Warrant Certificate may only be transferred, upon compliance with the conditions prescribed in the Special Warrant Indenture, on the register of transfers to be kept at the principal office of the Trustee in Toronto, Ontario by the holder or his executors, administrators or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and execution satisfactory to the Trustee, and, upon compliance with such requirements and such other reasonable requirements as the Trustee may prescribe, such transfer will be duly recorded on such register of transfers by the Trustee. Notwithstanding the foregoing, SMTC Canada will be entitled, and may direct the Trustee, to refuse to record any transfer of any Special Warrant on such register if such transfer would constitute a violation of the securities laws of any jurisdiction or require SMTC Canada to qualify the Exchangeable Shares, Share Purchase Warrants or Underlying Common Shares for distribution in any jurisdiction other than the Qualifying Jurisdictions.

The holding of this Special Warrant Certificate will not constitute the holder a shareholder of SMTC Canada or entitle him to any right or interest in respect thereof except as otherwise provided in the Special Warrant Indenture. The Share Purchase Warrants will be issued and created pursuant to, and will be governed by, a share purchase warrant indenture dated March 3, 2004 between SMTC Canada and the Trustee.

This Special Warrant Certificate will not be valid for any purpose until it has been certified by or on behalf of the Trustee for the time being under the Special Warrant Indenture. Time will be of the essence hereof.

SMTC Canada has covenanted under the Special Warrant Indenture that SMTC Canada will prepare in conformity with the requirements of all Applicable Legislation in all material respects, and file the Preliminary Prospectus with the Securities Commissions as soon as possible, and shall use its commercially reasonable efforts to obtain receipts therefor from the Securities Commissions as soon as commercially practicable thereafter. SMTC Canada will use its commercially reasonable efforts to resolve as soon as commercially practicable any regulatory deficiencies in respect of the Preliminary Prospectus. As soon as possible after such deficiencies have been resolved and/or satisfied, SMTC Canada will prepare and file in conformity with the requirements of Applicable Legislation, in all material respects, the Final Prospectus with the Securities Commissions. SMTC Canada will use its commercially reasonable efforts to obtain receipts therefor from the Securities Commissions as soon as commercially practicable, but in no event later than the Prospectus Qualification Deadline, qualifying the distribution of the Units, comprised of Exchangeable Shares and Share Purchase Warrants, issuable on the exercise of the Special Warrants in each of the Qualifying Jurisdictions. SMTC Canada will prepare in conformity with the requirements of all Applicable Legislation in all material respects, and file the Registration Statement with the United States Securities and Exchange Commission, registering the distribution of the Underlying Common Shares issuable on the exchange of Exchangeable Shares, by the holder thereof.

If the Prospectus Qualification Date does not occur on or before the Prospectus Qualification Deadline or if the Registration Qualification Date does not occur on or before the Registration

Qualification Deadline, each Special Warrant exercised after the Prospectus Qualification Deadline will entitle the holder thereof to receive 1.1 Units without the payment of additional consideration.

Statutory restrictions will apply to the resale of Units, comprised of Exchangeable Shares and Share Purchase Warrants that are acquired prior to the Prospectus Qualification Date. In the event that SMTC Canada is unable to cause the Registration Statement to be filed with, and declared effective by, the United States Securities and Exchange Commission, the Underlying Common Shares will be subject to statutory hold periods during which they may not be resold in Canada or the United States subject to certain limited exceptions. Holders are advised to consult their own legal advisors in this regard.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF SMTC Manufacturing Corporation of Canada has caused this Special Warrant Certificate to be signed by its officer or other individual duly authorized in that behalf as of _____, _____.

SMTC MANUFACTURING CORPORATION OF CANADA

Per: _____

Name:

Title:

This Special Warrant Certificate is one of the Special Warrant Certificates referred to in the Special Warrant Indenture within mentioned.

CIBC MELLON TRUST COMPANY, as Trustee

Per: _____

Name:

Title:

I/We have the authority to bind the corporation

**APPENDIX 1
NOTICE OF EXERCISE**

To: **SMTC MANUFACTURING CORPORATION OF CANADA**

And To: **CIBC MELLON TRUST COMPANY**

The undersigned holder of the Special Warrants evidenced by the within Special Warrant Certificate hereby exercises its right to be issued Exchangeable Shares and Share Purchase Warrants of SMTC Manufacturing Corporation of Canada (or such other securities or property to which such exercise entitles him in lieu thereof or in addition thereto under the provisions of the Special Warrant Indenture mentioned in such Special Warrant Certificate) that are issuable upon the exercise of such Special Warrants, on the terms specified in such Special Warrant Certificate and Special Warrant Indenture.

The undersigned hereby acknowledges that it is aware that if the said right is being exercised before the Prospectus Qualification Date (as such term is defined in the within Special Warrant Certificate) or if the undersigned is resident in a jurisdiction other than a Qualifying Jurisdiction (as that term is defined in the Special Warrant Indenture), the Exchangeable Shares and Share Purchase Warrants received on exercise will be subject to restrictions on resale under applicable securities legislation.

The undersigned hereby acknowledges that this Special Warrant and the securities to be issued upon its exercise have not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered, sold, assigned or otherwise transferred except in accordance with Regulation S under the Securities Act or unless registered under the Securities Act or an exemption from such registration is available. The undersigned hereby further acknowledges that this Special Warrant may not be exercised by or on behalf of any U.S. Person unless registered under the Securities Act or an exemption from such registration is available.

The undersigned hereby irrevocably directs that the said Exchangeable Shares be issued, registered and delivered as follows:

Name(s) in Full	Address(es)	Number of Exchangeable Shares
_____	_____	_____
_____	_____	_____
_____	_____	_____

(Please print full name in which the Exchangeable Share certificates and Share Purchase Warrant certificates are to be issued. If any Exchangeable Shares or Share Purchase Warrants are to be issued to a person or persons other than the holder, the holder must pay to the Trustee all exigible transfer taxes or other government charges and sign the Form of Transfer.)

DATED this __ day of _____, _____.

_____ } _____
Witness Name

_____ } _____
Name of Registered Holder

Note: The name of the Registered Holder on this Notice of Exercise must be the same as the name appearing on the face page of the Special Warrant Certificate to which this Notice of Exercise is attached.

Please check if the Exchangeable Share certificates and the Share Purchase Warrant certificates are to be delivered at the office where this Special Warrant Certificate is surrendered, failing which such certificates will be mailed.

Certificates will be delivered or mailed as soon as practicable after the due surrender of the Special Warrant Certificate to which this Appendix is attached.

APPENDIX 2
FORM OF TRANSFER

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers to

Name: _____

Address: _____

(such person, the "Transferee") _____ Special Warrants of SMTC Manufacturing Corporation of Canada ("SMTC Canada") represented by the attached Special Warrant Certificate and does hereby appoint _____ as its attorney with full power of a substitution to transfer the Special Warrants on the appropriate register of the Trustee.

If the sale evidenced hereby is being made to a U.S. Person (as such term is defined in Regulation S to the United States Securities Act of 1933 (the "1933 Act")), the undersigned by the execution of this form of transfer hereby certifies that such sale does not require registration of the Special Warrants being transferred hereby under the 1933 Act and tenders herewith evidence satisfactory to SMTC Canada to such effect.

DATED this ___ day of _____, _____.

_____ } _____
Witness **Name**

Signature of Transferor must be guaranteed by a Canadian chartered bank, a major Canadian trust company or by a Medallion signature guarantee from a member of a recognized signature Medallion program

Name of Transferor

Note: The name of the Transferor on this Form of Transfer must be the same as the name appearing on the face page of the Special Warrant Certificate to which this Form of Transfer is attached.

APPENDIX 3

ACKNOWLEDGEMENT OF TRANSFEREE

TO: [Name of Transferor]

- and -

SMTC Manufacturing Corporation of Canada (“SMTC Canada”)

- and -

CIBC Mellon Trust Company (the “Trustee”)

The undersigned transferee of _____ Special Warrants of SMTC Manufacturing Corporation of Canada hereby (i) acknowledges that such Special Warrants are subject to the terms, conditions and provisions of a Special Warrant indenture made as of March 3, 2004 (the “Indenture”) between SMTC Canada and the Trustee; and (ii) expressly waives and releases SMTC Canada and the Underwriters (as defined in the Indenture) from, to the fullest extent permitted by law, all rights of withdrawal to which it might otherwise be entitled pursuant to Section 71(2) of the *Securities Act* (Ontario) or equivalent provisions of the securities laws of any applicable Qualifying Jurisdiction.

DATED the __ day of _____, _____.

Print Name of Transferee

By: _____

Signature

Officer or Title

Address of Transferee

SCHEDULE "B"

FORM OF DECLARATION FOR REMOVAL OF LEGEND

TO: The Registrar and Transfer Agent
for securities of
SMTC Manufacturing Corporation of Canada

The undersigned (a) acknowledges that the sale of the securities of SMTC Manufacturing Corporation of Canada (the "Company") to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "1933 Act"), and (b) certifies that (1) the undersigned is not an affiliate of the Company as that term is defined in the 1933 Act, (2) the offer of such securities was not made to a person in the United States and either (A) at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believed that the buyer was outside the United States and obtained written certification from the buyer that it was outside of the United States, or (B) the transaction was executed in, on or through the facilities of the Toronto Stock Exchange or any other designated offshore securities market as defined in Regulation S under the 1933 Act and neither the seller nor any person acting on its behalf knows that the transaction has been prearranged with a buyer in the United States, (3) neither the seller nor any affiliate of the seller nor any person acting on any of their behalf has engaged or will engage in any directed selling efforts in the United States in connection with the offer and sale of such securities, (4) the sale is bona fide and not for the purpose of "washing off" the resale restrictions imposed because the securities are "restricted securities" (as such term is defined in Rule 144(a)(3) under the 1933 Act), (5) the seller does not intend to replace the securities sold in reliance on Regulation S of the 1933 Act with fungible unrestricted securities, (6) the contemplated sale is not a transaction, or part of a series of transaction which, although in technical compliance with Regulation S, is part of a plan or scheme to evade the registration provisions of the 1933 Act, and (7) the seller is not a dealer or a person receiving selling concessions. Terms used herein have the meanings given to them by Regulation S.

Dated: _____

Name of Seller

By: _____

Name:

Title:

SMTC MANUFACTURING CORPORATION OF CANADA

and

CIBC MELLON TRUST COMPANY

SHARE PURCHASE WARRANT INDENTURE

**Providing for the Creation and Issue of
Share Purchase Warrants**

Dated as of March 3, 2004

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SHARE PURCHASE WARRANT INDENTURE

THIS INDENTURE dated as of March 3, 2004

BETWEEN:

SMTC MANUFACTURING CORPORATION OF CANADA, a corporation incorporated under the laws of the Province of Ontario (“**SMTC Canada**” or the “**Corporation**”)

- and -

CIBC MELLON TRUST COMPANY, a trust company incorporated under the laws of Canada (the “**Trustee**”)

WHEREAS:

- A. SMTC Canada, an indirect wholly-owned subsidiary of SMTC Corporation, a corporation organized under the laws of the State of Delaware (“**SMTC**”), wishes to raise money and therefore proposes to create, issue and sell Special Warrants pursuant to a special warrant indenture and escrow agreement of even date herewith (the “**Special Warrant Indenture**”) made between SMTC Canada and the Trustee, each Special Warrant entitling the holder thereof to acquire, at no additional consideration, one unit comprised of (i) one Exchangeable Share and (ii) one-half of one share purchase warrant (each whole warrant, a “**Share Purchase Warrant**”) subject to adjustment as provided therein, upon the terms and conditions therein set forth;
- B. SMTC Canada is duly authorized to create and issue the Share Purchase Warrants as herein provided and complete the transactions contemplated herein;
- C. All things necessary have been done and performed to make the Share Purchase Warrant Certificates, when certified by the Trustee and issued and delivered as herein provided, legal, valid and binding on SMTC Canada with the benefits of and subject to the terms of this Indenture; and
- D. The Trustee has agreed to enter into this Indenture and to hold all rights, interests and benefits contained herein for and on behalf of those persons who from time to time become holders of Share Purchase Warrants issued pursuant to this Indenture;

NOW THEREFORE THIS INDENTURE WITNESSES that for good and valuable consideration mutually given, the receipt and sufficiency of which are, by each of SMTC Canada and the Trustee, hereby acknowledged, SMTC Canada hereby appoints the Trustee as trustee for the Warranholders, to hold all rights, interests and benefits contained herein for and on behalf of those persons who from time to time become holders of Share Purchase Warrants issued pursuant to this Indenture, and the parties hereby covenant, agree and declare as follows.

The foregoing statement of fact and recitals are made by the Corporation and not the Trustee.

ARTICLE 1
INTERPRETATION

1.1 Definitions

In this Indenture, unless there is something in the subject matter or context inconsistent therewith:

- (1) “**affiliate**” shall have the meaning ascribed to such term in the *Business Corporations Act* (Ontario), as amended;
- (2) “**Applicable Legislation**” means such provisions of any statute of Canada, of a province thereof or of any other jurisdiction, and of regulations under any such statute, relating to trust indentures or to the rights, duties and obligations of corporations and of warrant trustees under trust indentures, as are from time to time in force and applicable to this Indenture;
- (3) “**business day**” means any day that is not a Saturday, Sunday or statutory holiday in Ontario or a day when the principal office of the Trustee in Toronto, Ontario is not generally open to the public for the transaction of business;
- (4) “**Closing Date**” means March 3, 2004 or such other date as agreed up on by the Underwriters and SMTC Canada;
- (5) “**counsel**” means a barrister or solicitor or a firm of barristers and solicitors (who may be counsel for);
- (6) “**director**” means a director of SMTC Canada for the time being, and reference to action by the directors means action by the directors of SMTC Canada as a board or, to the extent empowered, by a committee of the board, in each case by resolution duly passed;
- (7) “**Exchangeable Shares**” means the exchangeable shares in the capital of SMTC Canada which are exchangeable at the option of the holder, at any time, for one Underlying Common Share, provided that in the event of any adjustment pursuant to Article 5, “**Exchangeable Shares**” will thereafter mean the shares or other securities or property resulting from such adjustment;
- (8) “**Exercise Date**” means, with respect to any Share Purchase Warrant exercised by the holder thereof, the day on which the Share Purchase Warrant is exercised in accordance with the provisions of Section 4.1;
- (9) “**Exercise Price**” means the price at which a Share Purchase Warrant is exercisable into an Exchangeable Share, being Cdn.\$1.85 per Exchangeable Share as at the Exercise Date as such price shall have been adjusted under Article 5;
- (10) “**Expiry Time**” means 5:00 p.m. (Toronto time) on March 4, 2009;
- (11) “**Extraordinary Resolution**” has the meaning attributed thereto in Sections 8.12 and 8.15;

-
- (12) “**Final Prospectus**” means the (final) prospectus to be filed by SMTC Canada with the Securities Commissions for the purpose of qualifying for distribution in the Qualifying Jurisdictions the Exchangeable Shares and Share Purchase Warrants, issuable on exercise or deemed exercise of Special Warrants and includes any amendment thereto;
- (13) “**Issue Date**” means the dates upon which Share Purchase Warrants are issued hereunder from time to time, each such date being an “Issue Date”;
- (14) “**person**” means an individual, corporation, partnership, trustee or unincorporated;
- (15) “**Prospectus Qualification Date**” means the date on which the last of the receipts for the Final Prospectus has been obtained by SMTC Canada from the Securities Commissions;
- (16) “**Qualifying Jurisdictions**” means the Provinces of Ontario, British Columbia, Alberta, Quebec, Saskatchewan and Nova Scotia;
- (17) “**Securities Commissions**” means the securities regulatory authorities of the Qualifying Jurisdictions;
- (18) “**Share Purchase Warrant Certificate**” means a certificate evidencing one or more Share Purchase Warrants, substantially in the form set out in Schedule “A”;
- (19) “**Share Purchase Warrant Exchangeable Shares**” means the Exchangeable Shares issuable to the holder thereof on exercise of the Share Purchase Warrants;
- (20) “**Share Purchase Warrants**” means the share purchase warrants of SMTC Canada created and authorized for issue pursuant to Section 2.1 hereof, for issue upon the exercise of Special Warrants, each such Share Purchase Warrant entitling the holder thereof to acquire one Exchangeable Share at the Exercise Price at any time prior to the Expiry Time;
- (21) “**SMTC**” means SMTC Corporation, a corporation incorporated under the laws of the State of Delaware, of which SMTC Canada is an indirectly wholly-owned subsidiary;
- (22) “**SMTC Canada**” or the “**Corporation**” means SMTC Manufacturing Corporation of Canada, and includes any successor corporation to or of SMTC Canada;
- (23) “**SMTC Canada’s Auditors**” means KPMG LLP, the firm of chartered accountants duly appointed as auditors of SMTC Canada for the time being;
- (24) “**SMTC director**” means a director of SMTC for the time being, and reference to action by the directors means action by the directors of SMTC as a board or, to the extent empowered, by a committee of the board, in each case by resolution duly passed;
- (25) “**Special Warrant Indenture**” means the special warrant indenture and escrow agreement between SMTC Canada and CIBC Mellon Trust Company dated March 3, 2004 relating to the creation and issue of Special Warrants;
- (26) “**Special Warrants**” means the special warrants created and issued pursuant to the Special Warrant Indenture;

-
- (27) “*this Share Purchase Warrant Indenture*”, “*this Indenture*”, “*hereto*”, “*hereunder*”, “*hereof*”, “*herein*”, “*hereby*” and similar expressions mean or refer to this Share Purchase Warrant Indenture and any indenture, deed or instrument supplemental or ancillary hereto, and the expressions “*Article*”, “*Section*”, “*Subsection*” and “*paragraph*” followed by a number mean the specified Article, Section, Subsection or paragraph of this Share Purchase Warrant Indenture;
- (28) “*Trustee*” means CIBC Mellon Trust Company, the party of the second part hereunder and includes any successor or permitted assigns for the time being in the trusts created hereby;
- (29) “*Underlying Common Shares*” means the common shares in the capital of SMTC, issuable upon exercise of the exchange or other rights attaching to the Exchangeable Shares and any other securities into which such shares may be charged, from time to time;
- (30) “*voting shares*” of any corporation means shares of one or more classes or series of a class of shares in the capital of such corporation carrying voting rights under all circumstances (and not by reason of the happening of a contingency) sufficient if exercised to elect all of the directors of such corporation, provided that such shares will be deemed not to cease to be voting shares solely by reason of a right to vote for the election of one or more of the directors of such corporation accruing to shares of another class or series of a class of shares of such corporation by reason of the happening of a contingency;
- (31) “*Warrantholders*” or “*holders*” means the persons for the time being entered in a register of holders described in Section 3.1 as holders of Share Purchase Warrants;
- (32) “*Warrantholders’ Request*” means an instrument, signed in one or more counterparts by Warrantholders who hold in the aggregate not less than 10% of the total number of Share Purchase Warrants outstanding for the time being, requesting the Trustee to take some action or proceeding specified therein; and
- (33) “*written order of SMTC Canada*”, “*written request of SMTC Canada*”, “*written consent of SMTC Canada*”, “*written direction of SMTC Canada*” and “*certificate of SMTC Canada*” mean, respectively, a written order, request, consent, direction and certificate signed in the name of SMTC Canada by any director or officer of SMTC Canada or by any other individual to whom such signing authority is delegated by the directors from time to time, and may consist of one or more instruments so executed.

