

Roctest Ltd.
Consolidated Financial Statements
December 30, 2005
and December 31, 2004

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Auditors' Report

To the Shareholders of
Roctest Ltd.

We have audited the consolidated balance sheet of Roctest Ltd. as at December 30, 2005 and the consolidated statements of earnings and retained earnings, contributed surplus and cash flows for the year 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 audit.

We conducted our audit 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 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these financial statements in their report dated February 11, 2005.

Raymond Chabot Grant Thornton LLP

Chartered Accountants

Québec
February 3, 2006

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Roctest Ltd.**Consolidated Earnings and Retained Earnings**

Years ended December 30, 2005 and December 31, 2004

	<u>2005</u>	<u>2004</u>
	\$	\$
Sales	20,873,960	21,332,820
Cost of sales	<u>12,262,615</u>	<u>12,045,236</u>
	<u>8,611,345</u>	<u>9,287,584</u>
Expenses		
Selling and administrative expenses	6,250,568	5,479,061
Scientific research costs, net of grants and tax credits totalling \$1,517,000 (\$1,023,000 in 2004)	614,316	867,237
Amortization	1,245,110	1,299,429
Interest on long-term debt	163,005	195,575
Exchange loss	<u>253,650</u>	<u>341,757</u>
	<u>8,526,649</u>	<u>8,183,059</u>
Earnings before income taxes	<u>84,696</u>	<u>1,104,525</u>
Income taxes (Note 14)		
Current	203,337	347,874
Future	<u>(326,504)</u>	<u>(247,485)</u>
	<u>(123,167)</u>	<u>100,389</u>
Net earnings	207,863	1,004,136
Retained earnings, beginning of year	11,111,337	10,107,201
Retained earnings, end of year	<u><u>11,319,200</u></u>	<u><u>11,111,337</u></u>
Earnings per share (Note 10)		
Basic	<u>0.05</u>	0.23
Diluted	<u>0.05</u>	0.23

The accompanying notes are an integral part of the consolidated financial statements and Note 3 provides additional information on earnings.

Roctest Ltd.**Consolidated Contributed Surplus**

Years ended December 30, 2005 and December 31, 2004

	<u>2005</u>	<u>2004</u>
	\$	\$
Balance, beginning of year	78,054	40,928
Stock-based compensation (Note 10)	140,224	37,126
Stock options exercised during the year (Note 10)	<u>(13,622)</u>	
Balance, end of year	<u>204,656</u>	<u>78,054</u>

The accompanying notes are an integral part of the consolidated financial statements.

Roctest Ltd.

Consolidated Cash Flows

Years ended December 30, 2005 and December 31, 2004

	<u>2005</u>	<u>2004</u>
	\$	\$
OPERATING ACTIVITIES		
Net earnings	207,863	1,004,136
Non-cash items		
Amortization	1,245,110	1,299,429
Unrealized gain on forward exchange contracts		(22,000)
Future income taxes	(326,504)	(247,485)
Stock-based compensation	140,224	37,126
Changes in non-cash working capital items (Note 13)	<u>(1,984,483)</u>	<u>605,972</u>
Cash flows from operating activities	<u>(717,790)</u>	<u>2,677,178</u>
INVESTING ACTIVITIES		
Decrease in temporary investments	10,555	
Property, plant and equipment	(435,916)	(754,173)
Intangible assets and other assets	<u>(127,933)</u>	<u>(11,130)</u>
Cash flows from investing activities	<u>(553,294)</u>	<u>(765,303)</u>
FINANCING ACTIVITIES		
Bank advances	930,492	
Instalments on long-term debt	(867,412)	(775,602)
Issue of shares and warrants	1,885,630	
Issue costs	<u>(168,372)</u>	
Cash flows from financing activities	<u>1,780,338</u>	<u>(775,602)</u>
Foreign exchange loss (gain) on cash held in foreign currencies	<u>194,997</u>	<u>(22,778)</u>
Net increase in cash and cash equivalents	704,251	1,113,495
Cash and cash equivalents, beginning of year	<u>4,335,248</u>	<u>3,221,753</u>
Cash and cash equivalents, end of year	<u>5,039,499</u>	<u>4,335,248</u>

The accompanying notes are an integral part of the consolidated financial statements.

