

Consolidated Financial Statements of

AUDIOTECH HEALTHCARE CORPORATION

Year ended September 30, 2008

AUDITORS' REPORT

To the Shareholders of Audiotech Healthcare Corporation

We have audited the consolidated balance sheets of Audiotech Healthcare Corporation as at September 30, 2008 and 2007 and the consolidated statements of comprehensive income (loss), deficit, accumulated other comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The previous report dated January 16, 2009 has been withdrawn and the financial statements have been revised to include updated disclosure which provides clarification on management's assessment of goodwill (note 3). The change does not affect the comprehensive loss for the year.

**Vancouver, Canada
January 16, 2009, except for note 3 dated February 18, 2009**

**“MacKay LLP”
Chartered Accountants**

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Balance Sheets

September 30, 2008, with comparative figures for 2007

	2008	2007
Assets		
Current assets:		
Cash	\$ 463,623	\$ 413,106
Accounts receivable	390,933	395,918
Inventory	93,674	142,104
Income taxes receivable	1,405	23,897
Prepaid expenses	14,483	9,756
	964,118	984,781
Property, plant and equipment (note 2)	1,064,393	971,737
Goodwill (note 3)	-	942,775
	\$ 2,028,511	\$ 2,899,293

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 486,814	\$ 461,026
Unearned revenue	50,243	48,292
Current portion of long-term debt (note 4)	475,075	104,210
Current portion of obligation under capital lease (note 5)	37,206	24,404
	1,049,338	637,932
Long-term debt (note 4)	1,145,709	1,182,540
Obligation under capital lease (note 5)	43,262	34,359
Future income taxes (note 7)	-	1,300
	2,238,309	1,856,131
Shareholders' equity (deficit):		
Share capital (note 6)	1,750,340	1,750,340
Contributed surplus (note 6)	193,489	193,489
Accumulated other comprehensive income	(64,526)	(83,900)
Deficit	(2,089,101)	(816,767)
	(209,798)	1,043,162
	\$ 2,028,511	\$ 2,899,293

Commitments (note 12)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Oswaldo (Ozzie) Iadarola

Director

Grant Robertson

Director

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Comprehensive Income (Loss)

Year ended September 30, 2008, with comparative figures for 2007

	2008	2007
Sales	\$ 4,427,218	\$ 4,102,392
Cost of goods sold (materials and freight)	1,499,873	1,264,482
Gross Margin	2,927,345	2,837,910
Direct clinic costs:		
Selling expenses	384,019	378,515
Rent, utilities and clinic overheads	536,497	406,561
Amortization	159,947	125,613
Salaries and benefits	1,630,972	1,239,697
	2,711,435	2,150,386
	215,910	687,524
Expenses:		
General and administrative	71,877	101,046
Amortization	1,350	2,187
Professional fees	105,443	82,698
Foreign exchange	(3,820)	1,515
Interest on long-term debt	110,495	97,790
Salaries and benefits	243,382	279,162
	528,727	564,398
Income (loss) before other expenses and income taxes	(312,817)	123,126
Other expenses:		
Loss on disposal of equipment	18,042	7,461
Impairment of goodwill (note 3)	942,775	-
Amortization of debenture discount	-	10,630
	960,817	18,091
Income (loss) before income taxes	(1,273,634)	105,035
Income taxes (recovery):		
Current (note 7)	-	(34,374)
Future (note 7)	(1,300)	51,472
	(1,300)	17,098
Net income (loss) for the year	(1,272,334)	87,937
Comprehensive income (loss)		
Cumulative translation adjustment	19,374	(38,243)
Comprehensive income (loss) for the year	\$(1,252,960)	\$ 49,694
Weighted average number of shares outstanding	13,229,825	13,229,825
Earnings per share (basic)	\$ (0.095)	\$ 0.007
Earnings per share (diluted)	\$ (0.095)	\$ 0.007

See accompanying notes to consolidated financial statements.

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Deficit

Year ended September 30, 2008, with comparative figures for 2007

	2008	2007
Deficit, beginning of year	\$ (816,767)	\$ (904,704)
Net income (loss) for the year	(1,272,334)	87,937
Deficit, end of year	\$ (2,089,101)	\$ (816,767)

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Accumulated Other Comprehensive Income

Year ended September 30, 2008, with comparative figures for 2007

	2008	2007
Accumulated other comprehensive income, beginning of year	\$ (83,900)	\$ (45,657)
Cumulative translation adjustment for the year	19,374	(38,243)
Accumulated other comprehensive income, end of year	\$ (64,526)	\$ (83,900)

See accompanying notes to consolidated financial statements.

