



MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

MANAGEMENT'S REPORT

For the fiscal year ended December 30, 2005

Date February 22, 2006

The purpose of this Management Discussion and Analysis is, as required by regulators, to explain management's point of view on Roctest's past performance and future outlook. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes. It should therefore be read in conjunction with those documents.

In this document, unless otherwise indicated, all financial data is prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). All amounts are in Canadian dollars, and the term "dollar", as well as the symbols "\$" and "C\$" designate Canadian dollars.

The Company pursues a growth strategy centered on the expansion of its current activities and strategic acquisitions aimed at increasing its presence in the four market segments where we believe we hold a significant competitive advantage. Forward-looking statements contained in this management report involve known and unknown risks, uncertainties or 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 in this document.

In addition to risks related to the Company's ability to innovate with products that meet the needs of existing as well as future customers in each of its target market segments, the following risks and uncertainties must also be considered:

Lengthy Sales Cycles

The Company currently experiences lengthy sales cycles and is often subject to delays for contract approval from clients over which the Company has no control.

Certain contracts involve technological innovations the development of which may exceed planned delivery schedules and, therefore, delay the execution of commercial agreements. There can be no guarantee that important delays involving development or production of technologically advanced products will not significantly impact the Company's business, operating results or financial situation.

Product Development and Technological Change

The market segments in which the Company operates are characterized by continual innovation requirements and rapid technological change. The ability of Roctest to compete successfully will depend in large measure on the Company's ability to retain technically competent research and development staff and to adapt to technological changes and advances as required in each of its market segments.

Foreign Exchange risks

The Company is present in more than 50 countries and realizes its currency revenues principally in US dollars and Euros. As a result, the Company is exposed to exchange rate fluctuations between the Canadian dollar, the US dollar and the Euro. Roctest has engaged in exchange rate hedging activities and will continue to monitor the US/Canadian dollar and Euro/Canadian dollar exchange rates and engage in such activities as appropriate to its operations. New hedging contracts will be concluded as needed.

The Company has two subsidiaries located in France which generate the majority of their sales and expenses in Euros, thus resulting in a partial hedge against exchange risks with respect to the Euro. The Company also has a US subsidiary which generates a significant portion of its sales in American dollars, in addition to the parent company's sales in the same currency.

International Events and Credit Risk

Roctest generates more than 80% of its sales internationally. Therefore, the Company is subject to international events as well as the relative economic strength of countries where it does business. To protect itself against such risks, the Company performs continuous credit risk assessments of its customers and requires adequate and sufficient guarantees from international customers.

Doing business in so many countries, Roctest enjoys geographic risk diversification. However, the Company is not protected from geopolitical risks that could have a material impact on the completion or delay of certain projects.

Company Profile

Roctest designs, manufactures and markets sensors and high-precision measuring instruments for the industrial control, civil engineering, energy and healthcare markets. The Company is recognized for its leading-edge technology, the quality of its technical expertise and its product development capabilities for demanding applications and environments.

The Company's products are mainly sold internationally. During the last fiscal year, Roctest generated 81.5% of its revenues outside Canada.

The Company has 144 employees at its principal plants and sales offices located in St-Lambert, Quebec City and Gretz-Armainvilliers (near Paris). Roctest is present in many countries through its network of agents and distributors. This commercial development network allows the Company to seize business opportunities in a number of the world's regions where it can demonstrate its technical expertise.

The Company strategy will consist, for the coming quarters, to develop the markets of China, the USA and Europe for both products from the civil engineering measurement instruments sector and the fiber optic sensors sector. The strategy of FISO Technologies, a subsidiary of the Roctest Group specialized in the manufacturing and commercialization of fiber optic sensors, is to stimulate organic growth in its activities by forging agreements that will position itself as a preferred supplier to original equipment manufacturers (OEM). The strategy for the civil engineering sector will be to maintain its position as a consolidator in this highly fragmented market of multiple competitors as well as maintaining organic growth based on product innovation and its ability to integrate complex solutions.

The Company manages two distinct product lines, mainly, fiber optic sensors and civil engineering measurement instruments. The market for fiber optic sensors is an emerging sector offering numerous business opportunities. With regards to the civil engineering sector, Roctest holds approximately 10% of the world market for measurement instruments. This provides enormous growth potential for the Roctest Group.

