

# AUDIOTECH HEALTHCARE CORPORATION

## AMENDED AND RESTATED MANAGEMENT DISCUSSION AND ANALYSIS

For the 3 Month Period Ended December 31, 2007  
(First Quarter of Fiscal 2008)

**Contact Names:**

Oswaldo (Ozzie) Iadarola or Darryl Walker

**Phone:**

(250) 372 - 5847

**Fax:**

(250) 372 - 3859

**Head Office Address:**

#760 - 175 Second Avenue  
Kamloops, B.C. V2C 5W1  
Canada

Directors and Officers of the Corporation as at December 31, 2007 and February 29, 2008

**Directors:**

Oswaldo (Ozzie) Iadarola\*  
Glen Martin\*\*  
Grant Robertson\*\*  
Daniel Allen  
Dr. Gerald Mill

\* member of the audit committee

\*\* independent member of the audit committee

**Officers:**

Oswaldo (Ozzie) Iadarola, *President & Chief Executive Officer*  
Darryl Walker, *Secretary, Chief Financial Officer*

The intention of Management's Discussion and Analysis (MD&A) is for Audiotech to present management's analysis of the results of its operations, current financial position, and future prospects. The MD&A complements and supplements the financial statements that have been prepared according to Canadian generally accepted accounting principles (GAAP). Management's discussion and analysis of Audiotech's operating results for the period should be read in conjunction with the company's consolidated financial statements for the same period, which can be found on SEDAR ([www.sedar.com](http://www.sedar.com)) or at the company's website at [www.audiotech.org](http://www.audiotech.org).

Given the objectives of the MD&A, certain information presented is of a forward-looking nature. Such forward looking information involves substantial known and unknown risks and uncertainties. Most of these are beyond Audiotech's control and include: the impact of general economic conditions, changes in industry conditions, the availability of qualified personnel, stock market volatility, and access to capital from internal and external sources. The reader is cautioned that assumptions used in the preparation of such information, while considered reasonable by Audiotech at the time, may prove to be incorrect. Audiotech's actual results could differ materially from those expressed in, or implied by, such forward looking information.

The Company's external auditors have not performed a review of these financial statements. These consolidated financial statements have also been certified by management.

## Form 51-102-F1

## 1.1 Date of This Report

Original date of this report: February 29, 2008

Amended and revised: January 4, 2009.

## 1.2 Overall Performance

Audiotech owns and operates a network of hearing healthcare clinics located in Western Canada and the Pacific-Northwest United States. Since becoming a public company in 1997, the company has grown through acquisitions and the successful start-up of full-fledged and satellite clinics.

During the quarter ended December 31, 2008, Audiotech Healthcare Corp. opened a new hearing care clinic in Kelowna, B.C. The new clinic is located in Orchard Plaza 2, a busy shopping plaza adjacent to the Okanagan region's largest shopping centre. The clinic provides a wide range of audiology services including hearing assessment and the fitting of hearing aids. The city of Kelowna and surrounding Okanagan region are two of the fastest-growing retirement destinations in Canada. To permit future expansion, the new facility was designed to be conducive to operation with multiple clinicians. Management is also pleased to report that despite the fact that the clinic was finished to a higher standard than an average clinic, the project was completed under budget.

Audiotech is also pleased to announce the relocation and upgrade of its Prince George, B.C., clinic during the quarter. Located only a block away from the old location, the new clinic located at Parkwood Place mall, features a classier atmosphere, significantly higher traffic volumes, generous parking and a more retail-oriented setting. The clinic layout was inspired by recent upgrades to the South Kamloops location and has improved office flow and increased productivity. As part of the move to the new location, an aggressive client retention program was initiated and has been extremely successful. Since the opening of the new upgraded facility, the clinic has also noticed a spike in walk-in traffic.

