



INTERIM MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

For the third quarter ended September 26, 2008

October 24, 2008

The following Management Discussion and Analysis (“MD&A”) is prepared in accordance with National Instrument 51-102F1, and explains management’s point of view on Roctest’s (« **Roctest** » or the « **Company** » past performance and future outlook. This MD&A should be read in conjunction with the interim consolidated financial statements for the quarters ended September 26, 2008 and September 28, 2007, the annual MD&A and the audited consolidated financial statements and related notes for the year ended December 28, 2007 which are included in the Company’s annual report. 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. Such statements include, but are not limited to, statements relating to the Company’s expectations regarding future financings, development of new products and plans, objectives, expectations and intentions of the Company and other statements including words such as “anticipate”, “contemplate”, “continue”, “plan”, “estimate”, “expect”, “intend,” “will”, “may” “should” or other similar expressions.

Such statements, made as of October 24th, 2008, reflect Roctest and its management’s current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable for the management of the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others:

- Roctest’s ability to obtain the substantial capital required to fund operations;
- History of operating losses;
- Roctest’s ability to attract and retain key personnel;
- Roctest’s ability to protect its intellectual property rights;
- Roctest’s ability not to infringe on the intellectual property rights of others or to obtain and renew licenses allowing the use of intellectual property rights of third parties required for its operations;

- Roctest's ability to find and retain new partners and distributors and to enter into agreements with them;
- The development or commercialization of similar products by competitors of the Company, some of which are more established and have greater financial resources than Roctest;
- Potential product liability and other claims;
- Maintain adequate insurance coverage at acceptable costs;
- A change in market conditions;
- Other risks detailed from time to time in the Company's ongoing quarterly filings, annual information forms, annual reports and annual filings with Canadian securities regulators and those which are discussed under the heading "Risk Factors".

Should one or more of these risks or uncertainties materialize, or should the assumptions set out in the section entitled "Risk Factors" underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of October 24th, 2008 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, industrial control, energy, and healthcare markets. The Company offers a complete toolbox of sensor solutions based on two technologies: vibrating-wire, a well-known and proven technology and fiber optics, a state-of-the-art solution. The Company is recognized for its leading-edge technology, the quality of its technical expertise and its product development capabilities for demanding applications and environments.

Roctest is headquartered in St-Lambert, Canada and operates: Telemac and Enomfra (Gretz-Armainvilliers, France), Smartec (Manno, Switzerland) and FISO Technologies (Quebec City, Canada). The Company has 122 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 segments, namely the industrial sensors market with its fiber optic technology, and the civil engineering measurement instrumentation market with its vibrating-wire and fiber optic technology. For the industrial sector, Roctest offers leading ultra-miniature pressure sensors, innovative and reliable solutions that measure temperature, strain, displacement, force, load, and refractive index in harsh environments and challenging applications. In the civil engineering market, for less than 1% of construction cost, Roctest's solutions can extend the lifespan of valuable assets, reduce the need for costly repairs and help avoid catastrophic events. Below is a list of sample applications of the Company's products in each market:

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

The Company's products are mainly sold internationally. During the last fiscal year, Roctest generated 88.6% of its revenues outside Canada

Strategy

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

Civil Engineering

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

Industrial

The strategy of FISO Technologies Inc (« **FISO** »), Roctest's subsidiary specialized in the manufacturing and commercialization of fiber optic sensors, is to stimulate organic growth in its activities by forging agreements that will position itself as a preferred supplier to original equipment manufacturers (OEM). It will also focus on developing the medical applications market, where its product offering, its proven capacity to manufacture in high volume and its ability to meet stringent quality standards are all factors that provide FISO with a significant competitive advantage.

Results of Operations and Financial Position

The following table presents a summary of certain selected statement of earnings information as of September 26, 2008 and September 28, 2007:

	Three month periods ended				Nine month periods ended			
	September 26, 2008		September 28, 2007		September 26, 2008		September 28, 2007	
	\$	% of sales	\$	% of sales	\$	% of sales	\$	% of sales
Consolidated earnings data								
Sales	5,727,613	100.0	5,232,963	100.0	16,802,294	100.0	15,290,038	100.0
Cost of sales	3,464,028	60.5	3,107,700	59.4	10,207,383	60.7	9,404,369	61.5
Gross earnings	2,263,585	39.5	2,125,263	40.6	6,594,911	39.3	5,885,669	38.5
Sales and administration expenses	1,526,045	26.6	1,625,504	31.5	4,540,684	27.0	5,098,927	33.3
Research and development, amortization and interest expenses	603,302	10.5	637,989	12.2	1,917,774	11.4	2,144,184	14.1
Cost reduction plan			125,000	2.4			125,000	0.8
Foreign exchange loss (gain)	(19,888)	(0.3)	16,012	0.3	(77,396)	(0.4)	89,647	0.6
Earnings (loss) before income taxes	154,126	2.7	(279,242)	(5.3)	213,849	1.3	(1,572,087)	(10.3)
Income taxes	865		26,865	0.5	29,078	0.2	102,734	(0.7)
Earnings (loss)	153,261	2.7	(306,107)	(5.8)	184,771	1.1	(1,674,821)	(11.0)
Earnings (loss) per share								
Basic and diluted	0.03		(0.05)		0.03		(0.30)	
Weighted average number of shares outstanding								
Basic	5,563,071		5,563,071		5,563,071		5,563,071	
Diluted	5,595,647		5,563,071		5,595,647		5,563,071	

The following table presents a summary of certain selected consolidated balance sheet information as of September 26, 2008 and December 28, 2007:

	September 26, 2008	December 28, 2007
	\$	\$
Consolidated balance sheet data		
Working capital ^{(1) (2)}	3,050,317	2,318,982
Property, plant and equipment	4,323,628	4,718,314
Total assets	15,876,769	17,227,991
Total long-term debt ⁽²⁾	461,761	426,287

(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 amount of \$ 1,347,772 (\$ 2,404,144 in 2007) which would have been beyond 2008 if ratios were respected, and which were previously classified as long-term debt.

MANAGEMENT DISCUSSION & ANALYSIS

During the quarter ended September 26, 2008, earnings before interest, income taxes and amortization (“EBITDA”) were \$472,800 compared to \$56,386 for the third quarter of 2007. The increase in EBITDA results mainly from an increase in gross margin of \$138,322, a decrease in sales and administration expenses of \$99,459, a decrease of research expenses of \$17,733 and a reduction of the exchange loss by an amount of \$35,900 compared to the same quarter of 2007. Also in the third quarter of 2007, an amount of \$125,000 was recorded to account for the implementation of a cost reduction plan while no amount was taken in 2008.

For the first 9 months of fiscal year 2008, the EBITDA was \$1,152,312 compared to (\$551,622) for the same period of 2007. For the 12 months preceding September 26, 2008, Roctest generated over \$1.4 million in EBITDA.

The higher gross margin during the third quarter of 2008 compared to 2007 is mainly attributable to the higher revenues in the industrial sector and the decrease in manufacturing overhead expenses in the civil engineering sector. The average exchange rate for the quarter, for the US dollar, has remained stable while for the Euro, the average exchange rate has increased by 9% in comparison to 2007. These variations had a net positive impact on revenues of \$109,000 for the third quarter of 2008 and a negative impact of \$465,000 since the beginning of the current fiscal year.

Revenues

For the third quarter ended September 26, 2008, consolidated revenue was \$5.73 million, an increase of 9.5% over the same period in 2007. Revenue from the industrial sector reached \$1.64 million, an increase of 36.8% over the same period last year while revenue from the civil engineering sector was \$4.09 million, an increase of 1.4%.

Revenues from the Roctest Ltd. unit increased by 10.3% compared to the third quarter of 2007. Revenues from our Smartec subsidiary continued to improve since the beginning of the year, representing an increase of 94% in the third quarter over the corresponding quarter of 2007.

Sales and Administration Expenses

Compared to the third quarter of 2007, sales and administration expenses decreased by \$99,459 and represented 26.6% of sales compared to 31.1% of sales for the same period of 2007. This decrease is mainly attributable to our cost reduction initiatives and headcount reductions implemented in 2007.

Research and Development Expenses

Research and development expenses in the third quarter of 2008, before grants and tax credits, decreased by \$17,733 compared to the same period in 2007, and represented 5.0% of sales compared to 5.8% in 2007.

Amortization of Tangible and Intangible Assets

Amortization of fixed assets was \$257,401 in the third quarter of 2008, approximately the same as in the corresponding quarter of 2007. In the quarter ended September 26, 2008, new assets were added for an amount of \$114,420.

