



CORETEC INC.

MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION & RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009

(dollar amounts in thousands of Canadian dollars unless
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Canadian dollars)

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The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operations of Coretec Inc. ("Coretec" or "the Company") for the three and six-month periods ended June 30, 2009 is prepared as of August 13, 2009 and should be read in conjunction with the Company's consolidated financial statements and related notes for the three and six month periods ended June 30, 2009.

The purpose of this 2009 second quarter report is to provide an update to the information contained in the Company's MD&A section of the Company's 2008 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 2008 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 SEDAR 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.

Forward Looking Information

Certain statements contained in this MD&A contains "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 Factors", in the Company's MD&A for the year end December 31, 2008.

BASIS OF PRESENTATION

The consolidated financial statements of the Company include the accounts of Coretec and its subsidiaries. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of operation for the foreseeable future.

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1. CORPORATE OVERVIEW

Coretec is one of North America's leading fabricators of Printed Circuit Boards ("PCB"). The Company has an extensive product offering including double sided and multilayer rigid PCBs, flexible and rigid-flex PCBs, High Density Interconnect ("HDI") PCBs, as well as PCBs containing metal cores or heat sinks. The Company also offers a series of value added services to its customers such as computer automated design layout, field applications engineering, technology consulting and education, quick turn manufacturing and high volume facilitation in Asia.

The Company's marketing and sales focus is on servicing the product engineering requirements and expedited time-to-market needs of electronic equipment manufacturers, both original equipment manufacturers ("OEM") and electronic manufacturing services ("EMS") companies. The Company targets its sales efforts on customers in some of the most technologically demanding segments of the electronics industry; namely military/aerospace, medical and heavy industry.

The challenges in the North American PCB market include shortening electronic product life cycles, a trend towards inventory minimization, lower volumes, increasing product complexity, environmental sensitivity, the increasing significance of approvals (both customer specific and globally recognized), raw material inflation, skilled labour scarcity and competitive pressures from offshore and domestic manufacturers.

According to IPC's World PCB Production and Laminate Market Report, issued in July 2009, Rigid PCB shipments declined 30.8% and bookings were down 16.6% in June 2009 from June 2008. Year to date, rigid PCB shipments are down 29.3% and bookings fell by 29.6% compared to the previous month, rigid PCB shipments grew 18.6% and rigid bookings increased 27.9%. Rigid PCBs represent an estimated 91% of the current PCB industry in North America, The book-to-bill ratio for the North American rigid PCB industry in June 2009 continued climbing to 1.12. It is estimated that the total current value of North American PCB production is roughly US \$3.0 billion.

"Although PCB sales in June were still well below last year's levels, the growth rates are improving," said IPC President Denny McGuirk. "Bookings are recovering and that is reflected in the book-to-bill ratio, which is the highest we've seen in over three years," he added. "That will help to drive stronger sales growth in the coming months."

To respond to the weak market demand conditions and overall market trends the Company has 1) focused its sales and marketing efforts on the higher margin quick turn and prototype segments of the market; 2) invested in systems and equipment that enable the construction of advanced technology products; 3) created value added solutions directed at product developers and higher technology consumers; 4) committed to strong environmental stewardship; 5) achieved multiple sector specific and generic certifications; 6) developed a strategy for higher volume product fulfilment in Asia; and 7) taken steps to lower its fixed cost structure to better match current production volumes.

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The Company's sales are derived primarily from the manufacture and sale of rigid and rigid flex PCBs that are custom designed and customer specific. Non-labour related direct expenses consist of direct materials; namely laminates made of fibreglass and epoxy, as well as base and precious metals such as copper, tin, silver and gold. Indirect materials include photographic films and inks, as well as generic and specialty chemicals. The Company also uses carbide tools for the drilling, routing and cutting of their products.

The Company believes that an ongoing focus on the above-noted niche markets and a focus on lowering overhead and production cost will cause it to be less susceptible to import competition from lower cost offshore jurisdictions. Those demand characteristics that favour domestic manufacturers include government restrictions, intellectual property concerns, freight time and costs, engineering intimacy requirements, compressed delivery requirements and order size.

2. RECENT DEVELOPMENTS

Restructuring

During the second quarter of 2009 and July of 2009 the Company initiated wide ranging restructuring efforts, both in operations and administration, to reduce cost and return to profitability. These efforts include the following actions:

- Continuing consolidation efforts among the Company's Toronto facilities
- Reducing direct and indirect labour hours through shift reductions and layoffs
- 10% pay cuts and wage reductions for all direct, indirect and salaried employees
- Reductions in benefits
- Discounts from suppliers
- Implementing energy conservation measures
- Consolidation of IT functions
- Various cuts in selling, general and administration departments

These actions are expected to generate savings of approximately \$6.5 million annually and \$2.6 million for the second half of 2009.

