

**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION &
RESULTS OF OPERATIONS FOR THE QUARTER & YEAR TO DATE PERIOD
ENDED September 30, 2008
November 7, 2008**

(dollar amounts in Canadian dollars unless otherwise indicated)

Forward Looking Statements

Certain statements contained in this Management's Discussion and Analysis ("MD&A") contain "forward-looking statements" within the meaning of the United States Securities Litigation Reform Act of 1995, and applicable Canadian securities legislation. Forward-looking statements include, but are not limited to, statements with respect to financial performance, opportunities, new market for growth and financial position. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecast", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". Please be cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties. Actual results or developments may vary materially from those projected or implied in the forward-looking statements as a result of any number of factors, including: currency exchange rate fluctuations; variability of operating results; dependence on certain industries; management of growth and expansion; integration of operations; ability to attract and retain key personnel; nature of sales; product complexity and product defects; international operations; material cost fluctuations and limited availability of raw materials; potential loss of customers; competition; industry contraction and slow economic growth; technological change and process development; environmental liability; need for additional financing; product liability; pricing pressure; ability to reduce costs; and other risks discussed in the section entitled "Risk Management".

The following MD&A of financial condition and results of operations of Coretec Inc. ("Coretec" or "the Company") for the three and nine month periods ended September 30, 2008 and 2007 should be read in conjunction with the Company's consolidated financial statements and related notes contained in this interim report and with the Company's audited consolidated financial statements for the periods ended December 31, 2007 and 2008.

The purpose of this 2008 third quarter report is to provide an update to the information contained in the Company's MD&A section of the Company's 2007 Annual Report, which contains a more comprehensive discussion of the Company's strategy, capabilities to deliver results and risks. Management assumes that the reader of this document has access to the MD&A section of the Company's 2007 Annual Report. This document and other information can be downloaded in portable document format (PDF) from the Company's website at www.coretec-inc.com or from the SEDAR website for Canadian regulatory filings at www.sedar.com. To request a printed copy, the reader may also contact Coretec's transfer agent, Computershare Investor Services Inc., at 1-800-564-6253 or via email at service@computershare.com or Coretec Inc. at www.coretec-inc.com.

Overview

Coretec is one of the leading fabricators of unpopulated (without components) Printed Circuit Boards (“PCBs”) for the North American market. Coretec serves its customers from its manufacturing facilities in Toronto, Ontario, Canada (“Sheppard” and “Ellesmere”); Akron, Ohio, USA (“Cleveland”); and Littleton, Colorado, U.S.A. (“Denver”). The Sheppard, Cleveland and Denver sites are all owned properties. The Ellesmere site is a leased premise.

The Company offers a wide range of products including double sided and multilayer rigid circuit boards, flexible and rigid-flex PCBs, as well as PCBs containing metal heatsinks. The Company also offers services that are specific to customers’ new product introduction requirements such as computer automated design (CAD) layout, field applications engineering, technology roadmap consulting, prototyping and quick turn production. Additionally, the Company domestically manufactures small to mid-sized production runs for mature electronic products and buys and resells PCBs made in Asia for customer requirements that are of a higher volume nature.

The Company’s marketing and sales focus is on servicing the product engineering requirements and expedited time-to-market needs of some of North America’s and Europe’s leading original equipment manufacturers (“OEMs”) and contract electronics manufacturers, also known as electronic manufacturing services (“EMS”) companies. The Company targets its sales efforts on market leaders in some of the most technologically demanding segments of the electronics industry: namely industrial, medical, military and aerospace.

The challenges in the North American and European PCB markets include shortening electronic product life cycles, a trend towards inventory minimization, increasing product complexity, the continued outsourcing of electronic assembly from OEMs to EMS companies, environmental sensitivity, the increasing significance of approvals (both customer specific and globally recognized), and competitive pressures from offshore manufacturers. To respond to these challenges, the Company has 1) decreased its manufacturing cycle time; 2) improved its technology capability; 3) improved its suite of value added services; 4) installed a strong environmental stewardship model (i.e. RoHS compliance, ISO 14000); 5) achieved multiple sector specific and general certifications (i.e. MIL-PRF-31032, MIL-PRF-50884, AS9100, ISO9000); and 6) developed a strategy for higher volume product fulfillment offshore.

