



## MANAGEMENT DISCUSSION AND ANALYSIS For the fiscal year ended December 26, 2008

March 24, 2009

The following Management Discussion and Analysis ("MD&A") is prepared in accordance with *National Instrument 51-102 respecting Continuous Disclosure Obligations*, and explains management's point of view on Roctest's (« **Roctest** » or the « **Company** ») past performance and future outlook. This MD&A for the fiscal year ended December 26, 2008 should be read in conjunction with the audited consolidated financial statements and accompanying notes at same date and included in this annual report. They compare the 2008 fiscal year's operating results and financial position with those of the fiscal years ended December 28, 2007 and December 29, 2006. The Company's quarterly and annual reports as well as other continuous information documents are available on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company's website ([www.roctest.com](http://www.roctest.com)).

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.

### Caution concerning forward-looking statements

This MD&A may contain forward-looking statements within the meaning of Canadian securities laws. Such statements include, but are not limited to, statements relating to the Company's expectations regarding future financings, development of new products and plans, objectives, expectations and intentions of the Company and other statements including words such as "anticipate", "contemplate", "continue", "plan", "estimate", "expect", "intend," "will", "may" "should" or other similar expressions.

Such statements, made as of March 24<sup>th</sup>, 2009, reflect Roctest and its management's current views with respect to future events and are subject to risks, uncertainties, and are necessarily based upon a number of estimates and assumptions that, while presently considered reasonable by the management of the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others:

- Roctest's ability to obtain the substantial capital required to fund operations;
- History of operating losses;
- Roctest's ability to attract and retain key personnel;
- Roctest's ability to protect its intellectual property rights;
- Roctest's ability not to infringe on the intellectual property rights of others or to obtain and renew licenses allowing the use of intellectual property rights of third parties required for its operations;
- Roctest's ability to find and retain new partners and distributors and to enter into agreements with them;
- The development or commercialization of similar products by competitors of the Company, some of which are more established and have greater financial resources than Roctest;
- Potential product liability and other claims;
- Maintain adequate insurance coverage at acceptable costs;
- A change in market conditions;
- Other risks detailed from time to time in the Company's ongoing quarterly filings, annual information forms, annual reports and annual filings with Canadian securities regulators and those which are discussed under the heading "Risk and Uncertainties".

Should one or more of these risks or uncertainties materialize, or should the assumptions set out in the section entitled “Risk and Uncertainties” underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of March 24<sup>th</sup>, 2009 or, in the case of documents incorporated by reference herein, as of the date of such documents, and Roctest does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law. The Company cannot assure that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Investors are cautioned that forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein.

## Company Profile

Roctest develops, manufactures and markets sensors and high-precision measuring instruments for the civil engineering market, and process control, energy, and healthcare applications in the industrial market. 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.

Roctest is headquartered in St-Lambert, Canada and operates: Telemac and Enomfra (Gretz-Armainvilliers, France), Smartec (Manno, Switzerland) and FISO Technologies (Quebec City, Canada). The Company has 117 employees at its principal plants and sales offices and is present in many countries through its network of agents and distributors.

The Company operates in two different segments, namely the industrial sensors market with its fiber optic technology, and the civil engineering measurement instrumentation market with its vibrating-wire and fiber optic technology. For the industrial sector, Roctest offers leading ultra-miniature pressure sensors, innovative and reliable solutions that measure temperature, strain, displacement, force, load, and refractive index in harsh environments and challenging applications. In the civil engineering market, for less than 1% of construction cost, Roctest’s solutions can extend the lifespan of valuable assets, reduce the need for costly repairs and help avoid catastrophic events. Below is a list of sample applications of the Company’s products in each market:

Civil Engineering	Tunnels, bridges, large buildings, monuments, roads, dams, mines and testing equipment
Industrial	Healthcare (intra-aortic balloon pump, MRI), Energy (fuel reservoirs, large transformers), Process Control

The Company’s products are mainly sold internationally. During the last fiscal year, Roctest generated 88.3% of its revenues outside Canada

## Strategy

The Company is currently focused on increasing its presence in China, the U.S. and Europe, with products for the civil engineering and industrial sectors.

### *Civil Engineering*

Roctest’s strategy for the civil engineering sector will be to consolidate its position as a leader in this highly fragmented market of multiple competitors as well as maintaining organic growth based on product innovation, partnerships, and its ability to integrate complex solutions. The acquisition of Swiss-based subsidiary Smartec SA (« **Smartec** ») in 2006, is part of this strategy and has allowed the Company to expand its solutions’ offering for this market.

### *Industrial*

The strategy of FISO Technologies Inc (« **FISO** »), Roctest’s subsidiary 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). It will also focus on developing the medical applications market, where its product offering, its proven capacity to manufacture in high volume and its ability to meet stringent quality standards are all factors that provide FISO with a significant competitive advantage.

### Summary of annual results

The following table presents a summary of certain selected consolidated financial information as of the fiscal years ended December 26, 2008, December 28, 2007 and December 29, 2006.

