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2002

Annual Report

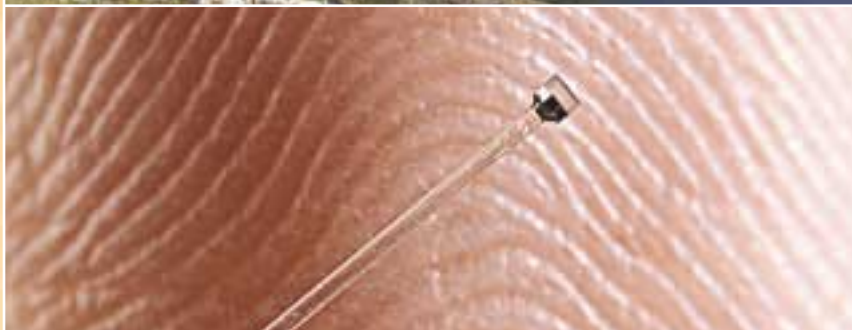
ROCTEST

Roctest Ltd. specializes in the design, manufacture and marketing of technological measuring instruments. Its Geotechnical and Structural Instrumentation Division serves the civil engineering sector, while its subsidiary FISO Technologies Inc. offers sensors and transducers targeted mainly to the industrial and medical sectors. Roctest has facilities in Canada and France and is active in more than 75 countries worldwide. The Company, whose shares are listed on the TSX Exchange under the ticker symbol RTT, has over 150 employees.

Annual General Meeting of Shareholders

Wednesday, May 21, 2003, at 10:30
Fairmont Queen Elizabeth Hotel, Hochelaga 3 room
900 René-Lévesque Blvd. West, Montreal, Quebec

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Highlights

For the fiscal years ended December 31,

	2002	2001
Operating Results		
Sales	\$20,891,547	\$16,378,563
Operating profit prior to scientific research costs and amortization	3,108,280	3,336,073
Scientific research costs	929,817	858,344
Amortization	849,854	679,365
Net earnings from continuing operations	967,502	1,602,300
Net earnings (loss) from discontinued operations	7,533	(175,923)
Net earnings	975,035	1,426,377
Cash flow	1,702,261	2,076,900
Financial Position		
Total assets	23,207,664	21,168,262
Long-term debt	2,221,503	834,945
Shareholders' equity	16,052,501	14,963,872
Per share		
Net earnings	0.22	0.32
Book value	3.61	3.37
Weighted average number of shares outstanding	4,441,219	4,440,993
Ratios		
Current ratio	2.8	2.8
Debt ratio	31.1%	29.3%

MAY	Sale of Nortech GSI
APRIL TO JUNE	\$2.25 million invested in FISO Technologies
SEPTEMBER	Acquisition of Phoenix Geometrix LLC

Subsequent Event – 2003

JANUARY	Board of Directors distinguished for its corporate governance excellence
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Geotechnical and Structural Instrumentation Division supplies technological instruments that assess the safety of major structures such as dams, mines, tunnels, bridges and others. It notably develops, manufactures and markets sensors and data acquisition systems to measure pressure, deformation, inclination and temperature. It also offers a full range of related services and can therefore provide clients with a turnkey monitoring solution.

FISO Technologies Inc., a wholly-owned subsidiary of Roctest, is a leader in the development, manufacture and marketing of fiber-optic sensors and transducers for laboratories and original equipment manufacturers (OEMs). It provides clients with innovative solutions for measuring parameters such as temperature, pressure, strain, displacement and force.

Message to Shareholders

In 2002, Roctest's sales rose 28% despite a difficult and uncertain economic and geopolitical climate. The Company's resources have now been refocused on the most buoyant markets in order to continue growing its business. We have thus sold Nortech GSI and have implemented a large-scale capital program to drive FISO Technologies' rapid growth.

REFOCUSING ON BUOYANT MARKETS

Our vertically-integrated business – design, manufacture and marketing – is one of our greatest competitive advantages. In the environmental sector however, Nortech GSI was involved solely in reselling products. Given its low profit margin, we preferred to sell this subsidiary and to use the proceeds from the transaction in order to accelerate the growth of FISO Technologies ("FISO").



Anodic soldering system – final step when manufacturing MEMS gauges

We promptly invested \$2.25 million in FISO's expansion. The subsidiary thus moved into larger premises, was fitted out with a white room, and new Micro ElectroMechanical Systems ("MEMS") and Fabry-Pérot sensor manufacturing equipment was purchased. This capital program is continuing in 2003, when a similar sum will be invested to acquire other automated manufacturing and assembly machinery. FISO is consequently one of the very first companies in Canada with MEMS manufacturing equipment and the multidisciplinary expertise needed to make use of this innovative technology.

This capital program will enable FISO to enhance the quality of its instruments, to accelerate the development of new products, and to significantly reduce the price of some of its gauges. For instance, the use of MEMS technology has cut optical pressure gauge manufacturing costs to just a fraction of the former per-unit cost.

FINANCIAL RESULTS

During the fiscal year ended December 31, 2002, Roctest achieved sales from continuing operations of \$20.9 million, up from \$16.4 million in the previous year, an increase of 28%. It should be noted that in 2000, the combined sales of the Geotechnical and Structural Instrumentation Division (“GSI”) and FISO amounted to \$11.9 million, bringing their growth to over 75% within two years. As we are proud of this feat, and so our shareholders, partners and employees can all share our enthusiasm, the Review of Operations section of this Annual Report describes FISO’s and GSI’s businesses and the reasons for their success.

Roctest’s operating income totalled \$1.3 million in 2002, versus \$1.8 million in 2001. While FISO’s profitability improved considerably, GSI’s temporarily declined because of fiercer competition in Asia and a higher than usual proportion of resale products.

Net earnings amounted to \$975,000 or \$0.22 per share, compared with \$1.4 million or \$0.32 per share in 2001. Also, the Company generated cash flows (before changes in working capital items) of \$1.7 million or \$0.38 per share in 2002, down from \$2.1 million or \$0.47 per share in 2001.

As at December 31, 2002, the book value of Roctest’s share was \$3.61.

Roctest posted a solid financial position once again as at December 31, 2002. The Company had a current ratio of 2.8 at the end of both fiscal 2001 and fiscal 2002, while its total debt/asset ratio went from 29 % as at December 31, 2001, to 31 % by the close of the 2002 fiscal year, due mainly to the loans contracted to finance the purchase of manufacturing equipment for FISO. Shareholders’ equity amounted to \$16.1 million or \$3.61\$ per share as at December 31, 2002, up from \$15.0 million or \$3.37\$ per share at the close of the previous year. At the end of fiscal 2002, Roctest also had available cash of \$1.9 million and an unused line of credit totalling over \$5 million.

ON TRACK TO INCREASE SALES AND PROFITS

Considering the irreversible aging of major engineering structures and our world-renowned expertise, we are confident our GSI Division will sustain accelerated growth in the coming years, fuelled by two main factors.

First, GSI will develop and market new products using fiber-optic technology. In this regard, we recently hired Christine Tremblay, PhD, an experienced engineer, to oversee the R&D of fiber-optic products within this division.

