

**AUDIOTECH HEALTHCARE CORPORATION**  
**SCHEDULE A: CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2001**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Audiotech Healthcare Corporation and other financial information contained in this annual report are the responsibility of management. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles, using management's best estimates and judgements, where appropriate. In the opinion of management, these consolidated financial statements reflect fairly the financial position, results of operations and cash flows of the Corporation within reasonable limits of materiality. The financial information contained elsewhere in this annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

A system of internal accounting and administrative controls is maintained by management to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are properly maintained to provide accurate and reliable financial statements.

The Audiotech Healthcare Corporation Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors carries out this responsibility. The Board meets during the year to review significant accounting and auditing matters with management and the independent auditors and to review the interim and annual consolidated financial statements of the Corporation.

The consolidated financial statements have been audited by Becker Daley Spice, Chartered Accountants, which have full and unrestricted access to management and the Board of Directors. Becker Daley Spice's report on the consolidated financial statements follows.

"Osvaldo (Ozzie) Iadarola"  
Osvaldo (Ozzie) Iadarola  
President and Chief Executive Officer

"Daniel P. Allen"  
Daniel P. Allen  
Vice-President and Chief Operations Manager

February 1, 2002



Wayne C. Becker, *BA, CA*  
Norman V. Daley, *BCom, CA*  
Jerry Spice, *BA, MBA, CFP, CA*  
Ken J. Finnie, *CMA*  
*Incorporated Professionals*

J.K.A. (Hans) Dorrius, *CA*

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## AUDITORS' REPORT

To the Shareholders,  
AUDIOTECH HEALTHCARE CORPORATION

We have audited the consolidated balance sheets of AUDIOTECH HEALTHCARE CORPORATION as at September 30, 2001 and 2000 and the consolidated statements of income and deficit 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 consolidated financial statements based on our audit.

We conducted our audit 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 consolidated 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, 2001 and 2000 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles in Canada.

" Becker Daley Spice"

Chartered Accountants

February 1, 2002  
Kamloops, BC, Canada

**AUDIOTECH HEALTHCARE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**September 30, 2001**

	2001	2000
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$ 303,102	\$ 488,389
Accounts receivable	210,601	138,153
Inventory	61,599	85,249
Prepaid expenses	6,516	54,345
Income taxes refundable	2,775	3,726
	<u>584,593</u>	<u>769,862</u>
LONG-TERM INVESTMENT	-	76,000
CAPITAL ASSETS (Note 5)	382,120	343,834
GOODWILL (Note 6)	<u>968,900</u>	<u>833,154</u>
	<u>\$ 1,935,613</u>	<u>\$ 2,022,850</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES:		
Accounts payable and accruals	\$ 438,281	\$ 346,490
Customer deposits	54,125	27,547
Current portion of long-term debt	138,717	65,370
	<u>631,123</u>	<u>439,407</u>
LONG-TERM DEBT (Note 7)	<u>628,167</u>	<u>699,283</u>
	<u>1,259,290</u>	<u>1,138,690</u>
MINORITY INTEREST	-	<u>30,721</u>
COMMITMENTS (Note 8)		
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 9)	1,626,840	1,232,815
FOREIGN EXCHANGE ADJUSTMENT	8,403	4,276
DEFICIT	<u>(958,920)</u>	<u>(383,652)</u>
	<u>676,323</u>	<u>853,439</u>
	<u>\$ 1,935,613</u>	<u>\$ 2,022,850</u>

APPROVED BY THE DIRECTORS:

"Osvaldo (Ozzie) Iadarola"

Director

"Daniel P. Allen"

