

AUDIOTECH HEALTHCARE CORPORATION
SCHEDULE A: CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

CONSOLIDATED BALANCE SHEET
CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
NOTES TO CONSOLIDATED STATEMENTS

AUDIOTECH HEALTHCARE CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2002

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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

January 14, 2003



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, 2002 and 2001 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, 2002 and 2001 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

" Becker Daley Spice"

Chartered Accountants

January 14, 2003
Kamloops, BC, Canada

AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED BALANCE SHEETS
September 30, 2002

	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash	\$ 293,817	\$ 303,102
Term deposit	320,000	-
Accounts receivable	242,060	210,601
Inventory	51,859	61,599
Prepaid expenses	3,940	6,516
Income taxes refundable	-	2,775
	911,676	584,593
CAPITAL ASSETS (Note 4)	344,648	382,120
GOODWILL (Note 5)	942,775	968,900
	\$ 2,199,099	\$ 1,935,613
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accruals	\$ 250,729	\$ 438,281
Customer deposits	37,296	54,125
Income taxes payable	206	-
Current portion of long-term debt	450,981	138,717
	739,212	631,123
LONG-TERM DEBT (Note 6)	821,450	628,167
	1,560,662	1,259,290
COMMITMENTS (Note 7)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 8)	1,635,840	1,626,840
FOREIGN EXCHANGE ADJUSTMENT	8,945	8,403
DEFICIT	(1,006,348)	(958,920)
	638,437	676,323
	\$ 2,199,099	\$ 1,935,613

APPROVED BY THE DIRECTORS:

“Osvaldo (Ozzie) I adarola”

Director

“Daniel P. Allen”

Director

AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT
Year ended September 30, 2002

	2002	2001
SALES:		
Canada	\$ 1,855,175	\$ 1,887,114
United States	1,133,985	923,399
	<u>2,989,160</u>	<u>2,810,513</u>
COST OF SALES	<u>1,063,516</u>	<u>1,156,434</u>
GROSS PROFIT (2002 64.4%; 2001 58.9%)	<u>1,925,644</u>	<u>1,654,079</u>
EXPENSES:		
Advertising and promotion	56,415	93,401
Advertising – web site	3,373	51,403
Bad debts	146	169
Corporate development and investor relations	54,577	110,037
Equipment lease	11,836	11,947
Insurance	20,966	20,146
Interest and bank charges	20,260	21,522
Interest on long-term debt	84,694	36,316
Licences, dues and fees	6,680	9,342
Management salaries (Note 11)	80,291	80,291
Office and sundry	76,378	77,705
Professional and filing fees	67,912	99,521
Rent and utilities	248,512	237,740
Repairs and maintenance	24,571	26,399
Telephone and fax	54,326	55,592
Travel	52,818	51,473
Wages and benefits (Note 11)	998,913	1,045,334
	<u>1,862,668</u>	<u>2,028,338</u>
INCOME (LOSS) FROM OPERATIONS BEFORE AMORTIZATION	62,976	(374,259)
Amortization	109,721	113,074
Loss on disposal of capital assets	477	4,485
Loss on closure of Matheson's clinic (Note 12)	-	83,508
	<u>(47,222)</u>	<u>(575,326)</u>
LOSS BEFORE INCOME TAXES	(47,222)	(575,326)
Income taxes paid (recovered) (Note 9)	9,978	(58)
Reduction in current year's taxes payable on realization of prior years' losses	(9,772)	-
	<u>(47,428)</u>	<u>(575,268)</u>
LOSS FOR THE YEAR	(47,428)	(575,268)
DEFICIT, beginning of year	<u>(958,920)</u>	<u>(383,652)</u>
DEFICIT, end of year	<u>\$ (1,006,348)</u>	<u>\$ (958,920)</u>
LOSS, per share	<u>\$ (0.004)</u>	<u>\$ (0.044)</u>

AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Year ended September 30, 2002

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 2,957,226	\$ 2,738,065
Cash paid to suppliers and employees	(3,013,297)	(2,937,087)
Interest paid	(104,954)	(57,838)
Income taxes recovered	2,775	1,009
Cash flows used in operations	<u>(158,250)</u>	<u>(255,851)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
New borrowings	847,586	603,829
Debt reduction	(342,039)	(570,737)
Loans payable - directors	-	(30,861)
Issue of share capital	9,000	394,025
Cash flows from financing	<u>514,547</u>	<u>396,256</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of capital assets	(46,624)	(138,645)
Proceeds on disposal of capital assets	500	-
Long-term investment	-	76,000
Acquisitions	-	(236,453)
Reduction in minority interest on acquisition	-	(30,721)
Cash flows used in investing	<u>(46,124)</u>	<u>(329,819)</u>
INCREASE (DECREASE) IN CASH	310,173	(189,414)
EFFECT OF FOREIGN EXCHANGE ADJUSTMENT	542	4,127
CASH RESOURCES, beginning of year	303,102	488,389
CASH RESOURCES, end of year	\$ 613,817	\$ 303,102
CASH RESOURCES CONSISTS OF:		
Cash	\$ 293,817	\$ 303,102
Term deposit	<u>320,000</u>	<u>-</u>
CASH RESOURCES, end of year	\$ 613,817	\$ 303,102

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002

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.

