



Coretec Announces Improved Fourth Quarter, Year-End 2003 Results and the Completion of its Equity Purchase of Proto Circuit Inc.

***Highest quarterly free cash flow in over 3 years
Quarterly revenues reach highest level in 11 quarters***

Toronto, Ontario, March 4, 2004 - Coretec Inc. (TSX: CYY) today reported its financial results for the fourth quarter and the year ended December 31, 2003. The fourth quarter results demonstrate another quarter of improved revenue growth and free cash flow for the Company.

In the quarter ended December 31, 2003, Coretec achieved its highest revenue level in almost three years as conditions in the printed circuit board (PCB) industry improved. The Company reported sales of \$19.5 million, representing a five percent increase over the same period in 2002, and, sequentially, an increase of 11 percent compared to the third quarter of 2003. Earnings before interest, taxes, depreciation and amortization (EBITDA) improved during the quarter to \$1.7 million versus \$0.2 million for the same period in 2002, and \$1.5 million in the third quarter of 2003. Net loss for the quarter was reduced to \$0.2 million (\$0.01 per share) compared to a net loss of \$8.3 million (\$0.44 per share) for the same period in 2002, and a net loss of \$0.5 million in the third quarter of 2003.

During the fourth quarter, free cash flow (defined as net income plus depreciation and amortization less capital expenditures) increased to \$1.3 million, its highest level in over three years, compared to \$0.9 million in the third quarter of 2003.

For the twelve-month period ended December 31, 2003, the Company reported increased sales of \$73.5 million versus \$69.5 million for the same period in 2002. EBITDA for the period improved to \$2.8 million compared to a negative EBITDA of \$2.3 million in 2002. Net loss for the year was \$5.1 million (\$0.27 per share) versus a net loss of \$16.6 million (\$0.90 per share) in 2002.

Coretec achieved year-over-year sales growth in 2003 for the first time in three years, despite the appreciation of the Canadian dollar versus the U.S. dollar. Approximately 60% of the Company's consolidated revenues are US dollar denominated. Furthermore, the Company increased 2003 sales despite an estimated 17% decrease in North American PCB shipments as reported by IPC, an industry association.

Market conditions improved measurably as the IPC Book-to-Bill ratio was above parity (1.0) for 10 out of 12 months in 2003 and showed a marked acceleration in the second half of the year, reaching a high of 1.18 in October. Industry lead-times stretched to 24 days by December 2003, the longest since 2000 and industry capacity utilization, as estimated by industry analysts Henderson Ventures, reached its highest level since 2000, at 85% in December 2003.



“Although our industry likely benefited from seasonal factors and some inventory building in Q3 and Q4 of 2003, we believe that the industry is now entering a period of stability and renewed growth. We further believe that favourable market dynamics are

unfolding for companies such as Coretec, who are focused on the prototype and quick turn segments. As lead-times extend and capacity becomes constrained, pricing power and demand for rapid response services typically accelerate. Indications are that this trend is beginning to play out across all end markets and in all regions,” said Paul Langston, Coretec’s President and Chief Executive Officer.

In response to the steadily improving market conditions, Coretec has executed on several key strategic initiatives in order to improve its competitive position. They include:

- a meaningful physical capacity and product line expansion through the acquisition of Proto Circuit Inc. of Ohio.
- growth in off-shore PCB outsourcing, where Coretec acts as a broker and project manager for its clients on high volume requirements. Approximately one third of the sequential increase in revenue in the fourth quarter of 2003, or 7% of sales, relates to the Company’s buying and reselling of products manufacturing by its off-shore partners.
- strong positive free cash, which has now been achieved in both the third and fourth quarters of 2003 through a combination of sales expansion and ongoing cost controls, such cash flows helping to reduce long-term debt and notes payable by \$3.2 million in 2003.
- continuing investments in systems and advanced equipment at each of the Company’s facilities in order to expand capacity and capability.