These two initiatives are part of a continuing program of internal expansion aimed directly at strengthening Audiotech's existing dominant regional market position in the interior of British Columbia. In addition to boosting clinic revenues, management is confident that the investment in new clinics and expansion of existing clinics in key markets will make Audiotech an attractive target for a future acquisition by a major hearing health care provider, hearing aid supplier, or equity finance seeking to obtain rapid penetration of the B.C. market through the purchase of a modern clinic network.

Please refer to section 1.4 below for further discussion of operating results during the quarter and a comparison to prior periods.

## 1.3 Selected Quarterly and Annual Information

### Statement of Income – Quarterly Data (Unaudited)

	3 Months ended December 31				
	2007	2006	2005	2004	2003
Canadian Revenues	\$ 728,926	\$ 645,406	\$ 567,878	\$ 651,653	\$ 442,832
U.S. Revenues	295,417	292,509	233,152	362,063	334,237
<b>a). Total Revenues</b>	<b>\$ 1,024,343</b>	<b>\$ 937,815</b>	<b>\$ 801,030</b>	<b>\$ 1,013,716</b>	<b>\$ 777,069</b>
<b>Operating Cash Flow*</b>	<b>(18,838)</b>	<b>49,905</b>	<b>34,436</b>	<b>37,804</b>	<b>23,251</b>
<b>b,c). Net Earnings **</b>	<b>(54,200)</b>	<b>17,000</b>	<b>4,147</b>	<b>3,712</b>	<b>8,673</b>
<b>EPS (basic &amp; fully-diluted)</b>	<b>(0.004)</b>	<b>0.0013</b>	<b>0.0003</b>	<b>0.0003</b>	<b>0.0007</b>
<b>d). Total Assets</b>	<b>\$ 2,733,652</b>	<b>\$ 2,781,819</b>	<b>\$ 2,511,477</b>	<b>\$ 2,542,238</b>	<b>\$ 1,895,532</b>
<b>e). Total Long-Term Liabilities</b>	<b>1,208,964</b>	<b>\$ 774,724</b>	<b>\$ 1,123,549</b>	<b>\$ 1,158,227</b>	<b>\$ 340,057</b>
<b>f). Cash Dividends per Share</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>

## Statement of Income – Annual Data (Audited)

	Years Ended September 30				
	2007**	2006**	2005**	2004**	2003**
Canadian Revenues	\$ 2,793,104	\$ 2,549,453	\$ 2,566,952	\$ 2,299,029	\$ 1,737,167
U.S. Revenues	1,309,288	1,002,555	1,244,648	1,330,895	1,430,299
<b>a). Total Revenues</b>	<b>\$ 4,102,392</b>	<b>\$ 3,552,008</b>	<b>\$ 3,811,600</b>	<b>\$ 3,629,914</b>	<b>\$ 3,167,466</b>
<b>Operating Cash Flow*</b>	<b>285,300</b>	<b>230,908</b>	<b>182,349</b>	<b>286,100</b>	<b>(19,974)</b>
<b>b,c). Net Earnings **</b>	<b>87,937</b>	<b>101,804</b>	<b>78,559</b>	<b>153,647</b>	<b>(105,366)</b>
<b>EPS (basic &amp; fully-diluted)</b>	<b>0.007</b>	<b>0.008</b>	<b>0.006</b>	<b>0.012</b>	<b>(0.008)</b>
<b>d). Total Assets</b>	<b>\$ 2,899,293</b>	<b>\$2,683,075</b>	<b>\$ 2,587,126</b>	<b>\$ 2,526,933</b>	<b>\$ 1,966,092</b>
<b>e). Total Long-Term Liabilities</b>	<b>1,218,199</b>	<b>\$742,241</b>	<b>\$ 1,158,227</b>	<b>\$ 984,149</b>	<b>\$ 361,722</b>
<b>f). Cash Dividends per Share</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>