Roctest Ltd.
Consolidated Balance Sheets
December 30, 2005 and December 31, 2004

	<u>2005</u>	<u>2004</u>
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	5,039,499	4,335,248
Temporary investments (Note 4)	66,280	90,692
Accounts receivable (Note 5)	5,400,446	4,635,521
Research and development tax credits receivable	1,067,730	302,737
Income taxes receivable		71,989
Inventories	3,327,425	3,118,770
Prepaid expenses	166,795	362,065
Future income taxes (Note 14)	34,982	27,441
	<u>15,103,157</u>	<u>12,944,463</u>
Research and development tax credits receivable	1,549,375	664,719
Property, plant and equipment (Note 6)	5,126,273	5,779,915
Intangible assets (Note 7)	473,542	369,957
Other assets	32,257	42,110
Goodwill	1,138,306	1,138,306
Future income taxes (Note 14)	978,395	1,132,145
	<u>24,401,305</u>	<u>22,071,615</u>
LIABILITIES		
Current liabilities		
Bank advances (Note 8)	930,492	
Accounts payable and accrued liabilities	3,554,831	3,223,326
Income taxes payable	82,556	
Instalments on long-term debt (Note 9)	801,008	825,279
	<u>5,368,887</u>	<u>4,048,605</u>
Long-term debt (Note 9)	1,635,927	2,290,653
	<u>7,004,814</u>	<u>6,339,258</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 10)	6,043,330	4,806,658
Warrants (Note 11)	494,208	
Contributed surplus	204,656	78,054
Retained earnings	11,319,200	11,111,337
Cumulative translation adjustment (Note 12)	(664,903)	(263,692)
	<u>17,396,491</u>	<u>15,732,357</u>
	<u>24,401,305</u>	<u>22,071,615</u>

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

(S) « François Cordeau »
François Cordeau, Director

(S) « Normand Bourque »
Normand Bourque, Director

Roctest Ltd.

Notes to Consolidated Financial Statements

December 30, 2005 and December 31, 2004

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company, incorporated under Part IA of the Companies Act (Québec), designs, manufactures and markets high-technology instruments designed for demanding applications in the civil engineering, health, energy and industrial control market.

2 - ACCOUNTING POLICIES

Principles of consolidation

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

	<u>Geographical sector</u>
FISO Technologies inc.	Canada
En.Om.Fra. S.A.S.	France
Télémac S.A.	France
Roctest inc.	United States
RTF HK Limited	China

During the year, the Company incorporated a subsidiary, RTF HK Limited.

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates.

Cash and cash equivalents

The Company's policy is to present cash and temporary investments having a term of three months or less from the acquisition date with cash and cash equivalents.

Temporary investments

Temporary investments are valued at the lower of cost, plus related accrued interest, and market value.

Roctest Ltd.

Notes to Consolidated Financial Statements

December 30, 2005 and December 31, 2004

2 - ACCOUNTING POLICIES (Continued)

Inventory valuation

Raw materials are valued at the lower of cost and replacement cost. Finished goods and work in progress are valued at the lower of cost and realizable value. The cost of inventories is determined by the specific identification method and the first-in, first-out method.

