



## MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

### MANAGEMENT'S REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

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

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

The Company pursues a growth strategy centered on the expansion of its current activities and strategic acquisitions aimed at increasing its presence in the four market segments where we believe we hold a significant competitive advantage. Forward-looking statements contained in this management report involve known and unknown risks, uncertainties or other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

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

#### ***Lengthy Sales Cycles***

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

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

#### ***Product Development and Technological Change***

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

#### ***Foreign Exchange risks***

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

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

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

Roctest generates 83,8 % of its sales internationally. Therefore, the Company is subject to international events as well as the relative economic strength of countries where it does business. To protect itself against such risks, the Company performs continuous credit risk assessments of its customers and requires adequate and sufficient guarantees from international customers.

Doing business in so many countries, Roctest nonetheless enjoys geographic risk diversification.

## **FISCAL 2004 REVIEW**

### **Consolidated Results for the Year Ended December 2004**

#### ***Revenues***

Consolidated revenue was \$21.33 million for 2004, An increase of 13.7 % in comparison with consolidated revenue of \$18.77 million for the corresponding period of 2003, while net earnings were \$1 million, up 173% compared to a loss of \$1.37 million in 2003. The increase in revenue is mainly attributable to sales increases of \$1.24 million in the civil engineering sector and of \$1.32 million in the fiber optic sensor based industrial sectors. The return to profitability is mainly explained by an increase in sales, lower cost of goods sold, a reduction of sales and administration expenses, a lesser loss in foreign exchange than the previous year and the fact that non recurring costs associated with the restructuring plan implemented in December 2003 for an amount of \$0.74 million, have generated savings during the current year.

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

Sales and administration expenses include all expenses associated with marketing, sales and administration. Expressed as a percentage of sales, these expenses were 25.7% in 2004 compared to 32.4% for the previous year. This reduction reflects the impact of the higher sales and, particularly, a lighter corporate structure following the reorganization in December 2003

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

Research and development expenses, before grants and tax credits, amounted to \$1.89 million, a decrease of 22.7 % over 2003 and represented 8.9 % of sales. This decrease is attributable primarily to the implantation of new product development processes that have allowed the Company to rationalized its R&D resources. The Company intends to increase for the future its efforts and investments for new products and continued improvements to existing products.

#### ***Amortization and Impairment loss of capital assets***

Amortization reached \$1.30 million compared to \$1.17 million in 2003. This represents an increase of 11 % in comparison with the previous year. This increase is primarily due to the amortization of capital assets acquired for an amount of \$1.1 million during 2003, while these acquisitions are amortized for a full year in 2004. In addition, the Company has made additions to its capital assets for an amount of \$0.75 million in the current year.

### ***Interest and Foreign Exchange Transactions***

The Company incurred interest expenses mainly on its long-term debt. Interest income was \$0.03 million for 2004 as well as 2003. Interest on the long-term debt was \$0.19 million, the same level as in 2003.

The Company is exposed to exchange rate fluctuations throughout the year. During the year, significant fluctuations of currencies, mainly the US dollar resulted in a foreign exchange loss of \$0.34 million compared with a loss of \$0.75 million in 2003. The average exchange rate for the US dollar in comparison with the Canadian dollar was 1.30 in 2004 compared to 1.40 in 2003.

Roctest has engaged in exchange rate hedging contracts to reduce its exposure to foreign exchange fluctuations. As at December 31, 2004, the Company used foreign exchange contracts with a notional amount of \$1 million (representing an unrealized exchange gain of \$22 000) compared to \$1.05 million in 2003 representing an unrealized loss amounting to \$80 000).

On January 1, 2004, the Company adopted the new Canadian Institute of Chartered Accountants Accounting Guideline AcG-13 "*Hedging relationship*". The Company decided to account for its forward exchange contract at fair value.

In 2003, unrealized gains and losses related to forward exchange contracts were recognized in earnings in the period in which the underlying hedge transaction were recognized.

### ***Income Taxes***

Income taxes represent 9% of earnings before income taxes, compared to 28% in 2003. This rate reflects the combination of varying income tax rates in force in Canada and in the foreign countries where the Company does business. This rate fluctuates proportionally in relation to the net profit made in each fiscal jurisdiction compared to the consolidated profit. Tax losses, for which no benefit was recognized, used by two subsidiaries to reduce their income taxes resulted in a saving of 18.4 % on the consolidated effective tax rate. In addition, tax loss benefits of subsidiaries recognized in 2004 also represented a saving of 4.6 % on this consolidated effective tax rate. The reconciliation of income tax rates compared with basic federal and provincial combined rate is included in note 13 of the consolidated financial statements for the year ended December 31, 2004.

