AUDIOTECH HEALTHCARE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

For the 6 Months Ended March 31, 2007
(Second Quarter of Fiscal 2007)

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Directors and Officers of the Corporation as at March 31, 2007 and May 30, 2007

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

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

Officers:
Osvaldo (Ozzie) Iadarola, *President & Chief Executive Officer*
Darryl Walker, Secretary, *Chief Financial Officer*
Daniel Allen, *Vice-President & Chief Operations Manager Canada*
Dr. Gerald Mill, *Chief Operations Manager - Idaho*

The intention of Management's Discussion and Analysis (MD&A) is for Audiotech to present management's analysis of the results of its operations, current financial position, and future prospects. The MD&A complements and supplements the financial statements that have been prepared according to Canadian generally accepted accounting principles (GAAP). Management's discussion and analysis of Audiotech's operating results for the period 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

May 30, 2007.

1.2 Overall Performance

Audiotech owns and operates a network of hearing healthcare clinics located in Western Canada and the Pacific-Northwest United States. Since becoming a public company in 1997, the company has grown through acquisitions and the successful start-up of full-fledged and satellite clinics.

Please refer to section 1.4 below for further discussion of operating results during the quarter and a comparison to prior periods.

1.3 Selected Quarterly and Annual Information

Statement of Income – Quarterly Data (Unaudited)

		3 Months Ended March 31			6 Months Ended March 31		
		2007	2006	2005	2007	2006	2005
	Canadian Revenues	$ 709,114	$ 686,718	$ 651,043	$ 1,354,520	$ 1,254,596	$ 1,302,696
	U.S. Revenues	359,832	286,259	304,861	652,341	519,411	666,924
a).	**Total Revenues**	**$ 1,068,946**	**$ 972,977**	**$ 955,904**	**$ 2,006,861**	**$ 1,774,007**	**$ 1,969,620**
	Operating Cash Flow*	**99,907**	**135,322**	**89,254**	**149,812**	**169,758**	**127,056**
b,c).	**Net Earnings ****	**64,049**	**101,969**	**59,120**	**81,049**	**106,116**	**62,831**
	EPS (basic & fully-diluted)	**0.0048**	**0.0076**	**0.0044**	**0.0061**	**0.0078**	**0.0047**
d).	**Total Assets**	**$ 3,003,488**	**$ 2,676,820**	**$ 2,752,025**	**$ 3,003,488**	**$ 2,676,820**	**$ 2,752,025**
e).	**Total Long-Term Liabilities**	**$ 815,072**	**$ 1,092,698**	**$ 1,311,841**	**$ 815,072**	**$ 1,092,698**	**$ 1,311,841**
f).	**Cash Dividends per Share**	**NIL**	**NIL**	**NIL**	**NIL**	**NIL**	**NIL**

Statement of Income – Annual Data (Audited)

		Years Ended September 30				
		2006**	2005**	2004**	2003**	2002**
	Canadian Revenues	$ 2,549,453	$ 2,566,952	$ 2,299,029	$ 1,737,167	$ 1,855,175
	U.S. Revenues	1,002,555	1,244,648	1,330,885	1,430,299	1,133,985
a).	**Total Revenues**	**$ 3,552,008**	**$ 3,811,600**	**$ 3,629,914**	**$ 3,167,466**	**$ 2,989,160**
	Operating Cash Flow*	**230,908**	**182,349**	**286,100**	**(19,974)**	**62,283**
b,c).	**Net Earnings ****	**101,804**	**78,559**	**153,647**	**(105,366)**	**(47,438)**
	EPS (basic & fully-diluted)	**0.008**	**0.006**	**0.012**	**(0.008)**	**(0.004)**
d).	**Total Assets**	**$2,683,075**	**$ 2,587,126**	**$ 2,526,933**	**$ 1,966,092**	**$ 2,199,099**
e).	**Total Long-Term Liabilities**	**$742,241**	**$ 1,158,227**	**$ 984,149**	**$ 361,722**	**$ 821,450**
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. While management believes this number to be an important measure of corporate activity used in the industry in which the company operates, it cannot be assured that operating cash flow, as reported, is directly comparable to operating cash flow as reported by peer companies in the industry since there is no universally accepted means of its calculation. Audiotech's calculation of operating cash flow is done in the manner believed to be consistent with the most accepted means of calculation in the industry and the accounting profession as a whole.

