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CORETEC INC.

Consolidated Financial Statements

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

TO THE SHAREHOLDERS OF CORETEC INC.

The consolidated balance sheet of Coretec Inc. as at September 30, 2009, and the consolidated statements of operations and cumulative loss, and cash flows for the three and nine 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]

	September 30, 2009	December 31, 2008
	\$	\$
ASSETS		
Current		
Cash	388	1,130
Restricted cash [note 3]	-	397
Accounts receivable	10,782	15,538
Inventories [note 4]	4,807	5,356
Prepaid expenses	457	576
Income taxes recoverable	289	182
Total current assets	16,723	23,179
Property, plant and equipment, net	30,893	32,122
Other assets [note 5]	70	147
TOTAL ASSETS	47,686	55,448
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Operating bank indebtedness	583	-
Revolving line of credit [note 6]	4,552	3,630
Accounts payable and accrued liabilities	7,894	11,882
Current portion of long-term debt [note 6]	1,422	2,077
Income taxes payable	260	219
Total current liabilities	14,711	17,808
Long-term debt [note 6]	10,725	10,190
Total liabilities	25,436	27,998
<i>Contingencies (note 15)</i>		
Shareholders' equity		
Share capital [note 7]	60,976	60,973
Share capital held by long-term incentive plan [note 7]	-	(11)
Contributed surplus [note 7]	870	821
Deficit	(39,596)	(34,333)
Total shareholders' equity	22,250	27,450
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	47,686	55,448

NOTE 1 NATURE OF OPERATIONS

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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Sales [note 12]	16,258	20,299	54,400	58,201
Cost of sales	14,972	17,861	49,940	51,484
Gross profit	1,286	2,438	4,460	6,717
Expenses				
Selling, general and administrative	2,772	2,925	8,247	8,019
Loss from operations, before the following:	(1,486)	(487)	(3,787)	(1,302)
Interest and other expenses, net [note 9]	281	145	805	512
Foreign exchange (gain) loss [note 10]	166	(58)	700	51
(Gain) loss on disposal of property, plant and equipment, net	13	(42)	(145)	(52)
Loss before income taxes	(1,946)	(532)	(5,147)	(1,813)
Income taxes	63	-	116	5
Net loss for the period	(2,009)	(532)	(5,263)	(1,818)
Cumulative loss, beginning of period	(37,587)	(33,304)	(34,333)	(32,018)
Cumulative loss, end of period	(39,596)	(33,836)	(39,596)	(33,836)
Loss per share [note 8]				
Net loss per share, basic and diluted	(\$0.11)	(\$0.03)	(\$0.29)	(\$0.10)

See accompanying notes to consolidated financial statements

Coretec Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands - unaudited]

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(2,009)	(532)	(5,263)	(1,818)
Non-cash items				
Depreciation and amortization	1,041	1,039	3,222	3,274
Stock-based compensation [note 7]	25	29	49	44
(Gain) loss on disposal of property, plant and equipment	13	(42)	(145)	(52)
Long-term incentive plan compensation [note 7]	-	18	11	71
Amortization of deferred finance charges	16	21	93	61
	(914)	533	(2,033)	1,580
Change in restricted cash [note 3]	110	-	397	-
Net change in non-cash working capital balances related to operations [note 11]	969	153	1,258	(138)
Cash provided (used) by operating activities	165	686	(378)	1,442
FINANCING ACTIVITIES				
Increase in long-term debt	832	3,690	2,548	3,690
Repayment of long-term debt	(484)	(629)	(1,760)	(1,134)
Deferred finance fees	-	-	(341)	-
Proceeds on share capital	3	-	3	-
Increase in other liabilities	-	(674)	-	-
Increase (decrease) in line of credit	(196)	(2,678)	922	(2,735)
Cash provided (used) by financing activities	155	(291)	1,372	(179)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(325)	(363)	(1,993)	(4,298)
Decrease in short term deposit	-	-	-	1,050
Proceeds on disposal of property, plant and equipment	(13)	-	145	-
(Increase) decrease in other assets	50	(49)	77	325
Cash used in investing activities	(288)	(412)	(1,771)	(2,923)
Foreign exchange effect on cash	29	(199)	35	144
Net increase (decrease) in cash during the period	61	(216)	(742)	(1,516)
Cash, beginning of period	327	529	1,130	1,829
Cash, end of period	388	313	388	313
Supplemental cash flow information				
Income taxes paid	30	-	48	-
Interest paid	280	150	700	364