1.2 Meaning of Outstanding

Each Share Purchase Warrant certified and delivered by the Trustee under this Indenture will be deemed to be outstanding until it is cancelled or delivered to the Trustee for cancellation as the case may be, or until the Share Purchase Warrants have been exercised pursuant to the terms of this Indenture, provided that:

- (a) when a new Share Purchase Certificate has been issued in substitution for a Share Purchase Warrant Certificate which has been lost, stolen or destroyed, only one of such Share Purchase Warrant Certificates will be counted for the purposes of determining the number of Share Purchase Warrants outstanding; and

-
- (b) for the purposes of any provision of this Indenture entitling holders of outstanding Share Purchase Warrants to vote, sign consents, requisitions or other instruments or take any other action under this Indenture, Share Purchase Warrants owned, directly or indirectly, legally or beneficially by SMTC Canada or an affiliate of SMTC Canada will be disregarded except that:
- (i) for the purposes of determining whether the Trustee will be protected in acting or relying on any such vote, consent, requisition or other instrument or action, only the Share Purchase Warrants which have been certified by SMTC Canada in a certificate of SMTC Canada to the Trustee as so owned will be so disregarded; and
 - (ii) Share Purchase Warrants so owned which have been pledged in good faith, other than to SMTC Canada or an affiliate thereof, will not be so disregarded if the pledgee establishes to the satisfaction of the Trustee the pledgee's right to vote such Share Purchase Warrants in its discretion free from the control of SMTC Canada or an affiliate thereof.

1.3 Words Importing the Singular and Gender

Words importing the singular include the plural and vice versa and words importing a particular gender include all genders.

1.4 Interpretation Not Affected by Headings, Etc.

The division of this Indenture into Articles, Sections, Subsections, paragraphs, subparagraphs, clauses and subclauses and the insertion of headings are for convenience of reference only and will not affect the construction or interpretation of this Indenture.

1.5 Day Not a Business Day

If the day on or before which any action that would otherwise be required to be taken hereunder is not a business day in the place where the action is required to be taken, that action will be required to be taken on or before the requisite time on the next succeeding day that is a business day with the same force and effect as if taken within the period for the taking of such action.

1.6 Time of the Essence

Time will be of the essence in all respects in this Indenture and the Share Purchase Warrant Certificates.

1.7 Currency

Except as otherwise stated, all dollar amounts herein are expressed in Canadian dollars.

1.8 Applicable Law

This Indenture and the Share Purchase Warrant Certificates will be construed and enforced in accordance with the laws prevailing in the Province of Ontario and with the federal laws of Canada applicable therein and will be treated in all respects as Ontario contracts. The parties irrevocably attorn and submit to the non-exclusive jurisdiction of the courts of the Province of Ontario with respect to any matter arising under or related to this Indenture.

1.9 Beneficiaries

This Indenture is entered into by the Trustee for the benefit of all such persons who are issued Share Purchase Warrants and each of them shall, upon such issuance, be entered in the register as Warrantholders. The Trustee hereby declares that it holds all rights, interest and benefits to be derived therefrom for and on behalf of all such persons in accordance with the terms and restrictions contained herein.

ARTICLE 2 THE SHARE PURCHASE WARRANTS

2.1 Creation and Authorization of Share Purchase Warrants

- (1) 16,675,000 Share Purchase Warrants, each whole Share Purchase Warrant entitling the holder thereof to be issued one Exchangeable Share (subject to adjustment as provided herein) on the terms and subject to the conditions herein provided, are hereby created and authorized for issuance upon exercise or deemed exercise of Special Warrants in accordance with the Special Warrant Indenture.
- (2) Upon exercise or deemed exercise of the Special Warrants in accordance with the terms of the Special Warrant Indenture, Share Purchase Warrant Certificates shall be executed by SMTC Canada and delivered to the Trustee, certified by or on behalf of the Trustee upon the written order of SMTC Canada and delivered by the Trustee to SMTC Canada or to the order of SMTC Canada pursuant to a written direction of SMTC Canada, without any further act of or formality on the part of SMTC Canada and without the Trustee receiving any consideration therefor.

2.2 Terms of Share Purchase Warrants

- (1) Subject to Subsection 2.2(2) hereof, each Share Purchase Warrant issued hereunder will entitle the holder thereof, upon the exercise thereof and payment of the Exercise Price in accordance with the provisions of Article 4 hereof, to be issued one Exchangeable Share.
- (2) The Exercise Price and the number of Exchangeable Shares issuable on exercise of a Share Purchase Warrant pursuant to Subsection 2.2(1) hereof, will be adjusted upon the occurrence of the events and in the manner specified in Article 5.

2.3 Form of Share Purchase Warrant Certificates

- (1) The Share Purchase Warrant Certificates (including the signature of the Trustee endorsed thereon) will be substantially in the form set out in Schedule "A", will be dated as of the

date hereof (regardless of the actual dates of their issue), will bear such legends and distinguishing letters and numbers as SMTC Canada, with the approval of the Trustee, may prescribe and will be issuable in any whole number denomination. No fractional Share Purchase Warrants will be issued or otherwise provided for hereunder.

Regardless of any adjustments pursuant to Article 5 of this Indenture, Share Purchase Warrant Certificates representing Share Purchase Warrants shall continue to be in the form set forth in Schedule "A" to this Indenture and shall continue to express the number of Exchangeable Shares which may be acquired upon the exercise of the Share Purchase Warrants evidenced thereby prior to any such adjustments.

- (2) The Share Purchase Warrant Certificates may be engraved, lithographed or printed (the expression "printed" including for purposes hereof both original typewritten material as well as mimeographed, mechanically, photographically, photostatically or electronically reproduced, typewritten or other written material), or partly in one form and partly in another, as SMTC Canada may determine.

2.4 Signing of Share Purchase Warrant Certificates

- (1) The Share Purchase Warrant Certificates will be signed by any director or senior officer of SMTC Canada or by any other individual to whom such signing authority is delegated by the directors from time to time.
- (2) The signatures of any of the officers or individuals referred to in Subsection 2.4(1) may be manual signatures, engraved, lithographed or printed in facsimile and Share Purchase Warrant Certificates bearing such facsimile signatures will be binding on SMTC Canada as if they had been manually signed by such officers or individuals.
- (3) Notwithstanding that any person whose manual or facsimile signature appears on a Share Purchase Warrant Certificate as one of the officers or individuals referred to in Subsection 2.4(1) no longer holds the same or any other office with SMTC Canada at the date of issuance of any Share Purchase Warrant Certificate or at the date of certification or delivery thereof, such Share Purchase Warrant Certificate will, subject to Section 2.5, be valid and binding on SMTC Canada, and such fact shall not affect in any way the entitlement of the holder thereof to the benefits of this Indenture or the Share Purchase Warrant Certificate(s) in question.

2.5 Certification by Trustee

- (1) No Share Purchase Warrant Certificate, notwithstanding that such Share Purchase Warrant Certificate has been signed in accordance with Section 2.4, will be issued or, if issued, will be valid or entitle the holder to the benefits hereof until it has been certified by manual signature by or on behalf of the Trustee substantially in the form of the certificate set out in Schedule "A" or in such other form approved by the Trustee. The certification by the Trustee on a Share Purchase Warrant Certificate will be conclusive evidence as against SMTC Canada that such Share Purchase Warrant Certificate has been duly issued hereunder and, if issued, is valid and exercisable, and that the holder thereof is entitled to the benefits hereof.

-
- (2) The certification by the Trustee on any Share Purchase Warrant Certificate issued hereunder will not be construed as a representation or warranty by the Trustee as to the validity of this Indenture (except in respect of its due authorization, execution and delivery by, and enforceability against, the Trustee) or such Share Purchase Warrant Certificate (except the due certification thereof) or as to performance by SMTC Canada of its obligations hereunder, and the Trustee will in no respect be liable or answerable for the use made of any Share Purchase Warrant Certificate or of the consideration therefor, except as otherwise specified herein.

2.6 Share Purchase Warrants to Rank Pari Passu

All Share Purchase Warrants will rank *pari passu*, whatever may be the actual dates of issue of the Share Purchase Warrant Certificates by which they are evidenced.

2.7 Canadian Transfer Restrictions

In order to ensure compliance with applicable Canadian securities laws, no direct or indirect sale, transfer or repurchase of Share Purchase Warrants or Share Purchase Warrant Exchangeable Shares shall be permitted from or by a registered holder whose address is not in Canada (or who is not a resident of Canada) to a purchaser or transferee whose address is in Canada (or who is a resident of Canada) unless it is made in compliance with Applicable Legislation. Each Warranholder, by its acceptance of the Share Purchase Warrants, shall be deemed to have acknowledged and agreed that if it is not a resident of Canada it shall not transfer Share Purchase Warrants or Share Purchase Warrant Exchangeable Shares except as provided in the immediately preceding sentence.

2.8 Transfer Restrictions

Each Share Purchase Warrant Certificate and all Share Purchase Warrant Certificates issued in exchange therefor or in substitution therefor, shall bear the legend set forth below (the "Legend"):

"THIS WARRANT AND THE SECURITIES TO BE ISSUED UPON ITS EXERCISE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. THIS WARRANT MAY NOT BE EXERCISED BY OR ON BEHALF OF ANY U.S. PERSON UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE."

provided, that if the Share Purchase Warrants or Exchangeable Shares are being sold outside the United States in accordance with Rule 904 of Regulation S under the Securities Act, the Legend may be removed by providing a declaration to the Trustee in the form attached as

Schedule “B” hereto, or in such other form as the Corporation may from time to time prescribe, to the effect that the sale of the securities is being made in compliance with Rule 904 of Regulation S under the United States Securities Act of 1933, as amended.

In order to ensure compliance with applicable United States securities laws, no direct or indirect transfer or sale of Share Purchase Warrants bearing the Legend may be made except in compliance with the Legend or unless otherwise reasonably determined by SMTC Canada to be in accordance with Applicable Legislation.

2.9 U.S. Transfer Restriction

Each Share Purchase Warrant Certificate originally issued to a person within the United States and all Share Purchase Warrant Certificates issued in exchange therefore or in substitution therefore, as well as certificates representing the Exchangeable Shares issuable upon the exercise or deemed exercise of any Special Warrants represented by any such Special Warrant Certificate shall bear the legend set forth below (the “U.S. Legend”):

“DELIVERY OF THIS CERTIFICATE MAY NOT CONSTITUTE “GOOD DELIVERY” IN SETTLEMENT OF TRANSACTIONS ON STOCK EXCHANGES IN CANADA. A NEW CERTIFICATE BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE “GOOD DELIVERY” MAY BE OBTAINED FROM CIBC MELLON TRUST COMPANY UPON THE DELIVERY TO CIBC MELLON TRUST COMPANY AND THE CORPORATION OF A DECLARATION TO THE EFFECT THAT (A) THE OFFER OR SALE ARE MADE IN AN OFFSHORE TRANSACTION, (B) NO DIRECTED SELLING EFFORTS ARE MADE IN THE UNITED STATES BY THE SELLER, AN AFFILIATE OR ANY PERSON ACTING ON THEIR BEHALF, AND (C) THE SELLER IS NOT A DEALER OR A PERSON RECEIVING SELLING CONCESSIONS AND THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT.”

2.10 Legend for Share Purchase Warrant Certificates of Non-U.S. and Non-Canadian Persons

Each Share Purchase Warrant Certificate issued to a person outside of the United States and outside Canada who is not a U.S. person or a Canadian Person and all Share Purchase Warrant Certificates issued in exchange therefor or in substitution therefor, as well as the certificates representing the Exchangeable Shares issuable upon the exercise of any Share Purchase Warrants represented by any such Share Purchase Warrant Certificate in each case issued prior to the Prospectus Qualification Date, shall bear the following legend (the “Non-U.S. Legend”):

“FOR SHARE PURCHASE WARRANTS ISSUED TO NON-RESIDENTS OF CANADA, THE HOLDER, BY ITS

ACCEPTANCE OF THIS SECURITY, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT AND WILL NOT BE ENTITLED TO, DIRECTLY OR INDIRECTLY, SELL OR TRANSFER SHARE PURCHASE WARRANTS INTO CANADA OR TO RESIDENTS OF CANADA, EXCEPT IN COMPLIANCE WITH APPLICABLE CANADIAN SECURITIES LAWS. NO SALE OR TRANSFER INTO CANADA OR TO A CANADIAN RESIDENT WILL BE REGISTERED BY THE TRUSTEE AND ANY ATTEMPT TO EFFECT SUCH A TRANSFER IS INVALID UNLESS MADE IN COMPLIANCE WITH THE ABOVE-NOTED RESTRICTIONS.”

2.11 Legend for Exchangeable Shares

Each Exchangeable Share issued upon exercise of the Share Purchase Warrants shall bear the following legends:

“THE SHARES REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES TO BE ISSUED UPON EXCHANGE OF SUCH SHARES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.”

“THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE REDEEMED FOR SHARES OF SMTC CORPORATION COMMON STOCK UNLESS SUCH SHARES ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.”

2.12 Legend for Underlying Common Shares

Each share of the common stock of SMTC Corporation issued upon the redemption of an Exchangeable Share(issued upon the exercise of the Share Purchase Warrants) in a transaction that has not been registered under the Securities Act shall bear the following legend:

“THE SHARES REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES TO BE ISSUED UPON EXCHANGE OF SUCH SHARES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED,

SOLD, ASSIGNED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.”

2.13 Reliance by Trustee

The Trustee shall have no obligation to ensure or verify compliance with any applicable laws or regulatory requirements on the issue, exercise or transfer of any Share Purchase Warrants or any Share Purchase Warrant Exchangeable Shares. The Trustee shall be entitled to process all proffered transfers and exercises of Share Purchase Warrants upon the presumption that such transfers or exercises are permissible pursuant to all applicable laws and regulatory requirements and the terms of this Indenture and the related Share Purchase Warrant Certificates, provided that such transfers and exercises of Share Purchase Warrants may only be processed by the Trustee upon written instruction of SMTC Canada to the Trustee, which instruction may be based, in SMTC Canada’s discretion, upon certificates, opinions and other documentation of the holders of such Share Purchase Warrants that such transfer or exercise is in accordance with Applicable Legislation. The Trustee may assume for the purposes of this Indenture that the address on the register of Warrantholders of any Warrantholder is the Warrantholder’s actual address and is also determinative of the Warrantholder’s residency and that the address of any transferee to whom any Share Purchase Warrants or Share Purchase Warrant Exchangeable Shares are to be registered, as shown on the transfer document, is the transferee’s actual address and is also determinative of the transferee’s residency.

