



**Coretec Inc.
2004 First Quarter and Year Results
Conference Call
March 7, 2004**

Paul Langston

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

I'd like to thank you for joining us to discuss Coretec's first quarter 2004 results.

But first, I must caution you that this call may include statements about future expectations, plans and prospects that may constitute forward-looking statements. Please be cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties. Actual results or developments may vary materially from those projected or implied in the forward-looking statements as a result of any number of factors, including the effects of the slow-down in the general economy and the electronics and printed circuit board industries; customer order levels, product mix and inventory build-up; lower than expected or delayed sales; pricing and other competitive pressures in the industry; our ability to reduce costs; our ability to integrate past and any future acquisitions; and other risks listed in Coretec's filings with Canadian Securities regulators available at www.sedar.com.

Mark will begin our presentation by reviewing the first quarter financial results. Then I'll provide a snapshot of our business highlights in the quarter and describe the current conditions and outlook for our industry and Coretec specifically.

Mark Thornley

Thanks Paul.

The first quarter of 2004 continued the momentum we experienced in the last half of 2003 enabling the Company to achieve further improved operating results:

- The Company returned to profitability and reported positive net income in the period for the first time since the second quarter of 2001
- Sales for the quarter were \$20.8 million, representing the sixth straight year-over-year increase in quarterly sales
- Gross profit improved to 25.9% of sales, the highest level for the Company in over two years.



- We began the integration of Proto Circuit which we purchased on March 4, 2004. The total cost of the transaction was approximately \$4.1 million. At the time of acquisition, Proto Circuit had an order backlog in excess of US\$2 million. Four weeks of operations from Proto Circuit are included in the Company's first quarter results.
- On March 31, 2004 we completed an expansion of our term credit facility with our bank through the funding of a US\$3.4 million term loan maturing with the existing credit facility on November 15, 2005. Also on that date we made an additional payment of CDN\$0.8 million against our Canadian dollar term loan with the bank.
- Our recently introduced value added offshore project management / brokerage service continued to expand during the first quarter of 2004 reaching \$1.7 million or 8% of sales.
- We continued to focus on liquidity and as at March 31, 2004, we had cash balances, net of our bank line, of \$0.4 million, total working capital of \$8.3 million and an unutilized bank line of \$6.6 million.

Taking a look at our performance in the quarter more specifically:

Net income for the first quarter of 2004 was \$0.6 million or \$0.03 per share compared to a loss of \$0.13 per share in the first quarter of 2003 and sequentially, an improvement from the loss of \$0.01 per share in the fourth quarter of 2003.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the first quarter of 2004 was \$2.4 million compare to negative EBITDA of \$0.5 million in the first quarter of 2003 and sequentially, up from EBITDA of \$1.7 million in the fourth quarter of 2003.

Free cash flow (defined as net income plus depreciation and amortization less capital expenditures) increased to increased to \$1.8 million, its highest level in over three years and a sequential improvement of \$0.6 million over free cash flow in the fourth quarter of 2003.

Sales for first quarter of 2004 increased \$2.0 million or 11% to \$20.8 million, compared to \$18.7 million in the first quarter of 2003 and sequentially, up 7% from sales of \$19.5 million in the fourth quarter of 2003. In the 2004 period, 57% of sales were to the US, 29% to Canada and 14% to Europe. The increase in total sales for 2004 period compared to the 2003 period is a result of strengthening end market demand and market share gains made by the Company however these gains were offset by a lower foreign exchange conversion rate for the Company's US denominated sales compared to the prior year period sales. Sales in the first quarter of 2004 were also increased by the



addition of one month's revenues from the recently acquired Proto Circuit operation plus offshore brokerage sales of \$1.7 million.

The Company's sales by segment for the first quarter of 2004 were 34% EMS, 22% aerospace/military, 26% instruments, 17% communications and 1% computer.

The Company's 10 largest customers accounted for 24% of sales in the first quarter of 2004 with no customer accounting for more than 4% of sales.

