

AUDIOTECH HEALTHCARE CORPORATION

AMENDED & RESTATED MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2008
(Fourth Quarter of Fiscal 2008)

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Directors and Officers of the Corporation as at
September 30, 2008, and February 20, 2009

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 Auditech 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 Auditech'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.auditech.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 Auditech'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 Auditech at the time, may prove to be incorrect. Auditech's actual results could differ materially from those expressed in, or implied by, such forward looking information.

The Company's external auditors have performed an audit of these financial statements (see Auditor's report accompanying the financials statements for the year ended September 30, 2008). These consolidated financial statements have also been certified by management.

Form 51-102-F1

1.1 Date of This Report

Date of Original Report: January 28, 2009

Amended & Restated: February 20, 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

	2008	2007	2006
Canadian Revenues	\$ 811,379	\$ 735,033	\$ 595,246
U.S. Revenues	401,833	321,614	216,543
a). Total Revenues	\$ 1,213,212	\$ 1,056,647	\$ 811,789
Operating Cash Flow*	(44,564)	64,148	(74,916)
b,c). Net Earnings **	(1,051,558)	(32,060)	(106,496)
EPS (basic & fully-diluted)	(0.079)	(0.002)	(0.008)
d). Total Assets	\$ 2,028,511	\$ 2,899,293	\$ 2,683,075
e). Total Long-Term Liabilities	1,188,971	\$ 1,218,199	\$ 742,241
f). Cash Dividends per Share	NIL	NIL	NIL

Statement of Income – Annual Data (Audited) - Years Ended September 30

	2008**	2007**	2006**	2005**	2004**
Canadian Revenues	\$ 3,049,903	\$ 2,793,104	\$ 2,549,453	\$ 2,566,952	\$ 2,299,029
U.S. Revenues	1,377,315	1,309,288	1,002,555	1,244,648	1,330,895
a). Total Revenues	\$ 4,427,218	\$ 4,102,392	\$ 3,552,008	\$ 3,811,600	\$ 3,629,914
Operating Cash Flow*	(151,520)	285,300	230,908	182,349	286,100
b,c). Net Earnings (Loss) **	(1,272,334)	87,937	101,804	78,559	153,647
EPS (basic & fully-diluted)	(0.095)	0.007	0.008	0.006	0.012
d). Total Assets	\$ 2,028,511	\$ 2,899,293	\$ 2,683,075	\$ 2,587,126	\$ 2,526,933
e). Total Long-Term Liabilities	1,188,971	1,218,199	\$ 742,241	\$ 1,158,227	\$ 984,149
f). Cash Dividends per Share	NIL	NIL	NIL	NIL	NIL

* 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 except as otherwise disclosed in this MD&A.

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:

During the year ended quarter ended September 30, 2008, a one-time provision for the impairment of goodwill in the amount of \$942,775 was recorded. This event is discussed further later in this MD&A.

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 and second quarters of fiscal 2008 in particular, the Canadian dollar appreciated sharply against the U.S. dollar. In spite of the negative impact of the exchange rate on reported sales, the U.S. revenues have grown steadily for the past several years due to the opening of the Regional Hearing & Balance Center in Idaho falls in March 2005.

Reconciliation of operating cash flow:

	3 Months ended September 30		
	2008	2007	2006
Net Income (Loss)	\$ (1,051,558)	\$ (32,060)	\$ (106,496)
Amortization of Capital Assets	48,562	38,232	29,130
Future Income Taxes	(1,300)	51,472	(14,243)
Loss (Gain) on Asset Disposal	16,957	6,503	10,318
Writeoff of Goodwill Impairment	942,775	-	-
Amort. of Debenture Discount	-	-	6,375
Operating Cash Flow	(44,564)	64,148	(74,916)

