



**Coretec Inc.**  
**2005 Fourth Quarter and Full Year Results**  
**Conference Call**

March 29, 2006

**Paul Langston**

Good morning. I'm Paul Langston, Coretec's President and Chief Executive Officer. With me today is Lionel Collier, Coretec's acting Corporate Controller and Andre Kern, Coretec's Director of Finance.

I'd like to thank you for joining us to discuss Coretec's 2005 fourth quarter and full year 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; government regulations or trade restrictions that adversely affect revenues; 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](http://www.sedar.com).

I 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 describe the outlook for Q1 for our industry and Coretec specifically.

***Financial results***

After four successive quarters of losses, our continuing operations in the fourth quarter of 2005 were profitable, at \$0.01 per share. Excluding foreign exchange gains/losses, fourth quarter EBITDA was \$1.7 million an increase of \$1.4 million or 366% sequentially from Q3 2005 EBITDA of \$0.3 million.

In the fourth quarter of 2005, sales increased \$1.7 million or 9% compared to sales of \$19.9 million in the third quarter of 2005 and increased \$0.8 million or 4% from sales of \$20.8 million in the fourth quarter of 2004. The increase in sales is mainly the result of increased sales activity from the Toronto operation.

Gross profit in Q4 was unchanged nominally at \$4.6 million but was lower as a percentage of sales at 21.4% versus 22.3% in the prior year period. The decrease in gross profit as a percentage of sales is principally a result of lower contribution from the Company's Denver site offset by improvements at the Company's Cleveland operation. Additionally the Company's Toronto operations were affected by the strengthening of



the Canadian dollar versus the US dollar and the British Pound.

SG&A costs in Q4 increased by \$0.1 million to \$2.9 million compared to \$2.8 million. Included in the fourth quarter of 2005 was \$0.2 million related to severances and recruiting costs. In the fourth quarter of 2005 the Company restructured its operations management team, including the replacement of its COO and the recruitment of new General Managers for both its Denver and Cleveland facilities.

Depreciation and amortization expense in Q4 2005 was \$1.4 million compared to \$1.6 million in the fourth quarter of 2004, a decrease of \$0.2 million. The reduction in depreciation and amortization expense for the fourth quarter of 2005 was principally due to the assets that became fully depreciated in the period being greater than the additional depreciation from assets acquired in the past 12-month period.

Profit from operations in the fourth quarter of 2005 was \$0.3 million compared to a loss of \$0.7 million in the prior year period.

Interest expense in the fourth quarter of 2005 decreased \$0.1 million to \$0.2 million compared to \$0.3 million in the prior year period. There was a foreign exchange loss of \$0.1 million in the fourth quarter of 2005 compared to a gain of \$0.3 million in the prior year period.

There was no income tax recovery recorded in the fourth quarter of 2005 due to the “more likely than not” test, with respect to the valuation of deferred tax assets, not being met. Comparatively, the Company recorded an income tax recovery of \$0.3 million in the fourth quarter of 2004 related to the valuation of loss carry backs available to the Company as a result of losses in prior periods.

Net profit in the fourth quarter of 2005 was \$0.2 million or \$0.01 per share compared with a net loss of \$0.6 million or \$0.03 per share in the fourth quarter of 2004.

### ***Turning to capital additions***

In the fourth quarter of 2005 the Company made \$0.6 million of capital additions compared to \$1.1 million in the prior year period. The additions in both the 2005 and prior year fourth quarters were predominantly chemical processing machinery and information technology software and hardware. At the end of the year, the Company had approximately \$3.1 million of unused, fully paid for plating and wet process equipment not yet installed. To date, no depreciation has been taken on the equipment currently not in use, however, it is the Company’s intention to install this equipment in future periods.

On October 2, 2005, the Company sold the real estate associated with its Lawrence facility for total consideration of \$2.1 million. The Company realized cash proceeds of \$1.05 million at the time of closing and assumed a 30 month vendor-take-back (“VTB”) mortgage also totaling \$1.05 million. The Company will receive interest at a rate of 5% per annum on the VTB and no principal payments are required during the term. The Company is permitted to occupy the property rent free until March 17, 2007 and is required to pay property taxes only. The Lawrence real estate, along with its Sheppard



real estate, was subject to a mortgage held by the Business Development Bank of Canada ("BDC"). The BDC had a condition of a principal repayment of \$0.3 million associated with the release of its mortgage, which was waived on closing.

