



## **Coretec Announces Second Quarter 2005 Results Second Quarter Sequential Revenue Growth of 2%**

**Toronto, Ontario, August 4, 2005** - Coretec Inc. (TSX: CYY) today reported its financial results for the second quarter ended June 30, 2005. The Company recorded sales from continuing operations of \$19.7 million in the quarter, a 6% decrease over sales of \$21.0 million in the second quarter of 2004, although a 2% increase sequentially from the first quarter of 2005. Gross profit for the quarter was \$4.3 million or 22% of sales compared to \$6.2 million or 30% of sales in the second quarter of 2004. Sequentially, gross profit increased 4% from gross profit of \$4.1 million or 21% of sales in the first quarter of 2005. The Company recorded a loss per share in the quarter of \$0.07 compared to earnings per share of \$0.04 in the second quarter of 2004 and sequentially, compared to a loss of \$0.05 per share in the first quarter of 2005. In the second quarter of 2005 the Company recorded a charge of \$0.5 million or \$0.03 per share representing the costs associated with the abandoned merger transaction with Unicircuit, Inc.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") were \$0.9 million in the quarter, a decrease of \$1.8 million compared to EBITDA of \$2.8 million in the second quarter of 2004 and sequentially, an increase of \$0.1 million compared to EBITDA of \$0.8 million in the first quarter of 2005. Free cash flow, defined as earnings (loss) plus depreciation and amortization less capital expenditures, was approximately nil in the quarter, compared to positive free cash flow of \$2.0 million in the second quarter of 2004 and sequentially, an improvement of \$0.5 million from negative free cash flow of \$0.5 million in the first quarter of 2005.

"While abandoning the proposed merger with Unicircuit Inc. was the right decision for the Company, we still believe in the underlying principles which fostered the proposed transaction. Those principles include capacity consolidation, the alignment of our customer base towards higher margin and secure market segments such as military/aerospace, instrumentation, high reliability and time expedited products and the expansion of our technology platform and expertise. We have focused the activities of Coretec on these key principles and will continue to do so going forward. We continue to focus on prudent financial management of our resources during the current tough market conditions and believe that recent and upcoming competitor closures will serve to stabilize the industry and allow us to improve our financial performance. Ensuring that we are optimized in terms of productivity, cost, and technology will enable us to continue to increase market share," said Paul Langston, Coretec's President and Chief Executive Officer.

"As part of our consolidation focus, we have put our Lawrence facility up for sale with the intention of transferring the remaining production processes at this facility to our two other Toronto sites. We have signed a conditional purchase and sale agreement to sell the facility's real estate in the amount of \$2.1 million and anticipate the transaction to close in the fourth quarter of this year. The contemplated transaction will also provide us with a period of up to 18 months after closing in which to vacate the building. If completed, we will receive approximately 50% of the proceeds by closing and receive the remainder in an interest bearing 30-month vendor take-back note with an optional early redemption to be paid twelve months after we vacate the facility. Although there

can be no assurance given that this particular transaction will be completed, it is our ongoing intention to relocate the production activities in this facility and ultimately sell the real estate asset,” continued Mr. Langston.

“Although we are seeing positive results as a result of our focus, market conditions in the first half of 2005 remained volatile and weak, precipitating further price compression across virtually all products and services. According to IPC, shipments of PCBs in North America declined 6.4% for the six months ending June 2005 as compared to the same period in 2004. Demand softness in the defense and aerospace sectors has been particularly disappointing as has an absence of quick turn requirements in that same sector. To offset these declines in activity, we have aggressively stepped up our pursuit of commercial prototypes and time sensitive production. Our focus continues to be on accelerated cycle times, optimized sales and operations planning, and continuous improvements in process control, staying true to our game plan,” said Mr. Langston.

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 complete printed circuit board solutions, including design, advanced prototyping and quick turnaround production across an outstanding range of product technologies.

This news release 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 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 listed in Coretec's public disclosure documents and other filings with securities regulatory authorities found at [www.sedar.com](http://www.sedar.com).