### ***Net earnings***

Net earnings amounted to \$1 million or \$0.23 per share compare to a loss of \$1.37 million or \$0.31 per share in 2003. Net earnings result mainly from the following factors:

- Increase in sales of 13.7 % compared to 2003;
- Decrease in costs of sales as a percentage of revenue by 3,5 %;
- Foreign exchange losses of \$0.34 million compared to \$0.75 million in 2003;
- Decrease in sales and administration expenses of \$0.60 million.

### ***Cash Flow from operating activities***

Cash flows from operations reached \$2.65 million compared with a negative operating cash flow of \$0.43 million in 2003. This increase is mainly attributable to net earnings of \$1 million compared to a loss of \$1.3 million for the previous year.

### ***Liquidities and Capital Resources***

As at December 31, 2004, the Company had 4.43 million dollars in cash and cash-equivalents and temporary investments compared with \$3.31 million in 2003. The cash and cash-equivalents are made up of cash on hand, bank balances, and short-term liquid investments with maturity dates equal or less than three months.

The Company and its subsidiaries have credit lines totaling \$5.71 million. As at December 31, 2004 and 2003, no drawdown had been made on these lines of credit.

These various credit lines are governed by loan agreements that, inter alia, provide for the maintenance of certain financial ratios as well as movable and immovable hypothecs on accounts receivable and inventories totalling \$6.37 million.

As at December 31, 2004, the Company's working capital totalled \$9,560,577 compared to \$9,371,818 in 2003.

The Company has a solid balance sheet and the capital required to deploy its business strategy.

### Capital Assets

New capital assets purchases reached \$0.75 million compared with \$1.1 million in 2003. The 2004 purchases were primarily investments in ERP systems and production equipment. Roctest forecasts that during the next fiscal year, capital asset purchases will be maintained at a level similar to that in 2004.

### Long Term Debt and Commitments

During the year, the Company had no new borrowings. As at December 31, 2004, long term debt amounted to \$2,29 million compared to \$3.12 million in 2003. Long term debt repayments totalled \$0.78 million in 2004.

The Company is committed to future payments under operating leases, mainly for office space.

The Company also issued letters of guarantee with respect to the execution of certain contracts for an amount of \$0.21 million, the same amount as at December 31, 2003.

As at December 31, 2004, the aggregate amount of payments required in the next five years for long term debt, capital lease obligations and long-term contracts are as follow:

Type of contract	2005	2006	2007	2008	2009	Total
	(en milliers de dollars)					
Long term debt	743	2,125	52	-	-	2,920
Capital lease obligations	82	73	40	-	-	195
Long term lease	134	112	5	5	5	261
Total obligations	959	2,310	97	5	5	3,376

The long-term debt repayments for 2006 include two demand loans totalling \$2.54 million at December 31, 2004, which are currently reimbursed by monthly instalments of \$48 309 as per agreements ending in 2009. According to these loan agreements the Company is obligated to meet certain covenants, which are met at December 31, 2004. The Company considers that it will be able to repay or refinance its debts as they mature.

### Capital and Stock Options

As at December 31, 2004 there were 4,441,219 common shares issued and outstanding.

The Company uses the fair value method of accounting for stock options granted to salaried employees since January 1, 2003. Accordingly, Roctest began accounting for the cost of stock-based compensation as an expense. During the year ended December 31, 2004 the cost of compensation paid in stock options was recognised in net earnings with the corresponding credit to contributed surplus for an amount of \$37,126 compared to an amount of 31,795\$ in 2003.

## THREE YEAR REVIEW

### FINANCIAL INFORMATION FOR THE YEARS ENDED DECEMBER 31 (in millions of dollars except for per share amounts)

	2004	2003	2002
SALES	21,33	18,77	20,89
COST OF SALES	12,05	11,25	11,89
GROSS MARGIN	9,28	7,52	9,00
EXPENSES			
Sales and Administration	5,48	6,08	6,32
Scientific research costs	0,87	1,21	0,93
Interest on Long-term Debt	0,19	0,19	0,12
Amortization	1,30	1,17	0,85
Impairment Loss		0,29	
Foreign exchange (Gain) Loss	0,34	0,75	(0,43)
Gain on Disposal of Investment		(1,01)	
Restructuring Costs		0,74	
	8,18	9,42	7,79
EARNINGS (LOSS) BEFORE THE UNDER NOTED	1,10	(1,90)	1,21
GAIN FROM DISCONTINUED OPERATIONS			(0,01)
INCOME TAXES (RECOVERY)	0,10	(0,53)	0,24
NET EARNINGS (LOSS)	1,00	(1,37)	0,98
EBITDA	2,62	(0,16)	2,29
BASIC EARNINGS (LOSS) PER SHARE	0.23	(0.31)	0.22
DILUTED EARNINGS (LOSS) PER SHARE	0.23	(0.31)	0.22
TOTAL ASSETS	22,07	22,34	23,21