Secondly, GSI's growth will be driven by its stronger sales force which, while already well-established in the Middle East, is targeting new countries in Asia, Eastern Europe and North Africa. In Canada, oil sands also offer interesting business opportunities which we intend to build upon as early as this year.

We remain on the lookout for firms, technologies and products to complete the service offering and to increase profit margins in our Geotechnical and Structural Instrumentation Division.

Today's geopolitical climate is keeping us cautious and flexible. Considering GSI's well-filled order book however, we are convinced we can increase this division's sales and especially improve its profit margins in 2003.

As for FISO, we expect the subsidiary's sales to pursue their accelerated growth. Several factors allow us to be this confident: its ongoing development of new products, its expanded sales network, its new higher-performance manufacturing equipment and the subsequent reduction in its production costs. FISO will thus be able to tackle previously inaccessible areas, such as the petroleum sector.

Given its numerous business opportunities, FISO looks forward to a substantial increase in sales in 2003. Its growth will carry on into the next few years, driven mainly by its two future projects: a medical pressure gauge and end-of-service life indicator.

The disposal of Nortech GSI and the important investments in FISO mark a fundamental strategic change that will contribute to increasing Roctest's sales and profitability.



In conclusion, we wish to thank our employees for their willingness to participate in achieving the Company's growth and profit objectives. We would also like to acknowledge the outstanding work of our Board members whose rigour and know-how earned the highest honours in the *Excellence in Corporate Governance* competition organized by Korn/Ferry and Commerce Magazine in January 2003. We take this opportunity to highlight the arrival of Normand Bourque and François Gonthier, two experienced and independent directors whose wise counsel will foster the Company's healthy growth. Finally, we wish to express our gratitude to all Roctest shareholders and to thank them for their confidence in the Company's outlook.

Jacques Allard

Michel Bégin

Signed: Jacques Allard
Chairman of the Board

Signed: Michel Bégin
President and Chief Executive Officer

Review of Operations

GEOTECHNICAL AND STRUCTURAL INSTRUMENTATION DIVISION

The Geotechnical and Structural Instrumentation Division (“GSI”) supplies technological instruments to assess the safety of major structures such as dams, mines, tunnels, bridges and others, as well as devices to measure the properties of soil and rock in-situ. Although it operates in an established market, it successfully increases its sales thanks to its wide range of products and its customized turnkey solutions – two major competitive advantages for which it is known worldwide.

Wide Range of Products

The GSI Division offers a wide range of products recognized for their quality, reliability and durability. It is also alone in manufacturing fiber-optic products that can measure most of parameters used by the geotechnical and structural sector. Some of its instruments stand apart for their ability to measure in dynamic mode – a special consideration for monitoring bridges and buildings.

INSTRUMENTS TO MEASURE WATER PRESSURE AND WATER LEVELS

To measure water levels in dams, foundations and excavations.



INSTRUMENTS TO MEASURE INCLINATION OR ROTATION

To measure the horizontal displacement of natural slopes or backfills.



INSTRUMENTS TO MEASURE DISPLACEMENT

To measure the convergence of mine tunnels and adits.



INSTRUMENTS TO MEASURE LOAD AND PRESSURE

To measure pressure in backfills.



INSTRUMENTS TO MEASURE DEFORMATION

To measure the deformation of cement or steel, either through burial in the cement or by means of a weld on a steel structure.



INSTRUMENTS TO CHARACTERIZE SOIL AND ROCK

To measure the deformation properties of soil or rock.

Customized Turnkey Solutions

Whether it's for monitoring dams, bridges or open-pit mines, conducting tests on nuclear reactors, or managing floods or irrigation channels, Roctest's GSI Division provides an integrated turnkey monitoring solution that includes the choice of measuring instruments, communication links, computer hardware and software, the implementation of components, training and technical support. What's more, Roctest does not hesitate to call upon other manufacturers to complete its own line of products.

Its knowledgeable employees and the close cooperation between its sales and manufacturing departments also allow Roctest to offer customized solutions. In 2002, a few examples included the development of solutions meeting the needs of NB Power, Hydro-Québec and Manitoba Hydro. Roctest also has the expertise to install its monitoring systems in the most demanding environments. From China to the Ukraine, and Syria to Morocco, its teams of installers overcome the numerous challenges encountered in contracts on international markets.

Review of Operations

FISO TECHNOLOGIES INC.

Since 1998, FISO Technologies (“FISO”) has achieved compound annual sales growth of approximately 80%, and its personnel has grown from 7 to 62 people. It has grown rapidly while improving its profit margin and investing for the future – an outstanding achievement due mainly to the uniqueness and quality of its innovative fiber-optic sensors. In light of its success, FISO was honoured as Visionary Emerging Company of the Year at the 2002 Vision Trophies Gala organized by the Quebec City Chamber of Commerce.



Technology

A fiber-optic sensor consists of two components: a fiber-optic gauge and a reading station.

The gauge consists of an optical fiber connected to a device based on Fabry-Pérot interferometer technology. This innovative technology reflects light onto two mirrors face-to-face. In moving under the action of the parameters to be measured, these mirrors alter the light spectrum.

The reading station injects light into the optical fiber, collects the light altered by the gauge, and translates this encoded light into a physical measurement.

Advantages

Fiber-optic sensors offer important advantages compared with conventional sensors. They are:

- Insensitive to electromagnetic fields, present notably in microwave ovens and electrical transformers;
- Accurate and durable, even at extreme temperatures;
- Small, so they can be inserted into a catheter;
- Versatile, so they can be used to measure numerous parameters;
- Reliable, regardless of the distance travelled by the optical signal.

Patents

FISO holds patents and exclusive operating licenses to a Fizeau interferometer used to accurately read Fabry-Pérot interferometers. The subsidiary has an exclusive operating license for Canada and the United States to a combination of the Fabry-Pérot interferometer and the Fizeau interferometer. It also has a patent license to manufacture MEMS devices. Finally, in 2002, FISO filed two patent applications in the United States: one for a high-speed measurement system; and the other, for a chemical optical sensor for multiple applications.



General applications (38% of sales)

FISO manufactures a number of fiber-optic gauges and measuring stations used among others to measure temperature, pressure or deformation in the presence of electromagnetic fields, high temperatures or explosive or inflammable materials. As examples of general applications, FISO's products are used to measure the temperature of high-voltage cables and the deformation of bolts in the automotive industry.

Specific applications

(62% of sales)

TEMPERATURE MEASUREMENT IN ELECTRICAL TRANSFORMERS

Given their dielectric (non-metallic) nature, fiber-optic sensors are the only option for measuring temperature inside an electrical transformer. This measurement serves to optimize the transformer's load and ensures its integrity during peak periods.



TEMPERATURE MEASUREMENT IN MICROWAVE OVENS

Various elements analyzed in a laboratory setting must first be chemically digested in an acid. Laboratories use a microwave oven to speed up the process. The oven's temperature is specifically controlled by fiber-optic sensors.

TEMPERATURE MEASUREMENT IN DETONATORS

Detonators are used when a mechanical component must be rapidly activated, as in the case of car airbags. Fiber-optic temperature gauges are used to assess and adjust the detonator's sensitivity to avoid any accidental triggering that could be due to electromagnetic radiation from a radio, radar or television station.