Revolving line of credit

On March 24, 2009, the Company entered into a new three year, \$10 million asset based lending ["ABL"] revolving credit line with Wells Fargo Canada ("Wells Fargo") to be used for day-to-day working capital and other expenditures. Wells Fargo holds a general security agreement on all of the Company's assets except for the Company's buildings and real estate in Toronto, Denver and Cleveland, where it holds a second ranking charge behind the Business Development Bank of Canada ("BDC"), GE Capital and Zion's Bank, respectively. The covenants for this new facility include a requirement for the Company to achieve 75% of its forecasted "EBITDAFX" [earnings before interest, taxes, depreciation and amortization and foreign exchange gains or losses] on a quarterly basis as well as to comply with certain other covenants. The amount of funding available under the line is based on 82% of eligible accounts receivable. The loan bears interest at prime plus 2.25% [currently 8.5% for US dollar line of credit and 7.5% for Canadian dollar line of credit], payable monthly. The initial proceeds from the Wells Fargo loan were used to repay the outstanding Bank of Montreal loans and the new revolving credit line with Wells

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Fargo replaces the Bank of Montreal's ("BMO") revolving credit facility.

At June 30, 2009 the Company was in default of the EBITDA and stop loss covenants for which it received a waiver from Wells Fargo on August 13, 2009. Wells Fargo began charging default interest on the outstanding balance on the revolving credit line of an additional 3% effective June 1, 2009.

The waiver from Wells Fargo included the following amendments, among others, to the terms of the Wells Fargo Credit Agreement:

- Interest rate increased to the greater of Canadian or US Prime rate (as applicable) plus 5% or 7.25% per annum
- Minimum EBITDA covenants exclude normalizing adjustments for losses with respect to foreign exchange
- Revised covenants to reflect the Company's reforecast for 2009

At June 30, 2009 there was \$6.7 million outstanding on the revolving line of credit [\$3.6 million – December 31, 2008]. Funds availability under the revolving line of credit are calculated as eligible accounts receivable, less bank reserves and less the loan balance outstanding. Bank reserves are comprised of a general reserve and amounts deemed necessary by the bank to cover liabilities which take precedent. Fund availability at June 30, 2009 was \$1.8 million (in excess of the amount outstanding).

Long Term Debt

In January 2009, the Company made a \$0.7 million draw against the BDC facility for infrastructure. In March 2009, the Company drew an additional \$0.3 million, its final advance against the facility.

In January 2009 the Company made a US\$0.6 million [\$0.7 million CAD] draw against the BDC facility [\$3.8 million CAD] for equipment.

The BDC loans require the Company to maintain a minimum consolidated working capital ratio of 1.2:1 and a long term debt/tangible equity ratio of 0.75:1. The Company was in default of the working capital covenant with BDC as at June 30, 2009, for which it received a waiver on August 13, 2009. Both loans are collateralized by the Company's Toronto land and building, and include the requirement for the guarantee of 25% of the loan balance by Coretec Holdings Inc, a wholly owned subsidiary, which owns the shares of the Company's U.S. companies.

Effective March 31, 2009, the Company is contracted to pay a monthly standby fee on the undisbursed portion of the BDC US\$3 million facility at a rate of 3% per annum.

Toronto Consolidation Project

During 2009 the Company continued with its efforts to consolidate its two facilities in Toronto. In February 2009, the Company vacated five of the sixteen units at its Ellesmere facility, which is anticipated to generate approximately \$0.2 million in lease cost savings. The routing and final outer layer processes were moved to the Sheppard Facility during December 2008 and January 2009, which allowed the Company to vacate these units. Also during the first quarter the

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Company relocated its soldermask, ident and inspection and test processes to its Sheppard facility.

Q2 2009 Business Highlights

Sales for the second quarter of 2009 were \$17.9 million, as compared to sales of \$19.4 million in the same quarter in 2008, a decrease of \$1.5 million or 8%.

Sales for the six months ending June 30, 2009 were \$38.1 million, as compared to sales of \$37.9 million in the first six months of 2008, an increase of \$0.2 million.

Gross margin in Q2 2009 was 7%, as compared to Q2 2008 gross margin of 13% of sales.

