



Coretec Announces Fourth Quarter 2004 and Full Year Results
Revenue for 2004 up 25% over prior year
EBITDA for 2004 up over 150% from prior year
Fourth quarter year-over-year revenue growth of 19%

Coretec Inc. (TSX:CYY) today reported its financial results for the fourth quarter and the year ended December 31, 2004.

For continuing operations, in the quarter ended December 31, 2004, Coretec reported revenues of \$20.8 million, a 19% increase over the prior year period although a decrease of 4% from the third quarter of 2004. Gross profit declined to 22.3% of sales compared to 25.4% in the prior year period and 24.9% percent in the third quarter of 2004. Net loss for the quarter was \$0.6 million or \$0.03 per share compared to a net loss of \$0.2 million or \$0.01 per share for the same period in 2003 and sequentially, a decrease of \$1.1 million from net income of \$0.6 million or \$0.03 per share in the third quarter of 2004. In the fourth quarter the Company restructured both its operations and sales management teams including the replacement of its COO and senior sales executives. As a result the Company recorded a charge of \$0.9 million or \$0.05 per share related to the associated severance costs. The Company also recorded a loss of \$0.2 million on the disposal of surplus equipment.

Earnings before interest, taxes, depreciation and amortization (EBITDA) before restructuring and asset disposal charges was \$2.1 million, a \$0.5 million increase from the same period in 2003 although, sequentially a decrease \$0.4 million from the third quarter of 2004. Free cash flow (defined as net income plus depreciation and amortization less capital expenditures) before restructuring and asset disposal charges was \$1.1 million in the fourth quarter of 2004 compared to \$1.3 million in the prior year period and, sequentially, free cash flow of \$1.7 million generated in the third quarter of 2004. The fourth quarter of 2004 includes the recovery of income taxes of \$0.6 million of which \$0.3 million related to research and development investment tax credits, resulting in a reduction in cost of sales for the period.

For continuing operations for the twelve-month period ended December 31, 2004, the Company reported sales of \$81.9 million, a 25% increase over sales of \$65.7 million in 2003. Gross profit increased \$5.4 million to \$21.5 million or 26.3% of sales compared to \$15.8 million or 24.0% of sales in 2003. Net income for the year was \$1.6 million or \$0.09 per share compared to a net loss of \$4.3 million or \$0.23 per share in 2003. EBITDA for 2004, prior to restructuring and asset disposal charges was \$9.9 million or 12% of sales compared to \$3.9 million or 6% of sales in 2003. Free cash flow for 2004, prior to restructuring and asset disposal charges, was \$6.9 million compared to negative free cash flow of \$0.6 million in 2003.

In the third quarter of 2004, the Company discontinued the operation of its UK facility, placing it into administration and, subsequently, into liquidation. In the fourth quarter of 2004, the Company booked a recovery of \$1.7 million or \$0.09 per share related to the proceeds due to the Company as a result of the liquidation. At year end, a balance of \$1.5 million was outstanding on this recovery and is expected to be received in full before the end of the second quarter of 2005. The loss from discontinued operations for 2004 was \$3.4 million or \$0.18 per share compared to a loss of \$0.9 million or \$0.05 per share in 2003.

"We are pleased that we were able to achieve, for the second consecutive year, significant year-over-year sales growth in 2004 despite the negative impact on revenues from the appreciation of the Canadian Dollar versus the U.S. Dollar. Approximately two thirds of our consolidated revenues are US dollar denominated.

This past year was also challenging from a market conditions perspective, yet we were able to gain market share. The first half of the year was characterized by strong bookings and shipments across the entire industry. In comparison, the second half of the year and especially the fourth quarter deteriorated measurably as indicated by the IPC Book-to-Bill ratio which has been above parity for rigid PCBs only once in the past 6 months. As a result, the industry has experienced a general softening of prices. More disturbing, we have seen aggressive pricing tactics in the prototype and quick turn services arena", said Paul Langston, Coretec's President and Chief Executive Officer.

Mr. Langston continued, "Industry analysts are currently projecting weak revenue growth in the North American PCB industry for 2005. Recent facility closure announcements including Viasystems and Photocircuits point to the fragile nature of the sector. As such we continue to be mindful of cost controls and our working capital position."