MEASUREMENT OF VARIOUS PARAMETERS IN THE GEOTECHNICAL INDUSTRY

FISO manufactures fiber-optic sensors marketed by Roctest under the Sensoptic trademark. Roctest emerged as a technological pioneer by launching this product line in 1997. These innovative products offer important advantages and their sales continue to rise.

Future Markets

MEDICAL PRESSURE GAUGE

Launched in 2001, the development of a medical pressure gauge has practically been completed. FISO has even started to fine-tune an automated assembly station. The pre-marketing phase will take place in 2003 and its marketing will begin as of 2004.

When inserted in a catheter, this gauge can be positioned exactly where the pressure is to be measured. It provides an accurate and reliable measurement when determining, among others, intra-uterine pressure during difficult deliveries, urinary pressure for assessing incontinence, intracranial pressure following a traumatism and blood pressure during specific surgeries.

In early 2002, FISO entered into a supply agreement with a major American manufacturer in the medical field. Pursuant to the contract, this manufacturer has shared the costs of developing FISO's product, and has agreed to help finance the manufacturing facilities and market the product for a specific application.



END-OF-SERVICE LIFE INDICATOR

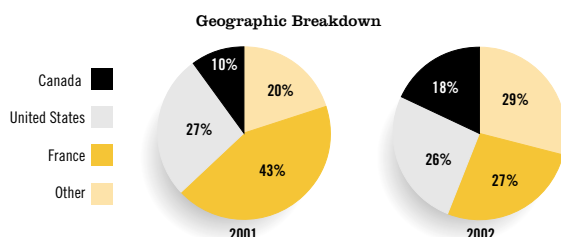
Since 1998, the U.S. government has required that filtering cartridges for respiratory protection in the workplace be equipped with an end-of-service life indicator. No effective, safe and economical product has been marketed for that purpose so far. FISO has developed a unique technology that perfectly meets this tremendous need – more than 10 million filtering cartridges are used in North America every day. FISO filed a patent application to that effect in 2002. This innovative sensor's pre-marketing phase will begin in late 2003. The development and marketing of this product are also the focus on an agreement with a large American firm.



Management's Discussion and Analysis of Operating Results and Financial Position

OPERATING RESULTS

During the fiscal year ended December 31, 2002, Roctest achieved sales from continuing operations of \$20.9 million, up 28% over \$16.4 million the previous year. Sales in Canada and international markets (excluding France and the United States) increased by 137% and 83% respectively.



Sales in the Geotechnical and Structural Instrumentation Division ("GSI") grew by 16%, rising from \$12.9 million in 2001 to \$14.9 million in 2002. This increase is remarkable since in 2001, this division had recorded significant revenues from a contract performed in the Ukraine. In 2000, it had posted sales of \$10.0 million, bringing its growth to some 50% within two years. Its higher sales can be credited to its dynamic sales team of a dozen representatives and more than 20 manufacturing agents operating in the Middle East, China, Turkey, Spain and Chile.

FISO's sales jumped 70%, climbing from \$3.5 million in 2001 to \$6.0 million in 2002. This subsidiary has thus achieved compound annual sales growth of over 80% since 1999. Whereas its sales accounted for 6% of Roctest's business volume in 1999, this proportion reached 28% in 2002. This excellent performance can be attributed especially to the development and launch of innovative products and the sustained expansion of its client base.

Roctest's operating income totalled \$1.3 million in 2002, versus \$1.8 million in 2001. While FISO had an excellent year from a profit viewpoint, GSI's profitability temporarily declined. Its lower profit margin was due notably to the expenses incurred in carrying out two major projects in 2001, fiercer competition in Asia and a higher than usual proportion of resale products. In fact, the proportion of resale products in relation to products manufactured by Roctest doubled in 2002 compared with 2001.

In 2001, the Company had also recognized the recovery of the costs associated with the public share offering and a major recovery of Research and development tax credits. These two items enhanced the spread in earnings from continuing operations, which fell from \$1.6 million in 2001 to \$968,000 during fiscal 2002.

In May 2002, Roctest sold its Nortech GSI subsidiary for a consideration of \$615,000, which resulted in a loss on disposal of assets of \$321,000. On account of the net earnings of \$118,000 recorded by Nortech GSI between January 1 and May 31, 2002, and the tax recovery associated with the loss on disposal of assets, this transaction yielded a net gain of \$7,500. In 2001, this business had incurred a net loss of \$176,000.

Net earnings for the fiscal year ended December 31, 2002, totalled \$975,000 or \$0.22 per share, down 32% from \$1.4 million or \$0.32 per share in 2001. On a fully diluted basis, earnings per share amounted to \$0.22 in 2002, compared with \$0.30 in 2001. The weighted average number of shares outstanding held almost steady, standing at 4,441,219 in 2002 versus 4,440,993 in 2001.

DIVIDENDS

The Company did not pay any dividends on its common shares during the 2002 fiscal year, preferring to retain its cash and cash equivalents to finance its growth.

PRINCIPAL CASH FLOWS

In fiscal 2002, the Company generated cash flows from operating activities (before changes in non-cash working capital items) of \$1.7 million or \$0.38 per share, compared with \$2.1 million or \$0.47 per share in 2001. Operating cash flows in 2002 came from the net earnings from continuing operations of \$968,000 and non-cash items totalling \$735,000, including \$850,000 associated with the depreciation of capital assets and other assets. Changes in working capital items used cash flows of \$452,000 in 2002, versus \$3.8 million in 2001, this variance resulting mainly from a major reduction in accounts receivable. Accordingly, operating activities provided cash flows of \$1.3 million in 2002, whereas they had used cash flows of \$1.7 million the previous year.

Financing activities provided cash flows of \$978,000 in 2002, up from \$369,000 in 2001. The Company contracted several loans as part of the capital program targeting its FISO subsidiary, thus increasing its long-term debt by \$1.0 million. The Company repaid a total of \$287,000 in long-term debt during the 2002 fiscal year.

Investing activities used cash flows of \$2.6 million. Roctest was particularly active in this regard in 2002. In May, its Nortech GSI subsidiary was sold for a cash consideration of \$615,000. Then in September, the Company acquired Phoenix Geometrix, a small American firm specializing in the distribution of monitoring instruments for engineering structures and the owner of a patented technology linked to clinometric tubes. This acquisition is an ideal complement to Roctest's products, giving it an important advantage over its main competitors and recurring revenues with high profit margins.

Roctest had cash and cash equivalents of \$1.9 million as at December 31, 2002. On the same date, the Company and its subsidiaries had a \$5.7 million line of credit, \$5.3 million of which was unused.

Management intends to complete FISO's capital program during the 2003 fiscal year. The required outlays will come from its operations as well as its short and long-term financing capabilities.

FINANCIAL POSITION

Total assets amounted to \$23.2 million at the close of fiscal 2002, up from \$21.2 million a year earlier. Current assets decreased by \$1.6 million, whereas long-term assets increased by \$3.6 million.

The decrease in current assets came mainly from the decline in accounts receivable which, due to a reduced collection period and the disposal of Nortech GSI, fell from \$8.2 million as at December 31, 2001, to \$6.0 million by the end of fiscal 2002. Conversely, income taxes receivable and Research and development tax credits amounted to \$1.7 million as at December 31, 2002, compared with \$900,000 on December 31, 2001. This increase was due mainly to the higher R&D tax credits.

