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CORETEC INC.

Consolidated Financial Statements

For the three and six month periods ended June 30, 2009 and 2008
(in thousands of Canadian Dollars)

TO THE SHAREHOLDERS OF CORETEC INC.

The consolidated balance sheet of Coretec Inc. as at June 30, 2009, and the consolidated statements of operations and cumulative loss, and cash flows for the three and six month periods then ended have not been reviewed by the Company's auditors, Ernst & Young LLP. These financial statements are the responsibility of management and have been reviewed and approved by the Company's audit committee.

Coretec Inc.

CONSOLIDATED BALANCE SHEETS

[in thousands - unaudited]

	June 30, 2009	December 31, 2008
	\$	\$
ASSETS		
Current		
Cash	1,714	1,130
Restricted cash [note 3]	110	397
Accounts receivable	12,015	15,538
Inventories [note 4]	5,702	5,356
Prepaid expenses	358	576
Income taxes recoverable	182	182
Total current assets	20,081	23,179
Property, plant and equipment, net	31,610	32,122
Other assets [note 5]	119	147
TOTAL ASSETS	51,810	55,448
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Revolving line of credit [note 6]	6,653	3,630
Accounts payable and accrued liabilities	8,486	11,882
Current portion of long-term debt [note 6]	1,548	2,077
Income taxes payable	244	219
Total current liabilities	16,931	17,808
Long-term debt [note 6]	10,648	10,190
Total liabilities	27,579	27,998
<i>Contingencies (note 15)</i>		
Shareholders' equity		
Share capital [note 7]	60,973	60,973
Share capital held by long-term incentive plan [note 7]	—	(11)
Contributed surplus [note 7]	845	821
Deficit	(37,587)	(34,333)
Total shareholders' equity	24,231	27,450
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	51,810	55,448

See accompanying notes to consolidated financial statements

Coretec Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CUMULATIVE LOSS

[in thousands except per share amounts - unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Sales [note 12]	17,937	19,415	38,142	37,901
Cost of sales	16,749	16,832	34,968	33,623
Gross profit	1,188	2,583	3,174	4,278
Expenses				
Selling, general and administrative	2,775	2,515	5,475	5,094
Income (loss) from operations, before the following:	(1,587)	68	(2,301)	(816)
Interest and other expenses, net [note 9]	288	167	524	366
Foreign exchange loss [note 10]	470	111	534	109
(Gain) loss on disposal of property, plant and equipment, net	(28)	22	(158)	(10)
Loss before income taxes	(2,317)	(232)	(3,201)	(1,281)
Income taxes	34	5	53	5
Net loss for the period	(2,351)	(237)	(3,254)	(1,286)
Cumulative loss, beginning of period	(35,236)	(33,067)	(34,333)	(32,018)
Cumulative loss, end of period	(37,587)	(33,304)	(37,587)	(33,304)
Loss per share [note 8]				
Net loss per share, basic and diluted	(\$0.13)	(\$0.01)	(\$0.18)	(\$0.07)

See accompanying notes to consolidated financial statements

Coretec Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands - unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(2,351)	(237)	(3,254)	(1,286)
Non-cash items				
Depreciation and amortization	1,067	1,092	2,181	2,235
Stock-based compensation [note 7]	(2)	(8)	24	15
(Gain) loss on disposal of property, plant and equipment	(28)	22	(158)	(10)
Long-term incentive plan compensation [note 7]	—	36	11	54
Amortization of deferred finance charges	42	36	77	40
	(1,272)	941	(1,119)	1,048
Change in restricted cash [note 3]	(10)	—	287	—
Net change in non-cash working capital balances related to operations [note 11]	(410)	(596)	(228)	(291)
Cash (used in) provided by operating activities	(1,692)	345	(1,060)	757
FINANCING ACTIVITIES				
Increase in long-term debt	—	—	1,716	—
Repayment of long-term debt	(1,067)	(195)	(1,617)	(506)
Increase in other liabilities	—	674	—	674
Increase (decrease) in line of credit	3,404	1,003	3,022	(57)
Cash provided by financing activities	2,337	1,482	3,121	111
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,116)	(3,254)	(1,668)	(3,935)
Decrease in short term deposit	—	1,050	—	1,050
Proceeds on disposal of property, plant and equipment	158	—	158	—
Decrease in other assets	47	398	27	374
Cash used in investing activities	(911)	(1,806)	(1,483)	(2,511)
Foreign exchange effect on cash	1,310	(77)	6	343
Net increase (decrease) in cash during the period	1,044	(56)	584	(1,300)
Cash, beginning of period	670	585	1,130	1,829
Cash, end of period	1,714	529	1,714	529
Supplemental cash flow information				
Income taxes paid	—	5	18	5
Interest paid	184	166	420	364

