COREТEC
how far, how fast?

Coretec Inc.
2005 First Quarter Results
Conference Call

May 5, 2005

Paul Langston

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

I'd like to thank you for joining us to discuss Coretec's first quarter 2005 results.

But first, I must caution you that this call 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 the effects of the slow-down in the general economy and the electronics and printed circuit board industries; customer order levels, product mix and inventory build-up; lower than expected or delayed sales; pricing and other competitive pressures in the industry; our ability to reduce costs; our ability to integrate past and any future acquisitions; and other risks listed in Coretec's filings with Canadian Securities regulators available at www.sedar.com.

Mark will begin our presentation by reviewing the first quarter financial results. Then I'll provide a snapshot of our business highlights in the quarter and describe the current conditions and outlook for our industry and Coretec specifically.

Mark Thornley

Thanks Paul.

Our continuing operations in the first quarter of 2005 were not profitable, with a loss of $0.05 per share. Earnings before interest, taxes, depreciation and amortization ("EBITDA") was $0.8 million and free cash flow negative $0.5 million, a decline of $1.3 million and $0.6 million respectively from the prior quarter.

In the first quarter of 2005 sales increased 5% to $19.4 million compared to $18.4 million in Q1 of 2004, although down sequentially 7% from the from Q4 of 2004. The increase in total sales for the 2005 period compared to the 2004 period is principally a result of three months of sales from the Coretec, Cleveland operation, which was not owned by the Company's until March of the comparable 2004 period, an increase in activity from the Company's Toronto operations as a result of market share gains made by the Company offset by a $0.5 million decline in offshore brokerage sales. The impact of the increased revenue from the Company's US customers was partially offset by a lower foreign exchange conversion rate for the Company's US denominated sales compared to the prior year period.

Sales by region were 63% to the US, 28% to Canada and 9% to Europe.

Revenue by end market in Q1 was:

	2005
EMS	44%
Military/aerospace	23%
Instrumentation	11%
Telecommunications	13%
Computer	9%
Total	100%

Ten largest customers accounted for 34% of sales in the first quarter of 2005.

Gross profit in the quarter was $4.1 million or 21% of sales, a 23% decrease from gross profit of $5.3 million, or 29% of sales, in the first quarter of 2004. The decrease in gross profit is principally a result of lower contribution from the Company's Denver and Cleveland operations. The Cleveland facility was purchased in March of 2004 and has incurred additional costs associated with increasing its workforce and ramping up production while the Denver operation has experienced additional costs associated with the transfer of product formerly produced by the Company's discontinued UK subsidiary and additional health benefit costs in the quarter.

SG&A expense in the quarter was $3.3 million, an increase of $0.5 million compared to $2.8 million in the prior year period. The increase was principally due to additional costs associated with marketing and sales initiatives as well as the inclusion of three months of expenses associated with the Cleveland operation compared to only one month in the 2004 comparable period. As a percentage of sales, SG&A increased to 17% of sales compared to 15% in the first quarter of 2004.

Depreciation and amortization was $1.5 million in the quarter compared to $1.6 million in the prior year period. The reduction in depreciation and amortization expense for the 2005 period was principally due to the assets that became fully depreciated in the period being greater than the additional depreciation from assets acquired in past 12-month period. The decline in depreciation expense was partially offset by three months of additional depreciation expense from the Cleveland operation compared to only one month in the prior year period.

Interest and other expenses in the 2005 were approximately unchanged at $0.2 million as average net debt balances were similar compared to the prior period.

There was no income tax recovery recorded in the first quarter of 2005 due to the "more likely than not" test with respect to the valuation of deferred tax assets not being met.

With respect to discontinued operations, we discontinued and subsequently liquidated our UK operations in late 2004 under the UK insolvency act. We received a payment of $1.4 million from the liquidation proceeds in the first quarter of 2005. Income from discontinued operations in the first quarter of 2005 of $0.1 million represents foreign exchange gains realized on the receipt of the note payable. There is a final payment of approximately $0.1 million expected before the end of the year.

Turning to capital additions:

Capital additions for continuing operations for the 2005 first quarter amounted to $1.2 million, compared to $0.3 million in 2004 comparable period. Capital additions in the first quarter of 2005 consisted principally of investments in advance technology drilling and innerlayer production equipment. At the end of the quarter, the Company had approximately $2.5 million of unused, fully paid for, advanced imaging and plating equipment not yet installed. To date, no depreciation has been taken on the equipment currently not in use, although it is our intention to install this equipment in future periods.

