

**Coretec Inc.**  
**2006 Fourth Quarter and Full Year Results**  
**Conference Call**

March 9, 2007

**Paul Langston**

Good morning. I'm Paul Langston, Coretec's President and Chief Executive Officer. With me today is Andre Kern, Coretec's Chief Financial Officer.

I'd like to thank you for joining us to discuss Coretec's 2006 fourth quarter and full year results.

*But first, I must caution you that this call includes "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 markets 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).*

Andre will begin our presentation by reviewing the fourth quarter and full year financial results. Then I'll provide a snapshot of our business highlights in the quarter and year, speak to current industry conditions as well as describe initiatives that we presently have underway and comment on the outlook for Q1. Andre.....

## **Financial results**

Good morning Ladies and Gentlemen,

I will begin by reviewing the **Statements of Operations** for the fourth quarter and year ending December 2006 with comparison to the prior year.

### **Beginning with the most recent quarter;**

Sales from continuing operations for the fourth quarter were \$23.2 million, a 7.2% or \$1.6 million increase from the prior year period sales of \$21.6 million.

The gross profit dollars were \$5.3 million as compared to \$4.6 million in the prior year primarily related to improved

operational execution at Coretec's manufacturing facilities. Gross margin in Q4 was 22.7% of sales, an improvement over the Q4 2005 period's gross margin of 21.4%.

Selling, general and administrative expenses for the fourth quarter of 2006, at \$3.4 million are higher as compared to \$2.9 million in the similar period in 2005. 2006 costs were higher primarily related to increased stock based compensation, costs associated with regulatory compliance, and selling expenses to support the higher sales. The fourth quarter selling, general and administrative expenses in 2006 are in line with the previous quarters of 2006.

Depreciation and amortization expense for Q4 2006 at \$1.2 million is lower than the 2005 expense of \$1.4 million, principally due to assets having become fully depreciated during the year.

Interest and other expenses in the fourth quarter of 2006 were \$0.2 million, and in line with the 2005 expense of \$0.2 million.

Income from continuing operations was \$0.6 million for the fourth quarter of 2006 as compared to income of \$0.2 million in the comparative period in 2005.

Net income for Q4 2006 was \$0.6 million as compared to net income of \$0.2 million recorded during the similar period in 2005. The 2005 results include minimal income from discontinued operations.

**For the Year ended December 31<sup>st</sup>;**

Sales for 2006 were \$92.0 million, a 14.2% or \$11.4 million increase over the prior year's sales of \$80.6 million. The increase in total sales for 2006 compared to the 2005 period is principally a result of increased demand and production at the Company's Toronto and Cleveland sites, as well as a strong Q1 for the Company's offshore brokerage sales whereby the Company purchases and resells PCBs manufactured by strategic partners in Asia.

Gross profit for the year ended 2006 was \$21.7 million as compared \$17.0 million in 2005. The gross margin for the similar periods was 22.7% and 21.1% respectively. The improvement in gross profit and gross margin is the result of the higher level of activity and improved productivity at all of the Company's sites. The Company's U.S. operations improved significantly during 2006 as compared to 2005.

Selling, general and administrative expenses for 2006 were \$13.7 million, or 5% higher than the \$13.1 million recorded in the similar period in 2005. The 2006 increase relates to higher selling expenses resulting from the improvement in sales, higher stock based compensation and costs associated with regulatory compliance.

Depreciation and amortization expense was \$5.0 million as compared to \$5.8 million, principally due to assets having become fully depreciated in the period.

Interest and other expenses in 2006 were \$0.7 million, a decrease of \$0.3 million as compared to 2005 expense of \$1.0 million resulting from lower average net debt balances during 2006.

Income from continuing operations was \$2.1 million for 2006 as compared to a loss of \$3.6 million in the similar period in 2005. The 2006 result is net of a \$0.3 million write-down of fixed assets. The comparable 2005 results were net of \$0.6 million of costs related to terminating merger plans and \$0.2 million of foreign exchange losses.