2.14 Issue in Substitution for Lost Certificates, Etc.

- (1) If any Share Purchase Warrant Certificate becomes mutilated or is lost, destroyed or stolen, SMTC Canada, subject to applicable law and to Subsection 2.14(2), will issue, and thereupon the Trustee will certify and deliver, a new Share Purchase Warrant Certificate of like date and tenor as the one mutilated, lost, destroyed or stolen in exchange for and in place of and on surrender and cancellation of such mutilated Share Purchase Warrant Certificate or in lieu of and in substitution for such lost, destroyed or stolen Share Purchase Warrant Certificate and the substituted Share Purchase Warrant Certificate shall be in a form approved by the Trustee and shall entitle the holders to the benefits hereof and rank *pari passu* in accordance with its terms and with all other Share Purchase Warrants issued hereunder.
- (2) The applicant for the issue of a new Share Purchase Warrant Certificate pursuant to this Subsection 2.14(2) will bear the reasonable cost of the issue thereof and in case of loss, destruction or theft will, as a condition precedent to the issue thereof:
 - (a) furnish to SMTC Canada and to the Trustee such evidence of ownership and of the mutilation, loss, destruction or theft of the Share Purchase Warrant Certificate to be replaced as is satisfactory to SMTC Canada and to the Trustee in their discretion, acting reasonably;

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- (b) if so required by SMTC Canada or the Trustee, furnish an indemnity in amount and form satisfactory to SMTC Canada and to the Trustee in their reasonable discretion; and
 - (c) pay the reasonable charges of SMTC Canada and the Trustee in connection therewith.

2.15 Cancellation of Surrendered Share Purchase Warrants

All Share Purchase Warrant Certificates surrendered to the Trustee pursuant to Sections 2.14, 3.1, 3.2 or 4.1 will be cancelled by the Trustee and, if requested by SMTC Canada in writing, the Trustee will furnish to SMTC Canada a cancellation certificate identifying each Share Purchase Warrant Certificate so cancelled, the number of Share Purchase Warrants evidenced thereby and the number of Exchangeable Shares, if any, issued pursuant to such Share Purchase Warrants.

2.16 Warrantholder not a Shareholder

Nothing in this Indenture or in the holding of a Share Purchase Warrant evidenced by a Share Purchase Warrant Certificate, or otherwise, other than the applicable rights received upon the Share Purchase Warrants, as noted above, is intended or will be construed as conferring on any Warrantholder any right or interest whatsoever as a shareholder of SMTC Canada or SMTC, including but not limited to any right to vote at, to receive notice of, or to attend any meeting of shareholders or any other proceeding of SMTC Canada or SMTC or any right to receive any dividend or other distribution to which the shareholders of SMTC Canada or SMTC may be entitled.

ARTICLE 3 **REGISTRATION, TRANSFER, EXCHANGE AND** **OWNERSHIP OF SHARE PURCHASE WARRANTS**

3.1 Registration and Transfer of Share Purchase Warrants

- (1) SMTC Canada hereby appoints the Trustee as registrar and transfer agent of the Share Purchase Warrants.
- (2) The Trustee will cause to be kept:
 - (a) by and at the principal offices in Toronto, Ontario, a register (or registers) of holders in which shall be entered in alphabetical order the names and addresses of the holders of Share Purchase Warrants and particulars of the Share Purchase Warrants held by them; and
 - (b) by and at the principal office in Toronto, Ontario of the Trustee, a register of transfers in which all transfers of Share Purchase Warrants and the date and other particulars of each transfer shall be entered.
- (3) No transfer of any Share Purchase Warrant will be valid unless duly entered on the appropriate register of transfers referred to in Subsection 3.1(2), or on any branch

registers maintained pursuant to Subsection 3.1(8), upon surrender to the Trustee of the Share Purchase Warrant Certificate evidencing such Share Purchase Warrant, duly endorsed by, or accompanied by a written instrument of transfer substantially in the form of Appendix 2 to the Share Purchase Warrant Certificate or otherwise in form satisfactory to the Trustee executed by the registered holder or his executors, administrators or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and execution satisfactory to the Trustee, and, subject to compliance with Sections 2.7, 2.8 and, 2.9 and such requirements and such other reasonable requirements as the Trustee may prescribe, such transfer will be duly noted on one of such registers of transfers by the Trustee within two business days of the satisfaction of all such requirements.

- (4) The transferee of any Share Purchase Warrant will, after surrender to the Trustee of the Share Purchase Warrant Certificate evidencing such Share Purchase Warrant as required by Subsection 3.1(3) and upon compliance with all other conditions in respect thereof required by this Indenture or by law, be entitled to be entered on the register of holders referred to in Subsection 3.1(2), or on any branch registers of holders maintained pursuant to subsection 3.1(8), as the owner of such Share Purchase Warrant free from all equities or rights of set-off or counterclaim between SMTC Canada and the transferor or any previous holder of such Share Purchase Warrant, except in respect of equities of which SMTC Canada is required to take notice by statute or by order of a court of competent jurisdiction.
- (5) SMTC Canada will be entitled, and may direct the Trustee in writing, to refuse to recognize any transfer, or enter the name of any transferee, of any Share Purchase Warrant on the registers referred to in Subsection 3.1(2), or on any branch registers maintained pursuant to Subsection 3.1(8), if such transfer would constitute a violation of the securities laws of any or would require SMTC Canada to qualify the Share Purchase Warrants or Exchangeable Shares issuable on exercise of the Share Purchase Warrants for distribution in any jurisdiction other than the Qualifying Jurisdictions.
- (6) Neither SMTC Canada nor the Trustee will be bound to take notice of or see to the execution of any trust, whether express, implied or constructive, in respect of any Share Purchase Warrant, and may transfer any Share Purchase Warrant on the written direction of the person registered as the holder thereof and delivered in accordance with Subsection 3.1(3), whether named as trustee or otherwise, as though that person were the beneficial owner thereof.
- (7) The registers referred to in Subsection 3.1(2), and any branch registers maintained pursuant to Subsection 3.1(8), will at all reasonable times be open for inspection by SMTC Canada and any Warrantholder. The Trustee will from time to time when requested so to do in writing by SMTC Canada or any Warrantholder (upon payment of the Trustee's reasonable charges), furnish SMTC Canada or such Warrantholder with a list of the names and addresses of holders of Share Purchase Warrants entered on such registers and showing the number of Share Purchase Warrants held by each such holder.
- (8) The Trustee with the approval of SMTC Canada, may at any time and from time to time change the place at which the registers referred to in Subsection 3.1(2) are kept, cause

branch registers of holders or transfers to be kept at other places and close such branch registers or change the place at which such branch registers are kept. Notice of any such change or closure shall be given by the Trustee to SMTC Canada and the holders of Share Purchase Warrants.

- (9) The Trustee shall retain until the sixth anniversary of the Expiry Time all instruments of transfer of Share Purchase Warrants which are tendered for registration including the details shown thereon of the persons by or through whom they were lodged, all cancelled Share Purchase Warrants and other related documents.

3.2 Exchange of Share Purchase Warrant Certificates

- (1) One or more Share Purchase Warrant Certificates may, on compliance by the holder with the reasonable requirements of the Trustee, be exchanged for one or more Share Purchase Warrant Certificates of different denomination evidencing in the aggregate the same number of Share Purchase Warrants as the Share Purchase Warrant Certificate or Share Purchase Warrant Certificates being exchanged, and such holder shall pay the reasonable cost thereof.
- (2) Share Purchase Warrant Certificates may be exchanged only at the principal offices in Toronto, Ontario of the Trustee or at any other place designated by SMTC Canada with the approval of the Trustee.
- (3) Any Share Purchase Warrant Certificate tendered for exchange shall be surrendered to the Trustee or its agent and cancelled.
- (4) SMTC Canada will sign all Share Purchase Warrant Certificates necessary to carry out exchanges pursuant to this Section 3.2 and the Trustee shall certify such Share Purchase Warrant Certificates.

3.3 No Charges for Transfer or Exchange

No charge, including any stamp tax or other governmental levy, will be levied on a presenter to this Indenture for the transfer of any Share Purchase Warrant or the exchange of any Share Purchase Certificate.

3.4 Ownership of Share Purchase Warrants

- (1) SMTC Canada and the Trustee may deem and treat the person in whose name any Share Purchase Warrant is registered as the absolute owner of such Share Purchase Warrant for all purposes, and such person will for all purposes of this Indenture be and be deemed to be the absolute owner thereof, and SMTC Canada and the Trustee will not be affected by any notice or knowledge to the contrary except as required by statute or by order of a court of competent jurisdiction.
- (2) The registered holder of any Share Purchase Warrant will be entitled to the rights evidenced thereby free from all equities and rights of set-off or counterclaim between SMTC Canada and the original or any intermediate holder thereof and all persons may act accordingly, and the delivery to any such registered holder of the Exchangeable

Shares issued on exercise of such Share Purchase Warrant will be a good discharge to SMTC Canada and the Trustee therefor and, unless SMTC Canada or the Trustee are required by statute or by an order of a court of competent jurisdiction, neither SMTC Canada nor the Trustee will be bound to inquire into the title of any such registered holder.

3.5 Assumption by Transferee

Upon becoming a Warrantholder in accordance with the provisions of this Indenture, the transferee thereof shall be deemed to have acknowledged and agreed to be bound by this Indenture. Upon the registration by the Trustee of such transferee as the holder of a Share Purchase Warrant, the transferor thereof shall cease to have any further rights under this Indenture with respect to such Share Purchase Warrant or any Exchangeable Shares to be issued on exercise.

ARTICLE 4 **EXERCISE OF SHARE PURCHASE WARRANTS**

4.1 Exercise

(1) Subject to the limitation set forth in Subsection 4.1(2) and Section 4.5, holders of Share Purchase Warrants may at any time prior to the Expiry Time exercise the right thereby conferred to be issued Exchangeable Shares by surrendering to the Trustee at its principal office in Toronto, Ontario or to any other person or at any other place designated by SMTC Canada with the approval of the Trustee, during normal business hours on a business day at such place:

- (a) a certified cheque or bank draft payable to SMTC Canada in the amount of the Exercise Price in respect of each Exchangeable Share to be issued;
- (b) the Share Purchase Warrant Certificate evidencing such Share Purchase Warrants; and
- (c) a duly completed and executed notice of exercise substantially in the form set out in Appendix 1 to such Share Purchase Warrant Certificate,

provided such notice is also given to SMTC Canada by either the Warrantholder or the Trustee by delivering to SMTC Canada a copy of such documents. Notwithstanding the foregoing, a holder may exercise the Share Purchase Warrants by delivering to the Trustee a facsimile transmission of the Share Purchase Warrant Certificate(s) evidencing such Share Purchase Warrants together with a duly completed and executed notice of exercise in the form set out in Appendix 1 to such Share Purchase Warrant Certificate(s) provided that the original Share Purchase Warrant Certificate(s) and notice of exercise are received by the Trustee or other person as may be designated herein within three business days of the date of such facsimile transmission.

(2) Any certified cheque or bank draft, Share Purchase Warrant Certificate or notice of exercise referred to in Subsection 4.1(1) will be deemed to have been surrendered only on personal delivery thereof to, or, if sent by mail or other means of transmission, on actual

receipt thereof by, the Trustee or one of the other persons at the office or one of the other places specified in Subsection 4.1(1), provided however that if exercise is made by facsimile transmission as set out in Subsection 4.1(1), the Share Purchase Warrant Certificate and executed notice of exercise will be deemed to be surrendered as of the date of the facsimile transmission only in the event that the original Share Purchase Warrant Certificate and executed notice are received by the Trustee or other person as designated herein within three business days of the date of the facsimile transmission.

- (3) Any notice of exercise referred to in Subsection 4.1(1) must be signed by the Warrantholder, or such Warrantholder's executors, administrators or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and execution satisfactory to the Trustee, acting reasonably, and, if any Exchangeable Shares thereby issuable are to be issued to a person or persons other than the Warrantholder and must specify the name or names and the address or addresses of each such person or persons and the number of Exchangeable Shares to be issued to each such person if more than one is so specified.
- (4) Any issuance of Exchangeable Shares upon exercise of Share Purchase Warrants must be in accordance with applicable law (as determined by SMTC Canada).
- (5) The holder of any Share Purchase Warrant Certificate who wishes to exercise the Share Purchase Warrants evidenced by such Share Purchase Warrant Certificate may exercise less than all of such Share Purchase Warrants and in the case of any such partial exercise shall be entitled to receive, without charge therefor, a Share Purchase Warrant Certificate, in form, signed and certified in accordance with the provisions of Article 2, evidencing the number of Share Purchase Warrants held by the Warrantholder which remain unexercised. Such Share Purchase Warrant Certificate will be delivered by the Trustee to the holder concurrently with the certificates representing the Exchangeable Shares issued on partial exercise of such holder's Share Purchase Warrants.

4.2 Effect of Exercise

- (1) Upon the exercise of any Share Purchase Warrant in accordance with Section 4.1, the Exchangeable Shares thereby issuable will be deemed to have been issued, and the person or persons to whom such Exchangeable Shares are to be issued will be deemed to have become the holder or holders of record thereof on the Exercise Date, unless the transfer registers for the Exchangeable Shares are closed on that date, in which case such Exchangeable Shares will be deemed to have been issued and such person or persons will be deemed to have become the holder or holders of record thereof on the date on which such transfer registers are reopened, but such Exchangeable Shares will be issued on the basis of the number of Exchangeable Shares to which such person or persons were entitled on the Exercise Date.
- (2) As soon as practicable and in any event not later than the fifth business day on which the transfer registers for the Exchangeable Shares have been open after such exercise, SMTC Canada will cause the Trustee to mail to the person or persons in whose name or names the Exchangeable Shares thereby issued have been issued, at his or their respective addresses, or, if so specified, cause to be delivered to such person or persons at the place where the Share Purchase Warrant Certificate evidencing such Share Purchase Warrant was surrendered, certificates representing the Exchangeable Shares so issued.

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- (3) If any Exchangeable Shares issuable pursuant to any Share Purchase Warrant are to be issued to a person or persons other than the Warrantholder, the Warrantholder must pay to SMTC Canada or to the Trustee on its behalf an amount equal to all exigible transfer taxes or other government charges, and SMTC Canada will not be required to issue or deliver any certificates representing any such Exchangeable Shares unless or until such amount has been so paid or the Warrantholder has established to the satisfaction of SMTC Canada that such taxes and charges have been paid or that no such taxes or charges are owing.

4.3 No Fractional Exchangeable Shares

SMTC Canada shall not be required to issue fractional Exchangeable Shares upon the exercise of Share Purchase Warrants. To the extent that a holder of Share Purchase Warrants would otherwise have been entitled to receive, on the exercise of Share Purchase Warrants, a fraction of an Exchangeable Share, such right may only be exercised in respect of such fraction in connection with another Share Purchase Warrant or Share Purchase Warrants which in the aggregate entitle the holder to receive a whole number of Exchangeable Shares. If a Warrantholder is not able to combine Share Purchase Warrants so as to be entitled to acquire a whole number of Exchangeable Shares, the number of Exchangeable Shares which such Warrantholder is entitled to receive upon exercise of Share Purchase Warrants shall be rounded up to the nearest whole number.

4.4 Recording

The Trustee will record particulars of each Share Purchase Warrant exercised which will include the name and address of each person to whom Exchangeable Shares are thereby issued, the number of Exchangeable Shares so issued and the Exercise Date in respect thereof. Within five business days after each Exercise Date the Trustee will provide such particulars in writing to SMTC Canada.

4.5 Securities Restrictions

- (1) No Exchangeable Shares will be issued on exercise of any Share Purchase Warrant, if in the opinion of counsel to SMTC Canada (delivered to the Trustee prior to issue), the issuance of such Exchangeable Shares would constitute a violation of the securities laws of any applicable jurisdiction or require SMTC Canada to qualify the Exchangeable Shares issuable upon exercise of the Share Purchase Warrants for distribution in any jurisdiction other than the Qualifying Jurisdictions. Without limiting the generality of the previous sentence, if any Share Purchase Warrant is exercised before the Prospectus Qualification Date, the certificates representing Exchangeable Shares thereby issued will bear such legends as may, in the opinion of counsel to SMTC Canada, be necessary or advisable in order to avoid a violation of any applicable securities laws of any province or territory of Canada, of the United States of America or any jurisdiction or to comply with the requirements of any stock exchange on which the Exchangeable Shares are then listed, provided that if, at any time, in the opinion of counsel to SMTC Canada, such legends are no longer necessary or advisable in order to avoid a violation of any such

laws or requirements, or the holder of any such legended certificate, at his expense, provides SMTC Canada with evidence reasonably satisfactory in form and substance to SMTC Canada (which may include an opinion of counsel reasonably satisfactory to SMTC Canada) to the effect that such holder is entitled to sell or otherwise transfer such Exchangeable Shares in a transaction in which such legends are not required, such legended certificate may thereafter be surrendered to SMTC Canada in exchange for a certificate which does not bear such legends.