The Company recorded a net loss of \$2.4 million or \$0.13 per share in Q2 2009 as compared to a net loss of \$0.2 million or \$0.01 per share in Q2 2008.

The Company recorded a net loss of \$3.3 million in the six months ended June 30, 2009, as compared to a net loss of \$1.3 million in the six months ended June 30, 2008.

As at June 30, 2009, the Company had total working capital of \$3.2 million as compared to \$5.4 million at December 31, 2008.

Capital additions for Q2 2009 were \$1.1 million, primarily related to infrastructure for the Company's consolidation project at the Toronto facility. The cost to complete these projects is estimated to be approximately \$0.5 million and is expected to be completed by early 2010 depending on the Company's available cash flow.

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3. REVIEW OF FINANCIAL RESULTS

Results of Consolidated Operations for the three months ended June 30, 2009 compared with 2008.

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Sales	17,937	19,415	38,142	37,901
Cost of sales	16,749	16,832	34,968	33,623
Gross profit	1,188	2,583	3,174	4,278
Expenses				
Selling, general and administrative	2,775	2,515	5,475	5,094
Income (loss) from operations, before the following:	(1,587)	68	(2,301)	(816)
Interest and other expenses, net	288	167	524	366
Foreign exchange (gain) loss	470	111	534	109
(Gain) loss on disposal of property, plant and equipment, net	(28)	22	(158)	(10)
Loss before income taxes	(2,317)	(232)	(3,201)	(1,281)
Income taxes	34	5	53	5
Net loss for the period	(2,351)	(237)	(3,254)	(1,286)
Cumulative loss, beginning of period	(35,236)	(33,067)	(34,333)	(32,018)
Cumulative loss, end of period	(37,587)	(33,304)	(37,587)	(33,304)
Loss per share				
Net loss per share, basic and diluted	(\$0.13)	(\$0.01)	(\$0.18)	(\$0.07)

Revenues

Consolidated revenues for the second quarter of 2009 were \$17.9 million, as compared to revenues of \$19.4 million in the same quarter in 2008, a decrease of \$1.5 million or 8%.

The decrease in revenues resulted primarily from a decrease in production volumes due to current economic conditions. Coretec generates approximately 70-90% of its revenues in U.S. dollars. The average USD/CAD exchange rate for Q2 2009 was approximately 1.17 as compared to approximately 1.00 for Q2 2008. Had the exchange rate remained constant between quarters, the decrease in revenues would have been approximately \$3.6 million or 18%. This compares to a PCB industry year over year revenue decline as at June 30, 2009, according to IPC, of approximately 30%

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Revenue Percentage by Market Segment

	Q2 2009	Q2 2008
EMS	45%	49%
OEM	55%	51%
Total	100%	100%

Ten largest customers as a percentage of total revenue

	Q2 2009	Q2 2008	Change %
Ten largest customers	48%	41%	18%

Cost of Sales

Cost of sales were essentially flat quarter over quarter. In Q2 2009 cost of sales was \$16.7 million as compared to \$16.8 million in Q2 2008, a decrease of \$0.1 million. As indicated above, in Q2 2009 production volumes dropped significantly from the same period in 2008. However, as a result of the consolidation project in Toronto and the resulting disruption in production activities, during Q2 2009 labour was maintained at equivalent levels to Q2 2008, while fewer panels were produced. In addition there were startup issues in several new and/or transferred processes in Toronto which resulted in significant yield challenges and rework, which were partially offset by the benefit from a change in the estimate for valuing spares inventory at all sites.

Selling, General and Administrative ("SG&A")

SG&A costs were \$2.8 million in Q2 2009 as compared to \$2.5 million for Q2 2008, an increase of \$0.3 million. The primary reasons for the increase were higher legal and audit fees resulting from inefficiencies in the Company's finance function. In addition severances recorded during Q2 2009 amounted to \$0.2 million versus nil in Q2 2008.

Interest Expense

Interest expense was \$0.3 million in three months ended June 30, 2009 as compared to \$0.2 million in the same period in 2008, resulting from generally higher debt levels due to funding the Toronto consolidation project and the need to fund operating losses.

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Foreign Exchange

During Q2 2009 the Company realized a loss of \$0.5 million as compared to a loss of \$0.1 million in the same period in 2008, an increase of \$ 0.4 million. The FX loss resulted from significant negative fluctuations in CAD/USD exchange rates. The Company's subsidiaries are treated as integrated and all USD monetary items are translated to Canadian dollars through the income statement.

