Coretec Inc.

2007 First Quarter Conference Call

May 1, 2007

Paul Langston

Good morning. I'm Paul Langston, Coretec's President and Chief Executive Officer. With me today is Andre Kern, Coretec's Chief Financial Officer.

I'd like to thank you for joining us to discuss Coretec's 2007 first quarter results.

But first, I must caution you that this call includes "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 markets 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" in Coretec's Annual Information Form dated March 8, 2007 which can be obtained at www.sedar.com.*

Andre will begin our presentation by reviewing the first quarter results. Then I'll provide a snapshot of our business highlights in the quarter, speak to current industry conditions as well as describe initiatives that we presently have underway and comment on the outlook for Q2. Andre…..

Andre Kern

Financial results

Good morning Ladies and Gentlemen,

I will begin by reviewing the **Statements of Operations** for the first quarter of 2007 with comparison to the prior year.

Sales in the first quarter were $22.8 million, a 7.3% or $1.8 million decrease as compared to the prior year period sales of $24.6 million. The primary reason for the lower sales relates to the Company's offshore program where, in 2006, there was an unusually high level of activity related a large order from a single customer, and this was not repeated in the 2007 first quarter. Also contributing to the lower sales is lower industry-wide demand which started in the final quarter of 2006.

The gross profit was $4.6 million, a reduction of $1.6 million or 25.8% as compared to $6.2 million in the prior year. The decrease in gross profit is attributable to the lower sales of the Company’s offshore program, as well as weaker than anticipated yields at our Toronto operations, especially related to newer technology products. Gross margin in the current quarter was 20.3% of sales as compared to the prior year’s gross margin of 25.4%.

Selling, general and administrative expenses for the first quarter of 2007, at $3.8 million are $0.2 million higher as compared to $3.6 million in the similar period in 2006. The 2007 costs were higher primarily related to $0.4 million of severance costs as compared to $0.1million of severance costs in the first quarter of 2006.

Depreciation and amortization expense for Q1 2007 at $1.2 million is lower than the 2006 expense of $1.3 million, principally due to assets having become fully depreciated during the year.

Interest and other expenses in the first quarter of 2007 were $0.2 million; in line with the 2006 expense of $0.2 million.

In the first quarter the company sold some no longer needed equipment for a gain of $0.1 million. During the similar period in 2006, the Company wrote off $0.2 million of machinery and equipment that was deemed to be redundant with respect to the Company’s market strategy.

The net loss for the first quarter of 2007 was $.05 million, or $0.03 per share as compared to net income of $0.8 million, or $0.04 per share recorded during the similar period in 2006

Moving to the Balance Sheet…here are the highlights

Cash is at $0.8 million at March 31, 2007 as compared to $1.7 million at December 2006. Bank indebtedness at the quarter end was $1.6 million as compared to nil at the prior year end. The reduced cash and increased indebtedness at the end of the first quarter as compared to year end relates primarily due to the outfitting and construction at the Company's Sheppard site to accommodate the consolidation of the Company's Lawrence facility.

Working capital is $7.5 million as at March 31, 2007 as compared to $8.9 million at December 2006.

Accounts receivable days sales outstanding are 58 days at the end of March 2007, a slight increase as compared to 56 days at the end of December 2006.

Inventory turns were 14 times at March 2007 as compared to 15 times at the end of December 2006.

Accounts payable days were 53 days at March 2007, as compared to 56 days at December 2006.

During the first quarter of 2007, capital expenditures totaled $3.3 million. The 2007 expenditures are primarily related to the readying of the Sheppard facility for the move of the Company's Lawrence operations plus investments in information technology and plating related equipment.

Coretec's long-term debt to equity ratio rose to 23% at the end of March 2007 as compared to 19% at December 2006. The Company drew $1.8 million of its $3.5 million Sheppard outfitting loan facility in the first quarter.

Now let's turn to the Statements of Cash Flows…

Cash used in **operating activities** was $1.1 million for the quarter ended March 2007 as compared to cash provided of $0.1 million during the similar period in 2006. The primary reason for the change from the prior year is due to the net loss incurred during Q1 2007 as compared to a profit in Q1 2006.