Vision and Strategy

Coretec’s vision is to provide high quality PCBs to its customers on a timely basis. Coretec is focused on being the “go to” PCB Company for the electronics industry.

To achieve these goals, Coretec regularly invests in systems and machinery to improve technological capabilities and efficiencies. Another key initiative being undertaken by the Company is the consolidation of its two facilities in Toronto (“Sheppard” and “Ellesmere”) into one facility (Sheppard). Currently the product that Coretec manufactures is transported between the two facilities numerous times before completion. The consolidation of the two facilities will allow for improved efficiency, less handling damage of the product in transit, enhance speed in the manufacturing process and cost reduction.

The consolidation is currently underway and is anticipated to be complete by the end of 2010.

Recent Developments

Toronto Consolidation Project

During the third quarter of 2008, the Company continued with its efforts to consolidate the two facilities in Toronto. A new electroplating machine was received at the Sheppard facility and its installation was completed in July 2008. This equipment replaces and improves on similar equipment that the Company decommissioned at its Ellesmere facility in August 2008. Infrastructure at the Sheppard site continued to advance during the quarter, in particular the completion of a 6,000 sq.ft. Class 10,000 cleanroom was achieved. The new cleanroom at Sheppard became operational in Q3 2008 and will ultimately replace three cleanrooms at Ellesmere. This new cleanroom will improve operating costs as well as enhance quality and capabilities. It is also a key component in terms of facilitating the transfer of processes to Sheppard from Ellesmere and the evacuation of approximately 8 of the 16 units that the Company is leasing at Ellesmere.

Q3 2008 Business Highlights

Sales for the quarter were \$20.3 million, representing a 7.3% decrease as compared to Q3 2007 sales of \$21.9 million, but a 4.6% increase sequentially compared to Q2 2008 sales of \$19.4 million.

Gross margin in Q3 2008 was 17.1% of sales, a decrease as compared to Q3 2007 gross margin of 18.0% of sales and a decrease sequentially compared to Q2 2008 gross margin of 18.9%.

The Company recorded a loss from operations of \$0.5 million in Q3 2008 compared to a loss from operations of \$0.3 million in Q3 2007 and income from operations of \$0.1 million in Q2 2008.

The Company recorded a net loss of \$0.5 million or \$0.03 per share in Q3 2008 as compared to a net loss of \$0.6 million or \$0.03 per share in Q3 2007 and a net loss of \$0.2 million or \$0.01 per share in Q2 2008.

As at September 30, 2008, the Company had total working capital of \$6.6 million as compared to \$6.2 million at December 31, 2007.

Capital additions for Q3 2008 were \$0.4 million and related to the building of infrastructure at the Sheppard facility, as well as production equipment for its Cleveland and Sheppard sites.

Results of Consolidated Operations and Consolidated Losses
(in thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2008 \$	2007 \$	2008 \$	2007 \$
Sales	20,299	21,895	58,201	65,530
Cost of sales	16,822	17,951	48,210	53,746
Gross profit	3,477	3,944	9,991	12,784
Expenses				
Selling, general and administrative	2,925	3,013	8,019	9,820
Depreciation and amortization	1,039	1,192	3,274	3,704
	3,964	4,205	11,293	12,524
Profit (loss) from operations	(487)	(261)	(1,189)	(740)
Interest and other expenses	145	256	512	687
Foreign exchange (gain) loss	(58)	131	51	582
Loss (gain) on disposal of equipment, net	(42)	(3)	(52)	(156)
Loss before income taxes	(532)	(645)	(1,813)	(1,853)
Provisions for (recovery of) income taxes	—	—	5	(15)
Loss for the periods	(532)	(645)	(1,818)	(1,838)