	December 26, 2008		December 28, 2007		December 29, 2006	
	\$	% of sales	\$	% of sales	\$	% of sales
<b>Consolidated earnings data</b>						
Sales	23,285,568	100.0	21,262,084	100.0	19,941,173	100.0
Cost of sales	13,992,186	60.1	12,711,936	59.8	12,658,820	63.5
Gross Profit	9,293,382	39.9	8,550,148	40.2	7,282,353	36.5
Sales and administration expenses	6,337,750	27.2	6,667,078	31.4	7,097,064	35.6
Research and development expenses	1,140,009	4.9	1,405,888	6.6	1,639,007	8.2
Amortization expenses	1,123,225	4.8	1,104,627	5.2	1,332,173	6.7
Interest expenses	236,369	1.0	321,036	1.5	293,462	1.5
Foreign exchange loss (gain)	(113,337)	(0.5)	218,914	1.0	230,318	1.2
Profit (loss) before income taxes, radiations and restructuring cost	569,366	2.5	(1,167,395)	(5.5)	(3,309,671)	(16.6)
Write-off of assets	-	-	2,170,436	10.2	65,552	0.1
Write-off of goodwill	-	-	1,194,325	5.6		
Restructuring cost	-	-	543,002	2.6	181,278	0.9
Profit (loss) before income taxes	569,366	2.5	(5,075,158)	(23.9)	(3,556,501)	(17.8)
Provision for income taxes	53,587	0.3	1,090,019	5.1	33,964	0.2
Net earnings (loss)	515,779	2.2	(6,165,177)	(29.0)	(3,590,465)	(18.0)
Earnings (Loss) per share						
Basic	0.09		(1.11)		(0.66)	
Diluted	0.09		(1.11)		(0.66)	
Weighted average number of shares outstanding	5,563,071		5,563,071		5,455,564	
Weighted average number of shares on a diluted basis	5,570,610		5,563,071		5,455,564	

The following table presents a summary of certain selected consolidated balance sheet information as of the fiscal years ended December 26, 2008, December 28, 2007 and December 29, 2006.

	December 26, 2008	December 28, 2007	December 29, 2006
	\$	\$	\$
<b>Consolidated balance sheet data</b>			
Working capital <sup>(1)</sup>	4,856,652	2,318,982	3,808,100
Property, plant and equipment	4,320,606	4,718,314	5,455,765
Total assets	17,459,637	17,227,991	25,657,060
Total long-term debt <sup>(2)</sup>	1,730,148	426,287	775,046
Total short-term debt <sup>(2)</sup>	606,827	2,904,578	4,041,893

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

(2) In 2007 and 2006 because the Company did not respect certain debt covenants required by its key lender, long-term debt excluded amounts of \$ 1,341,485 in 2007 and \$ 2,586,579 in 2006 which were classified as short-term although the repayment instalments were due beyond the normal 12 months subsequent period. Since the long-term debt were refinanced in February 2009, and all debt covenants of the new debt are respected, long-term debt exclude only the instalments due within the coming 12 months.

## FISCAL 2008 REVIEW

### Consolidated Results for the Year Ended December 26, 2008

#### Revenues

Consolidated revenues were \$23.3 million for 2008, a 9.5% increase in comparison with consolidated revenues of \$21.3 million for the corresponding period of 2007. The increase in Roctest's revenues is mainly attributable to a 16.6% increase in revenues of the industrial sector and an increase of 7.0% in the civil engineering sector. The following table indicates revenues, by segment, for the fiscal years 2006-2008.

ANNUAL REVENUES (in million of dollars)						
REVENUES / SEGMENT	2008		2007		2006	
	\$	%	\$	%	\$	%
CIVIL ENGINEERING	16.8	72.1	15.7	73.7	14.7	73.9
INDUSTRIAL	6.5	27.9	5.6	26.3	5.2	26.1
CONSOLIDATED REVENUES	23.3	100	21.3	100	19.9	100

In 2008, the civil engineering sector continued to win new contracts in China, Laos and Vietnam as well as in the Middle-East. Roctest also won the prestigious contract to instrument the new St-Anthony Falls bridge in Minneapolis. Toward the end of the year, we saw some weakness in the French market that now seems to have stabilized.

In the same period, the industrial sector showed continued growth with OEM accounts, particularly in the medical market, where its product offering, its demonstrated capability to ship products in high-volume, and its ability to meet stringent quality requirements, are factors that provide the Company with a distinctive advantage over its competitors.

Since the average exchange rate between the US dollar and the Canadian dollar was almost the same between 2008 and 2007, there was no major impact on the financial results for the fiscal year ended December, 26 2008 when compared to fiscal year 2007 and selling prices have remained fairly flat since 2007.

In 2007, because of the geopolitical issues in the Middle-East, Roctest only generated about 50% of the revenues that it historically generated in this region.

Both segments of the Company felt pressure on prices during 2006. In addition to price decreases in the civil engineering sector, certain large contracts were delayed from 2006 to 2007, as well some traditionally

strong markets for the Company turned out to be much slower than forecasted throughout the year of 2006, namely in Canada, China and the Middle-East. The purchase of Smartec SA in 2006 contributed to diminish the impact of the reduction in revenues for the Civil Engineering sector. Concerning the Industrial segment, the decrease in revenues has been less notable, however higher competition contributed to the lowering of prices, which in turn is reflected in margin erosion for this sector, when compared to the preceding year.

### ***Gross Margin***

In 2008, gross margin as a percentage of sales remained fairly flat at 39.9% compared to 40.2% in 2007. The small decrease is mostly related to the mix in product sales which had collectively a lower margin than the mix of products sold during the same period in 2007. As mentioned previously, the impact of the fluctuation of the US dollar against the Canadian dollar was not significant.