ARTICLE 5
ADJUSTMENTS

5.1 Definitions

- (1) The rights of the holder of any Share Purchase Warrant, including the number of Exchangeable Shares issuable upon the exercise of such Share Purchase Warrant and the Exercise Price payable on exercise of such Share Purchase Warrant, will be adjusted from time to time in the events and in the manner provided in, and in accordance with this Article 5 and for such purposes:
- (a) “**Adjustment Period**” means in respect of each Share Purchase Warrant, the period commencing on the Issue Date thereof and ending at the Expiry Time;
 - (b) “**Current Market Price**”, on any date, means the average, during the period of 20 consecutive Trading Days ending on the second Trading Day before such date, of the average of the high and low prices per share at which the Exchangeable Shares have traded on such stock exchange on which the Exchangeable Shares are listed as may be selected for that purpose by the directors or, if the Exchangeable Shares have not been listed on a stock exchange for such number of Trading Days, then such lesser number of Trading Days as the Exchangeable Shares have been so listed, or, if the Exchangeable Shares are not listed on any stock exchange, then in the over-the-counter market as reported by such other stock exchange or as quoted by the most commonly quoted or carried source of quotations for shares traded in the over-the-counter market, provided that if, on any such Trading Day, there are no such reported or quoted high and low prices, the average of the closing bid and asked prices per share for board lots of the Exchangeable Shares reported by such stock exchange or as quoted by the most commonly quoted or carried source of quotations for shares traded in the over-the-counter market, for such Trading Day shall be utilized in computing such average, and provided further that if the Exchangeable Shares are not listed on any stock exchange or traded in any over-the-counter market, then the Current Market Price of the Exchangeable Shares shall be determined by the directors;
 - (c) “**Exchange Rate**” means the rate at which Exchangeable Shares are issuable upon the exercise of any Share Purchase Warrant, which rate, subject to adjustment in accordance with this Indenture, is one Exchangeable Share for each Share Purchase Warrant as of the Effective Date;
 - (d) “**Trading Day**”, with respect to any stock exchange or over-the-counter market, means a day on which shares may be traded through the facilities of such stock

exchange or in such over-the-counter market, and, otherwise, means a day on which shares may be traded through the facilities of the principal stock exchange on which the Exchangeable Shares are listed (or, if the Exchangeable Shares are not listed on any stock exchange, then in the over-the-counter market).

5.2 Adjustment of Exchange Rate

- (1) The Exchange Rate in effect at any date will be subject to adjustment from time to time and whenever at any time during the Adjustment Period, SMTC Canada shall (i) subdivide or redivide the outstanding Exchangeable Shares into a greater number of Exchangeable Shares, (ii) consolidate, combine or reduce the outstanding Exchangeable Shares into a lesser number of Exchangeable Shares, or (iii) issue Exchangeable Shares or other securities of SMTC Canada that are convertible into Exchangeable Shares (“convertible securities”) to all or substantially all of the holders of Exchangeable Shares or convertible securities (as the case may be) by way of a stock dividend or other distribution. In any such event, the Exchange Rate will, on the effective date of such event, be adjusted so that it will equal the rate determined by multiplying the Exchange Rate in effect immediately prior to such date by a fraction, of which the denominator shall be the total number of Exchangeable Shares outstanding on such date before giving effect to such event, and of which the numerator shall be the total number of Exchangeable Shares outstanding on such date after giving effect to such event. Such adjustment will be made successively whenever any such event shall occur and any such issue of Exchangeable Shares or convertible securities by way of a stock dividend is deemed to have occurred on the record date for the stock dividend for the purpose of calculating the number of outstanding Exchangeable Shares under this Subsection 5.2(1). To the extent that this Subsection 5.2(1) has become operative because of an issue of convertible securities referred to in clause (iii) above, the number of Exchangeable Shares obtainable under each Share Purchase Warrant shall be readjusted based on the number of Exchangeable Shares issuable upon conversion or exchange of such convertible or exchangeable securities.
- (2) If and whenever at any time during the Adjustment Period, there is (i) any reclassification of the Exchangeable Shares at any time outstanding, any change of the Exchangeable Shares into other shares or any other capital reorganization of SMTC Canada (other than as described in Subsection 5.2(1)), (ii) any consolidation, amalgamation, arrangement, merger or other form of business combination of SMTC Canada with or into any other corporation resulting in any reclassification of the outstanding Exchangeable Shares, any change of the Exchangeable Shares into other shares or any other capital reorganization of SMTC Canada, or (iii) any sale, lease, exchange or transfer of the undertaking or assets of SMTC Canada as an entirety or substantially as an entirety to another corporation or entity, then, in each such event, each holder of any Share Purchase Warrant which is thereafter exercised will be entitled to receive, and shall accept, in lieu of the number of Exchangeable Shares to which such holder was theretofore entitled upon such exercise, the kind and number or amount of shares or other securities or property which such holder would have been entitled to receive as a result of such event if, on the effective date thereof, such holder had been the registered holder of the number of Exchangeable Shares to which such holder was theretofore entitled upon such exercise. If necessary as a result of any such event, appropriate adjustments will be made

in the application of the provisions set forth in this Article 5 with respect to the rights and interests thereafter of the holders of Share Purchase Warrants to the end that the provisions set forth in this Article 5 will thereafter correspondingly be made applicable, as nearly as may reasonably be possible, in the relation to any shares or other securities or property thereafter deliverable upon the exercise or deemed exercise of any Share Purchase Warrant. Any such adjustments will be made by and set forth in an indenture supplemental hereto approved by the directors and shall for all purposes be conclusively deemed to be an appropriate adjustment.

5.3 Adjustment of Exercise Price

- (1) The Exercise Price in effect at any date will be subject to adjustment from time to time if and whenever at any time during the Adjustment Period, SMTC Canada shall (i) subdivide or redivide the outstanding Exchangeable Shares into a greater number of Exchangeable Shares, (ii) consolidate, combine or reduce the outstanding Exchangeable Shares into a lesser number of Exchangeable Shares, or (iii) issue Exchangeable Shares to all or substantially all of the holders of Exchangeable Shares by way of a stock dividend or other distribution. In any such event, the Exercise Price will, on the effective date of such event, be adjusted so that it will equal the price determined by multiplying the Exercise Price in effect immediately prior to such date by a fraction, the numerator of which shall be the total number of Exchangeable Shares outstanding on such date before giving effect to such event and the denominator of which shall be the total number of Exchangeable Shares outstanding immediately after giving effect to such event. Such adjustment will be made successively whenever any such event shall occur.
- (2) If and whenever at any time during the Adjustment Period, SMTC Canada shall fix a record date for the issue of rights, options or warrants to all or substantially all of the holders of Exchangeable Shares entitling the holders thereof, within a period expiring not more than 45 days after the date of the issue thereof, to subscribe for or purchase Exchangeable Shares (or securities convertible into or exchangeable for Exchangeable Shares) at a price per share (or having a conversion or exchange price per share) less than 95% of the Current Market Price on the earlier of such record date and the date on which SMTC Canada announces its intention to make such issuance, then, in each such case, the Exercise Price will be adjusted immediately after such record date so that it will equal the price determined by multiplying the Exercise Price in effect on such record date by a fraction, of which the numerator shall be the total number of Exchangeable Shares outstanding on such record date plus a number of Exchangeable Shares equal to the number arrived at by dividing the aggregate price of the total number of additional Exchangeable Shares so offered for subscription or purchase (or the aggregate conversion or exchange price of the convertible or exchangeable securities so offered) by such Current Market Price, and of which the denominator shall be the total number of Exchangeable Shares outstanding on such record date plus the total number of additional Exchangeable Shares so offered for subscription or purchase (or into or for which the convertible or exchangeable securities so offered are convertible or exchangeable). If by the terms of such rights, options or warrants, there is more than one purchase, conversion or exchange price per Exchangeable Share, the aggregate price of the total number of additional Exchangeable Shares offered for subscription or purchase, or the additional conversion or exchange price of the convertible or exchangeable securities so offered,

shall be calculated for the purposes of the adjustment on the basis of the lowest purchase, conversion or exchange price per Exchangeable Share, as the case may be. Any Exchangeable Shares owned by or held for the account of SMTC Canada or any affiliate or any subsidiary of SMTC Canada shall be deemed not to be outstanding for the purpose of any such computation. Such adjustment will be made successively whenever such a record date is fixed, provided that if two or more such record dates or record dates referred to in Subsection 5.3(3) are fixed within a period of 25 Trading Days, such adjustment will be made successively as if each of such record dates occurred on the earliest of such record dates. To the extent that any such rights, options or warrants are not so issued or any such rights, options or warrants are not exercised prior to the expiration thereof, the Exercise Price will then be readjusted to the Exercise Price which would then be in effect if such record date had not been fixed or to the Exercise Price which would then be in effect based on the number of Exchangeable Shares (or securities convertible into or exchangeable for Exchangeable Shares) actually issued upon the exercise of such rights, options or warrants, as the case may be.

- (3) If and whenever at any time during the Adjustment Period, SMTC Canada shall fix a record date for the making of a distribution to all or substantially all of the holders of Exchangeable Shares of:
- (a) shares of any class other than Exchangeable Shares whether of SMTC Canada or any other corporation;
 - (b) rights, options or warrants (other than rights, options or warrants exercisable by the holders thereof within a period expiring not more than 45 days after the date of issue thereof);
 - (c) evidences of indebtedness; or
 - (d) cash, securities or other property or assets;

then, in each such case, the Exercise Price will be adjusted immediately after such record date so that it will equal the price determined by multiplying the Exercise Price in effect on such record date by a fraction, of which the numerator shall be the total number of Exchangeable Shares outstanding on such record date multiplied by the Current Market Price on the earlier of such record date and the date on which SMTC Canada announces its intention to make such distribution, less the aggregate fair market value (as determined by the directors at the time such distribution is authorized) of such shares or rights, options or warrants or evidences of indebtedness or cash, securities or other property or assets so distributed, and of which the denominator shall be the total number of Exchangeable Shares outstanding on such record date multiplied by such Current Market Price. Any Exchangeable Shares owned by or held for the account of SMTC Canada or any subsidiary of SMTC Canada shall be deemed not to be outstanding for the purpose of such computation. Such adjustment will be made successively whenever such a record date is fixed, provided that if two or more such record dates or record dates referred to in paragraph 5.3(3) are fixed within a period of 25 Trading Days, such adjustment will be made successively as if each of such record dates occurred on the earliest of such record dates. To the extent that such distribution is not so made or to the extent that any such rights, options or warrants so distributed are not exercised prior to the expiration thereof, the Exercise Price will then be readjusted to the Exercise Price which would then be in effect if

such record date had not been fixed or to the Exercise Price which would then be in effect based upon such shares or rights, options or warrants or evidences of indebtedness or cash, securities or other property or assets actually distributed or based upon the number or amount of securities or the property or assets actually issued or distributed upon the exercise of such rights, options or Share Purchase Warrants, as the case may be.

5.4 Adjustment Rules

- (1) In any case in which this Article 5 shall require that an adjustment shall become effective immediately after a record date for or effective date of an event referred to herein, SMTC Canada may defer, until the occurrence and consummation of such event, issuing to the holder of any Share Purchase Warrant exercised after such record date or effective date and before the occurrence and consummation of such event the additional Exchangeable Shares or other securities or property issuable upon such exercise by reason of the adjustment required by such event, provided, however, that SMTC Canada will deliver to such holder, as soon as reasonably practicable after such record date or effective dates, as applicable, an appropriate instrument evidencing such holder's right to receive such additional Exchangeable Shares or other securities or property upon the occurrence and consummation of such event and the right to receive any dividend or other distribution in respect of such additional Exchangeable Shares or other securities or property declared in favour of the holders of record of Exchangeable Shares or of such other securities or property on or after the Exercise Date, or such later date as such holder would, but for the provisions of this Section 5.4, have become the holder of record of such additional Exchangeable Shares, warrants or of such other securities or property pursuant to Subsection 4.2(1).
- (2) If SMTC Canada shall set a record date to determine the holders of the securities for the purpose of entitling them to receive any dividend or distribution or any subscription or exercise rights and shall, thereafter and before the distribution to such securityholders of any such dividend, distribution or subscription or exercise rights, legally abandon its plan to pay or deliver such dividend, distribution or subscription or exercise rights, then no adjustment in the number of Exchangeable Shares obtainable upon exercise of any Share Purchase Warrant shall be required by reason of the setting of such record date.
- (3) The adjustments provided for in this Article 5 are cumulative, shall, in the case of any adjustment to the Exchange Rate or the Exercise Price, be computed to the nearest one one-hundredth of an Exchangeable Share and will apply (without duplication) to successive subdivisions, consolidations, distributions, issuances or other events resulting in any adjustment under the provisions of this Article 5, provided that, notwithstanding any other provision of this Section 5.4, no adjustment of the Exchange Rate or the Exercise Price will be required (i) unless such adjustment would require an increase or decrease of at least 1% in the Exchange Rate or the Exercise Price then in effect (provided, however, that any adjustment which by reason of this Subsection 5.4(3) is not required to be made will be carried forward and taken into account in any subsequent adjustment), or (ii) in respect of any Exchangeable Shares issuable or issued pursuant to any option or share purchase plan of SMTC Canada or (iii) in respect of any Exchangeable Shares issuable or issued pursuant to the Special Warrants or upon exercise of the Share Purchase Warrants.

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- (4) If any question arises with respect to the adjustments provided in this Article 5, such question shall be conclusively determined by SMTC Canada's auditors or, if they are unable or unwilling to act, by such firm of chartered accountants as is appointed by SMTC Canada and acceptable to the Trustee. Such accountants shall have access to all necessary records of SMTC Canada and such determination shall be binding upon SMTC Canada, the Trustee and the Warrantholders.
 - (5) All shares of any class or other securities or property which a Warrantholder is at the time in question entitled to receive on the full exercise of his Share Purchase Warrants, whether or not as a result of adjustments made pursuant to this Article 5 shall, for the purposes of the interpretation of this Indenture, be deemed to be Exchangeable Shares which such Warrantholder is entitled to subscribe for pursuant to the exercise of such Share Purchase Warrants.
 - (6) If and whenever at any time during the Adjustment Period, SMTC Canada shall take any action affecting or relating to the Exchangeable Shares, other than any action described in this Article 5, which in the opinion of the directors, after consultation with the Trustee, would adversely affect the rights of any holders of Share Purchase Warrants, the Exchange Rate and/or the Exercise Price will be adjusted by the directors in such manner, if any, and at such time, as the directors, may in their sole discretion determine to be equitable in the circumstances to such holders.
 - (7) As a condition precedent to the taking of any action which would require an adjustment in any of the rights under the Share Purchase Warrants, SMTC Canada will take any action which may, in the opinion of counsel to SMTC Canada, be necessary in order that SMTC Canada, or any successor to SMTC Canada or successor to the undertaking or assets of SMTC Canada, will be obligated to and may validly and legally issue all the Exchangeable Shares or other securities or property which the holders of Share Purchase Warrants would be entitled to receive thereafter on the exercise thereof in accordance with the provisions hereof.
 - (8) At least seven days before the earlier of the effective date of or record date for any event referred to in this Article 5 that requires or might require an adjustment in any of the rights under the Share Purchase Warrants or such longer notice period as may be applicable in respect of notices required to be delivered by SMTC Canada to holders of its Exchangeable Shares, SMTC Canada will:
 - (a) file with the Trustee a certificate of SMTC Canada specifying the particulars of such event and, to the extent determinable, any adjustment required and the computation of such adjustment; and
 - (b) give notice to the Warrantholders of the particulars of such event and, to the extent determinable, any adjustment required and a description of how such adjustment will be calculated.

Such notice need only set forth such particulars as have been determined at the date such notice is given. If any adjustment for which such notice is given is not then determinable, promptly after such adjustment is determinable SMTC Canada will:

- (c) file with the Trustee a certificate of SMTC Canada showing the computation of such adjustment; and
- (d) give notice to the Warrantholders of such adjustment.

Where a notice pursuant to this Subsection 5.4(8) has been given, the Trustee shall be entitled to act and rely on any adjustment calculation of SMTC Canada or SMTC Canada's auditors.

- (9) Subject to Subsection 10.2, the Trustee shall not:
- (a) at any time be under any duty or responsibility to any Warrantholder to determine whether any facts exist which may require any adjustment in the Exchange Rate or the Exercise Price, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed in making same;
 - (b) be accountable with respect to the validity or value (or the kind or amount) of any Exchangeable Shares or of any shares or other securities or property which may at any time be issued or delivered upon the exercise or deemed exercise of any Share Purchase Warrant; or
 - (c) be responsible for any failure of SMTC Canada to make any cash payment or to issue, transfer or deliver Exchangeable Shares or certificates representing Exchangeable Shares upon the surrender of any Share Purchase Warrant for the purpose of exercise, or to comply with any of the covenants contained in this Article 5.

