



MANAGEMENT DISCUSSION AND ANALYSIS For the Fiscal Year Ended December 25, 2009

March 24, 2010

The following Management Discussion and Analysis ("MD&A") is prepared in accordance with the *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 25, 2009 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 2009 fiscal year's operating results and financial position with those of the fiscal years ended December 26, 2008 and December 28, 2007. The Company's quarterly and annual reports, as well as other continuous information documents, are available on SEDAR (www.sedar.com) and on the Company's website (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. These statements may include views related to the expected financial performance of the Company, new product developments, and other expectations of the Company as well as statements including the words "believe", "expect", "anticipate", "intend", "estimate" and other similar expressions or future or conditional verbs such as "will", "should", "would" and "could", and similar expressions.

Such statements, made as of March 24, 2010, 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;
- Maintaining an adequate insurance coverage at acceptable costs;
- Single source manufacturing;
- 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 "Risks 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 24th, 2010 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: Roctest Inc. (USA), Telemac and Enomfra (Gretz-Armainvilliers, France), Smartec (Manno, Switzerland) and FISO Technologies (Quebec City, Canada). The Company has 131 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 civil engineering measurement instrumentation market with its vibrating-wire and fiber optic technology, and the industrial sensors market with its fiber optic technology. 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. 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. 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	Health (intra-aortic balloon pump, MRI), energy (fuel reservoirs, large transformers), process control (microwave ovens)

The Company's products are mainly sold internationally. During the last fiscal year, Roctest generated 92.5% of its revenues outside Canada.

Strategy

The Company is currently focused on increasing its presence in Asia, in the United States and in 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 generating an organic growth based on product innovation, partnerships and its ability to integrate complex solutions.

Industrial

The strategy of FISO Technologies ("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, such as ISO 13485 obtained in 2009, 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 25, 2009, December 26, 2008 and December 28, 2007.

	December 25, 2009		December 26, 2008		December 28, 2007	
	\$	% of sales	\$	% of sales	\$	% of sales
Consolidated earnings data						
Sales	25,475,693	100.0	23,285,568	100.0	21,262,084	100.0
Cost of sales	14,846,691	58.3	13,992,186	60.1	12,711,936	59.8
Gross Profit	10,629,002	41.7	9,293,382	39.9	8,550,148	40.2
Selling and administration expenses	6,874,607	26.9	6,337,750	27.2	6,667,078	31.4
Research and development expenses	797,352	3.1	1,140,009	4.9	1,405,888	6.6
Amortization expenses	985,726	3.9	1,123,225	4.8	1,104,627	5.2
Interest expenses	182,802	0.7	236,369	1.0	321,036	1.5
Foreign exchange loss (gain)	319,648	1.3	(113,337)	(0.5)	218,914	1.0
Earnings (loss) before income taxes, radiations and restructuring cost	1,468,867	5.8	569,366	2.5	(1,167,395)	(5.5)
Write-off of assets	-	-	-	-	2,170,436	10.2
Write-off of goodwill	-	-	-	-	1,194,325	5.6
Restructuring cost	-	-	-	-	543,002	2.6
Earnings (loss) before income taxes	1,468,867	5.8	569,366	2.5	(5,075,158)	(23.9)
Provision for income taxes	300,762	1.2	53,587	0.3	1,090,019	5.1
Net earnings (loss)	1,168,105	4.6	515,779	2.2	(6,165,177)	(29.0)
Earnings (loss) per share						
Basic	0.21		0.09		(1.11)	
Diluted	0.21		0.09		(1.11)	
Weighted average number of shares outstanding	5,563,071		5,563,071		5,563,071	
Weighted average number of shares on a diluted basis	5,678,740		5,570,610		5,563,071	

The following table presents a summary of certain selected consolidated balance sheet information as of the fiscal years ended December 25, 2009, December 26, 2008 and December 28, 2007.

