

AUDIOTECH HEALTHCARE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

For the 9 Months Ended June 30, 2007
(Third Quarter of Fiscal 2007)

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Directors and Officers of the Corporation as at June 30, 2007 and August 28, 2007

Directors:

Oswaldo (Ozzie) Iadarola*
Glen Martin**
Grant Robertson**
Daniel Allen
Dr. Gerald Mill

* member of the audit committee

** independent member of the audit committee

Officers:

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

The intention of Management's Discussion and Analysis (MD&A) is for Audiotech to present management's analysis of the results of its operations, current financial position, and future prospects. The MD&A complements and supplements the financial statements that have been prepared according to Canadian generally accepted accounting principles (GAAP). Management's discussion and analysis of Audiotech's operating results for the period should be read in conjunction with the company's consolidated financial statements for the same period, which can be found on SEDAR (www.sedar.com) or at the company's website at www.audiotech.org.

Given the objectives of the MD&A, certain information presented is of a forward-looking nature. Such forward looking information involves substantial known and unknown risks and uncertainties. Most of these are beyond Audiotech's control and include: the impact of general economic conditions, changes in industry conditions, the availability of qualified personnel, stock market volatility, and access to capital from internal and external sources. The reader is cautioned that assumptions used in the preparation of such information, while considered reasonable by Audiotech at the time, may prove to be incorrect. Audiotech's actual results could differ materially from those expressed in, or implied by, such forward looking information.

The Company's external auditors have not performed a review of these financial statements. These consolidated financial statements have been prepared by and certified by management.

1.1 Date of This Report

August 28, 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 June 30			9 Months Ended June 30		
	2007	2006	2005	2007	2006	2005
Canadian Revenues	\$ 703,551	\$ 699,611	\$ 607,413	\$ 2,058,071	\$ 1,954,207	\$ 1,910,115
U.S. Revenues	335,333	266,601	321,098	987,674	786,012	988,185
a). Total Revenues	\$ 1,038,884	\$ 966,212	\$ 928,511	\$ 3,045,745	\$ 2,740,219	\$ 2,898,300
Operating Cash Flow*	71,340	136,066	44,066	221,152	305,824	171,291
b,c). Net Earnings **	38,948	102,184	2,470	119,997	208,300	65,999
EPS (basic & fully-diluted)	0.0029	0.0077	0.0002	0.0091	0.0155	0.0049
d). Total Assets	\$ 2,756,105	\$ 2,596,379	\$ 2,662,461	\$ 2,756,105	\$ 2,596,379	\$ 2,662,461
e). Total Long-Term Liabilities	903,006	\$ 797,130	\$ 1,217,243	903,006	\$ 797,130	\$ 1,217,243
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	1,330,895	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 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.

1.4 Results of Operations

For the second consecutive quarter, consolidated revenues were just shy of the corporation's all time quarterly sales record. Total revenues for the third quarter of fiscal 2007 ended June 30, 2007, were \$1,038,884, an increase of 7.5% over the same quarter in fiscal 2006. Revenues from the company's Canadian operations totaled \$703,551 compared to \$699,611 during the third quarter of fiscal 2006. U.S. revenues surged 26% to \$335,333 from \$266,601 a year earlier. Sales from U.S. clinic operations represented 32% of total revenue for the quarter.

For the nine month period ended June 30, 2007, the company is pleased to report record revenues of \$3,045,745, an increase of 11% over the same three quarters in fiscal 2006. Canadian and U.S. operations contributed growth of 5% 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 and are on par with recent quarters. Gross margins were 69.5% during the first three quarters of fiscal 2007, compared to 68.8% during the same period in fiscal 2006. Gross margins for the quarter ended June 30, 2007, were 69.1%. 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 of the current fiscal year, and the recent expansion of the South Kamloops clinic, most direct clinic expense categories saw increases during the third quarter compared to previous reporting periods. 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. Direct clinic operating costs for the quarter were \$555,750 compared to \$437,945 during the third quarter of fiscal 2006. This represents an increase of 27%. The greatest increase in direct costs was a 71% rise in selling expenses as a result of the above initiatives. Management anticipates that direct costs as a percentage of sales will decline in upcoming quarters.