See accompanying notes to consolidated financial statements

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30,
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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 as compared to the prior year. In the three months ended September 30, 2009 the Company and the industry as a whole began to see some improvement in bookings and shipments. The Company has experienced eleven 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 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 cash flow and to comply with the covenants and other requirements of its lending institutions.

The restructuring plan resulted in a charge for severance expense of \$577 during the third quarter of 2009 and as at September 30, 2009 the Company has \$581 accrued for severance costs. The Company continues to analyze its staffing levels and believes additional redundancies are likely over the remainder of 2009.

At September 30, 2009 the Company was in default on the working capital covenant for its term debt with Business Development Bank of Canada ("BDC"). The Company received a waiver from BDC on November 9, 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.

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

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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 no significant impact on the Company's financial statements.

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

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.

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3. RESTRICTED CASH

As at September 30, 2009 the Company has \$nil restricted cash [\$0.4 million – December 31, 2008]. The 2009 balance represented 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 December 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:

	September 30, 2009	December 31, 2008
	\$	\$
Raw materials	1,868	2,232
Work-in-process	1,432	1,843
Finished goods	1,507	1,281
	4,807	5,356

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

5. OTHER ASSETS

	September 30, 2009	December 31, 2008
	\$	\$
Deferred financing charges, net	—	15
Deposits on machinery and equipment	70	132
	70	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 Zion's Bank. The covenants for this facility include a requirement for the Company to achieve "EBITDA" targets [earnings before interest, taxes, depreciation and amortization] on a quarterly basis, net income targets on a monthly 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 revolver loan currently bears interest at the

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Canadian Prime Rate plus 5.25% [currently 7.50%], 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.

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 EBITDA and Net Income covenants to reflect the Company's reforecast for 2009

At September 30, 2009 there was \$4.6 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 September 30, 2009 was \$1.9 million (in addition to 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 [\$3.2 million CAD] for equipment. In August 2009, the Company made an additional draw of US\$0.8 million [\$0.8 million CAD] and the final draw of US\$0.1 million [\$0.1 million CAD] was made in October 2009.

The 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 September 30, 2009 the Company was in default of the working capital ratio, for which it received a waiver from BDC on November 9, 2009.

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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:

	September 30 2009	December 31, 2008
	\$	\$
BDC	1,239	1,656
BDC - equipment loan	2,704	1,780
GE Capital mortgage	1,455	1,676
BDC - infrastructure loan	5,043	4,255
BDC - building loan	503	653
Zions Bank	1,666	1,916
Capital leases	79	623
Deferred finance charges	(542)	(292)
	12,147	12,267
Less current portion	(1,422)	(2,077)
	10,725	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

	September 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	—	(101)	—	(104)
Closing balance	18,021,807	60,976	18,021,807	60,973

The advance to shareholder at September 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 September 30, 2009 was \$101. The shares pledged as collateral for these advances had a fair market value of \$2 (27,000 shares) at September 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 September 30, 2009, there were 1,382,500 [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 nine months ended September 30, 2009 as compared to the year ended December 31, 2008.

	September 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	550,000	0.13	400,000	0.31
Exercised	—	—	—	—
Forfeited	(220,000)	1.02	—	—
Expired	(86,500)	2.40	(258,334)	1.35
Outstanding, end of period	1,382,500	0.52	1,139,000	0.94
Exercisable, end of the period	515,825	0.91	495,657	1.33

Stock based compensation

For the three and nine months ended September 30, 2009, the Company recognized stock based compensation expense of \$25 and \$49, respectively [\$29 and \$44 for the three and nine month period ended September 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 nine month period ended September 30, 2009 550,000 [400,000 – 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).