***Turning to liquidity and capital resources:***

At December 31, 2005, the Company's principal source of liquidity included cash of \$1.7 million, short-term deposit of \$1.05 million, trade accounts receivable of \$14.5 million, and an unused portion of its operating line of credit of \$5.4 million. Under the terms of the Company's credit facilities, the short-term deposit must be applied against bank indebtedness when cashed. Working capital was \$8.7 million at December 31, 2005 compared to \$6.5 million at December 31, 2004. During the fourth quarter of 2005 the Company renewed its asset-based bank facility until November 2008. The renewal included a \$8 million revolving bank facility which as at December 31, 2005 had an outstanding balance of \$2.6 million. In addition the company renewed two term loan facilities with its primary lender, a Canadian dollar loan and a US dollar of which \$0.4 million and US\$2.6 million were outstanding respectively as at December 31, 2005.

The term facilities are collateralized by the Company's equipment as well as real estate held by the Coretec, Cleveland subsidiary. The credit facility is also collateralized by a general security agreement against all of the Company's assets. The Canadian dollar term loan requires monthly principal payments of \$50,000 plus a final repayment of \$50,000 at the end of its term. The US dollar term loan requires monthly principal repayments of US\$40,476 plus a final repayment of US\$1.9 million at the end of its term. At December 31, 2005, funds outstanding under the term loans accrue interest at Canadian prime plus 1.25% and the US base rate plus 1.25%, respectively. The combined facility requires the Company to maintain a minimum consolidated tangible net worth over the term of the loan of \$24 million. As at December 31, 2005, the consolidated tangible net worth of the Company, as measured under the terms of the facility, was \$28.4 million.

The Company has a term loan agreement with the Business Development Bank of Canada ("BDC") which is collateralized by the Company's Sheppard property in addition to a general security agreement. The loan has a term to December 2011, with principal fully repaid on a straight-line amortization of \$46,283 per month over the loan term and bears interest at a rate of 7.4% until March 2009, after which the Company may choose a floating or fixed rate based on the corresponding BDC lending rate less 1.5%. The loan requires the Company to maintain a maximum debt to equity ratio of 1.2:1 and a minimum working capital ratio of 1:1. As of December 31, 2005 the Company's ratios were 0.2:1 and 1.6:1, respectively and the loan balance outstanding was \$3.3 million.

Operating activities for the fourth quarter of 2005 provided cash of \$1.2 million compared to cash of approximately \$1.1 million in the prior year period. In the 2005 period, income from continuing operations adjusted for non-cash items provided cash of \$1.7 million, a \$0.4 million increase compared to \$1.3 million in the prior year period. Cash provided by working capital changes in the 2005 period was \$4.0 million compared to cash used of \$1.4 million in the prior year period. Cash provided by changes in non-cash working capital in the fourth quarter of 2005 is principally a result of an increase in accounts payable of \$1.9 million, a decrease in inventory of \$0.2 million offset by an



increase in accounts receivable of \$1.7 million. In the 2004 comparable period, changes in non-cash working capital balances were principally a result of a decrease in accounts payable of \$0.9 million and an increase in taxes recoverable of \$0.6 million, offset by a decrease in accounts receivable of \$0.8 million.

Cash used in investing activities in the fourth quarter of 2005 amounted to \$0.7 million, compared to cash used in investing activities of \$0.8 million in the 2004 prior period. Cash used in the 2005 period principally represents investments in advanced technology production equipment and information technology hardware and software. The 2004 prior period amount principally relates to further equipping of the Company's Cleveland operation.

Cash provided by financing activities amounted to \$0.3 million in the fourth quarter of 2005 compared to cash provided of \$0.5 million in 2004 prior period. The 2005 period includes an increase of advances from the Company's bank line of \$0.6 million and the repayment of long term debt of \$0.3 million. Cash provided in the 2004 prior period includes further bank indebtedness of \$0.7 million offset by the repayment of \$0.2 million of long term debt.

Shares outstanding at the end of the year were 18.6 million.

