

AUDIOTECH HEALTHCARE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

For the 3 Months Ended December 31, 2005
(First Quarter of Fiscal 2006)

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Directors and Officers of the Corporation as at December 31, 2005, and February 28, 2006

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*
Daniel Allen, *Vice-President & Chief Operations Manager Canada*
Dr. Gerald Mill, *Chief Operations Manager - Idaho*

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 ended December 31, 2005, 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) or at the company's website at 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 been prepared by and certified by management.

1.1 Date of This Report

February 28, 2006.

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.

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

		3 Months ended December 31			
		2005	2004	2003	2002
	Canadian Revenues	\$ 567,878	\$ 651,653	\$ 442,832	\$ 422,369
	U.S. Revenues	233,152	362,063	334,237	368,578
a).	Total Revenues	\$ 801,030	\$ 1,013,716	\$ 777,069	\$ 790,947
	Operating Cash Flow*	34,436	37,804	23,251	(1,305)
b,c).	Net Earnings ***	4,147	3,712	8,673	(20,929)
	EPS (basic & fully-diluted)	0.0003	0.0003	0.0007	(0.0016)
d).	Total Assets	\$ 2,511,477	\$ 2,542,238	\$ 1,895,532	\$ 1,966,092
e).	Total Long-Term Liabilities	\$ 1,123,549	\$ 1,158,227	\$ 340,057	361,722
f).	Cash Dividends per Share	NIL	NIL	NIL	NIL

Statement of Income – Annual Data (Audited)

		Years Ended September 30			
		2005**	2004**	2003**	2002**
	Canadian Revenues	\$ 2,566,952	\$ 2,299,029	\$ 1,737,167	\$ 1,855,175
	U.S. Revenues	1,244,648	1,330,895	1,430,299	1,133,985
a).	Total Revenues	\$ 3,811,600	\$ 3,629,914	\$ 3,167,466	\$ 2,989,160
	Operating Cash Flow*	182,349	286,100	(19,974)	62,283
b,c).	Net Earnings **	78,559	153,647	(105,366)	(47,438)
	EPS (basic & fully-diluted)	0.006	0.012	(0.008)	(0.004)
d).	Total Assets	\$ 2,587,126	\$ 2,526,933	\$ 1,966,092	\$ 2,199,099
e).	Total Long-Term Liabilities	\$ 1,158,227	\$ 984,149	\$ 361,722	\$ 821,450
f).	Cash Dividends per Share	NIL	NIL	NIL	NIL

* Operating cash flow is a non-GAAP measure that includes net earnings and non-cash expenses such as amortization. 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.

** 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 and will continue to be 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.

1.4 Results of Operations

For the 3 months ended December 31, 2005, revenues were \$801,030, compared to \$1,013,716 during the first quarter of fiscal 2005. Revenues from the company's Canadian operations were \$567,878, while the U.S. operations contributed revenues of \$233,152. Canadian sales revenues were impacted primarily by an unfavorable product mix which favored lower-end hearing-aid models. The Canadian clinic operations sold and fitted a total of 433 hearing aids during the quarter compared to 463 during the same quarter in fiscal 2005, 365 in fiscal 2004, and 304 in fiscal 2003.

The U.S. operations continued to be effected by the strength of the Canadian dollar and the loss of a key referring physician who passed away in fiscal 2005.

Gross margins (sales less materials & freight costs) for the first quarter of fiscal 2006 remained considerably above the long-term average. Gross margins were 68.3% as compared to 59.7% during the same quarter a year ago, and compared to 68.6% during the fourth quarter. Management is particularly encouraged by the strong operating margin performance over the latest quarter as it was not originally anticipated that the extraordinarily high margins of the fourth quarter of fiscal 2005 would be repeated. We are optimistic that these margins will result in stronger earnings as revenues return to expected levels.

As forecasted, other direct clinic costs (direct costs excluding materials and freight) during the quarter decreased by 10.6% due to a significant reduction in selling expenses and salaries & benefits. Direct clinic costs of \$425,335 during the quarter compare with \$ 475,805 during the quarter ended December 31, 2004, and \$498,675 for the prior quarter. Management expects that direct clinic costs will stabilize at or near this level in upcoming quarters excluding the effect on the cost structure in the event of a new clinic opening or acquisition, or new hirings.