Net Loss and Loss per Share

The Company recorded a net loss in Q2 2009 of \$2.4 million, or \$0.13 per share as compared to a net loss of \$0.2 million in Q2 2008 or \$0.01 per share.

Results of Consolidated Operations for the six months ended June 30, 2009 compared with 2008

Revenues

Consolidated revenues for the six months ended June 2009 were \$38.1 million, as compared to revenues of \$37.9 million in the same period in 2008, an increase of \$0.2 million.

While consolidated revenues increased, volumes decreased significantly. The increase in revenues is a result of positive contribution from the strength in the US dollar against the Canadian dollar during the period, as compared to the same period in 2008. Coretec generates approximately 70-90% of its revenues in U.S. dollars. The average USD/CAD exchange rate for the six months ended June 2009 was approximately 1.20 as compared to approximately 1.00 for the same six month period in 2008. Had the exchange rate remained constant between periods, the decrease in revenues would have been approximately \$4.6 million or 12%. The decrease in production volumes is primarily due to current economic conditions. This compares to a PCB industry year over year revenue decline as at June 30, 2009, according to IPC, of approximately 30%

Revenue Percentage by Market Segment

	YTD June 2009	YTD June 2008
EMS	45%	49%
OEM	55%	51%
Total	100%	100%

Cost of Sales

In the six months ended June 2009 cost of sales were \$35.0 million as compared to \$33.6 million in the same period in 2008, an increase of \$1.4 million. As indicated above, during the period, assuming an equivalent USD/CAD FX exchange rate, volumes dropped significantly. However, as a result of the consolidation project in Toronto and the resulting disruption in production activities, during the six months ended June 2009 labour was maintained at equivalent levels to the 2008 period, while fewer panels were produced. In addition there were startup issues with respect to several new and/or transferred processes in Toronto which resulted in significant yield

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challenges and rework. This was partially offset by the benefit from a change in the estimate for valuing spares inventory at all sites.

Selling, General and Administrative ("SGA")

SGA costs were \$5.5 million for the six months ended June 2009 as compared to \$ 5.1 million for the same period in 2008, an increase of \$0.4 million. The primary reasons for the increase were higher legal and accounting/audit fees resulting from inefficiencies in the Company's finance function. In addition, severances recorded during the first six months of 2009 amounted to \$0.2 million versus nil in the same period in 2008.

Interest Expense

Interest expense was \$0.5 million in the six month period ended June 30, 2009 as compared to \$0.4 million in the same period in 2008, resulting from higher average debt balances and higher amortization of deferred financing fees from costs incurred to enter into the new Wells Fargo revolving facility. Wells Fargo began charging default interest on the outstanding balance on the revolving credit line of an additional 3% effective June 1, 2009.

Foreign Exchange

During the six month period ended June 2009 the Company realized a \$0.5 million foreign exchange loss as compared to \$0.1 million loss in the same period in 2008, an increase of \$ 0.4 million. This resulted from significant negative fluctuations in CAD/USD exchange rates. The Company's subsidiaries are treated as integrated and all USD monetary items are translated to Canadian dollars through the income statement.

Gain on Disposal of Equipment

A \$0.2 million gain was recorded in the six month period ended June 2009, on the sale of certain equipment deemed to be redundant at the Sheppard facility. In the six month period ended June 2008 a small gain was realized on the sale of equipment.

Net Loss and Loss per Share

The Company recorded a net loss of \$3.3 million, or \$0.18 per share in the six month period ended June 2009, as compared to a net loss of \$1.3 million or \$0.07 per share in the same period in 2008.

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Summary of Financial Condition as at June 30, 2009 as compared to December 31, 2008

	June 30, 2009	December 31, 2008
	\$	\$
ASSETS		
Total current assets	20,081	23,179
Property, plant and equipment, net	31,610	32,122
Other assets	119	147
TOTAL ASSETS	51,810	55,448
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total current liabilities	16,931	17,808
Total liabilities	27,579	27,998
Total shareholders' equity	24,231	27,450
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	51,810	55,448

4. LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2009 the Company's principal source of liquidity included cash of \$1.7 million, trade accounts receivable of \$12.0 million, and \$1.8 million available on its operating line of credit. Working capital was \$3.2 million at June 30, 2009.

Comparably, at December 31, 2008, the Company's principal source of liquidity included cash of \$1.1 million, trade accounts receivable of \$15.5 million, and \$3.9 million availability on its operating line of credit. Working capital was \$5.4 million at December 31, 2008.