Gross profit in the first quarter of 2004 increased by \$2.0 million or 61.2% to \$5.4 million, compared to \$3.3 million in the first quarter of 2003 and sequentially, up \$0.8 million from gross profit of \$4.6 million in the fourth quarter of 2003. Gross profit as a percentage of sales increased to 25.9% from 17.8% in the first quarter of 2003. We continue to benefit from cost reductions and production consolidations made in 2003 as well as benefit from leveraging our fixed manufacturing cost against increased production quantities. The Company also had an improvement in gross profit from its Denver operations compared to the first quarter of 2003 as a result of increase production activity and improved materials utilization.

Income from operations in the first quarter of 2004 increased by \$ 2.3 million to \$0.5 million, compared to a loss from operations of \$1.8 million in the 2003 comparable period and up sequentially from break even in the fourth quarter of 2003.

Selling, General and Administrative ("SG&A") expenses in the first quarter of 2004 decreased \$0.1 million to \$3.2 million, compared to \$3.3 million in the first quarter of 2003. As a percentage of sales, SG&A expenses decreased to 15.3%, compared to 17.9% in the 2003 comparable period. The decrease in SG&A expense was principally due to reductions in selling expenses and sales personnel and reduced expenditures in administrative costs for the Company's subsidiaries as a result of centralizing certain administrative functions partially offset by approximately one month of SG&A expenses associated with the newly acquired Proto Circuit operation.

Depreciation and amortization expense decreased \$0.1 million in the first quarter of 2004 to \$1.7 million compared to \$1.8 million in the 2003 comparable period. The decrease in depreciation in the quarter was partially offset by approximately one month of depreciation expense associated with the newly acquired Proto Circuit operation.

Interest and other expenses in the first quarter on 2004 was \$0.2 million, essentially unchanged from the first quarter of 2003.



Foreign exchange translation gains and losses are principally a result of the reported translation of the Company's US dollar denominated net working capital balances to a Canadian dollar value during the reporting period. Foreign exchange translation increased \$0.7 million to a gain of \$0.2 million in the first quarter of 2004 compared to a loss of \$0.5 million in the 2003 comparable period. The gain reported in the first quarter of 2004 is principally a result of the increase in US dollar vis-à-vis the Canadian dollar during the period while the loss reported in the comparable 2003 period is principally a result of the decrease of the US dollar vis-à-vis the Canadian dollar during that period. The gain in the first quarter of 2004 was partially offset by a loss of \$0.1 million on the market valuation of the Company's US dollar forward exchange contracts held at the end of the 2004 first quarter.

There was no income tax expense or recovery in the first quarter of 2004 due to the application of loss carry forwards available for the Company arising from losses in prior periods not tax benefited.

Turning to capital expenditures:

Excluding deferred payments on capital additions from prior periods of \$0.2 million, capital additions for the first quarter of 2004 decreased \$0.3 million to \$0.3 million, compared to \$0.6 million in the first quarter of 2003. Capital additions in the first quarter of 2004 consisted principally of investments in design software, information technology and advanced technology manufacturing equipment. In the first quarter of 2004 the Company also made payments of \$0.2 million representing the final remaining deferred payments on equipment delivered in the prior periods. As of March 31, 2004, the Company still had approximately \$3.5 million of new, fully paid for, advanced imaging and plating equipment in storage, part of which is expected to be deployed in the second quarter 2004. To date, no depreciation has been taken on new equipment that is currently not in use.

In the first quarter of 2004, the Company purchased 100% of the equity and the secured debt of Proto-Circuit, Inc., a manufacturer of high reliability rigid and rigid-flex PCB's primarily for the military/ aerospace sector, based outside of Cleveland, Ohio. The acquisition includes the purchase of a 40,000 square foot manufacturing facility, on five acres of land, built in 2000. One month prior to the acquisition of the equity of Proto Circuit we purchased their third party secured debt. The total cost of the transaction, including the purchase of debt and equity, was approximately \$4.1 million. There was no goodwill recorded on the acquisition of Proto Circuit.