Turning to liquidity and capital resources:

At March 31, 2005, the Company’s principal source of liquidity included cash of $1.2 million, trade accounts receivable of $13.2 million, income taxes recoverable of $0.6 million and an unused portion of its operating line of credit of $5.1 million. Working capital was $6.2 million at March 31, 2005 compared to $6.5 million at December 31, 2004. Approximately $4.3 million of the Company’s loans under its asset-based bank facility become due November 15, 2005 and as such are recorded in current liabilities on the Company’s balance sheet. We are currently investigating re-financing options available with respect to the maturing credit facility.

Operating activities for the first quarter of 2005 used cash of $0.6 million compared to cash provided of $1.9 million in the prior year period. In the 2005 period, income from continuing operations adjusted for non-cash items provided cash of $1.0 million, a $1.5 million decrease compared to $2.6 million in the prior year period. Cash used by working capital changes in the 2005 period was $1.6 million compared to cash used by working capital changes of $0.7 million in the prior year period. Cash used by changes in non-cash working capital in the first quarter of 2005 is principally a result of a decrease in accounts payable and accrued liabilities of $2.0 million and an increase in inventory of $0.4 million offset by a decrease in accounts receivable of $0.7 million.

Cash used in investing activities in the first quarter of 2005 amounted to $1.1 million, compared to cash used in investing activities of $4.5 million in the 2004 prior period. Cash used in the 2005 period principally represents investments in advance technology production equipment. The 2004 prior period amount includes the acquisition of Coretec, Cleveland.

Cash provided by financing activities amounted to $1.0 million in the first quarter of 2005 compared to cash provided of $3.4 million in 2004 prior period. The 2005 period includes advances from our bank line $1.3 million offset by repayments of long term debt of $0.3 million. Cash provided in the 2004 prior period includes proceeds of a US$3.4 million term loan recorded at an amount of CDN$4.5 million, offset by $1.1 million of principal repayments on long term debt.

Shares outstanding at the end of the year were 18.6 million. And with that I’ll hand it back to Paul.

Now I'll turn the call over to Paul.

Paul Langston

Thanks Mark.

Other major achievements in Q1 2005 are as follows;

- In Q1 2005 we experienced revenue growth of 5% versus Q1 2004 on an ongoing operations basis. This was achieved against a backdrop of compressing sales industry-wide and a significantly weakened US Dollar vs. Canadian Dollar exchange rate versus the year ago period;

- In Q1 2005 we achieved AS9100 certification (an avionics approval required by most flight contractors) at our Toronto plants;

- In Q1 2005 we made investments of $1.2 million in capital equipment including advanced drilling machines, AOI equipment and several chemical processing lines. Our total budget for the year is approximately $4 million;

- In Q1 2005 we continued the professional-ization of our sales organization with key account executive additions in the Northeast (Mr. Alan Fountaine, formerly of Sanmina) and California (Mr. Joey Placenti, a 30 year industry veteran);

- In Q1 2005 we initiated the implementation of 5S and Lean manufacturing at our Toronto operations as well as intensified our adoption of Integrated Process Management (IPM) through our program coined Project Worldclass;

- In Q1 2005 we phased in our automated engineering/job planning system (Engenix by Cimnet). This dramatically increases front end engineering capacity and reduces cycle to minutes from hours;

- In Q1 2005 we recruited and put up for nomination to our Board of Directors two outstanding candidates: Mr. Charlie Reid and Mr. Saleem Dedhar. Mr. Reid is formerly of Ernst and Young/Gemini Consulting. Charlie is a renowned expert in operational efficiencies and cycle time management. He will be a great assist with our pursuit of Lean. Mr. Dedhar is a leader in the area of environmental management. Formerly President of Jacques Whitford Ltd., one of the largest environmental consulting firms in Canada, Mr. Dedhar now runs his own consulting practise in Toronto. We look forward to their governance and guidance;

- And finally in Q1 we made significant strides with respect to systems implementation. We are particularly driving MRP, CRP and real time job costing in our Toronto operations.