Interest and Foreign Exchange Transactions

The \$76,086 decrease in interest expenses on its long-term and short-term debt compared to the third quarter of 2007 is mainly attributable to the fact that the Company completely reimbursed some loans during 2007, that the total debt keeps decreasing and that no new loan was recorded in 2008.

Income Taxes

For the third quarter of 2008, income taxes represent an expense of \$865 compared to an expense of \$26,865 for the third quarter of 2007. 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.

At the end of 2007, in light of the loss incurred, the Company reevaluated 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 \$1.09 million of its future income tax assets as at December 28, 2007. This estimate has been maintained for fiscal year 2008, therefore no future income tax asset has been recorded.

Net earnings, Loss

For the third quarter of 2008, the net profit was \$153,261 or \$0.03 per share, compared to a net loss of \$306,107 or (\$0.05) per share in 2007. The significant improvement in profitability is mainly attributable to the increase in gross margins of \$138,322, a decrease in sales and administration expenses of \$99,459, a decrease in research expenses of \$17,733 and a reduction of the exchange loss by an amount of \$35,900 when compared to the third quarter of 2007. Also in 2007, an amount of \$125,000 was recorded in the third quarter to account for the implementation of a cost reduction plan while no amount was taken in 2008.

Comprehensive income

The other item of the comprehensive income includes the exchange gain from the translation of financial statements of self-sustaining foreign operations in accordance with the criteria of the CICA. This exchange gain comes from the variation of the Euro and the Swiss franc against the Canadian dollar. As an indication, the exchange rates between December 28, 2007 and September 26, 2008 went from 1.4399 to 1.5104 for the Euro against the Canadian dollar and from 0.8680 to 0.9502 for the Swiss franc against the Canadian dollar.

Cash Flow from Operating Activities

During the third quarter, positive cash flow from operations reached \$1,017,102 compared with positive operating cash flow of \$1,080,636 during the same period in 2007.

For the first 9 months of 2008, positive cash flow from operations reached \$2,253,454 compared with positive operating cash flow of \$34,144 during the same period in 2007. The improvement is mainly attributable to an increase in net earnings of \$1,859,592 and an improvement in non-cash working capital of \$483,922.

The improvement in non-cash working capital, compared to December 28, 2007, is mainly attributable to a reduction in receivables (\$1,068,487), a reduction in inventory (\$184,164), a reduction in reimbursable R&D credits (\$211,214), partially offset by a decrease in payables (\$148,226). Overall, working capital of the Company increased by \$731,000 compared to December 28, 2007.

Liquidities and Capital Resources

As at September 26, 2008, the Company had \$1.12 million in cash and cash-equivalents and temporary investments compared with \$0.67 million on December 28, 2007. The cash and cash-equivalents are made up of cash on hand, bank balances, and short-term liquid investments with maturity dates equal to or less than three months. During the third quarter, the Company did not contract new long-term debt and did not change its current operating lease commitments.

On March 20, 2008, the Company replaced its main banker with a new financial partner, Corporation Financière Brome, who is providing short-term credit facilities up to \$1 million and \$0.75 million for Roctest Ltd. and FISO respectively. As at September 26, 2008, the Company was not using its short-term credit facilities. The Company maintained its long-term loans (demand loans) with its main banker.

The Company does not respect certain financial ratios as at December 28, 2007, as well as at September 26, 2008 and did not ask for nor obtain a waiver from the lending institution with regards to this non-respect of ratios. Therefore, long term debts, for which installments amounting to \$1.3 million, originally due after 2008, have been reclassified as installments due within one year. This resulted in working capital being reduced by the same amount.

As of September 26, 2008 and October 24, 2008, there were 5,563,071 common shares issued and outstanding. On the same dates, there were 424,500 stock options previously granted and valid. The Company did not grant stock options during the third quarter. 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 \$15,000.

Related party transactions

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

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, 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.

RISK AND UNCERTAINTIES

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 Risk

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

The Company has two subsidiaries located in France which generate the majority of their sales and expenses in Euros, thus resulting in a partial hedge against exchange risks with respect to the Euro. The Company also has a US subsidiary which generates a significant portion of its sales in American dollars, in addition to the parent Company's sales in the same currency. In an effort to hedge partially the risk with regards to the US currency, the acquisition of Smartec SA was partially paid for with a loan in American dollars. The new subsidiary located in Switzerland transacts mainly in Swiss francs.