5. LIQUIDITY OUTLOOK

As at June 30, 2009, the Company had total working capital of \$3.2 million as compared to \$5.4 million at December 31, 2008.

As at June 30, 2009 the Company was in violation of certain covenants under the revolving credit facility with Wells Fargo as well as its term debt facilities with BDC. The Company received waivers with respect to these violations on August 13, 2009 (see Note 1 to the second quarter 2009 financial statements and Section 2. of this document, for further information).

Due to the downturn in the economy and slowing sales revenues as well as the negative impact of the strengthening Canadian dollar on its Canadian operations, the Company has been required to utilize much of its financing flexibility. As of August 13, 2009 the Company has approximately \$1.0 million of availability remaining on its revolving line of credit. If these conditions continue or worsen, the Company may not be able to meet its obligations as they become due. The Company has taken significant restructuring actions to reduce labour costs as well as SG&A costs and believes that this will result in improved financial performance.

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The Company anticipates, based on its current operating plan (net of availability on the line of credit and BDC term loan), having a small working capital shortfall during Q3 or Q4 2009. Company management is currently reviewing all areas of expenditures, to reduce and/or defer the cash requirements, thereby extending the funding horizon. Alternatively, it would be required to seek additional funding via a private placement or from the capital markets. In such an event, there can be no assurance that such funding would be available on terms acceptable to the Company.

Summary of Cash Flows

The following table summarizes the Company's cash flows for the three and six month periods ended June 30, 2009 and 2008:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(2,351)	(237)	(3,254)	(1,286)
Cash (used in) provided by operating activities	(1,692)	345	(1,060)	757
FINANCING ACTIVITIES				
Cash provided by financing activities	2,337	1,482	3,121	111
INVESTING ACTIVITIES				
Cash used in investing activities	(911)	(1,806)	(1,483)	(2,511)
Foreign exchange effect on cash	1,310	(77)	6	343
Net increase (decrease) in cash during the period	1,044	(56)	584	(1,300)
Cash, beginning of period	670	585	1,130	1,829
Cash, end of period	1,714	529	1,714	529

Cash Provided by (Used in) Operating Activities

Cash used in operating activities was \$1.7 million for Q2 2009 as compared to cash provided by operating activities of \$0.3 million for Q2 2008. The increase in cash used primarily resulted from the higher loss in Q2 2009 as compared to Q2 2008.

In the six months ended June 2009 cash used in operating activities was \$1.1 million as compared to cash provided by operating activities of \$0.8 million for the same period in 2008. The increase in cash used primarily resulted from the higher loss in the six months ended June 2009 as compared to the same period in 2008. During the six month period receivables declined by \$3.1 million however this benefit was offset by a similar negative decrease in trade payables.

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Cash Provided by Financing Activities

Cash provided by financing activities of \$2.3 million for Q2 2009 relates to an increase in advances of \$3.4 million from the Wells Fargo line of credit, offset by the repayment of \$1.1 million of long-term debt.

Cash provided by financing activities of \$3.1 million for the six month period ended June 2009 relates to an advance of \$1.7 million from BDC as well as a \$3.0 million increase in advances on the Wells Fargo line of credit, offset by the repayment of \$1.6 million of long-term debt.

Cash Used in Investing Activities

Cash used in investing activities in Q2 2009 of \$0.9 million relates primarily to expenditures for infrastructure at the Sheppard facility and the purchase of capital equipment. In Q2 2008 the Company spent \$3.3 million for infrastructure at Sheppard and on certain pieces of capital equipment.

For the six months ended June 2009 cash used in investing activities was \$1.5 million related primarily to the expenditure of \$1.7 million, which included the infrastructure at the Sheppard facility, and the purchase of capital equipment offset by gain on disposal of certain fixed assets. In the six month period ended June 2008 the Company spent \$3.3 million for infrastructure at Sheppard and on certain pieces of capital equipment.

Interest Rate Exposure

The Company's interest rate risk primarily arises from its floating rate debt in particular its revolving line of credit and BDC loans. At June 30, 2009, \$15.9 million of the Company's total debt, is subject to movements in floating interest rates [December 2008 - \$12.0 million].

6. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

New Accounting Policies

Note 2 to the Q2 2009 consolidated financial statements describes new standards issued by the Canadian Institute of Chartered Accountants that the Company has adopted. There was no impact to the financial statements as a result of these changes, outside of additional disclosure in the notes to the consolidated financial statements.

