AUDIOTECH HEALTHCARE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

For the 6 Months Ended March 31, 2006
(Second Quarter of Fiscal 2006)

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Directors and Officers of the Corporation as at March 31, 2006, and May 30, 2006

Directors:
Osvaldo (Ozzie) Iadarola*
Glen Martin**
Grant Robertson**
Daniel Allen
Dr. Gerald Mill

* member of the audit committee
** independent member of the audit committee

Officers:
Osvaldo (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 March 31, 2006, 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.

Form 51-102-F1

1.1 Date of This Report

May 30, 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 – Quarterly Data (Unaudited)

		3 Months ended March 31			6 Months Ended March 31		
		2006	2005	2004	2006	2005	2004
	Canadian Revenues	$ 686,718	$ 651,043	$ 506,741	$ 1,254,596	$ 1,302,696	$ 949,573
	U.S. Revenues	286,259	304,861	287,151	519,411	666,924	621,388
a).	**Total Revenues**	**$ 972,977**	**$ 955,904**	**$ 793,892**	**$ 1,774,007**	**$ 1,969,620**	**$ 1,570,961**
	Operating Cash Flow*	**135,340**	**89,254**	**57,260**	**169,776**	**127,056**	**83,770**
b,c).	**Net Earnings ****	**101,969**	**59,120**	**37,397**	**106,116**	**62,831**	**46,070**
	EPS (basic & fully-diluted)	**0.0076**	**0.0044**	**0.0028**	**0.0078**	**0.0047**	**0.0035**
d).	**Total Assets**	**$ 2,676,820**	**$ 2,752,025**	**$ 1,898,541**	**$ 2,676,820**	**$ 2,752,025**	**$ 1,898,541**
e).	**Total Long-Term Liabilities**	**$ 1,092,698**	**$ 1,311,841**	**$ 734,122**	**$ 1,092,698**	**$ 1,311,841**	**$ 734,122**
f).	**Cash Dividends per Share**	**NIL**	**NIL**	**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 loses 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

Audiotech is pleased to report a strong operating profit for the second quarter of fiscal 2006. This marks the company's tenth consecutive quarter of profitability.

Overall revenues reached $972,977 for the quarter, up from $956,073 during the same quarter in the prior fiscal year. Revenues from the company's Canadian operations jumped to $686,718, while the U.S. operations contributed revenues of $305,024. The reported revenues from Audiotech's U.S. operations continued to be negatively impacted by the strength of the Canadian dollar, however, U.S. revenues still rose 22.8% over the revenues reported during the prior quarter. Canadian revenues rose 20.9% over the first quarter. Total sales for the 6 months ended March 31, 2006, were $1,774,007.

Gross margins (sales less materials & freight costs) remained well in excess of historical averages for the third consecutive quarter. Gross margins were 68.6% compared to 68.3% during the first quarter and 66.4% during the second quarter of fiscal 2005. Gross margins were positively impacted by a continuing favorable sales mix. The strong improvement in operating margins is more apparent when comparing the data for the 6 months ended March 31, 2006, to the corresponding period a year earlier. Year-to-date gross margins were 68.4% compared to only 63.1% during the first two quarters of fiscal 2005. Early indications for the third quarter of fiscal 2006 suggest that the company will continue to benefit from these strong operating margins as sales of higher-end hearing aids have strengthened in Canada.

Other direct clinic costs (direct costs excluding materials and freight) during the quarter remained below the levels reported for the corresponding quarter last year due primarily to a decrease in clinic overhead costs. Direct clinic costs of $443,090 during the quarter compare with $453,674 during the quarter ended March 31, 2005, a reduction of 2.3%. For the 6 months ended March 31, 2006, other direct clinic costs totaled $868,425, a 6.6% reduction over the comparable period last year.

General and administrative expenses increased slightly from $108,942 during the second quarter of the prior fiscal year to $115,600 in the current quarter due primarily to a small increase in professional fees. General and administrative expenses rose 1.9% for the 6 months ended March 31, 2006, compared to the same period in fiscal 2005 for the same reason.

As a result of the strong margin performance and reductions in overall costs, Audiotech is pleased to report income from operations (income before the amortization of the debenture discount) of $108,344, operating cash flow of $135,340, and net earnings of $101,969 ($0.0076 per share) for the second quarter of fiscal 2006. This represents increases of 45.4%, 51.4%, and 70.5%, respectively.

For the 6 months ended March 31, 2006, operating cash flow totaled $169,776, an increase of 33.4%. Net earnings were $106,116 or $0.0078 per share, up 67%. Both the Canadian and U.S. operations were profitable for the first half of fiscal 2006.

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 ($14,721 for the same quarter in fiscal 2005).

Management's outlook for the latter half of fiscal 2006 remains favorable. Early indications for the third quarter suggest solid sales and a continuation of the strong operating margins that contributed to the significant operating profit in the second quarter.

Details of all expenses can be found in the unaudited interim consolidated financial statements for the 6 month period ended March 31, 2006.

1.5 Summary Quarterly Results

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

	Q2 03-31-06	Q1 12-31-05	Q4 09-30-05	Q3 06-30-05	Q2 03-31-05	Q1 12-31-04	Q4 09-30-04	Q3 06-30-04	Q2 03-31-04
Revenues	$972,977	$ 801,030	$ 913,300	$ 928,511	$ 956,073	$1,013,716	$1,092,000	$965,954	$793,892
Net Income*	101,969	4,147	12,560	2,470	59,817	3,712	106,268	1,955	37,397
/ Share Basic	0.0076	0.0003	0.0009	0.0002	0.0044	0.0003	0.008	0.0001	0.003
/ Share FD	0.0073	0.0003	0.0009	0.0002	0.0042	0.0003	0.008	0.0001	0.003

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

1.6 Liquidity

As at March 31, 2006, Audiotech had a cash balance of $489,843 and positive working capital of $296,325

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 $49,318 in long-term debt obligations were repaid during the quarter ended March 31, 2006, bringing the total repaid to date in fiscal 2006 to $101,994.

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 March 31, 2006 (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 $15,977 in capital purchases were made during the second quarter of fiscal 2006 ($45,161 for the 6 months ended March 31, 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 6 month period ended March 31, 2006, 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 $1,451 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 revenues derived from HearingDepot.com and HearingCenterOnline.com. ($1,742 for the 6 months ended March 31, 2005).

A total of $21,256 in rent was paid to Sherwood Real Estate Corp., a company controlled by a director of the company during the quarter ($16,504 for the 6 months ended March 31, 2005).

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 Second 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 February 28, 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 March 31, 2006, Audiotech had 13,229,825 common shares issued and outstanding with a book value of $1,705,340. No common shares were issued during the quarter.

425,000 escrowed shares were cancelled during the second quarter of fiscal 2006.

As at March 31, 2006, there were 650,000 options to acquire common shares outstanding with a weighted average exercise price of $0.20 (range of $.16 to $0.28).

Subsequent Events

There have been no material events subsequent to March 31, 2006, 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.