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## **TO THE SHAREHOLDERS OF CORETEC INC.**

The consolidated balance sheet of Coretec Inc. as at June 30, 2005, and the consolidated statements of operations, deficits and cash flows for the period then ended have not been reviewed by the company's auditors, Ernst & Young LLP. These financial statements are the responsibility of management and have been reviewed and approved by the company's audit committee.

## CONSOLIDATED BALANCE SHEETS

[in thousands – unaudited]

	June 30, 2005 \$	December 31, 2004 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	82	354
Accounts receivable	12,521	13,903
Inventories	4,987	5,002
Income taxes recoverable	—	631
Prepaid expenses	1,170	1,752
Note receivable from discontinued operations	146	1,524
<b>Total current assets</b>	<b>18,906</b>	<b>23,166</b>
Long-lived assets held for sale	2,129	—
Property, plant and equipment, net	26,900	30,193
Other assets	217	386
	<b>48,152</b>	<b>53,745</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness	808	1,608
Accounts payable and accrued liabilities	7,739	9,969
Current portion of long-term debt	4,710	5,044
<b>Total current liabilities</b>	<b>13,257</b>	<b>16,621</b>
Long-term debt	3,140	3,406
<b>Total liabilities</b>	<b>16,397</b>	<b>20,027</b>
<b>Shareholders' equity</b>		
Share capital	61,007	60,992
Contributed surplus	549	340
Deficit	(29,801)	(27,614)
<b>Total shareholders' equity</b>	<b>31,755</b>	<b>33,718</b>
	<b>48,152</b>	<b>53,745</b>

## CONSOLIDATED STATEMENTS OF OPERATIONS

[in thousands – unaudited]

	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Sales</b>	19,718	20,969	39,067	39,402
Cost of sales	15,443	14,737	30,698	27,886
<b>Gross profit</b>	4,275	6,232	8,369	11,516
<b>Expenses</b>				
Selling, general and administrative	3,126	3,336	6,468	6,182
Depreciation and amortization	1,498	1,722	3,025	3,334
	4,624	5,058	9,493	9,516
Income (loss) from continuing operations	(349)	1,174	(1,124)	2,000
Terminated merger costs	534	—	534	—
Interest and other expenses	259	222	507	378
Foreign exchange loss (gain)	223	106	143	(18)
Income (loss) before income taxes	(1,365)	846	(2,308)	1,640
Provision for income taxes	—	20	—	20
Income (loss) from continuing operations	(1,365)	826	(2,308)	1,620
Income (loss) from discontinued operations	5	(196)	(121)	(417)
<b>Net income (loss) for the year</b>	(1,370)	630	(2,187)	1,203
<b>Earnings (loss) per share:</b>				
From continuing operations, basic and diluted	\$(0.07)	\$0.04	\$(0.12)	\$0.09
Net income (loss) per share, basic and diluted	\$(0.07)	\$0.03	\$(0.12)	\$0.06

## CONSOLIDATED STATEMENTS OF DEFICIT

[in thousands – unaudited]

Quarters ended June 30

	2005	2004
	\$	\$
Deficit, beginning of year	(27,614)	(25,832)
Net income (loss) for the period	(2,187)	1,203
<b>Deficit, end of period</b>	<b>(29,801)</b>	<b>(24,629)</b>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands – unaudited]