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

There have been no material changes outside the general course of business that account for the fluctuation or changes in the financial results reported from period to period in the chart above, except as follows:

As mentioned in previous filings, the company has 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.

1.4 Results of Operations

Total revenues for the second quarter ended March 31, 2007, were $1,068,946, an increase of 10% over the same quarter in fiscal 2006, and up 14% over the revenues reported during the first quarter of the current fiscal year. Revenues for the quarter were just shy of the corporation's all time quarterly sales record.

Once again, growth was achieved in both the Canadian and U.S. divisions. Revenues from the company's Canadian operations totaled $709,114 compared to $645,406 during the first quarter, and $686,718 during the second quarter of fiscal 2006. Most notable during the quarter was the continued strong growth in the company's U.S. clinic operations which posted a 26% increase in revenues during the second quarter as compared to the same period a year ago, and a 23% increase over the prior quarter. Revenues from U.S. clinics were $359,832, representing 34% of corporate revenues for the quarter.

For the six month period ended March 31, 2007, the company is pleased to report record revenues of $2,006,861, an increase of 13% over the same two quarters in fiscal 2006. Canadian and U.S. operations contributed growth of 8% and 26%, respectively. The strong organic growth is attributed to the new clinics opened in Canada during the past year, and the positive results achieved as a result of the opening of the flagship Regional Hearing & Balance Centre in Idaho Falls last year.

Gross margins continue to meet expectations, rising from 68.6% of sales during the second quarter of fiscal 2006 to 69.3% for the quarter ended March 31, 2007. Gross margins were 69.7% during the first 2 quarters of fiscal 2007. Management remains confident that the factors that have contributed to the strong gross margins reported by the company over the past two years will continue into the foreseeable future.

As a result of the opening of the Victoria clinic and the relocation the NW Calgary clinic during the first quarter, most direct clinic expense categories saw modest increases during the second quarter compared to previous reporting periods. Furthermore, during the second quarter, the company expanded its South Kamloops clinic to expand service capacity and to facilitate ongoing training of staff for all clinic operations (see below for more details). Included in these expenses are certain on-time costs associated with these initiatives as well as investments that are expected to deliver revenues in upcoming quarters. As expected, direct clinic costs as a percentage of sales declined from 54% during the first quarter to 50% during the second quarter as a result of a more meaningful contribution to revenues from the newer clinics. Direct clinic operating costs for the quarter were $534,762 compared to $443,090 during the second quarter of fiscal 2006. This represents an increase of 21%.

General and administrative expenses totaled $136,931 during the quarter which compares favorably with the average quarterly G&A expense for fiscal 2006, which was just over $133,000, despite additional investments in infrastructure. As expected, general and administrative costs have declined as a percentage of sales during fiscal 2007. G&A costs have dropped from 14.5% of sales during fiscal 2006, to 13.5% during the first quarter, and to 12.8% during the second quarter of fiscal 2007.

Audiotech is pleased to announce earnings of $64,049 or $0.0048 per share for the second quarter ended March 31, 2007. Earnings for the first 2 quarters of fiscal 2007 were $81,049 or $0.0061 per share

Effective October 1, 2006, Audiotech's two principal Canadian operating subsidiaries were amalgamated. The amalgamation will afford the consolidated company greater tax planning opportunities and the ability to better utilize loss carryforwards in fiscal 2007 and beyond to reduce the consolidated corporate income tax liability. Accordingly, Audiotech expects a more favorable tax position in fiscal 2007 than was experienced in fiscal 2006, and no provision for income taxes has been applied during the first or second quarters.