	Years Ended September 30				
	2008	2007	2006	2005	2004
Net Income (Loss)	\$ (1,272,334)	\$ 87,937	\$ 101,804	\$ 78,559	\$ 153,647
Amortization of Capital Assets	161,297	127,800	107,529	92,217	83,691
Future Income Taxes	(1,300)	51,472	(14,243)	(35,929)	-
Writeoff of Goodwill Impairment	942,775	-	-	-	-
Loss on Assets Disposal	18,042	7,461	10,318	1,477	19,428
Amort. of Debenture Discount	-	10,630	25,500	46,025	29,334
Operating Cash Flow	(151,520)	285,300	230,908	182,349	286,100

1.4 Results of Operations

Audiotech is pleased to report record quarterly sales for the fourth quarter of fiscal 2008. Revenues for the quarter totaled \$1,213,312, an increase of 14.8% over the sales recorded during the same quarter a year earlier.

Revenues in Canada and the U.S. were \$811,379 (an increase of 10.4%), and \$401,833 (an increase of 24.9%), respectively. The increase in revenues in Canada during the quarter is due to improved contributions from some of the newer clinics including a one-month contribution from the newest clinic in Penticton which was opened in August 2008. The growth in revenues in the U.S. is due to an increase in patient visits and a more favorable US\$ / CDN\$ exchange rate during the quarter.

For fiscal 2008, revenues totaled \$4,427,218 up 7.9% from the \$4,102,392 reported during fiscal 2007.

While overall sales have been solid, as previously noted, the sales performance of certain of the Canadian clinics including the newly opened clinics in Victoria and Kelowna did not meet management's expectations during fiscal 2008 (see below for further discussion). Remedial action was undertaken by management during the fourth quarter, including the closure of the Victoria location and re-deployment of capital equipment in the new Penticton location, as well as staff changes in Kelowna.

It should be noted that the reported revenues from Audiotech's U.S. operations during fiscal 2008 continued to be negatively impacted by the strength of the Canadian dollar as compared to previous years. During the fourth quarter of fiscal 2008, the exchange rate began to shift more in the favour of the corporation, resulting in an improvement in reported revenues. Further depreciation of the Canadian dollar during the first quarter of 2009 is expected to reflect positively in reported revenues from the U.S. operations in upcoming quarters.

Gross margins remained solid at 66.2% during the fourth quarter, resulting in an overall gross margin of 66.1% for fiscal 2008, roughly on par with the long-term average (5 year), but below the record margins achieved in fiscal 2006 and 2007. 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 fiscal 2008 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 generally increase in the coming quarters as the younger clinic operations achieve greater economies of scale. Gross margins are expected to range from roughly 66 to 68% over the next 12 months.

Historical Gross Margins:

Current Qtr.	Fiscal 2008	Fiscal 2007	Fiscal 2006	Fiscal 2005	Fiscal 2004	5 Yr. Avg.
66.2%	66.1%	69.2%	68.9%	65.4%	63.9%	66.7%

Direct clinic costs during the fourth quarter increased by 24.7% over the same quarter a year earlier. 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 and fiscal 2008. Direct clinic costs were on target with management expectations, however, as noted above, certain new clinics have not yet achieved their anticipated level of market penetration and sales. The Victoria and Kelowna clinics were responsible for the majority of the shortfall in expected performance of the Canadian clinic group. A discussion of certain material events that impact the results of several clinics, and the remedial actions undertaken by management, are discussed below:

Victoria: The Victoria clinic contributed a pre-tax net loss of \$94,168 during fiscal 2008. As noted, due to human resource issues, the Victoria clinic was closed during the fourth quarter and the equipment was transferred to the new Penticton operation. There are no further ongoing costs anticipated with respect to the closure of the Victoria operations.

Kelowna: The Kelowna clinic contributed a pre-tax net loss of \$190,084 during fiscal 2008. A significant portion of this loss is attributable to start-up costs including extensive advertising costs related to establishing an initial presence in the market. During the fourth quarter, major staffing changes and a cost rationalization program were undertaken to improve the results of the Kelowna clinic. Management is confident that the Kelowna operation will demonstrate significantly improved results in fiscal 2009 and that it will trend towards profitability during the latter half of the fiscal year. Residual severance costs related to the staffing changes are anticipated during the first quarter of fiscal 2009.