Director

**AUDIOTECH HEALTHCARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT**  
Year ended September 30, 2001

	2001	2000
SALES:		
Canada	\$ 1,887,114	\$ 1,650,096
United States	<u>923,399</u>	<u>914,558</u>
	<b>2,810,513</b>	<b>2,564,654</b>
COST OF SALES	<u>1,156,434</u>	<u>1,042,637</u>
GROSS PROFIT (2001 58.9%; 2000 59.3%)	<u>1,654,079</u>	<u>1,522,017</u>
EXPENSES:		
Advertising and promotion	93,401	49,738
Advertising – web site	51,403	60,609
Bad debts (recovered)	169	(500)
Corporate development and investor relations	110,037	79,994
Equipment lease	11,947	11,287
Insurance	20,146	18,996
Interest and bank charges	21,522	16,533
Interest on long-term debt	36,316	43,166
Licences, dues and fees	9,342	6,559
Management salaries (Note 12)	80,291	80,291
Office and sundry	77,705	69,581
Professional and filing fees (Note 12)	99,521	104,307
Rent and utilities	237,740	178,676
Repairs and maintenance	26,399	15,212
Telephone and fax	55,592	68,551
Travel	51,473	46,455
Wages and benefits (Note 12)	1,045,334	893,643
	<u>2,028,338</u>	<u>1,743,098</u>
LOSS FROM OPERATIONS BEFORE AMORTIZATION	(374,259)	(221,081)
Amortization	113,074	110,713
Loss on disposal of capital assets	4,485	2,891
Loss on closure of Matheson's clinic (Note 14)	83,508	-
	<u>(575,326)</u>	<u>(334,685)</u>
LOSS BEFORE INCOME TAXES	(575,326)	(334,685)
Income taxes recovered (Note 10)	(58)	(3,727)
	<u>(575,268)</u>	<u>(330,958)</u>
LOSS BEFORE MINORITY INTEREST	(575,268)	(330,958)
Minority interest	-	23,548
	<u>(575,268)</u>	<u>(307,410)</u>
LOSS FOR THE YEAR	(575,268)	(307,410)
DEFICIT, beginning of year	<u>(383,652)</u>	<u>(76,242)</u>
DEFICIT, end of year	<u>\$ (958,920)</u>	<u>\$ (383,652)</u>
LOSS, per share	<u>\$ (0.044)</u>	<u>\$ (0.026)</u>

**AUDIOTECH HEALTHCARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Year ended September 30, 2001

	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash receipts from customers	\$ 2,738,065	\$ 2,644,186
Cash paid to suppliers and employees	(2,937,087)	(2,791,357)
Interest paid	(57,838)	(59,699)
Income taxes (paid) recovered	1,009	(11,189)
Cash flows used in operations	<u>(255,851)</u>	<u>(218,059)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
New borrowings	603,829	181,879
Debt reduction	(570,737)	(42,386)
Loans payable - directors	(30,861)	26,100
Issue of share capital	394,025	185,300
Cash flows from financing	<u>396,256</u>	<u>350,893</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of capital assets	(138,645)	(130,296)
Long-term investment	76,000	(76,000)
Acquisitions	(236,453)	-
Reduction in minority interest on acquisition	(30,721)	-
Cash flows used in investing	<u>(329,819)</u>	<u>(206,296)</u>
DECREASE IN CASH	(189,414)	(73,462)
EFFECT OF FOREIGN EXCHANGE ADJUSTMENT	4,127	6,244
CASH, beginning of year	<u>488,389</u>	<u>555,607</u>
CASH, end of year	<u>\$ 303,102</u>	<u>\$ 488,389</u>

**AUDIOTECH HEALTHCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2001**

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**NOTE 1. NATURE OF BUSINESS:**

Corporately, our mission is to provide to our clients, shareholders and staff the benefits of our best direction in technology, training and financial administration to our hearing health care clinics so that our professionals can better care for the Hearing Needs of Tomorrow . . . Today.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES:**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Outlined below are those policies considered particularly significant for the Company.

**Inventory:**

Inventory is valued at the lower of cost (determined on a specific-item basis) and net realizable value.

**Principles of Consolidation:**

The consolidated financial statements include the accounts of Audiotech Healthcare Corporation and its subsidiaries:

- Canadian Hearing Care (BC) Inc.
- Canadian Hearing Care (Alberta) Inc.
- Audiology & Hearing Aid Services, Inc.
- HearingDepot Inc.

**Foreign Currency:**

The Company's foreign operations are of a self-sustaining nature. Assets and liabilities of foreign operations are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the period. Related foreign currency translation adjustments are recorded as a separate component of shareholders' equity until there is a disposition of the Company's investment in the foreign operations. The exchange rate between the Canadian dollar and the US dollar at September 30, 2001 was 1.5675 and averaged 1.5345 for the period October 1, 2000 to September 30, 2001.

