C O R E T E C

how far, how fast?

Coretec Inc.
2006 First Quarter Results
Conference Call

May 16, 2006

Paul Langston

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

I'd like to thank you for joining us to discuss Coretec's 2006 first quarter 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; government regulations or trade restrictions that adversely affect revenues; 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.

Andre 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 outlook for Q2 for our industry and Coretec specifically.

Andre Kern

Financial results

Thanks Paul. Good Morning,

I will now walk you through Coretec Inc.'s 2006 first quarter financial statements for the 3 months ending March 31, 2006.

The balance sheet will be compared to our Decmber 31, 2005 year end numbers. The income statement and cash flow statements will be compared to the three months ending March 31, 2005.

Beginning with the balance sheet….

Cash declined to $589K as compared to $1.7M as at December 31, 2005. The cash decline resulted primarily from investments in capital expenditures of $1.4M and an increase in current assets.

With regards to the short-term deposit, during April 2006, all conditions associated with the Company's bank facility were satisfied, thereby removing any restrictions related to this term deposit of $1.05 million.

Accounts receivable increased to $16.4M as compared to $14.4M at the end of December. The increase is primarily attributable to the higher level of activity during this first quarter. Accounts receivable days sales outstanding improved to 62 days at the end of March 2006 as compared to 66 days at the end of the last quarter.

Inventory increased by $666K to $5M as compared to $4.3M as at December. The increase in inventory is also related to the higher level of activity during the quarter. Inventory turns declined to 14 times as compared to 15 times during Q4, 2005.

Total current assets increased to $24.4M as compared $23.1M at the end of December 2005.

Working capital increased to $9.6M at the end of March, as compared to $8.7M at December 31, 2005.

The mortgage receivable remains unchanged, and is not payable until 2007.

The value of property, plant and equipment remained at similar levels to those in December. Capital expenditures of $1.4M were offset by depreciation of $1.3. The Company wrote down fixed assets of $215K in Q1 2006. Certain pieces of equipment being stored for future use were deemed to be redundant with respect to the Company's market strategy and facility consolidation plans. These pieces were also determined to be non-saleable. As a result the Company wrote off the value of these items. The Company does not anticipate any further write offs associated with equipment held in storage, the value of which was $3.1 million as at March 31, 2006.

Bank indebtedness increased to $3.0M as compared to $2.6M at the end of December. The increase resulted primarily from investments in capital expenditures of $1.4M and an increase in current assets as described earlier.

Accounts payable and accrued liabilities increased marginally to $10.4M as compared to $10.3M at the end of December.

Long-term debt was reduced to $6.3M from $6.8M at the end of December.

The Company's long-term debt to equity ratio improved during the quarter to 0.2 to 1 as compared to 0.22 to 1.

Now moving to the income statement….

Sales for the first quarter ended March 31, 2006 were $24.1 million, representing a 24.6% increase as compared to the prior year period sales of $19.3 million. This was the highest quarterly sales recorded by the Company since 2001. The increase in total sales is principally a result of an increase in activity at all of the Company's sites as well as strong offshore brokerage sales whereby the Company buys and resells PCBs made by strategic partners in Asia. The gain in sales was partially offset by a lower foreign exchange conversion rate for the Company's US denominated sales compared to the prior year period.

Gross profit increased to $6.2M or 25.8% of sales as compared to $4.1M or 21.2% of sales during the first quarter of 2005. The increase in gross profit as a percentage of sales is principally a result of higher contribution from the Company's Toronto and Cleveland sites as well as increased contribution from its offshore brokerage sales.

Selling, general and administrative expense for the first quarter of 2006 increased over the prior year to $3.6M, which is 14.8% of sales as compared to $3.3M or 17.3% of sales during 2005.

Depreciation and amortization declined to $1.3M for Q1 2006 as compared to $1.5M in the prior year. The decline in depreciation reflects the fact that more assets have become fully depreciated.

Income from operations, before interest, foreign exchange and the write-down of fixed assets was $1.3M for the first quarter, as compared to a loss of $800K in the comparative prior year period.

