Coretec Inc.
2006 Third Quarter Results
Conference Call

November 1, 2006

Paul Langston

Good morning. I'm Paul Langston, Coretec's President and Chief Executive Officer. With me today is Andre Kern, Coretec's Chief Financial Officer, Jeff Canavor, Coretec's EVP Marketing and Sales, and Anaya Vardya, Coretec's Chief Operating Officer.

I'd like to thank you for joining us to discuss Coretec's 2006 third quarter results.

But first, I must caution you that this call may include statements about future expectations, plans and prospects that may constitute forward-looking statements. 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 the effects of a slow-down in the general economy and the electronics and printed circuit board industries; customer order levels, product mix and inventory build-up; lower than expected or delayed sales; pricing and other competitive pressures in the industry; government regulations or trade restrictions that adversely affect revenues; our ability to reduce costs; our ability to integrate past and any future acquisitions; and other risks listed in Coretec's filings with Canadian Securities regulators available at www.sedar.com.

Andre Kern will begin our presentation by reviewing the third quarter financial results. Then I'll provide a snapshot of our business highlights in the quarter and describe the outlook for Q4 for our industry and Coretec specifically. We will then open it up for questions.

Andre Kern

Financial results

Thanks Paul. Good Morning, Ladies and Gentlemen, I will begin by reviewing the **Statements of Operations** for the 3 and 9 months ending September 30th 2006 with comparison to the prior year.

Beginning with the most recent quarter;

Sales from continuing operations for Q3 were $21.3 million, a 7.1% or $1.4 million increase from the prior year period sales of $19.9 million.

The gross profit for the current quarter was $5 million, as compared to $4 million in the prior year, primarily related to improved operational execution at Coretec's manufacturing facilities. Gross margin in Q3 was 23.7% of sales, an improvement over the Q3 2005 period's gross margin of 20.2%.

Selling, general and administrative expense for the third quarter of 2006, at $3.3 million, is nominally lower as compared to $3.7 million in Q3 2005. The 2005 costs were higher primarily from costs associated with severance and higher professional fees.

Depreciation and amortization expense for Q3 2006 at $1.2 million is lower than the 2005 expense of $1.4 million, principally due to assets having become fully depreciated during the past year.

Interest and other expenses in the third quarter of 2006 were $0.2 million, marginally lower than the 2005 expense of $0.3 million resulting from lower average net debt balances as compared to the prior year period.

Income from continuing operations was $0.4 million for the third quarter of 2006 as compared to a loss of $1.4 in the same period in 2005.

Net income for Q3 2006 was $0.4 million as compared to a loss of $1.3 million recorded during the same period in 2005. The 2005 results include income from discontinued operations of $0.2 million.

I will now review 9 months ended September 30th Statement of Operations

Sales from continuing operations for the nine months was $67.8 million, a 15% or $8.8 million increase over the prior year period sales of $59.0 million. The increase in total sales for the 2006 period is mainly the result of an increase in activity at the Toronto and Cleveland sites as well as offshore brokerage sales whereby the Company procures printed circuit boards via a value-add-model from strategic partners in Asia.

Gross profit for the first nine months in 2006 was $16.5 million as compared $12.4 million in 2005. The gross margin for the two periods was 24.3% and 21.0% respectively. The improvement in gross profit and gross margin in 2006 is the result of higher contribution from all of the Company's sites. The improvement in gross profit at the Company's Toronto operations was limited by the strengthening of the Canadian dollar versus the U.S. dollar During the first nine months of 2006.

Selling, general and administrative expense for the first three quarters of 2006 was $10.3 million, nominally higher than the $10.2 million recorded in the similar period in 2005.

Depreciation and amortization expense was $3.8 million as compared to $4.4 million, principally due to assets having become fully depreciated during the past year.

Interest and other expenses for the nine months ended September 30, 2006 were $0.5 million, which was lower than the 2005 expense of $0.8 million because of lower debt balances as compared to the prior year period.

Income from continuing operations was $1.5 million for the first nine months of 2006 as compared to a loss of $3.7 million in the same period in 2005. The 2006 result is net of a $0.2 million write-down of fixed assets recorded in the first quarter and $0.1 million of foreign exchange losses recorded year to date. The comparable 2005 results were net of $0.6 million of costs related to terminated merger plans and $0.2 million of foreign exchange losses.

The Company does employ a cash flow hedging strategy that is designed to mitigate the impact of currency movements. At the end of the quarter there were a total of eight USD forward contracts worth $500,000 each with an average translation rate of 1.134.