In 2007, gross margin as a percentage of sales increased from 36.5% in 2006 to 40.2%. The improvement was mainly due to the following factors: a reduction in margins in the industrial sector of 2.7% of sales caused by the continued strength of the Canadian dollar; a 10 points improvement in the margin of the products manufactured by Roctest Ltd in its St-Lambert facilities as a consequence of the various cost saving initiatives implemented therein.

Also in 2007, the impact of the fluctuation of both the US dollar and Euro with the Canadian dollar resulted in a reduction of sales of \$0.38 million compared to the average rates in 2006. This reduction was directly related to the increase in strength of the Canadian dollar and would have otherwise represented an additional margin of 1%, which could not be achieved.

### ***Sales and Administration Expenses***

Sales and administration ('S&A') expenses include all expenses associated with marketing, sales and administration. Expressed as a percentage of sales, these expenses were 27.2% in 2008 compared to 31.4% for the previous year. This decrease was mainly attributable to a decrease in sales expenses of \$0.33 million, mostly related to headcount reduction.

S&A expenses amounted to 31.4% of sales for 2007, compared with 35.6% for the previous year. This decrease was mainly attributable to a decrease in marketing expenses of \$0.34 million and a reduction in corporate expenses of \$0.24 million, mostly related to headcount reductions in both groups.

For the 2006 fiscal year, these expenses represented \$7.10 million, an increase of 14.5% over the previous year. This increase was principally due to the addition of subsidiary Smartec SA's accounts for an amount of \$0.28 million, to expenses incurred in 2006 relating to the hiring of new personnel during 2005 for which a complete year of expenses was incurred in 2006 and to an additional provision for bad debt of \$0.25 million.

### ***Research and Development Expenses***

Research and development ('R&D') expenses in 2008, before grants and tax credits, amounted to \$1.91 million, a decrease of 15.9% over 2007 and represented 8.2% of sales. Accounting for the reimbursable tax credits of \$0.77 million in 2008 and \$0.85 million in 2007, R&D expenses represented 4.9% of sales in 2008 and 6.6% of sales in 2007. This decrease was mainly attributable to a reduction in R&D resources in the industrial sector and an increase of the reimbursable R&D tax credits.

Research and development expenses in 2007, net of grants and tax credits, amounted to \$1.41 million, a decrease of 14.3% over 2006. This decrease was mainly attributable to a lower level of activity in the civil engineering sector, except for Smartec SA, where a full year of R&D expenses was recorded as opposed to seven months only in 2006, and the reduction in R&D resources in the industrial sector.

In addition, during 2007 and 2006, the Company recorded a valuation allowance on its tax benefits arising from non refundable tax credits, which resulted in a decreased amount of tax credit usually deducted from research and development expenses.

### ***Amortization of Fixed and Intangible Assets and Write-off of Intangible Assets***

Amortization of fixed and intangible assets was \$1.12 million in 2008 compared to \$1.10 million in 2007. The Company added new fixed assets and intangible assets for an amount of \$0.58 million in 2008; the added amortization from these new additions was mostly offset by the fact that other assets were completely amortized during the year.

In 2007, the Company took a special non-cash charge of \$2.17 million to write-off intangible assets compared to \$0.07 million in 2006. Also in 2007, another non-cash charge of \$1.19 million was taken to reduce the goodwill associated with one of its subsidiaries. No non-cash charges were recorded in 2008.

Amortization expense on fixed and intangible assets reached \$1.33 million in 2006. Amortization recorded following the acquisition in May 2006, of the new subsidiary Smartec SA amounted to \$0.06 million. Capital expenditures during 2006 reached \$1.02 million. The impact of these additions on amortization has been partially compensated by the fact that during the year 2005, capital expenditures were \$0.56 million and certain capital assets were completely amortized in 2006.

### ***Interest expenses***

The Company incurred interest expenses on its long-term and short-term debt. Interest on the long-term debt was \$0.16 million in 2008 compared to \$0.24 million in 2007 and to \$0.23 million in 2006. Interest on the short-term debt was \$0.08 million in 2008 compared to \$0.08 million in 2007 and \$0.07 million in 2006.

### ***Foreign Exchange Transactions***

The Company is exposed to exchange rate fluctuations throughout the year. At the end of the fiscal year 2008, fluctuations of currencies, mainly the US dollar, resulted in a foreign exchange gain of \$0.11 million compared with a loss of \$0.22 million in 2007 and a loss of \$0.23 million in 2006. The exchange rates at the end of the period for the US dollar and the Euro in comparison with the Canadian dollar were 1.21 and 1.69 respectively in 2008 compared to 0.98 and 1.44 respectively in 2007 and to 1.17 and 1.54 respectively in 2006. The average exchange rate between Canadian dollar and the US dollar was similar between 2008 and 2007.

To reduce its exposure to foreign exchange fluctuations, Roctest contracted in 2006 a long-term debt in US dollars to create a natural hedge between assets and liabilities in US dollars. This debt was converted into Canadian dollars with the new financing of long-term debt in February 2009. As at December 26, 2008, the Company had no foreign exchange contracts.

### ***Restructuring costs***

In 2008, the Company did not record any restructuring costs. In 2007, the Company recorded non-recurring restructuring costs of \$0.54 million related to cost reduction initiatives in the industrial and civil engineering sectors for an amount of \$0.20 million and a non-recurring charge of \$0.34 million related to advisors that the Company retained to help management review strategic options for the Company. A similar charge was taken in 2006 for an amount of \$0.18 million.