	December 25, 2009	December 26, 2008	December 28, 2007
	\$	\$	\$
Consolidated balance sheet data			
Working capital ⁽¹⁾	6,391,779	4,856,652	2,318,982
Property, plant and equipment	3,943,552	4,320,606	4,718,314
Total assets	19,200,819	17,459,637	17,227,991
Total long-term debt ⁽²⁾	2,106,181	1,730,148	426,287
Total short-term debt ⁽²⁾	316,448	606,827	2,904,578

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

- (2) In 2007, because the Company did not respect certain debt covenants required by its key lender, long-term debt excluded amounts of \$ 1,341,485 which were classified as short-term, although the repayment instalments were due beyond the normal 12 month subsequent period. Since the long-term debt was refinanced in February 2009, and there are no debt covenants that have to be respected, long-term debt excludes only the instalments due within the coming 12 months.

FISCAL YEAR 2009 REVIEW

Results for the Year Ended December 25, 2009

Management Discussion & Analysis

Revenues

Consolidated revenues were \$25.5 million for 2009, an all-time record level for the Company and a 9.4% increase in comparison with consolidated revenues of \$23.3 million for the corresponding period of 2008. The increase in Roctest's revenues is mainly attributable to a 16.5% increase in revenues of the industrial sector, and an increase of 6.7% in the civil engineering sector. The following table indicates revenues, by segment, for the fiscal years 2007 to 2009:

ANNUAL REVENUES (in million of dollars)						
REVENUES / SEGMENT	2009		2008		2007	
	\$	%	\$	%	\$	%
CIVIL ENGINEERING	17.9	70.3	16.8	72.1	15.7	73.7
INDUSTRIAL	7.6	29.7	6.5	27.9	5.6	26.3
CONSOLIDATED REVENUES	25.5	100	23.3	100	21.3	100

In 2009, Roctest launched its innovative SHMLive monitoring service which provides, for a fixed monthly fee, a turnkey real-time structural health monitoring system providing data and exception reports in real-time. In addition, Roctest has continued to win many important contracts. Our unique ability to integrate complex and custom solutions using standard and advanced technologies and products resulted in many significant projects being awarded to Roctest including: the Nam Chien Dam in Vietnam as well as 15 other dams worldwide, the Turcot interchange in Quebec, the Gulf LNG storage in Mississippi and 2 other LNG projects, and 4 nuclear power plants worldwide.

Development of new products continues to be a priority for both the civil engineering and the industrial sectors. Although there were few new product announcements in 2009, we expect to announce many in 2010, as our development teams are actively working on new instruments.

In 2009, our FISO subsidiary delivered once again a record breaking performance achieving its highest level of revenues ever. During the year, FISO continued to strengthen its leading position as a provider of fiber optic sensing solutions for harsh environments and challenging applications by working with many new OEM customers to help them integrate our sensing solutions into their systems. In addition, in 2009, FISO obtained its ISO 13485-2003 certification, a quality standard created specifically for medical devices, making FISO the only fiber optic manufacturer registered to this standard.

Our focus on OEM accounts has continued to serve us well. These integrators of FISO subsystems represented over 72.5% of FISO revenues in 2009, an increase compared to the 55% of 2008. Moreover, in 2009, we have added another automated sensor assembly line (our third line), increasing our production capacity to more than 750 sensors a week, a capability that is presently unmatched in the industry.

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.

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 began to see some weakness in the French market; this market has since 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.

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.

And finally, to come back on 2009, the average exchange rate between the US dollar and the Canadian dollar was 1.14 compared to 1.07 for the same period of 2008. The impact of the difference between these exchange rates translates into a 3% increase of consolidated revenues. In 2008 and 2007, there had been no impact of the exchange rate.

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.

Gross Margin

In 2009, gross margin as a percentage of sales increased to 41.7% compared to 39.9% in 2008. The improvement was mainly due to sales that increased by \$2.2 million compared to 2008, as well as an increase in sales of fiber optic products, both for the industrial and the civil engineering sectors. The margin made on fiber optic products is higher than the one made on traditional technologies. The exchange rate, compared to 2008, had a 0.5% positive impact.

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 point 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.

Selling and Administrative Expenses

Selling and administrative ("S&A") expenses include all expenses associated with marketing, selling and administration. Expressed as a percentage of sales, these S&A expenses decreased to 26.9% in 2009 from 27.2% in 2008, even though selling and administrative expenses increased by \$0.54 million compared to 2008. This increase is mainly attributable to commissions payable to distributors, to the hiring of new sales personnel as well as higher advertising expenses.