See accompanying notes to consolidated financial statements

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of Canadian dollars except where noted and per share amounts]

1. NATURE OF OPERATIONS

The printed circuit board industry as a whole and the Company in particular, experienced a significant downturn in volumes in the six months ended June 30, 2009. The Company has experienced ten consecutive quarters of losses.

During the second quarter of 2009 and July of 2009 the Company initiated wide ranging restructuring efforts, both in operations and administration, to reduce cost and return to profitability. These efforts include the following actions:

- Continuing consolidation efforts among the Company's Toronto facilities
- Reducing direct and indirect labour hours through shift reductions and layoffs
- 10% pay cuts and wage reductions for all direct, indirect and salaried employees
- Reductions in benefits
- Discounts from suppliers
- Implementing energy conservation measures
- Consolidation of IT functions
- Various cuts in selling, general and administration departments

The Company believes that these actions will enable it to return to profitability. However, the Company's ability to continue as a going concern is dependent on the Company's ability to return to positive cashflow and to comply with the covenants and other requirements of its lending institutions.

At June 30, 2009 the Company was in default on the EBITDA and stop loss covenants on its Wells Fargo Canada Inc. ("Wells Fargo") revolving line of credit and the working capital covenant for its term debt with Business Development Bank of Canada ("BDC"). The Company received waivers from both banks on these defaults on August 13, 2009.

The waiver from Wells Fargo included the following amendments, among others, to the terms of the Wells Fargo Credit Agreement:

- Interest rate increased to the greater of Canadian or US Prime rate (as applicable) plus 5% or 7.25% per annum
- Minimum EBITDA covenants exclude normalizing adjustments for losses with respect to foreign exchange
- Revised covenants to reflect the Company's reforecast for 2009

These financial statements do not reflect adjustments to the carrying value of assets and liabilities and the reported expenses and balance sheet classifications of assets and liabilities that would be necessary should the going concern assumption be inappropriate, and such adjustments could be material.

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of Canadian dollars except where noted and per share amounts]

2. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to the preparation of interim financial information. These unaudited interim consolidated financial statements are prepared using the same accounting policies and application thereof as the consolidated financial statements for the year ended December 31, 2008. They do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the December 31, 2008 consolidated financial statements.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Effective January 1, 2009, the Company adopted the following accounting standards recently issued by the Canadian Institute of Chartered Accountants (CICA):

Goodwill and intangible assets and other standards

In January 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", and amended Handbook Section 1000, "Financial Statement Concepts", and Accounting Guideline 11 "Enterprises in the Development Stage" and withdrew Handbook Section 3450, "Research and Development Costs". The Handbook clarifies that costs may only be deferred when they relate to an item that meets the definition of an asset. The concept of matching revenues and expenses remains appropriate for allocating the cost of an asset that is consumed in general revenue over multiple reporting periods. Handbook Section 3064 replaces Handbook Section 3062 and provides extensive guidance on when expenditures qualify for recognition as intangible assets. These changes are effective for fiscal years beginning on or after October 1, 2008. The adoption of this accounting standard has had no impact on the financial statements of the Company.

Credit risk and the fair value of financial assets and financial liabilities

EIC 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. Adoption of this guidance had no significant impact on the Company's consolidated financial statements.

International financial reporting standards ["IFRS"]

On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP prior to 2011, with the remaining standards to be adopted at the change over date. The Company has an internal initiative underway for the conversion process and is evaluating the potential impact of the conversion to IFRS on its consolidated financial statements. At this time, the impact on the Company's future financial position and results of operations is not determinable.

Change in estimate – finished goods inventory spares

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During the second quarter of 2009 the Company changed its estimate for valuing inventory spares included in finished goods inventory to better reflect the sales of spares to its customers. This change in estimate resulted in an increase in income during the second quarter of 2009 of \$0.5 million.