### ***Income Taxes***

In 2008, income taxes represented a charge of \$0.05 million compared to a charge of \$1.09 million in 2007. Included in the 2007 amount are special charges related to the write-off of all the future income tax assets for \$1.0 million in 2007. Due to operating losses in 2006 and 2007, the Company has re-evaluated

its future income tax assets in order to take into account the probability of realizing these tax advantages during future fiscal years. This re-evaluation led to the decision of not recording any new tax benefits relating to non-capital losses and R&D expenditures during the years 2008 and 2007.

The reconciliation of income tax rates compared with the basic federal and provincial combined rate is included in note 17 of the consolidated financial statements for the year ended December 26, 2008.

Income taxes as a percentage of earnings before income taxes represented 1% in 2006, 21.5% in 2007 and 9.4% in 2008. These rates are different from Canadian statutory rates due to the reduced income tax rate applicable, certain unaccounted tax advantages, as well as unrealised gains or losses on foreign exchange. In 2006, in light of the loss incurred, the Company revaluated the timing of realizing all of its recorded tax benefits. Therefore, for 2006, 2007 and 2008, the Company did not record any new tax benefits arising from loss carry forward, R&D expenses carry forward as well as tax credits applicable against future income taxes payable.

### ***Net earnings, Loss***

In 2008, the net earnings were \$0.52 million or \$0.09 per share, compared to net losses of \$6.17 million or \$1.11 per share in 2007. This improvement in net earnings was a consequence of the absence of write-off and restructuring charges when compared to last fiscal year as well as an increase of \$0.74 million in the gross profit generated by an increase of \$2.02 million in sales, a reduction of \$0.33 million in sales and administration expenses, a reduction of \$0.27 million in R&D expenses, a reduction of \$0.09 million in interest expenses and an improvement of \$0.33 million in foreign exchange.

As mentioned before, during the fiscal year 2007, the Company recorded a net loss of \$6.17 million. Without the write-off and one-time restructuring charges, the loss before income taxes would have been \$1.17 million in 2007. The decrease in net earnings resulted mainly from the following factors: a write-off of the intangible assets and goodwill for an amount of \$3.37 million, and a one-time restructuring charge of \$0.54 million.

Before the write-off and one-time restructuring charges, the 2007 improvement in net earnings, compared to 2006, was mainly attributable to: an increase of 6.6% in revenues, an increase of 3.7 points in gross margin, a reduction in amortization charges of \$0.2 million, a reduction in R&D expenses of \$0.2 million and a reduction in sales and administration expenses of \$0.5 million.

In 2006, the Company recorded a net loss of \$3.59 million. The decrease in profitability was due to a major slowdown in the civil engineering segment. Revenues decreased by \$2.4 million, excluding revenues from the new subsidiary Smartec SA of \$1.8 million. Margins of both segments decreased during the year mainly due to increased competition, not fully compensated by cost reduction measures and outsourcing. During the third quarter, a provision for restructuring costs was recorded for an amount of \$0.30 million. As at December 29, 2006 an amount of \$0.18 million has effectively been recorded as an expense, the balance having been reversed. This restructuration aimed at reducing fixed operational costs by \$1 million annually starting in 2007. The unfavorable impact of the strength of the Canadian currency against the main currencies used by the Company resulted in a margin reduction of \$1 million.

### ***Cash Flow from Operating Activities***

Positive cash flow from operations reached \$2.9 million in 2008 compared with positive cash flow of \$0.13 million in 2007. This significant improvement was mainly attributable to the improvement in net earnings and an improvement in non-cash working capital. The reconciliation of non-cash working capital items is included in note 16 of the consolidated financial statements for the year ended December 26, 2008.

In 2006, negative operating cash flow of \$1.92 million was generated. The 2007 improvement over 2006 was mainly attributable to higher revenues, better gross margins and an improvement in non-cash working capital.

## ***Liquidity and Capital Resources***

As at December 26, 2008, the Company had \$1.08 million in cash and cash-equivalents and temporary investments less bank advances compared with \$0.11 million in 2007. The cash and cash-equivalents were made up of cash on hand, bank balances, and short-term liquid investments. The improvement in liquidity is mainly attributable to higher positive cash flow from operations.

As at December 26, 2008, the Company and its subsidiaries had credit lines totaling \$2.14 million compared to \$1.04 million in 2007. These various credit lines are governed by loan agreements that, inter alia, provide for the maintenance of certain financial ratios as well as movable and immovable hypothecs on accounts receivable and inventories totaling \$4.66 million compared to \$6.0 million in 2007.

In 2006, the Company had \$1.33 million in cash and cash-equivalents and temporary investments less bank advances.

As at December 26, 2008, the Company's working capital totaled \$4.9 million compared to \$2.3 million in 2007 and \$3.8 million in 2006. With its current resources, the credit lines from our new financial partner and expected positive cash flow in 2009, the Company is confident it has the financial resources to maintain its ability to invest in projects and continue to improve its working capital.

## ***Inventory***

As at December 26, 2008, the Company inventories were valued at \$3.22 million compared to \$3.16 million as at December 28, 2007. The small increase is due to higher manufacturing volumes. The Company inventories were valued at \$3.70 million at the end of fiscal year 2006. In 2007, the decrease of \$0.5 million, over 2006, was essentially from the inventory of the St-Lambert facility of Roctest Ltd. This reduction is explained by two factors. First, many deliveries to customers were done at the end of 2007, and second, a better management of the inventory was done during the whole year in order to reduce the overall level.