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Income (loss) for the year from continuing operations	(1,365)	826	(2,308)	1,620
Non-cash items				
Depreciation	1,498	1,722	3,025	3,334
Stock-based compensation	103	61	209	122
Unrealized foreign exchange loss	242	25	527	91
Amortization of deferred finance charges	54	39	107	57
	532	2,673	1,560	5,224
Net change in non-cash working capital balances related to operations	1,507	(1,176)	(86)	(1,869)
<b>Cash provided by operating activities</b>	<b>2,039</b>	<b>1,497</b>	<b>1,474</b>	<b>3,355</b>
<b>FINANCING ACTIVITIES</b>				
Increase of long-term debt	—	—	—	4,454
Repayment of long-term debt	(353)	(427)	(699)	(1,530)
Decrease in bank indebtedness	(2,106)	(475)	(800)	(474)
Increase in share capital	15	14	15	14
<b>Cash (used in) provided by financing activities</b>	<b>(2,444)</b>	<b>(888)</b>	<b>(1,454)</b>	<b>2,464</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(703)	(619)	(1,861)	(950)
Increase (decrease) in other assets	(8)	(156)	62	(284)
Advance to Proto Circuit	—	—	—	(3,798)
Acquisition of Proto Circuit	—	—	—	(236)
<b>Cash used in investing activities</b>	<b>(711)</b>	<b>(775)</b>	<b>(1,799)</b>	<b>(5,268)</b>
Effect of exchange rate changes on cash	21	(1)	7	6
<b>Net increase (decrease) in cash during the period</b>	<b>(1,095)</b>	<b>(167)</b>	<b>(1,771)</b>	<b>557</b>
Change in cash from discontinued operations	(5)	(199)	1,499	(555)
Cash, beginning of period	1,182	1,278	354	910
<b>Cash, end of period</b>	<b>82</b>	<b>912</b>	<b>82</b>	<b>912</b>
<b>Supplemental cash flow information</b>				
Interest paid	159	186	354	336
Income taxes paid	63	144	63	144

**Coretec Inc.**  
**Selected financial Information (000's)**

	<u>Q2/05</u>	<u>Q2/04</u>	<u>% Change</u>	<u>Q1/05</u>	<u>% Change Q2/Q1</u>	<u>YTD05</u>	<u>YTD04</u>
<b>Continuing operations:</b>							
Revenue	19,718	20,969	-6%	19,349	2%	39,067	39,402
Gross Profit	4,275	6,232	-31%	4,095	4%	8,369	11,516
Income (loss)	(1,365)	826	-265%	(942)	45%	(2,308)	1,620

**Reconciliation of EBITDA from continuing operations**

	<u>Q2/05</u>	<u>Q2/04</u>	<u>% Change</u>	<u>Q1/05</u>	<u>% Change</u>	<u>YTD05</u>	<u>YTD04</u>
Income (loss) for the period from continuing operations	(1,365)	826		(942)		(2,308)	1,620
Add/(Deduct):							
Interest	259	222		248		507	378
Depreciation and amortization	1,498	1,722		1,527		3,025	3,334
Provision for income tax	-	20		-		-	20
Abandoned merger costs	534	-		-		534	-
<b>EBITDA from continuing operations</b>	<b>926</b>	<b>2,790</b>	<b>-67%</b>	<b>833</b>	<b>11%</b>	<b>1,758</b>	<b>5,352</b>

**Reconciliation of Free Cash Flow from continuing operations**

	<u>Q2/05</u>	<u>Q2/04</u>	<u>% Change</u>	<u>Q1/05</u>	<u>% Change</u>	<u>YTD05</u>	<u>YTD04</u>
Income (loss) for the period from continuing operations	(1,365)	826		(942)		(2,308)	1,620
Add:							
Depreciation and amortization	1,498	1,722		1,527		3,025	3,334
Amortization of deferred finance charges	54	39		53		107	57
Abandoned merger costs	534	-		-		534	-
	<u>721</u>	<u>2,587</u>		<u>638</u>		<u>1,358</u>	<u>5,011</u>
Deduct:							
Capital expenditures	(703)	(619)		(1,158)		(1,861)	(950)
<b>Free Cash Flow from continuing operations</b>	<b>18</b>	<b>1,968</b>	<b>-99%</b>	<b>(520)</b>	<b>103%</b>	<b>(503)</b>	<b>4,061</b>

*\*EBITDA and free cash flow are not measures recognized under Canadian generally accepted accounting principles ("GAAP"). EBITDA is calculated as earnings before interest and certain other expenses, provision for income taxes, depreciation and amortization and impairment of capital assets. Free cash flow is calculated as net income plus depreciation and amortization and impairment of capital assets less capital expenditures. Management believe that many of the Company's shareholders, creditors, other stakeholders and analysts prefer to assess the Company's performance using EBITDA and free cash flow in addition to the GAAP measures. The Company's method of calculating EBITDA and free cash flow may differ from other companies and accordingly may not be comparable to measures used by other companies.*