“We believe these activities will be key to our ability to continue to gain market share in the future. At present we have approximately \$3.5 million of advanced equipment in storage that we intend to deploy in 2004. As a result, we believe our capital expenditure requirements can be sustained at or below 4% of sales in 2004 and 2005 and still provide us with the advanced technology capabilities required in the marketplace,” continued Mr. Langston.

Coretec today also announced it has completed the equity purchase of Proto Circuit Inc., a manufacturer of rigid-flex and rigid PCBs for the defense and aerospace sector. Proto Circuit’s 40,000 square foot facility is located outside of Cleveland, Ohio. The Company had previously announced the purchase of Proto Circuit’s senior debt on February 3 of this year. The total cash cost of the transaction is approximately US\$3.5 million, which has been financed to date through the Company’s existing cash resources and revolving bank facility. The Company has received preliminary approval from its bank to provide an additional US\$3.4 million of term debt, subject to the finalization of documentation, which is expected to be completed before the end of the first quarter.

Coretec Inc.

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Coretec is one of the leading designers and fabricators of printed circuit boards for the prototype and quick turnaround production segments of the North American and European markets. Coretec distinguishes itself from its competitors by providing

complete printed circuit board solutions, including design, advanced prototyping and quick turnaround production across an outstanding range of product technologies.

This news release may include statements about future expectations, plans and prospects that may constitute forward-looking statements. 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 growth and expansion; 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 listed in Coretec's

public disclosure documents and other filings with securities regulatory authorities found at www.sedar.com.

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Coretec Inc.

CONSOLIDATED BALANCE SHEETS
[in thousands]

	December 31, 2003	December 31, 2002
	\$	\$
ASSETS		
Current		
Cash	1,342	4,196
Accounts receivable	12,148	11,840
Inventories	3,996	4,882
Income taxes recoverable	451	1,193
Prepaid expenses	1,099	1,066
Total current assets	19,036	23,177
Long-lived assets held for sale	5,146	—
Capital assets, net	26,441	37,269
Other assets	984	1,049
	51,607	61,495
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	863	177
Accounts payable and accrued liabilities	9,037	11,270
Current portion of long-term debt	1,155	1,029
Current portion of notes payable	—	1,900
Total current liabilities	11,055	14,376
Future income taxes	—	86
Long-term debt	5,349	6,600
Total liabilities	16,404	21,062
Commitments and contingencies		
Shareholders' equity		
Share capital	60,979	61,155
Contributed surplus	56	—
Deficit	(25,832)	(20,722)
Total shareholders' equity	35,203	40,433
	51,607	61,495

Coretec Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

[in thousands]

	<i>[unaudited]</i>		Year ended	
	Three months ended		December 31	
	December 31	December 31	2003	2002
	2003	2002	2003	2002
	\$	\$	\$	\$
Sales	19,472	18,586	73,466	69,497
Cost of sales	14,915	15,081	57,041	57,572
Gross profit	4,557	3,505	16,425	11,925
Expenses				
Selling, general and administrative	2,822	3,319	12,443	14,445
Depreciation and amortization	1,764	1,786	7,158	7,684
Impairment of capital assets	—	6,319	—	8,146
Restructuring charges	—	—	531	—
	4,586	11,424	20,132	30,275
Loss from operations	(29)	(7,919)	(3,707)	(18,350)
Interest and other expenses	167	304	744	594
Foreign exchange (gain) loss	20	29	685	(203)
Loss before income taxes	(216)	(8,252)	(5,136)	(18,741)
Recovery of income taxes	(26)	—	(26)	(2,146)
Loss for the period	(190)	(8,252)	(5,110)	(16,595)
Loss per share				
Basic and Diluted	\$(0.01)	\$(0.44)	\$(0.27)	\$(0.90)

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CONSOLIDATED STATEMENTS OF DEFICITS
[in thousands]

	Year ended December 31	
	2003	2002
	\$	\$
Deficit, beginning of period	(20,722)	(4,127)
Loss for the period	(5,110)	(16,595)
Deficit, end of period	(25,832)	(20,722)

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CONSOLIDATED STATEMENTS OF CASH FLOWS
[in thousands]

