

**MANAGEMENT DISCUSSION AND ANALYSIS
OF THE OPERATING RESULTS
AND FINANCIAL POSITION**



Quarter ended on March 30, 2007



MANAGEMENT DISCUSSION AND ANALYSIS

For the first quarter ended March 30, 2007

The purpose of this Management Discussion & Analysis (“MD&A”) is to help the reader understand our development strategy, our future expectations and evaluate our performance in relation to our objectives. The MD&A should be read in conjunction with the interim consolidated financial statements for the quarter ended March 30, 2007, the annual MD&A and the audited consolidated financial statements and related notes for the year ended December 29, 2006 which are included in the Company’s annual report. The Company’s quarterly and annual reports as well as other information documents are available on SEDAR

(www.sedar.com) and on the Company’s website (www.roctest.com).

In order to facilitate different business processes and maintain a comparable basis with previous years, the Company uses a fiscal calendar consisting of four quarters of 13 weeks each.

In the present document, unless otherwise indicated, all financial information is prepared in accordance with Canadian Generally Accepted Accounting principles (GAAP). All amounts are in Canadian dollars. To facilitate reading of this MD&A, the terms “Company” “we” “our” “us” all refer to Roctest Ltd.

Company activity, profile and strategy

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

The Company’s products are mainly sold internationally. A commercial development network consisting of agents and distributors allows the Company to seize business opportunities throughout the world. During the last fiscal year, Roctest generated 88% of its revenues outside of Canada.

The Company is comprised of two distinct sectors, industrial and civil engineering. The industrial sector is mainly based on fiber optics technology and is an emerging sector offering numerous growth opportunities. With regards to

the civil engineering sector, with approximately 10% of the world’s market for measuring instruments, we will continue to deploy significant efforts in order to capitalize on the many opportunities available to innovative firms such as Roctest.

On a general basis, the Company will maintain its strategic focus on developing markets in China, the USA, Europe and South America for its products both for the civil engineering and the industrial sectors.

More specifically, the strategy for FISO Technologies Inc., a subsidiary of the Roctest Group specialized in the manufacturing and commercialization of fiber optic sensors, is to stimulate organic growth of its revenues by concluding agreements that will allow it to position itself as a preferred supplier to original equipment manufacturers (OEM).

In 2007, our main goal will be to conclude new OEM agreements in our industrial sector thereby increasing the importance of OEM clients in this sector's sales. These agreements provide numerous advantages on an operational level. Sales from OEM agreements are recurring, thereby enabling us to reduce production costs and facilitate production planning and product improvements.

One of our medical OEM customers received its FDA (USA) approval for limited market release

for one of its product. It is expected that significant volume will be generated in 2007 for this application.

In addition, due to the important losses incurred, management is currently reviewing strategic options that could be taken rapidly to reduce significantly the level of operating losses of its St-Lambert facility in the civil engineering sector, including the sale of certain assets.

Results of Operations and Financial Position

| | Three month periods ended | | | |
|--|---------------------------|---------------|----------------|------------|
| | March 30, 2007 | | March 31, 2006 | |
| | \$ | % of sales | \$ | % of sales |
| Earnings data | | | | |
| Sales | 4,960,676 | 100.0 | 4,445,051 | 100.0 |
| Cost of sales | 3,222,624 | 65.0 | 2,779,570 | 62.5 |
| Gross profit | 1,738,052 | 35.0 | 1,665,481 | 37.5 |
| Sales and administration expenses | 1,733,623 | 34.9 | 1,517,730 | 34.2 |
| Other administration, research and development and amortization expenses | 670,634 | 13.5 | 649,824 | 14.6 |
| Foreign exchange loss | 2,824 | 0.0 | 25,292 | 0.6 |
| Loss before income taxes | (669,029) | (13.4) | (527,365) | (11.9) |
| Income taxes (recovery) | 23,682 | (0.5) | (229,863) | (5.2) |
| Loss | (692,711) | (13.9) | (297,502) | (6.7) |
| Loss per share | | | | |
| Basic and diluted | (0,12) | | (0,06) | |
| Weighted average number of shares outstanding | 5,563,071 | | 5,203,071 | |

The following table presents a summary of certain selected consolidated balance sheet information as of March 30, 2007 and December 29, 2006.

| | March 30, 2007 | December 29, 2006 |
|-----------------------------------|----------------|-------------------|
| | \$ | \$ |
| Balance sheet data | | |
| Working capital ⁽¹⁾⁽²⁾ | 2,846,425 | 3,808,100 |
| Property, plant and equipment | 5,392,069 | 5,455,765 |
| Total assets | 24,084,429 | 25,657,060 |
| Total debt ⁽²⁾ | 405,197 | 775,046 |

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

(2) Due to the fact that the Company does not respect certain financial ratios, long term debt installments due within one year include an amounts of \$ 2,586,579, which would have been beyond 2007 if ratios were respected, and which were previously classified as long-term debt.

Analysis of financial results

During the quarter ended March 30, 2007, earnings before interest, income taxes and amortization (“EBITDA”) were (\$320,277) compared to (\$220,708) in 2006.