The Company has adopted, starting in 2005, a new fiscal calendar consisting of four quarters of 13 weeks each. This change was aimed at easing different business processes while maintaining a comparable basis with previous years.

The following table presents a summary of certain selected consolidated financial information from the three-month periods and the fiscal years ended December 30, 2005 and December 31, 2004.

	For the three month periods ended				For the fiscal years ended			
	December 30, 2005		December 30, 2004		December 30, 2005		December 30, 2004	
	\$	% of sales	\$	% of sales	\$	% of sales	\$	% of sales
Consolidated earnings data								
Sales	5,286,512	100.0	5,591,688	100.0	20,873,960	100.0	21,332,820	100.0
Cost of sales	3,344,109	63.3	3,273,899	58.5	12,262,615	58.7	12,045,236	56.5
Gross profit	1,942,403	36.7	2,317,789	41.5	8,611,345	41.3	9,287,584	43.5
Sales and administration expenses	1,672,868	31.6	1,411,933	25.3	6,250,568	30.0	5,479,061	25.7
Research and development, amortization and interest expenses	102,225	1.9	699,193	12.5	2,022,431	9.7	2,362,241	11.1
Foreign exchange loss	(38,791)	(0.7)	112,557	2.0	253,650	1.2	341,757	1.6
Earnings (loss) before income taxes	206,101	3.9	94,106	1.7	84,696	0.4	1,104,525	5.2
Provision for (recovery of) income taxes	86,385	1.6	(213,200)	(3.8)	(123,167)	0.6	100,389	0.5
Net earnings	119,716	2.3	307,306	5.5	207,863	1.0	1,004,136	4.7
Earnings per share								
Basic	0.03		0.08		0.05		0.23	
Diluted	0.03		0.08		0.05		0.23	
Weighted average number of shares outstanding	4,509,700		4,441,219		4,509,700		4,441,219	
Weighted average number of shares on a diluted basis	4,525,743		4,441,219		4,525,743		4,441,219	

The following table presents a summary of certain selected consolidated balance sheet information as of December 30, 2005 and December 31, 2004.

	December 30, 2005	December 31, 2004
	\$	\$
Consolidated balance sheet data		
Working capital ⁽¹⁾	9,734,270	8,895,858
Property, plant and equipment	5,126,273	5,779,915
Total assets	24,401,305	22,071,615
Total long-term debt	2,436,935	3,115,932

(1) Working capital is defined as current assets minus current liabilities

Forward-looking statements

Certain statements made in this MD&A may constitute forward-looking statements and are subject to significant risks which are difficult to predict, as well as uncertainties and assumptions which may prove to be inaccurate. The results or events predicted in these statements may differ materially from actual results or events. Certain of the risk factors which could cause results or events to differ materially from current expectations include the following : the length of the sales cycle and the fact that certain contracts are subject to delay, the capacity of the Company to maintain new product development at a high level and in an efficient manner, currency fluctuations and international events. The forward-looking statements contained in this document represent the Company's expectations as of February 22, 2006 and, accordingly, are subject to change after that date. However, the Company disclaims any intention to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

FISCAL 2005 REVIEW

Consolidated Results for the Year Ended December 30, 2005

Revenues and Gross Profits

Consolidated revenue was \$20.87 million for 2005, a 2.2% decrease in comparison with consolidated revenue of \$21.33 million for the corresponding period of 2004, while net earnings were \$0.21 million, a decrease of 79.3% compared to net earnings of \$1 million in 2004. The reduction in revenue is mainly attributable to lower sales of \$0.69 million in the fiber optic sensors based industrial sector compensated in part by an increase in sales of \$0.24 million in the civil engineering sector. The decrease in gross profit of 2.2% as a percentage of sales is mainly due to the reduction in sales of higher margin products, and the unfavorable impact of currency fluctuations with the US dollar and the Euro, which more than offset the savings realized by implementing continuous improvement measures and cost reduction program.

The impact of the fluctuation in the US dollar and Euro vis-à-vis the Canadian dollar resulted in a reduction of sales of \$0.75 million compared to the average rates of 2004.