Turning to liquidity and cash flow:



At March 31, 2004, the Company's principal source of liquidity included cash of \$1.3 million and trade accounts receivable of \$14.1 million. As at March 31, 2004, net working capital increased \$0.3 million to \$8.3 million compared to \$8.0 million at December 31, 2003.

Operating activities for the quarter ended March 31, 2004 provided cash of \$1.2 million compared to cash used of \$0.6 million in the prior year period. In the first quarter of 2004, net income for the quarter adjusted for non-cash items provided cash of \$2.4 million, a \$2.6 million increase compared to cash used by the net loss adjusted for non-cash items of \$0.2 million in the first quarter of 2003. Cash provided from net income adjusted for non-cash items in the first quarter of 2004 was off set by \$1.3 million in cash used by changes in working capital principally a result of an increase in accounts receivable of \$1.3 million, an increase in inventory of \$0.7 million and an increase in prepaid expenses of \$0.4 million of set by a reduction in income taxes receivable of \$0.5 million and an increase in accounts payable of \$0.8 million.

Cash used in investing activities in the first quarter of 2004 amounted to \$4.6 million, compared to cash used in investing activities of \$2.6 million in the first quarter of 2003. The first quarter of 2004 amount includes the acquisition of third party debt of Proto Circuit of \$3.8 million, the costs of the acquisition of the equity interest of Proto Circuit of \$0.2 million (net of cash acquired) and the purchase of capital assets of \$0.4 million. Included in the purchase of capital assets is \$0.2 million of deferred payments for capital assets acquired in prior periods, which were carried on the balance sheet in accounts payable at the end of 2003.

Cash provided by financing activities amounted to \$3.4 million in the first quarter of 2004 compared to cash used of \$0.4 million in the first quarter of 2003. The first quarter of 2004 period includes an increase in funds from the proceeds of a US\$3.4 million term loan translated to an amount of CDN\$4.5 million, offset by \$1.1 million of principal repayments on long term debt.

Shares outstanding in the quarter were unchanged at 18.6 million, with shares on a fully dilutive basis of 18.7 million.

And with that I'll turn things back to Paul:

Paul Langston

Thanks Mark.

Our achievements in Q1 2004 are numerous but the most notable result is our return to profitability. Following 10 consecutive quarters of negative earnings per share, the \$0.03 profit registered in Q1 2004 has re-invigorated our entire team and injected them with a sense of optimism and momentum for the future.



Other major achievements in Q1 2004 are as follows;

- In March 2004 we acquired the assets and equity of Proto Circuits in Ohio. This business was acquired to accelerate our penetration into the defense and aerospace market as well as afford us more US based capacity in general. This 40,000 sq.ft. site has an estimated US\$15-\$20 million in capacity and brings to us an exciting new product line known as Rigid-Flex PCBs;
- In Q1 2004 we experienced revenue growth of 11% versus Q1 2003 and 7% sequentially. This year-over-year growth was achieved despite the significant devaluation of the US Greenback versus the Canadian dollar over the past 12 months;
- We achieved our 3rd consecutive quarter of improved ebitda and free cash flow. Ebitda in Q1 2004 was \$2.4 million and free cash flow was \$1.8 million;
- We renegotiated and expanded our banking facilities to facilitate the acquisition and integration of Proto Circuits as well as free up our operating line. At the end of Q1 2004 our net bank indebtedness was a positive \$400,000;
- During the quarter we made significant progress with respect to integrating our Ohio site in terms of materials and supplies procurement as well as harmonizing the same corporately. We believe that we will achieve meaningful cost savings system-wide as a result, despite the upward pressure that is now entering the PCB raw material and supplies channels;
- In Q1 2004 we initiated the MIL 31032 Military Certification process at our Toronto operations. We anticipate obtaining our certification in Q2 2004;
- In Q1 2004 we initiated the AS9100 certification process in our Ohio plant with the objective of achieving accreditation by the end of Q3 2004;
- We continued to implement the installation of the advanced equipment sets that we have had in storage for the past 24 months. In particular we are in the process of installing a new electroplating system that will increase our plating output by 25-30% and more importantly elevate our technology significantly with respect to HDI and small hole metallization;
- During the quarter we have successfully recruited and integrated key personnel across our network of facilities: a Director of Operations for our Ohio plant as well as several key engineering staff have been acquired; additional engineering staff has been imported into our Denver operation; we



have inserted more depth into our corporate environmental and quality teams and additional engineering talent has been moved into our UK site;