Revenues by Geographic Segment in millions of dollars

	Q3 2008	Q3 2007	2008 vs 2007%
United States	12.8	13.9	(7.9%)
Canada	6.8	6.3	7.9%
Europe	0.7	1.7	(58.9%)
Total	20.3	21.9	(7.3%)

Revenue Percentage by Market Segment

	Q3 2008	Q3 2007
EMS	49%	59%
OEM	51%	41%
Total	100%	100%

Ten largest customers as a percentage of total revenue

	Q3 2008	Q3 2007	Change %
Ten largest customers	45%	43%	2%

Three Months Ending September 30, 2008

Revenues

Consolidated revenues were \$20.3 million for the three month period ended September 30, 2008, a decrease of \$1.6 million or 7.3 % as compared to \$21.9 million in the same period in 2007.

The decline is primarily due to lower bookings experienced in Q3 2008 compared to the prior year period.

Market segment sales fluctuated between EMS and OEM as compared to the prior year, but are within the range of management's expectations.

Cost of Sales

Cost of sales declined by \$1.2 million in Q3 2008 as compared to Q3 2007. The primary area of decline relates to a reduction in labour cost. Offsetting the lower labour costs to some degree were higher material costs, primarily related to the commissioning of new plating processes as well as inflation in raw material cost.

Gross Profit and Gross Margin

The gross profit and gross margin for Q3 2008 were \$3.5 million and 17.0%, respectively, a decline of \$0.4 million and 10.3% as compared to the Q3 2007 result of \$3.9 million and 18.0%. The combination of lower revenues and increased materials costs reduced gross profit and gross margin in Q3 2008.

Selling, General and Administrative ("SGA")

SGA costs were \$2.9 million for Q3 2008 or 14.4% of sales, a decrease of \$0.1 million as compared to Q3 2007 costs of \$3.0 million or 13.8% of sales. The primary reasons for the expenditure decrease are related to administrative wages being lower due to not replacing a number of employees that have left over the past year, offset by an increase in reserves for uncollectable receivables. In Q3 2008, the Company experienced bad debts expense of \$0.4 million. In Q3 2007 bad debts expense was nil. This 2008 charge is significant for the Company based on its positive historic record of collecting its accounts receivable and primarily working with "blue chip" Companies. Based on a review of accounts receivable at September 2008, this high level of bad debts expense is not anticipated to continue.

Depreciation and Amortization

Depreciation and amortization is lower by \$0.2 million at \$1.0 million in Q3 2008 as compared to \$1.2 million in Q3 2007. This is a result of older equipment becoming fully depreciated.

There are some pieces of equipment purchased in 2007 and 2008 that have not yet been commissioned into production and are therefore not yet being depreciated. Depreciation will increase when these pieces of equipment are commissioned into production. It is anticipated that most of this equipment will be commissioned in the fourth quarter of 2008.

Interest and Other Expenses

Interest and other expenses were slightly lower during Q3 2008 than in Q3 2007 due to lower interest rates on debt the Company is holding.

Foreign Exchange

During Q3 2008 the Company realized a \$0.1 million foreign exchange gain. In Q3 2007 the Company realized a \$0.1 million foreign exchange loss. The US\$/CAN\$ exchange rate was 1.04 for both Q3 2008 and Q3 2007.

Gain on Disposal of Equipment

For Q3 2008 and Q3 2007, small gains were realized on the sale of redundant equipment.

Net Loss and Loss per Share

The Company recorded a net loss of \$0.5 million, or \$0.03 per share in Q3 2008, as compared to a net loss of \$0.6 million or \$0.03 per share in Q3 2007.

Because the Company reported a loss in each of the first three quarters of 2008 and 2007 there is no earnings per share impact as a result of dilution by share options on the number of shares outstanding.

Nine Months Ending September 30, 2008

Revenues

Consolidated revenues of \$58.2 million for the nine month period ended September 30, 2008 were lower by \$8.3 million or 12.5% as compared to \$66.5 million in the same period in 2007.