	<i>[unaudited]</i> Three months ended December 31		Year ended December 31	
	2003	2002	2003	2002
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss for the period	(190)	(8,252)	(5,110)	(16,595)
Non-cash items				
Depreciation and amortization	1,764	1,786	7,158	7,684
Stock-based compensation	39		56	—
Unrealized foreign exchange (gain) loss	29	(117)	970	(232)
Impairment of capital assets	—	6,319	—	8,146
Amortization of deferred finance charge	21	6	88	73
Future income taxes	—	(19)	(86)	(1,179)
Loss on disposal of capital asset	—	—	—	130
	1,663	(277)	3,076	(1,973)
Net change in non-cash working capital balances related to operations	893	140	804	1,115
Cash provided by (used in) operating activities	2,556	(137)	3,880	(858)
FINANCING ACTIVITIES				
Increase of long-term debt	—	3,000	—	8,000
Repayments of long-term debt	(289)	(157)	(1,125)	(371)
Repayment of notes payable	(1,900)		(1,900)	—
Increase (decrease) in bank indebtedness	390	(83)	686	(5,699)
Proceeds of shares issued, net of share issue costs	—	—	—	7,892
Cash provided by (used in) financing activities	(1,799)	2,760	(2,339)	9,822

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INVESTING ACTIVITIES

Purchase of capital assets	(345)	(2,442)	(3,995)	(5,947)
Proceeds on disposal of capital asset	—	—	—	130
Decrease (Increase) in other assets	(11)	1,508	(199)	380
Cash used in investing activities	(356)	(934)	(4,194)	(5,437)
Effect of exchange rate changes on cash	(136)	(3)	(201)	6
Net increase (decrease) in cash during the period	265	1,686	(2,854)	3,533
Cash, beginning of period	1,077	2,510	4,196	663

Cash, end of period	1,342	4,196	1,342	4,196
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Supplemental cash flow information

Interest paid	249	263	730	492
Income taxes paid	144	—	144	111
Capital asset purchases included in accounts payable and accrued liabilities	—	—	—	698

Coretec Inc.**Selected financial information
(000's)**

	<u>Q4/03</u>	<u>Q4/02</u>	<u>Q3/03</u>	<u>2003</u>	<u>2002</u>
Reconciliation of EBITDA*					
Loss for the period	(190)	(8,252)	(548)	(5,110)	(16,595)
Add/(Deduct):					
Interest	167	304	209	744	594
Depreciation and amortization	1,764	1,786	1,796	7,158	7,684
Impairment of capital assets	-	6,319	-	-	8,146
Income taxes recovered	(26)	-	-	(26)	(2,146)
EBITDA for the period	1,715	157	1,457	2,766	(2,317)
	<u>Q4/03</u>	<u>Q4/02</u>	<u>Q3/03</u>	<u>2003</u>	<u>2002</u>
Reconciliation of Free cash flow*					
Loss for the period	(190)	(8,252)	(548)	(5,110)	(16,595)

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Add:					
Depreciation and amortization	1,764	1,786	1,796	7,158	7,684
Amortization of deferred finance charges	21	6	22	88	73
Impairment of capital assets	-	6,319	-	-	8,146
	1,595	(141)	1,270	2,136	(692)
Deduct:					
Capital expenditures	(345)	(2,442)	(321)	(3,995)	(5,947)
Free cash flow for the period	1,250	(2,583)	949	(1,859)	(6,639)

**EBITDA and free cash flow are not measures recognized under Canadian generally accepted accounting principles ("GAAP"). EBITDA is calculated as earnings before interest and certain other expenses, provision for income taxes, depreciation and amortization and impairment of capital assets. Free cash flow is calculated as net income plus depreciation and amortization and impairment of capital assets less capital expenditures. Management believe that many of the Company's shareholders, creditors, other stakeholders and analysts prefer to assess the Company's performance using EBITDA and free cash flow in addition to the GAAP measures. The Company's method of calculating EBITDA and free cash flow may differ from other companies and accordingly may not be comparable to measures used by other companies.*