3. RESTRICTED CASH

As at June 30, 2009 the Company has \$0.1 million restricted cash [\$0.4 million – December 31, 2008]. The 2009 balance represents collateral for the use of the Company's credit cards. In July 2009 the Company cancelled all these credit cards with Bank of Montreal ("BMO") and on August 10, 2009 BMO removed the requirement for cash collateral. The 2008 balance represented the deposit on a margin call on forward exchange contracts. This amount was returned to the Company in January 2009.

4. INVENTORIES

Inventories consist of the following:

	June 30, 2009	December 31, 2008
	\$	\$
Raw materials	2,017	2,232
Work-in-process	1,606	1,843
Finished goods	2,079	1,281
	5,702	5,356

At June 30, 2009 and December 31, 2008 the Company netted a provision of \$0.6 million against inventories.

5. OTHER ASSETS

	June 30, 2009	December 31, 2008
	\$	\$
Deferred financing charges, net	—	15
Deposits on machinery and equipment	119	132
	119	147

6. BANK INDEBTEDNESS AND LONG-TERM DEBT

Revolving line of credit

On March 24, 2009, the Company entered into a new three year, \$10 million asset based lending ["ABL"] revolving credit line with Wells Fargo to be used for day-to-day working capital and other expenditures. Wells Fargo holds a general security agreement on all of the Company's assets except for the Company's buildings and real estate, where it holds a second ranking charge behind the BDC, GE Capital and Zions Bank. The covenants for this new facility include a requirement for the Company to achieve 75% of its forecasted "EBITDAFX" [earnings before interest, taxes, depreciation and amortization and foreign exchange gains or losses] on a quarterly basis as well as to comply with certain other covenants. The amount of funding available under the line is based on 82% of eligible accounts receivable. The loan bears

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interest at prime plus 2.25% [currently 8.5% for US dollar line of credit and 7.5% for Canadian dollar line of credit including default interest], payable monthly. The initial proceeds from the Wells Fargo loan were used to repay outstanding Bank of Montreal loans and the new revolving credit line with Wells Fargo Canada replaces the Bank of Montreal's revolving credit facility.

At June 30, 2009 the Company was in default of the EBITDA and stop loss covenants for which it received a waiver from Wells Fargo on August 13, 2009. Wells Fargo began charging default interest on the outstanding balance on the revolving credit line of an additional 3% effective June 1, 2009.

The waiver from Wells Fargo included the following amendments, among others, to the terms of the Wells Fargo Credit Agreement:

- Interest rate increased to the greater of Canadian or US Prime rate (as applicable) plus 5% or 7.25% per annum
- Minimum EBITDA covenants exclude normalizing adjustments for losses with respect to foreign exchange
- Revised covenants to reflect the Company's reforecast for 2009

At June 30, 2009 there was \$6.7 million outstanding on the revolving line of credit [\$3.6 million – December 31, 2008]. Fund availability under the revolving line of credit is calculated as eligible accounts receivable, less bank reserves and less the loan balance outstanding. Bank reserves are comprised of a general reserve and amounts deemed necessary by Wells Fargo to cover priority payables. Fund availability on the revolving loan at June 30, 2009 was \$1.8 million (in excess of the amount outstanding).

Long Term Debt

In January 2009, the Company made a \$0.7 million draw against the BDC facility for infrastructure. In March 2009, the Company drew an additional \$0.3 million, its final advance against the facility.

In January 2009 the Company made a US\$0.6 million [\$0.7 million CAD] draw against the US\$3.0 million facility [\$3.8 million CAD] for equipment.

Both BDC loans require the Company to maintain a minimum consolidated working capital ratio of 1.2:1 and a long term debt/tangible equity ratio of 0.75:1. Both loans are collateralized by the Company's Toronto land and building, and include the requirement for the guarantee of 25% of the loan balance by Coretec Holdings Inc, a wholly owned subsidiary, which owns the shares of the Company's U.S. companies. At June 30, 2009 the Company was in default of the working capital ratio for which it received a waiver from BDC on August 13, 2009.

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[tabular amounts in thousands of Canadian dollars except where noted and per share amounts]

Effective March 31, 2009, the Company has committed to pay a monthly standby fee on the undisbursed facility of 3% per annum.