## ***Capital Assets***

New fixed assets and intangible assets reached \$0.58 million in 2008 compared with \$0.45 million in 2007. The 2008 purchases were primarily for production, research and computer equipment for an amount of \$0.38 million, while \$0.20 million represented intangible assets from our Smartec subsidiary.

In 2007, new fixed assets were primarily production equipment, research and computer equipment. In 2006, investments in new fixed assets were added for an amount of \$1.02 million.

## ***Long-term Debt and Commitments***

As at December 26, 2008, long-term debt amounted to \$1.73 million compared to \$0.43 million in 2007. Long-term debt repayments totaled \$1.39 million in 2008 compared to \$1.20 million in 2007. As at December 29, 2006, long-term debt amounted to \$0.78 million.

As at December 26, 2008, total debt amounted to \$2.34 million compared to \$3.33 million in 2007 and \$4.82 million in 2006.

In 2007 and 2006, the Company did not respect certain debt covenants and did not obtain nor ask for a waiver from the lending institution with regards to this non respect of ratios. Therefore, in 2007, long-term debts, for which installments were originally due after 2008 amounting to \$1.34 million, were reclassified as installments due within one year. This resulted in working capital being reduced by the same amount.

Since the long-term debt was refinanced in February 2009, and all debt covenants of the new debt are respected, long-term debt, as at December 26, 2008, excludes only instalments due within the coming 12 months.

The Company also has commitments relating to future payments under operating leases, mainly for office space.

The Company did not issue any letters of guarantee with respect to the execution of certain contracts in 2008 compared to an amount of \$0.03 million in 2007 and \$0.13 million as at December 29, 2006.

As at December 26, 2008, the aggregate minimum amount of payments required in the next five years for long-term debt, capital lease obligations and long-term contracts are as follow:

<b>Type of contract</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Others</b>	<b>Total</b>
	<b>(in million of dollars)</b>						
Long-term debt	536	452	391	208	204	381	2,172
Capital lease obligations	73	47	27	27	10		184
Long-term lease	163	160	129				452
<b>Total obligations</b>	<b>772</b>	<b>659</b>	<b>547</b>	<b>235</b>	<b>214</b>	<b>381</b>	<b>2,808</b>

It should be noted that the Company has debts with some shareholders. These debts were assumed when the Company acquired a subsidiary. This subsidiary, before its acquisition by the Company, had already contracted these debts with some of their shareholders. Following the acquisition, these debts remained and are now payable by the Company.

Details of long-term debt are included in note 12 of the audited consolidated financial statements for the year ended December 26, 2008.

### ***Capital and Stock Options***

As at March 24, 2009, there were 5,563,071 common shares issued and outstanding, the same amount as of December 26, 2008. 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 26, 2008, the cost of compensation paid in stock options was recorded in net earnings with the corresponding credit to contributed surplus for an amount of \$50,885 compared to an amount of \$123,658 in 2007.

On January 8, 2009, the Company granted 97,500 stock options to certain of its employees. The issuance of these options with an exercise price of \$0.58 is conditional to the approval of the stock option plan by the shareholders.

### ***RECONCILIATION OF NET INCOME (LOSS) 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 Generally Accepted Accounting Principles (« GAAP »). 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 26, 2008	December 28, 2007	December 29, 2006
Net income (loss)	516	(6,165)	(3,590)
Interests	425	432	408
Income taxes	56	1,090	34
Amortization	1,123	1,104	1,332
Write-off	-	3,365	66
<b>EBITDA</b>	<b>2,120</b>	<b>(174)</b>	<b>(1,750)</b>

### ***RISKS AND UNCERTAINTIES***

#### ***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 other contracts involve technological innovation development 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***

Certain 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 Risk***

The Company is present in more than 75 countries and realizes its currency revenues principally in US dollars, European Euros as well as Swiss Francs. As a result, the Company is exposed to exchange rate fluctuations between the US dollar, the European Euro, the Swiss Franc and the Canadian dollar. Roctest has not engaged in exchange rate hedging activities in 2008 and 2007, as opposed to 2006, and will continue to monitor the exchange rates of the Canadian dollar, American dollar, the European Euro and the Swiss Franc. New contracts will be concluded as deemed necessary.

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. In an effort to hedge partially the risk with regards to the US currency, the acquisition of Smartec in 2006 was partially paid with a loan in American dollars. However this loan was converted into a Canadian dollars long-term debt when the Company refinanced its long-term debt in February 2009. The new subsidiary located in Switzerland, transacts mainly in Swiss francs.

### ***International Events and Credit Risk***

Roctest generates approximately 90% of its sales outside Canada. 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 risk, the Company performs continuous credit risk assessment of its customers and requires adequate and sufficient guarantees from international customers. Since February 23 2007, the UN organization put new sanctions in place against Iran. These sanctions do not target the products made by Roctest. However, commercial transactions are clearly more difficult further to the decision of Canadian banks not to accept letters of credit from this country. Since 2007, Roctest had to require that all orders from its Iranian customers be prepaid. This has resulted and will continue to result in lower sales to this region.

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

### ***Financing Risk***

In order to support its operations, Roctest needs the usage of short-term credit facilities. In early 2008, the Company replaced its main banker with a new financial partner, Corporation Financière Brome that is providing short-term credit facilities for amounts up to \$1,000,000 and \$750,000 for Roctest Ltd. and FISO respectively. As of December 26, 2008, the Company also had long-term loans (demand loans) with its main banker. As the Company did not meet certain financial ratios at that time, the banker could have recalled these loans. As at February 19<sup>th</sup>, 2009, the Company refinanced these loans with a new financial institution.