ARTICLE 6 **COVENANTS**

6.1 General Covenants

SMTC Canada represents, warrants, covenants and agrees with the Trustee that so long as any Share Purchase Warrant remains outstanding and may be exercised:

- (a) SMTC Canada is duly authorized to create and issue the Share Purchase Warrants and that the Share Purchase Warrant Certificates, when issued and countersigned as herein provided, will be valid and enforceable against SMTC Canada;
- (b) SMTC Canada will at all times maintain its corporate existence, carry on and conduct its business in a proper and business-like manner, keep or cause to be kept proper books of account in accordance with generally accepted accounting practice and SMTC Canada will send to Warrantholders copies of all financial statements furnished to its shareholders during the term of this Indenture;
- (c) SMTC Canada will reserve for the purpose and keep available sufficient unissued Exchangeable Shares to enable it to satisfy its obligations on the exercise of the Share Purchase Warrants;

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- (d) until the expiry date of the Special Warrants, SMTC Canada will not amend this Indenture without the approval of the holders of Special Warrants then outstanding, such approval to be given by an Extraordinary Resolution of the holders of Special Warrants then outstanding pursuant to the Special Warrant Indenture, unless such amendment would otherwise be permitted under Article 9 hereof;
 - (e) SMTC Canada will cause the Exchangeable Shares from time to time issued pursuant to the exercise of the Share Purchase Warrants, and the certificates representing such Exchangeable Shares, to be duly issued and delivered in accordance with the Share Purchase Warrants and the terms hereof;
 - (f) all Exchangeable Shares that are issued or created on exercise of the Share Purchase Warrants will be fully paid and non-assessable;
 - (g) SMTC Canada will cause the Trustee to keep open on business days the registers of holders and registers of transfers referred to in Section 3.1 and will not take any action or omit to take any action which would have the effect of preventing the Warrantheolders from exercising any of the Share Purchase Warrants or receiving any of the Exchangeable Shares upon such exercise;
 - (h) SMTC Canada will make all requisite filings, including filings with appropriate Securities Commissions, in connection with the exercise of the Share Purchase Warrants and issue of the Exchangeable Shares;
 - (i) generally, SMTC Canada will well and truly perform and carry out all acts and things to be done by it as provided in this Indenture and will not take any action which might reasonably be expected to deprive the Warrantheolders of their rights to acquire Exchangeable Shares upon the exercise of the Share Purchase Warrants; and
 - (j) SMTC Canada shall use its best efforts to prepare, file and receive a receipt from the Securities Commissions for a prospectus qualifying the distribution of the Exchangeable Shares and the Share Purchase Warrants issuable on exercise of the Special Warrants and the Exchangeable Shares issuable on exercise of the Share Purchase Warrants and shall provide the Warrantheolders with all documents customarily provided in connection with a distribution under a prospectus, provided that if one or more securities regulatory authorities in the Qualifying Jurisdictions object to issuing a receipt for such prospectus the obligation of the Corporation to obtain a receipt for such Prospectus shall be on a best efforts basis.
 - (k) SMTC Canada will refuse to register any transfer of the Share Purchase Warrants, any exercise of the Share Purchase Warrants, any transfer of the Exchangeable Shares or any exchange of the Exchangeable Shares not made in accordance with Regulation S of the Securities Act, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration under the Securities Act.

6.2 Trustee's Remuneration and Expenses

SMTC Canada will pay to the Trustee from time to time reasonable remuneration for its services hereunder and will, on the Trustee's request, pay to or reimburse the Trustee for all reasonable documented expenses, disbursements and advances made or incurred by the Trustee in the administration or execution of the trusts hereof (including reasonable documented compensation and disbursements of its counsel and other advisers and assistants not regularly in its employ), both before any default hereunder and thereafter until all duties of the Trustee hereunder have been finally and fully performed, except any such expense, disbursement or advance that arises out of or results from negligence, wilful misconduct or bad faith of the Trustee or of persons for whom the Trustee is responsible.

6.3 Performance of Covenants by Trustee

If the Trustee is made aware of the failure of SMTC Canada to perform any of its obligations under this Indenture, the Trustee may notify the Warrantheolders of such failure or may itself perform any of such obligations capable of being performed by it, but will not be bound to do so or to notify the Warrantheolders that it is so doing. All sums expended or advanced by the Trustee in so doing will be repayable as provided in Section 6.2. No such performance, expenditure or advance by the Trustee will relieve SMTC Canada of any default or of its continuing obligations hereunder.

ARTICLE 7 **ENFORCEMENT**

7.1 Warrantheolders May Not Sue

No holder of any Share Purchase Warrant shall have any right to institute any action or proceeding against SMTC Canada in relation to the Share Purchase Warrants, unless:

- (a) such holder shall previously have given to the Trustee written notice of the nature of such action or proceeding;
- (b) the holders of at least 10% of the Share Purchase Warrants shall have made written request to the Trustee and shall have afforded to it reasonable opportunities either itself to proceed to exercise the powers hereinbefore granted or to institute an action, suit or proceeding in its own name for such purpose;
- (c) such Warrantheolders shall have offered to the Trustee, when so requested by the Trustee, sufficient funds and security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and
- (d) the Trustee shall have failed to act within a reasonable time after such notification, request and offer of indemnity; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to any such proceeding or for any other remedy hereunder by or on behalf of the holder of any Share Purchase Warrants.

7.2 Legal Proceedings by Warranholders

Subject to Subsection 8.11(g), all or any of the rights conferred upon a Warranholder by the terms of the Share Purchase Warrant certificates evidencing the Share Purchase Warrants held by such Warranholder or this Indenture, or both, may be enforced by the Warranholder by appropriate legal proceedings, but without prejudice to the right which is hereby conferred upon the Trustee under Section 7.3.

7.3 Trustee May Institute All Proceedings

- (1) The Trustee shall also have the power at any time and from time to time to institute and to maintain such suits and proceedings as it may be advised shall be necessary or advisable to preserve and protect its interests and the interests of the Warranholders.
- (2) Any such suit or proceeding instituted by the Trustee may be brought in the name of the Trustee as trustee of an express trust, and any recovery of judgment shall be for the rateable benefit of the holders of the Share Purchase Warrants subject to the provisions of this Indenture. In any proceeding brought by the Trustee (and also any proceeding in which a declaratory judgment of a court may be sought as to the interpretation or construction of any provision of this Indenture, to which the Trustee shall be a party) the Trustee shall be held to represent all the holders of the Share Purchase Warrants, and it shall not be necessary to make any holders of the Share Purchase Warrants parties to any such proceeding.

7.4 Immunity of Shareholders, etc.

Subject to the rights available at law or in express provisions of any contract or other instrument, including certain limited rights of action under the Final Prospectus, the Trustee and, by the acceptance of the Share Purchase Warrant Certificates and as part of the consideration for the issue of the Share Purchase Warrants, the Warranholders, hereby waive and release any right, cause of action or remedy now or hereafter existing in any jurisdiction against any person in his capacity as an incorporator or any past, present or future shareholder or other securityholder, director, officer, employee or agent of SMTC Canada for the creation and issue of the Exchangeable Shares pursuant to any Share Purchase Warrant or on any covenant, agreement, representation or warranty by SMTC Canada herein or in the Share Purchase Warrant Certificates.

7.5 Limitation of Liability

The obligations hereunder are not personally binding upon, nor shall resort hereunder be had to, the directors or shareholders of SMTC Canada or any of the past, present or future directors or shareholders of SMTC Canada or any of the past, present or future officers, employees or agents of SMTC Canada, but only the property of SMTC Canada or any successor corporation shall be bound in respect hereof.

ARTICLE 8
MEETINGS OF WARRANTHOLDERS

8.1 Right to Convene Meetings

- (1) The Trustee may at any time and from time to time convene a meeting of the Warrantholders, and will do so on receipt of a written request of SMTC Canada or a Warrantholders' Request and on being funded and indemnified to its reasonable satisfaction by SMTC Canada or by one or more of the Warrantholders signing such Warrantholders' Request against the costs which it may incur in connection with calling and holding the meeting.
- (2) If the Trustee fails, within five business days after receipt of such written request of SMTC Canada or Warrantholders' Request and indemnity, to give notice convening a meeting, SMTC Canada or any of such Warrantholders, as the case may be, may convene such meeting.
- (3) Every such meeting will be held in Toronto, Ontario or such other place as is approved or determined by the Trustee and SMTC Canada. However, if the meeting is convened by SMTC Canada or a Warrantholder as a result of the Trustee's failure or refusal to convene such meeting, the meeting must be held in Toronto.

8.2 Notice

- (1) At least 10 business days notice of any meeting must be given to the Warrantholders, to the Trustee (unless the meeting has been called by it) and to SMTC Canada (unless the meeting has been called by it).
- (2) The notice to be delivered in accordance with Section 11.2 must state the time when and the place where the meeting is to be held and describe (with sufficient detail to permit a Warrantholder to make a reasoned decision with respect to the matters for consideration) the general nature of the business to be transacted thereat, but it will not be necessary for the notice to set out the terms of any resolution to be proposed or any of the provisions of this Article 8.

8.3 Chairman

Some person (who need not be a Warrantholder) designated in writing by SMTC Canada will be chairman of the meeting or, if no person is so designated or the person so designated is not present within 15 minutes after the time fixed for the holding of the meeting, the Warrantholders present in person or by proxy may choose some person present to be chairman.

8.4 Quorum

- (1) Subject to the provisions of Section 8.12, at any meeting of Warrantholders a quorum will consist of two or more Warrantholders present in person or by proxy at the commencement of business holding in the aggregate not less than 20% of the total number of Share Purchase Warrants then outstanding provided however that in the event there are two or more Warrantholders, at least two persons entitled to vote there at are personally present.

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- (2) If a quorum of Warranholders is not present within 30 minutes after the time fixed for holding a meeting, the meeting, if summoned by Warranholders or on a Warranholders' Request, will be dissolved, but, subject to Section 8.12, in any other case will be adjourned to the seventh calendar day following the meeting, at the same time of day and place and no notice of the adjournment need be given.
 - (3) At the adjourned meeting the Warranholders present in person or by proxy will form a quorum and may transact any business for which the meeting was originally convened notwithstanding the number of Share Purchase Warrants that they hold.

8.5 Power to Adjourn

The chairman of a meeting at which a quorum of the Warranholders is present may, with the consent of the meeting, adjourn the meeting, and no notice of such adjournment need be given except as the meeting prescribes.

8.6 Show of Hands

Every question submitted to a meeting, other than an Extraordinary Resolution, will be decided in the first place by a majority of the votes given on a show of hands and, unless a poll is duly demanded as herein provided, a declaration by the chairman that a resolution has been carried or carried unanimously or by a particular majority or lost or not carried by a particular majority will be conclusive evidence of the fact.

8.7 Poll

- (1) On every Extraordinary Resolution, and on every other question submitted to a meeting on which a poll is directed by the chairman or requested by one or more Warranholders acting in person or by proxy, a poll will be taken in such manner as the chairman directs.
- (2) Questions other than those required to be determined by Extraordinary Resolution will be decided by a majority of the votes cast on the poll.

8.8 Voting

- (1) On a show of hands each person present and entitled to vote, whether as a Warranholder or as proxy for one or more absent Warranholders, or both, will have one vote, and on a poll each Warranholder present in person or represented by a proxy duly appointed by instrument in writing will be entitled to one vote in respect of each Share Purchase Warrant held by such holder.
- (2) A proxy need not be a Warranholder.

8.9 Regulations

- (1) The Trustee, or SMTC Canada with the approval of the Trustee, may from time to time make or vary such regulations as it thinks fit:
 - (a) for the issue of voting certificates by any bank, trust company or other depository satisfactory to the Trustee stating that the Share Purchase Warrants specified therein have been deposited with it by a named person and will remain on deposit until a specified date, which voting certificates will entitle the persons named therein to be present and vote at any meeting of Warranholders and at any adjournment thereof held before that date or to appoint a proxy or proxies to represent them and vote for them at any such meeting and at any adjournment thereof held before that date in the same manner and with the same effect as though the persons so named in such voting certificates were the actual holders of the Share Purchase Warrants specified therein;
 - (b) for the form of instrument appointing a proxy, the manner in which it must be executed, and verification of the authority of a person who executes it on behalf of a Warranholder;
 - (c) governing the places at which and the times by which voting certificates or instruments appointing proxies must be deposited;
 - (d) for the deposit of voting certificates or instruments appointing proxies at some approved place or places other than the place at which the meeting is to be held and enabling particulars of such voting certificates or instruments appointing proxies to be sent by mail, cable, telex or other means of prepaid, transmitted, recorded communication before the meeting to SMTC Canada or to the Trustee at the place where the meeting is to be held and for voting pursuant to instruments appointing proxies so deposited as though the instruments themselves were produced at the meeting; and
 - (e) generally for the calling of meetings of Warranholders and the conduct of business thereof.
- (2) Any regulations so made will be binding and effective and the votes given in accordance therewith will be valid and will be counted.
- (3) Except as such regulations provide, the only persons who will be recognized at a meeting as the holders of any Share Purchase Warrants, or as entitled to vote or, subject to Section 8.10, be present at the meeting in respect thereof, will be the registered holders of such Share Purchase Warrants or their duly appointed proxies.

8.10 SMTC Canada and Trustee may be Represented

SMTC Canada and the Trustee by their respective employees, officers or directors, and the counsel of SMTC Canada and the Trustee may attend any meeting of Warranholders, but will have no vote as such.

8.11 Powers Exercisable by Extraordinary Resolution

In addition to all other powers conferred on them by the other provisions of this Indenture, by the Share Purchase Warrants or by law, the Warranholders at a meeting will have the power, exercisable from time to time by Extraordinary Resolution:

(a) subject to the agreement of SMTC Canada to assent to or sanction any amendment, modification, abrogation, alteration, compromise or arrangement of any right of the Warranholders or of the Trustee in its capacity as warrant trustee hereunder, subject to the Trustee's approval or on behalf of the Warranholders against SMTC Canada, whether such right arises under this Indenture or otherwise and to authorize the Trustee to concur in and execute any indenture supplemental hereto in connection therewith;

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- (b) to amend, alter or repeal any Extraordinary Resolution previously passed;
 - (c) to direct or authorize the Trustee to enforce any obligation of SMTC Canada under this Indenture or to enforce any right of the Warranholders in any manner specified in the Extraordinary Resolution;
 - (d) to refrain from enforcing any obligation or right referred to in paragraph (c);
 - (e) to waive and direct the Trustee to waive any default by SMTC Canada in complying with any provision of this Indenture, either unconditionally or on any condition specified in the Extraordinary Resolution;
 - (f) to appoint a committee with power and authority to exercise, and to direct the Trustee to exercise, on behalf of the Warranholders, such of the powers of the Warranholders as are exercisable by Extraordinary Resolution;
 - (g) to restrain any Warranholder from taking or instituting any suit, action or proceeding against SMTC Canada for the enforcement of any obligation of SMTC Canada under this Indenture or to enforce any right of the Warranholders;
 - (h) to direct any Warranholder who, as such, has brought any suit, action or proceeding, to stay or discontinue or otherwise deal therewith on payment of the costs, charges and expenses reasonably and properly incurred by him in connection therewith;
 - (i) from time to time and at any time to remove the Trustee and appoint a successor; and
 - (j) to assent to any compromise or arrangement with any creditor or creditors or any class or classes of creditors, whether secured or otherwise, and with holders of any shares or other securities of SMTC Canada.

8.12 Meaning of “Extraordinary Resolution”

- (1) The expression “**Extraordinary Resolution**” when used in this Indenture means, subject to the provisions of this Section 8.12 and of Sections 8.15 and 8.16, a resolution proposed at a meeting of Warranholders duly convened for that purpose and held in accordance with the provisions of this Article at which there are present in person or by proxy Warranholders holding in the aggregate not less than 40% of the total number of Share Purchase Warrants then outstanding and passed by the affirmative votes of Warranholders who hold in the aggregate not less than 66 ²/₃% of the total number of Share Purchase Warrants then outstanding represented at the meeting and voted on the poll on the resolution.

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- (2) If, at a meeting called for the purpose of passing an Extraordinary Resolution, the quorum required by Subsection 8.12(1) is not present within 30 minutes after the time appointed for the meeting, the meeting, if convened by Warranholders or on a Warranholders' Request, will be dissolved, but in any other case will stand adjourned to such day, being not less than seven calendar days or more than 30 calendar days later, and to such place and time, as is appointed by the chairman.
 - (3) Not less than seven calendar days' notice must be given to the Warranholders of the time and place of such adjourned meeting.
 - (4) The notice must state that at the adjourned meeting the Warranholders present in person or by proxy will form a quorum but it will not be necessary to set forth the purposes for which the meeting was originally called or any other particulars.
 - (5) At the adjourned meeting the Warranholders present in person or by proxy will form a quorum and may transact any business for which the meeting was originally convened, and a resolution proposed at such adjourned meeting and passed by the requisite vote as provided in Subsection 8.12(1) will be an Extraordinary Resolution within the meaning of this Indenture notwithstanding that Warranholders holding in the aggregate of not less than 40% of the total number of Share Purchase Warrants outstanding may not be present.
 - (6) Votes on an Extraordinary Resolution must always be given on a poll and no demand for a poll on an Extraordinary Resolution will be necessary.

8.13 Powers Cumulative

Any one or more of the powers, and any combination of the powers, in this Indenture stated to be exercisable by the Warranholders by Extraordinary Resolution or otherwise, may be exercised from time to time, and the exercise of any one or more of such powers or any combination of such powers from time to time will not prevent the Warranholders from exercising such power or powers or combination of powers thereafter from time to time.