The decline is primarily due to the translation of U.S. dollar based sales to Canadian dollars, the Company's functional and reporting currency. Coretec generates approximately 83% of its revenues in U.S. dollars. The average US\$/CAN\$ exchange rate for year to date ("YTD") 2008 was approximately 1.018 as compared to approximately 1.105 for YTD 2007. If the 2008 YTD U.S. dollar denominated sales had been translated at the prior year's foreign exchange rate, the consolidated sales for YTD 2008 would have been \$4.0 million higher or would have totaled \$62.2 million. The remainder of the sales decline was due to lower bookings experienced in the Company's Toronto operation in the 2008 period compared to the same period in 2007.

Market segment sales fluctuated between EMS and OEM as compared to the prior year, but are within the range of management's expectations.

Cost of Sales

Cost of sales declined by \$5.5 million in YTD 2008 as compared to YTD 2007. The primary area of decline relates to costs that vary with sales such as the materials used in making PCBs. In addition to the lower usage of materials, the Company purchases most of its materials in U.S. dollars. The strengthening of the Canadian dollar versus the U.S. dollar in 2008 relative to 2007 has helped the Company's cost of materials, although some of this benefit was offset by rising material prices.

Also contributing to the decline in cost of sales in 2008 are significant head count reductions the Company undertook in November 2007 and February 2008.

Gross Profit and Gross Margin

The gross profit and gross margin for YTD 2008 was \$10.0 million and 17.2%, respectively, and is a decline of \$2.8 million and 21.9% as compared to the YTD 2007 result of \$12.8 million and 19.2%. The combination of lower revenues and higher fixed costs relative to sales drove down gross profit and gross margin in 2008.

Selling, General and Administrative ("SGA")

SGA costs were \$8.0 million for YTD 2008, a decrease of \$1.8 million as compared to YTD 2007. The primary reasons for the expenditure decrease are related to administrative wages, which were lower due to not replacing a number of employees that had left over the past year. For the nine months ended September 2008 the Company has experienced bad debts expense of \$0.5 million. For similar period in 2007, bad debts expense was \$0.1 million. This 2008 charge is significant for the Company based on its positive historic record of collecting its accounts receivable and primarily working with "blue chip" Companies. Based on a review of accounts receivable at September 2008, this high level of bad debts expense is not anticipated to continue.

Depreciation and Amortization

Depreciation and amortization is lower by \$0.4 million, at \$3.3 million in YTD 2008 as compared to \$3.7 million in YTD 2007. This is a result of older equipment becoming fully depreciated.

There are some pieces of equipment purchased in 2007 and 2008 that have not yet been commissioned into production and are therefore not being depreciated. Deprecation will increase when these pieces of equipment are commissioned into production.

Interest and Other Expenses

Interest and other expenses were slightly lower in YTD 2008 than in YTD 2007 due to lower interest rates on variable rate debt.

Foreign Exchange

During YTD 2008 the Company realized a \$0.1 million foreign exchange loss. In the same period of 2007, the Company realized a \$0.6 million foreign exchange loss. In 2008 the Company has not been affected by foreign exchange fluctuations to the same extent as 2007 due to acquiring debt in the United States as a hedge to manage foreign exchange risk.

Net Loss and Loss per Share

The Company recorded a net loss of \$1.7 million, or \$0.09 per share in YTD 2008, as compared to a net loss of \$1.8 million, or \$0.10 per share, in the 2007 period.

