

Consolidated Financial Statements of

**AUDIOTECH HEALTHCARE  
CORPORATION**

Period ended December 31, 2005

# AUDIOTECH HEALTHCARE CORPORATION

Consolidated Balance Sheets

December 31, 2005, with comparative figures for September 30, 2005

	Dec 31 2005	Sep 30 2005
<b>Assets</b>		
Current assets:		
Cash	\$ 378,680	\$ 402,751
Term deposit	-	16,169
Accounts receivable	263,989	311,813
Inventory	46,564	46,458
Prepaid expenses	10,897	4,035
	700,130	781,226
Property, plant and equipment (note 2)	832,643	827,196
Goodwill	942,775	942,775
Future income taxes (note 6)	35,929	35,929
	\$ 2,511,477	\$ 2,587,126

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 291,245	\$ 330,154
Unearned revenue	18,787	13,799
Current portion of capital lease	22,883	22,515
Current portion of long-term debt	151,316	163,052
	484,231	529,520
Long-term debt (note 3)	1,097,121	1,125,949
Obligation under capital lease (note 4)	26,428	32,278
Shareholders' equity:		
Share capital (note 5)	1,705,340	1,705,340
Other paid in capital (note 5)	238,489	238,489
Cumulative translation account	(37,771)	(37,942)
Deficit	(1,002,361)	(1,006,508)
	903,697	899,379
Commitments (note 10)		
	\$ 2,511,477	\$ 2,587,126

See accompanying notes to consolidated financial statements.

On behalf of the Board:

\_\_\_\_\_  
"Osvaldo (Ozzie) Iadarola" Director      "Grant Robertson" Director

# AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Operations and Deficit

Period ended December 31, 2005, with comparative figures for December 31, 2004

	Dec 31 2005 3 months	Dec 31 2004 3 months
Sales	\$ 801,030	\$ 1,013,716
Direct clinic costs:		
Materials and freight	254,122	408,515
Selling expenses	58,016	97,525
Rent, utilities and clinic overheads	87,859	64,430
Amortization	22,936	19,263
Salaries and benefits	256,524	294,587
	679,457	884,320
	121,573	129,397
Expenses:		
General and administrative	23,751	22,323
Amortization	978	744
Professional fees	5,881	6,210
Foreign exchange	(17)	3,632
Interest on long-term debt	25,541	25,636
Salaries and benefits	54,917	53,056
	111,051	113,601
Income (loss) before other expenses	10,522	17,796
Other expenses:		
Loss on disposal of equipment	-	-
Amortization of debenture discount	6,375	14,084
	6,375	14,084
Net earnings (loss) for the period	4,147	3,712
Deficit, beginning of period	(1,006,508)	(958,067)
Cumulative effect of stock based compensation	-	(127,000)
Deficit, end of period	(1,002,361)	\$ (1,085,067)
Weighted average number of shares outstanding	13,654,825	13,329,825
Earnings (loss) per share (basic and diluted)	\$ 0.0003	\$ 0.0003

See accompanying notes to consolidated financial statements.

# AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Cash Flows

Period ended December 31, 2005, with comparative figures for December 31, 2004

	Dec 31 2005 3 mo.	Dec 31 2004 3 mo.
Cash flows from operating activities:		
Net earnings (loss)	\$ 4,147	\$ 3,712
Items not involving cash:		
Amortization of plant and equipment	23,914	20,007
Loss on disposal of equipment	-	-
Amortization of debenture discount	6,375	14,084
	<u>34,436</u>	<u>37,804</u>
Change in non-cash operating working capital:		
Accounts receivable	48,114	(1,994)
Inventory	15	34,756
Prepaid expenses	(6,862)	571
Accounts payable	(39,062)	(75,272)
Unearned revenue	4,988	(20,810)
	<u>41,629</u>	<u>(24,945)</u>
Financing:		
Proceeds from long-term debt	-	132,295
Principal payments on long-term debt	(47,131)	(53,292)
Repayment of obligation under capital lease	(5,545)	(3,921)
	<u>(52,676)</u>	<u>74,082</u>
Investing:		
Purchases of property, plant and equipment	(29,184)	(145,598)
Reduction of term deposit	16,169	-
	<u>(13,015)</u>	<u>(145,598)</u>
Effect of changes in exchange rates on foreign denominated cash	(9)	(3,409)
Increase in cash	<u>(24,071)</u>	<u>(96,429)</u>
Cash, beginning of year	402,751	608,295
Cash, end of year	<u>\$ 378,680</u>	<u>\$ 511,866</u>

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2005

---

Audiotech Healthcare Corporation (the "Company") is incorporated under the laws of the Province of Alberta. Its primary activity is the provision of hearing related services and sale of hearing related devices through its clinics in British Columbia, Alberta and Idaho.