Sales and Administration Expenses

Sales and administration expenses include all expenses associated with marketing, sales and administration. Expressed as a percentage of sales, these expenses were 30.0% in 2005 compared to 25.7% for the previous year. This increase reflects the impact of lower sales and, particularly, the investment in additional resources necessary to cover more adequately certain geographical sectors, namely, Asia, United States and Europe.

Research and Development Expenses

Research and development expenses in 2005, before grants and tax credits, amounted to \$2.13 million, an increase of 12.8% over 2004 and represented 10.2% of sales. This increase is attributable primarily to additional technical resources, in conformity with the strategy established by the Company at the beginning of the fiscal year to increase its efforts and investments in new products and continued improvements to existing products.

Amortization and Impairment loss of capital assets

Amortization reached \$1.25 million compared to \$1.30 million in 2004. This represents a decrease of 4.2% in comparison with the previous year. This reduction is primarily due to the fact that there were no major capital asset acquisitions in the year, but rather a renewal and maintenance program for existing equipment. The Company has made additions to its capital assets for an amount of \$0.68 million in 2005.

Interest and Foreign Exchange Transactions

The Company incurred interest expenses mainly on its long-term debt. Interest income was \$0.05 million for 2005 compared to \$0.03 million in 2004. Interest on the long-term debt reached \$0.16 million compared to \$0.19 million in 2004.

The Company is exposed to exchange rate fluctuations throughout the year. During the fiscal year 2005, significant fluctuations of currencies, mainly the US dollar and the Euro resulted in a foreign exchange loss of \$0.25 million compared with a loss of \$0.34 million in 2004. The average exchange rates for the US dollar and the Euro in comparison with the Canadian dollar were 1.21 and 1.51 respectively in 2005 compared to 1.30 and 1.62 respectively in 2004.

Roctest has engaged in exchange rate hedging contracts to reduce its exposure to foreign exchange fluctuations. As at December 30, 2005, the Company used these foreign exchange contracts with a notional amount of \$US 1.60 million (representing no unrealized exchange gain) compared to \$US 1 million in 2004 (representing an unrealized gain amounting to \$0.02 million).

The Company adopted, on January 1, 2004, the new Canadian Institute of Chartered Accountants Accounting Guideline AcG-13 "*Hedging relationship*" and accounts for its forward exchange contracts at fair value.

Income Taxes

Income taxes recovery represents 145% of earnings before income taxes, compared to an expense of 9% in 2004. This rate reflects the combination of varying income tax rates in force in Canada and in the foreign countries where the Company does business. This rate fluctuates proportionally in relation to the net profit made in each fiscal jurisdiction compared to the consolidated profit. During the current fiscal year, the Company reviewed the status of its unrecorded tax benefits at the beginning of the fiscal year. The main component of the income tax recovery resulted from this review for an amount of \$0.21 million. The reconciliation of income tax rates compared with the basic federal and provincial combined rate is included in note 14 of the consolidated financial statements for the year ended December 30, 2005.

Net earnings

Net earnings amounted to \$0.21 million or \$0.05 per share compared to \$1 million or \$0.23 per share in 2004. The decrease in net earnings results mainly from the following factors:

- Decrease in sales of 2.2% compared to 2004;
- Decrease in revenues attributable to exchange rate fluctuations compared to the average rates of 2004 for an amount of \$0.75 million.
- Increase in cost of sales as a percentage of revenue by 2.2 %;
- Foreign exchange losses of \$0.25 million compared to \$0.34 million in 2004;
- Increase in sales and administration expenses of \$0.77 million;
- Increase in tax credits of \$0.50 million;
- Positive change in income taxes of \$0.22 million.

At the beginning of the second quarter of 2005, the Company changed its accounting policy to translate the financial statements of one of its French subsidiaries, Télémac S.A., which is now considered a self-sustaining operation while it was considered an integrated operation in the past. Currency translation rules of foreign self-sustaining operations provide that the gains or losses on translation are deferred and shown in a separate component in shareholder's equity. This change increased the cumulative translation adjustment in the shareholders' equity, since implementing this accounting policy from April 2, 2005 to December 30, 2005, by an amount of \$0.26 million.