Long term debt consists of the following loans:

	June 30, 2009	December 31, 2008
	\$	\$
BDC	1,378	1,656
BDC - equipment loan	2,175	1,780
GE Capital mortgage	1,586	1,676
BDC - infrastructure loan	5,110	4,255
BDC - building loan	553	653
Zions Bank	1,814	1,916
Capital leases	167	623
Deferred finance charges	(587)	(292)
	12,196	12,267
Less current portion	(1,548)	(2,077)
	10,648	10,190

7. SHARE CAPITAL

Authorized

Authorized share capital is comprised of an unlimited number of voting common shares with no par value.

Issued and outstanding

	June 30, 2009		December 31, 2008	
	Number of	Cost of	Number of	Cost of
	Shares	Shares	Shares	Shares
		\$		\$
Total share capital issued	18,021,807	61,077	18,642,886	61,170
Normal Course Issuer bid	—	—	(621,079)	(93)
Total Share Capital Issued	18,021,807	61,077	18,021,807	61,077
Less: Advance to shareholder	—	(104)	—	(104)
Closing balance	18,021,807	60,973	18,021,807	60,973

The advance to shareholder at June 30, 2009 is non-interest bearing, is due July 2011, and is secured by a promissory note and a pledge of common shares of the Company. The carrying value of the advances as at June 30, 2009 was \$104,190. The shares pledged as collateral for these advances had a fair market value of \$3,833 at June 30, 2009.

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Share options

The Company has established a share option plan [the "Share Option Plan"]. Under the Share Option Plan, the Company may grant up to 1,900,000 options to purchase Common Shares to full-time employees, officers, directors and designated consultants of the Company. Options are granted at a price that is not less than the fair market value at the date of the grant. As at June 30, 2009, there were 929,000 [1,139,000 – December 31, 2008] options outstanding.

The options granted to date under the Share Option Plan become exercisable on a cumulative basis, as to one-third per year upon each of the first, second and third anniversaries of their issue. The options expire five years from the date of issue.

The following is a share option continuity schedule for the six months ended June 30, 2009 as compared to the year ended December 31, 2008.

	June 30, 2009		December 31, 2008	
	Options	Weighted- average	Options	Weighted- average
	#	exercise price (\$)	#	exercise price (\$)
Outstanding, beginning of period	1,139,000	0.94	997,334	1.30
Granted	—	—	400,000	0.31
Exercised	—	—	—	—
Forfeited	(210,000)	0.95	—	—
Expired	—	—	(258,334)	1.35
Outstanding, end of period	929,000	0.94	1,139,000	0.94
Exercisable, end of the period	402,328	1.38	495,657	1.33

Stock based compensation

For the three and six months ended June 30, 2009, the Company recognized stock based compensation expense (income) of (\$2,000) (net of forfeitures) and \$24,000, respectively [(\$8,000) and \$15,000 for the three and six month period ended June 30, 2008] for stock options awards. The fair value of the options granted was estimated at the date of the grant using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 4.5%; expected life of five years; volatility of 85% and dividend yield of nil. During the three and six month period ended June 30, 2009 nil [nil – 2008] options were granted.

Long-Term Incentive Plan

During 2006, the Company introduced a LTIP whereby one half of any bonus conferred to any member of the executive team is delivered to the LTIP Trust. The LTIP Trust will then use the funds to purchase shares of the Company. Any portion of the remaining bonus may be received in cash or voluntarily directed to the LTIP Trust. The shares are held by the LTIP Trust for 35 months (the deferral period), at which time they are provided to the executive (net of any required withholding taxes).

During the three and six month period ended June 30, 2009 no common shares were purchased by the LTIP Trust. During the three and six month period ended June 30, 2009 the Company recorded compensation expense for LTIP shares of \$nil and \$11,000, respectively [\$36,000 and \$54,000 for the three and six month period ended June 30, 2008, respectively] the vesting of shares during the period.

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Normal course issuer bid ["NCIB"]

During 2008, the Company established a Normal Course Issuer Bid repurchase program ("NCIB") and repurchased 621,079 of its common shares at a cost of \$93,000. In January 2009, the Company established a NCIB to repurchase up to a further 900,000 of its outstanding common shares. The NCIB expires on January 14, 2010. There were no shares repurchased under the NCIB during the first six months of 2009.