Summary of Financial Condition as at September 30, 2008 as compared to December 31, 2007 (in thousands of dollars)

	September 30, 2008	December 31, 2007
	\$	\$
Current assets	19,258	19,965
Total assets	51,906	50,971
Current liabilities	12,636	13,794
Total liabilities	22,915	21,273
Total shareholders' equity	27,996	29,698
Total Liabilities and shareholders' equity	50,906	50,971

Liquidity and Capital Resources

Summary of Cash Flows

The following table summarizes the Company's cash flows for the periods indicated:
(in thousands of dollars)

	Three months ended September 30		Nine Months ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss for the period	(532)	(646)	(1,818)	(1,838)
Depreciation	1,039	1,192	3,274	3,704
Stock-based compensation	29	54	44	84
Loss (gain) on disposal of equipment	(42)	(3)	(52)	(156)
Unrealized foreign exchange loss (gain)	(189)	744	117	1,349
Long-term incentive plan compensation	18	10	71	30
Amortization of deferred finance charges	21	42	61	89
	344	1,394	1,697	3,261
Change in Working Capital	153	785	(138)	(1,958)
Cash (used) in provided by operating activities	497	2,179	1,559	1,304
Cash provided by financing activities	(291)	(38)	(179)	5,062
Cash used in investing activities	(412)	(1,826)	(2,923)	(6,845)
Effect of exchange rate changes in cash	(10)	(102)	27	(127)
Net change in cash during the period	(216)	213	(1,516)	(606)

Cash Flows from Operations for the Quarter ended September 30, 2008

Cash Provided by Operating Activities

Cash provided by operating activities was \$0.5 million for Q3 2008 as compared to cash provided of \$2.2 million for Q3 2007, a decrease of \$1.7 million.

The decrease relates primarily to year over year changes in unrealized foreign exchange gains and losses and changes in working capital. In Q3 2008 the Company incurred a gain of \$0.2 million of unrealized foreign exchange gain as compared to a loss of \$0.7 million in the prior year period, which represent a \$0.9 million year over year reduction to cash provided by operating activities.

The change in working capital in Q3 2008 provided cash of \$0.2 million as compared to \$0.8 million in the prior year period, representing a decline of \$0.6 million of cash provided by operating activities. The primary reason for the difference in the change in working capital is the increase in accounts payable in Q3 2007 as presented in note 10 of the Q3 2008 financial statements.

Cash Used in / Provided by Financing Activities

Cash used in financing activities of \$0.3 million for Q3 2008 relates to the repayment of \$0.6 million of long-term debt, a decrease of \$2.7 million in the Company's bank line, reclassification to trade payables from long-term liability (please see Note 5 in consolidated financial statements for the periods ended September 30, 2008 and 2007), offset by advance of loan funds of \$3.7 million from Business Development Bank of Canada ("BDC"). The 2007 period which netted to zero includes an increase in advances from the Company's bank line of \$0.4 million, an increase in long-term debt of \$1.5 million related to the refinancing of the Company's land and building at its Denver site, offset by repayment of term debt of \$1.9 million

Cash Used in Investing Activities

Cash used in investing activities in Q3 2008 (\$0.4 million) relates primarily to the building of infrastructure at the Sheppard facility as well as equipment for its Cleveland site as compared to cash used of \$1.8 million in Q3 2007. The Q3 2007 expenditure related primarily to the Sheppard infrastructure project.

Cash Flows from Operations for the Year to Date period ended September 30, 2008

Cash Provided by (Used in) Operating Activities

Cash provided by operating activities was \$1.6 million for the nine months ending September 30, 2008 as compared to cash provided of \$1.3 million for the same period in 2007. The increase relates primarily to year over year changes in unrealized foreign exchange losses and changes in working capital.

Cash Used in / Provided by Financing Activities

Cash used in financing activities of \$0.2 million for the year to date 2008 relates primarily to the repayment of \$1.1 million of long-term debt, a decrease of \$2.7 million in the Company's bank line, offset by an advance of \$3.7 million from BDC. Cash provided by financing activities amounted to \$5.1 million for the 2007 year to date period. The 2007 period includes an increase

in the BDC line of \$5.0 million related to the Sheppard expansion project and borrowing from the Company's bank line of \$2.6 million, offset by repayments of long term debt of \$2.5 million.