At the close of the 2001 and 2002 fiscal years, the balance sheet included a \$1.4 million investment, corresponding to the 1,192,784 common shares held by the Company in Corvis Corporation. This investment was accounted for at cost, even though it was 2% higher than the quoted value as at December 31, 2002. The decline in quoted value is considered to be temporary.

Capital assets amounted to \$6.5 million as at December 31, 2002, compared with \$3.0 million at the same date in 2001. This difference was due mostly to the purchase of machinery for FISO, which had a total net value of \$2.2 million at 2002 year-end, versus \$1.1 million at the close of fiscal 2001. As at December 31, 2002, Roctest had also accounted for deposits on the purchase of manufacturing equipment to be delivered and installed at FISO during the current fiscal year.

As at December 31, 2002, the Company had other assets totalling \$1.6 million, compared with \$1.5 million at the close of 2001. The difference resulted mainly from new patents, including the patent acquired on the acquisition of Phoenix Geometrix and trademarks whose total value increased from \$70,000 to \$360,000 in one year.

Total liabilities stood at \$7.2 million at 2002 year-end, versus \$6.2 million at the close of 2001. This increase stemmed mostly from the higher long-term debt contracted to finance the purchase of equipment for FISO. In fact, long-term debt rose from \$830,000 at the end of 2001 to \$2.2 million by the close of 2002.

Net earnings for fiscal 2002 raised shareholders' equity to \$16.1 million or \$3.63 per share as at December 31, 2002, up from \$15.0 million or \$3.38 per share at the end of the prior fiscal year.

RISKS AND UNCERTAINTIES

The forward-looking statements contained in this annual report involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include the risks of bad debts, the risks associated with fluctuations in revenues and exchange risks.

Roctest is dependent on the world economy and the financial capabilities of the countries where it does business. To protect itself against this risk, the Company continually monitors its clients' credit and ensures that it obtains adequate guarantees, especially when dealing with clients in developing countries.

As contracts in the geotechnical and structural instrumentation sector are generally large-scale projects, any setbacks or fluctuations are likely to be reflected in the Company's quarterly and even its annual financial statements. Such risks are minimized by the Company's geographical and manufacturing diversification, as it is present in 75 countries and actively involved in the industrial sector.

To protect itself against foreign exchange risks, the Company has entered into U.S. dollar and Euro forward exchange contracts in Canadian dollars (see note 18).

OUTLOOK

Several factors – both macroeconomic and within the GSI division and FISO – are driving the growth in the Company's sales and profitability. Among other things, the capital program implemented in 2002 at FISO will enable this subsidiary to develop new niches and to grow at an accelerated pace.

Management's Report

The financial statements for the fiscal years ended December 31, 2002 and 2001 were completed by the management of Roctest Ltd., reviewed by the Audit Committee and approved by the Board of Directors. They were prepared in accordance with accounting principles generally accepted in Canada and are consistent with the Company's business.

The Company and its subsidiaries maintain high quality systems of internal controls. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable. The information included in this annual report is consistent with the financial statements contained herein.

The financial statements have been audited by PricewaterhouseCoopers LLP, the Company's auditors, whose report is provided to the right.

Michel Bégin

Signed: Michel Bégin
President and Chief Executive Officer
February 28, 2003

Auditors' Report

To the Shareholders of Roctest Ltd.

We have audited the consolidated balance sheets of **Roctest Ltd.** as at December 31, 2002 and 2001 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: PriceWaterhouseCoopers LLP

Chartered Accountants

February 28, 2003

Consolidated Statements of Retained Earnings

For the years ended December 31, 2002 and 2001

	2002	2001
	\$	\$
Balance – Beginning of year	10,516,719	9,090,342
Net earnings for the year	975,035	1,426,377
Balance – End of year	11,491,754	10,516,719

Consolidated Statements of Earnings

For the years ended December 31, 2002 and 2001

	2002	2001
	\$	\$
Sales (note 4)	20,891,547	16,378,563
Operating profit before the following items	3,108,280	3,336,073
Scientific research costs – net of grants and tax credits totalling \$1,056,000 (2001 – \$915,000)	929,817	858,344
Amortization	849,854	679,365
	1,779,671	1,537,709
Operating profit	1,328,609	1,798,364
Other income (expenses)		
Interest on long-term debt	(122,167)	(109,917)
Recovery of fees related to takeover bid	—	121,874
	(122,167)	11,957
Earnings before the undernoted	1,206,442	1,810,321
Provision for (recovery of) income taxes (note 16)		
Current	346,052	399,917
Future	(107,112)	(191,896)
	238,940	208,021
Earnings on continuing operations	967,502	1,602,300
Net gain (loss) on discontinued operations (note 4)	7,533	(175,923)
Net earnings for the year	975,035	1,426,377
Earnings per share on continuing operations		
Basic	0.22	0.36
Diluted	0.22	0.34
Earnings per share		
Basic	0.22	0.32
Diluted	0.22	0.30
Weighted average number of shares outstanding	4,441,219	4,440,993

Consolidated Balance Sheets

As at December 31, 2002 and 2001

	2002	2001
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	1,925,659	2,029,530
Temporary investments (note 5)	216,956	232,021
Accounts receivable (note 6)	6,010,175	8,230,703
Research and development tax credits	1,322,655	972,437
Income taxes recoverable	425,225	—
Inventories	3,219,692	3,383,086
Prepaid expenses	254,420	297,365
Future income taxes (note 16)	291,255	110,376
	13,666,037	15,255,518
Investment (note 7)	1,363,981	1,363,981
Property, plant and equipment (note 8)	6,538,059	3,012,595
Other assets (note 9)	1,639,587	1,481,846
Future income taxes (note 16)	—	54,322
	23,207,664	21,168,262
LIABILITIES		
Current liabilities		
Bank advances (note 10)	785,788	548,138
Accounts payable and accrued liabilities	3,458,913	4,467,482
Income taxes payable	—	63,934
Current portion of long-term debt	561,294	289,891
	4,805,995	5,369,445
Long-term debt (note 11)	2,221,503	834,945
Future income taxes (note 16)	127,665	—
	7,155,163	6,204,390
SHAREHOLDERS' EQUITY		
Capital stock (note 12)	4,806,658	4,806,658
Retained earnings	11,491,754	10,516,719
Cumulative translation adjustments (note 13)	(245,911)	(359,505)
	16,052,501	14,963,872
	23,207,664	21,168,262

