

TO THE SHAREHOLDERS OF CORETEC INC.

The consolidated balance sheet of Coretec Inc. as at March 31, 2009, and the consolidated statements of operations and comprehensive loss, deficit and cash flows for the period 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]

	March 31, 2009	December 31, 2008
	\$	\$
ASSETS		
Current		
Cash	670	1,130
Restricted cash [note 2]	100	397
Accounts receivable	14,944	15,538
Inventories [note 3]	5,782	5,356
Prepaid expenses	537	576
Income taxes recoverable	182	182
Total current assets	22,215	23,179
Property, plant and equipment, net	31,690	32,122
Other assets [note 4]	132	147
TOTAL ASSETS	54,037	55,448
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 5]	3,248	3,630
Accounts payable and accrued liabilities	10,349	11,882
Current portion of long-term debt [note 5]	1,933	2,077
Income taxes payable	219	219
Total current liabilities	15,749	17,808
Long-term debt [note 5]	11,704	10,190
Total liabilities	27,453	27,998
Shareholders' equity		
Share capital [note 6]	60,973	60,973
Share capital held by long-term incentive plan [note 6]	—	(11)
Contributed surplus [note 6]	847	821
Deficit	(35,236)	(34,333)
Total shareholders' equity	26,584	27,450
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	54,037	55,448

See accompanying notes to consolidated financial statements

Coretec Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

[in thousands except per share amounts - unaudited]

	Three months ended March 31	
	2009	2008
	\$	\$
Sales	20,205	18,486
Cost of sales	18,220	16,790
Gross profit	1,985	1,696
Expenses		
Selling, general and administrative	2,699	2,579
	2,699	2,579
Loss from operations, before the following:	(714)	(883)
Interest and other expenses, net [note 8]	236	200
Foreign exchange (gain) loss [note 9]	64	(2)
(Gain) on disposal of property, plant and equipment net	(130)	(32)
Loss before income taxes	(884)	(1,049)
Income taxes	19	—
Net loss for the period	(903)	(1,049)
Loss per share [note 7]		
Net loss per share, basic and diluted	(\$0.05)	(\$0.06)

See accompanying notes to consolidated financial statements

Coretec Inc.

CONSOLIDATED STATEMENTS OF DEFICIT

[in thousands - unaudited]

	Three months ended	
	March 31	
	2009	2008
	\$	\$
Deficit, beginning of period	(34,333)	(32,018)
Net loss for the period	(903)	(1,049)
Deficit, end of period	(35,236)	(33,067)

See accompanying notes to consolidated financial statements

Coretec Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands - unaudited]

	Three months ended March 31	
	2009	2008
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(903)	(1,049)
Non-cash items		
Depreciation and amortization	1,114	1,142
Stock-based compensation [note 6]	26	23
(Gain) on disposal of property, plant and equipment	(130)	(32)
Unrealized foreign exchange (gain) loss	(1,312)	377
Long-term incentive plan compensation [note 6]	11	18
Amortization of deferred finance charges	35	5
	(1,159)	484
Change in restricted cash [note 2]	297	—
Net change in non-cash working capital balances related to operations [note 10]	183	305
Cash (used) provided in operating activities	(679)	789
FINANCING ACTIVITIES		
Increase in long-term debt	1,716	—
Repayment of long-term debt	(550)	(311)
Decrease in bank indebtedness	(382)	(1,061)
Cash (used) provided in financing activities	784	(1,372)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(552)	(681)
Proceeds on disposal of property, plant and equipment	—	—
Increase in other assets	(20)	(24)
Cash used in investing activities	(572)	(705)
Effect of exchange rate changes on cash	7	44
Net decrease in cash during the period	(460)	(1,244)
Cash, beginning of period	1,130	1,829
Cash, end of period	670	585
Supplemental cash flow information		
Interest paid	236	177

See accompanying notes to consolidated financial statements

FOR THE THREE MONTHS ENDED MARCH 31, 2009 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands except share amounts]

1. 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 Canadian 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 Canadian generally accepted accounting principles 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". Handbook Section 3064 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.

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 to govern the conversion process and is currently in the process of 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 reasonably determinable or estimable.

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2. Restricted Cash

As at March 31, 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. The 2008 balance represented the deposit on a margin call on forward exchange contracts which was returned to the Company in January 2009.

3. INVENTORIES

Inventories consist of the following:

	March 31	December 31
	2009	2008
	\$	\$
Raw materials	2,294	2,232
Work-in-process	1,973	1,843
Finished goods	1,515	1,281
5,782	5,782	5,356

At March 31, 2009 the Company netted a provision of \$0.6 million [\$0.6 million - December 2008] against inventories.