"In November 2004 we announced that we had received an unsolicited offer to purchase our Lawrence facility and associated land. The original offer has expired due to issues associated with the adjacent properties, which were also subject to the same purchase offer. We are currently negotiating revised terms and conditions of sale with the potential purchaser. If a transaction is consummated it will likely occur sometime in the second quarter of this year. The potential sale of this site will not only reduce our operating costs but will also free up cash to facilitate the consolidation of our Toronto operations at our 100,000 sq.ft., 9 acre Sheppard site, which has been de-listed for sale. Furthermore with respect to our real estate holdings, we are exercising an option to purchase our Denver building and adjacent vacant land. This will produce savings with respect to rent costs at the facility," said Mr. Langston.

Mr. Langston continued, "Despite the meager growth projections for 2005 we feel Coretec can continue to grow its market share through market differentiation, be it speed, technology or value added services. In particular, in 2005 we will continue to execute on a series of strategic maneuvers that will further distinguish us from our competitors:

- we will continue to invest in and restructure our sales and marketing organization in order to drive time-premium associated revenues, as well as further penetrate key end markets and geographic regions, most notably the southwest US;
- we will further develop our off-shore program management strategy;
- we will continue to procure advanced equipment as well as install that which is held in storage in order to improve capacity, capability, efficiencies and cycle time;
- we will continue to refine the product mix at our Ohio facility towards rigid flex PCBs in an effort to improve its financial and operational metrics."

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.

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Coretec Inc.**CONSOLIDATED BALANCE SHEETS**

[in thousands - unaudited]

	December 31, 2004	December 31, 2003
	\$	\$
ASSETS		
Current		
Cash	354	910
Accounts receivable	13,903	10,394
Inventories	5,002	3,329
Income taxes recoverable	631	451
Prepaid expenses	1,752	782
Note receivable from discontinued operations	1,524	—
Current assets of discontinued operations	—	3,170
Total current assets	23,166	19,036
Long-lived assets held for sale	—	5,146
Capital assets, net	30,193	25,296
Other assets	386	194
Non-current assets of discontinued operations	—	1,935
	53,745	51,607
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	1,608	863
Accounts payable and accrued liabilities	9,969	7,782
Current portion of long-term debt	5,044	1,155
Current liabilities of discontinued operations	—	1,255
Total current liabilities	16,621	11,055
Long-term debt	3,406	5,349
Total liabilities	20,027	16,404
Shareholders' equity		
Share capital	60,992	60,979
Contributed surplus	340	56
Deficit	(27,614)	(25,832)
Total shareholders' equity	33,718	35,203
	53,745	51,607

Coretec Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

[in thousands - unaudited]

	Three months ended		Year ended	
	December 31		December 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Sales	20,755	17,415	81,850	65,723
Cost of sales	16,118	13,000	60,304	49,953
Gross profit	4,637	4,415	21,546	15,770
Expenses				
Selling, general and administrative	2,811	2,703	12,116	11,276
Depreciation and amortization	1,634	1,706	6,592	6,914
Restructuring charges	913	—	913	531
	5,358	4,409	19,621	18,721
Income (loss) from operations	(721)	6	1,925	(2,951)
Interest and other expenses	252	169	891	747
Foreign exchange (gain) loss	(267)	70	(495)	583
Loss on disposal of capital assets	150	—	150	—
Income (loss) before income taxes	(856)	(233)	1,379	(4,281)
Recovery of income taxes	(294)	(26)	(261)	(26)
Net income (loss) from continuing operations	(562)	(207)	1,640	(4,255)
Net income (loss) from discontinued operations	1,705	17	(3,422)	(855)
Net income (loss) for the period	1,143	(190)	(1,782)	(5,110)
Earnings (loss) per share:				
From continuing operations				
basic and diluted	\$(0.03)	\$(0.01)	\$0.09	\$(0.23)
Earnings (loss) per share				
basic and diluted	\$0.06	\$(0.01)\$ (0.10)	\$(0.27)	

Coretec Inc.

