



C O R E T E C

how far, how fast?

Coretec Announces Second Quarter 2007 Results

Second quarter loss of \$0.03 per share

Toronto, Ontario, July 24, 2007 - Coretec Inc. (TSX: CYY) today reported its financial results for the second quarter ended June 30, 2007. Sales in the 2007 second quarter were \$21.8 million, a decrease of \$1.0 million sequentially or 4.5% as compared to sales of \$22.8 million in Q1 2007, and down \$1.0 million or 4.5% from sales of \$22.8 million in the same period of the prior year.

In the 2007 second quarter, the Company recorded gross profit of \$4.3 million or 19.9% of sales, a decrease of \$0.3 million sequentially or 8.7% as compared to gross profit of \$4.6 million in Q1 2007, and down \$1.0 million or 19.2% from gross profit of \$5.2 in the comparable period in 2006.

A loss of \$0.6 million or \$0.03 per share was recorded in the 2007 second quarter, a decrease of \$0.1 million sequentially as compared to a loss of \$0.5 million or \$0.03 per share in Q1 2007, and down \$1.0 million as compared to the prior year quarter which had income of \$0.4 million or \$0.02 per share. The 2007 second quarter included \$0.4 million of foreign exchange losses partially offset by a gain on sale of fixed assets of 0.1 million. This compares with a loss on foreign exchange of \$0.1 million in Q1 2007 and a gain of \$0.1 million in the prior year period. In Q1 2007 the Company had a gain of \$0.1 million on the sale of fixed assets and no gain or loss in the prior year period.

Earnings before interest, taxes, depreciation and amortization (EBITDA) in the second quarter of 2007 was \$0.9 million, as compared to EBITDA of \$0.8 million in Q1 2007, and a decrease of \$0.9 million or 50% as compared to EBITDA of \$1.8 million in the second quarter of 2006.

Paul Langston, President and CEO of Coretec Inc. said, "The Company's unsatisfactory financial performance relates to both macro and micro issues. From a macro perspective the Company suffered from the general slowdown in the PCB industry. According to IPC (the North American PCB industry association), industry shipments and bookings through to the end of May 2007 are off 11.6% and 17.7% respectively versus the same period

in 2006. Additionally the rapid appreciation of the Canadian dollar relative to other major currencies had a material impact on the Company's cost structure during the quarter as well as precipitated meaningful foreign exchange losses relative to prior periods. From a micro perspective the Company experienced disruption associated with the relocation of its Lawrence manufacturing operations. Additionally, the Company suffered operational challenges at its Toronto operations as it relates to an increasingly challenging product mix and defective chemical supply early in the quarter. By the end of May the Company had completed the shutdown of its Lawrence facility and by the end of July all processes transferred will be fully operational. With respect to product yields in the Toronto operations, the Company will be installing new equipment in Q3 2007 that will not only stimulate improvement but enable additional capacity and process continuity. Furthermore, recent additions to our technical, quality and manufacturing management organizations will serve to bring new equipment and processes on stream as well as secure continuous improvement in process and product engineering. In contrast our US operation performed well during the second quarter."

Coretec is one of the leading designers and fabricators of printed circuit boards for the prototype and quick turnaround production segments of the North American and European markets. Coretec distinguishes itself from its competitors by providing an extensive suite of printed circuit board services including field applications engineering support and education; technology roadmap consulting, CAD layout; rapid response manufacturing for prototypes; quick turn production for small-to-middle volume quantity requirements; and facilitation of higher volume requirements via partnerships in lower cost jurisdictions. The Company is also differentiated by its broad range of PCB technologies.

This news release 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 Coretec's Annual Information Form dated March 8, 2007 which can be obtained at www.sedar.com.

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Coretec Inc.