***Turning to business highlights.***

The highlights of 2005 and Q4 are as follows;

- In Q4 2005 we experienced revenue growth of 4% versus Q4 2004 despite the challenges associated with the appreciation of the Canadian dollar versus the US dollar. Approximately 70% of our revenues are denominated in US Dollars. The average value of the Canadian dollar in 2004 was US76.8¢ (alternatively one US\$ = 1.302 C\$). This compares to an average of US82.5¢ in 2005 (i.e. one US\$ = 1.212 C\$). The Canadian dollar closed at US85.8¢ on December 31, 2005 or USD/CDA = 1.116;
- Our Q4 revenues of \$21.6 million represent the second highest quarterly revenue level since 2001;
- Our Q4 geographic breakdown of revenue was 56% to the US, 39% to Canada and 5% to Europe and Asia. Comparatively in Q4 2004 revenues were 67% to the US, 30% to Canada and 3% to Europe and Asia. The changes are predominantly related to a decline in offshore brokering, where sales are virtually all to US customers as well as foreign currency translation rate changes;
- Q4 revenue by end market was once again well diversified with 38% EMS, 19% military/aerospace, 15% instruments, 14% Telecom and 14% Computer.
- In Q4 our top 10 customers accounted for 36% of sales with the largest customer representing around 5% of sales in the quarter. This concentration has been increasing all year as we have deliberately mined our existing account base for additional share;



- Continuing operations returned to profitability during Q4;
- In Q4 we finalized the sale of the real estate associated with our Lawrence facility. Upon closing Coretec received \$1.05 million in cash and took back a 30 month mortgage for \$1.05 million bearing interest at 5% per annum. Coretec can occupy the site for up to 18 months rent free (i.e. March 2007); paying property taxes and utilities only;
- In Q4 we renewed our credit facility with the Bank of Montreal under essentially the same terms as the prior facility. The next renewal date is November 2008;
- In Q4 we also entered into an agreement to expand our loan facility with the Business Development Bank of Canada (BDC). Our current Toronto real estate mortgage is with BDC and has an outstanding balance of \$3.3 million as of December 31, 2005. The expanded agreement contemplates increasing the mortgage by \$2.5 million as well as entering into a new \$1 million capital equipment credit line. Both are in preparation for our Sheppard facility roll-out in late 2006. The BDC facility is subject to due diligence and is expected to be finalized by Q2 2006;
- In Q3 we finalized the Administration process associated with our former UK site. This resulted in a final receipt of approximately \$300,000;
- Earlier in the year we received notification that our Scientific Research and Experimental Development (SRED) filings were accepted as filed for fiscal 2001 representing an unutilized Investment Tax Credit of approximately \$600,000. We anticipate additional investment tax credits (“ITC”) to be granted for years already filed (2002 and 2003) as well as 2004 which will be filed by early Q2 2006. We have historically recorded ITCs associated with research and development expenditures on an “as cash is received” basis;
- Our capital expenditures during 2005 amounted to \$3.2 million. Significant investments were made throughout the year on IT hardware and software, the purpose of which was to create redundancy, expand storage capacity and facilitate remote connectivity. In particular, these installations have availed us the opportunity to establish CAM outsourcing as well as satellite offices whereby customer service, quotations and CAM work can be done seamlessly. The other major capital items were technology and capacity liberators, namely multiple Hitachi drilling machines, laser imaging equipment, automated optical inspection units and conveyORIZED chemical processing machinery. Additionally we upgraded the CAD platform at our design operation facilitating further harmonization with our target customer base;
- As of December 31, 2005 our financial foundation was sound. Our working capital ratio was 1.6:1 and our long term debt to equity ratio was 0.2:1.0;
- During the fourth quarter we significantly improved our operational leadership team. Anaya Vardya was installed as Chief Operating Officer in November 2005. Anaya has had senior executive roles in our industry; at Merix, Continental

Circuits (now Sanmina) and IBM's Microelectronics division. Anaya has a Masters of Chemical Engineering degree from the University of Cincinnati. In addition we installed Mr. Craig Barrett as General Manager of our Denver site. Craig has numerous years of experience leading small-to-mid-sized facilities to success in the midwest as well as in the Denver area. And in Cleveland Mr. Bob Owen was recruited as General Manager to lead that facility in an aggressive growth plan. Mr. Owen has held several senior management positions in the industry (Carolina Circuits, IBM Microelectronics Division) and in the EMS sector. He has a Mechanical Engineering degree from the University of Pennsylvania;