### Revenue

Revenue has fluctuated erratically over the last three years. Contracts in the civil engineering sector are usually large, and their postponement or fluctuations are reflected in the sales cycle, thereby directly impacting revenue from one year to another. In addition, revenue in the fiber optic sensor based industrial sector increased significantly in 2004 compared to 2003, while a significant decline took place in 2003 compared to 2002.

Revenue in the civil engineering sector increased by 16% in 2002 to \$14.9 million, but declined by 7% in 2003 to 13.9 million and increased by 9 % in 2004 to reach \$15.1 million. In 2002, certain major contracts in Europe and the Middle East contributed to the revenue progression of this sector, while in 2003, the impact of foreign exchange rates with respect the US and European currencies had the effect of reducing sales by \$0.76 million. In addition, delays on certain important contracts which were completed during 2004, explain partially the reduction in sales for 2003. During 2004, significant growth of revenue in Canada contributed the increase of 9 % for the sector.

Revenue in the fiber optic sensor based industrial sector declined in 2003 compared with the strong sales growth in 2002. Revenue increased by 70% in 2002 to \$6 million, but declined by 18% to \$4.9 million in 2003. In 2004, revenues renewed with growth at a rate of 27 % to reach \$6,2 million. The decrease in the exchange rate between the US dollar and the Canadian currency in 2004 resulted in a decrease of \$0.88 million compared to the average exchange rate of 2003.

Sales and administration expenses were \$6.32 million in 2002, an increase of 32.5 % compared with 2001 mainly as a result of greater personnel hirings, significant increases in marketing expenditures and higher commission expenses of \$0.45 million. For 2003, expenses were reduced by 4% to \$6.08 million, mainly as a result of reduced marketing expenditures. In 2004, these expenses decreased by 10 % to reach \$5.48 million, mainly due to the results of the restructuring initiated in December 2003 and to the fact that management's objective has been to reduce the expenses as a percentage of sales throughout the year.

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

Exchange rate fluctuations resulted in a loss on foreign exchange of \$0.34 million in 2004, while during the previous two years a foreign exchange loss of \$0.75 million was recorded in 2003 and a gain of \$0-.43 million in 2002.

Amortization expenses on capital assets was \$0.85 million in 2002 reached \$1.17 million in 2003 and \$1.30 million in 2004, mainly as a result of asset acquisitions, during the previous two years (amounting to \$3.05 million and \$1.1 million in 2002 and 2003 respectively) which generated increasing amortization as amortization is calculated after the capital assets are put to use. In addition, an impairment loss of \$0.29 million on a building was recorded in 2003.

Research and development expenditures, net of tax credits and grants, were \$0.93 million in 2002. \$1.21 million in 2003 and \$0.87 million in 2004. The research and development expenditures decreased mainly in the civil engineering sector in 2004 compared to 2003.

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

### **Income taxes**

Income taxes as a percentage of earnings before income taxes were 19.8% in 2002, 28% in 2003 and 9 % in 2004. These rates are different from Canadian statutory rates due to the reduced income tax rate applicable to manufacturing and processing activities in Canada, certain unaccounted for tax advantages, as well as unrealised gains or losses on foreign exchange. The 19 % decrease in 2004, mainly reflects the recognition of tax losses benefits which had not been previously accounted for in previous years.

### **Net income (loss)**

Net income in 2002 was \$0.98 million, compared to \$1.43 million in 2001 mainly as a result of an increase in cost of sales as a percentage of revenue, and higher sales and administration costs.

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

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

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

### **Reconciliation of Net Income and EBITDA**

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

- The Company defines EBITDA as being earnings before interest, income taxes and amortization.
- Interest includes interest income, interest expenses and bank charges.