International Events and Credit Risk

Roctest generates approximately 87% 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. Since February 23 2007, the UN organization put new sanctions in place against Iran. These sanctions do not target the products made by the Company. However, commercial transactions are clearly more difficult with the decision of Canadian banks not to accept letters of credit from this country. Since 2007, Roctest requires that all orders from our 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 March 2008, the Company replaced the short-term credit facilities of its main banker with a new financial partner, Corporation Financière Brome, that is providing short-term credit facilities which can reach maximum amounts of \$1,000,000 and \$750,000 for Roctest Ltd and FISO Technologies inc. respectively. The Company also has long-term loans (demand loans) with its main banker. As the Company does not meet certain financial ratios, the banker could recall these loans. The banker has not done so and has recently renegotiated some of the terms of these loans to provide for full reimbursement by 2010. If the financial performance of the Company was to deteriorate, the banker could recall these loans. The Company would then need to find alternate financing as it does not currently have the financial resources to reimburse these loans in their entirety.

Please refer to the 2007 Annual Management Discussion and Analysis for a review of the risks and uncertainties that can affect the Company.

CONTROLS AND PROCEDURES

The Company maintains a system of internal controls over financial reporting designed to protect the Company's assets and ensure the reliability of financial reporting thereof. The Company constantly evaluates the effectiveness of these internal controls over financial reporting and make changes if necessary.

The Company also maintains a system of internal controls and procedures on the communication of financial information to ensure reliable, complete and timely submission. These controls and procedures are designed to ensure that the information supplied by the Company in the various reports filed with the regulatory agencies are recorded and disclosed in a timely manner and are also communicated to the Company management, including its President and Chief Executive Officer and the Vice-President Finance and Chief Financial Officer, to allow them rapid decision making on information to disclose. The Company constantly evaluates the effectiveness of these controls and procedures and makes changes if necessary.

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).

(Signed)

Patrick Savaria

Vice President Finance and Chief Financial Officer

October 24, 2008

QUARTERLY REVIEW

(in millions of dollars, except per share amounts)

	2008					2007				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
SALES	5.10	5.97	5.73		16.8	4.96	5.10	5.23	5.97	21.26
COST OF SALES	3.20	3.54	3.47		10.21	3.22	3.08	3.11	3.30	12.71
GROSS EARNINGS	1.90	2.43	2.26		6.59	1.74	2.02	2.12	2.67	8.55
EXPENSES										
Sales and administration	1.42	1.59	1.53		4.54	1.71	1.77	1.63	1.56	6.67
Scientific research costs	0.47	0.52	0.42		1.41	0.58	0.61	0.63	0.45	2.27
Grants and tax credits for scientific research	(0.14)	(0.15)	(0.14)		(0.43)	(0.23)	(0.14)	(0.33)	(0.15)	(0.85)
Interest	0.06	0.06	0.06		0.18	0.09	0.08	0.07	0.08	0.32
Amortization	0.25	0.25	0.26		0.76	0.26	0.25	0.26	0.33	1.1
Write-off of assets	-	-	-		-	-	-	-	2.17	2.17
Write-off of goodwill	-	-	-		-	-	-	-	1.19	1.19
Foreign exchange (gain) loss	(0.08)	0.02	(0.02)		(0.08)	-	0.07	0.02	0.13	0.22
Restructuring costs	-	-	-		-	-	-	0.12	0.42	0.54
EARNINGS (LOSS) BEFORE TAXES	1.98	2.29	2.11		6.38	2.41	2.64	2.40	6.18	13.63
TAXES	(0.08)	0.14	0.15		0.21	(0.67)	(0.62)	(0.28)	(3.51)	(5.08)
INCOME TAXES	0.02	0.01	0.00		0.03	0.02	0.05	0.03	0.99	1.09
NET EARNINGS (LOSS)	(0.10)	0.13	0.15		0.18	(0.69)	(0.67)	(0.31)	(4.50)	(6.17)
Per common share										
Basic	(0.02)	0.02	0.03		0.03	(0.12)	(0.12)	(0.05)	(0.82)	(1.11)
Diluted	(0.02)	0.02	0.03		0.03	(0.12)	(0.12)	(0.05)	(0.82)	(1.11)
EBITDA	0.23	0.46	0.47		1.16	(0.32)	(0.29)	0.05	0.27	(0.29)
TOTAL ASSET	16.8	16.7	15.9		15.9	24.08	22.53	21.99	17.23	17.23