



Coretec Inc.
2005 Third Quarter Results
Conference Call
November 3, 2005

Paul Langston

Good morning. I'm Paul Langston, Coretec's Chairman, President and Chief Executive Officer. With me today is Merrill Shorrock, Coretec's Director of Finance.

I'd like to thank you for joining us to discuss Coretec's third quarter 2005 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 a 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.

Merrill will begin our presentation by reviewing the third 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.

Merrill Shorrock

Thanks Paul:

Our continuing operations in the third quarter of 2005 recorded a loss of 8 cents per share. Earnings before interest, taxes, depreciation and amortization ("EBITDA") was \$.3 million and free cash flow was negative \$.4 million.

In the third quarter of 2005 sales decreased 8% to \$19.9 million compared to \$21.7 million in Q3 of 2004, although it was up sequentially 1% from the second quarter of 2005. The decrease in total sales for the 2005 period compared to the 2004 period is principally a result of a \$1.8 million decline in sales in the Company's Toronto and Denver operations. Revenue from the Company's US customers was reduced by a lower foreign exchange conversion rate for the Company's US denominated sales compared to the prior year period.



Sales by region were 61% to the US, 35% to Canada and 4% to Europe.

Revenue by end market in Q3 was:

	2005
EMS	41%
Military/aerospace	22%
Instrumentation	11%
Telecommunications	11%
Computer	14%
Total	100%

The ten largest customers accounted for 34% of sales in the third quarter of 2005.

Gross profit in the quarter was \$4 million or 20% of sales, a 25% decrease from gross profit of \$5.4 million, or 25% of sales, in the third quarter of 2004. The decrease in gross profit is principally a result of lower contribution from the Company's operations in Toronto, Denver and Cleveland. Lower sales combined with increased operating costs, principally at the Company's Toronto operation, resulted in reduced gross margins.

Selling, General and Administrative expense ("SG&A") in the quarter was \$3.7 million, an increase of \$0.6 million compared to \$3.1 million in the prior year period. SG&A expenses increased principally due to termination and severance costs and increased benefit costs associated with payroll.

Depreciation and amortization was \$1.4 million in the quarter compared to \$1.6 million in the prior year period.

Loss from operations in the third quarter, 2005 was \$1.4 million as a result of the above items, compared to income of \$0.6 million in the prior year period.

Interest and other expenses in the third quarter, 2005 were approximately unchanged at \$0.3 million as average debt balances were similar compared to the prior year period.

Foreign exchange translation was effectively nil in the third quarter compared to a gain of \$0.2 million in the prior year period.

There was no income tax recovery recorded in the third quarter of 2005 due to the "more likely than not" test with respect to the valuation of deferred tax assets not being met.

Turning to capital additions:



Capital additions for continuing operations for the 2005 third quarter amounted to \$0.5 million, compared to \$0.5 million in the 2004 comparable period. Capital additions in the third quarter of 2005 consisted principally of investments in laser direct imaging equipment and laser photo plotting equipment for the Company's Toronto plants as well as investments in IT software and hardware. At the end of the quarter, the Company had approximately \$3.5 million of unused, fully paid for, 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 the future periods.

In the second quarter of 2005, the Company agreed to a \$2.1 million conditional offer to sell the real estate associated with its Lawrence facility. Subsequent to the quarter end (October 3, 2005), the Company finalized the sale of the real estate. 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 April 3, 2007 and is required to pay property taxes only. The agreement also stipulates that the mortgagee will repay the principal in full 12 months following the date the Company vacates the property provided the date is prior to April 3, 2007. 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. The Company intends to relocate the production activities currently in the Lawrence facility to one of its two other Toronto facilities

Turning to liquidity and capital resources:

At September 30, 2005, the Company's principal source of liquidity included cash of \$0.3 million, trade receivables of \$12.8 million, and an unused portion of its operating line of credit of \$6.0 million.

Working capital was \$4.7 million at September 30, 2005 compared to \$6.5 million at December 31, 2004. Approximately \$4.2 million of the Company's loans under its asset-based bank facility become due November 15, 2005 and as such are recorded in current liabilities on the Company's balance sheet. We are currently finalizing the renewal of the facility with our bank.

Operating activities for the third quarter of 2005 provided cash of \$0.5 million compared to cash provided of \$0.8 million in the prior year period. In the 2005 period, income from continuing operations adjusted for non-cash items provided cash of \$0.3 million compared to \$2.3 million in the prior year period. Cash provided by working capital changes in the 2005 period was \$0.2 million compared to cash used by working capital changes of \$1.6 million in the prior year period. Cash provided by changes in Non-cash working capital in the third quarter of 2005 is principally a result of an increase in accounts receivable of \$ 0.8 million, a decrease in inventory of \$0.4 million



offset by a increase in accounts payable and accrued liabilities of \$0.8 million. In the 2004 comparable period, changes in non-cash working capital balances are principally a result of an increase in accounts receivable of \$0.7 million, an increase in inventory of \$1.0 million offset by a decrease in accounts payable and accrued liabilities of \$0.9 million.