CONSOLIDATED BALANCE SHEETS

[in thousands - unaudited]

	June 30, 2007	December 31, 2006
	\$	\$
ASSETS		
Current		
Cash	902	1,721
Accounts receivable	14,350	14,536
Mortgage receivable	1,050	—
Inventories [note 2]	5,335	4,795
Income taxes recoverable	118	118
Prepaid expenses	855	509
Total current assets	22,610	21,679
Mortgage receivable	—	1,050
Property, plant and equipment, net	29,046	26,262
Other assets [note 3]	431	1,040
	52,087	50,031
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 4]	2,144	—
Accounts payable and accrued liabilities	9,571	11,085
Current portion of long-term debt [note 5]	2,038	1,699
Total current liabilities	13,753	12,784
Long-term debt [note 5]	6,675	4,447
Total liabilities	20,428	17,231
Shareholders' equity		
Share capital [note 6]	61,067	61,064
Share capital held by long term incentive plan [note 6]	(98)	(118)
Contributed surplus [note 6]	690	661
Deficit	(30,000)	(28,807)
Total shareholders' equity	31,659	32,800
	52,087	50,031

See accompanying notes

Coretec Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

[in thousands except per share amounts - unaudited]

	Three months ended June 30		Six months ended June 30	
	2007 \$	2006 \$	2007 \$	2006 \$
Sales	21,816	22,843	44,634	47,402
Cost of sales	17,600	17,652	35,794	35,981
Gross profit	4,216	5,191	8,840	11,421
Expenses				
Selling, general and administrative	3,049	3,484	6,808	7,063
Depreciation and amortization	1,296	1,257	2,512	2,560
	4,345	4,741	9,320	9,623
Income (loss) from operations	(129)	450	(480)	1,798
Interest and other expenses [note 8]	237	179	431	360
Foreign exchange (gain) loss [note 9]	377	(112)	451	80
Loss (gain) on disposal of equipment, net	(98)		(154)	215
Income (loss) before income taxes	(645)	383	(1,208)	1,143
Provisions for (recovery of) income taxes	—	—	(15)	—
Net income (loss) for the periods	(645)	383	(1,193)	1,143
Earnings (loss) per share				
Net income (loss) per share basic and diluted [note 7]	(\$0.03)	\$0.02	(\$0.06)	\$0.06

See accompanying notes

Coretec Inc.

CONSOLIDATED STATEMENTS OF DEFICIT

[in thousands - unaudited]

	Six months ended June 30	
	2007	2006
	\$	\$
Deficit, beginning of period	(28,807)	(30,867)
Net income (loss) for the period	(1,193)	1,143
Deficit, end of period	(30,000)	(29,724)

See accompanying notes

Coretec Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands - unaudited]

	Three months ended		Six months ended	
	June 30		June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Income (loss) for the period				
From continuing operations	(645)	383	(1,193)	1,143
Non-cash items				
Depreciation	1,296	1,257	2,512	2,560
Stock-based compensation	54	(7)	29	72
Loss (gain) on disposal of equipment	(98)	—	(154)	215
Unrealized foreign exchange loss	540	369	605	425
Long-term incentive plan compensation	10	—	20	—
Amortization of deferred finance charges	23	8	47	22
	1,180	2,010	1,866	4,437
Net change in non-cash working capital balances related to operations [note 10]	(981)	69	(2,743)	(2,254)
Cash provided by operating activities	199	2,079	(877)	2,183
FINANCING ACTIVITIES				
Increase in long-term debt	1,726	—	3,500	—
Repayment of long-term debt	(248)	(998)	(547)	(1,452)
Increase (decrease) in bank indebtedness	564	(1,266)	2,144	(841)
Repayment of shareholder loan	—	7	—	15
Issuance of share capital	—	—	3	—
Cash used in financing activities	2,042	(2,257)	5,100	(2,278)
INVESTING ACTIVITIES				
Purchase of capital assets	(2,606)	(614)	(5,580)	(1,831)
Decrease in short-term deposit	—	1,064	—	1,057
Decrease in other assets	480	—	562	—
Cash provided by (used in) investing activities	(2,126)	450	(5,018)	(774)
Effect of exchange rate changes on cash	(17)	(38)	(24)	(36)
Net increase (decrease) in cash during the period	98	234	(819)	(905)
Cash, beginning of period	804	589	1,721	1,728
Cash, end of period	902	823	902	823
Supplemental cash flow information				
Interest paid	193	171	343	341
Income taxes paid	—	—	—	—

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

June 30, 2007

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to the preparation of interim financial information. These unaudited interim consolidated financial statements are prepared using the same accounting policies and application thereof as the consolidated financial statements for the year ended December 31, 2006. They do not include all the information and disclosure required by Canadian GAAP for annual financial statements, and should be read in conjunction with the December 31, 2006 consolidated financial statements.

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

On January 1, 2007, the Company prospectively adopted the CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income".