Property, plant and equipment and other assets

Property, plant and equipment are recorded at cost, net of grants and tax credits and are amortized over their estimated useful lives according to the following methods, annual rates and periods who follow:

	<u>Methods</u>	<u>Rates and periods</u>
Buildings	Straight-line	2.5%
Machinery and office furniture	Straight-line	20%
	Diminishing balance	10% to 30%
Automotive equipment	Straight-line	20%
Leasehold improvements	Straight-line	5 to 9 years

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

Goodwill

Goodwill is the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized. It is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it is impaired. Goodwill is allocated to reporting units and any potential goodwill impairment is identified by comparing the carrying amount of a reporting unit with its fair value. If any potential impairment is identified, it is quantified by comparing the carrying amount of goodwill to its fair value. The fair value of a reporting unit is calculated using discounted cash flows.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events and circumstances indicate that cost may not be recoverable. Impairment exists when the carrying value of the asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of the carrying value over its fair value.

Roctest Ltd.

Notes to Consolidated Financial Statements

December 30, 2005 and December 31, 2004

2 - ACCOUNTING POLICIES (Continued)

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The Company recognizes future income tax assets only when it is more likely than not that some or all the future income tax assets will be realized.

Foreign currency translation

Foreign operations

The French subsidiaries En.Om.Fra. S.A.S. and Télémac S.A. are considered to be self-sustaining. Assets and liabilities of these foreign operations are translated at the exchange rate in effect 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.

During the year, the Company changed its method of accounting for its subsidiary Télémac S.A. In the past, this subsidiary was considered an integrated foreign operation. Because of its current operational independence, this subsidiary now meets the definition of a self-sustaining foreign operation.

The other subsidiaries are considered to be integrated. Monetary assets and liabilities of these foreign operations are translated at the exchange rate in effect at the balance sheet date, whereas other assets and liabilities are translated at exchange rates in effect at transaction dates. Revenue and expenses in foreign currency are translated at the average rate in effect during the year, with the exception of amortization, which is translated at the historical rate. Translation gains and losses are included in the determination of net earnings for the year.

Company

The Company's transactions denominated in foreign currencies are recorded at the exchange rates in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the balance sheet date. Revenue and expenses in foreign currency are translated at the average rate in effect during the year, with the exception of amortization, which is translated at the historical rate. Translation gains and losses are included in the determination of net earnings for the year.

Exchange contracts

The Company uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange rates. The instruments are recognized at estimated fair value. Gains and losses from changes in fair value are recorded in earnings.

Roctest Ltd.**Notes to Consolidated Financial Statements**December 30, 2005 and December 31, 2004

2 - ACCOUNTING POLICIES (Continued)**Revenue recognition**

Sales are recognized when there is evidence that an agreement exists, the products are shipped to clients in accordance with the terms of contracts, and when significant risks and rewards relating to ownership are transferred, the selling price is fixed and determinable, and collection is reasonably assured.

Research and development costs and investment tax credits

Research and development costs are expensed as they are incurred. However, development costs which meet generally accepted criteria for deferral are capitalized and amortized over a period not exceeding five years upon commencement of production.

Investment tax credits are applied against research and development costs in the year the costs are incurred, provided the Company is reasonably certain the credits will be realized.

Investment tax credits are subject to review and approval by tax authorities and amounts granted may differ from amounts recognized.

Earnings per share

Earnings per share is determined using the weighted average number of shares outstanding during the year. Diluted earnings per common share is calculated using the treasury stock method to determine the dilutive effect of stock options and warrants. Under this method, all dilutive instruments, when the average trading price of the shares is greater than the exercise price, are considered to have been exercised at the beginning of the year or the issue date and the funds obtained thereby are considered to have been used to purchase common shares of the Company at the average trading price of the common shares during the period.

Stock options

The Company applies the fair value method of accounting for stock-based compensation awards granted to management, directors, employees and consultants. This method consists of recording expenses to earnings based on the exercise terms and conditions of the options granted. The fair value is calculated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. When stock options are exercised, any consideration paid is credited to capital stock.

Fiscal year

The Company's fiscal year-end is the last Friday in December.

Roctest Ltd.