CONSOLIDATED STATEMENTS OF DEFICITS

[in thousands - unaudited]

	Year ended	
	December 31	
	2004	2003
	\$	\$
Deficit, beginning of period	(25,832)	(20,722)
Loss for the period	(1,782)	(5,110)
Deficit, end of period	(27,614)	(25,832)

Coretec Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands - unaudited]

	Three months ended		Year ended	
	December 31		December 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income (loss) for the period	(562)	(207)	1,640	(4,255)
Non-cash items				
Depreciation and amortization	1,634	1,706	6,592	6,914
Stock-based compensation	74	39	284	56
Unrealized foreign exchange (gain) loss	(270)	67	(131)	741
Amortization of deferred finance charge	51	21	146	88
Future income taxes	—	—	—	(86)
Loss on disposal of capital assets	150	—	150	—
	1,077	1,626	8,681	3,458
Net change in non-cash working capital balances related to operations	(1,062)	246	(4,263)	367
Cash provided by operating activities	15	1,872	4,418	3,825
FINANCING ACTIVITIES				
Increase of long-term debt	—	—	4,454	—
Repayments of long-term debt	(219)	(289)	(2,466)	(1,125)
Repayment of notes payable	—	(1,900)	—	(1,900)
Increase in bank indebtedness	673	390	745	863
Proceeds of shares issued, net of share issue costs	—	—	13	—
Cash provided by (used in) financing activities	454	(1,799)	2,746	(2,162)
INVESTING ACTIVITIES				
Purchase of capital assets	(1,063)	(213)	(2,521)	(3,837)
Proceeds on disposal of capital asset	258	—	258	—
Increase in other assets	(14)	143	(338)	(1)
Advance to Proto Circuit	—	—	(3,798)	—
Acquisition of Proto Circuit	—	—	(236)	—
Cash used in investing activities	(819)	(70)	(6,635)	(3,838)
Effect of exchange rate changes on cash	24	(141)	11	(186)
Net increase (decrease) in cash during the period	(326)	(138)	540	(2,361)
Change in cash from discontinued operations	169	26	(1,096)	(925)
Cash, beginning of period	511	1,022	910	4,196
Cash, end of period	354	910	354	910

Coretec Inc.

Selected financial Information (000's)

	<u>Q4/04</u>	<u>Q4/03</u>	<i>% Change</i>	<u>Q3/04</u>	<i>% Change Q3/Q2</i>	<u>2004</u>	<u>2003</u>	<i>% Change</i>
Continuing operations:								
Revenue	20,755	17,415	19%	21,693	-4%	81,850	65,723	25%
Gross Profit	4,637	4,415	5%	5,393	-14%	21,546	15,770	37%
Income (loss)	(562)	(207)	-171%	582	-197%	1,640	(4,255)	139%

Reconciliation of EBITDA from continuing operations

	<u>Q4/04</u>	<u>Q4/03</u>	<i>% Change</i>	<u>Q3/04</u>	<i>% Change Q3/Q2</i>	<u>2004</u>	<u>2003</u>	<i>% Change</i>
Income (loss) for the period from continuing operations	(562)	(207)		582		1,640	(4,255)	
Add/(Deduct):								
Interest	252	169		261		891	747	
Depreciation and amortization	1,634	1,706		1,624		6,592	6,914	
Loss on disposal of capital assets	150	-		-		150	-	
Income taxes expense	(294)	(26)		13		(261)	(26)	
Restructuring costs	913	-		-		913	531	
EBITDA from continuing operations	2,093	1,642	27%	2,480	-16%	9,925	3,911	154%

Reconciliation of Free Cash Flow from continuing operations

	<u>Q4/04</u>	<u>Q4/03</u>	<i>% Change</i>	<u>Q3/04</u>	<i>% Change Q3/Q2</i>	<u>2004</u>	<u>2003</u>	<i>% Change</i>
Income (loss) for the period from continuing operations	(562)	(207)		582		1,640	(4,255)	
Add:								
Depreciation and amortization	1,634	1,706		1,624		6,592	6,914	
Amortization of deferred finance charges	51	21		38		146	88	
Loss on disposal of capital assets	150	-		-		150	-	
Restructuring costs	913	-		-		913	531	
	2,186	1,520		2,244		9,441	3,278	
Deduct:								
Capital expenditures	(1,063)	(213)		(508)		(2,521)	(3,837)	
Free Cash Flow from continuing operations	1,123	1,307	-14%	1,736	-35%	6,920	(559)	1338%