\* Operating cash flow is a non-GAAP measure that includes net earnings and non-cash expenses such as amortization, future taxes, and accounting gains (or losses) related to the sale of capital assets. While management believes this number to be an important measure of corporate activity used in the industry in which the company operates, it cannot be assured that operating cash flow, as reported, is directly comparable to operating cash flow as reported by peer companies in the industry since there is no universally accepted means of its calculation. Audiotech's calculation of operating cash flow is done in the manner believed to be consistent with the most accepted means of calculation in the industry and the accounting profession as a whole. In management's opinion, operating cash flow accurately reflects the amount of cash generated by the business operations of the company that is available for reinvestment, to fund debt repayment, or to fund changes in non-cash working capital items, or in the event that operating cash flow is negative, it reflects the amount of capital that was needed to be funded from new debt or equity sources, or from working capital to sustain operations during the period. Operating cash flow is also commonly used in business valuation models to determine acquisition values in a consolidating market, thus management believes that it is relevant to consider operating cash flow when evaluating the performance of the company. A reconciliation of net earnings to operating cash flow is provided below.

\*\* there were no material extraordinary or unusual items, gains or losses on discontinued operations, etc. for any of the reporting periods.

There have been no material changes outside the general course of business that account for the fluctuation or changes in the financial results reported from period to period in the chart above, except as follows:

As mentioned in previous filings, the company has been affected by the increase in value of the Canadian dollar relative to the U.S. dollar over the past three years. The effect of the strength of the Canadian dollar has been to reduce reported revenues (in Canadian dollars) from the corporation's U.S.-based operations upon consolidation. During fiscal 2007 and the first quarter of fiscal 2008, the Canadian dollar appreciated sharply against the U.S. dollar.

Reconciliation of operating cash flow:

	3 Months ended December 31			Years Ended September 30				
	2008	2007	2006	2007	2006	2005	2004	2003
Net Income (Loss)	\$ (54,200)	\$ 17,000	\$ 4,147	\$ 87,937	\$ 101,804	\$ 78,559	\$ 153,647	\$ (105,366)
Amortization of Plant & Equip.	35,362	25,943	23,914	127,800	107,529	92,217	83,691	85,392
Loss on Disposal of Assets	-	587	-	51,472	(14,243)	(35,929)	-	-
Amort. of Debenture Discount	-	6,375	6,375	7,461	10,318	1,477	19,428	1,370
Operating Cash Flow	(18,838)	49,905	34,436	285,300	230,908	182,349	286,100	(18,604)

## 1.4 Results of Operations

Management is pleased to announce that the company achieved its highest level of sales for a first quarter in its history. Total sales increased 9.2% from \$937,915 for the first quarter of fiscal 2007 to \$1,024,343 for the 3 months ended December 31, 2008. The majority of growth was contributed by Audiotech's Canadian clinic operations where revenue increased 12.9% to \$728,926 compared to the same period a year earlier. Revenues at the company's U.S. clinics increased 1.0% to \$295,417. The increase in revenues can be attributed to Audiotech's internal growth initiatives in fiscal 2007 which saw a number of clinic expansions as well as the opening of several new clinics in Canada. It should be noted that the reported revenues from Audiotech's U.S. operations continued to be negatively impacted by the strength of the Canadian dollar.

While gross margins remained solid at 66.7%, above the long-term average, gross margins were slightly below the levels achieved during fiscal 2007. Management is not aware of any fundamental shift that could account for the change in margins and accordingly remains confident that the factors that have contributed to the strong gross margins reported by the company over the past several years will continue into the foreseeable future. In management's opinion, the change in gross margins experienced during the quarter was within the expected range that would be anticipated with typical day-to-day minor variations in the mix of product sold. Such variations can occur as a result of special promotions of higher or lower-margin products, a variation in the ratio of private hearing aid sales vs. those subsidized by various healthcare programs. Additionally, newer clinic operations often exhibit lower gross margins than well established clinics due to their lower product volumes and smaller economies of scale, as well as incentive programs and sales discounts offered to establish a position in a new marketplace. The greater number of new clinics operating during the quarter contributed to the decline in margins from the record margins achieved during fiscal 2007. Over the past 5 years, the company has achieved steadily increasing gross margins as a result of the negotiation of bulk purchasing agreements with major hearing aid manufacturers. Management expects gross margins to increase in the coming quarters as the younger clinic operations achieve greater economies of scale. Gross margins are expected to range from roughly 65 to 68% over the next 12 months.