Interest expense declined to $181K as compared to $248K in the prior year resulting from a lower level of debt in the current period.

The Company incurred a foreign exchange loss of $192K in Q1'06 as compared to a gain of $81K in the prior year. The foreign exchange gain and loss are principally the result of fluctuations in the Canadian dollar as compared to the U.S. dollar. The translation of the Company's US dollar denominated net monetary assets, including working capital, to the Canadian dollar value during the current reporting period resulted in a loss as the Canadian dollar lost some ground to the U.S. dollar.

During the first quarter of 2005, the Company recorded $126K of income from discontinued operations related to its UK operations. In comparison there was no such gain in the 2006 first quarter. All transactions related to the discontinued operations were finalized during 2005.

Net income for the quarter was $759K as compared to a loss of $816K in the prior year.

Finally, earnings per share were $0.04 in the current quarter as compared to a loss of $0.04 in the prior year.

Now moving to the statements of cash flows…

Cash provided by operating activities improved to $104K as compared to a use of cash of $564K in the prior year, resulting primarily from the improvement in net income.

Financing activities used $21K in the current period as compared to providing cash of $990K in the year earlier period. The difference relates primarily to the amount of bank indebtedness incurred by the Company during the comparable periods.

Cash used in investing activities increased to $1.2M in Q1'06 as compared to $1.1M during Q1'05 resulting primarily from a higher level of capital expenditure in the current year.

Shares outstanding at the end of the year were 18.6 million.

Now Paul will provide some further colour on our Q1 and talk to industry conditions.

Paul Langston

Q1 2006 highlights

Thanks Andre……………..

The highlights of our 2006 Q1 are as follows;

- We experienced revenue growth of 25% versus Q1 2005 despite the challenges associated with the appreciation of the Canadian dollar versus the US dollar. Approximately 80% of our revenues are denominated in US Dollars.

- Our revenues of $24.1 million represent the highest quarterly revenue level since 2001;

- Revenues contributed by our offshore brokerage business were very strong in the quarter at $2.5 million. Although we are pleased with the strategy that we have developed as relates to the buying and reselling of PCBs built by Asian partners, bookings tend to be lumpy and program specific. As such we expect offshore brokerage revenues to be more muted in Q2;

- we experienced our best shipping quarter at our Cleveland operations since the acquisition in 2004 and more importantly exceeded our ebitda plan;

- Geographic breakdown of revenue was 56% to the US, 39% to Canada and 5% to Europe and Asia. Comparatively in Q1 2005 revenues were 63% to the US, 28% to Canada and 9% to Europe and Asia;

- Q1 revenue by end market was once again well diversified with 55% EMS, 13% military/aerospace, 13% instruments, 12% Telecom and 7% Computer.

- In Q1 our top 10 customers accounted for 43% of sales with the largest customer representing around 6% of sales in the quarter. This concentration has been increasing over the past 12 months as we have deliberately mined our existing account base for additional share. In Q1 2005 it was 27%;

- Gross profit was 25.8% of sales;

- Continuing operations generated income of $1.3 million;

- We generated net income of $0.4 per share in the quarter inclusive of a $0.01 per share loss on equipment disposal and $0.01 per share foreign exchange loss;

- All operational sites were cash positive in the quarter with our Cleveland operation in particular being smartly ahead of plan;

- In Q1 we satisfied all conditions associated with our new credit facility with the Bank of Montreal under essentially the same terms as the prior facility. The next renewal date is November 2008;

- In Q1 we received notification that our 2002 Scientific Research and Experimental Development (SRED) filing was accepted as filed representing an unutilized Investment Tax Credit ("ITC") of approximately $0.6 million. We anticipate additional investment tax credits to be granted for the 2003 year as with 2004 which was just recently filed. Both filings are for claims in excess of $3 million which are expected to generate ITCs greater than $0.6 million for each year. We record research and development benefits on an "as cash is received" basis;