8.14 Minutes

Minutes of all resolutions passed and proceedings taken at every meeting of the Warranholders will be made and duly entered in books from time to time provided for such purpose by the Trustee at the expense of SMTC Canada, and any such minutes, if signed by the chairman of the meeting at which such resolutions were passed or such proceedings were taken, will be prima facie evidence of the matters therein stated, and, until the contrary is proved, every such meeting in respect of the proceedings of which minutes have been so made, entered and signed will be deemed to have been duly convened and held, and all resolutions passed and proceedings taken thereat to have been duly passed and taken.

SMTC Canada shall be provided with, in a timely manner and at its own expense, copies of any and all resolutions passed at any meeting of the Warranholders pursuant to this Section 8.14.

8.15 Instruments in Writing

Any action that may be taken and any power that may be exercised by Warranholders at a meeting held as provided in this Article 8 by way of an Extraordinary Resolution may also be taken and exercised by Warranholders who hold in the aggregate not less than 66²/₃% of the total number of Share Purchase Warrants at the time outstanding, by their signing, each in person or by attorney duly appointed in writing, an instrument in writing in one or more counterparts, and the expression “Extraordinary Resolution” when used in this Indenture includes a resolution embodied in an instrument so signed.

SMTC Canada shall be provided with, in a timely manner and at its own expense, copies of any and all instruments in writing signed by the Warranholders pursuant to this Section 8.15.

8.16 Binding Effect of Resolutions

Every resolution and every Extraordinary Resolution passed in accordance with the provisions of this Article at a meeting of Warranholders will be binding on all Warranholders, whether present at or absent from the meeting and whether voting for or against the resolution or abstaining, and every instrument in writing signed by Warranholders in accordance with Section 8.15 will be binding on all Warranholders, whether signatories thereto or not, and every Warranholder and the Trustee (subject to the provisions for its indemnity herein contained) will be bound to give effect accordingly to every such resolution and instrument in writing.

8.17 Holdings by SMTC Canada and Subsidiaries Disregarded

In determining whether Warranholders holding the required total number of Share Purchase Warrants are present in person or by proxy for the purpose of constituting a quorum, or have voted or consented to a resolution, Extraordinary Resolution, consent, waiver, Warranholders’ Request or other action under this Indenture, a Share Purchase Warrant held by SMTC Canada or by any Affiliate of SMTC Canada will be deemed to be not outstanding. Upon a request in writing by the Trustee, SMTC Canada shall provide a certificate of SMTC Canada detailing the registration and denomination of any Share Purchase Warrants held by SMTC Canada or by any affiliate of SMTC Canada.

ARTICLE 9
SUPPLEMENTAL INDENTURES AND SUCCESSOR CORPORATIONS

9.1 Provision for Supplemental Indentures for Certain Purposes

From time to time SMTC Canada (when authorized by the directors) and the Trustee may, subject to the provisions hereof, and will when so directed hereby, execute and deliver by their proper officers indentures or instruments supplemental hereto, which thereafter will form part hereof, for any or all of the following purposes:

- (a) setting forth any adjustments resulting from the application of the provisions of Article 5;

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- (b) adding hereto such additional covenants and enforcement provisions as in the opinion of counsel are necessary or advisable, and are not in the opinion of the Trustee based on the opinion of counsel prejudicial to the rights or interests of the Warranholders as a group;
 - (c) giving effect to any Extraordinary Resolution passed as provided in Article 8;
 - (d) making such provisions not inconsistent with this Indenture as are necessary or desirable with respect to matters or questions arising hereunder, and are not, in the opinion of the Trustee based on the opinion of counsel, prejudicial to the rights or interests of the Warranholders as a group;
 - (e) adding to, deleting or altering the provisions hereof in respect of the transfer of Share Purchase Warrants or the exchange of Share Purchase Warrant Certificates, and making any modification in the form of the Share Purchase Warrant Certificates provided that any such action in the opinion of counsel acceptable to the Trustee does not adversely affect the rights of the Warranholder;
 - (f) modifying any provision of this Indenture or relieving SMTC Canada from any obligation, condition or restriction herein contained, except that no such modification or relief will be or become operative or effective if in the opinion of the Trustee, based on the opinion of counsel, it would impair any of the rights or interests of the Warranholders or of the Trustee, and the Trustee may in its uncontrolled discretion decline to enter into any such supplemental indenture which in its opinion will not afford adequate protection to the Trustee when it becomes operative; and
 - (g) for any other purpose not inconsistent with the terms of this Indenture, including the correction or rectification of any ambiguity, defective or inconsistent provision, error or omission herein, if in the opinion of the Trustee based on the opinion of counsel, the rights of the Trustee and of the Warranholders, as a group, are not prejudiced thereby.

9.2 Successor Corporations

In the case of the consolidation, amalgamation, arrangement, merger or transfer of the undertaking or assets of SMTC Canada as an entirety, or substantially as an entirety, to another corporation, the successor corporation resulting from such consolidation, amalgamation, arrangement, merger or transfer (if not SMTC Canada) will be bound by the provisions hereof and for the due and punctual performance and observance of each and every covenant and obligation contained in this Indenture to be performed by SMTC Canada and, will as a condition precedent to any such transaction, agree to succeed to and be substituted for SMTC Canada by supplemental indenture in form satisfactory to the Trustee and executed and delivered to the Trustee with the same effect as closely as may be possible as if it had been named herein.

ARTICLE 10
CONCERNING THE TRUSTEE

10.1 Trust Indenture Legislation

- (1) If and to the extent that any provision of this Indenture limits, qualifies or conflicts with a mandatory requirement of Applicable Legislation, the mandatory requirement will prevail.
- (2) SMTC Canada and the Trustee each will at all times in relation to this Indenture and any action to be taken hereunder observe and comply with and be entitled to the benefits of Applicable Legislation.

10.2 Trustee's Authority to Carry on Business

The Trustee represents and warrants to SMTC Canada that at the date hereof it is authorized to carry on the business of a trust company in Toronto, Ontario. If, notwithstanding the provisions of this Section 10.2, it ceases to be authorized to carry on such business, the validity and enforceability of this Indenture and the Share Purchase Warrants issued hereunder shall not be affected in any manner whatsoever by reason only of such event provided that the Trustee, within 30 days after ceasing to be authorized to carry on such business either becomes so authorized or resigns in the manner and with the effects specified in Section 10.8.

10.3 Rights and Duties of Trustee

- (1) In the exercise of the rights and duties prescribed or conferred by the terms of this Indenture, the Trustee will act honestly and in good faith with a view to the best interests of the Warranholders, and will exercise that degree of care, diligence and skill that a reasonably prudent warrant trustee would exercise in comparable circumstances. Subject to the foregoing, the Trustee shall not be bound to give any notice or do or take any act, action or proceeding by virtue of the powers conferred on it hereby unless and until it shall have been required so to do under the terms hereof; nor shall the Trustee be required to take notice of any default hereunder, unless and until notified in writing of such default, which notice shall distinctly specify the default desired to be brought to the attention of the Trustee and in the absence of any such notice the Trustee may for all purposes of this Indenture conclusively assume that no default has been made in the observance or performance of any of the representations, warranties, covenants, agreements or conditions contained therein. Any such notice shall in no way limit any discretion herein given to the Trustee to determine whether or not the Trustee shall take action with respect to any default.
- (2) No provision of this Indenture will be construed to relieve the Trustee from liability for its own negligent act, negligent failure to act, wilful misconduct or bad faith.
- (3) The obligation of the Trustee to commence or continue any act, action or proceeding for the purpose of enforcing any right of the Trustee or the Warranholders hereunder is on the condition that, when required by notice to the Warranholders by the Trustee, the Trustee is furnished by one or more Warranholders with sufficient funds to commence or continue such act, action or proceeding and indemnity reasonably satisfactory to the Trustee to protect and hold it harmless against the costs, charges and expenses and liabilities to be incurred thereby and any loss and damage it may suffer by reason thereof.

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- (4) No provision of this Indenture will require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers unless it is so indemnified.
 - (5) The Trustee may, before commencing or at any time during the continuance of any such act, action or proceeding, require the Warranholders at whose instance it is acting to deposit with the Trustee the Share Purchase Warrant Certificates held by them, for which certificates the Trustee will issue receipts.
 - (6) Every provision of this Indenture that relieves the Trustee of liability or entitles it to rely on any evidence submitted to it is subject to the provisions of Applicable Legislation, of this Section 10.2 and of Section 10.3.

10.4 Evidence, Experts and Advisers

- (1) In addition to the reports, certificates, opinions and other evidence required by this Indenture, SMTC Canada will furnish to the Trustee such additional evidence of compliance with any provision hereof, and in such form, as is prescribed by Applicable Legislation or as the Trustee reasonably requires by written notice to SMTC Canada.
- (2) In the exercise of any right or duty hereunder the Trustee, if it is acting in good faith, may rely, as to the truth of any statement or the accuracy of any opinion expressed therein, on any statutory declaration, opinion, report, certificate or other evidence furnished to the Trustee pursuant to a provision hereof or of Applicable Legislation or pursuant to a request of the Trustee, if such evidence complies with Applicable Legislation and the Trustee examines such evidence and determines that it complies with the applicable requirements of this Indenture.
- (3) Whenever Applicable Legislation requires that evidence referred to in Subsection 10.3(1) be in the form of a statutory declaration, the Trustee may accept such statutory declaration in lieu of a certificate of SMTC Canada required by any provision hereof.
- (4) Any such statutory declaration may be made by any director or officer of SMTC Canada.
- (5) The Trustee may act and rely and shall be protected in acting and relying upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, letter, telegram, cablegram or other paper or document believed by it to be genuine and to have been signed, sent or presented by or on behalf of the proper party or parties.
- (6) Proof of the execution of any document or instrument in writing, including a Warranholders' Request, by a Warranholder may be made by the certificate of a notary public, or other officer with similar powers, that the person signing such instrument acknowledged to him the execution thereof, or by an affidavit of a witness to such execution, or in any other manner that the Trustee considers adequate.

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- (7) The Trustee may employ or retain such counsel, accountants, engineers, appraisers, or other experts or advisers as it reasonably requires for the purpose of determining and discharging its duties hereunder and may pay reasonable remuneration for all services so performed by any of them, without taxation of costs of any counsel, and will not be responsible for any misconduct or negligence on the part of any of them who has been selected with due care by the Trustee. Any remuneration so paid by the Trustee shall be repaid to the Trustee in accordance with Section 6.2.
 - (8) The Trustee may act and shall be protected in acting and relying in good faith on the opinion or advice of or information obtained from any counsel, accountant or other expert or advisor, whether retained or employed by SMTC Canada or by the Trustee, in relation to any matter arising in the administration of the trusts hereof.

10.5 Documents, Money, Etc. held by Trustee

- (1) Any security, document of title or other instrument that may at any time be held by the Trustee subject to the trusts hereof may be placed in the deposit vaults of any Canadian chartered bank or deposited for safekeeping with any such bank.
- (2) Unless herein otherwise expressly provided, any money so held pending the application or withdrawal thereof under any provision of this Indenture shall be deposited in the name of the Trustee in any Canadian chartered bank or trust company at the rate of interest (if any) then current on similar deposits or may be invested with the consent of the SMTC Canada in securities issued or guaranteed by the Government of Canada or a province thereof or in obligations, maturing not more than one year from the date of the investment, of any Canadian chartered bank or trust company as SMTC Canada may consent to. All interest or other income received by the Trustee in respect of such deposits and investments shall belong to SMTC Canada, as provided for herein.
- (3) All interest or other income received by the Trustee in respect of such deposits and investments will belong to SMTC Canada.

10.6 Action by Trustee to Protect Interests

The Trustee will have power to institute and to maintain such actions and proceedings as it considers necessary or expedient to protect or enforce its interests and the interests of the Warrantholders.

10.7 Trustee not Required to Give Security

The Trustee will not be required to give any bond or security in respect of the performance of the agency created hereby, the execution of the trusts and powers of this Indenture or otherwise in respect of the premises.

10.8 Protection of Trustee

- (1) By way of supplement to the provisions of any law for the time being relating to trustees or agents, it is expressly declared and agreed that:
 - (a) the Trustee will not be liable for or by reason of, or required to substantiate, any statement of fact or recital in this Indenture or in the Share Purchase Warrant Certificates (except the representation contained in Section 10.9 or in the certificate of the Trustee on the Share Purchase Warrant Certificates), but all such statements or recitals are and will be deemed to be made by SMTC Canada;

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- (b) nothing herein contained will impose on the Trustee any obligation to see to, or to require evidence of, the registration or filing (or renewal thereof) of this Indenture or any instrument ancillary or supplemental hereto;
 - (c) subject to Section 10.9 the Trustee will not be bound to give notice to any person of the execution hereof;
 - (d) the Trustee will not incur any liability or responsibility whatever or be in any way responsible for the consequence of any breach by SMTC Canada of any obligation herein contained or of any act of any director, officer, employee or agent of SMTC Canada; and
 - (e) the Trustee shall not be liable or accountable for any loss or damage whatsoever to any person caused by the performance or failure by it to perform its responsibilities under this Indenture save only to the extent that such loss or damage is attributable to the negligence, wilful misconduct or bad faith of the Trustee.
- (2) SMTC Canada agrees to indemnify the Trustee and its directors, officers, employees and agents and save them harmless from all liabilities, losses, claims, demands, suits, damages, costs and actions which may be brought against or suffered by it arising out of or connected with the performance by it of its duties hereunder except to the extent that such liabilities, suits, damages, costs and actions are attributable to the negligence, wilful misconduct or bad faith of the Trustee. This provision shall survive the resignation or termination of the Trustee or the termination of this Indenture.

10.9 Replacement of Trustee

- (1) The Trustee may resign its trust hereunder and be discharged from all further duties and liabilities hereunder, except as provided in this Section, by giving to SMTC Canada and the Warranholders not less than 30 business days notice in writing or, if a new Trustee has been appointed, such shorter notice as SMTC Canada accepts as sufficient.
- (2) The Warranholders by Extraordinary Resolution may at any time remove the Trustee and appoint a new Trustee.
- (3) If the Trustee so resigns or is so removed or is dissolved, becomes bankrupt, goes into liquidation or otherwise becomes incapable of acting hereunder, SMTC Canada will forthwith appoint a new Trustee unless a new Trustee has already been appointed by the Warranholders.
- (4) Failing such appointment by SMTC Canada, the retiring Trustee at the expense of the Company or any Warranholder may apply to the Ontario Superior Court of Justice on such notice as the Court directs, for the appointment of a new Trustee, at the expense of SMTC Canada.

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- (5) Any new Trustee so appointed by SMTC Canada or by the Court will be subject to removal as aforesaid by the Warrantholders.
 - (6) Any new Trustee appointed under any provision of this Section must be a corporation authorized to carry on the business of a trust company in Ontario and, if required by the Applicable Legislation of any other province, in such other province.
 - (7) On any such appointment the new Trustee will be vested with the same powers, rights, duties and responsibilities as if it had been originally named herein as Trustee without any further assurance, conveyance, act or deed, but there will be immediately executed, at the expense of SMTC Canada, all such conveyances or other instruments as, in the opinion of counsel, are necessary or advisable for the purpose of assuring such powers, rights, duties and responsibilities to the new Trustee provided that, any resignation or termination of the Trustee and appointment of a successor Trustee shall have executed an appropriate instrument accepting such appointment and, at the request of SMTC Canada, the predecessor Trustee, upon payment of its outstanding remuneration and expenses, shall execute and deliver to the successor Trustee an appropriate instrument transferring to such successor Trustee all rights and powers of the Trustee hereunder.
 - (8) On the appointment of a new Trustee, SMTC Canada will promptly give notice thereof to the Warrantholders.
 - (9) A corporation into or with which the Trustee is merged or consolidated or amalgamated, or a corporation succeeding to the trust business of the Trustee, will be the successor to the Trustee hereunder without any further act on its part or on the part of any party hereto if such corporation would be eligible for appointment as a new Trustee under Subsection 10.6.
 - (10) A Share Purchase Warrant Certificate certified but not delivered by a predecessor Trustee may be delivered by the new or successor Trustee in the name of the predecessor Trustee or successor Trustee.

10.10 Conflict of Interest

The Trustee represents to SMTC Canada that at the time of the execution and delivery hereof no material conflict of interest exists between its role as a fiduciary hereunder and its role in any other capacity and if a material conflict of interest arises hereafter it will, within 90 days after ascertaining that it has such material conflict of interest, either eliminate the conflict of interest or resign its trust hereunder.

If any such material conflict of interest exists or hereafter shall exist, the validity and enforceability of this Indenture and of the Share Purchase Warrants shall not be affected in any manner whatsoever by reason thereof.

The Trustee, in its personal or any other capacity, may buy, lend upon and deal in securities of SMTC Canada and generally may contract and enter into financial transactions with SMTC Canada without being liable to account for any profit made thereby.

10.11 Acceptance of Trusts

The Trustee hereby accepts the trusts in this Indenture declared and provided for and agrees to perform them on the terms and conditions herein set forth.