Notes to Consolidated Financial Statements

December 30, 2005 and December 31, 2004

2 - ACCOUNTING POLICIES (Continued)

New accounting policies

Hedging relationships

On January 1, 2004, the company adopted the new Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline AcG-13 "Hedging Relationships". This accounting guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. In addition, it deals with the discontinuance of hedge accounting and establishes conditions for applying hedge accounting. Under this guideline, documentation of the information related to hedging relationships is required and the effectiveness of the hedges must be demonstrated and documented. Given the requirements of this guideline and the related underlying amounts, the company decides to account for its forward exchange contracts at the fair value.

Generally accepted accounting principles and financial statement presentation

On January 1, 2004, the company adopted the new CICA Handbook sections 1100, "Generally Accepted Accounting Principles", and 1400, "General Standards of Financial Statement Presentation", recommendations. Section 1100 describes what constitutes Canadian generally accepted accounting principles ("GAAP") and its sources, and provides guidance on sources to consult when selecting accounting policies and on determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP, thereby recodifying the Canadian GAAP hierarchy. Section 1400 provides general guidance on financial statement presentation and further clarifies what constitutes fair presentation in accordance with GAAP.

The adoption of these recommendations had no significant impact on the consolidated financial statements.

3 - INFORMATION INCLUDED IN THE STATEMENT OF EARNINGS

	<u>2005</u>	<u>2004</u>
	\$	\$
Scientific research costs	2,131,316	1,890,237
Amortization of property, plant and equipment	1,210,909	1,224,251
Amortization of intangible assets	26,226	39,092
Amortization of other assets	7,975	36,086
Interest on short-term debt	49,084	23,720

4 - TEMPORARY INVESTMENTS

	<u>2005</u>	<u>2004</u>
	\$	\$
Units in money market funds	<u>66,280</u>	<u>90,692</u>

Temporary investments are assigned as security for certain contracts.

Roctest Ltd.**Notes to Consolidated Financial Statements**

December 30, 2005 and December 31, 2004

5 - ACCOUNTS RECEIVABLE

	<u>2005</u>	<u>2004</u>
	\$	\$
Trade accounts (a)	5,272,452	4,544,664
Other	127,994	90,857
	<u>5,400,446</u>	<u>4,635,521</u>

(a) Amount owing from one customer represent 10% (4% in 2004) of the total of trade accounts.

6 - PROPERTY, PLANT AND EQUIPMENT

	<u>2005</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net</u>
	\$	\$	\$
Land	258,912		258,912
Buildings	1,504,154	727,182	776,972
Machinery	6,349,446	3,177,725	3,171,721
Office furniture	2,279,950	1,557,294	722,656
Automotive equipment	281,480	240,309	41,171
Leasehold improvements	723,958	569,117	154,841
	<u>11,397,900</u>	<u>6,271,627</u>	<u>5,126,273</u>
			<u>2004</u>
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net</u>
	\$	\$	\$
Land	288,804		288,804
Buildings	1,519,438	710,745	808,693
Machinery	6,432,914	2,943,374	3,489,540
Office furniture	1,966,335	1,155,382	810,953
Automotive equipment	312,713	253,677	59,036
Leasehold improvements	713,529	390,640	322,889
	<u>11,233,733</u>	<u>5,453,818</u>	<u>5,779,915</u>

Property, plant and equipment include \$552,000 in assets acquired under capital leases and related accumulated amortization of \$247,000 as at December 30, 2005 (\$365,000 and \$179,000 respectively in 2004).

In 2005, acquisitions of property, plant and equipment under capital leases amount to \$243,000 (nil in 2004).