### Historical Gross Margins:

Current Qtr.	Fiscal 2007	Fiscal 2006	Fiscal 2005	Fiscal 2004	Fiscal 2003	5 Yr. Avg.
66.7%	69.2%	68.9%	65.4%	63.9%	58.4%	65.2%

Direct clinic costs increased by 27.7% during the first quarter of fiscal 2008 as compared to the same quarter in fiscal 2007. This increase can be attributed to overhead and staff costs related to the clinic expansions and new clinics openings that were undertaken in fiscal 2007. Direct clinic costs were on target with management expectations, however, certain new clinics have not yet achieved their anticipated level of market penetration and sales. Accordingly, direct clinic costs as a percentage of sales increased to 63.3% which is higher than forecast. Subsequent to the end of the quarter, management has taken steps to increase productivity and reduce costs where prudent, at the clinics that have not yet met anticipated volumes. These efforts will continue and are anticipated to result in a reduction in direct clinic costs as a percentage of sales by the third quarter of the current fiscal year.

General and administrative expenses declined by 11.6% to \$111,912 during the 3 months ended December 31, 2007 as compared to the first quarter of fiscal 2007. This can be attributed to a modest decline in most major expense categories at the head office level. General and administrative expenses declined as a percentage of sales from 13.5% during the first quarter of fiscal 2007 to 10.9% for the first 3 months of fiscal 2008.

Due to the increase in direct clinic costs as a percentage of sales as noted above, operating cash flow was negative \$18,838 for the first quarter of fiscal 2008. After amortization, the company reported a loss of \$54,200 or \$0.004 per share. These results are below management's expectations, however, the company remains confident that the investments made in fiscal 2007 to expand various clinics and open new locations will contribute positively to overall profits shortly as targeted production levels at the new operations are achieved. Management also remains confident that these investments have helped secure Audiotech as a dominant regional clinic operator in British Columbia, particularly outside of the Vancouver area, and that this positioning will result in a higher

corporate valuation in the event that Audiotech is acquired by another entity in the current market consolidation cycle.

Details of all expenses can be found in the unaudited interim consolidated financial statements for the year ended December 31, 2007.

## 1.5 Summary Quarterly Results

Revenues and net income for the last 8 fiscal quarters were as follows:

	Q1 12-31-07	Q4 09-30-07	Q3 06-30-07	Q2 03-31-07	Q1 12-31-06	Q4 09-30-06	Q3 06-30-06	Q2 03-31-06
Revenues	\$1,024,343	\$ 1,056,647	\$ 1,038,884	\$ 1,068,946	\$ 937,915	\$811,789	\$966,212	\$972,977
Net Income*	(54,200)	(32,060)	38,948	64,049	17,000	(106,496)	102,184	101,969
/ Share Basic	(0.004)	0.0024	0.0029	0.0048	0.0013	(0.008)	0.0077	0.0076
/ Share FD	(0.004)	0.0023	0.0028	0.0048	0.0013	(0.008)	0.0074	0.0073

\* there were no material extraordinary or unusual items, gains or losses on discontinued operations, etc. for any of the reporting periods.

Unit sales, product mix, and product pricing account for the greatest variation in quarterly sales and income. There have been no extraordinary or unusual events or items related to unit sales, product mix, and product pricing outside of what would be expected in normal day-to-day operations (inflation, the opening of new clinics, etc.) that impacted reported revenues and income during the past 8 quarters other than the variation in the US dollar / Canadian dollar exchange rate which impacts the results of the company's U.S. clinic operations which earn revenues in U.S. dollars. The results of the U.S. operations are converted into Canadian dollars upon the completion of the consolidated financial statements. Over the past several years, the Canadian dollar has appreciated considerable, thereby negatively impacted the revenues reported from the U.S. operations upon consolidation. The average US\$/CDN\$ exchange rate as per the Bank of Canada for each month since the beginning of the second quarter of fiscal 2006 is presented in the following chart (based on daily closing rates).