During the second quarter of 2009 the Company changed its estimate for valuing inventory spares included in finished goods inventory across all its sites to better reflect the sales of spares to its customers. This change in estimate resulted in an increase in income during the second quarter of 2009 of \$0.5 million.

Coretec's other significant accounting policies are described in Note 2 of the 2008 audited consolidated financial statements.

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The preparation of the consolidated financial statements in conformity with 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.

7. CONTROLS AND PROCEDURES

Internal control over financial reporting

As part of its evaluation of the design of internal controls, and the testing of these controls, management identified control weaknesses with respect to documentation, support of fixed asset subledgers, tax accounting and timely preparation of tax returns, segregation of duties, lack of reconciliations, lack of approvals, cut-off errors, and general controls and accounting knowledge and training. During Q2 2009 and subsequent to Q2 2009 the Company replaced several members of the Finance staff including the CFO, Controller and Accounting Manager. The Company will continue to improve the identified deficiencies and the overall control environment and governance processes within the Company. As a result of the reconciliations and review procedures performed, the Company does not believe these weaknesses had a material impact on the Company's financial reporting.

Controls over Information Technology and Information Systems

Formal information systems security policies have not been developed and there are no offsite redundant data storage and servers and backup support is minimal. These deficiencies could potentially result in inappropriate or unauthorized transactions, there may also be difficulties to recover financial data in the case of the loss or destruction of the Company's data systems.

8. RISKS AND UNCERTAINTIES

The following are updates to certain risks and uncertainties described in the Company's MD&A for the year ended December 31, 2008, and should be read together with the Company's MD&A for the year ended December 31, 2008, which is available on SEDAR (www.sedar.com) or on Coretec's website at www.coretec-inc.com.

**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION &
RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTH PERIODS ENDED
JUNE 30, 2009**

(dollar amounts in Canadian dollars unless otherwise indicated, tabular amounts expressed in
thousands of Canadian dollars)

Exchange Rate Fluctuations

The Company's business activities are conducted primarily in U.S. dollars and to a lesser extent Canadian dollars.

The Company's Canadian operations generate sales with payment 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 costs and costs of locally sourced supplies and inventory) are denominated in Canadian dollars at its Canadian site. Approximately 80% 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.

Product Complexity and Product Defects

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

Plant Relocation

Coretec is undertaking the consolidation of its Toronto manufacturing operations. The Company has yet to relocate its multilayer lamination process and certain metal finishing processes. There is meaningful risk associated with the ongoing consolidation particularly as it relates to costs of equipment and process relocation, disruptions to its day to day operations, potential for reduced productivity and production yields, Sheppard facility preparations, and refurbishment of Ellesmere premises as leased units are vacated. Although the Company has completed the majority of the consolidation work it may need to obtain additional long-term financing to complete the project and complete it on a timely basis. There can be no assurance that the Company will obtain financing or sufficient financing to complete this project.

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. 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.

**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION &
RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTH PERIODS ENDED
JUNE 30, 2009**

(dollar amounts in Canadian dollars unless otherwise indicated, tabular amounts expressed in thousands of Canadian dollars)

Liquidity

As a result of the economic environment the Company is experiencing a tightening of its working capital from lower sales and lower production volumes. The Company has taken action to reduce its cost structure, however the Company's ability to continue as a going concern is dependent on the Company's ability to return to profitable operations and to comply with the covenants and other requirements of its lending institutions. The financial statements do not reflect adjustments to the carrying value of assets and liabilities and the reported expenses and balance sheet classifications of assets and liabilities that would be necessary should the going concern assumption be inappropriate, and such adjustments could be material.

9. SUMMARY OF QUARTERLY RESULTS

	Q3-07 \$	Q4-07 \$	Q1-08 \$	Q2-08 \$	Q3-08 \$	Q4-08 \$	Q1-09 \$	Q2-09 \$
Revenues	21,895	18,888	18,486	19,415	20,299	22,839	20,205	17,937
Income(loss)from operations	(260)	(882)	(883)	68	(487)	264	(714)	(1,587)
Income (loss)	(644)	(1,374)	(1,049)	(237)	(532)	(499)	(903)	(2,351)
Earnings (loss) per share								
Basic and Diluted	(0.03)	(0.07)	(0.06)	(0.01)	(0.03)	(0.03)	(0.05)	(0.13)

10. ADDITIONAL INFORMATION

Share Capital

As of June 30, 2009, the Company had 18,021,807 common shares outstanding. As at June 30, 2009 the Company had 929,000 stock options outstanding, of which 402,328 were exercisable.

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).