General and administrative expenses declined by 2.2% during the quarter compared to the same quarter a year earlier to \$111,051.

As a result of the strong margin performance and reductions in key operating and overhead costs, Audiotech is pleased to report income from operations (income before the amortization of the debenture discount) of \$10,522, operating cash flow of \$34,436, and net earnings of \$4,147 for the first quarter of fiscal 2006. This marks the ninth consecutive quarter of profitability for Audiotech.

During the quarter, a total of \$6,375 in amortization related to the debenture discount was recorded on the statement of income, thereby reducing net earnings by the same amount (\$14,084 for the same quarter in fiscal 2005).

While the company remained cash low positive and profitable for the quarter, revenues, cash flow, and earnings for the period were below management's expectations. During its quarterly operations review, management identified several key performance drivers with room for improvement. The average monthly hearing aid fittings for the period from October 1, 2005, to February 28, 2005, was within 2.5% of the typical fiscal 2005 monthly production. The average revenue per hearing aid has improved subsequent to the year end and is expected to return to more historic levels in March 2006. Accordingly, management expects improved revenue, cash flow, and earnings performance in subsequent quarters.

Details of all expenses can be found in the unaudited interim consolidated financial statements for the 3 month period ended December 31, 2005.

1.5 Summary Quarterly Results

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

	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	12-31-05	09-30-05	06-30-05	03-31-05	12-31-04	09-30-04	06-30-04	03-31-04	12-31-03
Revenues	\$ 801,030	\$ 913,300	\$ 928,511	\$ 956,073	\$1,013,716	\$1,092,000	\$965,954	\$793,892	\$777,069
Net Income*	4,147	12,560	2,470	59,817	3,712	106,268	1,955	37,397	8,673
/ Share Basic	0.0003	0.0009	0.0002	0.0044	0.0003	0.008	0.0001	0.003	0.0007
/ Share FD	0.0003	0.0009	0.0002	0.0042	0.0003	0.008	0.0001	0.003	0.0006

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

1.6 Liquidity

As at December 31, 2005, Audiotech had a cash balance of \$378,680 and positive working capital of \$215,899.

Management is confident that the company's working capital position 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, and will be financed from existing working capital, capital leases, or through funding arrangements with key hearing aid suppliers as appropriate under the circumstances. It is the company's intention to undertake an equity financing in fiscal 2006 to accelerate the company's debt retirement goals 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 and 4).

A total of \$52,676 in long-term debt obligations were repaid during the quarter ended December 31, 2005.

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 ended December 31, 2005 (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 \$29,184 in capital purchases were made during the first quarter of fiscal 2006. These purchased were financed from cash flow and working capital.

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 period ended December 31, 2005, entitled "Related Party Transactions," Audiotech had, in the normal course of business, several non-material transactions with related parties during the quarter:

A total of \$1,026 was paid to MediaWave Communications Corp., an Internet service company controlled by a director of the company in connection with website design and hosting services and royalties on sales from HearingDepot.com during the fiscal 2005 (\$726 for the quarter ended December 31, 2004).

A total of \$7,841 in rent was paid to Sherwood Real Estate Corp., a company controlled by a director of the company during the quarter (\$9,286 for the quarter ended December 31, 2004).

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.

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

There have been no changes in accounting policies since the filing of the last Management Discussion & Analysis on January 30, 2006, or since the beginning of the current fiscal year.

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, 2005, Audiotech had 13,654,825 common shares issued and outstanding with a book value of \$1,705,340. No common shares were issued during the quarter.

Subsequent to the end of the quarter, 425,000 held in escrow were cancelled, thereby reducing the number of shares issued and outstanding to 13,229,825.

As at December 31, 2005, there were 700,000 options to acquire common shares outstanding. On February 2, 2006, 50,000 options to acquire common shares at \$0.35 expired, leaving 650,000 options with a weighted average exercise price of \$0.20 (range of \$.16 to \$0.28) outstanding.

Subsequent Events

There have been no material events subsequent to December 31, 2005, and prior to the date of this report, that have not been disclosed in this MD&A. See note above (1.15 – Other) regarding cancellation of escrow shares subsequent to year end date.

Additional information

Additional information relating to the company is on SEDAR at www.sedar.com.