### ***Competition***

Competitive pressures in our markets could lead to a loss of market share, which could negatively impact revenues, margins and net income. The Company also competes with manufacturers based in low wage countries which offer products at substantially lower prices. There can be no assurance that the Company will be able to compete successfully against its current or future competitors or that competition will not have a material adverse effect on the Company's results of operations and financial condition.

### ***Dependence upon key personnel***

Roctest is dependent upon the abilities and experience of its executive officers and other key employees. There can be no assurance that the Company can retain the services of such executive officers and key employees. If several executive officers or other key employees were to leave the employment of the Company, its operations could be adversely affected.

### ***Reliance on distributors and sales agents***

Roctest is directly affected by the ability of independent third party distributors and sales agents retained by the Company to sell Roctest's products in their respective markets. The Company's continued success is thus dependent on its ability to attract and retain the distributors and sales agents it requires to support its existing business and to continue to grow.

### ***Product liability and other lawsuits***

The Company, like other worldwide manufacturing companies, has been, and will continue to be, subject to a variety of potential liability claims or other lawsuits connected with its business operations, including potential liabilities and expenses associated with possible product defects or failures. While the Company maintains product liability insurance coverage which it considers to generally be in accordance with industry practice, such insurance does not cover certain categories of claims to which the Company may be subject. Product liability premiums have also increased significantly during the last several years. Accordingly, the Company cannot be certain that product liability insurance coverage will continue to be available to it at a reasonable cost, or, if available, would be adequate to cover its liabilities.

### ***Income and other tax risks***

The Company operates in a number of different tax jurisdictions and has a significant amount of cross-border purchase and sale transactions. The tax rules and regulations in various countries are becoming more complex. There is a risk that one or more tax authorities could disagree with the tax treatment adopted by the Company, resulting in possible tax assessments and ancillary professional fees.

## SUMMARY OF QUARTERLY RESULTS

Summary financial data derived from the Company's unaudited financial statements from each of the eight most recently completed quarters are as follows:

(in million of dollars, except per share amounts)	2007					2008				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
<b>SALES</b>	4.96	5.10	5.23	5.97	<b>21.26</b>	5.10	5.97	5.73	6.50	<b>23.30</b>
<b>COST OF SALES</b>	3.22	3.08	3.11	3.30	<b>12.71</b>	3.20	3.54	3.47	3.79	<b>14.0</b>
<b>GROSS PROFIT</b>	1.74	2.02	2.12	2.67	<b>8.55</b>	1.90	2.43	2.26	2.71	<b>9.30</b>
<b>EXPENSES</b>										
<b>Sales and administration</b>	1.71	1.77	1.63	1.56	<b>6.67</b>	1.42	1.59	1.53	1.80	<b>6.34</b>
<b>Scientific research costs</b>	0.58	0.61	0.63	0.45	<b>2.27</b>	0.47	0.52	0.42	0.50	<b>1.91</b>
<b>Grants and tax credits for scientific research</b>	(0.23)	(0.14)	(0.33)	(0.15)	<b>(0.85)</b>	(0.14)	(0.15)	(0.14)	(0.34)	<b>(0.77)</b>
<b>Interest</b>	0.09	0.08	0.07	0.08	<b>0.32</b>	0.06	0.06	0.06	0.06	<b>0.24</b>
<b>Amortization</b>	0.26	0.25	0.26	0.33	<b>1.10</b>	0.25	0.25	0.26	0.36	<b>1.12</b>
<b>Write-off of assets</b>	-	-	-	2.17	<b>2.17</b>	-	-	-	-	
<b>Write-off of goodwill</b>	-	-	-	1.19	<b>1.19</b>	-	-	-	-	
<b>Foreign exchange (gain) loss</b>	-	0.07	0.02	0.13	<b>0.22</b>	(0.08)	0.02	(0.02)	(0.03)	<b>(0.11)</b>
<b>Restructuring costs</b>	-	-	0.12	0.42	<b>0.54</b>	-	-	-	-	
	2.41	2.64	2.40	6.18	<b>13.63</b>	1.98	2.29	2.11	2.35	<b>8.73</b>
<b>PROFIT/(LOSS) BEFORE TAXES</b>	(0.67)	(0.62)	(0.28)	(3.51)	<b>(5.08)</b>	(0.08)	0.14	0.15	0.36	<b>0.57</b>
<b>INCOME TAXES</b>	0.02	0.05	0.03	0.99	<b>1.09</b>	0.02	0.01	0.00	0.02	<b>0.05</b>
<b>NET EARNINGS (LOSS)</b>	(0.69)	(0.67)	(0.31)	(4.50)	<b>(6.17)</b>	(0.10)	0.13	0.15	0.34	<b>0.52</b>
<b>Per common share</b>										
<b>Basic</b>	(0.12)	(0.12)	(0.05)	(0.82)	<b>(1.11)</b>	(0.02)	0.02	0.03	0.06	<b>0.09</b>
<b>Diluted</b>	(0.12)	(0.12)	(0.05)	(0.82)	<b>(1.11)</b>	(0.02)	0.02	0.03	0.06	<b>0.09</b>
<b>EBITDA</b>	(0.32)	(0.29)	0.14	0.30	<b>(0.17)</b>	0.28	0.50	0.50	0.84	<b>2.12</b>
<b>TOTAL ASSETS</b>	24.1	22.5	22.0	17.2	<b>17.2</b>	16.8	16.7	15.9	17.5	<b>17.5</b>

In 2008, revenue increased sequentially in each quarter except in the 3<sup>rd</sup> quarter. It was also above the corresponding quarters of 2007 in all cases. In 2007, revenue increased sequentially in each quarter and was above the corresponding quarters of 2006 in all cases except the second quarter.

