

**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION &
RESULTS OF OPERATIONS FOR THE QUARTER & YEAR TO DATE PERIOD
ENDED JUNE 30, 2008**

August 7, 2008

(dollar amounts in Canadian dollars unless otherwise indicated)

Forward Looking Statements

Certain statements contained in this Management's Discussion and Analysis ("MD&A") contains "forward-looking statements" within the meaning of the United States Securities Litigation Reform Act of 1995, and applicable Canadian Securities Legislation. Forward-looking statements include, but are not limited to, statements with respect to financial performance, opportunities, new market for growth and financial position. Generally these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecast", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". 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 discussed in the section entitled "Risk Factors".

The following MD&A of financial condition and results of operations of Coretec Inc. ("Coretec" or "the Company") for the three and six - month periods ended June 30, 2008 and 2007 should be read in conjunction with the Company's consolidated financial statements and related notes contained in this interim report.

The purpose of this 2008 second quarter report is to provide an update to the information contained in the Company's MD&A section of the Company's 2007 Annual Report, which contains a more comprehensive discussion of the Company's strategy, capabilities to deliver results and risks. Management assumes that the reader of this document has access to the MD&A section of the Company's 2007 Annual Report. This document and other information can be downloaded in portable document format (PDF) from the Company's website at www.coretec-inc.com or from the SEDAR website for Canadian regulatory filings at www.sedar.com. To request a printed copy, the reader may also contact Coretec's transfer agent, Computershare Investor Services Inc., at 1-800-564-6253 or via email at service@computershare.com or Coretec Inc. at www.coretec-inc.com.

Overview

Coretec is one of the leading fabricators of unpopulated (without components) Printed Circuit Boards ("PCBs") for the prototype and quick turn production segments of the North American market. Coretec serves its customers from its manufacturing facilities in Toronto, Ontario, Akron, Ohio and Littleton, Colorado.

The Company offers a wide range of products including double sided and multilayer rigid circuit boards, flexible and rigid-flex PCBs, as well as PCBs containing metal heatsinks. The Company also offers services that are specific to customers' new product introduction requirements such as computer automated design (CAD) layout, field applications engineering, technology roadmap consulting, prototyping and quick turn production. Additionally, the Company manufactures small to midsized production runs for mature electronic products and buys and resells PCBs made in Asia for customer requirements that are of a higher volume nature.

The Company's marketing and sales focus is on servicing the product engineering requirements and expedited time-to-market needs of some of North America's and Europe's leading original equipment manufacturers ("OEMs") and contract electronics manufacturers, also known as electronic manufacturing services ("EMS") companies. The Company targets its sales efforts on market leaders in some of the most technologically demanding segments of the electronics industry: namely industrial, medical and military/aerospace.

The challenges in the North American and European PCB markets include shortening electronic product life cycles, a trend towards inventory minimization, increasing product complexity, the continued outsourcing of electronic assembly from OEMs to EMS companies, environmental sensitivity, the increasing significance of approvals (both customer specific and globally recognized), and competitive pressures from offshore manufacturers. To respond to these challenges, the Company has 1) decreased its manufacturing cycle time; 2) improved its technology capability; 3) improved its suite of value added services; 4) installed a strong environmental stewardship model (i.e. RoHS compliance, ISO 14000); 5) achieved multiple sector specific and general certifications (i.e. MIL-PRF-31032, MIL-PRF-50884, AS9100, ISO9000); and 6) developed a strategy for higher volume product fulfillment offshore.

Vision and Strategy

Coretec's vision is to provide high quality PCBs to its customers on a timely basis. Coretec is focused on being the "go to" PCB Company for the electronics industry.

To achieve these goals Coretec is implementing a process management system and invests regularly in machinery to improve technological capabilities. Another key initiative being undertaken by the Company is the consolidation of its two facilities in Toronto. Currently the product that Coretec manufactures is transported between the two facilities numerous times before completion. The consolidation of the two facilities will allow for improved efficiency, less handling damage of the product in transport, speed up the manufacturing process and reduce costs.

The consolidation is currently underway and is anticipated to be significantly complete by the end of 2009.

Recent Developments

Subsequent to the end of the quarter the Board of Directors of the Company granted 400,000 options on July 22, 2008 at an exercised price of \$0.31 per share to the Senior Management of the Company.