In 2008, the S&A expenses were 27.2% of sales 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 sectors of activities.

Research and Development Expenses

Research and development ("R&D") expenses in 2009, before grants and tax credits, amounted to \$1.91 million, the same amount as in 2008, and represented 7.5% of sales. Taking into account the tax credits of \$1.11 million in 2009 and \$0.77 million in 2008, R&D expenses represented 3.1% of sales in 2009 and 4.9% of sales in 2008. This decrease was mainly attributable to an increase of the R&D tax credits, since the overall expense remained stable compared to 2008.

Research and development expenses in 2008, before grants and tax credits, amounted to \$1.91 million and to \$2.3 million in 2007, a decrease of 16.9%, and represented 8.2% of sales of 2008 and 10.7% of 2007. 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.

In addition, during 2007, the Company recorded a valuation allowance on its tax benefits arising from non refundable tax credits, which resulted in a decreased amount in tax credits 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 \$0.99 million in 2009 compared to \$1.12 million in 2008. The decrease in amortization expenses comes from a reduction in total tangible assets that were completely amortized at the beginning of the year, and from the adjustment of the amortization rate of an asset that had been over amortized in the past. The Company added new fixed assets and intangible assets for an amount of \$0.78 million in 2009.

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. Also in 2007, another non-cash charge of \$1.19 million was taken to reduce the goodwill associated with one of its subsidiaries.

Interest Expenses

The Company incurred interest expenses on its long-term and short-term debt. Interest on the long-term debt was \$0.14 million in 2009 compared to \$0.16 million in 2008 and to \$0.24 million in 2007. Interest on the short-term debt was \$0.04 million in 2009 compared to \$0.08 million in 2008 and \$0.08 million in 2007.

Foreign Exchange Transactions

The Company is exposed to exchange rate fluctuations throughout the year. At the end of the fiscal year 2009, fluctuations of currencies, mainly the US dollar, resulted in a foreign exchange loss of \$0.32 million compared with a gain of \$0.11 million in 2008 and a loss of \$0.22 million in 2007.

The exchange rates at the end of the period for the US dollar and the Euro, in comparison with the Canadian dollar, were 1.05 and 1.51 respectively in 2009 compared to 1.21 and 1.69 respectively in 2008 and to 0.98 and 1.44 respectively in 2007.

Restructuring Costs

In 2009 and 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.

Income Taxes

In 2009, income taxes represented a charge of \$0.30 million compared to a charge of \$0.05 million in 2008 and 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. However, in 2009, a \$0.33 million federal tax credit was recorded in order to offset the taxes due, resulting in no cash outflow for income tax payment of the Company.

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 25, 2009.

Income taxes as a percentage of earnings before income taxes represented 21.5% in 2007, 9.4% in 2008 and 20.5% in 2009. 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.

Net Earnings, Loss

In 2009, the net earnings were \$1.17 million or \$0.21 per share, compared to net earnings of \$0.52 million or \$0.09 per share in 2008. This improvement in net earnings was a consequence of an increase of \$1.34 million in the gross profit generated by an increase of \$2.19 million in sales, an increase of \$0.54 million in selling and administrative expenses, an additional charge of \$0.43 million in foreign exchange, an increase of \$0.34 million of the R&D tax credit, a reduction of \$0.05 million in interest expenses, and a \$0.14 million decrease of the amortization charge.

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 selling and administrative 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 was \$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.

The 2007 improvement in net earnings, before the write-off and one-time restructuring charges, 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 selling and administrative expenses of \$0.5 million.

Cash Flow from Operating Activities

Positive cash flow from operations reached \$1.0 million in 2009 compared with positive cash flow of \$2.9 million in 2008. This decrease was mainly attributable to non-cash working capital, mainly caused by the 2008 provincial R&D tax credits that were reimbursed at the beginning of 2010, while these are generally reimbursed during the subsequent year of their recognition. The reconciliation of non-cash working capital items is included in note 16 of the consolidated financial statements for the year ended December 25, 2009.

