



## **Coretec Announces Third Quarter 2007 Results**

*third quarter loss of \$0.03 per share*

Toronto, Ontario, October 23, 2007 - Coretec Inc. (TSX: CYY) today reported its financial results for the third quarter ended September 30, 2007. Sales in the 2007 third quarter were \$21.9 million, an increase of \$0.1 million sequentially or 0.4% as compared to sales of \$21.8 million in Q2 2007, and up \$0.4 million or 1.9% from sales of \$21.5 million in the same period of the prior year.

In the 2007 third quarter, the Company recorded gross profit of \$3.9 million or 18.0% of sales, a decrease of \$0.3 million sequentially or 7.1% as compared to gross profit of \$4.2 million in Q2 2007, and down \$1.1 million or 22% from gross profit of \$5.0 in the comparable period in 2006.

A loss of \$0.6 million or \$0.03 per share was recorded in the 2007 third quarter, unchanged sequentially as compared to Q2 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 third quarter included \$0.1 million of foreign exchange losses. This compares with a loss on foreign exchange of \$0.4 million in Q2 2007 and no foreign exchange gain or loss in the prior year period.

Earnings before interest, taxes, depreciation and amortization (EBITDA) in the third quarter of 2007 was \$0.8 million, as compared to EBITDA of \$0.9 million in Q2 2007. Q3 2007 EBITDA decreased \$1.0 million or 56% 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 industry, currency exchange rate and operational issues. From an industry perspective the Company suffered from the general slowdown in the PCB market. According to IPC (the North American PCB industry association), industry shipments and bookings in 2007 through to the end of August are off 10% and 13% respectively versus the same period in 2006. The industry slowdown has impacted product pricing and overall throughput. Additionally the rapid appreciation of the***

**Canadian dollar relative to other major currencies has had a material impact on the Company's revenue line and cost structure. From an operational perspective the Company was challenged by an increased degree of product complexity processed during the quarter as well as year to date at all sites. With respect to product yields, the Company is installing new equipment in Q4 2007 that will assist with the production of more challenging products."**

*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](http://www.sedar.com).*

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# Coretec Inc.

## CONSOLIDATED BALANCE SHEETS

[in thousands - unaudited]

|  | <b>September 30</b> | <b>December 31,</b> |
|--|---------------------|---------------------|
|  | <b>2007</b>         | <b>2006</b>         |
|  | \$                  | \$                  |
| <b>ASSETS</b>  |                     |                     |
| <b>Current</b>   |                     |                     |
| Cash   | 1,115               | 1,721               |
| Accounts receivable  | 13,476              | 14,536              |
| Mortgage receivable  | 1,050               | —                   |
| Inventories <b>[note 2]</b>                                    | 5,426               | 4,795               |
| Income taxes recoverable                                       | 118                 | 118                 |
| Prepaid expenses   | 1,197               | 509                 |
| <b>Total current assets</b>                                    | <b>22,382</b>       | <b>21,679</b>       |
| Mortgage receivable  | —                   | 1,050               |
| Property, plant and equipment, net                             | 29,781              | 26,262              |
| Other assets <b>[note 3]</b>                                   | 405                 | 1,040               |
|  | <b>52,568</b>       | <b>50,031</b>       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                    |                     |                     |
| <b>Current</b>   |                     |                     |
| Bank indebtedness <b>[note 4]</b>                              | 2,562               | —                   |
| Accounts payable and accrued liabilities                       | 10,720              | 11,085              |
| Current portion of long-term debt <b>[note 5]</b>              | 1,509               | 1,699               |
| <b>Total current liabilities</b>                               | <b>14,791</b>       | <b>12,784</b>       |
| Long-term debt <b>[note 5]</b>                                 | 6,700               | 4,447               |
| <b>Total liabilities</b>                                       | <b>21,491</b>       | <b>17,231</b>       |
| <b>Shareholders' equity</b>                                    |                     |                     |
| Share capital <b>[note 6]</b>                                  | 61,066              | 61,064              |
| Share capital held by long term incentive plan <b>[note 6]</b> | (88)                | (118)               |
| Contributed surplus <b>[note 6]</b>                            | 744                 | 661                 |
| Deficit  | (30,645)            | (28,807)            |
| <b>Total shareholders' equity</b>                              | <b>31,077</b>       | <b>32,800</b>       |
|  | <b>52,568</b>       | <b>50,031</b>       |