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Cash Flows

Year ended September 30, 2008, with comparative figures for 2007

	2008	2007
Cash flows from operating activities:		
Net income for the year	\$ (1,272,334)	\$ 87,937
Items not involving cash:		
Amortization of plant and equipment	161,297	127,800
Amortization of debenture discount	-	10,630
Future income taxes	(1,300)	51,472
Impairment of goodwill	942,775	-
Loss on disposal of equipment	18,042	7,461
	(151,520)	285,300
Change in non-cash operating working capital:		
Accounts receivable	15,492	(44,958)
Inventory	50,496	(58,382)
Prepaid expenses	(4,727)	2,088
Accounts payable	15,835	107,386
Income taxes payable	22,391	(102,980)
Unearned revenue	1,951	33,441
	(50,082)	221,895
Financing:		
Proceeds from long-term debt	440,000	1,093,810
Principal payments on long-term debt	(126,109)	(975,489)
Repayment of obligation under capital lease	(33,603)	(22,267)
	280,288	96,054
Investing:		
Purchase of property, plant and equipment	(184,388)	(287,989)
Proceeds from sale of equipment	-	1,000
	(184,388)	(286,989)
Effect of changes in exchange rates on foreign denominated cash	4,699	(11,610)
Increase in cash	50,517	19,350
Cash, beginning of year	413,106	393,756
Cash, end of year	\$ 463,623	\$ 413,106
Supplemental cash flow information:		
Interest paid	\$ 110,495	\$ 97,790
Non-cash transactions:		
Investing: Purchase of property, plant and equipment	\$ (50,301)	\$ (57,126)
Financing: Capital lease obligation	\$ 50,301	\$ 57,126

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
Years ended September 30, 2008 and 2007

Audiotech Healthcare Corporation (the "Company") is incorporated under the laws of the Province of Alberta. On May 2, 2008, the Company which was registered as an extraprovincial company under the laws of British Columbia, has continued into British Columbia from the Jurisdiction of Alberta, under the Business Corporations Act. The Company's 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 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 specific item 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%
Computer software	Declining balance	100%
Leasehold improvements	Straight-line	Term of lease

(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

Years ended September 30, 2008 and 2007

1. Significant accounting policies (continued):

(d) Goodwill (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.

(e) Revenue recognition:

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

(f) Foreign currency:

The Company's Canadian operating division records foreign currency denominated transactions as follows: monetary assets and liabilities are translated at year-end exchange rates; other assets and liabilities have been translated at the rates prevailing at the date of transaction. Revenue and expense items, except for amortization, are translated at the average rate of exchange for the year. Amortization is converted using the rates prevailing at the dates of acquisition. Gains and losses from foreign currency translation are included in the statements of operations.

The Company's foreign subsidiary is self-sustaining. Accordingly, assets and liabilities of the 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 year. Related foreign currency translation adjustments are recorded as a separate component of shareholders' equity as accumulated other comprehensive income.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Years ended September 30, 2008 and 2007

1. Significant accounting policies (continued):

(g) Stock based compensation:

The Company has a stock-based compensation plan as described in note 5(b). The Company accounts for stock options granted to directors, officers, employees and nonemployees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon remeasurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

(h) Financial 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 will be 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.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
Years ended September 30, 2008 and 2007

1. Significant accounting policies (continued):

(i) 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 and for the benefit of losses available to be carried forward. 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.

(j) Earnings per share:

Basic earnings per share is 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.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian 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. Such estimates include providing for amortization of property, plant and equipment, allowance for doubtful accounts, inventory obsolescence and goodwill impairment. Actual results could differ from those estimates.

(l) Adoption of CICA accounting pronouncements

Accounting changes

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.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Years ended September 30, 2008 and 2007

1. Significant accounting policies (continued):

- (l) Adoption of CICA accounting pronouncements (continued)

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”.

Financial Instruments – 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”.

- (m) Recent accounting pronouncements

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 will be 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.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Years ended September 30, 2008 and 2007

1. Significant accounting policies (continued):

(m) Recent accounting pronouncements (continued)

Inventories

In June 2007, the CICA issued the new accounting standard, Handbook Section 3031 – “Inventories” replacing Handbook Section 3030 – “Inventories”. This standard is effective for interim and annual consolidated financial statements for reporting periods beginning on January 1, 2008. This section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The Company does not believe that these new standards will have a significant impact on its consolidated results when adopted on October 1, 2008.

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.