The decrease in EBITDA results mainly from an increase in sales and administration costs of \$0.22 million compared to the same quarter of 2006, partially offset by an increase in gross margin of \$0,07 million compared with 2006.

The lower gross margin as a percentage of sales is mainly attributable to a reduction in sales prices during the first quarter of 2007 compared to 2006 for both sectors of the Company. The average exchange rates for the quarter, for the US dollar and Euro, have increased by 1.3% and 10.5% respectively in comparison to 2006. However the net impact on revenues of the increase of the Euro has been offset by lower revenues in US dollars for the quarter in comparison to the same period in 2006.

Revenue

For the quarter ended March 30, 2007, consolidated revenue reached \$4.96 million, an increase of 11.6% compared to 2006. The civil engineering sector posted sales of \$2.92 million while sales in the industrial sector rose to \$1.52 million.

Excluding sales from Smartec, the quarter’s revenues from the civil engineering sector decreased by 7.7%. The sales from Smartec

allowed this sector to have an increase in revenues of 16.7%, compared to 2006. Revenues from the industrial sector registered a 1.8% increase. Revenue from various markets of this sector remained stable compared to the same period in 2006 even with the decline in prices versus the same period last year.

The decrease in revenues generated by the civil engineering sector, excluding Smartec, in comparison to the corresponding period in 2006 is mainly attributable to important delays in deliveries in the US and the Middle-East, namely, in Iran. On February 23, the UN put in force new sanctions against Iran. Products of the Company are not affected by these sanctions. However, commercial transactions are clearly more difficult with the decision of numerous Canadian banks not to accept letters of credit from this country. In addition, as EDC no longer insures letters of credit from that country, the Company will be very prudent before accepting contracts from that country. This situation will impact deliveries of orders beyond the first quarter of 2007.

The increase in revenues from the industrial sector, even with the decline in prices was derived mainly from OEM client orders, therefore confirming that the strategy implemented last year, aimed at positioning ourselves as a preferred supplier for OEM clients is showing positive results.

Sales and administration

Compared to the first quarter of 2006, sales and administration expenses increased by \$0.22 million to stand at 34.9% of revenue, while they represented 34.2 % of revenue in 2006.

The increase in expenses stems principally from Smartec for an amount of \$0.20 million. Expenses of the other companies of the Group remained stable compared to the same period in 2006.

Research and Development

Research and development (“R&D”), net of grants and refundable income tax credits, remained at the level of 2006 and represents 7.0% compared to 7.9% in 2006. In 2007, research expenditures from Smartec totaled \$0.06 million.

Since the last quarter of 2006, the Company records only refundable tax credits against research and development expenses. This resulted in an increase in net research expenses of \$73,000 compared to 2006.

Amortization of Capital Assets

Amortization of capital assets stood at \$0.26 million being the same amount as in 2006. During the quarter ended March 30, 2007, the Company made capital expenditures of \$0.16 million.

The new capital assets are comprised of, but not limited to, additions to the information systems and production equipment.

Interest and Foreign Exchange

The Company incurred interest expenses mainly on its long term debt and credit facilities. The increase, compared to 2006, is attributable to new loans contracted after the first quarter of 2006.

The Company is exposed to foreign exchange adjustment risks. During the first quarter of 2007, fluctuations of the US dollar and the Euro resulted in a nominal loss while these fluctuations during the first quarter of 2006 had resulted in a loss of \$0.03 million.

To reduce foreign exchange risks, the Company enters into forward exchange contracts. As at March 30, 2007, the Company had such contracts for a notional amount of \$0.4 million compared to \$1 million at December 29, 2006.

Income Taxes

Income taxes, as a percentage of revenue, represent a recovery of 3.5% of earnings before taxes, compared with 43.6% for the first quarter of 2006. The rate reflects a mix of the various income tax rates in the Canadian provinces and foreign jurisdictions in which the Company operates.

This rate fluctuates depending on the proportion of net income by jurisdiction to consolidated net income. Furthermore, during the first quarter of 2006, the acknowledgement of losses incurred by a French subsidiary allowed us to record a future income tax receivable in the amount of \$0.07 million.

At the end of 2006, in light of the loss incurred, the Company revaluated the timing of realizing all of its recorded tax benefits. Therefore 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 income taxes payable. The Company recorded a valuation allowance of its tax benefit assets for an amount of \$1.52 million or 52% of its future income tax assets as at December 29, 2006. This estimate has been maintained for the first quarter of 2007, therefore no future income tax asset has been recorded.

Note 16 to the consolidated financial statements for the year ended December 29, 2006 describes the future income tax assets.

Net Income (loss)

The loss was \$692,711 or \$0.12 per share, compared with a loss of \$297,502, or \$0.06 per share, for the same period in 2006. The loss is mainly attributable to 2.5% deterioration in gross margin as a percentage of revenue, an increase of sales and administration expenses to 34.9% of revenue, compared to 34.2% in 2006, and the

impact of not recording future income tax assets compared to a recovery of \$0.23 million in 2006.