*See accompanying notes*

# Coretec Inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS

[in thousands except per share amounts - unaudited]

|  | Three months ended<br>September 30 |            | Nine months ended<br>September 30 |            |
|--|------------------------------------|------------|-----------------------------------|------------|
|  | 2007<br>\$                         | 2006<br>\$ | 2007<br>\$                        | 2006<br>\$ |
| <b>Sales</b>   | 21,895                             | 21,474     | 66,530                            | 68,876     |
| Cost of sales  | 17,951                             | 16,439     | 53,746                            | 52,420     |
| <b>Gross profit</b>                                    | 3,944                              | 5,035      | 12,784                            | 16,456     |
| <b>Expenses</b>  |                                    |            |                                   |            |
| Selling, general and administrative                    | 3,013                              | 3,265      | 9,820                             | 10,328     |
| Depreciation and amortization                          | 1,192                              | 1,229      | 3,704                             | 3,789      |
|  | 4,205                              | 4,494      | 13,524                            | 14,117     |
| Income (loss) from operations                          | (261)                              | 541        | (740)                             | 2,339      |
| Interest and other expenses [note 8]                   | 256                                | 179        | 687                               | 539        |
| Foreign exchange loss [note 9]                         | 131                                | 2          | 582                               | 82         |
| Loss (gain) on disposal of equipment, net              | (3)                                | —          | (156)                             | 215        |
| Income (loss) before income taxes                      | (645)                              | 360        | (1,853)                           | 1,503      |
| Provisions for (recovery of) income taxes              | —                                  | —          | (15)                              | —          |
| <b>Net income (loss) for the periods</b>               | (645)                              | 360        | (1,838)                           | 1,503      |
| <b>Earnings (loss) per share</b>                       |                                    |            |                                   |            |
| Net income (loss) per share basic and diluted [note 7] | (\$0.03)                           | \$0.02     | (\$0.10)                          | \$0.08     |

*See accompanying notes*

# Coretec Inc.

## CONSOLIDATED STATEMENTS OF DEFICIT

[in thousands - unaudited]

|                                  | Nine months ended<br>September 30 |                 |
|----------------------------------|-----------------------------------|-----------------|
|                                  | 2007                              | 2006            |
|                                  | \$                                | \$              |
| Deficit, beginning of period     | (28,807)                          | (30,867)        |
| Net income (loss) for the period | (1,838)                           | 1,143           |
| <b>Deficit, end of period</b>    | <b>(30,645)</b>                   | <b>(29,724)</b> |

*See accompanying notes*

# Coretec Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands - unaudited]

|  | Three months<br>ended |                | Nine months<br>ended |                |
|--|-----------------------|----------------|----------------------|----------------|
|  | September 30<br>2007  | 2006           | September 30<br>2007 | 2006           |
|  | \$                    | \$             | \$                   | \$             |
| <b>OPERATING ACTIVITIES</b>  |                       |                |                      |                |
| Income (loss) for the period   |                       |                |                      |                |
| From continuing operations   | (645)                 | 360            | (1,838)              | 1,503          |
| Non-cash items   |                       |                |                      |                |
| Depreciation   | 1,192                 | 1,229          | 3,704                | 3,789          |
| Stock-based compensation   | 54                    | 57             | 84                   | 129            |
| Loss (gain) on disposal of equipment   | (3)                   | —              | (156)                | 215            |
| Unrealized foreign exchange loss (gain)  | 744                   | (111)          | 1,349                | 314            |
| Long-term incentive plan compensation  | 10                    | —              | 30                   | —              |
| Amortization of deferred finance charges   | 42                    | 34             | 89                   | 56             |
|  | 1,394                 | 1,569          | 3,262                | 6,006          |
| Net change in non-cash working capital<br>balances related to operations [note 10] | 785                   | 1,000          | (1,957)              | (1,254)        |
| <b>Cash provided by operating activities</b>                                       | <b>2,179</b>          | <b>2,569</b>   | <b>1,305</b>         | <b>4,752</b>   |
| <b>FINANCING ACTIVITIES</b>  |                       |                |                      |                |
| Increase in long-term debt   | 1,491                 | —              | 4,992                | —              |
| Repayment of long-term debt  | (1,947)               | (377)          | (2,495)              | (1,829)        |
| Increase (decrease) in bank indebtedness   | 418                   | (1,718)        | 2,562                | (2,559)        |
| Repayment of shareholder loan  | —                     | 8              | —                    | 23             |
| Issuance of share capital  | —                     | —              | 3                    | —              |
| <b>Cash (used) provided in financing activities</b>                                | <b>(38)</b>           | <b>(2,087)</b> | <b>5,062</b>         | <b>(4,365)</b> |
| <b>INVESTING ACTIVITIES</b>  |                       |                |                      |                |
| Purchase of capital assets   | (1,810)               | (763)          | (7,390)              | (2,594)        |
| Decrease in short-term deposit   | —                     | —              | —                    | 1,057          |
| (Increase) decrease in other assets  | (16)                  | —              | 546                  | —              |
| <b>Cash provided by (used in) investing activities</b>                             | <b>(1,826)</b>        | <b>(951)</b>   | <b>(6,844)</b>       | <b>(1,725)</b> |
| Effect of exchange rate changes on cash  | (102)                 | 5              | (129)                | (31)           |
| <b>Net increase (decrease) in cash<br/>during the period</b>                       | <b>213</b>            | <b>(464)</b>   | <b>606</b>           | <b>(1,369)</b> |
| Cash, beginning of period  | 902                   | 823            | 1,721                | 1,728          |
| <b>Cash, end of period</b>   | <b>1,115</b>          | <b>359</b>     | <b>1,115</b>         | <b>359</b>     |
| <b>Supplemental cash flow information</b>  |                       |                |                      |                |
| Interest paid  | 200                   | 120            | 571                  | 461            |
| Income taxes paid  | —                     | —              | —                    | —              |