Net income for 2006 was \$2.1 million as compared to a loss of \$3.3 million recorded during the similar period in 2005. The 2005 results include income from discontinued operations of \$0.3 million. Fully diluted earnings per share were \$0.11 for 2006 as compared to a loss of \$0.17 per share in 2005.

### **Moving to the Balance Sheet...here are the highlights**

Cash is at \$1.7 million at December 31, 2006 as compared to \$1.7 million at December 2005. Bank indebtedness at December 2006 was nil as compared to \$2.6 million in December 2005.

Working capital is \$8.9 million at the end of 2006 as compared to \$8.7 million at December 2005.

Accounts receivable days sales outstanding are 58 days at the end of December 2006, an improvement over the 61 days at the end of December 2005.

Inventory turns were 15 times at December 2006 as compared to 15 times at the end of December 2005.

Accounts payable days were 53 days at December 2006, lower than the 59 days at December 2005 due, in part, to lower severance accruals at the end of 2006 compared with 2005.

During the fourth quarter of 2006 the Company began construction on the Sheppard facility in preparation for the consolidation of its Lawrence facility which is expected to be completed during Q2 2007.

For 2006, capital expenditures totaled \$5.4 million. The 2006 expenditures include the purchase of the Denver land and building, the readying of the Sheppard building for the move of the Company's Lawrence operations and investments in advanced drilling, solder mask capabilities, identification printing equipment, and information technology.

Coretec's long-term debt to equity ratio is 19% at the end of December 2006 as compared to 22% at December 2005.

I just want to point out that there is a reduction to share capital of \$118,000 at the end of 2006 compared with nil as compared to December 2005. The reduction relates to unvested shares being held by a trustee for a long-term incentive plan that was introduced during 2006.

### **A quick discussion regarding the Statements of Cash Flows...**

Cash provided by **operating activities** was \$8.4 million for the year ended 2006 as compared to \$3.7 million for 2005. The primary reason for the increase in cash provided by operating activities in 2006 is the improvement in operations creating higher profits.

Cash used in **financing activities** was \$4.7 million for the year ended December 2006 as compared to a use of \$0.5 million for the similar period in 2005. The primary reason for

the higher use of cash in 2006 is the increased repayment of bank indebtedness and long-term debt as compared to 2005.

Cash used in **investing activities** was \$3.7 million for the year ended December 2006 as compared to \$3.6 million in 2005. The 2006 balance is net of the redemption of \$1.1 million of short-term deposits during Q2 2006.

Year to date capital expenditures for 2006 total \$5.4 million as compared to \$3.2 million in the similar period of 2005. The statements of cash flows present a lower balance expended on capital assets because the Company assumed the mortgages related to the Denver building purchase which is a non-cash transaction. Similarly, the cash used in financing activities is not affected by the assumption of the mortgages.

**Paul Langston will now continue the conference call.**

***Thanks Andre***

***Turning to business highlights.***

The highlights of Q4 2006 are as follows;

- In Q4 2006 we experienced revenues of \$23.2 million representing growth of 7.2% versus Q4 2005;
- Our Q4 revenues were up 7.9% sequentially from Q3 revenues of \$21.5;
- Both our Cleveland and Denver operations achieved record sales levels and strong ebitda performance;
- Our Q4 geographic breakdown of revenue was 60% to the US, 29% to Canada and 11% to Europe and Asia.