The increase in sales when comparing the 2008 quarters to their respective 2007 quarters is a result of increasing demand in the Company's major end user markets. Fluctuations between quarters are partially due to the timing of the shipments and revenue recognition for large project orders. This is the main reason for the second quarter of 2008 being higher than the third quarter. The Company's sales are typically higher in the last quarter.

## RESULTS OF OPERATIONS – 4TH QUARTER ENDED DECEMBER 26, 2008

	December 26, 2008		December 28, 2007	
	\$	% of sales	\$	% of sales
<b>Consolidated earnings data</b>				
Sales	6,483,274	100.0	5,972,046	100.0
Cost of sales	3,784,803	58.4	3,307,567	55.4
Gross Profit	2,698,471	41.6	2,664,479	44.6
Sales and administration expenses	1,797,066	27.7	1,568,153	26.3
Research and development expenses	160,698	2.5	282,169	4.7
Amortization expense	362,410	5.6	337,896	5.6
Interest expenses	58,721	0.9	67,302	1.1
Foreign exchange loss (gain)	(35,941)	(0.6)	129,267	2.2
Profit before income taxes, write-off and restructuring cost	355,517	5.5	279,692	4.7
Write-off of assets	-		2,170,436	36.3
Write-off of goodwill	-		1,194,325	20.0
Restructuring cost	-		418,002	7.0
Profit (loss) before income taxes	355,517	5.5	(3,503,071)	(58.7)
Provision for income taxes	24,509	0.4	987,285	16.5
Net earnings (loss)	331,008	5.1	(4,490,356)	(75.2)
Earnings (loss) per share				
Basic	0.06		(0.81)	
Diluted	0.06		(0.81)	
Weighted average number of shares outstanding	5,563,071		5,563,071	
Weighted average number of shares on a diluted basis	5,570,610		5,563,071	

### Revenues

In the fourth quarter of 2008, revenues increased by 8.6% compared to the corresponding quarter of 2007. The increase came from our industrial sector where revenues increased by 41.2% compared to 2007 while revenues from our civil engineering sector remained relatively flat. In the last quarter of 2008 for the civil engineering sector, the French market showed some weakness in revenue that was compensated by strong sales from our Smartec subsidiary.

The strong growth of the industrial sector was a consequence of higher orders from OEM customers, particularly in the medical field.

### Gross Margin

In the fourth quarter of 2008, gross margin expresses as a percentage of revenue was down by 3 points, compared to the corresponding quarter of 2007. This decrease was essentially in the civil engineering sector as a result of lower sales in France and an unfavourable mix of products sold compared to the mix of products sold in the corresponding quarter of 2007.

### ***Sales and Administration Expenses***

S&A expenses increased in the 4<sup>th</sup> quarter of 2008 by \$0.23 million compared to the corresponding quarter of 2007. The increase was mostly attributable to additional expenses of \$0.13 million in sales expenses and \$0.10 million in administration expenses.

### ***Research and Development Expenses***

During the 4<sup>th</sup> quarter of 2008, quarterly scientific research expenses have decreased compared to 2007 to reach \$0.16 million. The decrease was mostly related to additional reimbursable tax credits that were recorded during the period.

### ***Amortization***

Amortization increased by \$24,514 in the fourth quarter of 2008 compared to the corresponding quarter of 2007 as a result of new investments made in 2008.

### ***Interest***

Interest expenses decreased by \$8,581 compared to the 4<sup>th</sup> quarter of 2007 due to lower debt.

### ***Foreign Exchange Transactions***

In the last quarter of fiscal 2008, the Company recorded a gain of \$35,941 related to exchange rate fluctuations compared to a loss of \$129,267 in the corresponding quarter of 2007.

### ***Write-off of Intangible Assets***

No write-off was taken during the 4<sup>th</sup> quarter of 2008. In the 4<sup>th</sup> quarter of 2007, the Company took a special non-cash charge of \$2.17 million to write-off intangible assets. Also in 2007, another non-cash charge of \$1.19 million was taken to reduce the goodwill associated with one of its subsidiaries.

### ***Restructuring cost***

There was no restructuring charge taken in the fourth quarter of 2008 compared to an amount of \$0.42 million taken in the corresponding period of 2007.

### ***Income taxes***

In the fourth quarter of fiscal 2008, income taxes represented a charge of \$24,509 compared to a charge of \$987,285 in the corresponding quarter of 2007. In the last quarter of 2007, the Company took a write-off on future income tax assets of \$1.0 million.

Although management is consistent in its provision of income tax estimates from quarter to quarter, by nature, certain assessments are reviewed annually during the annual audit of the financial statements.

### ***Net earnings (net loss)***

In the fourth quarter 2008, the net earnings were \$0.33 million or \$0.06 per share, compared to net losses of \$4.49 million or \$0.81 per share in the corresponding quarter of 2007. The improvement in net earnings was a consequence of the absence of write-off and restructuring charges, when compared to the corresponding quarter of 2007 as well as a reduction of \$0.12 million in R&D expenses, an improvement of \$0.16 million in foreign exchange, partly offset by an increase of \$0.23 million in sales and administration expenses.