Approved by the Board of Directors,

Signed: Michel Bégin
Michel Bégin, Director

Signed: Jacques Allard
Jacques Allard, Director

Consolidated Statements of Cash Flows

For the years ended December 31, 2002 and 2001

	2002	2001
	\$	\$
CASH FLOWS FROM		
Operating activities		
Earnings on continuing operations	967,502	1,602,300
Adjustments for		
Amortization of property, plant and equipment	748,391	519,357
Amortization of other assets	101,463	160,008
Loss (gain) on disposal of property, plant and equipment	11,924	(12,834)
Future income taxes	(107,112)	(191,896)
Unrealized exchange gain on investments	(19,907)	(35)
Net change in non-cash working capital items (note 15)	(451,631)	(3,813,797)
	<u>1,250,630</u>	<u>(1,736,897)</u>
Financing activities		
Bank advances	237,650	222,138
Increase in long-term debt	1,027,320	303,762
Repayment of long-term debt	(286,912)	(164,975)
Issuance of shares	—	7,790
	<u>978,058</u>	<u>368,715</u>
Investing activities		
Disposal of a business (note 4)	615,000	—
Acquisition of businesses (note 14)	(206,336)	(225,000)
Decrease (increase) in temporary investments	34,972	(226,960)
Additions to property, plant and equipment	(3,047,629)	(587,809)
Proceeds from sale of property, plant and equipment	16,532	303,661
Decrease (increase) in other assets	2,016	(24,014)
	<u>(2,585,445)</u>	<u>(760,122)</u>
Decrease in cash and cash equivalents during the year	(356,757)	(2,128,304)
Net change in cash and cash equivalents on discontinued operations	252,886	542,873
Cash and cash equivalents – Beginning of year	2,029,530	3,614,961
Cash and cash equivalents – End of year	1,925,659	2,029,530

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

1 Governing statutes and nature of operations

The company, incorporated under Part IA of the Quebec Companies Act, designs, manufactures and commercializes high technology instruments designed to monitor major civil engineering structures such as dams, mines and tunnels, and uses fibre optics for instrumentation purposes.

2 Change in accounting policies

a) Goodwill and other intangible assets

On January 1, 2002, the company adopted the new section of the Canadian Institute of Chartered Accountants (CICA) Handbook on goodwill and other intangible assets which requires that goodwill and intangible assets with indefinite useful lives not be amortized. Their fair value is to be assessed annually and, if necessary, written down for any impairment. Intangible assets with a definite useful life are still subject to amortization, but there is no limit to the useful life. Intangibles assets with a definite useful life are tested for impairment under existing standards. Goodwill was tested for impairment on January 1, 2002, at the adoption of the new standard. The company concluded that no write-down for impairment was required for goodwill as of January 1, 2002.

Earnings from continuing operations for 2001, taking into account this new standard, would have been increased by \$99,245 to \$1,701,545. Earnings and diluted earnings per share from continuing operations would have amounted to \$0.38 and \$0.36 respectively and basic earnings and diluted earnings per share would have amounted to \$0.34 and \$0.32 respectively.

b) Stock-based compensation

On January 1, 2002, the company adopted the new section of the CICA Handbook on stock-based compensation. The company still uses the method under which no compensation expense is recognized when stock options are issued to officers and employees. In accordance with the transitional provisions, the company determines the amount that would have been recorded in the financial statements if compensation charges related to stock options granted after January 1, 2002 would have been established using the fair value method. The effect on net earnings and net earnings per share is disclosed in a note to the financial statements.

3 Significant accounting policies

Consolidation

These consolidated financial statements include the accounts of the company and its wholly owned subsidiaries as follows:

Subsidiaries	Geographical sector	Interest as at December 31,	
		2002 %	2001 %
FISO Technologies Inc.	Canada	100.0	100.0
RTT Integra Inc.	Canada	100.0	100.0
Nortech GSI Inc.	Canada	—	100.0
En.Om.Fra. S.A.	France	100.0	100.0
Telemac S.A.	France	100.0	100.0
Roctest Inc.	U.S.A	100.0	100.0

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and of income and expenses for the reporting period. Actual results could differ from those estimates.

Translation of foreign currencies

Foreign operations

En.Om.Fra. S.A., a French subsidiary, is considered to be self-sustaining. Assets and liabilities of this foreign operation are translated at the exchange rate prevailing at the balance sheet date. Revenue and expenses are translated at the average exchange rate for the year. Translation gains and losses are deferred and shown as a separate component in shareholders' equity.

The company's other subsidiaries are considered to be integrated. The monetary assets and liabilities of these foreign operations are translated at the exchange rate prevailing at the balance sheet date. Revenue and expenses are recorded during the year at the exchange rates prevailing at the transaction date. Translation gains and losses are included in the determination of net earnings for the year.

Foreign currency transactions

The company's transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the exchange rate prevailing at the balance sheet date. Translation gains and losses are included in the determination of net earnings for the year.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with maturities of three months or less.

Temporary investments

Temporary investments are valued at the lower of cost, increased by related accrued interest, and market value. Temporary investments are pledged as security of certain contracts.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of raw materials is determined by the specific identification method and the first-in, first-out method. Cost of finished goods and work in progress includes raw materials, direct labour and variable overhead.

Long-term investment

Long-term investment is recorded at cost. The company's policy is to reduce the long-term investment to its net realizable value if a permanent decline in value occurs.

Property, plant and equipment

Property, plant and equipment are recorded at cost less all related grants and tax credits and are amortized over their estimated useful lives, using the straight-line method at the following annual rates or period:

	Rate/period
Buildings	2.50%
Machinery and office furniture	20%
Mobile equipment	20%
Leasehold improvements	from 5 to 9 years

Goodwill

As of January 1, 2002, goodwill is no longer amortized. The company regularly assess fair value and goodwill is written down for any impairment. This is mainly done by determining if discounted future cash flows exceed net book value of the reporting unit's goodwill. Goodwill is tested for impairment on an annual basis and when an event or circumstance occurs that more likely than not reduces the fair value below its carrying amount.

Goodwill was amortized over a period not exceeding 20 years prior to the adoption of the new section described in note 2.

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

3 Significant accounting policies (cont'd)

Patents and trademarks

Patents and trademarks are amortized on a straight-line basis over periods not exceeding 20 and 5 years respectively.

Revenue recognition

Sales and cost of sales are recognized when the products are delivered to clients, in accordance with the terms of contracts, and when significant risks and rewards relating to ownership are transferred and the collection is reasonably assured.

Investment tax credits

Investment tax credits relating to scientific research expenditures are credited to earnings as they are realized.

Research and development costs

Development costs which do not meet generally accepted criteria for deferral and research costs are expensed as incurred. Development costs which meet generally accepted criteria for deferral are capitalized and amortized over a period not exceeding five years upon commencement of production.

Income taxes

The company uses the liability method in accounting for income taxes. In accordance with this method, future income taxes are calculated on the difference between the accounting and tax values of assets and liabilities. The tax rate in effect when these differences will reverse is used to calculate future income taxes as at the balance sheet date. Future income tax assets are recognized when it is more likely than not that the assets will be realized.

Fair value of financial instruments

The company has estimated the fair value of the components of long-term debt based on current interest rates and the related market value of financial instruments with those having comparable terms. The carrying value of these financial instruments is considered to approximate fair value, unless otherwise indicated.

The carrying values of the company's other financial instruments, such as accounts receivable, bank advances, and accounts payable and accrued liabilities approximate fair values due to the forthcoming maturity of these instruments.

Earnings per share

Earnings per share are determined using the weighted average number of shares outstanding during the year.

Diluted earnings per share are calculated using the treasury stock method to determine the dilutive effect of stock options. Under this method, all dilutive instruments, namely when the average trading price of the shares during the period is above the exercise price of the options, are considered to have been exercised at the beginning of the reporting period and the funds obtained thereby are used to purchase common shares of the company at the average trading price of the common shares during the period.