Subsequent to the quarter end the debt financing agreement with BDC was completed. (see Note 4 for the financing details).

As part of this Financing, the Company amended its agreement with BMO to include a 12 month trailing EBITDA covenant requiring EBITDA of \$2.1 million and \$2.8 million for September 30, 2008 and December 31, 2008 respectively. Subsequent to 2008 a Fixed Charge Coverage covenant of 1.0:1.0 will replace the EITDA covenant.

For an update on financing please see the “Long Term Debt” section under “Liquidity and Capital Resources” in this MD&A.

Toronto Consolidation Project

During the second quarter of 2008 the Company continued with its efforts to consolidate its two facilities in Toronto. A new electroplating machine was received at the Sheppard facility and installation of it was started during the first quarter and completed by July 2008. This equipment replaces and improves on similar equipment that the Company has decommissioned at its Ellesmere facility. During the quarter the Company also commissioned a new ionic plating line that has been in storage for several years. As such, by the end of July the Company had consolidated all of its plating processes at its Sheppard facility. Infrastructure at the Sheppard site was also advanced during the second quarter, in particular the installation of a 6,000 sq.ft. Class 10,000 cleanroom. The new cleanroom at Sheppard, will be operational in Q3 2008 and will replace the 3 cleanrooms at Ellesmere, allowing for better efficiencies and will provide a platform to move significant processes to the Sheppard facility in anticipation of vacating approximately 8 of the 16 units that the Company is leasing at the Ellesmere site by year's end.

Q2 2008 Business Highlights

Sales for the quarter were \$19.4 million, representing an 11.0% decrease as compared to the Q2 2007 sales of \$21.8 million, but a 4.9% increase as compared to Q1 2008 sales of \$18.5 million.

Gross margin in Q2 2008 was 18.9% of sales, a decrease as compared to Q2 2007's gross margin of 19.3% of sales and an increase as compared to Q1 2008's gross margin of 15.4%.

The Company recorded income from operations of \$0.1 million in Q2 2008 compared to a loss from operations of \$0.1 million in Q2 2007 and a loss from operations of \$0.9 million in Q1 2008.

The Company recorded a net loss of \$0.2 million or \$0.01 per share in Q2 2008 as compared to a net loss of \$0.6 million or \$0.03 per share in Q2 2007 and a net loss of \$1.0 million or \$0.06 per share for Q1 2008.

As at June 30, 2008, the Company had total working capital of \$3.8 million as compared to \$6.2 million at December 31, 2007.

Capital additions for Q2 2008 were \$3.2 million related to the building of the infrastructure at the

Sheppard facility, and some production equipment.

Results of Consolidated Operations and Consolidated Losses

(in thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2008 \$	2007 \$	2008 \$	2007 \$
Sales	19,415	21,816	37,901	44,634
Cost of sales	15,740	17,600	31,388	35,794
Gross profit	3,675	4,216	6,513	8,840
Expenses				
Selling, general and administrative	2,515	3,049	5,094	6,808
Depreciation and amortization	1,092	1,296	2,235	2,512
	3,607	4,345	7,329	9,320
Profit (loss) from operations	68	(129)	(816)	(480)
Interest and other expenses	167	237	366	431
Foreign exchange (gain) loss	111	377	109	451
Loss (gain) on disposal of equipment, net	22	(98)	(10)	(154)
Loss before income taxes	(232)	(645)	(1,281)	(1,208)
Provisions for (recovery of) income taxes	5	—	5	(15)
Loss for the periods	(237)	(645)	(1,286)	(1,193)

Revenues by Geographic Segment in millions of dollars

	Q2 2008	Q2 2007	2008 vs 2007%
United States	12.6	15.6	(19.2)
Canada	6.1	5.5	10.9
Europe	0.7	0.7	—
Total	19.4	21.8	(11.0)

Revenue Percentage by Market Segment

	Q2 2008	Q2 2007
EMS	49%	54%
OEM	51%	46%
Total	100%	100%

Ten largest customers as a percentage of total revenue

	Q2 2008	Q2 2007	Change %
Ten largest customers	41%	33%	8%

Three Months Ending June 30, 2008

Revenues

Consolidated revenues of \$19.4 million for the three month period ended June 30, 2008 decreased by \$2.4 million or 11.0 % as compared to \$21.8 million in the same period in 2007.