Cash used in investing activities in the third quarter of 2005 amounted to \$1.1 million, compared to cash used in investing activities of \$0.5 million in the 2004 prior year period. Cash used in the 2005 period principally represents investments in laser direct imaging and laser photo plotting equipment and IT hardware and software equipment.

Cash provided by financing activities amounted to \$.6 million in the third quarter of 2005 compared to cash used of \$0.2 million in the 2004 prior year period. The 2005 period includes advances from the Company's bank line of \$1.2 million and the repayment of long term debt of \$0.6 million. Cash used in the 2004 prior year period includes advances from the Company's bank line of \$0.5 million and the repayment of long term debt of \$0.7 million.

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

Now I'll turn the call over to Paul.

Paul Langston

Thanks Merrill.

Major achievements in Q3 2005 are as follows;

- In Q3 2005 we continued the implementation of 5S and Lean manufacturing at our Toronto operations. As a result our Toronto work-in-process and finished goods inventories have compressed despite an increasing order book. Since Q1, our Toronto inventories have dropped \$0.9 million and inventory/sales turnover has increased to 15.5 times from 12.1 times in Q1. By tightly controlling the issuance of work to the shop floor we have ensured that cash is not needlessly tied up. In addition, as a result we have expanded our capacity for products that have associated time premiums;
- In Q3 2005 our Toronto operations were granted a Comprehensive Certificate of Air Quality by the Ministry of the Environment of Ontario. Coretec is the first PCB manufacturer in Ontario to receive a Comprehensive C of A. It is our belief that most PCB fabricators are not in compliance with Provincial regulations with respect to discharges to the atmosphere;
- In Q3, at our Toronto operations we finalized our compliance with the RoHS legislation. This and similar regulations are being adopted by numerous jurisdictions around the world,



most notably the European Union and the State of California and the State of New Jersey. Coretec is the only PCB facility in Canada that is in compliance. We believe that few fabricators will be able to achieve the compliance deadline of July 2006;

- Our Cleveland operation generated positive EBITDA for the first time since we acquired it. We have worked hard over the past 5 quarters to stabilize this site by significantly improving operational metrics; namely on-time-delivery and yields. As such we have reduced its cash breakeven and meaningfully improved the site's brand image in the market. We believe that this operation is now in a position to take market share profitably;
- Since June of 2005 we have benefited from the leadership of Anaya Vardya at our Cleveland site. Anaya has a very strong industry background after having served in an executive or senior management capacity with several major PCB firms, namely Merix, Continental Circuits (formerly a division of Hadco and now part of Sanmina) and IBM Microelectronics. Anaya has accepted the position of Coretec's Chief Operating Officer, responsible for manufacturing, quality and process engineering activities corporate-wide;
- In Q3 we finalized the Administration process associated with our former UK site. This resulted in final receipt of £147,000;
- Subsequent to the quarter end (October 3 to be exact) 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. In addition Coretec can accelerate the repayment of the mortgage principal by vacating the premises prior to April 3, 2007, which would result in repayment within 12 months of the date of exit.

With respect to the PCB marketplace in North America, Q3 2005 has seen the industry continue to experience a book to bill of slightly over 1.0 with September being particularly strong at 1.07. However we are looking at the industry B2B less and less as a relevant indicator due to the cycle time between bookings and shipments and seasonality issues. More meaningful is the aggregate bookings and shipments data that is reported monthly by IPC (www.ipc.org). Year to date (January-September) rigid PCB bookings are off 1.2% as compared to the first 6 months of 2004. Shipments are off 4.7% for the same period. The numbers for September were surprisingly strong with bookings in Sept. '05 versus '04 up 20.2%.

The restructuring announcements continue to hit the industry, with Photocircuit's recent Chapter 11 being the most notable. This particular restructuring is quite concerning from a number of perspectives. An already depleted supply chain may be further damaged by the potential write-offs. In addition, if the Chapter 11 is successful the aggressive pricing practises from this US\$200 million operation may continue to damage the marketplace.



Unicircuit sold off the assets associated with their 110,000 sq.ft. Roseville, Minnesota facility as did Electropac with respect to their 70,000 sq.ft. Montreal plant. Protech of Fountain Valley California, formerly a \$25 million prototype and QTA facility, is being liquidated later this month.