Net income for the first three quarters of 2006 was $1.5 million as compared to a loss of $3.4 million recorded during the same period in 2005. The 2005 results include income from discontinued operations of $0.3 million.

Moving to the Balance Sheet…here are the highlights

Cash, net of bank indebtedness, was $0.3 million at September 30, 2006 as compared to a net borrowing of $0.9 million at the 2005 year end.

Working capital was $9.6 million at the end of September as compared to $8.7 million at December 2005.

Accounts receivable days sales outstanding were 62 days at the end of September 2006, consistent with the 61 days at the end of 2005.

Inventory turns were 13 times at the end of September as compared to 15 times at the end of December 2005. The reduction in turns relates to higher inventory levels at the end of Q3 06 in anticipation of Q4 06 sales.

Accounts payable days were 55 days at the end of September 2006, consistent with 56 days at the 2005 year end.

During the third quarter of 2006 the Company completed the purchase of the land and building of its Coretec Denver facility at a price of $2.0 million, paid for with cash of $0.5 million and through the assumption of two mortgages totaling $1.5 million.

For the September 30, 2006 year to date period, capital expenditures totaled $4.3 million. The 2006 expenditures include the purchase of the Denver building, the readying of the Sheppard building for the move of the Company's Lawrence operations, as well as investments in advanced drilling, solder mask capabilities, identification printing equipment, and information technology.

Coretec's long-term debt to equity ratio was 20% at the end of September as compared to 22% at December 31, 2005.

I will now discuss the Statements of Cash Flows…

Cash provided by **operating activities** was $2.6 million for the third quarter of 2006 and $4.8 million for the nine months ended September 2006. This compares to $0.5 million and $2.0 million respectively for the similar periods in 2005. The primary reason for the increase in cash provided by operating activities during 2006 is the improvement in net income.

Cash used in **financing activities** was $2.1 million for the third quarter of 2006 and $4.4 million for the nine months ended September 2006. This compares to a provision of cash of $0.6 million and a use of $0.9 million respectively for the same periods in 2005. The primary reason for the higher use of cash in 2006 was the increased repayment of bank indebtedness and long-term debt as compared to 2005.

Cash used in **investing activities** was $1.0 million for the third quarter of 2006 and $1.7 million for the nine months ended September 2006. This compares to $1.1 million and $2.9 million use of cash respectively for the same periods in 2005. The 9 months ended 2006 usage of $1.7 million in investing activities is net of the redemption of $1.1 million in short-term deposits during Q2 2006.

Year to date capital expenditures for 2006 total $4.3 million as compared to $2.4 million in the similar period of 2005. The statements of cash flows present a lower balance expended on capital assets because the Company <u>assumed</u> the mortgages related to the Denver building purchase, which is a non-cash transaction. Similarly, the cash used in financing activities was not affected by the assumption of the mortgages.

Paul Langston will now continue the conference call.

<u>Paul Langston</u>

Q3 2006 highlights

Thanks Andre……………..

The highlights of our 2006 Q3 are as follows;

- We experienced revenues of $21.3 million which represents a growth of 7.1% versus Q3 2005 despite the challenges associated with the appreciation of the Canadian dollar versus the US dollar. To put this into perspective the US$/CAN$ exchange rate at the end of Q3 2006 was 1.11 versus 1.16 at the same time last year;

- Geographic breakdown of corporate revenues in the quarter were 64% to the US, 31% to Canada and 5% to Europe and Asia;

- Q3 revenue by end market was once again well diversified with 58% EMS, 20% military/aerospace, 7% instruments, 10% Telecom and 5% Computer;

- In Q3 our top 10 customers accounted for 40% of sales. This concentration has been increasing over the past 12 months as we have deliberately mined our existing account base for additional share. In Q3 2005 it was approximately 30%;

- For the nine months ended September 30, 2006 we have processed well in excess of 3,000 new part numbers. Prototypes typically offer higher margins and furnish us with follow-on orders for the same part numbers. Having a large inventory of part numbers serves to secure a revenue stream well into the future;

- We generated net income of two cents per share ($0.4 million) in the quarter compared to an eight cents per share loss ($1.4 million) in the prior year quarter. Our trailing four quarter earnings per share is nine cents and 2006 year to date earnings per share is eight cents;

- Our capital expenditures during Q3 2006 amounted to $2.4 million which brings our year to date total to $4.3 million. In the quarter we acquired the property and building associated with our Denver operations which represented $2.0 million of the total capex in the quarter;

- During the quarter we finalized mortgage financing for both our Toronto (Sheppard) and Denver operations. Our current mortgage lender in

Toronto has agreed to increase the mortgage by $3.5 million on our Sheppard site. This will effectively fund improvements and equipment at our Sheppard site in preparation for our move out of our Lawrence facility. Furthermore, during the quarter we entered into a US$1.3 million mortgage as relates to our purchase of the land and building at our Denver site;

- As of September 30, 2006 our financial foundation was sound. Our working capital was $9.6 million and the current ratio was 1.8:1. Furthermore, our debt to equity ratio was 0.2:1.0 at quarter end.