Penticton: The Penticton clinic was opened in August 2008. Accordingly, it had only just over one month to contribute to operating results before the completion of the fiscal year. Significant start-up costs were incurred during fiscal 2008, resulting in a pre-tax loss of \$48,259. Management is pleased with the initial success of this

clinic and expects it reach self sustainability and to generate positive operating cash flow before the end of fiscal 2009.

South Kamloops: During the year, the Kamloops clinic was given the responsibility of training additional hearing instrument specialists to bolster staffing levels within the B.C. interior clinics, many of which are seeing record patient visits. This training was made possible by facility upgrades undertaken in prior periods. The internal training program has seen two new specialists graduate and enter clinical positions in the company. A third student is currently completing the required practical work experience under one of our audiologists. While setting aside time for training reduced clinic revenues temporarily during fiscal 2008, this investment is expected to have a significant positive impact on revenues going forward.

Indicative of the early improvements in productivity of the underperforming clinics, direct clinic costs as a percentage of sales decreased from 66.7% in the second quarter to 56.5% in the third quarter, and 56.7% during the fourth quarter. Management anticipates direct costs to continue to decline as a percentage of sales during fiscal 2009 as the newer clinics begin to contribute more significant revenues, as newly trained staff are able to contribute to growth, and as a result of a leaner cost structure at the younger clinics now that the start-up costs have been absorbed.

General and administrative expenses decreased 6.5% to \$165,451 during the fourth quarter of fiscal 2008 as compared to the same quarter a year earlier. Significant deductions in administrative costs and salaries and benefits contributed to the decrease in costs both during the quarter and for the fiscal year which was an overall 6.3% decrease in general and administrative costs. As is the case every year, the fourth quarter included an accrual associated with the annual year-end financial audit costs, thereby resulting in the increase in general and administrative costs as compared to the previous quarter. As a percentage of sales, G&A expense declined to 11.9% of sales for fiscal 2008 as compared to 13.8% in fiscal 2007. Further reductions of general and administrative costs as a percentage of sales are expected in fiscal 2009.

Pursuant to the company's accounting policies, an annual goodwill impairment test is undertaken to compare the fair value of the company's U.S. and Canadian reporting units to their carrying value on the balance sheet. The goodwill impairment test involves a two step approach. The first step identifies a potential impairment. In prior periods a market capitalization approach was applied to estimate fair value of the reporting units. Due to illiquid nature of the trading in the company's share during the latter half of 2008, it was determined that this method could no longer be relied upon. Alternatively, the fair value of the reporting units was estimated using a discounted future cash flow model. As a result of the current years operating loss, the uncertainty in the projected earnings of a number of new clinics opened during the year, and the impact these have on the estimation of the future earning trends of the reporting units, the company's annual impairment test was based on the company's conservative estimate of the present value of future cash flows given currently available information without giving affect to all of management's projected improvements in operating cash flow. Based on this model, it was determined that the carrying values of both of the company's reporting units exceeded their fair value.

Accordingly, an impairment provision of \$942,775 was recorded in the current year reflecting a write-down of goodwill for both the U.S. and Canadian segments in the amount of \$494,114 and \$448,661 respectively. The provision represents the company's initial estimate of the goodwill impairment given the aforementioned uncertainty. Any subsequent determination based on completion of the second step of the impairment test as additional information becomes available, will be reflected prospectively in a subsequent period.

Management would like to reassure shareholders that the recording of this provision for goodwill impairment does not reflect a change in management's opinion as to the future performance of the company. Management is confident that the company will return to positive cash flow and profitability in the near future as the newer clinics begin to contribute more meaningfully to the organization.

As a result of the aforementioned, the company recorded a net loss of \$1,272,334 or \$0.095 per share during fiscal 2008 as compared to a profit of \$87,937 or \$0.007 per share in fiscal 2007. Included in the above was a cash flow loss of \$44,564 during the fourth quarter which was largely attributable to the reversal of the expected income tax recovery booked during the first quarter, a \$16,000 charge related to the termination of the Victoria lease, and start-up costs associated with the start of the Penticton operation.