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During the three and nine month period ended September 30, 2009 no common shares were purchased by the LTIP Trust. During the three and nine month period ended September 30, 2009 the Company recorded compensation expense for LTIP shares of \$nil and \$11, respectively [\$18 and \$71 for the three and nine month period ended September 30, 2008, respectively] the vesting of shares during the period.

Normal course issuer bid [“NCIB”]

During 2008, the Company established a NCIB and repurchased 621,079 of its common shares at a cost of \$93. 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 nine 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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Basic and diluted loss per share:				
Loss	(2,009)	(532)	(5,263)	(1,818)
Weighted average number of common shares outstanding	18,021,807	18,642,886	18,021,807	18,642,886
Basic loss per share	(\$0.11)	(\$0.03)	(\$0.29)	(\$0.10)

9. INTEREST AND OTHER EXPENSES

Interest and other expenses comprise the following:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Interest expense (net)	265	124	712	451
Amortization of deferred finance charges	16	21	93	61
	281	145	805	512

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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 September 30, 2009, the largest single customer comprised approximately 6.7% of sales [2008 - 6.9%]. At September 30, 2009, the largest single customer represented approximately 5.6% 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 September 30, 2009 the notional amount of FX contracts totaled US\$1.3 million (purchases of Canadian dollars) with a fair value of \$26.

At September 30, 2009, 86% [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 September 30, 2009, \$14.0 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 September 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.

	September 30, 2009	December 31, 2008
	\$	\$
Gross accounts receivable	10,908	16,135
Accounts receivable over 90 days from invoice date	510	945
Allowance for doubtful accounts	(126)	(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 September 30, 2009, the Company was holding unrestricted cash and cash equivalents of \$0.4 million and had undrawn lines of credit available to it of \$1.9 million and operating bank indebtedness of \$0.6 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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As at September 30, 2009 and December 31, 2008 the above capital management criteria are illustrated as follows (amounts in \$000's, except for ratios)

	September 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	12,147	12,267
Equity per Financial Statements	22,250	27,450
Actual Ratio	0.55:1	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	16,723	23,179
Current liabilities as per Financial Statements	14,711	17,808
Actual Ratio (waived at September 30, 2009)	1.14:1	1.30:1
Minimum working capital ratio	1.20:1	1.20:1
Wells Fargo Canada Covenants		
Minimum EBITDA loss of \$700 for current quarter [a non-GAAP measure]		
EBITDA loss – For current quarter (July 2009 – September 2009)	624	N/A
Maximum net loss for current quarter of \$2,577		
Aggregate maximum stop loss for current quarter (July 2009 - September 2009)	2,009	N/A
Maximum capital expenditures of \$4.4 million for 2009		
Total capital expended	1,993	N/A
Maximum expenditure allowed	4,400	N/A

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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Accounts receivable	630	145	3,774	(826)
Inventories	725	(51)	283	(854)
Prepaid expenses	(112)	(333)	105	(37)

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Income taxes (net)	(76)	—	(42)	—
Accounts payable, accrued liabilities and operating bank indebtedness	(198)	392	(2,862)	1,579
	969	153	1,258	(138)

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 September 30,		Nine months ended September 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Sales to customers in				
Canada	4,885	6,798	16,397	18,914
United States	10,662	12,801	35,801	36,871
Europe/Other	711	700	2,202	2,416
	16,258	20,299	54,400	58,201

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 September 30, 2009, total managed capital was \$39.0 million (December 31, 2008 - \$43.3 million) comprised of shareholders' equity of \$22.3 million (December 31, 2008 - \$27.5 million) and interest-bearing debt of \$16.7 million (December 31, 2008 - \$15.8 million).