Comparatively in Q4 2005 revenues were 56% to the US, 39% to Canada and 5% to Europe and Asia;

- Q4 revenue by customer type was 62% EMS and 38% OEM vs 38% EMS and 62% OEM in 2005;
- In Q4 our top 10 customers accounted for 43% of sales with the largest customer representing around 6% of sales in the quarter. Comparatively, the top 10 accounted for 36% of sales in Q4 2005 with the largest client accounting for 6% of sales. This concentration has been increasing all year as we have deliberately mined our existing account base for additional share;
- Q4 marked the fifth consecutive quarter of profitability from continuing operations;
- Our capital expenditures during Q4 2006 amounted to \$1.1 million;
- In the quarter we commenced preparations of our Sheppard facility for the migration of equipment from our Lawrence facility starting in early Q2/07;
- We completed our design of internal controls as required under Bill 198 and intend to ensure during the coming year that the controls are operating as designed;
- Subsequent to year end (ie. January), we finalized a new financing arrangement with the Business Development Bank of Canada. This is an expansion of our current C\$2.5 million mortgage on our Sheppard site by \$2.5 million as well as a separate \$1 million capital equipment loan. At present no funds have been drawn on either facility;

The highlights for the full year are as follows:

- Revenues achieved were a record \$92.0 million and up 14% from the prior year;
- Consolidated Net income was \$2.1 million and ebitda was \$7.8 million;
- Organizationally we made significant strides in both our Denver and Cleveland operations. Denver has experienced significant operational improvements throughout the year as well as has achieved record revenues on a monthly basis within the past 6 months. This is significantly the result of a change in leadership (Mr. Craig Barrett) at the site that occurred in late 2005. Our Cleveland operation has also had a very successful year, achieving record sales and strong ebitda improvement versus 2005. The site now contributes positively to corporate ebitda. This can be directly attributed to new leadership (Mr. Bob Owen). We are extremely optimistic about the potential of both of these locations in the near and long term;
- For the full year our top 10 customers represented 38% of sales, up from 32% in the prior year. This increased concentration is a result of our strategy that focused our sales and marketing efforts on gaining share with existing customers;
- As of December 31, 2006 our financial foundation was sound. Our working capital ratio was 1.7:1 and our long term debt to equity ratio was 0.19:1.0;
- In late 2006, our Toronto operations were successfully re-audited to the ISO14000:2004 standard. We are one of only a handful of companies in the industry in North

America and the only Canadian fabricator so accredited. This speaks volumes about our commitment to environmental stewardship and leadership in our industry;

### ***Now turning to the industry***

2006 was a positive year for the industry in North America. According to IPC, the industry association, the growth rate versus 2005 was 8.8%. However, the majority of the growth occurred in the first nine months of the year as demonstrated by the book-to-bill ratio which was consistently at or above parity through September. Starting in October the ratio dropped below 1.0 and has remained so for four consecutive months through January 2007. The statistics specifically were October (0.99), November (0.92), December (0.92) and January (0.91). This is first time since Q4 2004 that the ratio has been consistently in contraction mode.

In terms of shipments and bookings, the latest IPC data (January 2007) is indicating a material downturn in the industry. Rigid PCB orders are down 19.2% from January 2006, down 13.6% on a trailing three month basis versus the preceding three months and off 13.1% sequentially. Shipments have also started to correct as a result of the weakness in bookings in Q4. January 2007 shipments declined 3.5% versus January 2006 and are down 6.2% November – January versus August –October and are off 11.7% sequentially. The IPC data is based upon inputs from a large sample of reporting firms that make up greater than 80% of the industry's activity. This softness has manifested into recently announced layoffs as well as temporary and permanent plant closures across the industry. With respect to the latter, it was recently announced that one of the oldest and largest players in the industry is shutting its doors. Photocircuits, which at one time boasted revenues of

US\$400 million, is liquidating its assets and as a result approximately \$200 million of capacity is leaving the industry. At the time of the announcement they were purportedly operating at a revenue run rate of \$60-\$70 million, or roughly a 1.5% share of the North American market. Their order book will now find its way into the remaining industry participants. As a comment, it is indeed sad to see a 55 year old pioneering business expire and affect hundreds of employees and their respective families.