Stock options

No compensation expense is recognized when stock options are issued to officers and employees. The effect of the fair value method on net earnings is disclosed only in a note to the financial statements. The fair value of options granted was estimated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Any consideration received from employees upon exercise of stock options is credited to capital stock.

4 Discontinued operations

On May 31, 2002, the company sold its wholly owned subsidiary, Nortech GSI Inc., which was the only operating unit in the "Environment" segment, for a cash consideration of \$615,000. The amounts included in these financial statements as a result of this disposal are as follows:

	\$
Net earnings as at May 31, 2002	125,740
Loss on disposal	(321,207)
Income taxes relating to the loss on disposal	203,000
Net gain on discontinued operations	<u>7,533</u>

The major assets and liabilities included in the 2001 financial statements are as follows:

	\$
Current assets	2,054,168
Goodwill	56,280
Other long-term assets	334,972
Current liabilities	1,485,457

In addition, sales from this segment amounted to \$2,802,785 for the year ended December 31, 2002 (2001 – \$6,456,085).

Cash flows from this segment are related mainly to operating activities.

Basic earnings (loss) per share on discontinued operations amount to nil and \$(0.04) for 2002 and 2001 respectively. Diluted amounts are similar to basic amounts

5 Temporary investments

	2002 \$	2001 \$
Term deposits	80,899	569,160
Units in money market fund	1,358,096	1,441,048
	1,438,995	2,010,208
Less: Cash equivalents	1,222,039	1,778,187
	<u>216,956</u>	<u>232,021</u>

6 Accounts receivable

	2002 \$	2001 \$
Trade	5,758,438	8,125,756
Other	251,737	104,947
	<u>6,010,175</u>	<u>8,230,703</u>

7 Investment

	2002		2001	
	Cost \$	Quoted value \$	Cost \$	Quoted value \$
Common shares of Corvis Corporation	<u>1,363,981</u>	<u>1,337,726</u>	1,363,981	6,135,798

The investment has not been written down to quoted value as the decline in quoted value is considered to be temporary.

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

8 Property, plant and equipment

	2002		
	Cost \$	Accumulated amortization \$	Net \$
Land	292,073	—	292,073
Buildings	1,756,450	612,324	1,144,126
Machinery	4,122,763	1,883,748	2,239,015
Office furniture	1,129,114	664,223	464,891
Mobile equipment	296,213	204,720	91,493
Leasehold improvements	716,499	78,719	637,780
Deposit on purchase of property, plant and equipment	1,668,681	—	1,668,681
	9,981,793	3,443,734	6,538,059

	2001		
	Cost \$	Accumulated amortization \$	Net \$
Land	265,679	—	265,679
Buildings	1,623,687	525,588	1,098,099
Machinery	2,738,932	1,603,071	1,135,861
Office furniture	1,061,080	688,884	372,196
Mobile equipment	332,113	193,601	138,512
Leasehold improvements	23,255	21,007	2,248
	6,044,746	3,032,151	3,012,595

As at December 31, 2002, property, plant and equipment in the amount of \$885,000 (2001 – \$791,000) were held for resale and are valued at their net realizable value.

Property, plant and equipment include assets acquired under capital leases for \$417,000 (2001 – \$158,000). Related accumulated amortization amounted to \$201,000 (2001 – \$81,000).

In addition, tax credits of \$316,000 (2001 – \$80,000) were deducted from the cost of property, plant and equipment.

9 Other assets

	2002 \$	2001 \$
Goodwill (net of accumulated amortization of \$954,693 in 2001)	1,138,306	1,194,586
Patents and trademarks, net of accumulated amortization of \$79,118 (2001 – \$56,351)	355,669	70,960
Development costs, net of accumulated amortization of \$240,931 (2001 – \$174,608)	90,676	156,999
Other, net of accumulated amortization of \$39,120 (2001 – \$32,130)	54,936	59,301
	1,639,587	1,481,846

10 Bank advances

The company and its subsidiaries have lines of credit totalling \$5,742,550 which bear interest at an average rate of 4.56%. Moveable and immoveable hypothecs on accounts receivable and inventories of subsidiaries totalling \$6,628,000 as well as a building are pledged as security for these bank advances. The company's credit agreement also requires it to maintain certain financial ratios. As at December 31, 2002, an amount of \$395,788 (2001 – \$548,138) had been drawn on these lines of credit.

In addition, a subsidiary of the company has a demand loan facility of a maximum amount of \$390,000, secured by a first ranking moveable hypothec of \$468,000 on all research and development tax credits. This loan bears interest at prime rate and is repayable upon receipt of the research and development tax credits. As at December 31, 2002, an amount of \$390,000 had been drawn on this loan (2001 – nil).

11 Long-term debt

a) The long-term debt consists of the following:

	2002 \$	2001 \$
Demand loan, secured by a first ranking moveable hypothec on machinery of a subsidiary, bearing interest at prime rate plus 1%, payable in eight monthly instalments of \$26,000 beginning in July 2003 followed by monthly instalments of \$42,743, maturing in October 2010	1,027,320	—
Balance of purchase price of property, plant and equipment of a subsidiary, without interest ⁰	538,746	—
Demand loans, secured by a moveable hypothec on machinery of a subsidiary, payable in monthly instalments of capital of \$7,385 ⁰	188,367	276,983
Loan bearing interest at 8%, payable in monthly instalments of \$2,948, maturing in 2006	125,000	—
Mortgage loan (2002 – €103,420; 2001 – €119,368), secured by a building, bearing interest at 8.65%, payable in euros in quarterly instalments, maturing in 2007	171,305	171,508
Mortgage loan (2002 – €177,499; 2001 – €210,444), secured by land and a building, bearing interest at 11.09% on \$228,943 and at a variable rate on \$65,067, payable in euros in quarterly instalments, maturing in 2007	294,010	302,366
Other loans, bearing interest at various rates up to prime rate plus 1.25%	183,734	254,373
Capital lease obligations (note 11 (c))	254,315	119,606
	2,782,797	1,124,836
Less: Current portion	561,294	289,891
	2,221,503	834,945

⁰ In February 2003, the company refinanced these debts with a new loan of \$700,000. This new loan will bear interest at prime rate plus 1.25%, will be payable in monthly instalments of capital of \$11,667 plus interest and will mature in February 2008. A first ranking moveable hypothec amounting to \$700,000 will be pledged as security.

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

11 Long-term debt (cont'd)

b) The aggregate amount of the long-term debt payments required in the next years, including the effects of the February 2003 refinancing, is as follows:

	\$
Years ending December 31, 2003	561,294
2004	857,634
2005	770,968
2006	337,549
2007	219,676
Thereafter	35,676
	<u>2,782,797</u>

c) As at December 31, 2002, future minimum payments under capital lease obligations are as follows:

	\$
Years ending December 31, 2003	82,247
2004	62,779
2005	62,779
2006	52,543
2007	27,049
	<u>287,397</u>
Less: Interest (rates ranging from 4.37% to 6.28% with a weighted average rate of 5.67%)	33,082
	<u>254,315</u>
Less: Current portion	69,162
	<u>185,153</u>

d) The fair value of these loans, based on the net present value of estimated future cash flows using a market rate, amounted to approximately \$2,853,000 as at December 31, 2002 (2001 – \$1,201,000).