General and administrative expenses declined significantly during the quarter to \$123,897, down from \$136,931 during the prior quarter, and from the average quarterly G&A expense for fiscal 2006 which was just over \$133,000. 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, 12.8% during the second quarter, to 11.9% during the latest quarter.

Audiotech is pleased to announce earnings of \$38,948 or \$0.0029 per share for the quarter ended June 30, 2007. Earnings for the first three quarters of fiscal 2007 were \$119,997 or \$0.0091 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 three quarters of fiscal 2007.

Since the company's remaining convertible debentures were retired during the second quarter, no amortization of the debenture discount was recorded during the third quarter. To date in fiscal 2007, a total of \$10,630 in amortization related to the debenture discount has been recorded on the statement of income thereby reducing net earnings by the same amount (\$12,750 for the same quarters in fiscal 2006).

Details of all expenses can be found in the unaudited interim consolidated financial statements for the period ended June 30, 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 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 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. A similar expansion and renovation is now underway at the company's Prince George clinic.

Furthermore, Audiotech is in the final stages of preparation for the opening of another new facility in a major market in British Columbia. The launch of the new clinic is presently anticipated during the fall of 2007.

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:

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	06-30-07	03-31-07	12-31-06	09-30-06	06-30-06	03-31-06	12-31-05	09-30-05
Revenues	\$ 1,038,884	\$ 1,068,946	\$ 937,915	\$811,789	\$966,212	\$972,977	\$ 801,030	\$ 913,300
Net Income*	38,948	64,049	17,000	(106,496)	102,184	101,969	4,147	12,560
/ Share Basic	0.0029	0.0048	0.0013	(0.008)	0.0077	0.0076	0.0003	0.0009
/ Share FD	0.0028	0.0048	0.0013	(0.008)	0.0074	0.0073	0.0003	0.0009

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

1.6 Liquidity

As at June 30, 2007, Audiotech had a cash balance of \$356,549.

As expected, working capital has improved substantially as a result of the final tranche of re-financing of expiring notes and debentures during the quarter. At the end of the third quarter of fiscal 2007, working capital was positive \$89,963, a considerable improvement from negative \$23,172 as at March 31, 2007. Management remains very confident that the company's working capital position is sufficient to meet its needs.

A total of \$122,981 in long-term debt was retired during the quarter and replaced by \$90,850 in new debt under equal or more favorable terms. An additional \$4,576 in capital leases were repaid and \$58,301 of new capital lease obligations were assumed for new equipment purchases. As a result of these transactions, there was a net increase in long-term debt during the third quarter of fiscal 2007 of \$21,594.

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).

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.

1.7 Capital Resources

The Corporation's capital assets consist of various hearing diagnostic equipment, computer and office equipment, leasehold improvements, and land and building as detailed in the notes to the consolidated financial statements for the period ended June 30, 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 in the ordinary course of its business as it acquires, expands, and opens new clinics.

During the third quarter, the company continued to invest in its infrastructure. A total of \$69,247 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 and new capital leases as noted above.

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.

1.8 Off Balance Sheet Arrangements

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

1.9 Transactions with Related Parties

As detailed in note 8 of the consolidated financial statements for the 9 months ended June 30, 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 \$2,509 was paid to MediaWave Communications Corp., a 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 \$24,665 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 Third 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 June 30, 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.

200,000 options with an exercise price of \$0.28 per share expired on June 9, 2007.

As at June 30, 2007, there were 450,000 options to acquire common shares outstanding with an exercise price of \$0.16. These options expire on May 18, 2009.

Subsequent Events

There have been no material events subsequent to June 30, 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.