- Early in Q1 2004 we restructured the leadership of our UK operation and right-sized staffing in an effort to revitalize the site and stimulate better financial performance. The planning and execution of the turnaround at the site is being led by our Director of Technology who has relocated to the UK for the duration of the project. Early indications are that our efforts are taking hold, particularly with respect to operational metrics such as yields, cycle time and on time delivery;
- In Q1 2004 we rolled out our in-house PCB school in Toronto and have committed to a continuous enrolment of new recruits to facilitate a pool of prepared talent for our Toronto operations. In addition, our education curriculum is now being introduced and executed at our other sites;
- In Q1 2004 our design operations showed significant improvement in financial performance following a re-organization in the fall of 2003. The leadership and personnel changes that we have made have re-invigorated our design business prospects and have positioned this business to be a more meaningful contributor to our value added engineering services model hereinafter;
- In Q1, 2004 our Human Resources team continued to centralize and harmonize administration (ie. Benefits, payroll, legals, policies and procedures) with significant cost savings occurring as a result of their efforts;
- And finally in Q1 we made significant strides with respect to harmonizing our systems between sites which include web based customer service and quotations, operations measurement and scheduling, financial reporting and materials management

With respect to the PCB marketplace in North America, Q1 2004 has been very much a continuation of the improving conditions evidenced in the second half of 2003. The book to bill ratio as indicated by IPC, the industry association (www.ipc.org), has remained solidly above parity or 1.0 during the first quarter of 2004 (January 1.08, February 1.13, March 1.12).

Capacity utilization in North America, as reported by industry analysts Henderson Ventures, reached 80.1% in March 2004, its second highest level in over 3 years. Generally speaking, the overall industry experiences profitability when CAPU is in the 80-90% range. We, like most industry players, are therefore pleased by the ongoing improvement and strength in this statistic. In fact, the improvement is as much a result of capacity leaving the industry over the past 2-3 years (rumoured to be as much as 40% of total capacity) as it is the result of increased market



activity. In essence, PCB demand throughout the industry has increased nicely over the past 6-9 months resulting in the filling up to some factories. Several of the higher volume manufacturers in North America have announced capacity expansions recently because of “at or near full capacity” conditions in their existing operations. TTM and Merix are two specific examples in this regard.

Henderson Ventures also measure average industry leadtimes which have remained healthy, ie. above 20 days since mid 2003. This compares to a low point of 14 days in 2002. The historical industry average is in the 20-30 day range. This is a key factor for quick turn artists such as Coretec that rely on time premiums to drive revenues and profitability.

Industry shipments in North America now stand at or slightly above US\$5 billion annualized, up significantly from the mid 2003 level which was well below US\$4 billion. Although meaningful and consistent growth has seemingly entered the market we are still a long way off the roughly US\$11 billion shipments level achieved in 2000. It is suggested that industry capacity at present is in the US\$6-\$7 billion range down from the 2000 peak of near US\$12 billion.

The improving market dynamics, as mentioned are of importance to quick-turn artists because they represent an opportunity to charge premiums when conditions are robust. This is particularly true for extremes – ie. very compressed delivery requirements or advanced technologies where there is limited supply. We believe that the market is now signalling a greater appreciation for “just in time” services, particularly as relates to higher technology products.

In spite of the positive signs in 2003 and early 2004 the North American industry is still being tremendously affected by offshore competition. For instance, in February 2004 imports of PCBs to the US were running at an annualized rate of US\$1.36 billion as compared to US exports at US\$668 million.