## 1. Significant accounting policies:

### (a) Basis of presentation:

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries Canadian Hearing Care (BC) Inc., Canadian Hearing Care (Alberta) Inc., HearingDepot Inc., Canadian Hearing Network Canada Inc., American Hearing Care Corporation and Audiology and Hearing Aid Services, Inc.

All significant intercompany balances and transactions have been eliminated on consolidation.

### (b) Inventory:

Inventory is recorded at the lower of cost, as determined on a first-in first-out basis, and net realizable value.

### (c) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Property under capital lease is initially recorded at the present value of minimum lease payments at the inception of the lease. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Building	Declining balance	2%
Audiology equipment	Declining balance	20%
Computer equipment	Declining balance	30% & 45%
Leasehold improvements	Straight-line	20%

### (d) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2005

---

## 1. Significant accounting policies (continued):

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the unit's goodwill is compared with its carrying amount to measure the impairment loss, if any. The implied fair value of the goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of operations and deficit.

### (e) Revenue recognition:

Revenue from sales of product is recognized when title passes to the customer, net of an estimated allowance for sales returns. Service revenue is recognized at the time service is provided. Amounts received in advance for products, which have not yet transferred title are recorded as unearned revenue.

### (f) Foreign currency:

The Company's investment in its foreign operations is of a self-sustaining nature. Accordingly, assets and liabilities of foreign operations are translated to Canadian dollars at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at average rates for the period. Related foreign currency translation adjustments are recorded as a separate component of shareholders' equity and included in the cumulative translation account.

### (g) Stock based compensation:

The Company has a stock-based compensation plan as described in note 5(b). Effective October 1, 2004, the Company adopted, on a retroactive basis as a current year charge to retained earnings, the recommendations of the CICA with respect to the recognition, measurement, and disclosure of stock-based compensation and other stock based payments. Under this policy the Company is required to value all stock-based compensation granted using the fair value method, as determined using the Black-Scholes option valuation model. The effect of adopting the fair value based method of accounting for stock-based compensation is to increase deficit and contributed surplus by \$127,000.

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2005

---

## 1. Significant accounting policies (continued):

Prior to October 1, 2004, the Company accounted for all stock-based payments to non-employees, and employee awards that are direct awards of stock, or call for settlement in cash or other assets, granted on or after January 1, 2002, using the fair value based method. No compensation cost is recorded for all other stock-based employee compensation awards. Consideration paid by employees on the exercise of stock options was recorded as share capital and contributed surplus.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

Under the fair value based method, compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at the intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. For awards that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis; for awards that vest on a graded basis, compensation cost is recognized on a pro-rata basis over the vesting period.

### (h) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

### (i) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated assuming that outstanding stock options were exercised and the proceeds from such exercise were used to acquire shares of common stock at the average market price during the reporting period.

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2005

## 1. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions 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.

## 2. Property, plant and equipment:

			2005 Dec 31	2005 Sep 30
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 101,022	\$ -	\$ 101,022	\$ 100,996
Building	375,386	5,613	369,773	371,536
Audiology equipment	980,255	724,281	255,974	243,931
Computer equipment	84,053	46,411	37,642	41,239
Computer software	4,050	506	3,544	-
Leasehold improvements	55,856	48,635	7,221	8,101
	1,600,622	825,446	775,176	765,803
Audiology equipment under capital lease	78,850	21,383	57,467	61,393
	\$ 1,679,472	\$ 846,829	\$ 832,643	\$ 827,196

Amortization expense of \$23,914 (Dec 31, 2004 - \$20,007) has been charged to earnings in the current period.