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

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

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

#### **ANNUAL EBITDA**

For the year ended December 31,  
2004  
(in thousands of dollars)

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Net income (loss)	1,004	(1,375)	975
Interests	219	294	224
Income taxes	100	(534)	239
Amortization	1,299	1,171	850
Impairment loss	-	288	-
EBITDA	<u>2,622</u>	<u>(156)</u>	<u>2,288</u>

## LAST EIGHT QUARTERS REVIEW

(in millions of dollars, except per share amounts)

	2004					2003				
	T1	T2	T3	T4	TOTAL	T1	T2	T3	T4	TOTAL
<b>SALES</b>	5,06	5,96	4,72	5,59	21,33	4,61	4,53	4,36	5,27	18,77
<b>COST OF SALES</b>	2,91	3,50	2,37	3,27	12,05	2,78	2,76	2,70	3,01	11,25
<b>GROSS EARNINGS</b>	2,15	2,46	2,35	2,32	9,28	1,83	1,77	1,66	2,26	7,52
<b>EXPENSES</b>										
Sales and administration	1,30	1,45	1,31	1,42	5,48	1,41	1,54	1,61	1,52	6,08
Scientific research costs	0,18	0,30	0,17	0,22	0,87	0,28	0,29	0,28	0,36	1,21
Interest on long term debt	0,06	0,04	0,04	0,05	0,19	0,03	0,04	0,04	0,08	0,19
Amortization	0,28	0,30	0,30	0,42	1,30	0,26	0,25	0,31	0,3	1,17
Impairment loss									0,29	0,29
Foreign exchange (gain) loss	(0,08)	(0,09)	0,40	0,11	0,34	0,27	0,27	0,03	0,18	0,75
Gain on disposal of an investment							(0,19)	(0,82)		(1,01)
Restructuring costs								0,16	0,58	0,74
	1,74	2,00	2,22	2,22	8,18	2,25	2,20	1,61	3,36	9,42
<b>EARNINGS BEFORE TAXES</b>	0,41	0,46	0,13	0,10	1,10	(0,42)	(0,43)	0,05	(1,10)	(1,90)
<b>INCOME TAXES</b>	0,08	0,16	0,07	(0,21)	0,10	(0,11)	(0,10)	(0,04)	(0,28)	(0,53)
<b>NET EARNINGS (LOSS)</b>	0,33	0,30	0,06	0,31	1,00	(0,31)	(0,33)	0,09	(0,82)	(1,37)
Per common share	0,07	0,07	0,01	0,08	0,23	(0,07)	(0,08)	0,02	(0,18)	(0,31)

### Revenue

Revenue increased in each of the quarters of 2004 compared to the corresponding quarters in 2003. This increase is due to an annual sales growth for both the civil engineering sector and the industrial sectors which is comprised of fiber-optic sensors in 2004 of \$1.24 and \$1.32 million respectively.

Certain major contracts postponed in the civil engineering sector, in 2003 were completed at the beginning of 2004. The reduction in value of the US currency compared to the Canadian dollar, although less severe in 2004 compared to 2003, also resulted in lower revenues in 2004.

The sales growth during each quarter was more important in Canada, France, Asia and the Middle East for the civil engineering sector while for the industrial sector using fibre optic sensors the growth was mainly in Canada, the USA and France.

The significant increase during the second quarter of 2004 in comparison to 2003 is mainly attributable to the civil engineering sector which had a sales increase of 37 %. This increase resulted from a concentration of deliveries at the request of clients during that quarter. The civil engineering sector, by the nature of its contracts, is subject to delivery schedule governed by the progression of work on the various projects where our instruments are installed.

### Expenses

Cost of sales, as a percentage of sales, were diminishing during the first three quarters of 2004 in comparison to the same period of 2003. The drop in costs was mainly a result of savings efforts,

continued improvements in production and a reduction in purchases in US currencies. During the fourth quarter of 2004, costs of sales were slightly higher than in 2003, mainly due to certain contracts in the civil engineering sector which were lower margin sales.

Quarterly sales and administration expenses have been maintained at a lower level than those for the same period in 2003. These costs amounted on an annual basis to 25.7 % of sales compared to 32.4 % in 2003. Management focuses on reducing these costs as a percentage of sales.

Quarterly scientific research costs for 2004 have been lower than each of the quarters of the preceding year with the exception of the second quarter. The Company put in place at the beginning of the year two new business processes, namely product development and product portfolio management, which have allowed to concentrate expenditure on projects having the best probability of commercialization and by doing so the Company was able to gain efficiency in managing technical resources and improve the delivery of approved projects.

These costs have been reduced by tax credits cashed during the year which were not previously recorded for an amount of \$0.18 million, thus further reducing net scientific research costs. These receipts have been recorded during the third and the fourth quarter.

During the year, the Company had no new long term debt while during 2003, with the exception of the third quarter, new debts were incurred for an amount, net of reimbursements, of \$1.2 million. The interest expense on long term debt for both years 2004 and 2003 was stable at \$0.19 million.