Comprehensive income was a loss of \$1,252,960, reflecting a positive \$19,374 cumulative translation adjustment during the year. Cash flow from operations was negative \$151,520 for fiscal 2008, and negative \$44,564 for the fourth quarter.

These results are below management's expectations, however, the company remains confident that the investments made in fiscal 2007 and 2008 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 and as prudent cost reductions are completed. 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.

Management intends to focus on creating further operational efficiencies and improving the results from existing clinics during fiscal 2009 to ensure that the company returns to profitability as soon as possible.

Details of all expenses can be found in the audited annual financial statements for the period ended September 30, 2008.

1.5 Summary Quarterly Results

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

	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	09-30-08	06-30-08	03-31-08	12-31-07	09-30-07	06-30-07	03-31-07	12-31-06
Revenues	1,213,312	1,180,297	1,009,366	\$1,024,343	\$1,056,647	\$1,038,884	\$1,068,946	\$937,915
Net Income*	(1,051,558)	(43,879)	(122,697)	(54,200)	(32,060)	38,948	64,049	17,000
/ Share Basic	(0.079)	(0.003)	(0.009)	(0.004)	0.0024	0.0029	0.0048	0.0013
/ Share FD	(0.079)	(0.003)	(0.009)	(0.004)	0.0023	0.0028	0.0048	0.0013

* During the year ended quarter ended September 30, 2008, a one-time non-cash provision for the impairment of goodwill in the amount of \$942,775 was recorded.

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 considerably, 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 2007 is presented in the following chart (based on daily closing rates).

1US\$ - X\$CDN

Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
09-30-08	06-30-08	03-31-08	12-31-07	09-30-07	06-30-07	03-31-07	12-31-06
2008-07: 1.013	2008-04: 1.014	2008-01: 1.011	2007-10: 0.975	2007-07: 1.051	2007-04: 1.134	2007-01: 1.176	2006-10: 1.128
2008-08: 1.054	2008-05: 0.999	2008-02: 1.000	2007-11: 0.968	2007-08: 1.059	2007-05: 1.095	2007-02: 1.171	2006-11: 1.136
2008-09: 1.058	2008-06: 1.017	2008-03: 1.002	2007-12: 1.003	2007-09: 1.025	2007-06: 1.066	2007-03: 1.169	2006-12: 1.153
Avg.: 1.042	Avg.: 1.010	Avg.: 1.004	Avg.: 0.982	Avg.: 1.045	Avg.: 1.098	Avg.: 1.172	Avg.: 1.121

The negative impact in the revenues of 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 business

volume due to the opening of the Regional Hearing & Balance Center in Idaho Falls in 2005, and an increase 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
August 2008 – closed underperforming clinic in Victoria, BC
August 2008 – opened clinic in Penticton, 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 31st). 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 30th of each year.

1.6 Liquidity

As at September 30, 2008, Audiotech had a cash balance of \$463,623.

Due to the upcoming maturity of certain long-term debt, as at September 30, 2008, the company had a working capital deficit of \$85,220. 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 to restore its working capital to a positive position. As at September 30, 2008, only \$599,867 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.

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.

The following long-term debt obligations mature during fiscal 2009:

Term loan (US\$19,852), 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. The balance as at September 30, 2008, was CDN\$21,127. Upon maturity, this loan will be repaid in full and will not be replaced or renewed.

Promissory notes (unsecured) in the amount of \$77,000, bearing interest at 8% per annum, paid monthly. Due March 2009. Management expects that the promissory notes will be renewed with the current or new investors for an additional term of 3 to 5 years, under a similar interest rate.

Promissory notes in the amount of \$77,400, repayable in monthly installments of \$1,450 including interest at 8% per annum, due June 2009. Management expects that the promissory notes will be renewed with the current or new investors for an additional term of 3 to 5 years, under a similar interest rate.