Cash Used in Investing Activities

Cash used in investing activities in the 2008 year to date period relates primarily to the building of infrastructure at the Sheppard facility (\$1.5 million) and the purchase of capital equipment (\$2.8 million), offset by the repayment of a mortgage receivable (\$1.1 million) and a reduction of other deposits of \$0.3 million for a total of \$2.8 million. Cash used in investing activities in the same period of 2007 amounted to \$6.8 million. Cash used in the 2007 period is principally a result of expansion of the Sheppard facility and investments in production equipment for all sites.

Financing Arrangements and Ratios

The Company's operating line banking facility expires in March 2009. The facility may be extended for three years at the option of the bank and is subject to the Company's agreement. During the third quarter, the Company amended its agreement to include a 12 month trailing earnings before interest, taxes, depreciation, amortization and foreign exchange (EBITDA) covenant (non-Canadian Generally Accepted Accounting Principle) requiring EBITDA of \$2.2 million and \$2.8 million for the periods ending September 30, 2008 and December 31, 2008 respectively. For the trailing 12 month period, the Company's EBITDA at September 30, 2008 was \$2.4 million. Beginning January 2009, the EBITDA covenant will be replaced with a Fixed Charge Coverage covenant of 1.0:1.0. Total interest bearing debt, including bank indebtedness, was increased to \$12.9 million at September 30, 2008 as compared to \$12.2 million at December 31, 2007.

The terms of the Bank facility also require the Company to maintain a minimum consolidated tangible net worth of \$24.0 million over the term of the loan. The Company's consolidated tangible net worth as of September 30, 2008 as calculated based upon the terms of the credit facility was \$26.3 million. In addition, the terms of the bank facilities contain restrictions with respect to certain operating aspects of the Company including, but not limited to, its ability to pay dividends, make capital expenditures or incur additional indebtedness.

Long Term Debt

In the first quarter of 2008, the Company received a letter of offer of credit from Business Development Bank of Canada (BDC) to provide additional financing through two loans to the Company. The first loan facility of \$3.0 million is specific to the phase two completion of the Sheppard facility for expanding infrastructure. This building loan will be added to the remaining balance of the current building loan which is approximately \$2.3 million at September 30, 2008. The combined \$5.3 million loan accrues interest at BDC's floating base rate, has a 20 year term, and requires monthly payments of \$22,125 commencing the month subsequent to disbursement of loan funds. In the third quarter of 2008 BDC advanced \$2.0 million on this loan.

The second loan of US\$3.0 million is specific to the purchase of new equipment. The loan will be collateralized by a general security agreement from the Company providing a first security interest on equipment financed by BDC and the Sheppard building and land. The US\$3.0 million equipment loan accrues interest at the 1-month US\$ LIBOR rate plus 4.1%, has a 7 year term, and requires an initial monthly payment of US\$32,750 on commencement of the loan and 83 consecutive monthly payments thereafter of US\$35,750. In the third quarter of 2008 BDC advanced US\$1.6 million on this loan.

Both BDC loans require a minimum consolidated working capital ratio for the Company of 1.2:1 and a long term debt/tangible equity ratio not to exceed 0.75:1. Both loans are collateralized by the Sheppard land and building, and includes the requirement for the guarantee of 25% of the loan balance by Coretec Holdings Inc, a wholly owned subsidiary of Coretec Inc.

As part of the credit facility with the Bank of Montreal (the “Bank”) the Bank holds a general security agreement on all of the Company’s assets except for the Company’s Toronto real estate, where it holds a second ranking charge behind the BDC and the Company’s US real estate holdings where it ranks behind the primary lenders (Denver – GE Financing; Cleveland – Zion Bank).

Adequacy of Financial Resources

As at September 30, 2008, the Company had a cash balance of \$0.3 million and, additionally, \$3.7 million in undrawn credit facilities available to it and was in compliance with all covenant requirements under its financing arrangements.

The Company believes that, subject to business risks it has provided in the December 31, 2007 MD&A and its Annual Information Form, both of which are posted on www.sedar.com, and the risks described in the “Risk Management” section of this MD&A, it will meet its financial obligations as they come due in the normal course of business.