- Our capital expenditures during Q1 2006 amounted to $1.4 million. Significant investments were made on IT hardware and software, the purpose of which was to create redundancy, expand storage capacity and facilitate remote connectivity. Other major capital items were multiple Hitachi drilling machines, a second Hitachi laser for microvia generation; inkjet marking equipment and conveyorized chemical processing machinery. Additionally we upgraded the CAD platform at our design operation facilitating further harmonization with our target customer base;

- As of March 31, 2006 our financial foundation was sound. Our working capital ratio was 1.6:1 and our long term debt to equity ratio was 0.2:1.0;

- In April, our Toronto operations were successfully audited to the ISO14000-2004 standard. We are one of only a handful of companies in the industry in North America and the only Canadian fabricator so accredited. This speaks volumes about our commitment to environmental stewardship and leadership in our industry;

Turning to the industry

2005 proved to be a tale of two halves. Well into Q3 the industry specific to Rigid PCBs was experiencing a meaningful compression; as of June 30, 2005 industry bookings were down 3.8% and industry shipments were off 6.4% relative to the same period in 2004. Since that time industry conditions have improved measurably. North American bookings for the three months ending March were up 15.3% versus the same period in 2005 and industry shipments ticked up 10.1% in January-to-February as compared to the 2005 first quarter. The IPC book-to-bill ratio for rigid PCBs was 1.14 for the three months ending March 31 with a one month B2B of 1.1 in March 2006. And the total North American market (shipments) for rigid PCBs is estimated by Henderson Ventures to be US$3.2 billion

As a result of the improved activity levels, lead-times have purportedly stretched out amongst the larger players, especially those supporting telecom infrastructure (i.e. DDi, EIT, Merix, Sanmina, TTM). Recent press releases put out by many of the NASDAQ listed PCB companies suggest robustness in demand that has not been seen for some time. The root cause of this could very well be that a telecom equipment replacement cycle is underway.

Closures over the past few years have positively impacting the health of the North American industry. In 2005 several major facilities either closed or were restructured, i.e. Viasystems no longer produces in North America; Photocircuits closed their Georgia operations and filed Chapter 11; Parlex has funnelled most of their business offshore; Circatex in the UK (formerly Viasystems) is up for liquidation/auction this month and Delphi has closed their flex and rigid flex operations in California. These closures and restructurings are for the most part good for the remaining industry participants who manufacture in North America. In essence there is far less relevant supply in existence today as compared to 2-3 years ago.

What's in store for 2006 and beyond? Renowned industry analyst, Henderson Ventures, projects that PCB growth in the America's will expand through 2008 (3.0% in '06, 3.5% in '07 and 6.9% in '08). Furthermore a number of dynamics may positively impact growth in North America; the level of domestic demand in Asia that fills capacity there; intellectual property concerns vis-à-vis Asia manufacturing; ongoing hostilities that drive demand for military electronics; freight costs; environmental legislation; and the need for increasing speed-to-market.

We believe that the pace of outsourcing of PCB production to Asia has slowed and this is good for the North American industry. A recent independent study suggested that offshore manufacturing is not the panacea that many OEMs and EMS companies believed at the outset. Offshore is ideally suited for certain types of programs and technologies; not all. Consequently we are targeting only certain streams of business with our value added offshore capability.

The North American PCB manufacturer landscape has changed dramatically over the past 4-5 years. In the late nineties the thinking was that the industry ultimately would be consolidated and controlled by a few global players with the small regional companies expiring en masse. To the contrary, what has unfolded is closures amongst the larger facilities leaving behind a plethora of small entrepreneurial enterprises. In fact outside of the top 10 manufacturers in North America the average PCB facility has revenues of only US$5 million. This fact, leads us to believe that the industry is ripe for consolidation now, for no other reason than to create a more relevant, viable supply chain for PCB consumers. In the absence of critical mass, companies are unable to invest in the required capital equipment to reconcile today's demanding technologies, some of which costs in excess of US$500,000. They are unable to import the engineering talent required to drive business improvement, offer value added engineering to the client base and plan as well as execute a relevant technology roadmap. They are also not able to stay abreast of regulatory requirements – in essence they are breaking the law to survive. Case in point, we recently did public records search of all PCB companies in Ontario. What we found was astonishing. We are one of fewer than half a dozen companies (out of a total of 35) that has ever had a Certificate of Air Quality provided by the Ministry of the Environment of Ontario and likely one of the few that has an up to date certification. The implication is clear – most PCB operations in Canada are operating illegally. Coretec spends approximately $1 million annually on environmental compliance. We believe that an increasingly environmentally friendly world will punish operators who break the law. It is areas such as this that will affect the viability of the small regional facility going forward.