The decline is primarily due to the translation of U.S. dollar based sales to Canadian dollars, the Company's functional and reporting currency. Coretec generates approximately 81% of its revenues in U.S. dollars. The average \$U.S./\$CAD exchange rate for Q2 2008 was approximately 1.0068 as compared to approximately 1.0987 for Q2 2007. If the 2008 Q2 U.S. dollar denominated sales had been translated at the prior year's foreign exchange rate the consolidated sales for Q2 2008 would have been \$1.4 million higher or would have totaled \$20.8 million. The remainder of the sales decline was due to lower bookings experienced in the first quarter of 2008. Bookings have firmed up during Q2 2008.

On a geographic segment basis, the foreign exchange translation and lower demand is what decreased the sales in Canada and the U.S. as compared to the prior year.

Market segment sales fluctuated between EMS and OEM as compared to the prior year, but are within the range of management's expectations.

Cost of Sales

Cost of sales declined by \$1.9 million in Q2 2008 as compared to Q2 2007. The primary area of decline relates to a reduction in labour cost and costs that vary with sales such as the materials used in making PCBs. In addition to the lower usage of materials, the Company purchases most of its materials in U.S. dollars, which were less due to the strengthening Canadian dollar over the prior year, although some of this benefit was offset by rising material prices. Materials represent approximately 30% of sales.

Gross Profit and Gross Margin

The gross profit and gross margin for Q2 2008 was \$3.7 million and 18.9 % respectively and is a decline of \$0.5 million and 11.9 % as compared to the Q2 2007 result of \$4.2 million and 19.3%. The combination of lower revenues and an element of fixed costs in cost of goods sold drove down gross profit and gross margin in 2008.

Selling, General and Administrative ("SGA")

SGA costs were \$2.5 million for Q2 2008, a decrease of \$0.5 million as compared to Q2 2007. The primary reasons for the expenditure decrease is; related to, administrative wages being lower to not replacing a number of employees that have left over the past year; and lower cost related to stock options and capital tax.

Depreciation and Amortization

Depreciation and amortization is lower by \$0.2 million at \$1.1 million in Q2 2008 as compared to \$1.3 million in Q2 2007. This is a result of older equipment becoming fully depreciated.

There are some pieces of equipment purchased in 2007 that have not yet been commissioned to

production and are therefore not yet being depreciated. Depreciation will increase when these pieces of equipment are commissioned into production.

Interest and Other Expenses

Interest and other expenses were slightly lower Q2 2008 than in Q2 2007 due to lower interest rates on debt the Company is holding.

Foreign Exchange

During Q2 2008 the Company realized a \$0.1 million foreign exchange loss. In Q2 2007 the Company realized a \$0.4 million foreign exchange loss as the Canadian dollar strengthened against U.S. dollar.

Gain on Disposal of Equipment

A small loss was recorded in the Q2 2008, on the sale of certain equipment deemed to be redundant at the Sheppard facility. In Q2 2007 a \$0.1 million gain was realized on the sale of redundant equipment from the Lawrence facility in preparation of the consolidation into the Sheppard facility.

Net Loss and Loss per Share

The Company recorded a net loss of \$0.2 million, or \$0.01 per share in Q2 2008, as compared to a net loss of \$0.6 million or \$0.03 per share in Q2 2007.

Because the Company reported a loss in each of the first two quarters of 2008 and 2007 there is no impact of dilution by options on the number of shares outstanding.

Six Months Ending June 30, 2008

Revenues

Consolidated revenues of \$37.9 million for the three month period ended June 30, 2008 decreased by \$6.7 million or 15.0% as compared to \$44.6 million in the same period in 2007.

The decline is primarily due to the translation of U.S. dollar based sales to Canadian dollars, the Company's functional and reporting currency. Coretec generates approximately 81% of its revenues in U.S. dollars. The average \$U.S./\$CAD exchange rate for YTD 2008 was approximately 1.0086 as compared to approximately 1.1325 for YTD 2007. If the 2008 YTD U.S. dollar denominated sales had been translated at the prior year's foreign exchange rate, the consolidated sales for YTD 2008 would have been \$4.1 million higher or would have totaled \$42.0 million. The remainder of the sales decline was due to low bookings experienced in the fourth quarter of 2007. Bookings have firmed up during 2008.