Roctest Ltd.**Notes to Consolidated Financial Statements**

December 30, 2005 and December 31, 2004

7 - OTHER ASSETS

	2005		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Patents	600,942	133,820	467,122
Trademarks	47,000	40,580	6,420
	<u>647,942</u>	<u>174,400</u>	<u>473,542</u>
	2004		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Patents	471,131	116,954	354,177
Trademarks	47,000	31,220	15,780
	<u>518,131</u>	<u>148,174</u>	<u>369,957</u>

8 - BANK ADVANCES

The Company and its subsidiaries have lines of credit renewable annually totalling \$5,690,980 which bear interest at rates varying from prime rate plus 0.25% to prime rate plus 0.75% (weighted average rate of 5.29%, 4.3% in 2004). Moveable and immoveable hypothecs on accounts receivable and inventories totalling \$7,095,370 as well as a building with a net book value of \$412,000 are pledged as security for these bank advances. The Company's credit facilities also require it to maintain certain financial ratios with which the Company complies as at December 30, 2005.

Roctest Ltd.**Notes to Consolidated Financial Statements**

December 30, 2005 and December 31, 2004

9 - LONG-TERM DEBT

	<u>2005</u>	<u>2004</u>
	\$	\$
Loan, secured by a first ranking universal movable hypothec on machinery having a net book value of \$2,572,000, bearing interest at the base rate plus 1% (6%, 5.25% in 2004), payable in monthly instalments of \$35,642 (a)	1,675,192	2,102,901
Loan, secured by a first ranking universal movable hypothec of \$700,000, bearing interest at the base rate plus 1.25% (6.25%, 5.5% in 2004), payable in monthly instalments of \$11,667 (a)	303,334	443,333
Loan, bearing interest at 8%, payable in monthly instalments of \$2,948, principal and interest, maturing in 2006	28,428	60,139
Mortgage loan of €41,452 (€63,360 in 2004), secured by a building having a net book value of \$412,000, bearing interest at 8.65%, payable in quarterly instalments of €9,000, maturing in 2007	57,224	103,226
Mortgage loan of €60,209 (€104,010 in 2004), secured by land and a building having a net book value of \$412,000, bearing interest at 11.09% on €47,055 and a variable rate (9%) on €13,154, payable in quarterly instalments of €11,000, maturing in 2007	83,119	169,453
Obligations under capital leases, bearing interest at rates ranging from 3.19% to 6.28%, payable in maximum monthly instalments of \$10,600, principal and interest, maturing until 2010	289,638	195,144
Other loans, bearing interest at variable rates to a maximum of the base rate plus 1.25% (5.5% in 2004), repaid during the year		41,736
	<u>2,436,935</u>	<u>3,115,932</u>
Instalments due within one year	<u>801,008</u>	<u>825,279</u>
	<u><u>1,635,927</u></u>	<u><u>2,290,653</u></u>

(a) Under the terms of the credit agreements, the Company is required to comply with certain financial ratios. As at December 30, 2005, one of the subsidiaries on the Company does not comply with one ratio from the credit facilities. The financial institution has agreed to tolerate this situation.

Although these loans are payable on demand, the financial institution has agreed to waive the right to demand full repayment of these loans for a period of more than one year from the balance sheet date.

Roctest Ltd.

Notes to Consolidated Financial Statements

December 30, 2005 and December 31, 2004

9 - LONG-TERM DEBT (Continued)

The instalments on long-term debt during the coming years are as follows:

	Obligations under capital leases	Other long-term loans
	\$	\$
2006	116,892	694,157
2007	87,456	1,453,140
2008	50,710	
2009	37,940	
2010	16,146	
Total minimum lease payments	<u>309,144</u>	
Amounts included in minimum lease payments		
Interest expense	<u>19,506</u>	
	<u><u>289,638</u></u>	

10 - CAPITAL STOCK

Authorized

Unlimited number of shares without par value

Voting and participating common shares

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

Issued and fully paid

	2005		2004	
	Number of shares	\$	Number of shares	\$
Common shares				
Balance, beginning of year	4,441,219	4,806,658	4,441,219	4,806,658
Issued for cash				
Private issue	741,852	1,192,050		
Issued under stock option plan	20,000	44,622		
Balance, end of year	<u>5,203,071</u>	<u>6,043,330</u>	<u>4,441,219</u>	<u>4,806,658</u>

On November 30, 2005, the Company issued 741,852 units for \$2.50 per unit for which it received total proceeds of \$1,854,630. Each unit is comprised of one common share and one-half common share purchase warrant which may be exercised at \$3.50 per share for a period of 30 months.