Critical Accounting Policies and Estimates

Changes in and Significant New Accounting Policies

Note 1 to the Q3 2008 consolidated financial statements describes three new standards from the Canadian Institute of Chartered Accountants that the Company has adopted. There was no impact on the financial statements as a result of these changes, outside of additional disclosure in the notes to the consolidated financial statements.

Coretec’s significant accounting policies are described in note 2 of the 2007 audited consolidated financial statements.

The preparation of the consolidated financial statements in conformity with Canadian Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenue and expenses in the reporting period. Management believes that the estimates and assumptions used in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from those estimates.

The Company’s accounting policies have been reviewed and discussed with the Company’s Audit Committee.

Interest Rate Exposure

The Company has exposure to movements in interest rates. At September 30, 2008, the Company had \$12.9 million of debt, including bank indebtedness that had variable interest rates.

Risk Management

The following are updates to certain risks and uncertainties described in the Company's MD&A for the year ended December 31, 2007, and should be read together with the Company's MD&A for the year ended December 31, 2007, which is available on SEDAR (www.sedar.com) or on Coretec's website at www.coretec-inc.com.

Economic & Industry Conditions

The Company's ability to generate sales, profit and cash are dependent on economic and industry conditions. During the third quarter there was a significant slowdown in the general economy. The Company focuses on the industrial, medical, military and aerospace markets and has not seen a drop in demand for its products to date. However, if these weak economic conditions persist, the Company's revenues and resultant profitability and cash flow could be reduced. During Q3 2008 the Company expensed \$0.4 million related to uncollectable accounts receivable. This amount related to two separate customers who experienced financial difficulties in the quarter. No recovery is anticipated in either case. Year to date the Company has expensed \$0.5 million related to uncollectable accounts receivable. In the three and nine month periods ending September 2007, the bad debts expense was nil and \$0.1 million respectively. Based on a review of accounts receivable at September 2008, this high level of bad debts expense is not anticipated to continue, although, if economic conditions worsen, there may be higher than historic rates of uncollectable accounts receivable.

Access to Financing

During the third quarter there was a world-wide credit tightening which is still ongoing at this time. The Company was able to close a financing with BDC during the third quarter and draw down CDN\$2.0 million and \$U.S. 1.6 million available under this financing. If the Company required additional financing to support its capital expenditure requirements, there can be no certainty that funding will be available in the future.

Exchange Rate Fluctuations

The Company's business activities are conducted in both U.S. and Canadian dollars in its Canadian operations and in U.S. dollars at its U.S. operations.

The Company's Canadian operations generate sales in both U.S. and Canadian dollars, and materials and equipment are purchased in both U.S. and Canadian dollars. The majority of its non-material costs (including payroll, facilities' costs and costs of locally sourced supplies and inventory) are denominated in Canadian dollars. Approximately 78% of revenues of the Canadian operations and approximately 20% of its operating expenses are transacted in U.S. dollars. As a result, the Company may experience trading and translation gains or losses because of volatility in the exchange rate between the Canadian dollar and the U.S. dollar.

The Company mitigates its foreign exchange risk by engaging in foreign currency hedging activities using derivative financial instruments. At September 30, 2008 the Company had outstanding foreign exchange forward contracts to sell US\$4.5 million at varying intervals over the next nine months at an average exchange rate of \$1.017 Canadian. The mark-to-market value at September 30, 2008 that is recorded in income is an unrealized loss of \$191,150 for the period ended 2008. The Company does not purchase any derivative instruments for speculative purposes.

In October 2008, due to the significant weakening of the Canadian Dollar vis-à-vis the United States dollar, a \$0.3 million margin call (prepayment) was placed on the Company's forward contracts to cover the net portfolio exposure.

Capital Structure

The Company has made a number of commitments for equipment and the ongoing infrastructure project at the Sheppard facility. Based on its forecasts, the Company will require funding outside of its credit facility with the Bank to meet these commitments and has sought and received funding from the BDC to meet these commitments.