During the 6 months ended March 31, 2007, a total of $10,630 in amortization related to the debenture discount was recorded on the statement of income thereby reducing net earnings by the same amount ($12,750 for the same quarters in fiscal 2006). Since the convertible debentures from which the debenture discount originated were completely repaid during the second quarter, this non-cash expense will not impact future financial results.

Details of all expenses can be found in the unaudited interim consolidated financial statements for the period ended March 31, 2007.

Future Outlook

Management's revenue and profit outlook for fiscal 2007 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 ongoing negotiations with several potential targets over the past 2 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 has determined 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 U.S. and Western Canada. Management will continue to review acquisition opportunities as they arise, however, the acquisition strategy will become secondary to organic growth initiatives. New clinics will be a mix of full stand-alone operations and satellites of existing clinics. The initial examples of this program, including the new Vernon location, the recently expanded NW Calgary location, and the new Victoria clinic, are initial steps in this regard. Based on the success of the Regional Hearing & Balance Center in Idaho Falls, additional opportunities to create similar operations in other U.S. markets will also continue to be explored.

In harmony with this new strategic focus, during the second quarter, the company completed a renovation and expansion of its South Kamloops clinic. The project more than doubled clinic space and has greatly increased operational efficiencies. Wait times have declined considerably and patient visits have been increased. In addition to increasing service capacity, the clinic was also upgraded to facilitate staff training as part of an internal career development program whereby the company will train its own Hearing Instrument Specialists over the coming years to help overcome the present shortage of qualified audiologists. Hearing Instrument Specialist trainees, both during and after their courses, take their practicum and additional training on site under the supervision of Vice President and Chief Operations Manager Canada, Dan Allen, B.Sc., M.A.I.S., CCC-A, Audiologist. The company currently has three trainees in the program, two of which are in the first year of a two year program through Grant MacEwan College, and the third who is preparing for the government licensing exams this fall. These trainees will provide additional manpower to support future clinic start-ups and expansion of existing clinic capacity. Administrative support staff and technicians, who act in a support role to the Audiologists and Hearing Instrument Specialists, are also to be trained at this location.

It should be noted that the same phenomena that has made growth through acquisitions less attractive, has 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 fund the organic growth program. Of course, the company will also continue to re-invest its positive cash flow in new growth initiatives as well.

1.5 Summary Quarterly Results

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

	Q2 03-31-07	Q1 12-31-06	Q4 09-30-06	Q3 06-30-06	Q2 03-31-06	Q1 12-31-05	Q4 09-30-05	Q3 06-30-05
Revenues	$ 1,068,946	$ 937,915	$811,789	$966,212	$972,977	$ 801,030	$ 913,300	$ 928,511
Net Income*	64,049	17,000	(106,496)	102,184	101,969	4,147	12,560	2,470
/ Share Basic	0.0048	0.0013	(0.008)	0.0077	0.0076	0.0003	0.0009	0.0002
/ Share FD	0.0048	0.0013	(0.008)	0.0074	0.0073	0.0003	0.0009	0.0002

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

1.6 Liquidity

As at March 31, 2007, Audiotech had a cash balance of $478,110.

Working capital was negative $23,172 as a result of the re-classification of certain long-term liabilities during the latter half of fiscal 2006 as short-term (current liabilities) as repayment of these liabilities is now scheduled within the next twelve months.

During the second quarter, the expiring convertible debentures totaling $243,995 were refinanced by promissory notes bearing interest at 8% per annum with varying terms. In addition to reducing the effective interest rate of this debt significantly, the restructuring of this debt will eliminate the ongoing non-cash charge against earnings each quarter related to the amortization of the debenture discount.