On a geographic segment basis, the foreign exchange translation and lower demand resulted in decreased sales dollars in Canada and the U.S. as compared to the prior year.

Market segment sales fluctuated between EMS and OEM as compared to the prior year, but are within the range of management's expectations.

Cost of Sales

Cost of sales declined by \$4.4 million in YTD 2008 as compared to YTD 2007. The primary area of decline relates to costs that vary with sales such as the materials used in making PCBs. In addition to the lower usage of materials, the Company purchases most of its materials in U.S. dollars whose cost was less due to the strengthening Canadian dollar over the prior year, although some of this benefit was offset by rising material prices. Materials represent approximately 30% of sales.

Gross Profit and Gross Margin

The gross profit and gross margin for YTD 2008 was \$6.5 million and 17.2% , respectively and is a decline of \$2.3 million and 26.1% as compared to the YTD 2007 result of \$8.8 million and 19.8%. The combination of lower revenues and an element of fixed costs in cost of goods sold drove down gross profit and gross margin in 2008.

Selling, General and Administrative (“SGA”)

SGA costs were \$5.1 million for YTD 2008, a decrease of \$1.7 million as compared to YTD 2007. The primary reasons for the expenditure decrease are related to administrative wages; which were lower due to not replacing a number of employees that had left over the past year; and, and lower cost related to stock options and capital tax.

Depreciation and Amortization

Depreciation and amortization is lower by \$0.3 million, at \$2.2 million in YTD 2008 as compared to \$2.5 million in YTD 2007. This is a result of older equipment becoming fully depreciated.

There are some pieces of equipment purchased in 2007 that have not yet been commissioned to production and are therefore not yet being depreciated. Deprecation will increase when these pieced of equipment are commissioned into production.

Interest and Other Expenses

Interest and other expenses were slightly lower in Q2 2008 than in Q2 2007 due to lower interest rates on variable rate debt.

Foreign Exchange

During 2008 the Company realized a \$0.1 million foreign exchange loss. In the same period of 2007 the Company realized a \$0.5 million foreign exchange loss.

Net Loss and Loss per Share

The Company recorded a net loss of \$1.3 million, or \$0.07 per share in YTD 2008, as compared to a net loss of \$1.2 million or \$0.06 per share in the 2007 period.

Summary of Financial Condition as at June 30, 2008 as compared to December 31, 2007 (in thousands of dollars)

	June 30, 2008	December 31, 2007
	\$	\$
Current assets	18,588	19,965
Total assets	50,890	50,971
Current liabilities	14,807	13,794
Total liabilities	22,409	21,273
Total shareholders' equity	28,481	29,698
Total Liabilities and shareholders' equity	50,890	50,971

Liquidity and Capital Resources

Summary of Cash Flows

The following table summarizes the Company's cash flows for the periods indicated
(in thousands of dollars)

	Three months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss for the period	(237)	(645)	(1,286)	(1,193)
Depreciation	1,092	1,296	2,235	2,512
Stock-based compensation	(8)	54	15	29
Loss (gain) on disposal of equipment	22	(98)	(10)	(154)
Unrealized foreign exchange loss (gain)	(70)	540	306	605
Long-term incentive plan compensation	36	10	54	20
Amortization of deferred finance charges	36	23	40	47
	871	1,180	1,354	1,866
Change in Working Capital	(596)	(981)	(291)	(2,743)
Cash (used) in provided by operating activities	275	199	1,063	(877)
Cash provided by financing activities	1,482	2,042	111	5,100
Cash used in investing activities	(1,806)	(2,126)	(2,511)	(5,018)
Effect of exchange rate changes in cash	(7)	(17)	37	(24)
Net change in cash during the period	(56)	98	(1,300)	(819)

Cash Flows from Operations for the Quarter ended June 30, 2008

Cash Provided by (Used in) Operating Activities

Cash provided by operating activities was \$0.3 million for Q2 2008 as compared to cash provided of \$0.2 million for Q2 2007. The slight improvement primarily relates to a reduction in cash from operations of \$0.3 million and an improvement in non-cash working capital of \$0.4 million as compared to the prior period.