Cash Flows from Operations

Cash flow from operations was a use of \$0.27 million versus a use of \$0.22 million in 2006. This increase results mainly from the loss of the period compensated by a positive increase attributable to changes in non cash working capital items amounting to 0.13 million in comparison to 2006. The changes in non cash working capital items are mainly attributable to a decrease in receivables and an increase in inventories and prepaid expenses. Working capital decreased by \$0.96 million compared to December 29, 2006.

Liquidity and Share Capital and Stock Options

At March 30, 2007, the Company had \$1.03 million in cash and cash equivalents and temporary investments compared to \$2.37 million as at December 29, 2006. The cash and cash-equivalents are made up of cash on hand, bank balances, and short-term investments with maturity dates equal to or less than three months. During the first quarter, the Corporation contracted a new debt totaling \$0.06 million and did not change its current operating lease commitments. During the first quarter of 2007, there were 5,563,071 common shares issued and outstanding.

The Company renegotiated certain credit facilities with special accounts managers from the Company's main banker. These facilities have been reduced from \$6.5 million to \$1.75 million .

The Company and a subsidiary did not respect certain financial ratios as at December 29, 2007 and as at March 30, 2007 and were unable to obtain a waiver from the lending institution with regards to this non respect of ratios. Therefore, long term debts, for which installments were originally due after 2007 amounting to \$2.59 million have been reclassified as installments

due within one year. This resulted in working capital being reduced by the same amount.

During the first quarter of 2007, the Company did not grant any stock options. The cost of compensation paid in stock options, using the fair value method of accounting, was recognized in net earnings with the corresponding credit to contributed surplus for an amount of \$0.03 million compared with \$0.03 million in 2006.

Risks and uncertainties

For discussion of the risks that could affect our business, please refer to our 2006 annual MD&A.

Since December 29, 2006 there have been no significant changes to the risks and uncertainties described in the annual MD&A 2006, which could affect the Company

Certain of the risk factors which could cause results or event to differ materially from current expectation include the following: the length of the sales cycle and the fact that certain contracts are subject to delay, the capacity of the Company to maintain new product development at a high level and in an efficient manner, currency fluctuations and international economic and geopolitical events in general and the capacity for the Company to refinance its long term-debt and maintain its credit facilities.

In addition, following the losses incurred by the St-Lambert unit in the civil engineering sector, management will implement various initiatives to reduce the level of operating losses. From the success of these initiatives the Company will be able to concentrate on value added activities.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting 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 Chief Executive Officer and the Vice-President and Chief Financial Officer have evaluated whether there were changes to internal control over financial reporting during the quarter ended March 30, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

Forward-looking statements

Certain statements made in this MD&A may constitute forward-looking statements and are subject to significant risks and uncertainties which are difficult to predict and assumptions which may prove to be inaccurate. The results or events predicted in these statements may differ materially from actual results or events.

The forward-looking statements contained in this document represent the Company's expectation as of May 9, 2007 and, accordingly, are subject to change after that date. However, the Company disclaims any intention to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

On behalf of Management,

(Signed)

Michel Plante
Vice president Finance and CFO
May 9, 2007

Quarterly Review

Financial Information (in millions of dollars, except for per share amount)

| | 2007 | | | | 2006 | | | |
|-----------------------------------|---------------|----|----|----|--------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| SALES | 4.96 | | | | 4.44 | 5.25 | 5.19 | 5.06 |
| COST OF SALES | 3.22 | | | | 2.78 | 3.07 | 3.39 | 3.42 |
| GROSS MARGIN | 1.74 | | | | 1.66 | 2.18 | 1.80 | 1.64 |
| EXPENSES | | | | | | | | |
| Sales and administration | 1.73 | | | | 1.51 | 1.81 | 1.68 | 2.16 |
| Scientific Research Cost | 0.58 | | | | 0.61 | 0.67 | 0.67 | 0.63 |
| Grants and scientific tax credits | (0.23) | | | | (0.26) | (0.31) | (0.30) | (0.07) |
| Interest on Long-term debt | 0.07 | | | | 0.04 | 0.04 | 0.07 | 0.08 |
| Amortization | 0.26 | | | | 0.26 | 0.32 | 0.29 | 0.53 |
| Foreign Exchange Loss | | | | | 0.03 | 0.16 | - | 0.04 |
| Restructuring costs | | | | | - | - | 0.30 | (0.12) |
| | 2.41 | | | | 2.19 | 2.69 | 2.71 | 3.25 |
| LOSS Before Income Taxes | (0.67) | | | | (0.53) | (0.51) | (0.91) | (1.61) |
| INCOME TAXES | 0.02 | | | | (0.23) | (0.13) | (0.33) | 0.72 |
| NET LOSS | (0.69) | | | | (0.30) | (0.38) | (0.58) | (2.33) |
| PER COMMON SHARE | | | | | | | | |
| Basic | (0.12) | | | | (0.06) | (0.07) | (0.11) | (0.42) |
| Diluted | (0.12) | | | | (0.06) | (0.07) | (0.11) | (0.42) |
| EBITDA | (0.32) | | | | (0.22) | (0.13) | (0.54) | (0.97) |
| TOTAL ASSETS | 24.08 | | | | 23.70 | 26.53 | 26.31 | 25.66 |