

# AUDIOTECH HEALTHCARE CORPORATION

## AMENDED & RESTATED

### MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2007  
(Fourth Quarter of Fiscal 2007)

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Directors and Officers of the Corporation as at September 30, 2007 and January 26, 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 performed a review of these financial statements (see Auditor's Report). These consolidated financial statements have also been certified by management.

## Form 51-102-F1

## 1.1 Date of This Report

Original date of report: January 26, 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.

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 September 30		
	2007	2006	2005
Canadian Revenues	\$ 735,033	\$ 595,246	\$ 656,837
U.S. Revenues	321,614	216,543	256,463
<b>a). Total Revenues</b>	<b>\$ 1,056,647</b>	<b>\$ 811,789</b>	<b>\$ 913,300</b>
<b>Operating Cash Flow*</b>	<b>64,148</b>	<b>(74,916)</b>	<b>11,058</b>
<b>b,c). Net Earnings **</b>	<b>(32,060)</b>	<b>(106,496)</b>	<b>12,560</b>
<b>EPS (basic &amp; fully-diluted)</b>	<b>(0.002)</b>	<b>(0.008)</b>	<b>0.001</b>
<b>d). Total Assets</b>	<b>\$ 2,899,293</b>	<b>\$ 2,683,075</b>	<b>\$ 2,587,126</b>
<b>e). Total Long-Term Liabilities</b>	<b>\$ 1,218,199</b>	<b>\$ 742,241</b>	<b>\$ 1,158,227</b>
<b>f). Cash Dividends per Share</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, the Canadian dollar appreciated sharply against the U.S. dollar thereby partially masking the significant sales growth at the company's U.S. operations.

Reconciliation of operating cash flow:

	3 Months ended September 30		
	2007	2006	2005
Net Income (Loss)	\$ (32,060)	\$ (106,496)	\$ 12,560
Amortization of Plant & Equip.	38,232	29,130	26,575
Loss on Disposal of Assets	6,504	10,318	1,477
Amort. of Debenture Discount	-	6,375	6,375
Future Income Taxes	51,472	(14,243)	-35,929
Operating Cash Flow	64,148	(74,916)	11,058

  

	Years Ended September 30				
	2007	2006	2005	2004	2003
Net Income (Loss)	\$ 87,937	\$ 101,804	\$ 78,559	\$ 153,647	\$ (105,366)
Amortization of Plant & Equip.	127,800	107,529	92,217	83,691	85,392
Future Income Taxes	51,472	(14,243)	(35,929)	-	-
Loss on Disposal of Assets	7,461	10,318	1,477	19,428	1,370
Amort. of Debenture Discount	10,630	25,500	46,025	29,334	-
Operating Cash Flow	285,300	230,908	182,349	286,100	(18,604)

## 1.4 Results of Operations

Management is pleased to announce another solid quarter in both Canada and the U.S. Total revenues rose to \$1,056,647 from \$811,789 during the same quarter a year earlier, an increase of 30.1%. Revenues from the company's Canadian operations jumped 23.5% to \$735,033, while the U.S. operations contributed revenues of \$321,614, an increase of 48.5% over sales of \$216,543 posted during the fourth quarter of fiscal 2006. For the year ended September 30, 2007, total revenues reached a new record of \$4,102,392, up 15.5% from \$3,552,008 in fiscal 2006. Canadian revenues, which accounted for 68% of total sales, rose 9.6% during fiscal 2007, while U.S. revenues jumped 30.6%. The impressive performance of the U.S. clinic group is testament to the success of the new hearing and balance center concept, and of course, the hard work of our audiology team to bring our vision for expanded hearing care services in the region to reality during the past year. The increase in revenues in Canada can be attributed to the recent clinic enhancement projects in South Kamloops, Prince George, and Calgary, and the newly opened clinics in Vernon and Victoria. 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.

We are also pleased to report that Audiotech continued to achieve strong gross margins on par with our forecasts and above our long-term average. Gross margins for the fourth quarter and for fiscal 2007 were 68.2% and 69.2%, respectively. Management remains confident that the factors that have contributed to the strong gross margins reported by the company 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. 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. 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.
68.2%	69.2%	68.9%	65.4%	63.9%	58.4%	64.2%

Direct clinic costs rose a total of 23.8% during fiscal 2007 due primarily to an increase in selling costs and the expansion of the clinics in South Kamloops, Prince George, and Calgary, and to the opening of the new Victoria and Vernon clinics. As these operations move closer to their new capacity, we expect that direct costs as a percentage of sales will decline. This trend is already evident during the fourth quarter where direct costs as a percentage of sales declined slightly as compared to the same quarter in fiscal 2006.

Overall, for fiscal 2007, general and administrative expenses rose 10.5% due mainly to a small increase in salaries at the head office level and an increase in professional fees largely related to audit costs. As a percentage of sales, general and administrative expenses declined from 14.6% to 13.9% which is within management's expectations. Similarly, G&A costs also declined as a percentage of sales during the fourth quarter of fiscal 2007.

For the quarter ended September 30, 2007, Audiotech recorded positive operating cash flow of \$64,148. After amortization and tax provisions, the company reported a small loss of \$32,060 or \$0.002 per share for the quarter.

For fiscal 2007, the corporation reported positive operating cash flow of \$285,300, an increase of 23.6%, and net income after amortization, taxes, and the debenture discount of \$87,937 or \$0.007 per share. Both the Canadian and U.S. operations were profitable during fiscal 2007.

Details of all expenses can be found in the unaudited interim consolidated financial statements for the year ended September 30, 2006.