International Financial Reporting Standards

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.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
 Years ended September 30, 2008 and 2007

2. Property, plant and equipment:

	2008		
	Cost	Accumulated amortization	Net book value
Land	\$ 92,440	\$ -	\$ 92,440
Building	343,496	23,434	320,062
Audiology equipment	1,152,113	792,718	359,395
Computer equipment	107,861	77,682	30,179
Computer software	25,068	19,628	5,440
Leasehold improvements	242,992	89,352	153,640
	1,963,970	1,002,814	961,156
Audiology equipment under capital lease	143,783	40,546	103,237
	\$ 2,107,753	\$ 1,043,360	\$ 1,064,393

	2007		
	Cost	Accumulated amortization	Net book value
Land	\$ 86,412	\$ -	\$ 86,412
Building	321,095	15,799	305,296
Audiology equipment	1,043,291	703,229	340,062
Computer equipment	94,467	60,407	34,060
Computer software	24,774	11,440	13,334
Leasehold improvements	189,222	61,509	127,713
	1,759,261	852,384	906,877
Audiology equipment under capital lease	84,834	19,974	64,860
	\$ 1,844,095	\$ 872,358	\$ 971,737

Amortization expense of \$161,297 (September 2007 - \$127,800) has been charged to earnings in the current fiscal year.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Years ended September 30, 2008 and 2007

3. Goodwill:

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. As a result of the current year's 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 estimate of the present value of future cash flows given currently available information. 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 best 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.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Years ended September 30, 2008 and 2007

4. Long-term debt:

	2008	2007
\$1 million term loan facility, repayable in monthly installments of \$9,500, plus an annual payment of interest at a rate of 5.5% per annum. Secured by all assets of the Company. Due August 2013.	\$ 599,867	\$ 491,960
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 the previous term loan noted above, and a continuing guarantee. Due August 2009.	21,127	39,645
Building Loan (US\$263,475), bearing interest at 8.5% per annum, repayable in monthly installments of US\$3,232 including interest and property taxes. Secured by a first position Deed of Trust on real property and guarantees of the Company. Due April 2010.	280,390	274,845
Promissory notes, monthly interest payments at 8% per annum. Due March 2009. Unsecured.	77,000	77,000
Promissory notes repayable in monthly installments of \$1,450 including interest at 8% per annum. Due June 2009. Unsecured.	77,400	88,300
Promissory notes, monthly interest payments at 8% per annum. Due August 2009. Unsecured.	200,000	200,000
Promissory notes, monthly interest payments at 8% per annum. Due October 2011. Unsecured.	50,000	50,000
Promissory notes, monthly interest payments at 8% per annum. Due August 2011. Unsecured.	65,000	65,000
Promissory notes, monthly interest payments at 8% per annum. Due April 2013. Unsecured.	100,000	-
Promissory notes, monthly interest payments at 8% per annum. Due July 2013. Unsecured.	50,000	-
Promissory notes, monthly interest payments at 8% per annum. Due June 2013. Unsecured.	100,000	-
	1,620,784	1,286,750
Current portion of long-term debt	475,075	104,210
	\$ 1,145,709	\$ 1,182,540

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
Years ended September 30, 2008 and 2007

4. Long-term debt (continued):

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

2009	\$	475,075
2010		351,690
2011		157,718
2012		147,948
2013		353,473
Thereafter		134,880
	\$	1,620,784

5. Obligation under capital lease:

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

	2008	2007
2008	\$ -	\$ 31,620
2009	47,039	23,249
2010	39,478	16,180
2011	7,934	-
	94,451	71,049
Less: amount representing interest at various rates (9% - 15%)	13,983	12,286
	80,468	58,763
Less: current portion	37,206	24,404
	\$ 43,262	\$ 34,359

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
Years ended September 30, 2008 and 2007

6. 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 of 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:

	2008		2007	
	Shares	Amount	Shares	Amount
Balance, beginning and end of year	13,229,825	\$ 1,750,340	13,229,825	\$ 1,750,340

(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 cannot 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 to \$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.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
Years ended September 30, 2008 and 2007

6. Share capital (continued):

(b) Stock options (continued)

As at September 30, 2008, the Company under the terms of its stock option plan, has 450,000 options outstanding with authority to issue a further 872,982 options based on the presently issued and outstanding share capital.