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.

Liquidity and Capital Resources

As of December 25, 2009, the Company had \$1.25 million in cash and cash-equivalents and temporary investments less bank advances compared with \$1.08 million in 2008 and \$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 2009 improvement mainly comes from the \$0.21 million reimbursement of banking advances.

As of December 25, 2009, the Company and its subsidiaries had credit lines totaling \$2.09 million compared to \$2.14 million in 2008 and \$1.04 million in 2007. These various credit lines are governed by loan agreements, as well as movable and immovable liens on accounts receivable and inventories totaling \$8.13 million compared to \$4.66 million in 2008.

Inventory

As of December 25, 2009, the Company's inventories were valued at \$3.75 million compared to \$3.22 million as of December 26, 2008. While the Company strives to maintain minimum inventories, the increase is due to manufactured products in the St. Lambert plant that were ready to be shipped at the end of the fiscal year, and ended up being shipped in early January 2010 instead, as well as an inventory increase in raw materials at our Swiss plant, in order to support the increasing sales of fiber optic products in the civil engineering sector. The Company's inventories were valued at \$3.16 million at the end of fiscal year 2007.

Capital Assets

New fixed assets and intangible assets reached \$0.78 million in 2009 compared with \$0.58 million in 2008. The 2009 purchases of new fixed assets were primarily for production and computer equipment for an amount of \$0.61 million, and an amount of \$0.17 million was invested in intangible assets by our Smartec subsidiary. In 2008, the purchases were primarily for production, R&D 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, research and computer equipment. In 2007, investments in new fixed assets were added for an amount of \$0.45 million.

Long-Term Debt and Commitments

As of December 25, 2009, long-term debt amounted to \$2.11 million compared to \$1.73 million in 2008. Long-term debt repayments totaled \$0.46 million in 2009 compared to \$1.39 million in 2008. As of December 28, 2007, long-term debt amounted to \$0.47 million.

As of December 25, 2009, total debt amounted to \$2.42 million compared to \$2.34 million in 2008 and \$3.33 million in 2007.

In 2007, 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 debt, for which instalments were originally due after 2008 amounting to \$1.34 million, was reclassified as instalments 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 since there are no debt covenants to be respected, long-term debt, as of December 25, 2009 and 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 2009 and 2008 compared to an amount of \$0.03 million in 2007.

As of December 25, 2009, 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:

Type of contract	2010	2011	2012	2013	2014	Others	Total
(in million of dollars)							
Long-term debt	269	465	262	239	199	866	2 300
Capital lease obligations	55	38	34	10	-	-	137
Long-term lease	192	161	17	12	12	-	394
Total obligations	516	664	313	261	211	866	2 831

It should be noted that the Company has debts outstanding with four former shareholders of a subsidiary. These debts were assumed when the Company acquired this subsidiary. Following the acquisition, these debts remained and are now payable by the Company. Two of these loans have been refinanced during the third quarter of 2009 for a maximum period of 48 months.

Details of long-term debt are included in note 12 of the audited consolidated financial statements for the year ended December 25, 2009.

Capital and Stock Options

As of March 24, 2010, there were 5,563,071 common shares issued and outstanding, the same amount as of December 25, 2009. 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 25, 2009, the cost of compensation paid in stock options was recorded in net earnings with the corresponding credit to contributed surplus for an amount of \$44,537 compared to an amount of \$50,885 in 2008 and to an amount of \$123,658 in 2007.

As of December 25, 2009, there were 534,000 stock options granted to employees and directors.

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 25, 2009	December 26, 2008	December 28, 2007
Net income (loss)	1,168	516	(6,165)
Interest	404	425	432
Income taxes	301	56	1,090
Amortization	986	1,123	1,104
Write-off	-	-	3,365
EBITDA	2,859	2,120	(174)

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 73 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 during fiscal year 2009 and for the same period of 2008, but continues to monitor the exchange rates of the Canadian dollar, the American dollar, the European euro and the Swiss franc. New contracts will be concluded as deemed necessary in the future.