Also despite the improving conditions in the marketplace, companies are being challenged by weakened working capital balances and excess leverage following the debilitating 2001-2003 timeframe. It is highly likely that financial institutions will use this upturn in the market as an opportunity to liquidate the weakest industry operators. Small and large players continue to be rationalized or foreclosed upon and at present we are seeing a heightened level of activity with respect to facility disposals and liquidations.

In addition, in the longer term it has been projected that a significant thinning out will occur in the industry as a limited number of consolidators exercise their strategies and many small operations succumb to technology or financial exhaustion and business departures as a result of the ongoing outsourcing dynamic and offshore migrations.



What's in store for Q2 2004 and beyond? Henderson Ventures is forecasting a 9-10% growth rate in 2004 in North America and a further 7-8% in 2005. There is also consensus surrounding end market growth with instrumentation and defense/aerospace leading the pack over the next 3 years according to all analysts.

The recent improvement in market conditions has not gone unnoticed by the supplier community. After experiencing depressed pricing conditions over the past 3 years, suppliers are now aggressively engineering supply price increases. Raw material laminators in particular are suggesting that laminate prices are rising by as much as 30% in the forecast and will most surely increase this year in North America.

As we get deeper into 2004, we believe there will likely be increased price differentiation between large and small consumers and possibly allocation. In terms of other supplies, precious metals have steadily increased in price over the past 12 months as has the price of specialty chemicals, by as much as 10-20%. Again scale of consumption and historical relationships, both of which Coretec has, we believe will serve to insulate some operators more than others from significant inflation. Materials and supplies in general represent approximately 30% of the sale price of a PCB.

One area of concern that we are seeing in the electronics industry in general is that of component shortages. Our customers are telling us that they are experiencing delays with respect to procuring key electronic components and therefore are unable to fully assemble PCBs. This is causing some volatility in the PCB industry as customers move to more of a JIT procurement model with respect to circuit boards. This trend is supported by the fact that very little inventory is being built into the channel in the industry. We believe that this dynamic favours quick turn manufacturers like Coretec but may be quite disruptive to the industry in general.

With reference to Coretec specifically, we continue to be encouraged by the fact that our prototype demand in North America continues to be relatively strong particularly with respect to higher technology PCBs and exotic materials. We feel that this is a direct result of our aggressive deployment of additional field engineering and sales personnel over the past year combined with our broad range of product expertise, industry leading advanced technology capability, exceptional value added services and compressed lead-times. We believe that new part number and new account activity that we have worked so hard to build over the past couple of year has set the stage for a stronger growth platform of business for Coretec in the future.

Our UK operation has struggled from a financial and operational performance perspective over the past year and as a result was restructured in Q1. We have



replaced the leadership with one of our senior operations executives from North America and have replaced the entire management team at the facility. This action has served to significantly reduce overheads at the site and has cleared the way for a conversion to a purely prototype and quick-turn operation. The early indication is that our efforts are creating significant momentum in terms of financial improvement, as well as, cycle time and on time delivery performance.

Our expansion plans in 2004 include the implementation of approximately \$3.5 million worth of equipment presently in storage and fully paid for. In addition, we will expend a further \$2.5-\$3.0 million corporately on key pieces of equipment and systems during the year. As a result of strong investments in advanced machinery and systems over the past 3 years, during a period when most of the industry was not investing, we believe that we have enabled ourselves the opportunity to take further market share. In addition our spend requirements in the near term (3-4% of revenues) are quite manageable and consistent with our objective of maintaining strong free cash performance.

On March 4, 2004 we completed the purchase of the equity of Proto Circuit of Cleveland Ohio. The total purchase price including acquisition costs was less than US\$4 million and includes our purchasing of associated real estate. The facility was distressed for much of the past 12 months due to a failed banking relationship and as a result its operations were ground down significantly. We are in the process of rejuvenating the capacity at the site and recommencing an orderly flow of work. At the time of purchase, Proto had in excess of US\$2.5 million of backlog, predominantly orders from defense and aerospace clients. We are pleased to say that the integration has gone very well to date and in particular we are excited about the talent pool resident at the operation. We believe that this facility will ramp up faster than originally projected and will be accretive by year end as opposed to early 2005.