Other electronics industry indices that are worthy of note are also showing an industry that is experiencing softness. The NEMA business confidence index has been below 41.3 (neutral) for five straight months through January '07 and was as low as 30 in December. The EMS confidence index is at 1.0 (neutral) and the EMS book-to-bill ratio dipped below 1.0 for the first time since 2003 in December. On a positive note the PMI leading indicator which is a survey of purchasing managers moved above 50 (51.4) in December.

It is our opinion and that of a number of industry analysts that the downturn will be short lived. The reason for the optimism is the fact that inventory levels throughout the electronics foodchain appear to be relatively in check, particularly compared to historical levels.

In the short term we are concerned about the impact that a slowdown will have on quickturn premiums. Typically in a softening demand environment, leadtimes shrink which affects the demand for quickturn services as well as pricing power. Beyond the short term we remain optimistic about our positioning in the market as well as the demand for our products and services generally.

Demand by PCB technology is another area of interest to us. Industry analysts, Henderson Ventures, have put forth

projections through 2010 that show the highest growth areas of the PCB industry in North America will be PCBs made from high performance materials versus fiberglass reinforced epoxy (known as FR4) as well as high density interconnects and/or PCBs with microvia hole technology. Their projected growth rates for these two product segments approach 10% per year over the next 3 years , Comparatively, the forecast for lower technology PCBs, ie. double sided, is for a year over year decline. In fact the decline in shipments of this category of product was dramatic in 2006 versus 2005, off some 20+%, according to IPC.

### ***Turning to the supply side***

The industry in general is experiencing meaningful inflation across direct and indirect materials, supplies, logistics and facilities costs, i.e utilities. Raw epoxy/fiberglass laminate pricing has risen three times in the past 18 months. The expectation is that this trend will continue due to the constituent materials, namely epoxy and copper being commodities that fluctuate in price. Additionally, precious metals such as gold, silver, palladium as well as non-precious metals such as tin and aluminum have increased in price dramatically over the past couple of years. Gold in particular is becoming more heavily used in the manufacture of PCBs and as a result is causing margin compression if the additional costs are not passed on to the end user. In an inflationary environment, scale does help mitigate upward price pressure and afford preferential treatment in terms of supply for some materials but not all. We expect larger facilities, like Coretec, to experience preferred pricing versus smaller competitors.

Capital equipment suppliers experienced significant growth in their business levels in 2006 versus 2005. However, with the recent industry softness, these PCB equipment suppliers

will likely experience a meaningful deterioration in demand for their platforms. This may offer those PCB companies who are capable of procuring equipment, price and terms advantages. Coretec's investment plans in 2007 include expending over \$4 million on capital equipment. We expect to experience additional bang for our buck in the current environment.

***Now turning to our strategy.***

2007 will be an exciting year for Coretec.

The implementation of manufacturing activities at our Sheppard site in Q2 will mark the start of a multi-year consolidation strategy. By May all manufacturing will cease at our Lawrence site after having been transferred to the Sheppard location. Additionally, we will be deploying approximately \$1.5 million worth of equipment that is presently in storage at this site. In the second half of 2007 a series of equipment relocations will occur from our other Toronto location (Ellesmere) to the Sheppard building. This combined relocation and capacity expansion will enable potential revenues of \$80-\$90 million in Toronto alone.

Both of our US sites have expanded staffing to enable double digit revenue growth potential in 2007. Strong operational execution in 2006 has resulted in an exciting level of momentum at these sites . With an increased marketing and sales focus on the key military and avionics sectors we believe that these sites will contribute meaningfully to our consolidated financial results in '07. Early indications are that we are gaining market share in these target sectors. Several major new account approvals have been gained for these two locations.