#### Outlook

Management's profit outlook fiscal 2008 and beyond remains favorable.

Over the past several years, management has aggressively sought new acquisition opportunities to expand the company's business as part of its overall consolidation strategy. A change in the competitive environment in the hearing aid industry has forced major hearing aid manufacturers into the acquisition/consolidation market as a means of increasing or maintaining their market share. This has had the effect of increasing the prices of acquisition opportunities in the industry to a point where growth through acquisitions is less attractive to Audiotech. Accordingly, despite lengthy and continuing negotiations with several potential targets over the past two years, the company has not been successful in completing an acquisition on terms that would be attractive for the company from a profitability and risk management standpoint. These efforts have consumed management time and significant due-diligence costs. To compound this problem, acquisition opportunities that are arising are typically operations run by owner/managers that are looking to retire. Given the prevailing shortage of graduating audiologists, staffing these operations once the owner/manager retires following an acquisition is a very real concern.

The board of directors of the company determined during fiscal 2007, that to counteract these trends in the interest of ensuring continued profitable growth for Audiotech, it will continue to shift the emphasis of its growth program to the expansion of existing clinics and the opening of new clinics within the Pacific Northwest United States and Western Canada. Management continues to review acquisition opportunities as they arise; however, the acquisition strategy is now secondary to organic growth initiatives. New clinics will be a mix of full stand-alone operations and satellites of existing clinics. Initial highlights of this program include the new Vernon, Victoria, and Kelowna clinics, and the recent clinic expansions in South Kamloops, Prince George and northwest Calgary locations. Based on the success of the regional hearing and balance centre in Idaho Falls, additional opportunities to create similar operations in other U.S. markets will also continue to be explored.

It should be noted that the same phenomena that have made growth through acquisitions less attractive have created a situation where Audiotech has become an attractive acquisition candidate itself for a hearing aid manufacturer, major clinic operator or equity fund. By continuing to expand the revenue and client base of its existing clinics and leveraging its expertise in the start-up of new clinics within its region of geographic focus, management is confident that the company can continue to create shareholder value and that this growth strategy will ultimately be rewarded either through increased operating profits or a higher valuation in the event that Audiotech is acquired.

The company will continue to build upon its close relationships with large hearing aid manufacturers and its financial partners to finance the organic growth program. Of course, the company will also continue to reinvest its positive cash flow in new growth initiatives as well.

## 1.5 Summary Quarterly Results

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

	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	Q1 12-31-05
Revenues	\$ 1,056,647	\$ 1,038,884	\$ 1,068,946	\$ 937,915	\$811,789	\$966,212	\$972,977	\$ 801,030
Net Income*	(32,060)	38,948	64,049	17,000	(106,496)	102,184	101,969	4,147
/ Share Basic	0.0024	0.0029	0.0048	0.0013	(0.008)	0.0077	0.0076	0.0003
/ Share FD	0.0023	0.0028	0.0048	0.0013	(0.008)	0.0074	0.0073	0.0003

\* 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 first quarter of fiscal 2006 is presented in the following chart (based on daily closing rates).

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	Q1 12-31-05
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	2005-10: 1.178
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	2005-11: 1.181
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	2005-12: 1.161
Avg: 1.045	Avg: 1.098	Avg: 1.172	Avg: 1.121	Avg: 1.122	Avg: 1.122	Avg: 1.154	Avg: 1.173

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 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

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 September 30, 2006, Audiotech had a cash balance of \$413,106.

Working capital improved significantly from a deficit of \$84,532 to positive \$346,849 due to the refinancing of certain maturing debt on a long term basis, and the cash flow contributions from operations. 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. 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 \$997,756 in long-term debt and lease obligations were repaid during the year ended September 30, 2007, and a total of \$1,093,810 in new debt was secured during the year, resulting in a net increase of \$96,054 which was utilized to expand existing clinic operations and open new clinic facilities.

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 of 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 September 30, 2008, only \$491,960 of this facility was drawn. Alternatively, the company may undertake a private placement with management and insiders, and/or private investors if require to maintain a healthy level of working capital.

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 ended September 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 \$287,989 in capital purchases were made during fiscal 2007 (\$79,722 during the fourth quarter) mainly to facilitate the upgrades at the South Kamloops, Prince George, Calgary and Idaho clinics and to open the Victoria operation. These purchased were largely financed from cash flow and working capital and debt as mentioned above.

## 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 September 30, 2007, entitled "Related Party Transactions," Audiotech had, in the normal course of business, several non-material transactions with related parties during the fiscal 2006:

A total of \$3,554 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 \$31,819 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 Fourth 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, 2006 the Company adopted section 1530 of the CICA Handbook, Comprehensive Income. Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings, such as changes in the currency translation adjustment relating to self-sustaining foreign operations and unrealized gains or losses on available-for-sale investments.

There have been no other changes in accounting policies since the beginning of fiscal 2007.

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 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 will be 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. This policy will be adopted effective October 1, 2007, but is not expected to have a material impact on the company's disclosure.

#### 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 September 30, 2007, and January 26, 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 fiscal 2007.

During fiscal 2007, 200,000 share purchase options with an exercise price of \$0.28 per share expired.

As at September 30, 2007, and January 26, 2008 (the date of this report), there remained outstanding 450,000 options with an exercise price of \$0.16. These options expire on May 18, 2009

### ***Subsequent Events***

In October 2007, 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 will provide 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 also completed the relocation and upgrade of its Prince George, B.C., clinic. 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.

### ***Additional information***

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