- In Q4 2005 we commenced an offshore outsourcing partnership with Cimnet India for CAM and quotations overload situations. This initiative is key to our ability to respond to surges in new product introduction activity and marketing support;
- In the second half of 2005 we made strides with regards to liberating capacity through the implementation of systems, equipment and methodologies, particularly at our Toronto operations. We believe that our capacity in Toronto has been increased to approximately \$80 million as a result;
- At the end of 2005 we refined our offshore strategic plan with the objective of intensifying our partnership efforts with a select group of companies. Our plan includes full systems integration with our partners in order to facilitate order entry, job tracking and documentation generation. We believe that offshore brokering can be a major contributor to our revenues in 2006 and is key to gaining additional market share with existing strategic customers;
- In Q4 we finalized our RoHS compliance initiative in Toronto. Coretec is one of the first PCB fabricators to be in a position to be in compliance with this potentially disruptive piece of environmental legislation which comes into law in July 2006. It is interesting to note that the essence of this European initiative has been adopted by numerous US states (most notably California by January 2007) and other countries around the world. Coretec is the only PCB builder in Canada that is currently able to comply with the legislation and is already manufacturing product requiring compliance;
- Our Toronto operations were granted a Comprehensive Certificate of Air Quality by the Ministry of the Environment of Ontario. Coretec is the only PCB manufacturer in Ontario to receive a Comprehensive C of A. Our research suggests that many local PCB fabricators are not in compliance with Province of Ontario regulations with respect to discharges to the atmosphere. In an increasingly environmentally friendly world (RoHS, Kyoto) operators who break the law will ultimately hurt their respective client base as a result of service interruptions or conjoined liability. The environment is finally showing up as a critical element within customer surveys and procurement specifications;
- In October, our Toronto operations were successfully re-audited to the ISO14000 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***

2005 proved to be a tale of two halves. Well into Q3 the industry specific to Rigid PCBs was experiencing a meaningful compression; as of June 30, 2005 industry bookings were down 3.8% and industry shipments were off 6.4% relative to the same period in 2004. Since that time the experience has improved. Industry bookings according to IPC have been growing year over year on a monthly basis since August ( up 3.5%); +20.2% in September; +31.5% in October; +20.8% in November and +14.2% in December). As a result industry shipments turned up on a monthly basis versus the prior year at the end of 2005 (up 2.2% in November and 9.5% in December). This bullish trend has continued into 2006 with industry bookings continuing their rise in January (+13.8% vs January '05) and industry shipments also ticking up (1.9% in January and 1.5% in February). The IPC book-to-bill ratio was 1.09 in January 2006. And the total North American market (shipments) is estimated by Henderson Ventures to be US\$3.2 billion

As a result of the improved activity levels, leadtimes have purportedly stretched out amongst the larger players. This has served to stabilize pricing across the industry and has in fact stimulated demand and hence accentuated price premiums associated with quickturn services.

Also positively impacting the health of the North American industry is the removal of capacity. In 2005 several major facilities either closed or were restructured. Viasystems closed their remaining two Montreal operations which at one point were producing combined revenues of \$200 million. Photocircuits closed their Georgia operations which at one point employed 600 people. Additionally the company filed for Chapter 11 protection which has affected their ongoing relevance in the marketplace. Parlex, formerly a US\$100 million operation, sold their US assets to Amphenol resulting in a significant reduction in flex and rigid flex capacity. A similar experience is being felt in the UK with several major shutdowns occurring, namely Circatex (formerly Viasystems) and TT Electronics (formerly Prestwick Circuits).

What's in store for 2006 and beyond? Renowned industry analyst, Henderson Ventures, projects that PCB growth in the America's will expand through 2008 (3.0% in '06, 3.5% in '07 and 6.9% in '08). Furthermore a number of dynamics may positively impact growth in North America; a revaluation of the Chinese currency; intellectual property concerns vis-à-vis Asia manufacturing; ongoing hostilities that drive demand for military electronics; freight costs; environmental legislation; and the need for increasing speed-to-market.

We believe that the pace of outsourcing of PCB production to Asia has slowed and this is good for the North American industry. In 2005 we benefited from the repatriation of product that quite frankly was not a good fit for Asia. And a recent independent study suggested that offshore manufacturing is not the panacea that many OEMs and EMS companies believed at the outset. Offshore is ideally suited for certain types of programs and technologies; not all. Consequently we are targeting only certain streams of business with our value added offshore capability.



### ***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 twice in six months and is now 10-15% more costly than in Q3 2005. The expectation is that this trend will continue due to the constituent materials, namely epoxy and copper. Specialty chemicals have risen by as much as 20%; photographic films are up by 5-10% in the past six months and precious metals used in PCBs (silver, gold, palladium), being a function of global demand, increased in cost significantly throughout 2005. Suppliers to the industry are taking advantage of the bullishness in the market, driving prices upward globally. However, the fact that the phenomenon is global is facilitating inflation “pass-through” to the end user. In an inflationary environment, scale does help mitigate upward price pressure and afford preferential treatment in terms of supply. We expect this to allow the larger facilities, like Coretec, to gain further market share in the near term.