	2008 Number of options	Weighted average exercise price	2007 Number of options	Weighted average exercise price
Balance, beginning of year	450,000	\$ 0.16	650,000	\$ 0.21
Expired during the year	-	0	(200,000)	0.35
Exercised during the year	-	-	-	-
Balance, end of year	450,000	\$ 0.16	450,000	\$ 0.20

Details of the Company's outstanding and exercisable options at September 30, 2008 are as follows:

	Expiry	price	Number
Employee	May 18, 2009	\$ 0.16	450,000

(c) Contributed surplus:

	2008	2007
Balance, beginning and end of year	\$ 193,489	\$ 193,489

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Years ended September 30, 2008 and 2007

7. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 31.91% (2007 – 34.12%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	2008	2007
Income (loss) before income taxes	\$ (1,273,634)	\$ 105,035
Tax at applicable tax rate	\$ (406,400)	\$ 35,838
Rate variance on self-sustaining foreign operation	-	(690)
Effect of tax rate change	39,900	-
Non-deductible items	163,000	9,164
Non-capital losses expired	35,200	-
Change in valuation allowance	167,000	(27,214)
	\$ (1,300)	\$ 17,098

The tax effect of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at September 30, 2008 and 2007 are as follows:

	2008	2007
Future tax assets:		
Non-capital loss carry forwards	\$ 147,200	\$ 141,000
Property, plant and equipment	200	-
Goodwill deductibility	19,600	-
Future tax liabilities:		
Goodwill deductibility	-	(125,000)
Property, plant and equipment	-	(17,300)
Less: Valuation allowance	(167,000)	-
	\$ -	\$ (1,300)

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 \$542,132 expire, as follows:

2009	\$ 94,705
2010	157,175
2015	416
2026	37,338
2027	643
2028	251,855
	<u>\$ 542,132</u>

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8. 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:

	2008	2007
Revenue:		
Canada	\$ 3,049,903	\$ 2,793,104
United States	1,377,315	1,309,288
	\$ 4,427,218	\$ 4,102,392
Interest expense:		
Canada	\$ 71,653	\$ 66,275
United States	38,842	31,515
	\$ 110,495	\$ 97,790
Amortization expense:		
Canada	\$ 120,331	\$ 88,850
United States	40,966	38,950
	\$ 161,297	\$ 127,800
Earnings (loss) before income taxes:		
Canada	\$ (758,706)	\$ 97,425
United States	(514,928)	7,610
	\$ (1,273,634)	\$ 105,035
Loss on impairment of goodwill		
Canada	\$ 448,661	\$ -
United States	494,114	-
	\$ 942,775	\$ -
Property, plant and equipment:		
Canada	\$ 488,697	\$ 449,659
United States	575,696	522,078
	\$ 1,064,393	\$ 971,737
Goodwill:		
Canada	\$ -	\$ 448,661
United States	-	494,114
	\$ -	\$ 942,775
Total assets:		
Canada	\$ 1,669,198	\$ 2,100,486
United States	359,313	798,807
	\$ 2,028,511	\$ 2,899,293

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9. Related party transactions:

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

	2008	2007
MediaWave Communications Corp., a company controlled by a Director of the Company		
Commissions paid	\$ 1,544	\$ 2,114
Internet services	1,408	1,440
Sherwood Real Estate Corp., a company controlled by a Director the Company		
Rent paid	\$ 32,879	\$ 31,819

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.

10. Financial instruments:

Fair value of financial instruments

The fair values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments.

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

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:

	U.S. Dollars
Cash	\$ 81,997
Accounts receivable	151,994
Accounts payable	151,650

U.S. Dollars are translated at \$1.0642 to \$1.00 Canadian

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10. Financial instruments (continued):

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. See notes 4 and 5 respectively. The Company is also exposed to interest rate fluctuations on its cash balances and cash equivalents.

A sensitivity analysis for interest rate risk has not been performed for the year ending September 30, 2008 as the effect of a change in interest rates would have been minimal as the existing debt (note 4) and capital lease obligations (note 5) are held at fixed interest rates.

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.

11. Capital Management:

The Company's objective's when managing capital are: (i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; (ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, (iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial commitments.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue future business opportunities to maintain flexible capital structure which optimizes the costs of capital at an acceptable rate.

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Notes to Consolidated Financial Statements

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11. Capital Management (continued):

The Company manages the capital structure and makes adjustments to it depending on economic conditions and the rate of anticipated expenditures. To maintain or adjust the capital structure, the Company may attempt to issue new shares, renegotiate its existent loans or negotiate new term loans.

The Company's financial objectives and strategy as described above have remained substantially unchanged over the last two completed fiscal years. These objectives and this strategy are reviewed on an annual basis.

12. 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 are as follows:

2009	\$	316,763
2010		235,442
2011		196,631
2012		150,032
2013		74,518
	\$	973,386