In early 2007 we undertook a rejuvenation of our executive team which we believe will result in improved operational and financial metrics. Mr. Paul Brannen was appointed Vice President, Marketing & Sales in January 2007. Mr. Brannen has held several senior sales and marketing management positions in the electronics and telecommunications industries. Mr. Mike Schumacher has accepted the position of Chief Information Officer, responsible for corporate IT, ERP and quotations strategy. Mr. Schumacher has held senior executive positions within the PCB industry as well as has extensive expertise in management information systems, particularly as relates to Paradigm by Cimnet, a major supplier of ERP and CRP platforms for the PCB industry. Mr. Nick Rallis, a senior manager with Coretec since 1995, has been installed as Vice President, Supply Chain. Mr. Rallis has a BSc in Industrial Engineering and has had a 20+ year career in manufacturing and supply chain management. Mr. Rallis is also the project manager for all design, construction, equipment procurement and implementation activities at our Sheppard site.

Additionally, in February 2007 Mr. Paul Farineau joined Coretec as General Manager of our Toronto plants. Mr. Farineau has over 20 years experience in operations, quality and engineering management with some of the leading PCB companies in North America. Paul has a Bachelors of Science degree and is also a Six Sigma blackbelt. We are very much looking forward to his leadership and staff mentoring especially as relates to technology furtherance and operational excellence. Furthermore we have strengthened our quality organization through the additional of Ms. Christina Popescu as Director of Quality for our Toronto operations. Christina has a Masters of Science degree and is also a Six Sigma blackbelt. She has an

extensive background in quality and engineering management from the automotive industry.

Our investment plans in 2007 involve ongoing advanced equipment installations at all plants. Our \$4 million capital expenditure program is focussed on advancing our technology, process redundancy and cycle time reduction. The major items include new conveyORIZED chemical lines that will enable the successful processing of denser circuitry; a new electroplating line that will improve small hole processing capability and improve metallization distribution as well as enhance our panel processing capacity; laser direct imaging equipment that will alter our methodology for photoimaging from analogue to digital and thereby increase our fine line capability and registration on HDI products; and registration systems that will allow us to increase our layer count and improve yields on HDI PCBs.

TIME and technology remain the key operating principles for us. In fact it is our belief that these are true market differentiators. To facilitate improvements in cycle time and technology we are forcing structural and cultural changes throughout our organization. We are adopting LEAN and other proven methodologies such as 5S in our Toronto operations to drive out drive in cycle time optimization and drive out non-value added activities. At the root of these initiatives is the assumption and belief that the demand for PCBs in North America will be increasingly boutique in nature (namely small volume exotics) and rapid response oriented, i.e. required in as short a time as is physically possible.

As fundamental to our strategy as TIME and ntechnology are, we are also committed to providing Worldclass value added services. It is already well known throughout the industry that our field applications engineering team is one of

the best if not the best. Our design group is also developing a strong reputation for responsiveness, technology capability and intelligent design. Both of these groups will undergo expansion in 2007.

At the opposite end of the prototype and quick turn manufacturing spectrum is the provision of volume product. We experienced somewhat erratic demand throughout 2006 as a result of having a relatively undiversified account mix. In 2007 we will expand the number of customers that we enlist as users of our offshore model.

***Finally, I would like to briefly discuss our thoughts for Q1 2007.***

The fact that we are just-in-time product builders, makes it difficult for us to offer revenue or eps guidance. Historically we have experienced annual revenue growth in excess of the industry as measured by IPC. 2006 was an example of this. We expect that 2007 will be no different in this regard and are quite optimistic about our opportunities for growth. As such, we will continue to exploit our scale, our engineering prowess, our commitment to environmental stewardship and our sales/marketing savvy to further drive our brand notoriety and increase our share of the US\$4 billion rigid PCB market.

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

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

As a reminder, the instant replay of this Conference Call will be available from today at 10:30 a.m. until Friday, March 23, 2007 at 11:59 p.m. The access number for the instant replay

is 1-866-206-0173 or 1-646-216-7204. The conference reference is 202995#.

We are also holding our Annual General Meeting at 4:30pm. on May 1, 2007 at the Sheraton Centre (Pinnacle Room), Toronto, Ontario. We will also be issuing our Q1 2007 results after the close of trading that same day.

The text of this presentation will be posted on our website; [www.coretec-inc.com](http://www.coretec-inc.com).