Many analysts are projecting that a significant thinning out will occur in the industry as many small operations succumb to technology irrelevance, financial exhaustion or business departures as a result vendor consolidation initiatives, ongoing EMS outsourcing and offshore competition. Particularly noteworthy is the impact that RoHS will have on smaller operations. Case in point, we were recently involved in a RoHS roundtable in Las Vegas where an Engineering Manager of a regional facility suggested that it would be impossible to identify and quantify all the contaminants/banned substances in a PCB. We have spent a tremendous amount of money and engineering time on exactly that. We are now in a position to generate the required Materials Declaration, 9 months in advance of the July 2006 deadline.

Another misunderstood aspect of RoHS is the so-called waiver that defence and aerospace companies have with respect to compliance. A waiver will not be of much use if components are unavailable. The entire components sector is preparing for RoHS and leadfree. End-of-life runs are being scheduled on leaded components which suggests that at one point in the not-to-distant future all component consumers will have to take note of and adapt to the multi-jurisdictional environmental movement.

We are convinced that a vacuum is taking shape for those sectors or customers that require relevant North American PCB supply. Many of the global, more capable PCB fabricators are investing their dollars and efforts into the Fareast and downsizing or exiting their North American manufacturing footprints. Hence it is our belief that significant chunks of business will be made available to the remaining major PCB suppliers with scale, technology capability and balance sheet horsepower. This is one of the key emerging and significant opportunities in our industry in North America. We believe that Coretec is well positioned to benefit from this dynamic.

There is also an undercurrent in the industry at present that may have a longer term impact on the North American PCB sector. The Asian migration has hiccupped recently, whereby a significant number of small and mid-sized OEMs and EMS's have repatriated their order book due to service, quality and lead-time issues. It would appear as the Asian facilities are becoming more selective with respect account size, order size and technology fit. We have seen dozens of accounts resort to placing insurance orders on a quick turn basis due to interruptions in their Asian supply. Several OEMs have suggested that the risk/return ratio is no longer as compelling as it once was.

It is becoming increasingly clear that TIME is the real differentiator for domestic producers. Fareast operators are able to build a myriad of technologies including leading edge interconnects and are of course able to produce at lower cost than North American or European facilities. Domestic fabricators will be favoured by customers with IP concerns but for the most part new product launches (i.e. prototypes and quick turn production) as well as high mix low volume work will be the only defensible niches other than government regulated markets (defense/aero).



Coretec addresses all of these key areas of viability and growth in the North American marketplace.

Our year-to-date revenues associated with buying and reselling PCBs made by strategic offshore partners has softened relative to the same period in 2004, principally due to overall demand softness in the market. However, recent bookings activity has us encouraged that this revenue stream will resume a growth trajectory for us for the balance of the year.

Our capital expansion plans for Q4 2005 are specific to the relocation of some of the operations from our Lawrence site to the Ellesmere plant as well as the implementation of several key pieces of equipment that are in storage, namely a laser direct imaging machine, an alternative oxide line and a laser photoplotter.

Now, I would like to briefly discuss our thoughts and activities for Q4 2005 and the balance of the year.

Although the US dollar's volatility continues to plague us with respect to projecting forward revenues we are seeing trends in our account base that suggest a demand uptick is underway. We experienced an appreciable improvement in bookings in Toronto since mid Q3, exceeding the growth demonstrated by the IPC rigid PCB book-to-bill ratio which was for 1.01 in August and 1.07 in September.

Within Q3 our shipment results differed dramatically from quarter start to quarter end. Furthermore, we have continued to see strong order activity so far in Q4. We believe that restructurings within the industry are playing a role in this trend, effectively freeing up portfolios of business for those capable of reacting. In addition we believe that our RoHS readiness is impacting the level of new product development work that we are seeing. We expect this trend to accelerate in Q4 and through the first half of 2006 as we approach the July 2006 compliance deadline.

Amendments to the Securities Act (for Ontario) will come into force on December 31, 2005. It is our belief that revenue and earnings guidance given by Canadian public companies beyond this date will be curtailed significantly. As such we will not be offering any guidance at this time.

During Q4 our banking facility with our primary lender is to be renewed as is. The deal is currently in the legal documentation phase and is expected to close within the month. We are also in the process of upgrading our second banking facility which relates to our Canadian real estate holdings. This facility is not up for renewal but is being revised to accommodate our Sheppard consolidation. We expect to have this revised facility in place by the end of the year.

In closing, at Coretec, we believe that our core operating pillars; technology, value added services and especially TIME, are becoming increasingly more relevant and will ultimately drive us to be one of the dominant players in the printed circuit board industry.

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 Monday, November 14, 2005 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 21159335#.

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