Cash Used in / Provided by Financing Activities

Cash provided in financing activities of \$1.5 million for Q2 2008 relates to the repayment of \$0.2 million of long-term debt offset cash used in an advance of \$1.0 million from the Company's bank line and reclassification of trade payables to long-term liability (please see Note 5 in financial statements). Cash provided by financing activities amounted to \$2.0 million in the second quarter of 2007. The 2007 period includes an increase in advances from the Company's bank line of \$0.6 million and an increase in term debt from BDC of \$1.7 million, net of a \$0.3 million repayment of long term debt.

Cash Used in Investing Activities

Cash used in investing activities relates primarily to the building of infrastructure at the Sheppard facility (\$0.9 million) and the purchase of capital equipment (\$2.4 million), offset by the repayment of a mortgage receivable (\$1.1 million) and a reduction in other deposits of \$0.4 million for a total of \$1.8 million in Q2 2008 and \$2.1 million in Q2 2007. The Q2 2007 expenditure included a approximately \$2.6 million related to the Sheppard infrastructure project.

Cash Flows from Operations for the Year to Date period ended June 30, 2007

Cash Provided by (Used in) Operating Activities

Cash provided by operating activities was \$1.1 million for six months ending June 30 2008 as compared to cash used of \$0.9 million for the same period 2007. The improvement primarily relates to the change in non-cash working capital where accounts payable provided cash of \$1.2 million and prepaid expenses provided cash of \$0.3 million in the year to date period 2008 as compared to accounts payable using cash of \$0.7 million in the same period 2007. A significant portion of the accounts payable increase relates to the receipt of equipment, but for which payment is not yet due, (approximately \$0.5 million).

Cash Used in / Provided by Financing Activities

Cash provided by financing activities of \$0.1 million for the year to date 2008 relates primarily to the repayment of \$0.5 million of long-term debt offset by a reclassification from trade accounts payable (see note 5 in Financial Statements). Cash provided by financing activities amounted to \$5.1 million in the first half of 2007. The 2007 period includes an increase in the BDC line of \$3.5 million related to the Sheppard expansion project and borrowing from the Company's bank line of \$2.1 million.

Cash Used in Investing Activities

Cash used in investing activities relates primarily to the building of infrastructure at the Sheppard facility (\$1.1 million) and the purchase of capital equipment (\$2.8 million), offset by the repayment of a mortgage receivable (\$1.1 million) and a reduction of other deposits of \$0.4 million for a total of \$2.5 million in the first half of the 2008 period. Cash used in investing activities in the first half of 2007 amounted to \$5.0 million. Cash used in the 2007 period is principally a result of expansion of the Sheppard facility and investments in production equipment.

Financing Arrangements and Ratios

There have been no changes to the Company's financing arrangements during the second quarter of 2008. Total interest bearing debt including bank indebtedness, was reduced to \$11.9 million at June 30, 2008 as compared to \$12.2 million at December 31, 2007.

Long Term Debt

In the first quarter of 2008, the Company received an offer of \$6.0 million of credit from Business Development Bank of Canada (BDC) to provide additional financing through two loans to the Company. The first loan of \$3.0 million is specific to the phase two completion of the Sheppard facility for expanding infrastructure, the building of a clean room and mezzanines for the transfer of Ellesmere processes to Sheppard. The loan will be collateralized by the Sheppard land and building, and includes the requirement for the guarantee of 25% of the loan balance by Coretec Holdings Inc. This building loan will be added to the remaining balance of the current building loan which is approximately \$2.3 million at June 30, 2008. The combined \$5.3 million loan accrues interest at BDC's floating base rate, has a 20 year term, and requires monthly payments of \$22,125 commencing the month subsequent to disbursement of loan funds. In the interim, the Company is only paying interest on the \$2.3 million outstanding on the building loan.

The second loan of US\$3.0 million is specific to the purchase of new equipment. The loan will be collateralized by a general security agreement from the Company providing a first security interest on equipment financed by BDC and the Sheppard building and land. The \$3.0 million equipment loan accrues interest at the 1-month US\$ LIBOR rate plus 4.1%, has a term through 7 year term, and requires an initial monthly payment of \$32,750 on commencement of the loan and 83 consecutive monthly payments thereafter of US\$35,750. Both loans require a minimum consolidated working capital ratio for the Company of 1.2:1 and a long term debt/tangible equity ratio not to exceed 0.75:1.