Cash Flow from operating activities

Cash flows from operations reached \$0.72 million compared with operating cash flow of \$2.68 million in 2004. This reduction is mainly attributable to lower net earnings and negative cash flow from non-cash working capital items. The reconciliation of non-cash working capital items is included in note 13 of the consolidated financial statements for the year ended December 30, 2005.

Liquidity and Capital Resources

As at December 30, 2005, the Company had \$4.18 million dollars in cash and cash-equivalents and temporary investments less bank advances compared with \$4.43 million in 2004. The cash and cash-equivalents are made up of cash on hand, bank balances, and short-term liquid investments with maturity dates equal to or less than three months.

The Company and its subsidiaries have credit lines totaling \$5.69 million. As at December 30, 2005, drawdowns of \$0.93 million had been made on these lines of credit. These various credit lines are governed by loan agreements that, inter alia, provide for the maintenance of certain financial ratios as well as hypothecs on movable and immovable assets, including accounts receivable and inventories totaling \$7.09 million.

The Company completed a private placement on November 30, 2005 of 741,852 units at a price of \$2.50 per unit, for gross proceeds of \$1,845,630. Each unit consisted of one common share and one-half of a common share purchase warrant. Each whole Warrant entitling the holder to purchase a common share at a price of \$3.50 for 30 months. An amount of \$1,360,422 less issuing costs of \$168,372 has been recorded in the capital stock of the Company and an amount of \$494,208 has been recorded as Warrants in the shareholders' equity.

The Common shares issued pursuant to this private placement constitute eligible shares for purposes of the SME Growth Stock Plan ("Régime actions-croissance PME"). These shares provide a 100% deduction for Québec income tax purposes to eligible individual investors, provided certain conditions are met.

As at December 30, 2005, the Company's working capital totaled \$9,734,270 compared to \$8,895,858 in 2004. The Company has a solid balance sheet and the capital required to deploy its business strategy.

Capital Assets

New capital asset purchases were \$0.68 million compared with \$0.75 million in 2004. The 2005 purchases were primarily investments in ERP systems and production equipment. Roctest forecasts that during the next fiscal year, capital asset purchases will be maintained at a level similar to that in 2005.

Long Term Debt and Commitments

During the year, the Company increased its capital leases by \$0.24 million. As at December 30, 2005, long term debt amounted to \$2.44 million compared to \$3.12 million in 2004. Long term debt repayments totalled \$0.87 million in 2005. The Company is also committed to future payments under operating leases, mainly for office space.

The Company also issued letters of guarantee with respect to the execution of certain contracts for an amount of \$0.26 million compared to an amount of \$0.21 million as at December 31, 2004.

As at December 30, 2005, the aggregate amount of payments required in the next five years for long term debt, capital lease obligations and long-term contracts are as follow:

Type of contract	2006	2007	2008	2009	2010	Total
	(in million of dollars)					
Long term debt	694	1,453	-	-	-	2,147
Capital lease obligations	110	82	48	35	15	290
Long term lease	153	5	5	2	-	165
	<hr/>					
Total obligations	957	1,540	53	37	15	2,602
	<hr/>					

The long-term debt repayments obligations include demand loans, as per the meaning given to such terms, but do not include two demand loans totalling \$1.98 million as at December 30, 2005 which are currently reimbursed by monthly instalments of \$47,309 as per loan agreements ending in 2009. According to these loan agreements the Company is obligated to meet certain covenants. As at December 30, 2005, the lending institution indicated its tolerance to the fact that one ratio is not met by a subsidiary of the Company. The Company considers that it will be able to repay or refinance its debts as they mature.

Capital and Stock Options

As at December 30, 2005 there were 5,203,071 common shares issued and outstanding. The Company uses the fair value method of accounting for stock options granted to salaried employees since January 1, 2003. Accordingly, Roctest began accounting for the cost of stock-based compensation as an expense. During the year ended December 30, 2005 the cost of compensation paid in stock options was recorded in net earnings with the corresponding credit to contributed surplus for an amount of \$140,224 compared to an amount of \$37,126 in 2004. In addition, an amount of \$13,622 was deducted from contributed surplus to record stock options exercised in 2005.