8. LOSS PER SHARE

In accordance with the CICA Section 3500, "Earnings per Share", the earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The calculation for the quarters presented is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Basic and diluted loss per share:				
Loss	(2,351)	(237)	(3,254)	(1,286)
Weighted average number of common shares outstanding	18,021,807	18,642,886	18,021,807	18,642,886
Basic loss per share	(\$0.13)	(\$0.01)	(\$0.18)	(\$0.07)

9. INTEREST AND OTHER EXPENSES

Interest and other expenses comprise the following:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Interest expense (net)	246	131	447	326
Amortization of deferred finance charges	42	36	77	40
	288	167	524	366

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of Canadian dollars except where noted and per share amounts]

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The carrying values of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these instruments. The fair values of other financial assets and liabilities are not materially different from their carrying values. As a result of the volatility in the credit markets and the difficulties companies now face obtaining debt financing, the fair value of the company's debt is indeterminable.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. During the three months ended June 30, 2009, the largest single customer comprised approximately 7.9% of sales [2008 - 6.9%]. At June 30, 2009, the largest single customer represented approximately 7.7% of trade receivables [2008 - 5.8%].

Foreign exchange risks and commitments

The Company is exposed to market risk in foreign currency rates as a substantial portion of the Company's revenues are denominated in US dollars and a substantial portion of its costs and expenses are denominated in Canadian dollars. Approximately 70-90% of revenues of the Canadian operations and approximately 20% of its operational expenses are transacted in US dollars. As a result, the Company has transaction exposures because of volatility in the exchange rate between the Canadian and US dollar.

To minimize currency exposure, the Company has historically converted a portion of its US dollar cash flows to Canadian dollars through foreign currency contracts. As at June 30, 2009 the Company had no foreign currency contracts.

At June 30, 2009, 82% [December 31, 2008 - 87%] of trade accounts receivable are denominated in US dollars.

The Company operates in Canada and the US. The functional and reporting currency of the Company is the Canadian dollar, however even in the Canadian operations approximately 70-90% of revenue is transacted in USD. Foreign exchange risk arises because the amount of the local currency receivable or payable for the transactions denominated in foreign currencies may vary due to changes in the exchange rates ["transaction exposures"] and because the non-Canadian dollar denominated USD monetary balances of subsidiaries of the Company fluctuate on consolidation into Canadian dollar ["translation exposures"].

Interest rate risk

The Company's interest rate risk primarily arises from its floating rate debt in particular its revolving line of credit and BDC loans. At June 30, 2009, \$15.9 million of the Company's total debt is subject to movements in floating interest rates [December 31, 2008 - \$12.0 million].

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Credit Risk

Credit risk arises from cash and cash equivalents held with banks and financial institutions, foreign exchange forward contracts as well as credit exposure to clients, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counter parties, taking into account their financial position, past experience and other factors. Management also monitors the utilization of credit limits. In cases where the credit quality of a client does not meet the Company's requirements, a cash deposit is received before any services are provided. As at June 30, 2009, the Company held deposits of nil [December 2008 – nil].

The carrying amount of accounts receivable are reduced through the use of an allowance account and the amount of the loss is recognized in the income statement within the operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

	June 30, 2009	December 31, 2008
	\$	\$
Gross accounts receivable	12,172	16,135
Accounts receivable over 90 days from invoice date	936	945
Allowance for doubtful accounts	(157)	(597)

Liquidity risk

Liquidity risk arises through having excess of financial obligations over available financial assets at any point in time. The Company's objective in managing liquidity risk is to manage its working capital closely. As at June 30, 2009, the Company was holding unrestricted cash and cash equivalents of \$1.7 million and had undrawn lines of credit available to it of \$1.8 million.

The contractual maturities of the Company's financial liabilities were presented in the Company's consolidated financial statements for the year ended December 31, 2008.

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[tabular amounts in thousands of Canadian dollars except where noted and per share amounts]

As at June 30, 2009 and December 31, 2008 the above capital management criteria are illustrated as follows (amounts in \$000's, except for ratios)