Cash provided by **financing activities** was $3.1 million for the current year quarter as compared to a use of nil for the similar period in 2006. The provision of cash in Q1 2007 related to the increased bank indebtedness and the loan related to the outfitting of the Sheppard facility.

Cash used in **investing activities** was $2.9 million for the quarter ended March 2007 as compared to $1.2 million in the first quarter of 2006. The primary investment was in capital expenditures in both periods.

Paul Langston will now continue the conference call.

<u>Paul Langston</u>

Thanks Andre

Turning to business highlights.

The highlights of Q1 2007 are as follows;

- Both our Cleveland and Denver operations achieved strong business activity levels and as a result were operating at or above budget;

- Our Q1 geographic breakdown of revenue was 63% to the US, 32% to Canada and 5% to Europe and Asia;

- Q1 revenue by customer type was 56% EMS and 44% OEM;

- In Q1 our top 10 customers accounted for 41% of sales with the largest customer representing around 8% of sales in the quarter. Comparatively, the top 10 accounted for 42% of sales in Q1 2006 with the largest client accounting for 7% of sales;

- Our capital expenditures during Q1 2007 amounted to $3.3 million. This was predominantly for capital equipment and infrastructure at our Sheppard site;

- In the quarter we commenced preparations of our Sheppard facility for the migration of equipment from our Lawrence facility. The first electroplating processes moved at the end of January, followed by the drilling operations are the end of March. All processes will be moved by May 15, 2007;

- In January we finalized a new financing arrangement with the Business Development Bank of Canada. This is an expansion of our current C$2.5 million mortgage on our Sheppard site by $2.5 million as well as a separate $1 million capital equipment loan. As of the end of Q1 approximately $1.3 million has been funded from the mortgage loan and $0.5 million from the infrastructure loan;

Now turning to the industry

The industry has experienced a meaningful downturn starting in late 2006 and continuing into 2007. According to IPC, the trailing 3 month average book-to-bill ratio has been below 1.0 since October 2006. Consistent compression of this nature has not been evidenced since 2002. Industry activity as of February is showing significant correction. Shipments YTD are down 6.8% versus the same period in 2006 while bookings are off a more worrisome 19.2%.

The IPC data is based upon inputs from a large sample of reporting firms that make up greater than 80% of the industry's activity. This softness has manifested into recently announced layoffs as well as temporary and permanent plant closures across the industry.

It is our opinion and that of a number of industry analysts that the downturn will be short lived. The reason for the optimism is the fact that inventory levels throughout the electronics food chain appear to be relatively in check, particularly compared to historical levels. A key indicator is the electronics industry inventory ÷ sales ratio. This ratio climbed starting in late 2005 and peaked in mid 2006 and has declined steadily since suggesting that inventories are coming in line with the underlying demand for electronic equipment.

We have seen contraction with respect to quick turn premiums during this slowdown. Typically in a softening demand environment, lead-times shrink which affects the demand for quick turn services as well as pricing power. Beyond the short term we remain optimistic about our positioning in the market as well as the demand for our products and services generally.

Demand by PCB technology is another area of interest to us. Industry analysts, Henderson Ventures, have put forth projections through 2010 that show the highest growth areas of the PCB industry in North America will be PCBs made from high performance materials versus fibreglass reinforced epoxy (known as FR4) as well as high density interconnects and/or PCBs with micro via hole technology. Their projected growth rates for these two product segments approach 10% per year over the next 3 years.

Having said this IPC has reported that the opposite has occurred during Q1 2007. Shipments of higher technology PCBs (HDI and multilayer) are off 23% and 9% respectively versus the same period in 2006. We believe that this is a seasonal adjustment that will be short lived. In the meanwhile it is causing companies such as Coretec that rely on time premiums to experience revenue and margin compression.