THREE YEAR REVIEW

FINANCIAL INFORMATION
FOR THE YEARS ENDED
(in millions of dollars except for per share amounts)

	December 30, 2005	December 31, 2004	December 31, 2003
SALES	20.87	21.33	18.77
COST OF SALES	12.26	12.05	11.25
GROSS MARGIN	8.61	9.28	7.52
EXPENSES			
Sales and Administration	6.25	5.48	6.08
Scientific research costs	2.13	1.89	2.44
Grants and tax credits for scientific research	(1.52)	(1.02)	(1.23)
Interest on Long-term Debt	0.16	0.19	0.19
Amortization	1.25	1.30	1.17
Impairment Loss			0.29
Foreign exchange (Gain) Loss	0.25	0.34	0.75
Gain on Disposal of Investment			(1.01)
Restructuring Costs			0.74
	8.52	8.18	9.42
EARNINGS (LOSS) BEFORE THE UNDER NOTED	0.09	1.10	(1.90)
INCOME TAXES (RECOVERY)	(0.12)	0.10	(0.53)
NET EARNINGS (LOSS)	0.21	1.00	(1.37)
EBITDA	1.54	2.62	(0.16)
BASIC EARNINGS (LOSS) PER SHARE	0.05	0.23	(0.31)
DILUTED	0.05	0.23	(0.31)
TOTAL ASSETS	24.40	22.07	22.34

Revenue

Revenue has fluctuated over the last three years. Contracts in the civil engineering sector are usually important, and their postponement or fluctuations are reflected in the sales cycle, thereby directly impacting revenue from one year to another.

Revenue in the civil engineering sector decreased by 7% in 2003 to \$13.9 million, increase by 9% in 2004 to \$15.1 million and by 2% in 2005 to reach \$15.3 million. The fluctuation of foreign exchange rates with respect to the US and European currencies had the effect of reducing sales by \$0.76 million compared to 2003. In addition, certain delays incurred on important contracts, completed in 2004, also explained the decrease in sales in 2003. During 2004, significant growth of revenue in Canada contributed to the increase of 9% for the sector. In 2005, delays on certain important projects in the Middle East explain partially the slow growth. The fluctuation of foreign exchange rates with respect to the US and European currencies amounted to a reduction of \$0.44 million in revenues for this sector.

The fiber optic sensor based industrial sector revenues decreased in 2005 compared to 2004, while there had been a significant increase in 2004 compared to 2003.

Revenue in the fiber optic sensors based industrial sector declined by 18% in 2003 compared to 2002 to reach \$4.9 million.. In 2004, revenues grew at a rate of 27% to reach \$6.2 million. During the year 2005, revenues decreased again by 11% to stand at \$5.5 million. This decrease is mainly attributable to the transition initiated during the year to implement a sales strategy focused on Original Equipment Manufacturers (OEM) clients. While such clients procure recurring sales that are usually of large volume, it generally takes more time to conclude these agreements. The combined effect of the foreign exchange rates of the US dollar and the Euro compared to the Canadian currency in 2005 resulted in a decrease of \$0.31 million in revenues compared to 2004 for the fiber optic sensors sector.

Sales and administration expenses were \$6.08 million in 2003, a 3.7% decrease compared with 2002 mainly as a result of lower marketing expenditures. In 2004, expenses decreased by 9.9% to reach \$5.48 million, mainly due to the results of the restructuring plan initiated in December 2003 which had, among others, the objective to reduce the expenses as a percentage of sales.

During the current year, sales and administration expenses increased by 14.1%. This increase is mainly attributable to the hiring of new regional representatives in Asia, Europe and the United States, to the upgrade of our documentation and internet site as well as costs associated with terminated employees.

At the end of 2003, the Company reorganized its operating structure which resulted in the layoff of 20 employees. Restructuring costs recorded in 2003 amounted to \$0.74 million, attributable mainly to severance payments to terminated employees.

Exchange rate fluctuations resulted in a loss on foreign exchange of \$0.25 million in 2005, while during the previous two years a foreign exchange loss of \$0.34 million was recorded in 2004 and of \$0.75 million in 2003.