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. The subsidiary, located in Switzerland, transacts mainly in Swiss francs.

International Events and Credit Risk

Roctest generates approximately 93% 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. 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, Brome Financial Corporation, that is providing short-term credit facilities for amounts up to \$1,000,000 and \$750,000 for Roctest Ltd. and FISO respectively. During the first quarter of 2010, the Company has refinanced its short-term credit facilities with a new financial partner, Royal Bank of Canada. The amounts that have been refinanced are the same, but under better conditions. As of February 19, 2009, the Company refinanced its long-term debt with the Business Development Bank of Canada.

Competition

Competitive pressures in the Company's 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 sales 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.

Single Source Manufacturing

The Company owns and operates several manufacturing facilities. However, most of its products are each manufactured in a single location, primarily because of their use of specialized equipment and manufacturing skills, which are difficult to economically and technically duplicate. In the case of a catastrophic interruption to one of these facilities, the supply of affected products would be interrupted for several weeks, as the Company would have to rebuild the affected facility or transfer the production to another location.

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)	2008					2009				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
SALES	5.11	5.97	5.73	6.48	23.29	5.79	6.31	6.89	6.49	25.48
COST OF SALES	3.21	3.54	3.47	3.78	14.00	3.47	3.62	4.01	3.75	14.85
GROSS PROFIT	1.90	2.43	2.26	2.70	9.29	2.32	2.69	2.88	2.74	10.63
EXPENSES										
Selling and administrative	1.42	1.59	1.53	1.79	6.33	1.57	1.69	1.85	1.76	6.87
Scientific research costs	0.47	0.52	0.42	0.50	1.91	0.48	0.45	0.46	0.52	1.91
Grants and tax credits for R&D	(0.14)	(0.15)	(0.14)	(0.34)	(0.77)	(0.16)	(0.17)	(0.16)	(0.62)	(1.11)
Interest	0.06	0.06	0.06	0.06	0.24	0.04	0.05	0.04	0.05	0.18
Amortization	0.25	0.25	0.26	0.36	1.12	0.25	0.25	0.26	0.23	0.99
Foreign exchange (gain) loss	(0.08)	0.02	(0.02)	(0.03)	(0.11)	0.01	0.16	0.03	0.12	0.32
	1.98	2.29	2.11	2.34	8.72	2.19	2.43	2.48	2.06	9.16
EARNINGS/(LOSS) BEFORE TAXES	(0.08)	0.14	0.15	0.36	0.57	0.13	0.26	0.40	0.68	1.47
INCOME TAXES	0.02	0.01	-	0.02	0.05	(0.02)	-	-	0.32	0.30
NET EARNINGS (LOSS)	(0.10)	0.13	0.15	0.34	0.52	0.15	0.26	0.40	0.36	1.17
Per common share										
Basic	(0.02)	0.02	0.03	0.06	0.09	0.03	0.05	0.07	0.06	0.21
Diluted	(0.02)	0.02	0.03	0.06	0.09	0.03	0.05	0.07	0.06	0.21
EBITDA	0.28	0.50	0.50	0.84	2.12	0.46	0.56	0.70	1.14	2.86
TOTAL ASSETS	16.8	16.7	15.9	17.5	17.5	18.1	19.1	18.8	19.2	19.2

In 2009, revenue increased sequentially in each quarter, except in the 4th quarter. It was also above the corresponding quarters of 2008 in all cases. In 2008, revenue increased sequentially in each quarter, except in the 3rd and was above the corresponding quarters of 2007 in all cases.

The increase in sales, when comparing the 2009 quarters to their respective 2008 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.