Now turning to our Toronto consolidation

The implementation of manufacturing activities at our Sheppard site has commenced. This is the start of a multi-year consolidation strategy. By May 15 all manufacturing will cease at our Lawrence site after having been transferred to the Sheppard location. To date we have transferred large automated electroplating machine as well as a dozen drilling platforms. Additionally, we have installed at Sheppard approximately $1.5 million worth of equipment that was in storage.

Starting in May 2007 a series of equipment relocations will occur from our other Toronto location (Ellesmere) to the Sheppard building. This combined relocation and capacity expansion will enable potential revenues of $80-$90 million in Toronto alone.

Albeit exciting this undertaking has not been without its logistical challenges. At the end of January 2007 we commenced decommissioning equipment at our Lawrence facility and transferred it to our Sheppard facility. This move cost us significant capacity in Q1, some of which is just now coming back on stream.

All equipment will be relocated from Lawrence to Sheppard within the next two weeks and be operational by the end of the month. Once complete we will not only experience a reduction in overhead costs but also realize additional capacity in two key areas; namely drilling and electroplating.

Now turning to our other 3 operating facilities, design group and offshore

Our main facility in Toronto struggled in Q1 as a result of the aforementioned lack of time premium work and bookings softness but also as a result of a large variation in product mix. With respect to the latter we experienced below target internal yields on HDI products, some of which were affected by the transition of key operations from Lawrence to Sheppard. This manifested into higher labour rates (overtime) and higher materials utilization during the quarter as well as lower throughput.

With respect to our Denver site, Q1 was a strong quarter both in terms of business activity levels and operational execution. With an increased marketing and sales focus on the key military and avionics sectors that this site serves we believe that Denver will contribute meaningfully to our consolidated financial results in ‘07. This site is increasingly becoming renowned for its ability to reliably perform builds on difficult products for very demanding customers. As a result we are seeing significant penetration opportunities into existing and new high reliability avionics and aerospace customers.

Our Cleveland facility similarly experienced strong business conditions in Q1 and continues to have success with respect to new program penetration. The site tooled more new part numbers in Q1 than in its 3 year history as part of Coretec. This bodes well for the future. We believe that the primary driver behind this growth in new product introduction work is the site's outstanding delivery reliability and quality performance over the past 6 months.

Interesting to note, our design group has had an impact on our Cleveland facility, participating in several new rigid flex programs. The design group saw an increase in demand towards quarter end and into Q2. This may be an indication that prototype activity will strengthen in the coming months.

At the opposite end of the prototype and quick turn manufacturing spectrum is the provision of volume product. We experienced continued weak demand in Q1 and our shipments activity was lowest that we have experienced for several years. We are actively pursuing programs with new and existing customers that fit our offshore model.

Finally, I would like to briefly discuss our thoughts for Q2 2007.

As aforementioned, we believe that the market correction that is now underway will be short lived. We are not pleased with the timing of the downturn given the initiatives that we presently have underway. However, we are excited about the additional capacity and technical capability that our

Sheppard facility will deliver prior to the typical 2H seasonal upswing that is experienced in our industry.

On the supply side we continue to see inflation as a risk, particularly as relates to specialty metals and chemicals. Gold is becoming an increasingly important surface finish for PCBs as a result of RoHS, as is silver. Similarly, most chemicals are petroleum based and are most certainly increasing in price as a result of increasing transportation costs.

We would be remiss if we did not make comment with respect to the Canadian dollar. Although we have a hedging strategy, the rising Canadian dollar does impact our margins on US dollar sales. The strong Candian dollar is bitter-sweet for us; it makes many of our materials, which are chiefly US dollar denominated relatively less expensive for our Toronto operations. More than offsetting this advantage of course is our Canadian dollar costs, ie. labour and overheads. As a result our margins are negatively affected by the increasing C$ on US$ revenues. It is also worthy to note that the vast majority of capital equipment that we procure originates in the US, Europe or Asia. As such a stronger Canadian dollar causes capex purchases to be relatively less expensive.

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 Friday, May 11, 2007 at 11:59 p.m. The access number for the instant replay is 1-866-465-5578 or 1-212-457-9844. The conference passcode is 326519#.

The text of this presentation will be posted on our website; www.coretec-inc.com.