Turning to the industry

According to IPC (the printed circuit board industry association) the cumulative rigid PCB shipment growth from January to September 2006 versus the same period in 2005 was up 11%. As relates to Coretec in particular, this data needs to be segmented further. For example, there is a heavy weighting to this industry growth figure driven from the Tier 1 telecom sector, a market that Coretec does not directly target. Secondly, this growth does not account for any foreign exchange variations. Both of these issues suggest that Coretec is gaining meaningful share versus our direct competition.

Looking at the industry book-to-Bill ratio, in Q1 it was 1.09 in January, 1.13 in February and 1.14 in March. By Q2 the ratio started to ease with April at 1.08, May at 1.02 and 1.00 in June. The statistics in Q3 were 1.02 in July, 1.06 in August and 1.02 in September.

What's in store for 2006 and beyond? Industry analysts, Henderson Ventures, projects that rigid PCB growth in the Americas will expand 7.3% in '06, 3.5% in '07 and 6.3% in '08, 2.0% in '09 and 2.9% in 2010.

Henderson Ventures also suggests that the greatest growth areas will be higher technology PCBs as well as those made of high performance materials. For instance, they are projecting North American shipments of High Density Interconnect, also known as HDI/microvia PCBs to grow on average by 7.3% over the next 4 years after having posted a whopping 41% growth rate in 2005 and 10.4% in 2006. Similarly shipments of PCBs made with high performance materials are expected to expand by 7.9% on a compound annual growth rate basis through 2010. Contrast this with the forecast for lower technology PCBs, namely one and two layer circuit boards which are projected to experience a -2.0% compound annual contraction through 2010.

The important factor to consider with respect to high performance and HDI/microvia PCBs is that only a handful of companies have expertise or capability in these high growth areas. For example, North America produces about 2% of the world's HDI/microvia PCBs. In contrast, about 7% of Coretec's revenues are derived from HDI PCBs.

It is estimated that there are fewer than 100 lasers used for PCB manufacturing in all of North America, a key piece of equipment in the manufacture of HDI PCBs. Coretec is one of a handful of companies that has multiple laser drills. This equipment is very expensive, i.e. >US$600,000 per unit. As such, smaller PCB firms are unlikely to enter this market segment. Another key piece of machinery required for higher density PCBs is known as LDI or laser direct imaging. Again, the cost of the equipment, roughly US$700,000 per unit, is a barrier to entry into this product category. Even the testing requirements associated with high performance/high density PCBs are driving differentiation in the industry – those who have the engineering talent and analytical tools versus those who do not.

It is interesting to note that the North American PCB manufacturing industry is primarily populated by small fabricators. The average PCB facility in North America today has revenues of only US$5-$7 million. This fact, would suggest given the aforementioned comment regarding technology enabling equipment, that in fact the industry is bifurcated – those who have the capability to invest in technology enablers and those who do not.

Also noteworthy are the different end market focuses of the small versus large facilities. The defense and aerospace end market is predominantly served by the small regional PCB companies, with the exception being a few larger players such as Coretec. We believe that as technology accelerates in this key sector, end users will seek out those PCB companies that can provide technical solutions to their interconnection challenges. This includes HDI, high performance materials and robust construction PCBs. Again larger PCB firms will have an advantage.

Furthermore, with respect to smaller PCB fabricators, the absence of critical mass affects their ability to invest in engineering and administrative talent, systems and regulatory governance (i.e. health and safety and the environment). We believe that an increasingly environmentally friendly world will punish operators who have not been vigilant in this regard. It is areas such as this that will affect the viability of the small regional facility going forward.

Turning to the supply side

The industry is experiencing meaningful inflation across direct and indirect materials, supplies, logistics and facilities costs. Base laminate prices have risen on multiple occasions over the past year and the expectation is that further price pressures are in play. We are expecting additional rounds of increases that will likely take prices up a further 10% in the next 12 months. In an inflationary environment, scale does help mitigate upward price pressure and afford preferential treatment in terms of supply. We expect this to allow larger operators, like Coretec, to gain further market share.