RESULTS OF OPERATIONS – 4TH QUARTER ENDED DECEMBER 25, 2009

	December 25, 2009		December 26, 2008	
	\$	% of sales	\$	% of sales
Consolidated earnings data				
Sales	6,487,636	100.0	6,483,274	100.0
Cost of sales	3,750,817	57.8	3,784,803	58.4
Gross Profit	2,736,819	42.2	2,698,471	41.6
Selling and administrative expenses	1,752,986	27.0	1,797,066	27.7
Research and development expenses	(98,842)	(1.5)	160,698	2.5
Amortization expense	223,040	3.4	362,410	5.6
Interest expenses	55,509	0.9	58,721	0.9
Foreign exchange loss (gain)	125,227	1.9	(35,941)	(0.6)
Earnings before income taxes	678,899	10.5	355,517	5.5
Provision for income taxes	316,268	4.9	24,509	0.4
Net earnings	362,631	5.6	331,008	5.1
Earnings per share				
Basic	0.06		0.06	
Diluted	0.06		0.06	
Weighted average number of shares outstanding	5,563,071		5,563,071	
Weighted average number of shares on a diluted basis	5,678,740		5,570,610	

Revenues

In the fourth quarter of 2009, revenues remained flat compared to the corresponding quarter of 2008. Revenues in the industrial sector decreased by 6.5% compared to 2008, while revenues from our civil engineering sector increased by 3%. The decrease in revenues in the industrial sector is the consequence of a single customer significantly reducing its orders to reduce its inventory.

Gross Margin

In the fourth quarter of 2009, gross margin expressed as a percentage of revenue was up by 0.6%, compared to the corresponding quarter of 2008. This increase was essentially in the civil engineering sector as a result of additional sales of fiber optic products. Gross margin for this type of product is higher than the margin made on older traditional technologies.

Selling and Administrative Expenses

S&A expenses decreased in the 4th quarter of 2009 by \$0.05 million compared to the corresponding quarter of 2008. The decrease was mostly attributable to the collection of a client account which was in provision for irrecoverable debt.

Research and Development Expenses

During the 4th quarter of 2009, scientific research expenses before R&D tax credits have increased by \$0.02 million. However, the R&D expenses net of tax credits have decreased by \$0.26 million compared to the same period of 2008, since the R&D tax credits have increased by \$0.28 million compared to the

same period of 2008. We must add that a \$0.34 million R&D federal tax credit was recorded in order to offset the income taxes to be paid by a subsidiary of the Company.

Amortization

Amortization decreased by \$0.14 million in the fourth quarter of 2009 compared to the corresponding quarter of 2008. This decrease is the result of an amortization adjustment over a tangible asset that has been over amortized.

Interest

Interest expenses decreased by \$3,211 compared to the 4th quarter of 2008 due to the decrease of the use of short-term credit facilities.

Foreign Exchange Transactions

In the last quarter of fiscal year 2009, the Company recorded a loss of \$0.13 million related to exchange rate fluctuations mainly attributable to the fluctuation of the exchange rate between the Canadian dollar and the US dollar compared to a gain of \$0.04 million in the corresponding quarter of 2008.

Income Taxes

In the fourth quarter of fiscal year 2009, income taxes represented a charge of \$0.32 million compared to a charge of \$0.03 million in the corresponding quarter of 2008. It is worth noting that the Company will not have to pay this income tax charge since a tax credit will be used to compensate it.

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

In the fourth quarter 2009, the net earnings were \$0.36 million or \$0.06 per share, compared to net earnings of \$0.33 million or \$0.06 per share in the corresponding quarter of 2008. The improvement in net earnings was a consequence of a gross margin reduction of \$0.05 million, a reduction of selling and administrative expenses of \$0.04 million, a reduction of R&D expenses of \$0.26 million, and a reduction of amortization charge of \$0.14 million, partly offset by a loss of \$0.16 million in the foreign exchange transactions and an increase of \$0.29 million in income taxes.

RELATED PARTY TRANSACTIONS

Before its acquisition by Roctest in May 2006, four shareholders of Smartec had agreed to provide loans to Smartec. Following the acquisition by Roctest, two of these shareholders became Roctest shareholders and the loans have been maintained for a three-year period at a 4% annual interest rate. These loans have been refinanced during the third quarter of 2009 and will be payable in 2011.

CONTROLS AND PROCEDURES

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.