12 Capital stock

Authorized

An unlimited number of shares without par value

Voting and participating common shares

Preferred shares, issuable in series, dividend and redemption value to be determined by the directors at the time of issuance

Issued and fully paid

	2002	2001
	\$	\$
4,441,219 Common shares (2001 – 4,441,219)	<u>4,806,658</u>	4,806,658

In 2001, 1,833 stock options were exercised for a cash consideration of \$7,790.

Earnings per share

The diluted weighted average number of shares has been calculated as follows:

	2002	2001
	\$	\$
Weighted average number of shares – basic	4,441,219	4,440,993
Addition to reflect the impact of		
Exercise of employee stock options	(46,891)	316,789
Weighted average number of shares – diluted	<u>4,394,328</u>	4,757,782

In 2002, earnings per share and diluted earnings per share are the same because of the options' anti-dilutive effect.

Stock option

The company has a stock option plan for its management, directors and employees. The total number of shares which may be issued under the plan may not exceed 10% of the issued common shares. In addition, no beneficiary of the plan may be allotted more than 5% of the issued common shares. No option may be outstanding more than ten years.

In 1996, purchase options for 200,000 common shares at a price of \$3 per share were granted. These options may be exercised at various dates from May 28, 1997 and expire at various dates to May 27, 2006. During an additional program in 1999, a total of 194,951 options was granted at prices varying between \$3.80 and \$4.25 per share. These options can be exercised at various dates from January 1, 2000 and expire at various dates to May 15, 2010. In 2001, an additional program for a total of 155,000 options was granted at prices varying between \$3.59 and \$4.35 per share. These options can be exercised at various dates from July 20, 2001 and expire at various dates to August 14, 2011. In 2002, an additional program for a total of 22,500 options was granted at prices varying between \$2.83 and \$4.20 per share. These options can be exercised at various dates from May 15, 2003 and expire at various dates to September 25, 2010.

	2002		2001	
	Number of shares	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
Options granted –				
Beginning of year	313,123	4.00	268,023	9.49
Granted	22,500	3.93	155,000	4.20
Exercised	—	—	(1,833)	4.25
Cancelled	(10,000)	3.00	(108,067)	17.90
Options granted –				
End of year	<u>325,623</u>	4.03	313,123	4.00
Options exercisable at year-end	<u>170,789</u>	4.07	110,456	3.95

The exercise price of these options ranges from \$2.83 to \$4.35 and the weighted average remaining contractual life is 5.1 years.

The company does not apply the fair value method of accounting for stock-based compensation awards granted to employees. Accordingly, no compensation cost has been recognized in these financial statements. Had compensation cost for the company's stock-based compensation plan been determined based on the fair value at the grant dates consistent with the fair value method of accounting for stock-based compensation, the company's pro forma amounts of net earnings and earnings per share would have been as indicated below:

		\$
Net earnings	As reported	975,035
	Pro forma	965,902
Basic earnings per share	As reported	0.22
	Pro forma	0.22

Because of the anti-dilutive effect, diluted earnings per share have not been presented. This pro forma information does not take into consideration awards granted before January 1, 2002.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 2002 grants: risk-free interest rate of 5%; dividend yield of 0% for all years; expected life of five years; and volatility of 55%.

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

13 Cumulative translation adjustments

The cumulative translation adjustments shown in shareholders' equity consist of the following:

	2002 \$	2001 \$
Balance – Beginning of year	(359,505)	(414,831)
Translation adjustments for the year	113,594	55,326
Balance – End of year	<u>(245,911)</u>	<u>(359,505)</u>

14 Business acquisitions

a) On September 19, 2002, the company acquired 100% of the interest of Phoenix Geometrix LLC, an American company. This acquisition has been accounted for using the purchase method. The operating results of the company acquired have been included in the statement of earnings since the date of acquisition.

The purchase price was allocated based on the estimated fair value of the assets acquired at the purchase date as follows:

	\$
Inventories	49,044
Property, plant and equipment	151,106
Patent	307,476
Other assets	<u>8,214</u>
	515,840
Current liabilities assumed	<u>309,504</u>
Acquisition cost, paid in cash	<u>206,336</u>

Under the agreement, the company committed to pay a royalty payment varying between 15% and 30% of the gross margin realized on the products covered by the patent for a period of approximately 50 years.

b) On August 17, 2001, a subsidiary of the company acquired certain assets of Nortech Fibronic Inc. This acquisition has been accounted for using the purchase method. The operating results of this business have been included in the statement of earnings since the date of acquisition.

The purchase price was allocated based on the estimated fair value of the assets acquired at the purchase date as follows:

	\$
Inventories	103,000
Property, plant and equipment	75,000
Trademarks	<u>47,000</u>
Acquisition cost, paid in cash	<u>225,000</u>

15 Cash flows

a) The net change in non-cash working capital items, which excludes changes related to the discontinued operations and business acquisitions described in notes 4 and 14, is as follows:

	2002 \$	2001 \$
Decrease (increase) in		
Accounts receivable	1,637,418	(2,529,447)
Research and development tax credits	(350,218)	167,740
Income taxes	(274,986)	(1,138,649)
Inventories	(416,589)	439,329
Prepaid expenses	24,971	(19,047)
Decrease in		
Accounts payable and accrued liabilities	<u>(1,072,227)</u>	<u>(733,723)</u>
	<u>(451,631)</u>	<u>(3,813,797)</u>

b) Additional information

	2002 \$	2001 \$
Interest paid	160,325	142,435
Income taxes paid (recovered)	<u>(336,052)</u>	<u>172,602</u>

c) As at December 31, 2002, the company had unpaid property, plant and equipment in the amount of \$650,631, of which \$111,885 is included in accounts payable and accrued liabilities and \$538,746 is included in long-term debt. In addition, property, plant and equipment of \$125,000 were financed by a term loan (2001 – nil).

Other property, plant and equipment in the amount of \$168,764 (2001 – nil) were acquired under capital leases.

16 Future income taxes

a) The income tax rate differs from the basic rate due to the following:

	2002 %	2001 %
Basic Federal and provincial combined rate	42.6	44.6
Deduction for manufacturing and processing and income from active business carried on in Quebec	(14.2)	(6.3)
Non-recognized tax benefit arising from losses of subsidiaries (note 16(c))	6.3	(13.7)
Non-taxable exchange gain	(3.4)	(2.9)
Other	<u>(11.5)</u>	<u>(10.2)</u>
	19.8	11.5

b) Future income taxes include the following items:

	2002 \$	2001 \$
Current future income taxes		
Tax credits carried forward	366,498	177,115
Unrealized foreign exchange gain	<u>(75,243)</u>	<u>(66,739)</u>
	291,255	110,376
Long-term future income taxes		
Future income tax assets		
Non-capital tax losses carried forward	367,501	349,568
Capital tax losses carried forward	95,000	—
Other	<u>50,700</u>	<u>29,464</u>
	513,201	379,032
Valuation allowance	<u>434,000</u>	<u>250,000</u>
	79,201	129,032
Future income tax liabilities		
Property, plant and equipment	201,904	69,992
Other	<u>4,962</u>	<u>4,718</u>
	206,866	74,710
	<u>(127,665)</u>	<u>54,322</u>

c) The company's subsidiaries have accumulated tax losses for income tax purposes amounting to approximately \$1,013,000 (2001 – \$751,000) which may be carried forward to reduce taxable income in future years and for which no future income tax asset was recorded. These unused losses may be claimed for income tax purposes in an amount of \$749,000 for years ending no later than 2012 and in an amount of \$264,000 for years ending no later than 2009.