With respect to the PCB marketplace in North America, Q1 2005 has seen the industry return to a book to bill over 1.0 for the first time in 5 months (February 1.04, March 1.04). In other words the industry has stabilized following a period of contraction since

Q2 2004. Industry statistics including the book to bill ratio are published by IPC, the industry association, at www.ipc.org.

On a year over basis however, industry shipments in North America were in negative growth territory for the entire first quarter. Year over year January was down 0.3%, February was off 3.2% and March was -9.0% versus March 2004. In fact industry consolidated shipments have not posted growth since October 2004 when a 3.3% increase year on year was achieved.

The industry contraction over the past 2-3 quarters has precipitated a new round of capacity rationalizations. The following announcements/restructurings have been made public:

- Tyco is scheduling the closure of their Texas facility
- Viasystems is closing their last North American operations (in Montreal) effective June 2005, affected 800 jobs;
- Photocircuits is closing their Peachtree, Georgia facility, laying off 600 people;
- Electropac has shuttered their Montreal operations
- Proto Engineering (San Jose, CA) has been liquidated;
- Noble Industries (Iowa) closed the last of their facilities in March 2005 after 30+ years of operation;
- DDi is closing two of its North American facilities after closing its UK businesses in Q4 2004;
- Matsushita Laminates will be ceasing operations at their Elk Grove facility, their only US laminate production site;
- and finally rumours are swirling about further rationalizations amongst several more of the industry's largest players;

It has been projected by a number of industry analysts, that a significant thinning out will occur in the industry as a limited number of consolidators exercise their strategies and many small operations succumb to technology irrelevance, financial exhaustion or business departures as a result of the ongoing outsourcing dynamic and offshore competition.

The industry's capacity has now been reduced by an estimated >50% versus 2000 when the consolidated output was projected as US$12 Billion. Worthy to note is the fact that most of the capacity that has been removed since 2001 has been technically capable, professional and advanced certifications/major OEM approval oriented. In other words, the industry has not only compressed but its very structure has changed. The industry today is far more fragmented than ever before and is now dominated by small regional operations. According to Dr. H. Nakahara, of NT Information Ltd., in 2000 the top 30 facilities in North America accounted for approximately 2/3 of all domestic PCB production. By 2004 this had declined to less than 50%.

We believe that a vacuum is beginning to take shape for those sectors or customers that require relevant North American PCB supply. Many of the global, more capable PCB fabricators are investing their dollars and efforts into the Fareast and downsizing or exiting their North American manufacturing footprints. We are regularly hearing talk of risk mitigation strategy with respect to the PCB supply chain amongst the larger OEMs and CEMs. Hence it is our belief that significant chunks of business will be made available to the remaining major PCB suppliers with scale, a facility network, technology capability and balance sheet horsepower in order to mitigate this risk. This is THE emerging and significant opportunity in our industry in North America. We believe that Coretec is ideally situated to benefit from this dynamic.

It is becoming increasingly clear that TIME is the only real differentiator for domestic producers. Fareast operators are able to build a myriad of technologies including leading edge interconnects and are of course able to produce at significantly lower cost than North American or European facilities. Domestic fabricators will be favoured by customers with IP concerns but for the most part new product launches (i.e. prototypes and quick turn production) as well as high mix low volume work will be the only defensible niches other than government regulated markets (defense/aero). Coretec addresses all of these key areas of viability and growth in the North American marketplace.

In Q1 we experienced a strengthening of demand for prototypes in particular at our Toronto operations. We feel that this is a direct result of our aggressive deployment of additional field engineering and sales personnel over the past year combined with our broad range of product expertise, industry leading advanced technology capability, exceptional value added services and compressed lead-times. We are committed to intensifying our focus on new product introductions as we believe that this arena is the most luxurious in terms of pricing power and resulting margins.

In Q1 as well as during the second half of 2004 we experienced softness in demand from the defence and aerospace end market. This sector has been one of the bright spots for the North American PCB industry since late 2001 but appears to undergoing a degree growth deceleration. In particular, we have noticed a decline in new product introduction activity in the sector during the past 6-9 months. We have however seen some very recent improvement in prototype and quick turn demand from defence and aerospace contractors. We remain steadfast in our commitment to grow share in this key, protected market segment and are undertaking initiatives to be a preferred vendor for government programs.