4. OTHER ASSETS

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

5. BANK INDEBTEDNESS AND LONG-TERM DEBT

Bank Indebtedness

On March 24, 2009, the Company entered into a new three year, \$10 million asset based lending ["ABL"] revolving credit line with Wells Fargo Canada to be used for day-to-day working capital and other expenditures. The covenants for this new facility include a requirement for the Company to achieve 75% of its forecasted "EBITDA" [earnings before interest, taxes, depreciation and amortization and foreign exchange gains or losses] on a quarterly basis as well as comply with certain administrative requirements. The amount of funding available under this line is based on 82% of eligible accounts receivable. The loan bears interest at prime plus 2.25% [currently 4.75% for US dollar line of credit and 5.5% for Canadian dollar line of credit], payable monthly. The initial proceeds from the Wells Fargo Canada loan were used to fully repay the outstanding Bank of Montreal loans and the new revolving credit line with Wells Fargo Canada will replace the Bank of Montreal's revolving credit facility.

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At March 31, 2009 there were \$3.2 million in funds advanced [\$3.6 million – December 31, 2008] and no letters of credit had been issued against the revolving credit facility [nil – December 31, 2008]. Fund availability under the credit facility 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 the bank to cover liabilities which take precedent. Fund availability at March 31, 2009 was \$4.7 million in addition to the \$3.2 million already borrowed.

As part of the credit facility Wells Fargo Canada 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.

Long Term Debt

In January 2009, the Company received two advances from The Business Development Bank of Canada ("BDC") related to a financing agreement completed in 2008. The first advance was \$0.7 million against a \$3.0 million facility for infrastructure for the Sheppard facility of which \$2.0 million had been previously advanced in 2008. The second advance was US\$0.6 million [\$0.7 million] against a US\$3.0 million [\$3.8 million] facility for equipment of which US\$1.6 million [\$2.0 million] was previously advanced in 2008. In March 2009, the Company received \$0.3 million, its final advance against the \$3.0 million infrastructure facility.

Both BDC 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. Both loans will be collateralized by the Sheppard land and building, and included the requirement for the guarantee of 25% of the loan balance by Coretec Holdings Inc, a wholly owned subsidiary.

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:

	March 31, 2009	December 31, 2008
	\$	\$
BDC - original loan	1,517	1,656
BDC - equipment loan	2,505	1,780
GE Capital mortgage	1,727	1,676
BDC - infrastructure loan	5,176	4,255
BDC - building loan	603	653
Zions Bank	1,976	1,916
Capital leases	440	623
Deferred finance charges	(307)	(292)
	<hr/> 13,637	<hr/> 12,267
Less current portion	(1,933)	(2,077)
	<hr/> 11,704	<hr/> 10,190

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[tabular amounts in thousands except share amounts]

6. SHARE CAPITAL

Authorized

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

Issued and outstanding

	March 31, 2009		December 31, 2008	
	Number of Shares	Cost of Shares \$	Number of Shares	Cost of 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 March 31, 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 March 31, 2009 was \$104,190. The shares pledged as collateral for these advances had a fair market value of \$5,475 at March 31, 2009.

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 March 31, 2009, there were 1,139,000 [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.

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The following is a share option continuity schedule for the quarter ended March 31, 2009 as compared to the year ended December 31, 2008.

	March 31, 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	—	—	—	—
Expired	—	—	(258,334)	1.35
Outstanding, end of period	1,139,000	0.94	1,139,000	0.94
Exercisable, end of the period	512,325	1.32	495,657	1.33

Stock based compensation

For the quarter ended March 31, 2009, the Company recognized stock based compensation expense of \$26,000. [\$23,000 – March 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 current quarter 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 first quarter of 2009 no common shares were purchased by the LTIP Trust. The Company has recorded a compensation expense of \$11,000 [\$18,000 – March 2008] representing the vesting of shares during the period.

Normal course issuer bid [“NCIB”]

During 2008, the Company established a normal course issuer bid repurchase program and repurchased 621,079 of its common shares at a cost of \$93,000. In January 2009, the Company has established a NCIB to repurchase up to a further 900,000 of its outstanding common shares which expires on January 14, 2010.