*See accompanying notes*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

September 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:

|                 | September 30<br>2007<br>\$ | December 31<br>2006<br>\$ |
|-----------------|----------------------------|---------------------------|
| Raw materials   | 2,318                      | 2,265                     |
| Work-in-process | 2,042                      | 1,844                     |
| Finished goods  | 1,066                      | 686                       |
|                 | <u>5,426</u>               | <u>4,795</u>              |

## 3. OTHER ASSETS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

September 30, 2007

|                                 | September 30<br>2007<br>\$ | December 31<br>2006<br>\$ |
|---------------------------------|----------------------------|---------------------------|
| Deferred financing charges, net | 194                        | 195                       |
| Deposits on capital assets      | 211                        | 845                       |
|                                 | 405                        | 1,040                     |

### 4. BANK INDEBTEDNESS

At September 30, 2007 there were \$2.6 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, one of two mortgages collateralized by the land and building of its Coretec Denver facility matured. The Company entered into a new \$1.4 million mortgage agreement, proceeds of which went to repay both the mortgage which had matured, and the existing mortgage into a new 25 year amortization mortgage. Monthly payments on the new mortgage are \$10,510. Deferred financing charges of US\$75,000 are netted against the mortgage debt in accordance with the Financial Instruments standard.

### 6. SHARE CAPITAL

#### Authorized

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

#### Issued and outstanding

|                              | September 30, 2007  |                         | December 31, 2006   |                         |
|------------------------------|---------------------|-------------------------|---------------------|-------------------------|
|                              | Number of<br>Shares | Cost of<br>Shares<br>\$ | Number of<br>Shares | Cost of<br>Shares<br>\$ |
| <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                  |

The advance to shareholders at September 30, 2007 is non-interest bearing and is due July 2011. The carrying value of the advances as at September 30, 2007 was \$104,190. The shares pledged as collateral for these advances had a fair market value of \$21,891 at September 30, 2007.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

September 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 September 30, 2007, there were 1,289,834 [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 stock option continuity schedule for the period ended September 30, 2007 as compared to the year ended December 31, 2006

|   | September 30, 2007 |                     | December 31, 2006 |                     |
|---|--------------------|---------------------|-------------------|---------------------|
|   | Options            | Weighted-average    | Options           | Weighted-average    |
|   | #                  | exercise price (\$) | #                 | exercise price (\$) |
| <b>Outstanding, beginning of period</b> | 1,537,334          | 1.17                | 1,300,834         | 2.11                |
| Granted                                 | 400,000            | 1.22                | 435,000           | 1.02                |
| Forfeited                               | —                  | —                   | (162,500)         | 1.70                |
| Expired                                 | (644,167)          | 2.20                | (36,000)          | 6.89                |
| Exercised                               | (3,333)            | 0.80                | —                 | —                   |
| <b>Outstanding, end of period</b>       | 1,289,834          | 1.31                | 1,537,334         | 1.71                |
| <b>Exercisable, end of the period</b>   | 548,993            | 1.51                | 632,663           | 2.45                |

### Stock based compensation

For the quarter ended September 30, 2007, the Company recognized stock based compensation expense of \$54,000. [(\$57,000) – 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 350,000 [330,000 – 2006] options were granted with a weighted average fair value of \$0.57 [\$0.60 – 2006] per option.

For the nine months ended September 30, 2007, the Company recognized stock based compensation expense of \$84,000. [\$129,000 – 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 first nine months 400,000 [380,000 – 2006] options were granted with a weighted average fair value of \$0.62 [\$0.55 – 2006] per option.