During the past two quarters our revenues associated with buying and reselling PCBs made by strategic offshore partners has softened due to the general retrenchment being felt across the industry. It is however our expectation that this revenue stream will resume a growth trajectory for us for the balance of the year particularly as we refine our mix of offshore partners and bring additional focus to our value added service offering.

Our capital expansion plans in 2005 include the implementation of approximately $2.0 million worth of new equipment presently in storage and fully paid for. In Q1 we expended approximately $1.2 million on capital equipment. We will spend approximately a further $1.5 million corporately on key pieces of equipment and systems over the balance of the year. As a result of our policy of ongoing investments in advanced machinery and IT we believe that we have enabled ourselves the opportunity to take further market share from competitors who have been unable, due to scale or for financial reasons, to similarly invest for the future.

At present, we are in the planning phase of our facility consolidation in Toronto. We intend to fulfill this mandate in a series of stages, the first of which involves the installation of all of our innerlayer, multilayer and drilling operations. This will allow us to decommission our Lawrence facility and free it up for sale. Total expenditures for this initial phase are estimated to be approximately $2 million and timing will be within the next 12-15 months.

With respect to the Lawrence facility sale process announced earlier this year, although the particular deal that was press released has not firmed up due to reasons associated with zoning and the adjacent properties, we are continuing to negotiate with that prospective purchaser as well as other interested parties. Our objective is to have this property sold within the next 12 months for book value or greater, i.e. $2 million.

Finally, I would like to briefly discuss our thoughts and activities for Q2 2005 and the balance of the year.

The US dollar's volatility over the past 12 months has made it very difficult for us to project with confidence our forward revenues. Coupled with the fact that we are just-in-time product builders, we have been and continue to be challenged to offer revenue or eps guidance. We can say that we are targeting ongoing year-over-year gains in quarterly revenues, as was achieved in Q1 2005 as well as throughout 2004. The fact that end market demand has stabilized in Q1 has us feeling optimistic about the remainder of the year, especially given our historical propensity to outpace the industry growth rate.

We believe that there are a number of dynamics at work within our industry that in the near term bode well for Coretec. The Restriction on Hazardous Substances legislation that is being adopted and activated this summer in Europe and California, and in particular the drive to Lead Free PCBs and assembly will, we believe create a significant amount of new product development across all end markets. In order to comply with these restrictions customers will need to redesign their interconnection products to accommodate a new wave of compliant components as well as reduce their reliance on leaded components, which will become increasingly difficult to procure. Coretec has made significant investments in regards to supporting the needs of our customer base during this major shift in the electronics industry. We have increased our capacity for prototypes and have ramped up our in-field engineering/consulting organization in order to deal with the expected surge in activity. We have also invested heavily in the administration and systems automation required to comply with the edict. We believe that many of our smaller competitors have not made the required investments or are ignorant of the ramifications of this restructuring of the electronics supply chain. As such we think that we will be able to gain meaningful market share by simply being a strategic resource to our customers.

The other major shift that is occurring in our industry relates to the departure of capacity to Asia, particularly amongst the larger PCB companies in North America, such as Viasystems, Photocircuits, Sanmina, Innovex, Parlex, etc. Many customers are unable or unwilling to rely solely on Asian supply and as such have a strategy that involves maintaining a certain degree of domestic supply. Accordingly, we have already benefited from some customer migrations occurring as a direct result of recent closure announcements. Given our scale and product offering we believe that Coretec will be a sought after PCB supply partner for displaced customers or those who are looking for security in their supply chain.

With respect to our strategy for growth we of course are focussed on increasing capacity utilization within our existing network of facilities. At present we have roughly $125 million of available capacity. Additionally we are continuing our investigations with respect to potential acquisitions in our target end markets and geographic regions. We would ideally like to be in a position to execute on a North American acquisition or merger within the year. We are convinced that Coretec can play a key consolidation role in our industry, which is ripe for and needing of consolidation.

At Coretec, we believe that our core operating pillars; technology, value added services and especially TIME, are becoming increasingly more relevant and will ultimately drive us to be one of the dominant players in the printed circuit board industry.

That wraps up our presentation. We thank you for your interest and attention. I would therefore like to 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 Monday, May 16, 2005 at 11:59 p.m. The phone number for the instant replay is 416-640-1917 or toll free 877-289-8525, the passcode is 21123328#.

As well, the text of our remarks will be posted on our website; www.coretec-inc.com.