**Capital Assets and Amortization:**

Capital assets are recorded at cost. Amortization is based on the estimated useful life of the assets and is recorded using the following annual rates (1/2 in year of acquisition):

Equipment	20%	declining balance
Automotive equipment	30%	declining balance
Computer equipment	30%	declining balance
Leasehold improvements	20%	straight-line basis

**Goodwill and Amortization:**

Goodwill is recorded at cost and is amortized using the straight-line basis over 40 years.

**AUDIOTECH HEALTHCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2001**

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**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued):**

**Loss Per Share:**

Loss per share is calculated using the weighted average number of shares outstanding during 2001, which is 12,998,471 (2000 11,958,367).

**Use of Estimates:**

The presentation 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 at the date of the financial statements and the reported amounts of revenues and expenses disclosed during reporting periods. The actual amounts could differ from those estimates.

**NOTE 3. FINANCIAL INSTRUMENTS:**

The Company's financial instruments consist of cash, accounts receivable, accounts payable and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

**NOTE 4. ACQUISITIONS:**

a) **Audiology & Hearing Aid Services, Inc. ("Audiology"):**

Effective September 1, 2001, the Company acquired 50% of the outstanding common shares of Audiology for \$278,587, increasing the Company's ownership of Audiology to 100%. The arm's length acquisition was accounted for by the purchase method with the results of the acquired business included from the effective date of acquisition.

b) **Rocky Mountain Audiology & Hearing Aid Clinics ("Rockys"):**

Effective October 2, 2000, the Company acquired through a wholly-owned subsidiary, all the assets and business operations of Rockys for a cash consideration of \$150,000. The arm's length acquisition was accounted for by the purchase method with the results of the acquired business included from the date of acquisition.

**AUDIOTECH HEALTHCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2001**

**NOTE 4. ACQUISITIONS (continued):**

These acquisitions have been accounted for by the purchase method and earnings have been included from the effective date of acquisition. The net assets acquired are as follows:

<b>Net Non-Cash Assets Acquired</b>	<b>Audiology</b>	<b>Rockys</b>	<b>Total 2001</b>	<b>Total 2000</b>
Current assets	\$ 19,491	\$ 2	\$ 19,493	\$ -
Capital assets	3,966	149,997	153,963	-
Other assets	297	-	297	-
Goodwill	241,520	1	241,521	-
Current liabilities	<u>(28,821)</u>	<u>(150,000)</u>	<u>(178,821)</u>	<u>-</u>
	<b>236,453</b>	<b>-</b>	<b>236,453</b>	<b>-</b>
Cash acquired	<u>42,134</u>	<u>-</u>	<u>42,134</u>	<u>-</u>
Net assets acquired	<u><b>\$ 278,587</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 278,587</b></u>	<u><b>\$ -</b></u>

**NOTE 5. CAPITAL ASSETS:**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>2001 Net</b>	<b>2000 Net</b>
Equipment	\$ 699,668	\$ 380,871	\$ 318,797	\$ 297,732
Automotive equipment	3,411	2,894	517	738
Computer equipment	58,121	43,959	14,162	24,886
Leasehold improvements	72,991	24,347	48,644	20,478
	<u>\$ 834,191</u>	<u>\$ 452,071</u>	<u>\$ 382,120</u>	<u>\$ 343,834</u>

**NOTE 6. GOODWILL:**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>2001 Net</b>	<b>2000 Net</b>
Goodwill	\$ 1,045,001	\$ 76,101	\$ 968,900	\$ 833,154