## RELATED PARTY TRANSACTIONS

Before its acquisition by Roctest, some shareholders of Smartec had agreed to provide loans to Smartec. Following the acquisition of Smartec by Roctest, these Smartec shareholders became Roctest shareholders and the loans have been maintained for a three-year period at a 4% annual interest rate.

## CONTROLS AND PROCEDURES

### *Disclosure controls*

Disclosure controls and procedures are designed to provide reasonable assurance that all information is gathered and reported to management, including the Company's President and Chief Executive Officer (CEO) and the Vice-President Finance and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of December 26, 2008, an evaluation of the effectiveness of our disclosure controls and procedures, as defined under Multilateral Instrument 52-109 on *Certification of Disclosure in Issuers' Annual and Interim Filings*, was carried out under the supervision of and with the participation of management, including the President and Chief Executive Officer and the Vice-President Finance and Chief Financial Officer. Based on that evaluation, the President and CEO and the Vice-president Finance and CFO concluded that the design and operation of our disclosure controls and procedures were effective as of December 26, 2008, and ensure that information is recorded, processed, summarized, and reported within the time periods specified under Canadian securities laws.

### *Internal control over financial reporting*

Management is responsible for designing adequate internal control over financial reporting, as defined under Multilateral Instrument 52-109 on *Certification of Disclosure in Issuers' Annual and Interim Filings*. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The President and CEO and the Vice-President Finance and CFO performed an assessment in order to determine whether the Company has made significant changes to the internal controls during the fiscal year ended December 26, 2008, that had or possibly could have significant effects on these controls. No such change was identified from their assessment.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The critical estimates and assumptions made by management include: the measurement of allowance for doubtful accounts and inventories, tax credits, long-term asset valuations and impairment assessments, goodwill, trademarks, income taxes, provisions and contingencies. These estimates are done using historical information available to management. The Company reviews all the critical estimates regularly and makes the necessary adjustments when required.

## **NEW ACCOUNTING POLICIES**

### ***1400 "GENERAL STANDARDS OF FINANCIAL STATEMENTS PRESENTATION"***

On December 29, 2007, in accordance with the applicable transitional provisions, the Company early adopted the new recommendations of section 1400, "General Standards of Financial Statement Presentation", of the Canadian Institute of Chartered Accountants' Handbook, dealing with the going concern assumption. The new recommendations, which are effective for fiscal years beginning on or after January 1, 2008, require management to make an assessment of the Company's ability to continue as a going concern over a period which is at least, but is not limited to, twelve months from the balance sheet date. The new requirements only address disclosures and have no impact on the Company's financial results.

### ***1535 "CAPITAL DISCLOSURES"***

On December 29, 2007, in accordance with the applicable transitional provisions, the Company applied the recommendations of Section 1535, "Capital Disclosures", of the Canadian Institute of Chartered Accountants' Handbook. This new section, effective for fiscal years beginning on or after October 1, 2007, establishes standards for disclosing information about the Company's capital and how it is managed. The new accounting standard only addresses disclosures and has no impact on the Company's financial results.

### ***3031 "INVENTORIES"***

On December 29, 2007, in accordance with the applicable transitional provisions, the Company early applied the recommendations of new Section 3031, "Inventories", of the Canadian Institute of Chartered Accountants' Handbook. This new section, effective for fiscal years beginning on or after January 1, 2008, replaces Section 3030 of the same title. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value and deals with the cost formulas that are used to assign costs to inventories. The new standard also requires additional disclosures. To comply with the new section, the Company changed its method of valuation of its raw material inventories from the lower of cost and replacement value to the lower cost and net realizable value. Adoption of this new standard did not have any impact on the Company's results for the years ended December 26, 2008 and December 28, 2007.

### ***3862 "FINANCIAL INSTRUMENTS – DISCLOSURES"***

### ***3863 "FINANCIAL INSTRUMENTS - PRESENTATIONS"***

On December 29, 2007, in accordance with the applicable transitional provisions, the Company applied the recommendations of new Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation", of the Canadian Institute of Chartered Accountants' Handbook. These new sections are effective for fiscal years beginning on or after October 1, 2007. The new accounting standards only address disclosures and had no impact on the Company's financial results.

## **FUTURE ACCOUNTING POLICIES**

### ***3064 "GOODWILL AND INTANGIBLE ASSETS"***

In February 2008, the Canadian Institute of Chartered Accountants published new Section 3064, "Goodwill and Intangible Assets", to replace Section 3062, "Goodwill and Other Intangible Assets". Publication of this new section resulted in the withdrawal of Section 3450, "Research and Development Costs", and consequential amendments to certain recommendations in the Canadian Institute of Chartered Accountant's Handbook. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprise. This new section is effective for fiscal years beginning on or after October 1, 2008 and the Company will implement it as of December 27, 2008. The Company management is not able to assess the impact that the application of this new section will have on the financial statement.

The Company's quarterly and annual financial information as well as its annual information form, are available on SEDAR ([www.sedar.com](http://www.sedar.com)) and on its website ([www.roctest.com](http://www.roctest.com)).

A handwritten signature in blue ink, appearing to read 'Patrick Savaria', with a stylized, cursive script.

**Patrick Savaria**

Vice President Finance and Chief Financial Officer  
March 24, 2009