Amortization expenses on capital assets reached \$1.25 million in 2005 while it stood at \$1.30 million in 2004 and at \$1.17 million in 2003, mainly as a result of important asset acquisitions during the years 2002 and 2003 (amounting to \$3.05 million and \$1.1 million respectively) which generated increased amortization expenses, as amortization is only recorded after the capital assets are put to use. New capital asset investments totalled \$0.75 and \$0.68 million in 2004 and 2005 respectively. In addition, an impairment loss of \$0.29 million on a building was recorded in 2003.

Research and development expenditures, net of tax credits and grants, were \$1.21 million in 2003, \$0.87 million in 2004 and \$0.61 million in 2005 while amounts before tax credits and grants reached \$2.44, \$1.89 and \$2.13 millions respectively. The 13% increase in 2005 resulted mainly from investments in technical personnel and equipment in the fiber optic sensors sector.

In 2003, the Company recorded a gain of \$1.01 million on the sale of its remaining investment in Corvis Corporation. The Company generated a total cumulative gain of \$6.5 million on this investment.

Income taxes

Income taxes as a percentage of earnings before income taxes were 28% in 2003, 9% in 2004 and (145%) in 2005. These rates are different from Canadian statutory rates due to the reduced income tax rate applicable to manufacturing and processing activities in Canada, certain unaccounted for tax advantages, as well as unrealised gains or losses on foreign exchange. The 19% decrease in 2004, mainly reflects the recognition of tax losses for which no benefits had been previously accounted for in previous years. The significant increase in 2005 follows the review of all of the Company's general tax benefits which had not been previously accounted for.

Net income (loss)

In 2003, the Company recorded a loss of \$1.37 million resulting primarily from a decrease in sales, an increase in scientific research costs, higher amortization expenses, an impairment loss of \$0.29 million on a building, as well as a loss of \$0.75 on foreign exchange and restructuring costs in the amount of \$0.74 million.

This increase in expenses was partially offset by a gain on the disposal of the Company's investment in Corvis Corporation of \$1.01 million.

During 2004, the Company recorded net earnings of \$1 million mainly from an increase in sales of \$2.56 million, a decrease of cost of sales as a percentage of revenue of 3.5% and the reduction of sales and administration expenses as a percentage of sales from 32.4% in 2003 to 25.7% in 2004, as well as the positive impact the use of the tax losses had on the effective income tax rate.

During 2005, the Company recorded a profit of \$0.21 million. The decrease in profitability is attributed mainly to lower revenues from higher margin products, namely fiber optic sensors, as well as an increase of sales and administrative expenses to 30,0% of revenues.

Reconciliation of Net Income and EBITDA

EBITDA is a meaningful measure of performance commonly used by the investment community to analyze and compare companies.

- The Company defines EBITDA as being earnings before interest, income taxes and amortization.
- Interests also include bank charges and other credit related expenses.

EBITDA is not intended to be a measure that should be regarded as an alternative to other financial operating performance prepared in accordance with Canadian GAAP (Generally Accepted Accounting Principles).

Our definition of EBITDA may not be identical to similarly titled measures reported by other companies.

EBITDA is calculated from and reconciled to net income as follows:

ANNUAL EBITDA (in thousands of dollars)

For the years ended

	December 30, 2005	December 31, 2004	December 31, 2003
Net income (loss)	208	1,004	(1,375)
Interests	212	219	294
Income taxes	(123)	100	(534)
Amortization	1,245	1,299	1,171
Impairment loss	-	-	288
EBITDA	<u>1,542</u>	<u>2,622</u>	<u>(156)</u>

LAST EIGHT QUARTERS REVIEW

(in millions of dollars, except per share amounts)