An amount of \$1,360,422 less issue expenses of \$168,372 has been recorded in capital stock and \$494,208 as warrants.

Roctest Ltd.**Notes to Consolidated Financial Statements**

December 30, 2005 and December 31, 2004

10 - CAPITAL STOCK (Continued)**Earnings per share**

The following table presents a reconciliation of the calculation numerators and denominators for basic and diluted earnings per share:

	<u>2005</u>	<u>2004</u>
Weighted average number of common shares		
Weighted average number of common shares outstanding	4,509,700	4,441,219
Dilutive effect of stock options	16,043	
	<u>4,525,743</u>	<u>4,441,219</u>

Warrants described in Note 11 and 290 185 stock options whose exercise price is greater than the average trading price of the share for the period have not been included in the calculation of diluted earnings per share as they have an antidilutive effect.

Stock options

The Company has a stock option plan for its management, directors, employees and consultants. The total number of shares which may be issued under the plan may not exceed 15% of issued and outstanding 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.

The exercise price is the value of the common shares at the grant date. Options granted under the plan generally are acquired over a period of three years, at a rate of 33% per year starting on the first anniversary of the grant date.

The stock-based compensation expense charged to earnings for the year ended December 30, 2005 is \$140,224 (\$37,126 in 2004) and a corresponding credit has been recorded in contributed surplus calculated using the fair value method.

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 2004 grants: dividend yield of 0%; expected volatility of 52%, risk-free interest rate of 4%; expected average life of five years. For options granted in 2005, the weighted average assumption are as follows: dividend yield of 0%; expected volatility of 57%, risk-free interest rate of 4%; expected average life of five years.

The weighted average fair value of options granted during the year is \$1.29 (\$1.13 in 2004).

Roctest Ltd.**Notes to Consolidated Financial Statements**

December 30, 2005 and December 31, 2004

10 - CAPITAL STOCK (Continued)

	2005		2004	
	Number of shares	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
Options granted, beginning of year	351,834	2.53	254,623	3,58
Granted	83,500	2.45	310,000	2,31
Exercised	(20,000)	1.55		
Cancelled	(26,649)	2.06	(212,789)	3,46
Options granted, end of year	388,685	2.60	351,834	2,53
Exercisable options, end of year	120,184	3.01	37,334	4,16

As at December 30, 2005, the following stock options were granted :

Exercise price range \$	Number of outstanding options	Weighted average remaining term (years)	Weighted average exercise price \$	Number of exercisable options	Weighted average exercise price of exercisable options \$
1.55	50,000	5.4	1.55	10,000	1.55
2.33 to 3.49	301,000	5.9	2.57	72,499	2.62
3.50 to 4.25	37,685	1.8	4.23	37,685	4.23
	388,685	5.4	2.60	120,184	3.01

11 - WARRANTS

In connection with the private financing completed on November 30, 2005, the Company issued 370,926 warrants with a fair value of \$494,208 to investors entitling them to acquire one common share for \$3.50 for a 30-month period starting December 1, 2005.

The fair value of each warrant granted was estimated at the grant date using the Black-Scholes option pricing model using the following data: dividend yield of 0%; expected volatility of 57%, risk-free interest rate of 4%; expected life of 2.5 years.

Roctest Ltd.