	June 30, 2009	December 31, 2008
Business Development Bank of Canada Covenants		
Maximum term debt to equity ratio of 0.75:1		
Term debt per Financial Statements	12,196	12,267
Equity per Financial Statements	24,231	27,450
Actual Ratio	0.50:1	0.45:1
Maximum debt to equity ratio	0.75:1	0.75:1
Minimum working capital ratio of 1.2:1		
Current assets as per Financial Statements	20,081	23,179
Current liabilities as per Financial Statements	16,931	17,808
Actual Ratio	1.19:1	1.30:1
Minimum working capital ratio	1.20:1	1.20:1
Bank of Montreal Covenants		
Tangible book value minimum of \$24.0 million		
Book Value per Financial Statements	N/A	27,450
Less: Leasehold improvements	N/A	(1,570)
Less: Deferred financing fees	N/A	(292)
Less: Deferred tax asset	N/A	-
Actual Tangible book value	N/A	25,588
Minimum Tangible book value	N/A	24,000
Earnings before interest, taxes, depreciation and amortization [a non-GAAP measure] – trailing 4 quarters		
EBITDA	N/A	3,388
Minimum EBITDA rolling 4 quarters	N/A	2,826
Wells Fargo Canada Covenants		
Minimum 75% of projected EBITDAFX [a non-GAAP measure]		
EBITDAFX – For current quarter	(491)	N/A
Minimum EBITDAFX – For current quarter	622	N/A
Maximum stop loss per reporting period		
Aggregate net loss / (Income) reported (Mar-Jun 2009)	2,573	N/A
Aggregate maximum stop loss (Mar-Jun 2009)	1,628	N/A
Maximum capital expenditures of \$4.4 million for 2009		
Total capital expended	1,668	N/A
Maximum expenditure allowed	4,400	N/A

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[tabular amounts in thousands of Canadian dollars except where noted and per share amounts]

11. SUPPLEMENTAL CASH FLOW INFORMATION

The components of the net change in non-cash working capital balances related to operations consists of the following:

	Three months ended June 30,		Six months ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Accounts receivable	815	(693)	3,144	(971)
Inventories	(328)	(472)	(442)	(803)
Prepaid expenses	67	353	217	296
Income taxes Payable	34	—	34	—
Accounts payable and accrued Liabilities	(998)	216	(3,181)	1,187
	(410)	(596)	(228)	(291)

12. SEGMENT INFORMATION

The Company has one reportable business segment - the design and manufacture of PCBs. Geographic sales information has been provided to distinguish sales to customers in the U.S. and Europe from sales to customers in Canada.

	Three months ended June 30,		Six months ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Sales to customers in				
Canada	5,575	6,111	11,512	12,116
United States	11,592	12,631	25,139	24,070
Europe/Other	770	673	1,491	1,715
	17,937	19,415	38,142	37,901

13. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as the aggregate of its shareholders equity and interest bearing debt. The Company's objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide products and services to its customers and returns to its shareholders.

As at June 30, 2009, total managed capital was \$43.1 million (December 31, 2008 - \$43.3 million) comprised of shareholders' equity of \$24.2 million (December 31, 2008 - \$27.5 million) and interest-bearing debt of \$18.9 million (December 31, 2008 - \$15.8 million).

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of Canadian dollars except where noted and per share amounts]

14. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the current periods' presentation.

15. CONTINGENCIES

The former Chief Financial Officer has commenced an action against the Company alleging wrongful termination of employment. The Company is defending the claim.

16. SUBSEQUENT EVENTS

Restructuring

During the second quarter of 2009 and July of 2009 the Company initiated wide ranging restructuring efforts, both in operations and administration, to reduce cost and return to profitability. These efforts include the following actions:

- Continuing consolidation efforts among the Company's Toronto facilities
- Reducing direct and indirect labour hours through shift reductions and layoffs
- 10% pay cuts and wage reductions for all direct, indirect and salaried employees
- Reductions in benefits
- Discounts from suppliers
- Implementing energy conservation measures
- Consolidation of IT functions
- Various cuts in selling, general and administration departments

Long-term debt and revolving line of credit

At June 30, 2009 the Company was in default on the EBITDA and stop loss covenants on its Wells Fargo Canada Inc. ("Wells Fargo") revolving line of credit and the working capital covenant for its term debt with Business Development Bank of Canada ("BDC"). The Company received waivers from both banks on these defaults on August 13, 2009.

The waiver from Wells Fargo included the following amendments, among others, to the terms of the Wells Fargo Credit Agreement:

- Interest rate increased to the greater of Canadian or US Prime rate (as applicable) plus 5% or 7.25% per annum
- Minimum EBITDA covenants exclude normalizing adjustments for losses with respect to foreign exchange
- Revised covenants to reflect the Company's reforecast for 2009