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7. 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 March 31	
	2009	2008
	\$	\$
Basic loss per share:		
Loss	(931)	(1,049)
Weighted average number of common shares outstanding	18,021,807	18,642,886
Basic loss per share	(\$0.05)	(\$0.06)
Diluted loss per share:		
Loss	(931)	(1,049)
Weighted average number of common shares outstanding	18,021,807	18,642,886
Adjusted weighted average number of common shares outstanding	18,021,807	18,642,886
Diluted loss per share	(\$0.05)	(\$0.06)

8. INTEREST AND OTHER EXPENSES

Interest and other expenses comprise the following:

	Three months ended March 31	
	2009	2008
	\$	\$
Interest expense and bank charges	201	208
Amortization of deferred finance charges	35	5
Interest Income – Vendor take-back mortgage	—	(13)
Total	236	200

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[tabular amounts in thousands except share amounts]

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial assets and liabilities are recorded and measured as follows:

Asset/Liability	Category	Measurement
Cash	Held –for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized costs
Income taxes recoverable	Loans and receivables	Amortized costs
Accounts payable and accrued liabilities	Other liabilities	Amortized costs
Bank indebtedness	Other liabilities	Amortized costs
Long-term debt	Other liabilities	Amortized costs

Other consolidated balance sheet accounts, such as inventories, prepaid expenses, other assets, property, plant and equipment are not within the scope of the new accounting standards as they are not financial instruments.

Embedded derivatives are required to be separated and measured at fair values if certain criteria are met. Embedded derivatives include elements of contracts whose cash flows move independently from the host contract. Management reviewed contracts and determined that the Company does not currently have any embedded derivatives in these contracts that require separate accounting and disclosure.

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 have been calculated and determined to be not materially different than their carrying values.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. During the quarter, the largest single customer comprised approximately 9.4% of sales [March 2008 - 6.9%]. At March 31, 2009, the largest single customer represented approximately 9.8% of trade receivables [March 2008 - 5.8%].

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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 while a substantial portion of its costs and expenses are denominated in Canadian dollars. Accordingly, to minimize currency exposure, the Company has historically converted a portion of its US dollar cash flows to Canadian dollars through forward contracts. As at March 31, 2009, the Company had entered into a forward foreign exchange contract to sell US\$0.5 million at June 2009 at an exchange rate of 1.0385. The fair value of the forward contract was a loss of \$0.1 million as at March 31, 2009 that has been included in loss and a corresponding liability included in accounts payable. Included in the foreign exchange loss of \$0.1 [March 2008 - nil] on the consolidated statements of operations and comprehensive loss is realized foreign exchange loss of approximately \$0.3 [March 2008 - gain of \$0.1] from forward exchange contracts that matured in the quarter.

At March 31, 2009, 83% [December 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. 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 financial statements of the Company may vary on consolidation into Canadian dollar ["translation exposures"].

The most significant transaction exposure arises in the Canadian operations. The consolidated balance sheets of the Canadian operations includes US dollar denominated debt. The Canadian operations are required to revalue the Canadian dollar equivalent of the US dollar denominated debt at each period end. In addition, approximately 81% of revenues of the Canadian operations and approximately 20% of its operation expenses are transacted in US dollars. As a result, the Company may experience transaction exposures because of volatility in the exchange rate between the Canadian and US dollar. The two US operations each have a US denominated mortgage.

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 March 31, 2009, \$10.0 million of the Company's total debt, is subject to movements in floating interest rates [December 2008 - \$10.3 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 counter party 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 regularly. 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 March 31, 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 accounts receivable. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

	March 2009	December 2008
	\$	\$
Gross accounts receivable	15,142	16,135
Accounts receivable over 90 days from invoice date	378	945
Allowance for doubtful accounts	(198)	(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 maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from committed credit facilities. As at March 31, 2009, the Company was holding cash and cash equivalents of \$0.7 million and had undrawn lines of credit available to it of \$4.7 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 except share amounts]

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

	March 31, 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	13,637	12,267
Equity per Financial Statements	26,584	27,449
Actual Ratio	0.51:1	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	22,215	23,179
Current liabilities as per Financial Statements	15,479	17,080
Actual Ratio	1.41:1	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	530	N/A
Minimum EBITDAFX – For current quarter	456	N/A

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[tabular amounts in thousands except share amounts]

10. 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	
	March 31	
	2009	2008
	\$	\$
Accounts receivable	2,330	(278)
Inventories	(114)	(331)
Prepaid expenses	150	(57)
Income taxes recoverable	—	—
Accounts payable and accrued liabilities	(2,183)	971
	183	305

11. 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	
	March 31	
	2009	2008
	\$	\$
Sales to customers in		
Canada	5,941	6,046
United States	13,544	11,399
Europe/Other	720	1,041
	20,205	18,486

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 March 31, 2009, total managed capital was \$43.1 million (December 31, 2008 - \$42.9 million) comprised of shareholders' equity of \$26.6 million (December 31, 2007 - \$27.5 million) and interest-bearing debt of \$16.5 million (December 31, 2008 - \$15.4 million). \$0.3 million of the long-term debt at March 31, 2009 (December 31, 2008 - \$0.5 million) is non-interest bearing and is therefore not included in the calculation of interest-bearing debt.

The Company manages its capital structure in a manner to ensure that it stays within its various financing covenants and to ensure that it has adequate resources to meet its financial needs.

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12. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 financial statements.