As part of the credit facility the Bank of Montreal (The Bank) holds a general security agreement on all of the Company's assets except for the Company's Toronto real estate, where it holds a second ranking charge behind the BDC.

The terms of the bank facility require the Company to maintain a minimum consolidated tangible net worth of \$24.0 million over the term of the loan. The Company's consolidated tangible net worth as of June 30, 2008 as calculated based upon the terms of the credit facility was \$26.7 million. In addition, the terms of the bank facilities contain restrictions with respect to certain operating aspects of the Company including, but not limited to, its ability to pay dividends, make capital expenditures or incur additional indebtedness.

It is anticipated that all the required agreements will be completed during the third quarter which will allow the Company to receive funding.

Adequacy of Financial Resources

As at June 30, 2008 the Company had cash balances of \$0.5 million and \$1.0 million in undrawn credit facilities available to it and was in compliance with all covenant requirements under its financing arrangements.

The Company believes that, subject to business risks it has provided in the December 31, 2007 MD&A and its Annual Information Form, both of which are posted on www.sedar.com, and the risks described in the "Risk Management" section of this MD&A, it will meet its financial obligations as they come due in the normal course of business.

Critical Accounting Policies and Estimates

Changes in and Significant New Accounting Policies

Note 1 to the Q2 2008 consolidated financial statements describes three new standards from the Canadian Institute of Chartered Accountants that the Company has adopted. There was no impact on the financial statements as a result of these changes, outside of additional disclosure in the notes to the consolidated financial statements.

Coretec's significant accounting policies are described in note 2 of the 2007 audited consolidated financial statements.

The preparation of the consolidated financial statements in conformity with Canadian Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenue and expenses in the reporting period. Management believes that the estimates and assumptions used in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from those estimates.

The Company's accounting policies have been reviewed and discussed with the Company's Audit Committee.

Interest Rate Exposure

The Company has exposure to movements in interest rates. At June 30, 2008, the Company had \$11.9 million of debt, including bank indebtedness, that had variable interest rates.

Risk Management

The following are updates to certain risks and uncertainties described in the Company's MD&A for the year ended December 31, 2007, and should be read together with the Company's MD&A for the year ended December 31, 2007, which is available on SEDAR (www.sedar.com) or on Coretec's website at www.coretec-inc.com.

Exchange Rate Fluctuations

The Company's business activities are conducted primarily in Canadian dollars and U.S. dollars for the Canadian operations and U.S. dollars for the U.S. operations.

The Company's Canadian operations generate sales with payment in both U.S. and Canadian dollars, and materials and equipment are purchased in both U.S. and Canadian dollars. The majority of its non-material costs (including payroll facilities' costs and costs of locally sourced supplies and inventory) are denominated in Canadian dollars. Approximately 81% of revenues of the Canadian operations and approximately 20% of its operating expenses are transacted in U.S. dollars. As a result, the Company may experience trading and translation gains or losses because of volatility in the exchange rate between the Canadian dollar and the U.S. dollar.

The Company mitigates its foreign exchange risk by engaging in foreign currency hedging activities using derivative financial instruments. At June 30, 2008 the Company had outstanding foreign exchange forward contracts to sell US\$5.0 million at varying intervals over the next ten months at an average exchange rate of \$1.00816 Canadian. The mark-to-market value at June 30, 2008 that is recorded in income is an unrealized loss of \$65,950 for the period ended 2008. The Company does not purchase any derivative instruments for speculative purposes.

Ability to attract and Retain Key Personnel

The industry requires employee's with experience and expertise, these are becoming increasingly hard to find.

Capital Structure

The Company has made a number of commitments for equipment and the ongoing infrastructure project at the Sheppard facility. Based on its forecasts, the Company will require funding outside of its credit facility with the Bank to meet these commitments and has sought and received a financing proposal from the BDC to meet these commitments.

Product Complexity and Product Defects

The Company is still not fully optimized in its operations, and is therefore experiencing defects during manufacturing, which results in scrapped or reworked product. Effects of this lack of production optimization may result in not meeting the customer's delivery expectations, delivering poor quality product to the customer and the potential loss of the customer.

