

AUDIOTECH HEALTHCARE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

For the 9 Months Ended June 30, 2006
(Third Quarter of Fiscal 2006)

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 June 30 and August 29, 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 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

August 29, 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 June 30			9 Months Ended June 30		
	2006	2005	2004	2006	2005	2004
Canadian Revenues	\$ 699,611	\$ 607,413	\$ 629,278	\$ 1,954,207	\$ 1,910,115	\$ 1,578,851
U.S. Revenues	266,601	321,098	336,676	786,012	988,185	958,064
a). Total Revenues	\$ 966,212	\$ 928,511	\$ 965,954	\$ 2,740,219	\$ 2,898,300	\$ 2,536,915
Operating Cash Flow*	136,066	44,066	34,444	305,824	171,291	129,991
b,c). Net Earnings **	102,184	2,470	1,955	208,300	65,999	44,835
EPS (basic & fully-diluted)	0.0077	0.0002	0.0002	0.0155	0.0049	0.0036
d). Total Assets	\$ 2,596,379	\$ 2,662,461	\$ 2,204,446	\$ 2,596,379	\$ 2,662,461	\$ 2,204,446
e). Total Long-Term Liabilities	\$ 797,130	\$ 1,217,243	\$ 844,556	\$ 797,130	\$ 1,217,243	\$ 844,556
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 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

Audiotech is pleased to report its eleventh consecutive quarter of profitability. In almost all material respects, the company's financial results for the third quarter of fiscal 2006 mirrored those of the previous quarter where Audiotech reported strong margins and a solid operating profit.

Overall revenues reached \$966,212 for the third quarter of fiscal 2006, up from \$928,511 during the same quarter in the prior fiscal year. Revenues from the company's Canadian operations totaled \$699,611, while the U.S. operations contributed revenues of \$266,601. The reported revenues from Audiotech's U.S. operations continued to be negatively impacted by the strength of the Canadian dollar. Total sales for the 9 months ended June 30, 2006, were \$2,740,219.

As projected, the company continued to benefit from strong operating margins due to increased sales of higher-end hearing aids, particularly in Canada. Gross margins (sales less materials & freight costs) were well in excess of historical averages for the fourth consecutive quarter, reaching 69.7% for the latest quarter. Year-to-date gross margins were 68.9% compared to only 64.4% during the first three quarters of fiscal 2005. Management is confident that the positive sales mix that has contributed to these margins will continue into the foreseeable future.

Once again, other direct clinic costs (direct costs excluding materials and freight) during the quarter remained below the levels reported for the corresponding period last year. Direct clinic costs of \$437,945 during the quarter compare with \$482,195 during the quarter ended June 30, 2005, a reduction of 9.1%, and were roughly on par with the \$443,090 reported during the second quarter. For the 9 months ended June 30, 2006, other direct clinic costs totaled \$1,306,370, a 7.5% reduction over the comparable period last year. Cost reductions were experienced in several areas including clinic overheads, salaries, and selling expenses.

General and administrative expenses were held in line with the comparative quarter in fiscal 2005, totaling \$126,887, a change of less than 1%. Similarly, for the first three quarters of fiscal 2006, general and administrative expenses increased less than 1% over those recorded during the same period a year earlier. Minor increases in administrative salaries and general expenses were offset by a roughly commensurate decrease in interest costs.

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 \$108,559, operating cash flow of \$136,066, and net earnings of \$102,184 (\$0.0077 per share) for the third quarter of fiscal 2006. During the past two quarters, the company has reported earnings of \$204,153 or \$0.0154 per share.

For the 9 months ended June 30, 2006, operating cash flow totaled \$305,824, an increase of 78.6% over the cash flow reported during the same period in fiscal 2005. Net earnings were \$208,300 or \$0.0155 per share, an increase of 215.6%. Both the Canadian and U.S. operations were profitable for the period.

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 (\$10,845 for the same quarter in fiscal 2005). For the 9 months ended June 30, 2006, a total of \$19,125 in amortization of the debenture discount has been recorded versus \$39,650 during the first three quarters of fiscal 2005.

Management's profit outlook for the remainder of fiscal 2006 and beyond remains favorable. Management is also optimistic that it will be able to close one or more material acquisitions during the coming quarters to stimulate additional sales, cash flow, and earnings growth.

Details of all expenses can be found in the unaudited interim consolidated financial statements for the 9 month period ended June 30, 2006.

1.5 Summary Quarterly Results

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

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	06-30-06	03-31-06	12-31-05	09-30-05	06-30-05	03-31-05	12-31-04	09-30-04	06-30-04
Revenues	\$966,212	\$972,977	\$ 801,030	\$ 913,300	\$ 928,511	\$ 956,073	\$1,013,716	\$1,092,000	\$965,954
Net Income*	102,184	101,969	4,147	12,560	2,470	59,817	3,712	106,268	1,955
/ Share Basic	0.0077	0.0076	0.0003	0.0009	0.0002	0.0044	0.0003	0.008	0.0001
/ Share FD	0.0074	0.0073	0.0003	0.0009	0.0002	0.0042	0.0003	0.008	0.0001

* 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 June 30, 2006, Audiotech had a cash balance of \$373,892 and positive working capital of \$124,185.

The reduction in working capital (current assets minus current liabilities) during the latest quarter is related to the re-classification of certain long-term liabilities as short-term (current liabilities) as the repayment of these liabilities is now scheduled within the next twelve months. This includes convertible debentures totaling \$243,995 which bear interest of 10% per annum and mature in April 2007, as well as the 10% promissory notes which mature in June 2007. Management has been in discussions with its financial partners and fully expects that these instruments will be refinanced under long-term arrangements at more favorable interest rates when they come due. Accordingly, management is very 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. 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. It is the company's intention to 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 and 4).

A total of \$43,553 in long-term debt obligations were repaid during the quarter ended June 30, 2006, bringing the total repaid to date in fiscal 2006 to \$145,714.

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 June 30, 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 \$27,014 in capital purchases were made during the third quarter of fiscal 2006 (\$71,961 for the 9 months ended June 30, 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 9 month period ended June 30, 2006, entitled "Related Party Transactions," Audiotech had, in the normal course of business, several non-material transactions with related parties during the first 9 months of fiscal 2006:

A total of \$2,832 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 \$23,696 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.

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 May 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 June 30, 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 June 30, 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 June 30, 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.