Turning to the supply side

The industry in general is experiencing meaningful inflation across direct and indirect materials, supplies, logistics and facilities costs. Base laminate pricing has risen twice in six months and is now 10-15% more costly than it was in Q3 2005. This is completely due to inflation in copper which is a meaningful raw material cost in laminate. The most recent merger of Isola and Polyclad, two of the largest laminate suppliers to the industry, will only add to this price pressure. We are expecting additional rounds of increases that will likely take prices up a further 10% in the next 12 months.

Specialty chemicals have risen by as much as 20%; photographic films are up by 5-10% in the past six months and precious metals used in PCBs (silver, gold, palladium), being a function of global demand, are skyrocketing in price. Suppliers to the industry have no choice but to pass on the inflation but this is a global phenomenon. This fact has allowed the industry to "pass-through" increased costs to the end user. In an inflationary environment, scale does help mitigate upward price pressure and afford preferential treatment in terms of supply. We expect this to allow the larger facilities, like Coretec, to gain further market share in the near term.

Capital equipment manufacturers are all suggesting that lead-times are extending. Drilling equipment and wet process equipment is at best at an 18-20 week cycle time plus delivery which can take up to 6 weeks. This is a challenge given the cyclicality and uncertainty embedded in the PCB industry.

Turning to our strategy.

2006 will be a year of change for Coretec – culturally and infrastructure wise. The executive team that has been assembled we believe is one of the best in the industry. The addition of Anaya Vardya (COO) was the final key to effectuating our drive to be World-class at the operational level. Mr. Andre Kern has joined our team as the senior finance official and brings the right amount of industry/related experience and operational pragmatism to round out our executive team and effectively partner with our operations groups to assist them with their drive to optimization.

Our investment plans for the balance of 2006 involve ongoing advanced equipment and systems installations at all plants. The focus is upon technology furtherance, cycle time reduction and on time delivery reliability. In particular we will procure wet process (etching and cleaning) equipment for our Toronto and Denver operations that will increase technology capability, capacity and redundancy. We will also add equipment at our Toronto innerlayer and multilayer facility. In total we are projecting expenditures of $3-4 million in fiscal 2006.

We are just now finalizing our consolidation plan in Toronto at our owned 93,000 sq.ft., 9 acre Sheppard site. We expect to have all costing estimates complete within the next 30-45 days and will be submitting the plan to our Board at that time. Phase 1 of the project involves infrastructure construction to enable installation of all our CNC drilling operations as well as several key chemical processing lines that are currently installed at our Lawrence site. The timeframe for this Phase is Q4 2006 and Q1 2007. Phase 2, deals with the installation of a new innerlayer and multilayer department, operations that will be transferred from our Ellesmere plant by Q2 2007. Phase 3 will involve the expansion of the current building by 35,000-40,000 sq.ft. And Phase 4 is the final installation of the outerlayer processing platforms from Ellesmere, in 2008.

TIME remains a key operating principle for us. In fact it is our belief that TIME is truly the only market differentiator. As such we are intensifying our efforts to drive revenues with associated time premiums. To facilitate this we are forcing structural and cultural changes into our quotations, customer service, materials management, quality and engineering organizations such that improvements in cycle and response times are aggressively sought and entrenched. Additionally, we are adopting LEAN and other advanced methodologies in operations to drive out queue times and drive in cycle time optimization. At the root of these initiatives is the assumption and belief that the demand for PCBs in North America will be increasingly boutique in nature (namely small volume exotics) and rapid response oriented, i.e. required in as short a time as is physically possible.