Q1 12-31-07	Q4 09-30-07	Q3 06-30-07	Q2 03-31-07	Q1 12-31-06	Q4 09-30-06	Q3 06-30-06	Q2 03-31-06
2007-10: 0.975	2007-07: 1.051	2007-04: 1.134	2007-01: 1.176	2006-10: 1.128	2006-07: 1.130	2006-04: 1.143	2006-01: 1.157
2007-11: 0.968	2007-08: 1.059	2007-05: 1.095	2007-02: 1.171	2006-11: 1.136	2006-08: 1.119	2006-05: 1.109	2006-02: 1.149
2007-12: 1.003	2007-09: 1.025	2007-06: 1.066	2007-03: 1.169	2006-12: 1.153	2006-09: 1.117	2006-06: 1.114	2006-03: 1.157
Avg: 0.982	Avg: 1.045	Avg: 1.098	Avg: 1.172	Avg: 1.121	Avg: 1.122	Avg: 1.122	Avg: 1.154

The decline in revenues in the U.S. operations (as reported in Canadian dollars) due to the appreciation of the Canadian dollar over the past several years has been largely offset by increases in revenues from the company's Canadian operations as a result of the opening of several new clinics and the relocation and expansion of existing clinics as follows:

- November 2006 – relocation of clinic in NW Calgary to larger facility
- November 2006 – opened new clinic in Victoria, BC
- October 2007 – opened new clinic in Kelowna, BC
- October 2007 – relocation and expansion of clinic in Prince George, BC

The company's sales do not have any seasonal influences other than as noted below. It should be noted that these seasonal influences are minor and are not normally expected to have a material impact on the comparison of quarterly operating results.

Hearing aid sales in the month of December are typically slower than an average month due to the distraction of patients during the Christmas / holiday shopping season. Accordingly, there is a minor impact on the reported sales revenues of the company during the first quarter of most fiscal years (quarter ended December 31<sup>st</sup>). In some instances, the impact of this phenomena is delayed until January and the second quarter as the quantity of hearing assessments performed in one month has a corresponding impact not only on the current month's sales, but on the following month's sales as well.

Hearing assessments and aid sales in August of each year can be impacted by staff holidays and a similar distraction of patients as seen in December. The impact is generally very minor but can slightly reduce revenues during the company's fourth quarter ended September 30<sup>th</sup> of each year.

## 1.6 Liquidity

As at December 31, 2007, Audiotech had a cash balance of \$318,819.

Management is very confident that the company's working capital position of \$266,986 is sufficient to meet its needs. Investments have and will continue to be made in new and additional equipment as new clinics are opened or upgraded. Such expenditures will be financed from existing working capital, capital leases, or through funding arrangements with key hearing aid suppliers as appropriate under the circumstances. The company may undertake an equity financing in the near future to accelerate the company's debt retirement goals and to reduce future interest costs.

Details of all long-term debt and capital lease obligations as well as debt repayments and other financial commitments due during the next 5 years are disclosed in the notes to the consolidated financial statements for the period (see Note 3, 4 & 10).

A total of \$29,190 in long-term debt and lease obligations were repaid during the quarter ended December 31, 2007, and a total of \$32,441 in new lease debt was secured during the quarter to finance the acquisition of new capital equipment.

The changes in working capital accounts (accounts receivable, inventory, accounts payable, prepaid expenses, deferred revenue, and income taxes payable) during the quarter are in line with the expectations of management based on normal variations in these accounts that are anticipated with day-to-day operations.