Capital equipment manufacturers are suggesting that lead-times are extending. Drilling equipment and wet process equipment lead-times are at 6 months. This implies that a resurgence in capital equipment investing is occurring amongst those operators with the financial capability to do so.

Turning to our forward strategy.

We believe that share gains can be had through differentiation. At Coretec we are well on our way to presenting a differentiated business model across numerous fronts. Our deployment of significant value added engineering services, i.e. field engineers and CADCAM capability, makes us one of a handful of companies offering a solutions approach to the PCB consumer. It is worthy to note that we will be significantly increasing our investment in this regard throughout 2007. Our commitment to our customers with respect to strategic supply chain partnership is certainly unique compared to the vast majority of the competition. We believe there is huge room for improvement in terms of professionalism and efficiency in our industry, and we will lead the way in terms of meeting this challenge. Our menu of administrative and logistics tools offers our customers an efficient and effective interface with all of our sites. We will make further investments particularly in terms of "ease of doing business" in 2007. And our product and services breadth provides customers with a "one-stop-shop" opportunity that is unlike most others. We will continue to drive forward with capacity, technology and service offerings that are relevant and proactive with respect to the customer's needs.

Of worthy note, we have just launched a corporate-wide customer centricity initiative that we call C3. We believe that entrenching the doctrine of "customer first" will further delineate Coretec as the "go to company" in the industry for solutions and rapid response. The first step in the process is the re-launch of our website (www.coretec-inc.com) which although it is most importantly directed at customers is also a great tool for other stakeholders, i.e. the investment community, our current shareholders, current and prospective employees, suppliers and institutional partners.

From a systems perspective we are embarking on the AS9100 quality systems path at our Denver operations in Q4. Both our Toronto and Cleveland operations have this key avionics approval. We are anticipating a 9-12 month approval process in Denver. We are also planning the introduction of ISO14001:2004 at both of our US sites in 2007. This world-class environmental approval will further differentiate Coretec in the eyes of an ever-increasingly environmentally sensitive and discriminating electronics industry. Coretec's Toronto operations were the first PCB site in North America to achieve this certification.

Driving our operations forward is the continued implementation of Lean Manufacturing and Constraints Management methodology as well as aggressive investments in human capital. In 2007 we will be beefing up our "in-house" education organization and team benefits with the objective of 1/ optimizing the outstanding talent pool that we presently have corporate-wide; and 2/ attracting new key players to our various sites.

Our capital investment plans for the balance of 2006 are focused upon technology furtherance, cycle time reduction and on time delivery reliability. In Q4 we will expend approximately $500,000 on capital equipment. This does not include expenditures associated with our Sheppard facility build-out. Our preliminary capital expenditure budget for capital equipment in 2007 is 4% of revenues or roughly $4 million.

With respect to our Toronto consolidation plans we have already commenced work on Phase 1 of the project which involves infrastructure construction to enable installation of all operations currently at our Lawrence site. The timeframe for the completion of this Phase is early Q2 2007 with a budget of approximately $2.5 million. We have spent approximately $400,000 of the budgeted amount as of the end of Q3 2006. Funding for this undertaking has been finalized with the Business Development Bank of Canada (BDC) in the form of mortgage financing on our Sheppard real estate. Our present mortgage on the site is approximately $2.7 million. BDC has facilitated an additional $3.5 million of construction and infrastructure financing with an average amortization of 8.3 years.

Finally, I would like to briefly discuss our thoughts for Q4 2006.

The fact that we are just-in-time product builders makes it difficult for us to offer revenue or eps guidance. Historically we have experienced annual revenue growth in excess of the industry rate as measured by IPC.

At present we are enjoying stronger booking activity versus Q3 2006 and as a result expect to achieve sequential revenue improvement in Q4 if the trend continues.

Looking out into 2007, we will exploit our scale, our engineering prowess, our commitment to environmental stewardship and our sales/marketing savvy to further drive our brand notoriety and increase our market share.

We continue to believe that our core operating pillars; technology, time and value added services are in sync with the dynamics of the market. We are a key player in the electronics supply chain in North America. We are committed to further optimizing our operations such that we are a World-class partner for our World-class clientele. In doing so we believe that financial metrics will be similarly optimized.

That wraps up our presentation. We thank you for your interest and attention. I will now open the discussion up for questions.

Paul Langston (after the Q&A period is finished)

As a reminder, the instant replay of this Conference Call will be available from November 1st at 10 a.m EST. until Wednesday , November 15, 2006 at 11:59 p.m. EST. The phone number for the instant replay is for North America 1-866-206-0173 or International at 1-646-216-7204 the pass code is 189979#.

The text of this presentation will be posted on our website; www.coretec-inc.com.