Notes to Consolidated Financial Statements

December 30, 2005 and December 31, 2004

12 - CUMULATIVE TRANSLATION ADJUSTMENTS

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

	<u>2005</u>	<u>2004</u>
	\$	\$
Balance, beginning of year	(263,692)	(251,959)
Translation adjustments for the year	(401,211)	(11,733)
Balance, end of year	<u>(664,903)</u>	<u>(263,692)</u>

13 - CASH FLOWS

The changes in working capital items and research and development tax credit are detailed as follows:

	<u>2005</u>	<u>2004</u>
	\$	\$
Accounts receivable	(811,257)	680,886
Research and development tax credit receivable	(1,649,649)	15,665
Income taxes receivable	71,989	398,643
Inventories	(221,652)	261,867
Prepaid expenses	194,728	(136,140)
Accounts payable and accrued liabilities	348,802	(614,949)
Income taxes payable	82,556	
	<u>(1,984,483)</u>	<u>605,972</u>

Cash flows relating to interest and income taxes of operating activities are detailed as follows:

	<u>2005</u>	<u>2004</u>
	\$	\$
Interest paid	205,408	198,812
Income taxes paid (recovered)	80,917	(109,706)

Roctest Ltd.

Notes to Consolidated Financial Statements

December 30, 2005 and December 31, 2004

14 - INCOME TAXES

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

	<u>2005</u>	<u>2004</u>
	\$	\$
Income taxes based on the combined federal and provincial tax rate in Canada of 31.02% (31.02% in 2004)	26,273	424,138
Deduction for manufacturing and processing and income from active business carried on in Québec		(38,658)
Tax benefit arising from losses of subsidiaries		(50,808)
Utilization of losses of subsidiaries for which no future income tax asset was recognized	(82,160)	(203,256)
Variation of the valuation allowance	(209,741)	
Non-taxable investment tax credit in Québec	(61,307)	(15,802)
Stock-based compensation	43,428	14,208
Non-taxable foreign exchange gain	(12,857)	16,568
Other	173,197	(46,001)
	<u>(123,167)</u>	<u>100,389</u>

(b) Future income taxes include the following items:

	<u>2005</u>	<u>2004</u>
	\$	\$
Short-term future income taxes		
Future income tax assets		
Non-capital loss carry over	34,982	1,610
Unrealized foreign exchange loss carry over		25,831
	<u>34,982</u>	<u>27,441</u>
Long-term future income taxes		
Future income tax assets		
Non-capital loss carry over	72,359	189,019
Scientific research and development cost carry over	1,339,085	1,851,986
Capital loss carry over		95,000
Other		16,216
	<u>1,411,444</u>	<u>2,152,221</u>
Valuation allowance		237,079
	<u>1,411,444</u>	<u>1,915,142</u>
Future income tax liabilities		
Property, plant and equipment	398,994	782,997
Other	34,055	
	<u>433,049</u>	<u>782,997</u>
	<u>978,395</u>	<u>1,132,145</u>

Roctest Ltd.**Notes to Consolidated Financial Statements**

December 30, 2005 and December 31, 2004

15 - COMMITMENTS

a) Future minimum lease payments under long-term leases, mainly for premises, are as follows:

	\$
2006	152,843
2007	4,832
2008	4,832
2009	1,611
	<u>164,118</u>

b) As at December 30, 2005, the Company had issued bank letters guaranteeing the completion of certain contracts amounting to \$262,000 (\$207,000 in 2004).

16 - FINANCIAL INSTRUMENTS**Fair value**

The following methods and assumptions were used to determine the estimated fair value of each class of financial instruments :

– Short-term financial instruments:

The fair value of short-term financial assets and liabilities approximates their carrying amount given their short maturity date.

– Long-term debt:

The fair value of long-term debt, estimated at \$2,445,000 (\$3,140,000 in 2004) is determined by discounting future cash flows using rates that the Company could pay for loans with similar terms and conditions and maturity dates.

Exchange risk

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

As at December 31, 2004, the Company held forward exchange contracts to sell U.S. dollars which mature in less than a year with a notional amount of \$1,000,000. The fair value of these contracts as at December 31, 2004 was \$22,000.