Unsecured promissory notes totaling \$200,000 bearing monthly interest payments at 8% per annum. Due August 2009. Management expects that the promissory notes will be renewed with the current or new investors for an additional term of 3 to 5 years, under a similar interest rate.

The maturing loan and promissory notes comprise the majority of the balance in the current portion of long-term debt. As this debt is repaid or renewed under long-term arrangements, management expects a corresponding increase in working capital.

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).

During fiscal 2008, a total of \$126,109 in long-term debt and \$33,603 in capital lease obligations were repaid. \$440,000 in new debt financing was received to replace the retired debt and to finance the acquisition of new capital equipment for the new clinics and as a part of regular equipment upgrades, and to boost working capital. Financing activities provided net cash of \$280,288 of which \$184,388 was invested in capital equipment.

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 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.

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 ordinary course of its business as it acquires, expands, and opens new clinics.

A total of \$184,388 in capital purchases were made fiscal 2008 (\$64,354 during the fourth quarter). These purchases were financed by new long-term debt and capital leases.

On an annual basis, management conducts a valuation of its goodwill to determine if there has been an impairment in the value of the goodwill carried on the balance sheet. The company reviews its valuation report with its auditors, who as part of the year-end audit, express an opinion on the financial statements, including indirectly, the goodwill valuation.

In light of the below expected performance of the Canadian operations in fiscal 2008, Audiotech, in conjunction with its auditors, undertook a more thorough review of the goodwill valuation than ever previously done. This resulted in a delay in filing the audited annual financial statements for the period.

The goodwill impairment test involves a two step approach. The first step identifies a potential impairment. In prior periods a market capitalization approach was applied to estimate fair value of the reporting units. Due to illiquid nature of the trading in the company's share during the latter half of 2008, it was determined that this method could no longer be relied upon. Alternatively, the fair value of the reporting units was estimated using a discounted future cash flow model. As a result of the current years operating loss, the uncertainty in the projected earnings of a number of new clinics opened during the year, and the impact these have on the estimation of the future earning trends of the reporting units, the company's annual impairment test was based on the company's conservative estimate of the present value of future cash flows given currently available information without giving affect to all of management's projected improvements in operating cash flow. Based on this model, it was determined that the carrying values of both of the company's reporting units exceeded their fair value.

Accordingly, an impairment provision of \$942,775 was recorded in the current year reflecting a write-down of goodwill for both the U.S. and Canadian segments in the amount of \$494,114 and \$448,661 respectively. The provision represents the company's initial estimate of the goodwill impairment given the aforementioned uncertainty. Any subsequent determination based on completion of the second step of the impairment test as additional information becomes available, will be reflected prospectively in a subsequent period.

Management would like to reassure shareholders that the recording of this provision for goodwill impairment does not reflect a change in management's opinion as to the future performance of the company. Management is confident that the company will return to positive cash flow and profitability in the near future as the newer clinics begin to contribute more meaningfully to the organization.

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 September 30, 2008, entitled "Related Party Transactions," Audiotech had, in the normal course of business, several non-material transactions with related parties during fiscal 2008:

A total of \$2,952 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 \$32,879 in rent and cost reimbursement for utilities and property taxes 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 been paid by the company 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 and financings. Management regards such negotiations as a part of its every day operations and accordingly, until a letter of 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

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

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

CICA Section 3862 - Financial Instrument Disclosures and Presentation

In December 2006, the CICA issued two new accounting standards, Handbook Section 3862 –“Financial Instruments – Disclosures”, and Handbook Section 3863 – “Financial Instruments – Presentation”. These new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These new standards are effective for annual financial statements relating to fiscal years beginning on or after October 1, 2007. These new standards only apply

to disclosure and have no impact on the financial results of the Company. Additional information is provided in Note 9 “Financial Instruments”.

CICA Section 1535 – Capital Disclosures

In December 2006, the CICA issued a new accounting standard, Handbook Section 1535 – “Capital Disclosures”. This new section specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new standard is effective for annual financial statements relating to fiscal years beginning on or after October 1, 2007. This new standard only applies to disclosure and has no impact on the financial results of the Company. Additional information is provided in Note 10 “Capital Management”.