Audiotech has used a number of sources of capital in the past to fund its operations and growth initiatives, including: cash flow generated by operations; the issuance of common shares; the receipt of proceeds upon the exercise of stock options by management & insiders; debt financing including the issuance of promissory notes and debentures to private investors; capital leases of clinical audiology equipment; and credit lines, term loans, and notes from major hearing aid suppliers. Due to management's strong relationships in the financial community, the Corporation has historically been very successful at securing new capital, and in renewing expiring notes and debentures or replacing expiring notes and debentures with new financing. Management maintains ongoing communication with its note and debenture holders to gauge the likelihood and expected cost (interest rate) of debt renewals. Additionally, major hearing aid manufacturers are becoming very active in the financing of hearing care providers who purchase their products, as a means of strengthening relationships with the vendors of their products to gain market share. Audiotech has historically established mutually-beneficial relationships with hearing aid manufacturers to finance its growth initiatives and will continue to do so where prudent.

At present, management is very confident that debt maturing within the next 12 months will be renewed under the same or similar terms. In the event that the Corporation faces an unexpected loss of certain investors, and is not successful in replacing them with new investors, it may draw from its existing \$1 million term loan facility with a major hearing aid manufacturer. As at December 31, 2008, only \$477,546 of this facility was drawn. Alternatively, the company may undertake a private placement with management and insiders, and/or private investors if required to maintain a healthy level of working capital.

The following long-term debt obligations mature during the next 12 months (12 months from end of the first quarter):

Term loan (US\$34,852), repayable in quarterly installments of US\$5,000 plus interest at prime plus 2%. Secured by promissory note of the Company subordinated to the security agreement on other debt, and a continuing guarantee. Based on the regular schedule of principal repayments, this loan is expected to be repaid in full before the end of 2008. The balance as at December 31, 2008, was CDN\$34,549.

Management is not aware of any trends or market conditions likely to have a material impact on liquidity or the company's capital position other than as disclosed in this MD&A.

## 1.7 Capital Resources

The Corporation's capital assets consist of various hearing diagnostic equipment, computer and office equipment, leasehold improvements, and land and building as detailed in the notes to the consolidated financial statements for the period (see note 2), as well as the goodwill in acquired and developed clinics. The company intends to make additional investments in capital assets during the in the ordinary course of its business as it acquires, expands, and opens new clinics.

A total of \$53,562 in capital purchases were made during the first quarter of fiscal 2008. These purchased were largely financed from cash flow and new capital leases.

## 1.8 Off Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

## 1.9 Transactions with Related Parties

As detailed in note 8 of the consolidated financial statements for the year ended December 31, 2007, entitled "Related Party Transactions," Audiotech had, in the normal course of business, several non-material transactions with related parties during the first quarter of fiscal 2008:

A total of \$738 was paid to MediaWave Communications Corp., an Internet services company controlled by a director of the corporation in connection with website design and hosting services, and commissions on revenues derived from HearingDepot.com and HearingCenterOnline.com.

A total of \$7,154 in rent was paid to Sherwood Real Estate Corp., a company controlled by a director of the company during the period.

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Such consideration was no more than that would have otherwise been paid by the Corporation to purchase similar products and services from third parties.

The company has the following ongoing relationships with and commitments to related parties:

**MediaWave Communications Corp.:** MediaWave provides ongoing services to the company for website hosting and website updating. Audiotech also pays a percentage of revenues derived from HearingDepot.com and HearingCenterOnline.com in the form of commissions to MediaWave on a monthly basis. The business relationship between Audiotech and MediaWave can be terminated by either party at any time, for any reason. Management and the Board of Directors reviews the terms of the business relationship, including compensation, on an ongoing and regular basis.

**Sherwood Real Estate Corp.:** The corporation pays a monthly fee of \$1,850 plus operating costs and property taxes for the lease of the real estate that houses the company's clinic in southwest Calgary. The six-year lease expires in April 2010 and may be renewed at the option of the company for an additional term of 6 years at the discretion of management and the Board of Directors.

## 1.10 First Quarter

Please refer to sections 1.4 and 1.6 above.