## 7. EARNINGS (LOSS) PER SHARE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

September 30, 2007

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<br>September 30, |            | Nine months ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2007                                | 2006       | 2006                               | 2005       |
|   | \$                                  | \$         | \$                                 | \$         |
| <b>Continuing operations:</b>                                 |                                     |            |                                    |            |
| <b>Basic earnings (loss) per share:</b>                       |                                     |            |                                    |            |
| Income (loss)   | (645)                               | 360        | (1,838)                            | 1,503      |
| Weighted average number of common shares outstanding          | 18,642,886                          | 18,639,553 | 18,642,886                         | 18,639,553 |
| Basic earnings (loss) per share                               | (\$0.03)                            | 0.02       | (\$0.10)                           | 0.08       |
| <b>Diluted earnings (loss) per share:</b>                     |                                     |            |                                    |            |
| Income (loss)   | (645)                               | 360        | (1,838)                            | 1,503      |
| Weighted average number of common shares outstanding          | 18,642,886                          | 18,639,553 | 18,642,886                         | 18,639,553 |
| Dilutive effect of stock options                              | —                                   | 196,820    | —                                  | 140,945    |
| Adjusted weighted average number of common shares outstanding | 18,642,886                          | 18,836,373 | 18,642,886                         | 18,780,498 |
| Diluted earnings (loss) per share                             | (\$0.03)                            | 0.02       | (\$0.10)                           | 0.08       |
| <b>Basic net income (loss) per share:</b>                     |                                     |            |                                    |            |
| Net income (loss)   | (645)                               | 360        | (1,838)                            | 1,503      |
| Basic and diluted income (loss) per share                     | (\$0.03)                            | 0.02       | (\$0.10)                           | 0.08       |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

September 30, 2007

### 8. INTEREST AND OTHER EXPENSES

Interest and other expenses comprise the following:

|  | Three months ended |      | Nine months ended |      |
|--|--------------------|------|-------------------|------|
|  | September 30,      |      | September 30,     |      |
|  | 2007               | 2006 | 2007              | 2006 |
|  | \$                 | \$   | \$                | \$   |
| Interest expense and bank charges        | 241                | 158  | 675               | 534  |
| Amortization of deferred finance charges | 42                 | 34   | 89                | 56   |
| Interest Income – GIC & Mortgage         | (27)               | (13) | (77)              | (51) |
|  | 256                | 179  | 687               | 539  |

### 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 September 30, 2006 the Company had entered into forward foreign exchange contracts to sell U.S. \$4.0 million dollars at varying intervals over the next eight months at an average US dollar to Canadian dollar exchange rate of 1.0782. The fair value of forward contracts was a gain of \$338,506 as at September 30, 2007 that has been included in income.

During the third quarter of 2007, the Company realized foreign exchange gains of approximately \$226,900 from forward exchange contracts that matured in the period.

At September 30, 2007 81% [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 |       | Nine months ended |         |
|--|--------------------|-------|-------------------|---------|
|  | September 30,      |       | September 30,     |         |
|  | 2007               | 2006  | 2007              | 2006    |
|  | \$                 | \$    | \$                | \$      |
| Accounts receivable                      | 153                | 78    | (711)             | (484)   |
| Inventories                              | (193)              | (200) | (912)             | (746)   |
| Prepaid expenses                         | (537)              | (36)  | (1,008)           | 101     |
| Income taxes recoverable                 | —                  | —     | (15)              | 120     |
| Accounts payable and accrued liabilities | 1,362              | 1,158 | 689               | (246)   |
|  | 785                | 1,000 | (1,957)           | (1,254) |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

September 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.

|                       | Three months ended |        | Nine months ended |        |
|-----------------------|--------------------|--------|-------------------|--------|
|                       | September 30,      |        | September 30,     |        |
|                       | 2007               | 2006   | 2007              | 2006   |
|                       | \$                 | \$     | \$                | \$     |
| Sales to customers in |                    |        |                   |        |
| Canada                | 6,348              | 6,591  | 19,267            | 20,845 |
| United States         | 13,798             | 13,814 | 43,754            | 43,339 |
| Europe/Other          | 1,749              | 1,069  | 3,508             | 4,692  |
|                       | 21,895             | 21,474 | 66,529            | 68,876 |

### 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.

### 14. SUBSEQUENT EVENTS

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[tabular amounts in thousands except share amounts]

September 30, 2007

In October 2007 the Company entered into a lease for production equipment that commences December 1, 2007. The Company will make 19 monthly payments of \$70,000 and then have the opportunity to return the equipment, purchase the equipment or continue to lease it under similar terms.