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

17 Commitments

a) Future minimum lease payments under long-term lease contracts are as follows:

	\$
Years ending December 31, 2003	127,800
2004	127,200
2005	127,200
2006	106,000
	<u>488,200</u>

b) As at December 31, 2002, the company had issued letters guaranteeing the completion of certain contracts amounting to \$148,000 (2001 – \$98,000).

18 Financial instruments

Foreign exchange risk

The company is exposed to currency risks resulting from its export of goods manufactured in Canada.

Unrealized gains and losses on financial instruments used to hedge certain identifiable future risks are recorded in earnings along with the underlying items being hedged.

The company has entered into contracts which mature in less than a year to sell U.S. dollars and euros in exchange for Canadian dollars. As at December 31, 2002, the company held forward exchange contracts with a notional amount of \$355,000 (2001 – \$1,668,000) representing an unrealized gain of \$3,000 (2001 – unrealized loss of \$48,000).

Credit risk

The company continually monitors its clients' credit and ensures that it obtains adequate guarantees when it deals with clients located in developing countries. It establishes its provision for doubtful accounts based on the credit risk applicable to each client. There is no particular concentration of credit risks due to the distribution of customers and procedures for the management of commercial risks and consequently management believes that there is no significant credit risk as at December 31, 2002 and 2001.

Interest rate risk

As at December 31, 2002, the company's interest rate risk is summarized as follows:

Cash and cash equivalents	Variable rate
Temporary investments	Variable rate
Accounts receivable	Non-interest bearing
Bank advances	As described in note 10
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt and capital lease obligations	As described in note 11

19 Segmented information

The company's reportable segments are strategic business units that offer various products and services. They are managed separately because each business requires different technology and marketing strategies. The company has three reportable segments:

- The "Geotechnical and Structural Instrumentation" segment designs, manufactures and sells high technology instruments designed to monitor major structures such as dams, mines and tunnels. The "Industrial" segment designs, manufactures and sells instruments using fibre optics technology for instrumentation purposes in the industrial sector. Nortech GSI Inc. was the only operating unit in the "Environment" segment. This segment has not been presented as Nortech GSI Inc. was sold during the year (note 4).
- The "Other" segment includes assets and operations regarding the investment in Corvis Corporation and the recovery of fees related to the takeover bid.

The accounting policies of the two segments are the same as those described in the summary of significant accounting policies.

a) Information by operating segments

	2002			
	Geotechnical and Structural Instrumentation \$	Industrial \$	Other \$	Total \$
Sales to third parties	14,908,274	5,983,273	—	20,891,547
Amortization	479,661	370,193	—	849,854
Interest on				
long-term debt	67,079	55,088	—	122,167
Earnings on continuing				
operations	49,297	918,205	—	967,502
Income taxes	(149,060)	388,000	—	238,940
Segment assets	12,797,423	9,046,260	1,363,981	23,207,664
Expenditures for property, plant and equipment	347,327	2,700,302	—	3,047,629

	2001			
	Geotechnical and structural Instrumentation \$	Industrial \$	Other \$	Total \$
Sales to third parties	12,850,852	3,527,711	—	16,378,563
Amortization	408,658	270,707	—	679,365
Interest on long-term debt	58,770	51,147	—	109,917
Earnings on				
continuing operations	1,219,984	314,798	67,518	1,602,300
Income taxes	34,318	119,347	54,356	208,021
Segment assets	13,253,015	4,105,846	1,363,981	18,722,842
Expenditures for property plant and equipment	315,076	347,733	—	662,809

b) Information by geographic segments

	Sales to third parties*		Property, plant and equipment, and other assets	
	2002 \$	2001 \$	2002 \$	2001 \$
Canada	3,798,362	1,603,684	6,250,295	3,195,336
United States	5,427,919	4,366,456	466,785	9,209
France	5,639,460	7,112,774	1,460,566	1,289,896
Other	6,025,806	3,295,649	—	—
	<u>20,891,547</u>	<u>16,378,563</u>	<u>8,177,646</u>	<u>4,494,441</u>

* Sales are attributed to countries based on location of customers.

20 Comparative figures

Certain comparative figures for the previous year have been restated to conform with the presentation adapted for the current year.

Board of Directors

Jacques Allard^{1 2 3}

Chairman of the Board
Chair of the Corporate Governance Committee

Michel Bégin

President and Chief Executive Officer

Richard Bourget²

Director

Jean-François Capelle²

Director

Claude Delâge^{1 3}

Senior Investment Consultant
Fonds de solidarité du Québec
Chair of the Audit Committee

Normand Bourque^{1 3}

Director
Chair of the Human Resources Committee

François Gonthier

Chief Technology Officer
ITF Optical Technologies

¹ Member of the Audit Committee

² Member of the Corporate Governance Committee

³ Member of the Compensation Committee

Officers

Michel Bégin

President and Chief Executive Officer

Jean-François Charland

Vice-President, Finance and Administration

Elisabeth Hivon

Vice-President and General Manager, Geotechnical
and Structural Instrumentation Division

Claude Belleville

Vice-President
Fiso Technologies Inc.

Corporate Information

Head Office

Roctest Ltd.

665 Pine Avenue
St-Lambert, Quebec, Canada J4P 2P4
Telephone: (450) 465-1113
Fax: (450) 465-1938
E-Mail: info@roctest.com
Web Site: www.roctest.com

Subsidiaries

Fiso Technologies Inc.

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Ste-Foy, Quebec, Canada G2E 5R9
Telephone: (418) 688-8065
Fax: (418) 688-8067
Web Site: www.fiso.com

Telemac, S.A.

10 Eiffel Avenue
77220 Gretz-Armainvilliers
France

En.Om.Fra., S.A.

6 Eiffel Avenue
77220 Gretz-Armainvilliers
France

Roctest Inc.

P.O. Box 3568
Champlain, NY 12919-3568
United States

RTT Integra Inc.

675 Pine Avenue
St-Lambert, Quebec
Canada J4P 2P4

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

BANKING INSTITUTIONS

Canada

Bank of Montreal
C.I.B.C.

United States

Key Bank of New York

France

Crédit Commercial de France
Crédit du Nord
Banque Nationale de Paris

AUDITORS

PricewaterhouseCoopers LLP

LEGAL COUNSEL

McCarthy Tétrault

STOCK INFORMATION

The shares of Roctest Ltd. are listed on the TSX under the ticker symbol RTT. As at December 31, 2002, Roctest's capital stock consisted of 4,441,219 issued and outstanding common shares.

A copy of the Company's Annual Information Form, filed with the Securities and Exchange Commission of Ontario, a copy of the *Notice annuelle* filed with the *Commission des valeurs mobilières du Québec* may be obtained by writing to the head office of the Company or by faxing requests to (450) 465-1938