14. COMPARATIVE FINANCIAL STATEMENTS

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

The cash flow statement for the three months ended September 30, 2009 reflects reclassifications recorded as at June 30, 2009 between cash, operating bank indebtedness and revolver line of credit.

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.

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30,
2009**
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[Dollar amounts in thousands of Canadian dollars unless otherwise indicated, tabular amounts in thousands of Canadian dollars except per share amounts]

16. SUBSEQUENT EVENTS

DDi Offer

On Monday October 26, 2009, DDi Corp. announced a proposal to acquire all outstanding shares of Coretec for approximately \$3.4 million in cash or stock and assumption of Coretec's debt.

Long-term debt and revolving line of credit

At September 30, 2009 the Company was in default on the working capital covenant for its term debt with Business Development Bank of Canada ("BDC"). The Company received a waiver from BDC on this default on November 9, 2009.

Private Placement

On October 22, 2009 the Company announced that it is proposing to complete a non-brokered private placement of up to 1,000 units of the Company, each Unit consisting of one convertible debenture of the Company in the principal amount of \$1 and 10,000 common share purchase warrants of the Company constituting, in aggregate, \$1,000 principal amount of Convertible Debentures and 10,000,000 Warrants, with the proceeds thereof to be used for general working capital purposes.

The Convertible Debentures will mature on the date that is three years following the closing date of the Private Placement. The rate of interest per annum payable on the outstanding Convertible Debentures will be 12.00% from the date of issue, payable semi-annually in arrears. The Company will satisfy the interest payments, in cash, or half (6.00%) in cash and half (6.00%) in common shares of the Company, where the share price will be based on the weighted average trading price for the 5 trading days prior to the date any such interest becomes due and payable, on December 31 and June 30 of each year, commencing December 31, 2009. The December 31, 2009 interest payment will represent accrued interest for the period from the Closing Date to but excluding December 31, 2009.

The Convertible Debentures will be convertible at the holder's option into common shares of the Company at any time prior to the Maturity Date, at a conversion price of \$0.10 per Common Share, being at a rate of 10,000 Common Shares per \$1 principal amount of Convertible Debentures, subject to standard anti-dilution provisions.

Each Warrant shall be exercisable for one Common Share at a price of \$0.13 per Common Share at any time prior to 5:00 p.m. (Toronto time) on the date that is three years following the Closing Date; Pursuant to the Private Placement, up to an aggregate of: (i) 10,000,000 Common Shares are issuable upon conversion of the Convertible Debentures; (ii) 6,000,000 Common Shares are issuable to satisfy future interest payments on the Convertible Debentures; and (iii) 10,000,000 Common Shares are issuable upon exercise of the Warrants, representing approximately 144% of the issued and outstanding common shares of the Company, on a non-diluted basis, prior to issuance. A total of 18,021,807 Common Shares are currently issued and outstanding.

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30,
2009
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL
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[Dollar amounts in thousands of Canadian dollars unless otherwise indicated, tabular amounts in thousands of Canadian dollars except per share amounts]

The Private Placement is subject to the approval of the Toronto Stock Exchange and since the Private Placement will: (i) provide for the issuance to insiders of the Company of greater than 10% of the number of outstanding Common Shares; (ii) be deemed under the rules of the TSX to materially affect control of the Company; and (iii) provide for the issuance of greater than 25% of the currently outstanding Common Shares, the rules of the TSX require that the Company obtain approval of the Private Placement from the holders of a majority of the Common Shares, excluding the votes attached to the Common Shares held by the insiders of the Company who are subscribing to the Private Placement and their associates and affiliates. Such approval may be obtained in writing from shareholders without the requirement to convene a shareholders meeting for such purposes. However, the rules of the TSX also allow for exemptions to the shareholder approval requirement in certain circumstances.

As a result of Coretec's review of recently received proposals from third parties with respect to a possible sale of Coretec, Coretec requested from the TSX, and obtained, an extension to the closing date of its previously announced private placement of debentures and warrants to November 30, 2009.