Under the new standards, all financial assets are classified as (i) held-for-trading, (ii) held-to maturity investments, (iii) loans and receivables or (iv) available-for-sale. Also, all financial liabilities are classified as (i) held-for-trading or (ii) other financial liabilities. Upon initial recognition, all financial instruments are recorded on the consolidated balance sheet at their fair values. After initial recognition, the financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost using the effective interest rate method. Note 12 of these financial statements describes the classification and valuation of the various financial assets and liabilities.

2. INVENTORIES

Inventories consist of the following:

	June 30 2007 \$	December 31 2006 \$
Raw materials	2,100	2,265
Work-in-process	2,207	1,844
Finished goods	1,028	686
	<u>5,335</u>	<u>4,795</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

June 30, 2007

3. OTHER ASSETS

	June 30 2007 \$	December 31 2006 \$
Deferred financing charges, net	218	195
Deposits on capital assets	213	845
	431	1,040

4. BANK INDEBTEDNESS

At June 30, 2007 there were \$2.1 million in funds advanced [nil – December 31, 2006] and no letters of credit issued against the revolving credit facility [nil – December 31, 2006].

5. LONG-TERM DEBT

Effective June 1, 2007, a mortgage collateralized by the land and building of its Coretec Denver facility matured. The final repayment of approximately \$442,000 has been postponed due to the discussions between the Company and the lender of a new mortgage to take its place. The new mortgage will also be used to repay the other mortgage that was assumed when the Company purchased the land and building of its Coretec Denver facility in the third quarter of 2006.

During the second quarter of 2007 the Company drew down the final \$1,726,000 of its \$3,500,000 financing with BDC.

6. SHARE CAPITAL

Authorized

Authorized share capital is comprised of an unlimited number of voting common shares with no par value.

Issued and outstanding

	June 30, 2007		December 31, 2006	
	Number of Shares	Cost of Shares \$	Number of Shares	Cost of Shares \$
<i>Transactions</i>				
Total share capital issued	18,642,886	61,170	18,639,553	61,168
Less: Advance to shareholder	—	104	—	104
Closing balance	18,642,886	61,066	18,639,553	61,064

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

June 30, 2007

The advance to shareholders at June 30, 2007 is non-interest bearing and is due July 2011. The carrying value of the advances as at June 30, 2007 was \$104,190. The shares pledged as collateral for these advances had a fair market value of \$29,006 at June 30, 2007.

Share options

The Company has established a share option plan [the "Share Option Plan"]. Under the Share Option Plan, the Company may grant up to 1,900,000 options to purchase Common Shares to full-time employees, officers, directors and designated consultants of the Company. Options are granted at a price that is not less than the fair market value at the date of the grant. As at June 30, 2007, there were 939,834 [1,537,334 – December 31, 2006] options outstanding.

The options granted to date under the Share Option Plan become exercisable on a cumulative basis, as to one-third per year upon each of the first, second and third anniversaries of their issue. The options expire five years from the date of issue.

The following is a continuity of options under the Share Option Plan for the period ended June 30, 2007 as compared to the year ended December 31, 2006

	June 30, 2007		December 31, 2006	
	Options	Weighted- average	Options	Weighted- average
	#	exercise price (\$)	#	exercise price (\$)
Outstanding, beginning of period	1,537,334	1.71	1,300,834	2.11
Granted	50,000	1.35	435,000	1.02
Forfeited	(441,667)	1.25	(162,500)	1.70
Expired	(202,500)	4.25	(36,000)	6.89
Exercised	(3,333)	0.80	—	—
Outstanding, end of period	939,834	1.36	1,537,334	1.71
Exercisable, end of the period	382,659	1.58	632,663	2.45

Stock based compensation

For the quarter ended June 30, 2007, the Company recognized stock based compensation expense of \$54,100. [(\$7,000) – 2006] for stock options awards. The fair value of the options granted was estimated at the date of the grant using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 4.9%; expected life of 4.5 years; volatility of 95% and dividend yield of nil. During the quarter nil [10,000 – 2006] options were granted with a weighted average fair value of \$nil [\$1.01 – 2006] per option.

For the six months ended June 30, 2007, the Company recognized stock based compensation expense of \$29,000. [\$72,000 – 2006] for stock options awards. The fair value of the options granted was estimated at the date of the grant using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 4.9%; expected life of 4.5 years; volatility of 95%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

June 30, 2007

and dividend yield of nil. During the first six months 50,000 [60,000 – 2006] options were granted with a weighted average fair value of \$0.94 [\$0.61 – 2006] per option.