In accordance with Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings, the effectiveness of the Company's disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") at the financial year end has been evaluated. Based on this evaluation, the President and Chief Executive Officer and the Vice-President Finance and Chief Financial Officer concluded that DC&P and ICFR were effective as of the end of the financial year ended December

25, 2009. Therefore, the design of DC&P provides reasonable assurance that material information relating to the Company, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company in its annual and interim reports is recorded, processed and reported within the time periods specified. Moreover, the design of ICFR provides reasonable assurance of the reliability of the Company's financial reporting and of the preparation of its financial statements, for the purpose of financial reporting, in accordance with the Company's GAAP.

Finally, no change in the Company's ICFR that has materially affected or was reasonably likely to materially affect the Company's ICFR was identified by management during the financial period beginning September 26, 2009 and ending December 25, 2009.

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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In April 2008, the CICA published an exposure draft which required the transition towards IFRS as a guideline, hence replacing the Canadian GAAP actually used by Canadian entities having public accountability. The CICA confirmed that the Canadian GAAP will totally be stringed together with the IFRS published by the International Accounting Standards Board. The Company will have to release its 2011 interim and annual statements according to the IFRS and give comparative information in conformity to the IFRS for the previous fiscal year.

The IFRS use a conceptual framework that is similar to the Canadian GAAP, but there are major differences regarding the reporting, the evaluation and the presentation of the information that has to be released. In order to be prepared for this transition, the Company and its senior management team has developed an implementation plan.

Regular progress reporting to senior management and to the Audit Committee on the status of the IFRS conversion project has been established.

The conversion project consists of four phases:

- "Preliminary diagnosis, planning and definition of the scope" Phase – This phase involves a detailed review and initial scoping of accounting differences between Canadian GAAP and IFRS, a preliminary evaluation of IFRS 1 exemptions for first-time IFRS adopters, and a high-level assessment of potential consequences on financial reporting, business processes, internal controls and information systems.
- "Detailed evaluation" Phase – This phase involves prioritizing accounting treatment issues and preparing a conversion plan, quantifying the impact of converting to IFRS, reviewing and approving accounting policy choices, performing a detailed impact assessment and designing changes to systems and business processes.
- "Definition of the solution" Phase – This phase involves embedding changes to systems, business processes and internal controls, determining the opening IFRS transition balance sheet, maintaining parallel accounting under Canadian GAAP and IFRS, and preparing detailed reconciliations of Canadian GAAP to IFRS financial statements.

- "Implementation" Phase – This phase involves conversion assessment, evaluating improvements for sustainable operational IFRS model, and testing the internal controls environment.

The Company has completed the preliminary diagnosis, detailed evaluation, and the definition of the solution phases. The implementation phase has begun in the fourth quarter. The Company expects to complete the conversion plan before the end of the first quarter 2010.

Management is carefully evaluating possible material differences between IFRS and the current accounting treatment under Canadian GAAP with respect to recognition, measurement, presentation and disclosure of financial information, in light of the following IFRS, among others:

- Presentation of Financial Statements (IAS 1)
- Property, Plant and Equipment (IAS 16)
- Impairment of Assets (IAS 36)
- Intangible Assets (IAS 38)
- Employee Benefits (IAS 19)

This is not an exhaustive list of all the changes that could occur during the transition to IFRS. At this time, the incidence on the Company's financial situation and future results cannot be reasonably determined since it is fairly hard to predict what will be the IFRS in force as of the end of our first period of presentation according to the IFRS. The Company still closely follows the evolution of major differences between the end of Canadian GAAP and IFRS.

The Company's IFRS conversion project is progressing according to schedule.

NEW ACCOUNTING POLICIES

New Standard Adopted

3064 "GOODWILL AND INTANGIBLE ASSETS"

On December 27, 2008, in accordance with the applicable transitional provisions, the Company applied the new recommendations of Section 3064, "Goodwill and Intangible Assets", of the Canadian Institute of Chartered Accountants' Handbook. This new Section, effective for fiscal years beginning on or after October 1, 2008, establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. It clarifies the recognition of intangible assets and establishes the recognition of intangible assets generated in-house. However, the standards related to goodwill are identical to those presented in Section 3062, "Goodwill and Intangible Assets". Adoption of this new Section did not have any impact on the Company's results and financial statements.

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).



Patrick Savaria

Vice President Finance and Chief Financial Officer
March 24, 2010