A portion of the convertible debentures were refinanced under short term arrangements with a maturity in June 2007 as this debt is expected to be replaced with financing from another long-term financial partner of the company as part of the refinancing of a promissory note which matures at that time. A total of $276,940 is expected to be refinanced as part of this final tranche. Following the completion of this final tranche of debt refinancing, management expects that the maturities of the corporation's long term debt will be such that the working capital ratio shall improve and return to historical levels.

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. 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).

During the quarter, the company received gross proceeds of $261,000 from the new promissory notes as discussed above. These notes were used to retire the company's convertible debentures which matured during the period. This brings the total year-to-date proceeds from new debt financing to $311,000. A total of $293,368 in long-term debt, principally the convertible debentures, were repaid during the quarter. $325,347 in long term debt has now been repaid during the 6 months ended March 31, 2007. An additional $11,735 in long-term capital leases were also repaid ($5,996 during the second quarter). As a result of these transactions, there was a net reduction in long-term debt during the second quarter of fiscal 2007 of $38,364 ($26,082 for the first half of fiscal 2007). The net reduction in long-term debt during fiscal 2007 has been funded out of cash flow.

1.7 Capital Resources

The Corporation's capital assets consist of various hearing diagnostic equipment, computer and office equipment, leasehold improvements, and land and building as detailed in the notes to the consolidated financial statements for the period ended March 31, 2007 (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.

During the second quarter, the company continued to invest in its infrastructure. A total of $72,714 in new capital equipment was purchased as part of regular equipment upgrades at several Canadian clinics and the expansion of the South Kamloops location as discussed above. These purchases were financed from cash flow.

1.8 Off Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

1.9 Transactions with Related Parties

As detailed in note 8 of the consolidated financial statements for the 6 months ended March 31, 2007, entitled "Related Party Transactions," Audiotech had, in the normal course of business, several non-material transactions with related parties during the quarter:

A total of $1,936 was paid to MediaWave Communications Corp., an Internet services company controlled by a director of the corporation in connection with website maintenance and hosting services, and an advertising sharing agreement with respect to HearingDepot.com and HearingCenterOnline.com.

A total of $15,095 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

The company has adopted CICA Handbook Section 1530, Comprehensive Income, CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement and CICA Handbook Section 3865, Hedges. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Handbook Section 1530 also introduces a new component of equity referred to as comprehensive income. Under these new standards, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading and all financial liabilities must be classified as held for trading or other. All financial assets are classified as loans and receivables and are measured at amortized cost using the effective interest method. All financial liabilities are classified as other than held for trading and are measured at amortized cost using the effective interest method. All transactions costs are recognized in net income in the year incurred. In accordance with the provisions of these new standards, there were no adjustments required to the Company's interim consolidated financial statements as of March 31, 2007.

It should be noted that effective October 1, 2006, Audiotech's two principal Canadian operating subsidiaries were amalgamated. The amalgamation will afford the consolidated company greater tax planning opportunities and the ability to better utilize loss carryforwards in fiscal 2007 and beyond to reduce the consolidated corporate income tax liability.

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. See section 1.13 above regarding change in accounting policy related to financial instruments.

The fair value of the Company's long-term debt approximates its carrying value as there is a market rate of interest attached to the repayment.

The majority of the Company's accounts receivable are due from customers in Canada with the remainder due from customers in the United States. The maximum credit risk associated with the Company's financial assets is the carrying value of those assets. The Company's exposure to foreign exchange risk associated with self-sustaining foreign operations is limited to its net investment in those operations.

1.15 Other

Disclosure of Outstanding Share Capital

As at March 31, 2007, 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 quarter.

As at March 31, 2007, 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). 200,000 options with an exercise price of $0.28 per share are scheduled to expire on June 9, 2007. Subsequent to this date, there will be 450,000 options outstanding, all with an exercise price of $0.16 per share. These options expire on May 18, 2009.

Subsequent Events

There have been no material events subsequent to March 31, 2007, 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.