As fundamental to our strategy as TIME is, we are also committed to providing World-class value added services. It is already well known throughout the industry that our field applications engineering team is one of the best if not the best. Our design group is also developing a strong reputation for responsiveness, technology capability and intelligent design. Both of these groups will undergo expansion in 2006. And at the opposite end of the prototype and quick turn manufacturing spectrum is the provision of volume product. As indicated earlier, we are excited about our offshore business plan.

FOCUS is another key paradigm for Coretec. We subscribe to a focused factory philosophy with respect to the types of PCBs manufactured and the end markets served. Our Ohio facility is dedicated to Rigid Flex PCBs, which is focused predominantly on the aerospace and defense sectors. There are applications for rigid flex in the automotive and semiconductor arenas as well. Our Denver operation is targeting the aerospace and defense end markets with PCBs manufactured with mixed and exotic materials as well as heatsinks. The latter being typically associated with aircraft engine controls and weapons systems. And our Toronto operations are for the most part zeroing in on commercial end markets and more specifically expedited delivery requirements therein for advanced technology PCBs.

Finally, I would like to briefly discuss our thoughts for Q2 2006.

The fact that we are just-in-time product builders, makes it difficult for us to offer revenue or eps guidance. Historically we have experienced annual revenue growth in excess of the industry as measured by IPC. We expect that 2006 will be no different in this regard and are quite buoyed by our present momentum and opportunities for growth. As such, we will continue to exploit our scale, our engineering prowess, our commitment to environmental stewardship and our sales/marketing savvy to further drive our brand notoriety and increase our share of the US$3 billion rigid PCB market.

We alluded to the fact that our offshore business was unusually strong in Q1 and that we do not expect it to be maintained at that level in subsequent quarters in 2006. Similarly, Q2 is seasonally the softest quarter in our industry. Having said this we are aggressively pursuing market share gains as well as are keenly focused on profitability and strong free cash flow.

We are also hearing from customers that the RoHS deadline is creating much disruption in the marketplace. Some of the strong demand experienced since last fall may have been a result of inventory expansion by EMS and OEM companies in reaction to extended component lead-times and the looming July 2006 European deadline. Some companies have built non-compliant product in advance and shipped into the EU to avoid any business disruption post the July timeframe. This is consistent with some of the statistics that we have seen around inventory levels, which have been increasing over the past 6-9 months. If this is the case the PCB industry may experience a muting of demand as consumers bleed out inventory and transition from non-compliant to compliant electronic assemblies.

In addition we understand that the degree of preparedness in the marketplace for RoHS and other jurisdictional regulations is all over the map. We believe our preparedness with respect to RoHS will bode well for us from a near term demand perspective. We are positioned very well to be a strategic asset for those companies that are well advanced in their RoHS plan as well as act as a consultant to those companies that are behind the curve. Regardless we believe that there may be volatility in demand in the coming months as many companies struggle with their compliance strategies and executions.

We are convinced that our core operating pillars; technology, time and value added services are in sync with the dynamics of the market. We are a key player in the electronics supply chain in North America. We are committed to further optimizing our operations such that we are a World-class partner for our World-class clientele. In doing so we believe that financial metrics will be similarly optimized.

That wraps up our presentation. We thank you for your interest and attention. I will now open the discussion up for questions.

Paul Langston (after the Q&A period is finished)

As a reminder, the instant replay of this Conference Call will be available from today at 10:30 a.m. until Monday, May 29, 2006 at 11:59 p.m. The phone number for the instant replay is 416-640-1917 or toll free 877-289-8525, the pass code is 21189516#.

We are holding our Annual General Meeting at 4:30pm. on May 17, 2006 at the offices of Ogilvy Renault, 38th floor, Royal Bank Plaza, south tower, Toronto, Ontario. Please join us for a presentation of our strategy and meet the executive and senior management team.

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