Term Deposit:

Term deposit is recorded at cost.

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.
- Canadian Hearing Network Canada 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, 2002 was 1.5759 and averaged 1.5720 for the period October 1, 2001 to September 30, 2002.

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, 2002

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Loss Per Share:

Loss per share is calculated using the weighted average number of shares outstanding during 2002, which is 13,324,285 (2001 12,998,471).

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 the reporting periods. The actual amounts could differ from those estimates.

NOTE 3. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash, term deposit, 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. CAPITAL ASSETS:

	Cost	Accumulated Amortization	2002 Net	2001 Net
Equipment	\$ 744,253	\$ 452,142	\$ 292,111	\$ 318,797
Automotive equipment	-	-	-	517
Computer equipment	64,377	48,950	15,427	14,162
Leasehold improvements	73,280	36,170	37,110	48,644
	<u>\$ 881,910</u>	<u>\$ 537,262</u>	<u>\$ 344,648</u>	<u>\$ 382,120</u>

NOTE 5. GOODWILL:

	Cost	Accumulated Amortization	2002 Net	2001 Net
Goodwill	\$ 1,045,001	\$ 102,226	\$ 942,775	\$ 968,900

NOTE 6. LONG-TERM DEBT:

	2002	2001
Hurricane Ventures Ltd., loan, repayable in monthly installments of \$525 including interest at 10% per annum, unsecured, due August 1, 2003	\$ 48,406	\$ 49,883

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002

NOTE 6. LONG-TERM DEBT (continued):	2002	2001
Pat and Marion Griffin, loan, repayable in monthly installments of \$790 including interest at 10% per annum, unsecured, due August 1, 2003	72,382	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	46,662	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	60,138	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	199,403	247,648
611210 B.C. Ltd., loan, repayable in monthly installments of \$792 including interest at 10%, secured by personal guarantee of the President, due November 1, 2003	56,074	-
611211 B.C. Ltd., loan, repayable in monthly installments of \$445 including interest at 10%, secured by personal guarantee of the President, due November 1, 2003	41,694	-
Ampton Court Mortgage Corporation, a company controlled by a director of Audiotech Healthcare Corporation, loan, repayable in monthly installments of \$560 including interest at 12.5%, secured by personal guarantee of the President, due January 1, 2003	49,895	-
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	50,000	50,000
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	56,000	56,000
Convertible debentures, repayable in monthly installments including interest at 10% per annum, paid monthly and convertible at any time until maturity on March 15, 2004. Each convertible debenture is convertible into common shares of the Company at a conversion price of \$0.25 per common share	178,441	-

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002

NOTE 6. LONG-TERM DEBT (continued):	2002	2001
Convertible debentures, repayable in monthly installments including interest at 10% per annum, paid monthly and convertible at any time until maturity on May 31, 2004. Each convertible debenture is convertible into common shares of the Company at a conversion price of \$0.30 per common share	413,336	-
611210 B.C. Ltd., loan, repaid during the year	-	3,700
611210 B.C. Ltd., loan, repaid during the year	-	18,407
611210 B.C. Ltd., loan, repaid during the year	-	17,015
611210 B.C. Ltd., loan, repaid during the year	-	24,612
611211 B.C. Ltd., loan, repaid during the year	-	3,700
611211 B.C. Ltd., loan, repaid during the year	-	18,407
611211 B.C. Ltd., loan, repaid during the year	-	24,612
Convertible debentures, repaid during the year	-	70,000
	1,272,431	766,884
Less current portion	450,981	138,717
	\$ 821,450	\$ 628,167

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

2003	\$ 450,981
2004	724,360
2005	51,156
2006	35,708
2007	10,226

NOTE 7. COMMITMENTS:

The Company occupies leased premises in various centres. At September 30, 2002, the future minimum lease payments, under the operating leases are as follows:

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002

NOTE 7. COMMITMENTS (continued):

		No. of Premises
2003	\$120,302	6
2004	75,374	4
2005	30,127	2
2006	20,123	1
2007	15,092	1
	\$261,018	

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

NOTE 8. SHARE CAPITAL:

Authorized:

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

Issued:

Common shares

	Number of Shares	\$ 2002	Number of Shares	\$ 2001
Balance, beginning of year	13,299,825	\$ 1,626,840	12,332,325	\$ 1,232,815
Issued during the year:				
Issued on private placement for cash	-	-	800,000	343,000
Issued on options for cash	30,000	9,000	167,500	51,025
	30,000	9,000	967,500	394,025
Balance, end of year	13,329,825	\$ 1,635,840	13,299,825	\$ 1,626,840

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002

NOTE 8. **SHARE CAPITAL (continued):**

OPTIONS:

	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	<u>1,222,500</u>	\$ 0.32	<u>1,200,000</u>	\$ 0.31
Granted during the year	440,000	0.33	190,000	0.33
Exercised during the year	(30,000)	0.30	(167,500)	0.31
Expired during the year	(227,500)	0.48	-	-
Cancelled during the year	(125,000)	0.39	-	-
	<u>57,500</u>		<u>22,500</u>	
Balance, end of year	<u>1,280,000</u>	\$ 0.29	<u>1,222,500</u>	\$ 0.32

The Company has the following options outstanding:

	Expiry	Exercise Price	Number
Private Placement	May 1, 2003	\$ 0.30	60,000
Private Placement	May 1, 2003	\$ 0.35	60,000
Private Placement	May 1, 2003	\$ 0.40	60,000
Private Placement	May 1, 2003	\$ 0.45	60,000
Employees	March 31, 2003	\$ 0.20	285,000
Employees	July 15, 2003	\$ 0.27	200,000
Employees	September 20, 2004	\$ 0.45	80,000
Directors	February 24, 2005	\$ 0.22	225,000
Employee	February 2, 2006	\$ 0.50	50,000
Employee	June 9, 2007	\$ 0.28	200,000
			<u>1,280,000</u>

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002

NOTE 8. SHARE CAPITAL (continued):

WARRANTS:

	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	<u>910,000</u>	\$ 0.53	<u>510,000</u>	\$ 0.31
Granted during the year	-	-	800,000	0.52
Expired during the year	<u>(300,000)</u>	0.39	<u>(400,000)</u>	0.80
	<u>(300,000)</u>		<u>400,000</u>	
Balance, end of year	<u>610,000</u>	\$ 0.70	910,000	\$ 0.53

The Company has the following warrants outstanding:

November 22, 2002	<u>610,000</u>
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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.

NOTE 9. INCOME TAXES:

2002 2001

The provision for income taxes is comprised as follows:

Loss before income taxes	<u>\$ (47,222)</u>	<u>\$ (575,326)</u>
Income taxes at statutory Canadian rate of 40.88% (2001 44.87%)	<u>\$ (19,304)</u>	<u>\$ (258,149)</u>
Income tax effect relating to the following items:		
Nondeductible goodwill	5,050	3,060
Tax rate variance re foreign subsidiary	(17,111)	(6,312)
Unrealized future income tax benefit	39,637	253,420
Nondeductible items	1,484	2,192
Other items	<u>222</u>	<u>5,731</u>
	<u>\$ 9,978</u>	<u>\$ (58)</u>

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002

NOTE 10. SEGMENTED INFORMATION:

Operations and identifiable assets by geographic segment are as follows:

	2002	2001
Revenue:		
Canada	\$ 1,855,175	\$ 1,887,114
United States	<u>1,133,985</u>	<u>923,399</u>
	<u>\$ 2,989,160</u>	<u>\$ 2,810,513</u>
Amortization:		
Canada	\$ 102,001	\$ 109,002
United States	<u>7,720</u>	<u>4,072</u>
	<u>\$ 109,721</u>	<u>\$ 113,074</u>
Earnings before income taxes:		
Canada	\$ (89,079)	\$ (589,395)
United States	<u>41,857</u>	<u>14,069</u>
	<u>\$ (47,222)</u>	<u>\$ (575,326)</u>
Total assets:		
Canada	\$ 1,963,836	\$ 1,804,183
United States	<u>235,263</u>	<u>131,430</u>
	<u>\$ 2,199,099</u>	<u>\$ 1,935,613</u>

NOTE 11. RELATED PARTY TRANSACTIONS:

During the year, the Company paid, under normal terms of trade, \$80,291 (2001 \$80,291) in management salaries to a director of the Company and \$85,484 (2001 \$80,291) in administrative salaries to a director of the Company.

During the year, the Company paid, under normal terms of trade, \$10,750 in interest to Ampton Court Mortgage Corporation, a company controlled by a director of Audiotech Healthcare Corporation.

NOTE 12. OPERATIONS:

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