**AUDIOTECH HEALTHCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2001**

NOTE 7. LONG-TERM DEBT:	2001	2000
611210 B.C. Ltd., loan, repayable in monthly installments of \$634 including interest at 10% per annum, unsecured, due March 1, 2002	\$ 3,700	\$ -
611210 B.C. Ltd., loan, repayable in monthly installments of \$207 including interest at 10% per annum, unsecured, due December 15, 2001	18,407	-
611210 B.C. Ltd., loan, repayable in monthly installments of \$347 including interest at 10% per annum, unsecured, due December 1, 2001	17,015	-
611210 B.C. Ltd., loan, repayable in monthly installments of \$238 including interest at 10% per annum, unsecured, due October 1, 2001	24,612	-
611211 B.C. Ltd., loan, repayable in monthly installments of \$634 including interest at 10% per annum, unsecured, due March 1, 2002	3,700	-
611211 B.C. Ltd., loan, repayable in monthly installments of \$207 including interest at 10% per annum, unsecured, due December 15, 2001	18,407	-
611211 B.C. Ltd., loan, repayable in monthly installments of \$238 including interest at 10% per annum, unsecured, due October 1, 2001	24,612	-
Hurricane Ventures Ltd., loan, repayable in monthly installments of \$525 including interest at 10% per annum, unsecured, due August 1, 2003	49,883	-
Pat and Marion Griffin, loan, repayable in monthly installments of \$790 including interest at 10% per annum, unsecured, due August 1, 2003	74,808	-
Martin and Elsie Jackson, loan, repayable in monthly installments of \$425 including interest at 10%, secured by personal guarantee of the President, due April 1, 2003	47,265	-
Martin and Elsie Jackson, loan, repayable in monthly installments of \$540 including interest at 10%, secured by personal guarantee of the President, due February 15, 2003	60,827	-
Noninterest bearing equipment loans from a supplier. The loans require thirteen installments per annum of \$3,935 and are reduced by the application of purchase discounts	247,648	225,144

**AUDIOTECH HEALTHCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2001**

NOTE 7. LONG-TERM DEBT (continued):	2001	2000
Convertible debentures, bearing interest at 10% per annum, paid quarterly and convertible at any time until maturity on March 15, 2002. Each convertible debenture is convertible into common shares of the Company at a conversion price of \$0.50 per common share during the first year and \$0.70 per common share during the second	<b>70,000</b>	70,000
Convertible debentures, bearing interest at 10% per annum, paid quarterly and convertible at any time until maturity on November 22, 2002. Each convertible debenture is convertible into common shares of the Company at a conversion price of \$0.60 per common share during the first year and \$0.70 per common share during the second	<b>50,000</b>	-
Convertible debentures, bearing interest at 10% per annum, paid monthly and convertible at any time until maturity on June 15, 2003. Each convertible debenture is convertible into common shares of the Company at a conversion price of \$0.25 per common share during the first year and \$0.35 per common share during the second	<b>56,000</b>	-
Loans payable – directors, repaid during the year	-	30,861
B.A. Marriott, loan, repaid during the year	-	19,379
MBC Investments Inc., loan, repaid during the year	-	21,160
MBC Investments Inc., loan, repaid during the year	-	38,109
MBC Investments Inc., loan, repaid during the year	-	50,000
Convertible debentures, repaid during the year	-	310,000
	<u>766,884</u>	<u>764,653</u>
Less current portion	<u>138,717</u>	<u>65,370</u>
	<u><b>\$ 628,167</b></u>	<u><b>\$ 699,283</b></u>

Principal repayments due in the ensuing 5 years are as follows:

2002	\$ 138,717
2003	168,349
2004	63,486
2005	64,739
2006	46,443

**AUDIOTECH HEALTHCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2001**

**NOTE 8. COMMITMENTS:**

The Company occupies leased premises in various centres. At September 30, 2001, the future minimum lease payments, under the operating leases are as follows:

		No. of Premises
2002	\$148,896	9
2003	113,277	7
2004	56,285	3
2005	30,420	2
2006	18,714	1
	\$367,592	

It is anticipated that ongoing leases will be negotiated at rates similar to current agreements.