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2005

### 3. Long-term debt:

	2005 Dec 31	2005 Sep 30
Convertible debenture, bearing interest at 10% per annum, maturing April 2007. Debentures are convertible at the holder's option into common shares at prices of \$0.20 per common share in year 1, \$0.22 per common share in year 2 and \$0.25 per common share in year 3. Face value of debentures is \$261,000 (2005 \$261,000) and is recorded net of unamortized debenture discount of \$29,755 (2005 - \$36,130).	\$ 231,245	\$ 224,870
Equipment loans repayable based on thirteen instalments per annum of \$3,935 each including interest at 5%. Unsecured. Due 2006.	23,699	39,439
Term loan, repayable in monthly installments of \$6,887, plus an annual payment of interest at a rate of 5.5% per annum. Secured by all assets of the Company. Due June 2011.	454,514	475,174
Term loan (US\$75,183), repayable in quarterly installments of \$6,308 plus interest at prime plus 2%. Secured by promissory note of the Company subordinated to the security agreement on the previous term loan noted above, and a continuing guarantee. Due 2009.	87,437	92,845
Building Loan (US\$299,983), bearing interest at 8.5% per annum, repayable in monthly installments of \$3834 including interest. Secured by a first position Deed of Trust on real property and guarantees of the Company. Due April 2010.	348,881	352,207
Promissory notes repayable in monthly installments of \$1,450 including interest at 10% per annum. Due June 2007.	102,661	104,466
	1,248,437	1,289,001
Current portion of long-term debt	151,316	163,052
	\$ 1,097,121	\$ 1,125,949

The convertible debentures were issued in April 2004, at which time the fair value of the Company's obligation to make future payments of principal and interest was equal to the stated value as a market rate of interest was attached to the repayment of the convertible debentures.

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2005

### 3. Long-term debt (continued):

The estimated principal repayments required in the next five years, assuming renewals on same or similar terms are as follows:

2006	\$	151,316
2007		361,009
2008		132,114
2009		128,901
2010		113,855
Thereafter		361,242
	\$	1,248,437

### 4. Obligation under capital lease:

The Company has financed certain equipment purchases by entering into a capital leasing arrangement. Capital lease repayments are due as follows:

	2005 Dec 31	2005 Sep 30
2006	25,773	25,766
2007	17,589	21,091
2008	10,765	11,740
2009	-	1,957
	54,127	60,554
<u>Less; amount representing interest at 4.5% per annum</u>	<u>4,816</u>	<u>5,761</u>
	49,311	54,793
Less: current portion	22,883	22,515
	\$ 26,428	\$ 32,278

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements  
Period ended December 31, 2005

---

## 5. Share capital:

(a) Authorized and issued share capital:

Authorized:

Unlimited number of voting common shares without par value

Unlimited number of first preferred shares, ranking in priority to all other classes of shares, issuable in one or more series with designation, rights, privileges, restrictions and conditions determined by the Board of Directors upon issuance

Unlimited number of second preferred shares, ranking in priority to all other classes of shares with exception the holders of first preferred shares, issuable in one or more series with designation, rights, privileges, restrictions and conditions determined by the Board of Directors upon issuance

Issued:

Voting common shares:

	3 mo. ended Dec 31 2005		Year ended Sep 30 2005	
	Shares	Amount	Shares	Amount
Balance, beginning of year	13,654,825	\$ 1,705,340	13,329,825	\$ 1,635,840
Stock options exercised	-	-	225,000	49,500
Debentures converted to shares	-	-	100,000	20,000
Balance, end of year	13,654,825	\$ 1,705,340	13,654,825	\$ 1,705,340

As at December 31, 2005 there are 425,000 (2005: 425,000) shares held in escrow. See Note 11.

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements  
Period ended December 31, 2005

---

## 5. Share capital (continued):

### (b) Stock options:

The company's stock option plan allows the Company to issue incentive share purchase options to a rolling maximum of 10% of the Company's issued and outstanding shares to directors, senior officers, consultants and employees. Upon granting of stock options, the Company will conclude a written Stock Option Agreement with the recipient.

The option price can not be less than the "discounted market price" provided the option price shall not be less than \$0.10 per share. Discounted Market Price is defined in Policy 1.1 of the TSX Venture Exchange to mean the market price (which is typically the last closing price on the day before option is granted) less a discount which is prescribed based on the Company's share price. The applicable discount is 25% for share prices up \$0.50 per share; 20% for share prices between \$0.51 and \$2.00 per share. The maximum term of any option will be ten years and the Company may terminate an option at any time without notice.

As at December 31, 2005, the Company under the terms of its stock option plan has 700,000 options outstanding with authority to issue a further 665,482 options based on the presently issued and outstanding share capital.