	2005					2004				
	T1	T2	T3	T4	TOTAL	T1	T2	T3	T4	TOTAL
SALES	5.22	5.44	4.93	5.28	20.87	5.06	5.96	4.72	5.59	21.33
COST OF SALES	3.17	3.20	2.55	3.34	12.26	2.91	3.50	2.37	3.27	12.05
GROSS EARNINGS	2.05	2.24	2.38	1.94	8.61	2.15	2.46	2.35	2.32	9.28
EXPENSES										
Sales and administration	1.38	1.72	1.49	1.66	6.25	1.30	1.45	1.31	1.42	5.48
Scientific research costs	0.54	0.58	0.53	0.48	2.13	0.38	0.45	0.53	0.53	1.89
Grants and tax credits for scientific research	(0.24)	(0.24)	(0.24)	0.80	(1.52)	(0.20)	(0.15)	(0.36)	(0.31)	(1.02)
Interest on long term debt	0.04	0.04	0.04	0.04	0.16	0.06	0.04	0.04	0.05	0.19
Amortization	0.31	0.28	0.25	0.41	1.25	0.28	0.30	0.30	0.42	1.30
Foreign exchange (gain) loss	0.08	(0.05)	0.27	(0.05)	0.25	(0.08)	(0.09)	0.40	0.11	0.34
	2.11	2.33	2.34	1.74	8.52	1.74	2.00	2.22	2.22	8.18
EARNINGS BEFORE TAXES	(0.06)	(0.09)	0.04	0.20	0.09	0.41	0.46	0.13	0.10	1.10
INCOME TAXES	(0.01)	(0.10)	(0.09)	0.08	(0.12)	0.08	0.16	0.07	(0.21)	0.10
NET EARNINGS (LOSS)	(0.05)	0.01	0.13	0.12	0.21	0.20	0.30	0.06	0.31	1.00
Per common share										
Basic	(0.01)	0.00	0.03	0.03	0.05	0.07	0.07	0.01	0.03	0.23
Diluted	(0.01)	0.00	0.03	0.03	0.05	0.77	0.78	0.48	0.59	2.62
EBITDA	<u>0.29</u>	<u>0.24</u>	<u>0.33</u>	<u>0.68</u>	<u>1.54</u>	<u>0.07</u>	<u>0.07</u>	<u>0.01</u>	<u>0.03</u>	<u>0.23</u>
TOTAL ASSETS	<u>22.07</u>	<u>21.15</u>	<u>21.49</u>	<u>24.40</u>	<u>24.40</u>	<u>22.30</u>	<u>22.00</u>	<u>21.70</u>	<u>22.07</u>	<u>22.07</u>

Revenue

Revenue increased in the first and third quarters of 2005 compared to the corresponding quarters of 2004. During these quarters, the significant increase in the civil engineering sector balanced a decrease in the fiber optic sensors sector. However, in the second quarter of 2005, both sectors posted lower revenues compared to 2004. As for the fourth quarter 2005, revenues in the civil engineering sector decreased by 9% while revenues in the fiber optic sensors sector rose by 4% compared to 2004.

In 2004, the Company completed certain major contracts in the civil engineering sector which were delayed in 2003. During the fiscal year 2005, we experienced the opposite situation when certain clients requested that we delay the execution of certain contract. The decrease in value of the US currency compared to the Canadian dollar had the impact of reducing revenues.

The relative stability in revenues posted in each quarter in 2004 is mainly attributable to a staggered delivery schedule, over a longer period, at the request of clients in the civil engineering sector. For the fiber optic sensors sector, during the first three quarters, the decrease in quarterly revenues, compared to the same quarters in 2004, diminished. During the last quarter of 2005, revenues increased by 4% over 2004.

Expenses

Quarterly gross margin expressed as a percentage of revenues was lower during each of the quarters of 2005 in comparison to the corresponding periods of the previous year. These lower margins are explained mainly by a combined reduction of revenues in general and of revenues from higher margin products and by the constant reduction of margins following the continued appreciation of the Canadian dollar over the principal currencies used by the Company, namely, the US dollar and the Euro.

Quarterly sales and administration expenses have also increased in each quarter compared to the same period in 2004. These higher costs are attributable to the investment in our regional and international sales representation for both sectors, and to Management's decision to focus on OEM clients in the fiber optic sensors sector as well as costs associated with the termination of some employees.

Quarterly scientific research expenses for 2005 increased in each of the quarters or remained flat compared to each quarter of the preceding year with the exception of the last quarter. This generalized increase is mainly attributable to the fiber optic sensors sector and demonstrate our increased efforts to support OEM clients in the development of unique and innovative solutions.