**NOTE 9. SHARE CAPITAL:**

Authorized:

Unlimited number of first preferred shares  
 Unlimited number of second preferred shares  
 Unlimited number of common shares

Issued:

Common shares

	<b>Number of Shares</b>	<b>\$ 2001</b>	Number of Shares	<b>\$ 2000</b>
Balance, beginning of year	<b>12,332,325</b>	<b>\$ 1,232,815</b>	11,578,325	\$ 1,047,515
Issued during the year:				
Issued on private placement for cash	<b>800,000</b>	<b>343,000</b>	510,000	148,400
Issued on options for cash	<b>167,500</b>	<b>51,025</b>	244,000	36,900
	<b>967,500</b>	<b>394,025</b>	754,000	185,300
Balance, end of year	<b>13,299,825</b>	<b>\$ 1,626,840</b>	12,332,325	\$ 1,232,815

**AUDIOTECH HEALTHCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2001**

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**NOTE 9. SHARE CAPITAL (continued):**

The Company has the following options outstanding:

	<b>Expiry</b>	<b>Exercise Price</b>	<b>Number</b>
Private Placement	March 19, 2002	\$ 0.35	27,500
Directors	May 17, 2002	\$ 0.50	200,000
Employees	March 31, 2003	\$ 0.20	290,000
Employees	July 15, 2003	\$ 0.27	200,000
Employees	September 20, 2004	\$ 0.45	125,000
Directors	February 24, 2005	\$ 0.22	225,000
Private Placement	May 1, 2002	\$ 0.30	35,000
Private Placement	May 1, 2002	\$ 0.35	35,000
Private Placement	May 1, 2002	\$ 0.40	35,000
Employee	February 2, 2006	\$ 0.50	50,000
			<u>1,222,500</u>

The Company has the following warrants outstanding:

March 20, 2002	110,000	(1)
June 4, 2002	190,000	(2)
November 22, 2002	610,000	(3)
	<u>910,000</u>	

- (1) Each whole warrant is convertible into one common share at an exercise price of \$0.55 per common share for the first twelve months and at an exercise price of \$0.64 after twelve months but prior to expiry on March 20, 2002.
- (2) Each whole warrant is convertible into one common share at an exercise price of \$0.25 per common share prior to expiry on June 4, 2002.
- (3) Each whole warrant is convertible into one common share at an exercise price of \$0.60 for the first twelve months and at an exercise price of \$0.70 after twelve months but prior to expiry on November 22, 2002.

**AUDIOTECH HEALTHCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2001**

**NOTE 10. INCOME TAXES:**

**2001**                      **2000**

The provision for income taxes is comprised as follows:

Loss before income taxes	<u>\$ (575,326)</u>	<u>\$ (334,685)</u>
Income taxes at statutory Canadian rate of 44.87% (2000 45.52%)	\$ (258,149)	\$ (152,349)
Income tax effect relating to the following items:		
Nondeductible goodwill	3,060	2,875
Tax rate variance re foreign subsidiary	(6,312)	21,315
Unrealized future income tax benefit	253,420	119,355
Nondeductible items	2,192	1,825
Other items	<u>5,731</u>	<u>3,252</u>
	<u>\$ (58)</u>	<u>\$ (3,727)</u>

**NOTE 11. SEGMENTED INFORMATION:**

Operations and identifiable assets by geographic segment are as follows:

**2001**                      **2000**

Revenue:		
Canada	\$ 1,887,114	\$ 1,650,096
United States	<u>923,399</u>	<u>914,558</u>
	<u>\$ 2,810,513</u>	<u>\$ 2,564,654</u>
Amortization:		
Canada	\$ 109,002	\$ 104,323
United States	<u>4,072</u>	<u>6,390</u>
	<u>\$ 113,074</u>	<u>\$ 110,713</u>
Earnings before income taxes:		
Canada	\$ (589,395)	\$ (287,634)
United States	<u>14,069</u>	<u>(47,051)</u>
	<u>\$ (575,326)</u>	<u>\$ (334,685)</u>
Total assets:		
Canada	\$ 1,804,183	\$ 1,798,690
United States	<u>131,430</u>	<u>224,512</u>
	<u>\$ 1,935,613</u>	<u>\$ 2,023,202</u>

**AUDIOTECH HEALTHCARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2001**

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**NOTE 12. RELATED PARTY TRANSACTIONS:**

During the year, the Company paid, under normal terms of trade, \$80,291 (2000 \$80,291) in management salaries to a director of the Company and \$80,291 (2000 \$80,291) in administrative salaries to a director of the Company.

**NOTE 13. COMPARATIVE FIGURES:**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**NOTE 14. OPERATIONS:**

On June 1, 2001, Matheson's audiology clinic in Alberta ceased operations, resulting in a loss on disposal of goodwill of \$83,508.