Plant Relocation

Coretec is undertaking the consolidation of its Toronto manufacturing operations. There is meaningful risk associated with the consolidation particularly as it relates to costs of equipment and process relocation, Sheppard facility preparations, and refurbishment of Ellesmere premises as leased units are vacated.

Suppliers

The Company previously purchased three pieces of equipment from a supplier. To date, the equipment has not met the conditions of the purchase contract, resulting in disruption to the Company's operations. The Company is currently considering all of its options in connection with the equipment, it is more probable than not that it will not be paid within the year. Consequently the Company has reclassified the current portion of the outstanding balance owing to the supplier to "other long-term liabilities". It is the Company's expectation that the recovery of its claim against the supplier will be greater than the present liability.

Cost Structure

A significant portion of the Company's operating expenses are fixed in nature and expenditures on capacity, information systems, capital equipment, etc., are based, in part, on anticipated revenue for future periods. Decreases in demand for the Company's products can create an underutilization of the Company's capital assets and increases the relative component of the Company's fixed costs, resulting in reduced gross margins. Fixed costs such as administrative, public company and selling expenses also have a large fixed cost component and the Company may not be able to reduce these costs sufficiently or quickly enough to respond to lower revenues in future periods. The Company continues to monitor the effectiveness and profitability of its operating facilities, each of which performs at varying levels of capacity and contribution.

The Company has undertaken two head count reductions, one in November 2007, and one in February 2008, and has significantly cut back on discretionary expenditures. Despite these cost reductions, the Company's sales have not been sufficient to create profitability and there can be no assurance that the Company will be able to generate sufficient sales or reduce costs to a point where the Company is profitable.

Effectiveness of Disclosure Controls and Internal Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of

December 31, 2007 by and under the supervision of the Company's management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings of the Canadian Securities Administrations) are effective to ensure that the information required to be disclosed in reports that the Company files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation. There have been no changes, since this last formal assessment that have materially affected, or are reasonably likely to materially affect the Company's disclosure controls and procedures.

Under the supervision of the CEO and CFO, the Company has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. This design evaluation included documentation activities, management inquires and other reviews as deemed appropriate by management in consideration of the size and nature of the Company's business. There were no changes in the Company's internal controls over financial reporting during the most recent interim period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

International Financial Reporting Standards

In April 2008 the Accounting Standards Board of Canada decided to adopt International Financial Reporting Standards beginning with year ends in 2011. The Company has begun to review the implications of the impact of these new rules on its financial reporting.

Quarterly Comparison

	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06
	\$	\$	\$	\$	\$	\$	\$	\$
Continuing operations:								
Revenues	19,415	18,486	18,888	21,895	21,816	22,818	23,171	21,474
Income(loss) from operations	68	(883)	(882)	(261)	(129)	(350)	662	541
Income (loss)	(232)	(1,049)	(1,285)	(645)	(645)	(562)	557	360
Earnings (loss) per share								
Basic and Diluted	(0.01)	(0.06)	(0.07)	(0.03)	(0.03)	(0.03)	0.03	0.02

Additional Information

Share Capital

As of June 30, 2008, the Company had 18,642,886 common shares outstanding. As at June 30, 2008 the Company had 769,000 stock options outstanding, of which 375,662 were exercisable.

Public Securities Filings

Other information about the Company, including the annual information form and other disclosure documents, reports, statements or other information that is filed with Canadian securities regulatory authorities can be accessed through SEDAR at www.sedar.com.

Outlook

The Company has experienced six consecutive quarters of losses. Sales were higher and labour costs were lower in Q2 2008 as compared to Q1 2008, contributing to a loss per share reduction to \$0.01 in Q2 2008 as compared to a loss per share of \$0.06 in Q1 2008. Towards the end of Q1 2008 and into Q2 2008 the Company recorded stronger bookings for sales. The Company is also actively augmenting and upgrading its sales force to drive more bookings and sales. The Company has undertaken significant head count reductions in November 2007 and February 2008 and has for the most part, not replaced individuals that have left voluntarily, resulting in an estimated \$2.5 million of annual savings as compared to 2007.