7. EARNINGS (LOSS) PER SHARE

In accordance with the CICA Section 3500, “Earnings per Share”, the earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The calculation for the quarters presented is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2006	2005
	\$	\$	\$	\$
Continuing operations:				
Basic earnings (loss) per share:				
Income (loss)	(645)	383	(1,193)	1,143
Weighted average number of common shares outstanding	18,642,886	18,639,553	18,641,665	18,639,553
Basic earnings (loss) per share	(0.03)	0.02	(0.06)	0.06
Diluted earnings (loss) per share:				
Income (loss)	(645)	383	(1,193)	1,143
Weighted average number of common shares outstanding	18,642,886	18,639,553	18,641,665	18,639,553
Dilutive effect of stock options	—	218,266	—	132,013
Adjusted weighted average number of common shares outstanding	18,642,886	18,857,819	18,641,665	18,771,566
Diluted earnings (loss) per share	(0.03)	0.02	(0.06)	0.06
Basic net income (loss) per share:				
Net income (loss)	(645)	383	(1,193)	1,143
Basic and diluted income (loss) per share	(0.03)	0.02	(0.06)	0.06

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

June 30, 2007

8. INTEREST AND OTHER EXPENSES

Interest and other expenses comprise the following:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Interest expense and bank charges	244	213	434	390
Amortization of deferred finance charges	23	14	47	28
Interest Income – GIC & Mortgage	(30)	(48)	(50)	(58)
	237	179	431	360

9. FOREIGN EXCHANGE RISKS AND COMMITMENTS

The Company is exposed to market risk in foreign currency rates as a substantial portion of the Company's revenues are denominated in U.S. dollars while a substantial portion of its costs and expenses are denominated in Canadian dollars. Accordingly, to minimize currency exposure, the Company converts a portion of its U.S. dollar cash flows to Canadian dollars through forward contracts. As at June 30, 2006 the Company had entered into forward foreign exchange contracts to sell U.S. \$4.5 million dollars at varying intervals over the next nine months at an average US dollar to Canadian dollar exchange rate of 1.1166. The fair value of forward contracts was a gain of \$106,600 as at June 30, 2007 that has been included in income.

During the second quarter of 2007, the Company realized foreign exchange gains of approximately \$21,900 from forward exchange contracts that matured in the period.

At June 30, 2007 80% [78% - December 31, 2006] of trade accounts receivable are denominated in U.S. dollars.

10. SUPPLEMENTAL CASH FLOW INFORMATION

The components of the net change in non-cash working capital balances related to operations consists of the following:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Accounts receivable	(733)	1,264	(864)	(562)
Inventories	(119)	120	(719)	(546)
Prepaid expenses	(300)	200	(472)	137
Income taxes recoverable	—	(1)	(15)	120
Accounts payable and accrued liabilities	171	(1,514)	(673)	(1,403)
	(981)	69	(2,743)	(2,254)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

June 30, 2007

11. SEGMENT INFORMATION

The Company has one reportable business segment - the design and manufacture of PCBs. Geographic sales information has been provided to distinguish sales to customers in the U.S. and Europe from sales to customers in Canada.

Sales to customers in	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Canada	5,519	6,979	12,919	14,254
United States	15,595	14,681	29,956	29,525
Europe/Other	702	1,183	1,759	3,623
	22,816	22,843	44,634	47,402

12. FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities are recorded and measured as follows:

Asset/Liability	Category	Measurement
Cash	Held -for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized costs
Due from related party	Loans and receivables	Amortized costs
Mortgage receivable	Loans and receivables	Amortized costs
Income taxes recoverable	Loans and receivables	Amortized costs
Accounts payable and accrued liabilities	Other liabilities	Amortized costs
Long-term debt	Other liabilities	Amortized costs

Other balance sheet accounts, such as inventories, prepaid expenses, other assets, capital assets are not within the scope of the new accounting standards as they are not financial instruments.

Embedded derivatives are required to be separated and measured at fair values if certain criteria are met. Embedded derivatives include elements of contracts whose cash flows move independently from the host contract. Management reviewed contracts and determined that the Company does not currently have any embedded derivatives in these contracts that require separate accounting and disclosure.

13. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 financial statements.