ARTICLE 11
GENERAL

11.1 Notice to SMTC Canada and Trustee

(1) Unless herein otherwise expressly provided, a notice to be given hereunder to SMTC Canada or the Trustee will be validly given if delivered or if sent by first class mail, postage prepaid, or if sent by facsimile transmission (receipt of such transmission is confirmed in writing):

(a) If to SMTC Canada:

SMTC Manufacturing Corporation of Canada
635 Hood Road
Markham, Ontario
L3R 4N6

Attention: Marwan Kubursi, Chief Financial Officer
Facsimile: (905) 479-5326

(b) If to the Trustee:

CIBC Mellon Trust Company
320 Bay Street
P.O. Box 1
Toronto, Ontario
M5H 4A6

Attention: Vice-President, Client Services
Facsimile: (416) 643-5570

and any such notice delivered or sent in accordance with the foregoing will be deemed to have been received on the date of delivery or facsimile transmission or, if mailed, on the fifth business day following the day of the mailing of the notice.

(2) SMTC Canada or the Trustee, as the case may be, may from time to time notify the other in the manner provided in Subsection 11.1(1) of a change of address which, from the effective date of such notice and until changed by like notice, will be the address of SMTC Canada or the Trustee, as the case may be, for all purposes of this Indenture.

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- (3) If, by reason of a strike, lockout or other work stoppage, actual or threatened, involving Canadian postal employees, a notice to be given to the Trustee or to SMTC Canada hereunder could reasonably be considered unlikely to reach or likely to be delayed in reaching its destination, the notice will be valid and effective only if it is delivered to an officer of the party to which it is addressed or if it is delivered to such party at the appropriate address provided in Subsection 11.1(1) by confirmed facsimile transmission and any notice delivered in accordance with the foregoing will be deemed to have been received on the date of delivery to such officer or if delivered by such facsimile, on the first business day following the date of the sending of the notice.

11.2 Notice to Warranholders

- (1) Unless herein otherwise expressly provided, a notice to be given hereunder to Warranholders will be deemed to be validly given if the notice is sent by ordinary surface or air mail, postage prepaid, addressed to the Warranholders or delivered (or so mailed to certain Warranholders and so delivered to the other Warranholders) at their respective addresses appearing on any of the registers of holders described in Section 3.1 provided, however, that if, by reason of a strike, lockout or other work stoppage, actual or threatened, involving Canadian postal employers, the notice could reasonably be considered unlikely to reach or likely to be delayed in reaching its destination, the notice will be valid and effective only if it is so delivered or is given by publication twice in the Report on Business section in the national edition of The Globe and Mail newspaper.
- (2) A notice so given by mail or so delivered will be deemed to have been given on the fifth business day after it has been mailed or on the day which it has been delivered, as the case may be, and a notice so given by publication will be deemed to have been given on the day on which it has been published as required. In determining under any provision hereof the date when notice of a meeting or other event must be given, the date of giving notice will be included and the date of the meeting or other event will be excluded. Accidental error or omission in giving notice or accidental failure to mail notice to any Warranholder will not invalidate any action or proceeding founded thereon.

11.3 Satisfaction and Discharge of Indenture

On the earlier of:

- (a) the date by which there has been delivered to the Trustee for exercise or surrender for cancellation all Share Purchase Warrant Certificates theretofore certified hereunder; and
- (b) the Expiry Time;

and if all certificates representing Exchangeable Shares required to be issued in compliance with the provisions hereof have been issued and delivered hereunder or to the Trustee in accordance with such provisions, this Indenture will cease to be of further effect and, on demand of and at the cost and expense of SMTC Canada and on delivery to the Trustee of a certificate of SMTC Canada stating that all conditions precedent to the satisfaction and discharge of this Indenture have been complied with and on payment to the Trustee of the fees and other remuneration payable to the Trustee, the Trustee will execute proper instruments acknowledging satisfaction of and discharging this Indenture.

11.4 Sole Benefit of Parties and Warranholders

Nothing in this Indenture or the Share Purchase Warrant Certificates, expressed or implied, will give or be construed to give to any person other than the parties hereto and the Warranholders, as the case may be, any legal or equitable right, remedy or claim under this Indenture or the Share Purchase Warrant Certificates, or under any covenant or provision herein or therein contained, all such covenants and provisions being for the sole benefit of the parties hereto and the Warranholders.

11.5 Discretion of Directors

Any matter provided herein to be determined by the directors will be determined by the directors in their sole discretion, and a determination so made will be conclusive.

11.6 Counterparts and Formal Date

This Indenture may be executed in several counterparts, each of which when so executed will be deemed to be an original and such counterparts together will constitute one and the same instrument and notwithstanding the date of their execution will be deemed to be dated as of the Effective Date.

11.7 Language

The parties hereby request that this Indenture and any related documents be drawn up and executed only in the English language. Les parties demandent par les présentes que la présente convention ainsi que tous les documents y afférents soient rédigés et exécutés en langue anglaise seulement.

11.8 Assignment

Subject to Section 9.2 hereof, neither this Indenture nor any right, interest or obligation hereunder may be assigned by either party without the prior written consent of the other party and any purported assignment of this Indenture which does not comply with this Section 11.8 shall be considered null and void.

11.9 Benefit of the Agreement

This Indenture will enure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto.

[The remainder of this page intentionally left blank]

IN WITNESS WHEREOF the parties hereto have caused their respective corporate seals to be hereunto affixed attested by their signatures.

SMTC MANUFACTURING CORPORATION OF CANADA

By: /s/ Marwan Kubursi

Name: Marwan Kubursi
Title: Authorized Signatory

CIBC MELLON TRUST COMPANY

Per: /s/ Warren Jansen

Title Authorized Signatory

Per: /s/ Susan Clough

Title Authorized Signatory

SCHEDULE A

FORM OF SHARE PURCHASE WARRANT CERTIFICATE

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE JULY 4, 2004.

[Legend for all share purchase warrants (the “Legend” referred to in Section 2.8 of the Share Purchase Warrant Indenture.)]

THIS WARRANT AND THE SECURITIES TO BE ISSUED UPON ITS EXERCISE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH REGULATIONS UNDER THE SECURITIES ACT OR UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. THIS WARRANT MAY NOT BE EXERCISED BY OR ON BEHALF OF ANY U.S. PERSON UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

[Legend for share purchase warrants and underlying securities held by U.S. persons (the “U.S. Legend” referred to in Section 2.9 of the Share Purchase Warrant Indenture)]

DELIVERY OF THIS CERTIFICATE MAY NOT CONSTITUTE “GOOD DELIVERY” IN SETTLEMENT OF TRANSACTIONS ON STOCK EXCHANGES IN CANADA. A NEW CERTIFICATE BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE “GOOD DELIVERY” MAY BE OBTAINED FROM CIBC MELLON TRUST COMPANY UPON THE DELIVERY TO CIBC MELLON TRUST COMPANY AND THE CORPORATION OF A DECLARATION TO THE EFFECT THAT (A) THE OFFER OR SALE ARE MADE IN AN OFFSHORE TRANSACTION, (B) NO DIRECTED SELLING EFFORTS ARE MADE IN THE UNITED STATES BY THE SELLER, AN AFFILIATE OR ANY PERSON ACTING ON THEIR BEHALF, AND (C) THE SELLER IS NOT A DEALER OR A PERSON RECEIVING SELLING CONCESSIONS AND THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT.

[Legend for share purchase warrants and underlying securities held other than by a U.S. or Canadian Person (the “Non-U.S. Legend” referred to in Section 2.10 of the Share Purchase Warrant Indenture.)]

FOR SHARE PURCHASE WARRANTS ISSUED TO NON-RESIDENTS OF CANADA, THE HOLDER, BY ITS ACCEPTANCE OF THIS SECURITY, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT AND WILL NOT BE ENTITLED TO, DIRECTLY OR INDIRECTLY, SELL OR TRANSFER SHARE PURCHASE WARRANTS INTO CANADA OR TO RESIDENTS OF CANADA, EXCEPT IN COMPLIANCE WITH APPLICABLE CANADIAN SECURITIES LAWS. NO SALE OR TRANSFER INTO CANADA OR TO A CANADIAN RESIDENT WILL BE REGISTERED BY THE TRUSTEE AND ANY ATTEMPT TO EFFECT SUCH TRANSFER IS INVALID UNLESS MADE IN COMPLIANCE WITH THE ABOVE-NOTED RESTRICTIONS.”

(FORM OF SHARE PURCHASE WARRANT CERTIFICATE)

Certificate No.: _____

No. of Share Purchase Warrants: _____

Share Purchase Warrants
Exercisable to Acquire
Exchangeable Shares
of
SMTC MANUFACTURING CORPORATION OF CANADA
(Incorporated under the *Business Corporations Act* (Ontario))

THIS IS TO CERTIFY THAT, for value received, _____ (the “**holder**”) is the registered holder of the number of Share Purchase Warrants (“**Share Purchase Warrants**”) of SMTC Manufacturing Corporation of Canada (“**SMTC Canada**”) specified above and for each Share Purchase Warrant held is thereby entitled, to be issued fully paid and non-assessable exchangeable shares (“**Exchangeable Shares**”) in the capital of SMTC Canada, on the basis of one Exchangeable Share for each such Share Purchase Warrant, subject to the limitation referred to below, by surrendering to CIBC Mellon Trust Company (the “**Trustee**”) at its principal transfer office in Toronto, Ontario during the exercise period hereinafter referred to, a certified cheque or bank draft made payable to SMTC Canada in the amount of the Exercise Price as hereinafter determined in respect of each Exchangeable Share to be issued, this Share Purchase Warrant Certificate and a notice of exercise in the form set forth in Appendix 1 annexed hereto duly completed and executed provided notice is also sent to SMTC Canada by delivering to it a copy of such documents.

Capitalized terms which are not otherwise defined herein shall have the same meaning as in the share purchase warrant indenture (which indenture, together with all instruments supplemental or ancillary thereto, is herein referred to as the “**Share Purchase Warrant Indenture**”) dated as of March 3, 2004 between SMTC Canada and the Trustee, as trustee.

Surrender of this Share Purchase Warrant Certificate will be deemed to have been effected only on personal delivery thereof to, or, if sent by mail or other means of transmission, on actual receipt thereof by, the Trustee at the office specified above.

This Share Purchase Warrant Certificate evidences Share Purchase Warrants of SMTC Canada issued or issuable under the provisions of the Share Purchase Warrant Indenture. Reference is made to the Share Purchase Warrant Indenture for particulars of the rights of the holders of the Share Purchase Warrants and of SMTC Canada and of the Trustee in respect thereof and of the terms and conditions upon which the Share Purchase Warrants are issued and held, all to the same effect as if the provisions of the Share Purchase Warrant Indenture were herein set forth, to all of which the holder, by acceptance hereof, assents. To the extent of any inconsistency between the terms of the Share Purchase Warrant Indenture and the terms of this Share Purchase Warrant Certificate, the terms of the Share Purchase Warrant Indenture shall prevail. SMTC Canada will furnish to the holder, on request and upon payment of a reasonable charge for photocopying and postage, a copy of the Share Purchase Warrant Indenture.

The Share Purchase Warrants evidenced by this Share Purchase Warrant Certificate may be exercised by the holder until 5:00 p.m. (Toronto time) on March 3, 2009.

On and after the date of any exercise of the Share Purchase Warrants evidenced by this Share Purchase Warrant Certificate, the holder will have no rights hereunder except to receive certificates representing the Exchangeable Shares thereby issued to him upon delivery of a certified cheque or bank draft payable to SMTC Canada in the amount of \$1.85 (the “**Exercise Price**”) in respect of each Exchangeable Share to be issued, this Share Purchase Warrant Certificate and duly completed Notice of Exercise as set out on Appendix “1” to the Trustee at its principal office in Toronto, Ontario. After the Expiry Time, all rights under any unexercised Share Purchase Warrant evidenced hereby will wholly cease and terminate and this Share Purchase Warrant Certificate will be void.

SMTC Canada will not be obligated to issue any fraction of an Exchangeable Share on the exercise of any Share Purchase Warrant. To the extent that a holder of Share Purchase Warrants would otherwise have been entitled to receive, on the exercise of the Share Purchase Warrants, a fraction of an Exchangeable Share such rate may only be exercised in respect of such fraction in connection with another Share Purchase Warrant or Share Purchase Warrants which in the aggregate entitle the holder to receive a whole number of Exchangeable Shares. If a Warrantholder is not able to combine Share Purchase Warrants so as to be entitled to acquire a whole number of Exchangeable Shares the number of Exchangeable Shares which such Warrantholder is entitled to receive shall be rounded up to the nearest whole number.

The Share Purchase Warrant Indenture provides for adjustments to the number of Exchangeable Shares issuable upon the exercise of the Share Purchase Warrants and the Exercise Price in certain events set forth therein.

No Exchangeable Share will be issued pursuant to any Share Purchase Warrant if the issuance of such security would constitute a violation of the securities laws of any applicable jurisdiction or require SMTC Canada to qualify or register such Exchangeable Shares in any jurisdiction other than the Qualifying Jurisdictions.

The Share Purchase Warrant Indenture contains provisions making binding on all holders of Share Purchase Warrants outstanding thereunder resolutions passed at meetings of such holders held in accordance with such provisions and instruments in writing signed by holders of a specified majority of all outstanding Share Purchase Warrants.

On presentation at the principal office of the Trustee in Toronto, Ontario, subject to the provisions of the Share Purchase Warrant Indenture and on compliance with the reasonable requirements of the Trustee, one or more Share Purchase Warrant Certificates may be exchanged for one or more Share Purchase Warrant Certificates of different denominations evidencing in the aggregate the same number of Share Purchase Warrants as the Share Purchase Warrant Certificate or Share Purchase Warrant Certificates being exchanged.

The Share Purchase Warrants evidenced by this Share Purchase Warrant Certificate may only be transferred, upon compliance with the conditions prescribed in the Share Purchase Warrant Indenture, on the register of transfers to be kept at the principal office of the Trustee in Toronto, Ontario by the holder or his executors, administrators or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and execution satisfactory to the

Trustee, and, upon compliance with such requirements and such other reasonable requirements as the Trustee may prescribe, such transfer will be duly notified on such register of transfers by the Trustee. Notwithstanding the foregoing, SMTC Canada will be entitled, and may direct the Trustee, to refuse to record any transfer of any Share Purchase Warrant on such register if such transfer would constitute a violation of the securities laws of any jurisdiction or require SMTC Canada to qualify the Exchangeable Shares for distribution in any jurisdiction other than the Qualifying Jurisdictions.

The holding of this Share Purchase Warrant Certificate will not constitute the holder a shareholder of SMTC Canada or entitle him to any right or interest in respect thereof except as otherwise provided in the Share Purchase Warrant Indenture.

This Share Purchase Warrant Certificate will not be valid for any purpose until it has been certified by or on behalf of the Trustee for the time being under the Share Purchase Warrant Indenture. Time will be of the essence hereof.

In the event that SMTC Canada is unable to obtain a receipt for the Final Prospectus in a Qualifying Jurisdiction, the Share Purchase Warrants and the Exchangeable Shares issuable upon the exercise of the Share Purchase Warrants will be subject to statutory resale restrictions under the applicable securities legislation of that province. In addition, statutory restrictions will apply to the resale of such Share Purchase Warrants and such Exchangeable Shares that are acquired prior to the issuance of receipts for the Final Prospectus by the securities regulatory authority in the applicable Qualifying Jurisdiction. Holders are advised to consult their own legal advisors in this regard.

[The remainder of this page intentionally left blank]

IN WITNESS WHEREOF SMTC Canada has caused this Share Purchase Warrant Certificate to be signed by its officer duly authorized in that behalf as of _____, 200__.

SMTC MANUFACTURING CORPORATION OF CANADA

By: _____

Name:

Title:

This Share Purchase Warrant Certificate is one of the Share Purchase Warrant Certificates referred to in the Share Purchase Warrant Indenture within mentioned.

CIBC MELLON TRUST COMPANY, as Trustee

By: _____

Authorized Signing Officer

APPENDIX 1

NOTICE OF EXERCISE

To: **SMTC MANUFACTURING CORPORATION OF CANADA**

And To: **CIBC MELLON TRUST COMPANY**

The undersigned holder of the Share Purchase Warrants evidenced by the within Share Purchase Warrant Certificate hereby exercises its right to be issued Exchangeable Shares of SMTC Manufacturing Corporation of Canada (or such other securities or property to which such exercise entitles him in lieu thereof or in addition thereto under the provisions of the Share Purchase Warrant Indenture mentioned in such Share Purchase Warrant Certificate) that are issuable upon the exercise of such Share Purchase Warrants, on the terms specified in such Share Purchase Warrant Certificate and Share Purchase Warrant Indenture and in connection therewith has enclosed a certified cheque or bank draft payable to SMTC Canada in an amount equal to \$1.85 (or price as adjusted) in respect of each Exchangeable Share to be issued.

The undersigned hereby acknowledges that it is aware that if the said right is being exercised before the Prospectus Qualification Date (as that term is defined in the within Share Purchase Warrant Certificate) or if the undersigned is resident in a jurisdiction other than a Qualifying Jurisdiction (as that term is defined in the Share Purchase Warrant Indenture), the Exchangeable Shares received on exercise will be subject to restrictions on resale under applicable securities legislation.