	3 mo. ended		Year Ended	
	Dec 31 2005	Weighted average	Sep 30 2005	Weighted average
	Number of options	exercise price	Number of options	exercise price
Balance, beginning of period	700,000	\$ 0.21	925,000	\$ 0.28
Granted during the period	-		-	-
Expired during the period	-		-	-
Exercised during the period	-		(225,000)	0.22
Balance, end of period	700,000	\$ 0.21	700,000	\$ 0.21

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Year ended September 30, 2005

## 5. Share capital (continued):

Details of the Company's outstanding options at December 31 2005 are as follows:

Exercise	Expiry	price	Number
Employee	February 2, 2006	0.35	50,000
Employee	June 9, 2007	0.28	200,000
Employee	May 18, 2009	0.16	450,000
Balance, end of period			700,000

### (c) Contributed surplus:

	3 mo. Ended	Year Ended
	Dec 31, 2005	Sep 30, 2005
Balance, beginning of the period	\$ 238,489	\$ 176,000
Cumulative adjustment for stock based compensation	-	27,000
Debenture discount	-	-
Debentures converted or repaid during the period	-	(64,511)
Balance, end of period	\$ 238,489	\$ 238,489

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2005

## 6. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 34.12% (2004 – 35.60%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	3 mo. ended	Year Ended
	Dec 31, 2005	Sep 30, 2005
Income before income taxes	\$ 4,147	\$ 42,630
Tax at applicable tax rate	1,415	14,545
Rate variance on self-sustaining foreign operation	-	(647)
Non-deductible items	-	19,932
Tax benefits of losses not recognized	(1,415)	(33,830)
	\$ -	\$ -

The Company has available non-capital losses for Income tax purposes, which may be carried forward to reduce taxable income in future years. If not utilized, the non-capital losses in the amount of \$569,943 expire, as follows:

2007	\$ 49,395
2008	263,568
2009	94,705
2010	159,308
2011	2,600
2012	367
	<u>\$ 569,943</u>

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2005

## 7. Segmented information:

The Company operates a single operating segment, hearing related services and sale of hearing related devices, in Canada and the United States. Geographic segmented information is as follows:

	Dec 31 2005 3 mo.	Dec 31 2004 3 mo.
Revenue:		
Canada	\$ 567,878	\$ 651,653
United States	233,152	362,063
	\$ 801,030	\$ 1,013,716
Interest expense:		
Canada	\$ 15,408	\$ 27,084
United States	10,133	5,496
	\$ 25,541	\$ 32,580
Amortization expense:		
Canada	\$ 13,286	\$ 13,766
United States	10,628	6,241
	\$ 23,914	\$ 20,007
Earnings (loss) before income taxes:		
Canada	\$ 18,313	\$ (17,922)
United States	(14,166)	21,634
	\$ 4,147	\$ 3,712
Equipment and leasehold improvements:		
Canada	\$ 216,799	\$ 239,784
United States	615,844	430,939
	\$ 832,643	\$ 670,723
Goodwill:		
Canada	\$ 448,661	\$ 448,661
United States	494,114	494,114
	\$ 942,775	\$ 942,775
Total assets:		
Canada	\$ 1,771,891	\$ 1,938,272
United States	739,586	603,966
	\$ 2,511,477	\$ 2,542,238

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2005

## 8. Related party transactions:

During the year the Company had the following transactions with related parties:

	Dec 31 2005 3 mo.	Dec 31 2004 3 mo.
MediaWave Communications Corp., a company controlled by a Director of the Company		
Commissions paid	\$ 322	\$ 313
Internet services	704	413
Sherwood Real Estate Corp., a company controlled by a Director of the Company		
Rent paid	\$ 7,841	\$ 9,286

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.

## 9. Financial instruments:

The carrying values of cash, 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.

Approximately 69% 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.

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:

	U.S. Dollars
Cash	\$ 29,745
Accounts receivable	69,524
Accounts payable	71,091

U.S. Dollar are translated at 1.1630

# AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2005

---

## 10. Commitments:

The Company leases premises at various locations throughout British Columbia, Alberta and Idaho. The expected annual minimum lease payments under the terms of these agreements over the next five years is as follows:

---

2006	\$	162,367
2007		99,925
2008		79,782
2009		47,005
2010		23,544
	\$	412,623

---

## 11. Subsequent Events:

Subsequent to the quarter end, the Company has requested cancellation of 425,000 shares held in escrow.