This facility has many attractive attributes which include an outstanding suite of defense approvals, a late model equipment and infrastructure platform (the facility was purpose-built in 2000), significant untapped capacity (estimated to be US\$15-20 million), additional land for expansion if required, a very strong and loyal customer base, excellent capabilities with respect to high reliability products including rigid flex PCBs, and most importantly an extremely talented and dedicated team of industry professionals. Hence we believe that once collectively optimized, these attributes offer significant growth and earnings leverage to Coretec.

The new rigid flex product line that was acquired as a result of this acquisition is particularly exciting to us. This product is a tremendous marketing asset in that few relevant competitors exist in the market and the growth within the product segment is strong. In otherwords rigid-flex consumers are challenged with respect to finding reliable and capable suppliers. Our experience to date is such



that the rigid-flex capability is opening new doors for us in the defense and aerospace sector not only for rigid-flex but for our other products and services at this as well as our other operations, including the UK.

In terms of total available market, we commissioned a study recently by Prismark Partners which defined the rigid-flex market as being US\$135 million annually of which \$110 million is related to the defense and aerospace sector. Hence we believe that we have a significant opportunity to gain meaningful share in this space.

In conjunction with our Denver operation, we believe we now have a very attractive US based suite of products and services that will enable us to gain further traction in the defense/aero market - one of the fastest growing segments of the industry in North America. At present the defense sector represents roughly \$1.5 billion of PCB demand, which is of course protected from offshore competition due to the nature of its product mix and national security.

Another area that we are quite pleased with is our offshore strategy. During the past two quarters our revenues associated with buying and reselling PCBs made by strategic offshore partners have increased to approximately 8% of sales. It is our expectation that this revenue stream will continue to grow and potentially could be annually a \$10-12 million business within the next 12-18 months.

Finally, I would like to briefly discuss our thoughts and activities for Q2 2004 and the balance of the year.

The US dollar's volatility over the past 12 months made it very difficult for us to project with confidence our forward revenues. Coupled with the fact that we are just-in-time product builders, we have been and continue to be challenged to offer revenue or eps guidance. We can say that we are targeting ongoing year-over-year gains in quarterly revenues, as was achieved in 2003. Furthermore, we are keenly focussed upon maintaining meaningful positive free cash throughout 2004 and are looking forward to later in the year when we are projecting that our newly acquired site will be accretive in this regard.

We are continuing our investigations with respect to potential acquisitions in our target end markets and geographic regions per our strategy. Given the fact our Ohio integration is on track, we are accelerating our intelligence gathering in this regard. We would ideally like to be in a position to execute on another North American acquisition within the next 12-18 months. In addition we are now commencing intelligence gathering with respect the prototype and quick turn market in southeast Asia. Within the next 24-36 months we expect to have a direct presence in this burgeoning region.



In closing, we are pleased to say that the PCB industry in North America has entered a period of renewed growth. Although less than half the size it was in 2000, it is still a significant industry at roughly US\$5 billion per annum in North America and roughly US\$3 billion in Europe. There are now several hundred fewer competitors and many others have been severely damaged. In fact we believe that the PCB industry has been bisected. There now exists a small cluster of players including Coretec, who have the technological plus financial capability and capacity to serve the industry well while the vast majority of facilities will not be relevant to the marketplace in the future. At Coretec, we are convinced that our core operating pillars; technology, time and value added services, will cause us to be one of the industry's key players.

That wraps up our presentation. We thank you for your interest and attention. I would therefore like to 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, May 14, 2004 at 11:59 p.m. The phone number for the instant replay is 416-640-1917 or toll free 877-289-8525, the passcode is 21048595#.

As well, the text of our remarks will be posted on our website; www.coretec-inc.com.