Amortization costs have been increasing during each quarter of 2004 over 2003, mainly due to important acquisitions made during the preceding year of \$1.1 million for which amortization is only calculated following the assets being in use by the Company. In addition, during 2004, new capital assets reached \$0.75 million.

Exchange rate fluctuations in the US and European currencies, the two main currencies used by the Company in international transactions, resulted in a foreign exchange gain during the first two quarters of 2004 while for the last two quarters of 2004 and the four quarters of 2003 foreign exchange loss were recorded mainly due to the appreciation of the Canadian dollar compared to the US currency. The Euro compared to the Canadian currency appreciated only by 2 % on average compared to 2003.

The foreign exchange loss incurred during the third quarter of 2004 was mainly the result of an unrealized exchange loss on the conversion of important cash and account receivables balances in US currency. During the fourth quarter, the Company was able to convert a large portion of its US currency funds into Canadian dollars at better rates compared to the third quarter and thus allowing to have lesser negative impact on foreign exchange rates during the last quarter of 2004.

During 2004, there has been no sale of investment while during the second and third quarter of 2003 the Company disposed of all its investment in Corvis Corporation, generating a gain of \$1.01 million over those two quarters.

During the last two quarters of 2003, the Company incurred important restructuring costs. Those costs were aimed at streamlining the organizational structure and clarify the development strategy and were mainly comprised of severance payments to terminated employees.

### **Income taxes**

Income taxes as a percentage of quarterly earnings before taxes have fluctuated significantly during each of the eight quarters of 2004 and 2003, mainly because the assessment of tax loss of subsidiaries and their utilization differ based on the quarterly profitability of these subsidiaries. The fact that the tax benefits of some of these losses are not recorded also has an impact on the effective tax rate. In addition, the recognition of certain tax benefits are more accurately determined during the last quarter of each year. Although management is consistent in its estimates from quarter to quarter, by nature certain tax assessment are reviewed annually.

### ***Net income (loss)***

During each quarter in 2004, the Company recorded profits, although during the third quarter, an historically weak revenue quarter, comparing with the other quarters, and an important loss on foreign exchange had an impact of reducing net earnings relatively to the other quarters of 2004. During the preceding year, the opposite situation occurred, only one quarter turned out profitable. The Company recorded net earnings during the third quarter of 2003 due to a profit on the sale of an investment amounting to \$0.82 million.

The quarterly profitability of 2004 is also due to an improved annual gross margin moving from 40.0 % in 2003 to 43.5 % in 2004.

### **NEW ACCOUNTING POLICIES**

#### ***Hedging relationship***

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

Unrealized gains and losses related to forward exchange contracts were recognized in earnings in the period which the underlying hedge transaction was recognized in 2003.

#### ***Generally accepted accounts principles and financial statements presentation***

On January 1, 2004, the Company adopted the new CICA Handbook sections 1100 "Generally Accepted Accounting Principles" and 1400 "General Standards of Financial Statements Presentation" recommendations. Section 100 describes what constitutes Canadian generally accepted accounting policies and on determining appropriate disclosures when a matter is not dealt with explicitly in the primary source of GAAP, thereby recodifying the Canadian GAAP hierarchy. Section 1400 provides general guidance on financial statement presentation and further clarifies what constitute fair presentation in accordance with GAAP.

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

### **NEW ACCOUNTING POLICIES NOT YET APPLIED**

#### ***Variable interest entities***

In June 2003, the CICA issued Accounting Guideline 15 ("AcG-15"), "Consolidation of variable interest entities". The new guidelines requires companies to identify variable interest entities in which they have an interest to determine whether they are the primary beneficiary of such entities and, if so, to consolidate them. A variable interest entity is defined as an entity in which the equity is not sufficient to permit that entity to finance its activities without external support, or the equity investors lack either voting control and obligation to absorb future losses, or the right to receive future returns. At the end of 2003, the CICA announced the deferral of the effective date of AcG-15 as it expects to make certain amendments. Previously, AcG-15 was to be effective for interim and annual periods starting on or after January 1, 2004. It will be effective for interim and annual periods beginning on or after November 1, 2004. The application of this standard will not have any impact on the financial position or results of operations of the Company.

#### ***Financial instruments, hedging, capital assets and comprehensive income***

In January 2005, the CICA published four new sections: Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3865

"Hedges". These new standards regarding recognition and measurement of financial instruments, hedging and comprehensive income have been created to harmonize with the generally accepted accounting policies already in use in the United States (U.S. GAAP). These new standards have to be adopted by the Company at the latest for the period ending January 1, 2007, but early adoption is accepted. The Company is presently evaluating the impact of these new standards on its financial position and results of operations.

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



Michel Plante  
Chief financial officer  
February 22, 2005