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

2006 will be a year of change for Coretec – culturally and infrastructure wise. The executive team that has been assembled we believe is one of the best in the industry. The addition of Anaya Vardya (COO) was the final key to effectuating our drive to be Worldclass at the operational level. From field engineering consulting and value added Customer Service to increasingly compressed manufacturing cycle times and tough technology reconciliation we are dedicated to optimizing the customer’s experience with Coretec. In every aspect of our business, personnel are being improved whether it be through ongoing training and education or newly imported talent in order to fulfill our “***how far? how fast?***” brand commitment.

We have also successfully retooled our finance and accounting organization with several key hires. Mr. Andre Kern, formerly of Sanmina has recently joined our company as Director of Finance and Mr. Lionel Collier, ex- KPMG, was contracted in December to guide us through our fiscal year end. Our team is excited about the operational orientation, service mentality and appreciation for governance that these individuals bring to Coretec. These attributes will contribute measurably to several key initiatives that are internal focuses as well as assist with our adoption of new governance regulations.

Our investment plans in 2006 involve ongoing advanced equipment installations at all plants. Our \$3 million capital expenditure program for 2006 is focussed on technology furtherance and cycle time reduction. Additionally, we are now deep into the planning phase with respect to our consolidation strategy in Toronto at our owned 93,000 sq.ft., 9 acre Sheppard site. We expect to have all costing estimates complete in Q2 2006 and will be submitting the plan to our Board at that time. Phase 1 of the project involves infrastructure construction to enable installation of all our CNC drilling operations as well as several key chemical processing lines that are currently installed at our Lawrence site. The timeframe for this Phase is 2H 2006. Phase 2, deals with the installation of a new innerlayer and multilayer department, operations that will be transferred from our Ellesmere plant in early 2007. Phase 3 will involve the expansion of the current building



by 35,000-40,000 sq.ft. and Phase 4 is the final installation of the outerlayer processing platforms from Ellesmere, in late 2007 or early 2008.

TIME remains a key operating principle for us. In fact it is our belief that TIME is truly the only market differentiator. As such we are intensifying our efforts to drive revenues with associated time premiums. To facilitate this we are forcing structural and cultural changes into our quotations, customer service, materials management and engineering organizations such that improvements in cycle and response times are aggressively sought. Additionally, we are adopting LEAN and other advanced methodologies in operations to drive out queue times and drive in cycle time optimization. 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 is, 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 2006.

At the opposite end of the prototype and quick turn manufacturing spectrum is the provision of volume product. As indicated earlier, we are very excited about our offshore business plan. In 2006 we expect to benefit from customer programs that we have been cultivating as well as be able to penetrate additional opportunities within our client base as a result of the outstanding offshore partners that we are cultivating.

With respect to our Ohio facility, we have refined our product focus at the site such that it is significantly dedicated to Rigid Flex PCBs, which has traditionally been an engineering and operational strength. This is a \$120 million PCB sector that is not well served in the industry and capable fabricators are quite sought after by key military and satellite contractors. Given the leadership that we now have in place at the site, the product focus and our aggressive attention to time premium work, we are expecting strong financial performance in 2006.

Our Denver operation, as aforementioned, has undergone a leadership change as well and is similarly primed for stronger performance in '06 than it achieved in '05. Our Denver team's focus is on driving average selling price up through 1/ technology; 2/ mix optimization; and 3/ time premiums. Demand at the site improved throughout Q4 2005 and has remained very strong into Q1 2006.

***Finally, I would like to briefly discuss our thoughts for Q1 2006.***

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. We expect that 2006 will be no different in this regard and are quite buoyed by our present momentum and 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\$3 billion rigid PCB market.



We are convinced that our core operating pillars; technology, time and value added services are in sync with the dynamics of the market. We are a key player in the electronics supply chain in North America. We are committed to further optimizing our operations such that we are a Worldclass partner for our Worldclass clientele. In doing so we believe that financial metrics will be similarly optimized.

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 Monday, April 10, 2006 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 21180359#.

We are also holding our Annual General Meeting at 4:30pm. on May 17, 2006. We will also be issuing our Q1 2006 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)