## 1.11 Proposed Transactions

At any given time, the Corporation is in active and ongoing negotiations with respect to various acquisition, merger, and joint venture opportunities as well as negotiations pertaining to the potential opening of new clinics. Management regards such negotiations as a part of its every day operations and accordingly, until a letter or intent is completed or it is deemed that there is a strong likelihood of a transaction proceeding, such negotiations are not generally announced. As of the date of this document, there are no pending proposed transactions of a material nature that have not been disclosed in this MD&A, however, negotiations are active and ongoing with respect to several potential transactions.

## 1.12 Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding the estimated rate of depreciation, estimated useful lives, and residual value of capital assets, as well as average exchange rates for an accounting period, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Management is not presently aware of any of material differences between the amounts reported and actual results.

## 1.13 Changes in Accounting Policies

Effective October 1, 2007, the company has adopted the following policies:

### CICA Section 1400 - Going Concern

This section has been amended to include requirements for management to assess and disclose the Company's ability to continue as a Going Concern. This policy was adopted effective October 1, 2007, but is not expected to have a material impact on the company's disclosure.

### CICA Section 3862 - Financial Instrument Disclosures and Presentation

This section relating to disclosures require that entities provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. The section relating to presentation supersedes the provisions of CICA 3861 in respect of enhancing users' understanding of the significance of financial instruments to the Company's financial position, performance and cash flows. The adoption of this policy has not had a material impact on the company's disclosure.

The Canadian Institute of Chartered Accountants has issued several new sections to its handbook that are expected to be adopted by the company in the future. Below is a discussion of each of these new policies.

### CICA Section 1535 – Capital Disclosures

The section establishes standards for disclosing information about an entity's objectives, policies and processes for managing capital. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. As required under GAAP, the corporation intends to adopt this policy effective October 1, 2008. Management is currently reviewing the potential impact of this section on the Company's

disclosure, however, based on its initial review, no material impact on the company's financial reporting is anticipated.

#### CICA Section 3031 – Inventories

This Section provides more guidance on the measurement and disclosure requirements for inventories. Specifically, the new pronouncement prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. This section is effective for fiscal years ending after January 1, 2008. Accordingly, Audiotech will be adopting Section 3031 effective October 1, 2008. Management is currently reviewing the potential impact of this section on the Company's disclosure, however, based on its initial review, the adoption of the standard is not expected to have a material impact on the Company's disclosure as Audiotech's valuation methods for its inventories already comply with the section, and the company carries only small inventory levels in its business.

#### CICA Section 3064 - Goodwill and Intangible Assets

Effective May 1, 2009, Section 3064 replaces handbook Section 3062 and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires these costs be expensed as incurred. Management is currently reviewing the potential impact of this section on the Company's disclosure, however, at this time, management does not believe that the implementation of Section 3064 will have a material impact on the Company's disclosure. This policy will be adopted effective October 1, 2008.

In addition to the above accounting pronouncements, the Canadian Accounting Standards Board ("AcSB") in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five-year transition period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's transition date of October 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## 1.14 Financial and Other Instruments

The carrying values of cash, term deposit, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these items.

The fair value of the Company's long-term debt approximates its carrying value as there is a market rate of interest attached to the repayment.

The majority of the Company's accounts receivable are due from customers in Canada with the remainder due from customers in the United States. The maximum credit risk associated with the Company's financial assets is the carrying value of those assets. The Company's exposure to foreign exchange risk associated with self-sustaining foreign operations is limited to its net investment in those operations.

## 1.15 Other

### *Disclosure of Outstanding Share Capital*

As at December 31, 2007, and February 29, 2008 (the date of this report), Audiotech had 13,229,825 common shares issued and outstanding with a book value of \$1,750,340. No common shares were issued during the quarter.

As at December 31, 2007, and February 29, 2008 (the date of this report), 450,000 options with an exercise price of \$0.16 were outstanding. These options expire on May 18, 2009.

***Subsequent Events***

There have been no material events subsequent to December 31, 2007, and prior to the date of this report, that have not been disclosed in this MD&A.

***Additional information***

Additional information relating to the company is on SEDAR at [www.sedar.com](http://www.sedar.com).