As at December 30, 2005, the Company concluded foreign exchange collars for the sale of U.S., dollars with a floor of \$1.1535 and a cap of \$1.206 in Canadian dollars. These agreements amount US\$1,600,000. Under the terms of these agreements, the Company assumes an exchange risk relating to operating revenue in U.S. dollars, benefits therefrom if the Canadian dollar is trading into U.S dollars below the floor rate and assumes a loss if the Canadian dollars is trading into U.S dollars above the cap rate. The fair value of these agreements is nil at December 30, 2005.

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Notes to Consolidated Financial Statements

December 30, 2005 and December 31, 2004

16 - FINANCIAL INSTRUMENTS (Continued)

The Company is exposed to exchange risk resulting from cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt denominated in U.S. dollars, in euros and Norwegian kroner (NOK). As at December 30, 2005, assets denominated in U.S. dollars representing cash and cash equivalents and accounts receivable amount to US\$3,532,322 (US\$2,923,369 in 2004); accounts payable and accrued liabilities denominated in U.S. dollars amount to US\$446,719 (US\$210,640 in 2004). Assets denominated in euros representing cash and cash equivalents and accounts receivable total €2,077,790 (€1,957,162 in 2004); accounts payable and accrued liabilities denominated in euros total €771,364 (€745,198 in 2004). Accounts payable and accrued liabilities denominated in NOK total NOK1,000,548 (NOK55,302 in 2004). Long-term debt denominated in foreign-currency is described in Note 9.

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 clients and procedures for the management of commercial risks and consequently management believes that there is no significant credit risk as at December 31, 2004 and December 30, 2005.

Interest rate risk

As at December 31, 2004 and December 30, 2005, 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 8
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt and obligations under capital leases	As described in Note 9

17 - 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 two reportable segments:

The "Civil Engineering" segment designs, manufactures and markets high-technology instruments designed to investigate major structures such as dams, mines and tunnels.

The "Industrial" segment designs, manufactures and markets instruments using fibre optic technology for instrumentation purposes in the industrial sector.

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Notes to Consolidated Financial Statements

December 30, 2005 and December 31, 2004

17 - SEGMENTED INFORMATION (Continued)

The accounting policies of the two segments are the same as those described in Note 2.

(a) Information by operating segment

	<u>Civil engineering</u>	<u>Industrial</u>	<u>2005 Total</u>
	\$	\$	\$
Sales to third parties	15,347,478	5,526,482	20,873,960
Amortization	602,891	642,219	1,245,110
Interest on long-term debt	36,552	126,453	163,005
Income taxes	(33,687)	(89,480)	(123,167)
Net earnings	147,754	60,109	207,863
Segment assets	15,425,965	8,975,340	24,401,305
Acquisitions of property, plant and equipment	307,518	128,398	435,916

	<u>Civil engineering</u>	<u>Industrial</u>	<u>2004 Total</u>
	\$	\$	\$
Sales to third parties	15,111,825	6,220,995	21,332,820
Amortization	622,925	676,504	1,299,429
Interest on long-term debt	46,484	149,091	195,575
Income taxes	169,874	(69,485)	100,389
Net earnings	721,768	282,368	1,004,136
Segment assets	13,943,181	8,128,434	22,071,615
Acquisitions of property, plant and equipment	434,020	320,153	754,173

(b) Information by geographic segment

	Sales to third parties*		Property, plant, equipment intangible and other assets	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	\$	\$	\$	\$
Canada	3,852,407	3,465,506	5,601,538	6,035,717
United States	4,902,001	4,416,268	265,675	368,538
France	6,362,670	6,382,207	903,165	926,033
Other	5,756,882	7,068,839		
	<u>20,873,960</u>	<u>21,332,820</u>	<u>6,770,378</u>	<u>7,330,288</u>

* Sales are attributed to countries based on the client's country of domicile.

18 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.