Product Complexity and Product Defects

The Company is still not fully optimized in its operations, and is therefore experiencing defects during manufacturing, which results in scrapped or reworked product. Effects of this lack of production optimization may result in not meeting the customer's delivery expectations, delivering poor quality product to the customer and the potential loss of the customer.

Plant Relocation

Coretec is undertaking the consolidation of its Toronto manufacturing operations. There is meaningful risk associated with the consolidation particularly as it relates to costs of equipment and process relocation as well as disruption to its manufacturing operations. Additionally the Company must refurbish the Ellesmere premises as leased units are vacated. The cost associated with the Ellesmere refurbishment may vary depending on the extent of the repairs to be done.

Cost Structure

A significant portion of the Company's operating expenses are fixed in nature and expenditures on capacity, information systems, capital equipment, etc., are based, in part, on anticipated revenue for future periods. Decreases in demand for the Company's products can create an underutilization of the Company's capital assets and increases the relative component of the Company's fixed costs, resulting in reduced gross margins. Fixed costs such as administrative, public company and selling expenses also have a large fixed cost component and the Company may not be able to reduce these costs sufficiently or quickly enough to respond to lower revenues in future periods. The Company continues to monitor the effectiveness and profitability of its operating facilities, each of which performs at varying levels of capacity and contribution.

The Company has undertaken two head count reductions, one in November 2007, and one in February 2008, and has significantly cut back on discretionary expenditures. Despite these cost reductions, the Company's sales have not been sufficient to create profitability and there can be no assurance that the Company will be able to generate sufficient sales or reduce costs to a point where the Company is profitable.

Effectiveness of Disclosure Controls and Internal Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2007 by and under the supervision of the Company's management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings of the Canadian Securities Administrations) are effective to ensure that the information required to be disclosed in reports that the Company files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation. There have been no changes, since this last formal assessment that have materially affected, or are reasonably likely to materially affect the Company's disclosure controls and procedures.

Under the supervision of the CEO and CFO, the Company has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. This design evaluation included documentation activities, management inquires and other reviews as deemed appropriate by management in consideration of the size and nature of the Company's business. There were no changes in the Company's internal controls over financial reporting during the most recent interim period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

International Financial Reporting Standards

In April 2008, the Accounting Standards Board of Canada decided to adopt International Financial Reporting Standards beginning with year ends in 2011. The Company has begun to review the implications of the impact of these new rules on its financial reporting.

Quarterly Comparison

	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06
	\$	\$	\$	\$	\$	\$	\$	\$
Continuing operations:								
Revenues	20,299	19,415	18,486	18,888	21,895	21,816	22,818	23,171
Income(loss) from operations	(487)	68	(883)	(882)	(261)	(129)	(350)	662
Income (loss)	(532)	(232)	(1,049)	(1,285)	(645)	(645)	(562)	557
Earnings (loss) per share								
Basic and Diluted	(0.03)	(0.01)	(0.06)	(0.07)	(0.03)	(0.03)	(0.03)	0.03

Additional Information

Share Capital

As of September 30, 2008, the Company had 18,642,886 common shares outstanding. As at September 30, 2008 the Company had 1,164,000 stock options outstanding, of which 502,325 were exercisable, all of which are below market value.

Public Securities Filings

Other information about the Company, including the annual information form and other disclosure documents, reports, statements or other information that is filed with Canadian securities regulatory authorities can be accessed through SEDAR at www.sedar.com.

Outlook

The Company has experienced seven consecutive quarters of losses. The Company is actively augmenting and upgrading its sales force to drive more bookings and sales. The Company has undertaken significant head count reductions in November 2007 and February 2008 and has for the most part, not replaced individuals that have left voluntarily, resulting in meaningful annual savings. Additionally the Company is engaged in consolidating its Toronto operations into the Sheppard site. This move will also result in meaningful savings commencing in 2009.