These costs have been reduced by tax credits which had not been recorded during the preceding year for an amount of \$0.30 million. Thus further reducing net scientific research costs. The result of this re-evaluation was recorded in the fourth quarter.

During the year, the Company entered into a new capital lease contract for an amount of \$0.24 million, while in 2004 there had been no new contracts. The interest expense on long term debt for both years remained stable, totalling \$0.16 million and \$0.19 million respectively each year.

Amortization costs were relatively stable in 2005 compared to 2004. In addition, during 2005, capital acquisitions were \$0.68 million (including capital-lease equipment for \$0.24 million) compared to \$0.75 million in 2004.

Exchange rate fluctuations in the US and European currencies, the two main currencies used by the Company in international transactions, resulted in a foreign exchange gain during the second and fourth quarters of 2005 as well as for the first two quarters of 2004. Important fluctuations of the Canadian dollar during the last two quarters of 2004 and for the first and third quarters of 2005 resulted in a foreign exchange loss. These fluctuations had been affected by oil prices and the weakness of the Euro.

The foreign exchange loss incurred during the third quarter of 2004 was mainly the result of an unrealized exchange loss on the conversion of important cash and account receivables balances in US currency.

Income taxes

Income taxes as a percentage of quarterly earnings before taxes have fluctuated significantly during each of the eight quarters of 2005 and 2004, mainly because the assessment of tax losses of subsidiaries and their utilization differ based on the quarterly profitability of these subsidiaries. In addition, the recognition of certain tax benefits which had not been recorded as at December 31, 2004, during the last three quarters of 2005, had an impact on the effective quarterly tax rate. Although management is consistent in its estimates from quarter to quarter, by nature certain tax assessments are reviewed annually.

The recognition and valuation of certain tax benefits were determined more accurately during the last quarter of each year. Although management is consistent in its estimates from quarter to quarter, by nature, certain assessments are reviewed annually during the annual audit of the financial statements.

Net income (loss)

Quarterly profitability improved during the last three quarters of 2005. Earnings before taxes went from a loss during the first two quarters to a \$0.20 million profit before taxes during the last quarter of 2005. During that quarter, a re-evaluation of income tax credits and other tax benefits was completed and approved by our auditors and resulted in an increase of the quarterly provision of \$0.56 million.

During each of the quarters of 2004, the Company recorded a profit. However, during the third quarter, historical lower sales compared to other quarters and an important foreign exchange loss had reduced the profitability of that quarter compared to the other three quarters of 2004.

NEW ACCOUNTING POLICIES

Hedging relationship

Since January 1, 2004, the Company adopted the new Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline AcG-13 “Hedging Relationships”. The accounting guideline addresses the identification, designation, documentation and effectiveness of the hedging relationship for the purpose of applying hedge accounting. In addition, it deals with 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 decided to account for its forward exchange contracts at fair value.

Generally accepted accounting principles and financial statement presentation

Since January 1, 2004, the Company adopted the new CICA Handbook sections 1100 “Generally Accepted Accounting Principles” and 1400 “General Standards of Financial Statements Presentation” recommendations. Section 100 describes what constitutes Canadian generally accepted accounting policies and on determining appropriate disclosures when a matter is not dealt with explicitly in the primary source 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.

NEW ACCOUNTING POLICY NOT YET APPLIED

Financial instruments, hedging, capital assets and comprehensive income

In January 2005, the CICA published four new sections: Section 1530 “Comprehensive Income”, Section 3251 “Equity”, Section 3855 “Financial Instruments – Recognition and Measurement” and Section 3865 “Hedges”. These new standards regarding recognition and measurement of financial instruments, hedging and comprehensive income have been created to harmonize with the generally accepted accounting policies already in use in the United States (U.S. GAAP). These new standards have to be adopted by the Company at the latest for the period ending January 1, 2007, but early adoption is accepted. The Company is currently evaluating the impact of these new standards on its financial position and results of operations.

The Company’s quarterly and annual financial information as well as its annual information form, are available on SEDAR (www.sedar.com) and on its website (www.roctest.com)

During the year, management put in place controls and procedures for external financial reporting. The evaluation made by management of these controls and procedures confirms their effectiveness.

(Signed)

Michel Plante

Vice President and Chief Financial Officer

February 22, 2005