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.

General Standards of Financial Statement Presentation

In June 2007, the CICA amended Handbook Section 1400 – “General Standards of Financial Statement Presentation” to include requirements to assess an entity’s ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The mandatory effective date is for annual and interim financial statements for years beginning on or after January 1, 2008. This new requirement was adopted by the Company effective October 1, 2008. The adoption of this Section is not expected to have an impact on the consolidated financial statements.

CICA Section 3031 – Inventories

The Canadian Accounting Standards Board (“AcSB”) issued CICA Handbook Section 3064 which replaces Section 3062 – “Goodwill and Other Intangible Assets”, and Section 3450 – “Research and Development Costs”. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and is not expected to have an impact on the Company’s financial results. Audiotech adopted Section 3031 effective October 1, 2008.

CICA Section 3064 - Goodwill and Intangible Assets

The Canadian Accounting Standards Board (“AcSB”) issued CICA Handbook Section 3064 which replaces Section 3062 – “Goodwill and Other Intangible Assets”, and Section 3450 – “Research and Development Costs”. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and is not expected to have an impact on the Company’s financial results. Audiotech adopted Section 3064 effective October 1, 2008.

In 2006, the Canadian Accounting Standards Board (“AcSB”) 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 IFRS over an expected five year transitional 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 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, 2011. 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

Under Section 3251, *Equity*, Section 3855, *Financial Instruments - Recognition and Measurement* and Section 3861, *Financial Instruments - Disclosure and Presentation*, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale

assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held to maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financing are expensed in the period incurred.

As a result of the adoption of these new standards, the Company has classified its cash as held-for-trading, receivables as loans and receivables and its accounts payable, accrued liabilities, long term debt, and capital lease obligations as other liabilities, which are measured at amortized cost.

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.

Foreign exchange risk

The Company's exposure to foreign exchange risk associated with self-sustaining foreign operations is limited to its net investment in those operations. The Company does not use forward looking foreign exchange contracts.

Certain financial instruments of the Company include amounts translated from foreign currencies into Canadian dollars. Listed below are the relevant instruments and the amount of foreign currencies included in their balances (in US dollars):

Cash \$ 81,997

Accounts receivable 151,994

Accounts payable 151,650

U.S. Dollars were translated at \$1.0197 to \$1.00 Canadian as at September 30, 2008.

Credit risk

Credit risk refers to the risk that a party to a financial instrument defaults on its obligation and thus brings about a financial loss to the Company. Credit risks arise mainly from trade accounts receivables. Company's policy requires that trade accounts receivable become due when services are rendered. The Company continually analyzes and manages the accounts. The Company has had history of few bad debts. Bad debt provision is maintained at a level considered sufficient to cover all potential losses.

Interest rate risk

The Company has cash balances, interest-bearing debt and capital lease obligations. Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's exposure to the risk in market interest rates relates to entering into fixed or variable interest rate borrowing arrangements as required. The existing debt and capital lease obligations are held at fixed interest rates. The Company is also exposed to interest rate fluctuations on its cash balances and cash equivalents.

Liquidity risk

Liquidity risk is defined as the risk that the Company would not be able to meet its financial obligations due to a lack of liquidity. It is managed through diverse financing sources to maintain flexibility and by closely planning operational

needs. The Company prepares budgetary and treasury projections to insure that it will have the funds necessary to meet its obligations. A large part of the Company's needs are met by its cash flow from operations. To finance business expansion, the Company negotiates financing facilities to meet its obligations when due. See "1.6 - Liquidity" above for further discussion.

1.15 Other

Disclosure of Outstanding Share Capital

As at September 30, 2008, and February 20, 2009 (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 fourth quarter or fiscal year ended September 30, 2008.

As at September 30, 2008, and February 20, 2009 (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 subsequent events since September 30, 2008, as of the date of this report.

Additional information

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