The undersigned hereby acknowledges that this Share Purchase Warrant and the securities to be issued upon its exercise have not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered, sold, assigned or otherwise transferred except in accordance with Regulation S under the Securities Act or unless registered under the Securities Act or an exemption from such registration is available. The undersigned hereby further acknowledges that this Share Purchase Warrant may not be exercised by or on behalf of any U.S. Person unless registered under the Securities Act or an exemption from such registration is available.

The undersigned hereby irrevocably directs that the said Exchangeable Shares be issued, registered and delivered as follows:

Name(s) in Full	Address(es)	Number(s) of Exchangeable Shares
_____	_____	_____
_____	_____	_____

(Please print full name in which certificates for Exchangeable Shares are to be issued. If any securities are to be issued to a person or persons other than the holder, the holder must pay to the Trustee all exigible transfer taxes or other government charges and sign the Form of Transfer.)

DATED this __ day of _____, _____.

)
)
)
)

Signature of Registered Holder

Witness

Name of Registered Holder

Note: The name of the Registered Holder of this Notice of Exercise must be the same as the name appearing on the face page of the Share Purchase Warrant Certificate to which this Appendix is attached.

Please check if the Exchangeable Share certificates are to be delivered at the office where this Share Purchase Warrant Certificate is surrendered, failing which such certificates will be mailed.

Certificates will be delivered or mailed as soon as practicable after the due surrender of this Share Purchase Warrant Certificate to which this Appendix is attached.

APPENDIX 2
FORM OF TRANSFER

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers to

Name: _____

Address: _____

(such person, the “**Transferee**”) _____ Share Purchase Warrants of SMTC Manufacturing Corporation of Canada (“**SMTC Canada**”) represented by the attached Share Purchase Warrant Certificate and does hereby appoint as its attorney with full power of a substitution to transfer the Share Purchase Warrants on the appropriate register of the Trustee.

If the sale evidenced hereby is being made to a U.S. Person (as such term is defined in Regulation S to the United States Securities Act of 1933 (the “1933 Act”), the undersigned by the execution of this form of transfer hereby certifies that such sale does not require registration of the Share Purchase Warrants being transferred hereby under the 1933 Act and tenders herewith evidence satisfactory to SMTC Canada to such effect.

DATED this ___ day of _____, _____.

)

)

)

)

Signature of Transferor

Witness of Transferor must be guaranteed

)

Name of Transferor

Signature of Transferor must be guaranteed by a Canadian chartered bank, a major Canadian trust company or by a Medallion signature guarantee from a member of a recognized signature Medallion program

SCHEDULE "B"

FORM OF DECLARATION FOR REMOVAL OF LEGEND

TO: The Registrar and Transfer Agent
for securities of
SMTC Manufacturing Corporation of Canada

The undersigned (a) acknowledges that the sale of the securities of SMTC Manufacturing Corporation of Canada (the "Company") to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "1933 Act"), and (b) certifies that (1) the undersigned is not an affiliate of the Company as that term is defined in the 1933 Act, (2) the offer of such securities was not made to a person in the United States and either (A) at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believed that the buyer was outside the United States and obtained written certification from the buyer that it was outside of the United States, or (B) the transaction was executed in, on or through the facilities of the Toronto Stock Exchange or any other designated offshore securities market as defined in Regulation S under the 1933 Act and neither the seller nor any person acting on its behalf knows that the transaction has been prearranged with a buyer in the United States, (3) neither the seller nor any affiliate of the seller nor any person acting on any of their behalf has engaged or will engage in any directed selling efforts in the United States in connection with the offer and sale of such securities, (4) the sale is bona fide and not for the purpose of "washing off" the resale restrictions imposed because the securities are "restricted securities" (as such term is defined in Rule 144(a)(3) under the 1933 Act), (5) the seller does not intend to replace the securities sold in reliance on Regulation S of the 1933 Act with fungible unrestricted securities, (6) the contemplated sale is not a transaction, or part of a series of transaction which, although in technical compliance with Regulation S, is part of a plan or scheme to evade the registration provisions of the 1933 Act, and (7) the seller is not a dealer or a person receiving selling concessions. Terms used herein have the meanings given to them by Regulation S.

Dated: _____

Name of Seller

By: _____

Name:

Title:

[LETTERHEAD OF SMTC CORPORATION]

January 29, 2004

Derek D'Andrade
12 Grove Park
Richmond, Hill, Ontario L4E 3L4

Dear Mr. D'Andrade:

RE: Amendment to Employment Agreement

Further to our discussions regarding the continuation of your employment with Surface Mount Technology Centre Manufacturing Corporation of Canada ("SMTC"), and pursuant to paragraph 12 of your employment agreement dated July 30, 1999 (the "Agreement") which provides that the parties may amend the Agreement, this letter sets forth an amendment to the Agreement. Except as expressly modified herein, all of the terms of the Agreement shall remain the same as set out in the Agreement. The amendments are as follows:

1. Re: Salary and Benefits Pursuant to Paragraphs 2 and 3 of the Agreement

You will no longer be provided with any salary and benefits pursuant to paragraphs 2 and 3 of the Agreement. Instead, your services will be provided through your consulting firm Nichal Inc. ("Nichal") for a monthly payment of \$29,000.00 that is inclusive of the previous salary, benefits, RRSP contributions, vacation pay and car allowance.

2. Re: Non-renewal and Salary Continuation in the Event of a Termination without Cause Pursuant to Paragraphs 1 and 4 of the Agreement

The non-renewal provisions contained in paragraph 1 will no longer apply. You will be required to provide at least thirty (30) days written notice of resignation and SMTC may terminate your employment with the same thirty (30) days written notice after which no further payment for 2004 is due to you, save and except any Retention Payments that may be owed to you, as set out in paragraph 3 below.

In the event that SMTC terminates your employment without cause, and provided that SMTC provides the Retention Payments as set out below, you shall continue to abide by the non-competition provisions for a period of six (6) months from the effective date of your resignation

or termination of your employment with SMTC, and, you shall continue to abide by the non-solicitation provisions as set out in paragraph 6 of the Agreement for a period of one (1) years from the effective date of your resignation or termination of your employment with SMTC. For greater certainty, in the event your employment is terminated without cause, you will not be provided with your base salary as set out in paragraphs 4 and 6 of the Agreement, but you will still be required to abide by the non-competition and non-solicitation provisions.

3. Re: Bonus Payment for the Fiscal Year Ending on December 31, 2003 Pursuant to Paragraph 2 of the Agreement

You acknowledge and agree that due to the financial performance of SMTC, no bonus is payable for the fiscal year ending on December 31, 2003. For greater certainty, you hereby waive and forgo any entitlement to any annual bonus payment for the fiscal year ending December 31, 2003.

4. Re: Incentive and Retention Arrangements

As part of SMTC efforts to retain certain senior management employees throughout the ongoing sale/restructuring process, SMTC will provide you with retention payments on the following terms and conditions.

(i) First Retention Payment

SMTC will provide Nichal with a first retention payment of US \$75,000.00, provided that you continue to be employed by SMTC up to and including January 29, 2004. This payment is payable by February 2, 2004. In the event of your resignation or termination of your employment with cause on or before January 29, 2004, you will not be entitled to receive this or any further retention payments.

(ii) Second Retention Payment

SMTC will provide Nichal with a second retention payment of US \$125,000.00, payable March 31, 2004, provided that you remain employed by SMTC up to and including March 31, 2004. In the event your employment is terminated without cause prior to March 31, 2004, you will still be entitled to receive this payment, the earlier of the date your employment is terminated and March 31, 2004. In the event of your resignation or termination of your employment with cause, prior to March 31, 2004, you will not be entitled to receive this payment.

You acknowledge that you had an opportunity to review the terms of these amendments with your legal counsel and that you understand all of the terms contained herein.

Please execute the extra copy of this letter in the space below and return it to the undersigned, to confirm your understanding and acceptance of the terms contained herein.

Yours truly,

The Surface Mount Technology Centre Inc.

By:

/s/ John Caldwell

John Caldwell

Accepted and Agreed to:

/s/ Derek D'Andrade

Derek D'Andrade

[LETTERHEAD OF SMTC CORPORATION]

January 30, 2004

Philip Woodard
912 Wildrush Place
Newmarket, Ontario L3X 1L7

Dear Mr. Woodard:

RE: Amendment to Employment Agreement

Further to our discussions regarding the continuation of your employment with Surface Mount Technology Centre Manufacturing Corporation of Canada ("SMTC"), and pursuant to paragraph 12 of your employment agreement dated July 30, 1999 (the "Agreement") which provides that the parties may amend the Agreement, this letter sets forth an amendment to the Agreement. Except as expressly modified herein, all of the terms of the Agreement shall remain the same as set out in the Agreement. The amendments are as follows:

1. Re: Salary and Benefits Pursuant to Paragraphs 2 and 3 of the Agreement

You will no longer be provided with any salary and benefits pursuant to paragraphs 2 and 3 of the Agreement. Instead, your services will be provided through your consulting firm The Woodbro Group Ltd ("Woodbro") for a monthly payment of \$28,000.00 that is inclusive of previous salary, benefits, RRSP contributions, vacation pay and car allowance.

2. Re: Non-renewal and Salary Continuation in the Event of a Termination without Cause Pursuant to Paragraphs 1 and 4 of the Agreement during the period January 1, 2004 and December 31, 2004.

The Non-Renewal provisions contained in paragraph 1 of the Agreement and the Termination and Severance Provisions contained in paragraph 4 of the Agreement will not apply during the period of January 1, 2004 through to December 31, 2004 (the "Refinancing Period").

During the Refinancing Period you will be required to provide at least thirty (30) days written notice of resignation and SMTC may terminate your employment at any time, with thirty (30) days notice after which no provision of any further payment to you whatsoever for 2004, save and except any payments that may be owed to you, pursuant to paragraph 4 and 5 below, which you agree are in full satisfaction of all termination and severance pay owed to you under the *Employment Standards Act, 2000*, and pay in lieu of reasonable notice under the common law.

In the event that, during the Refinancing Period, SMTC terminates your employment without cause, or you resign your employment, and provided that SMTC continues to provide any payments that are required to be paid pursuant to paragraphs 4 and 5 below, you shall continue to abide by the non-competition provisions as set out in paragraph 6 of the Agreement for a period of six (6) months from the effective date of your resignation or termination of your employment with SMTC, and, you shall continue to abide by the non-solicitation provisions as set out in paragraph 6 of the Agreement for a period of one (1) years from the effective date of your resignation or termination of your employment with SMTC. For greater certainty, in the event your employment is terminated without cause during the Refinancing Period you will not be entitled to any further payments of your base salary pursuant to paragraph 4 of the Agreement, nor any monthly payments as set out in paragraph 1 above.

3. RE: Bonus Payment for the Fiscal Year Ending on December 31, 2003 Pursuant to Paragraph 2 of the Agreement

You acknowledge and agree that due to the financial performance of SMTC no bonus is payable for the fiscal year ending on December 31, 2003. For greater certainty, you hereby waive and forgo any entitlement to any annual bonus payment for the fiscal year ending December 31, 2003.

4. Re: Bonus Payment for the Fiscal Year Ending on December 31, 2004 Pursuant to Paragraph 2 of the Agreement

A proposal to establish a 2004 annual bonus payment plan for key executives (including the Chief Operating Officer) is to be presented to the Compensation Committee of the Board of Directors. Such proposal will recommend incentives for key executives based upon achievement of financial performance targets for the 2004 fiscal year and individual performance. You will be entitled to participate in the plan. In the event of your resignation, or termination of your employment by SMTC other than for cause, SMTC will provide you with a pro-rata payment based upon your individual performance and the year to date performance of SMTC versus the targets set for the annual bonus payments. If your employment is terminated for cause, you will not be entitled to receive any such bonus payment.

5. Re: Incentive and Retention Arrangements

As part of SMTC's efforts to retain certain senior management services throughout the ongoing sale/restructuring process and beyond, SMTC will provide you with retention and success payments on the following terms and conditions.

(i) First Retention Payment

SMTC will provide you with a first retention payment of US \$150,000.00, provided that you continue to be employed by SMTC up to and including January 29, 2004. This payment is payable by February 2, 2004. In the event of your resignation or termination of your employment with cause on or before January 29, 2004, you will not be entitled to receive this or any further retention payments.

(ii) Success Payment

SMTC will provide Woodbro with a success payment of US \$100,000.00, provided that there is a successful closing of a sale, merger, or substantial bank refinancing or restructuring transaction ("Transaction") by June 30, 2004, and provided also that you continue to provide your service to SMTC up to and including March 31, 2004.

In the event you resign or your employment is terminated with cause, prior to March 31, 2004, you will not be entitled to receive this retention payment. In the event your employment is terminated without cause at any time during the Refinancing Period, and there is a successful closing of the Transaction, you will be entitled to receive this success payment, which will be payable to you on the later of five (5) days after the closing of the Transaction, or March 31, 2004.

(iii) Second Retention Payment

Provided that you continue to provide services to SMTC until at least June 25, 2004, but no longer than December 31, 2004, and provided your employment is not terminated with cause at any time, Woodbro will be entitled to a second retention payment of US \$100,000.00 which is payable within 30 days of your resignation or termination without cause. If you continue to be employed with SMTC after December 31, 2004, you will no longer be entitled to receive this retention payment, although all of the provisions contained in the Agreement will apply again, including paragraphs 1 and 4 of the Agreement which provide certain payments in the event of a termination or resignation of your employment.

For greater certainty, if you resign prior to June 25, 2004, or your employment is terminated with cause at any time, you will not be entitled to receive this payment. If you resign, or your employment is terminated without cause, effective on or after June 25, 2004, but prior to December 31, 2004, you will be entitled to receive this retention payment which will be payable within 30 days of your resignation or termination without cause.

You acknowledge that the above noted first and second retention payments (in paragraphs 5(i) and 5(iii)) are inclusive of any termination and severance pay under the Ontario *Employment Standards Act, 2000* and pay in lieu of reasonable notice under the common law, that you may be entitled to receive.

* * *

You acknowledge that you have had an opportunity to review the terms of these amendments with legal counsel and that you understand all of the terms contained herein.

Please execute the extra copy of this letter in the space below and return it to the undersigned, to confirm your understanding and acceptance of the terms contained herein.

Yours truly,

The Surface Mount Technology Centre Inc.

By:

/s/ John Caldwell

John Caldwell

Accepted and Agreed to:

/s/ Phil Woodard

Phil Woodard

Subsidiaries of the Registrant

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
HTM Holdings, Inc.	Delaware
Qualtron, Inc.	Massachusetts
SMTC de Chihuahua S.A. de C.V.	Mexico
SMTC Ireland Company	Ireland
SMTC Manufacturing Corporation of California	California
SMTC Manufacturing Corporation of Canada	Ontario, Canada
SMTC Manufacturing Corporation of Colorado	Delaware
SMTC Manufacturing Corporation of Massachusetts	Massachusetts
SMTC Manufacturing Corporation of North Carolina	North Carolina
SMTC Manufacturing Corporation of Texas	Texas
SMTC Manufacturing Corporation of Wisconsin	Wisconsin
SMTC Mex Holdings, Inc.	Delaware
SMTC Nova Scotia Company	Nova Scotia, Canada
SMTC R&D Teoranta	Ireland
SMTC Teoranta	Ireland

Independent Auditors' Consent

The Board of Directors of SMTC Corporation

We consent to the incorporation by reference in the registration statement (No. 333-44250) on Form S-8 and the registration statement (No. 333-33208) on Form S-3 of SMTC Corporation of our report dated February 6, 2004, except as to note 20 which is as of March 3, 2004, with respect to the consolidated balance sheets of SMTC Corporation as of December 31, 2002 and 2003, and the related consolidated statements of operations, changes in shareholders' equity (deficiency) and cash flows for each of the years in the three-year period ended December 31, 2003, and the related financial statement schedule, which report appears in the December 31, 2003, annual report on Form 10-K of SMTC Corporation. Our report dated February 6, 2004, except as to note 20 which is as of March 3, 2004, contains an explanatory paragraph that states that the Company has incurred significant recurring losses and has a significant working capital deficiency due to the maturity of the Company's debt on October 1, 2004, which raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of that uncertainty. Our report also refers to a change in accounting policy on goodwill.

/s/ KPMG LLP

Chartered Accountants

Toronto, Canada
March 30, 2004

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATIONS

I, John Caldwell, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 30, 2004

/s/ John Caldwell

John Caldwell
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATIONS

I, Marwan Kubursi, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 30, 2004

/s/ Marwan Kubursi

Marwan Kubursi
Principal Financial Officer

**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 annual report on Form 10-K for the fiscal year ended December 31, 2003 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 annual report on Form 10-K for the fiscal year ended December 31, 2003 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: March 30, 2004

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.

**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 financial officer of SMTC Corporation (the "Company"), does hereby certify that to the undersigned's knowledge:

1) the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003 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 annual report on Form 10-K for the fiscal year ended December 31, 2003 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marwan Kubursi

Marwan Kubursi
Principal Financial Officer

Date: March 30, 2004

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.