

FORM 51-901F Schedule A

AUDIOTECH HEALTHCARE CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED BALANCE SHEET
December 31, 2001
(unaudited - prepared by Management)

	Dec. 31 2001	Sep. 30 2001
ASSETS		
CURRENT ASSETS:		
Cash	\$ 273,935	\$ 303,102
Accounts receivable	206,070	210,601
Inventory	50,562	61,599
Prepaid expenses	4,638	6,516
Income taxes refundable	2,774	2,775
	537,979	584,593
CAPITAL ASSETS	365,185	382,120
GOODWILL	962,941	968,900
	\$ 1,866,105	\$ 1,935,613
LIABILITIES		
CURRENT LIABILITIES		
Operating loan	\$ -	\$ -
Accounts Payable and accruals	292,794	438,281
Customer deposits	22,438	54,125
Income taxes	-	-
Current portion of long-term debt	66,059	138,717
	381,291	631,123
LONG-TERM DEBT	795,010	628,167
TOTAL LIABILITIES	1,176,301	1,259,290
SHAREHOLDERS EQUITY		
SHARE CAPITAL	1,635,840	1,626,840
DEFICIT	(954,987)	(958,920)
FOREIGN EXCHANGE ADJUSTMENT	8,951	8,403
	689,804	676,323
	\$ 1,866,105	\$ 1,935,613

APPROVED BY THE DIRECTORS:

"Osvaldo (Ozzie) Iadarola" Director "Daniel P. Allen" Director

AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
Period Ended December 31, 2001
(unaudited - prepared by Management)

	Dec. 31, 2001 3 months	Dec. 31, 2000 3 months
SALES		
Canada	\$ 481,312	\$ 479,805
United States	238,917	232,660
	<u>720,229</u>	<u>712,465</u>
 COST OF SALES	 <u>256,879</u>	 <u>305,316</u>
 GROSS PROFIT	 <u>463,350</u>	 <u>407,149</u>
 EXPENSES:		
Advertising and promotion	25,407	18,741
Amortization	24,466	29,115
Bad debts	-	-
Corporate development	-	32,929
Equipment lease	3,021	2,990
Insurance	4,074	4,845
Interest and bank charges	3,355	5,193
Interest on long-term debt	15,897	9,674
Investor relations	12,000	-
Licences, dues and fees	4,778	5,736
Management salaries	20,073	20,073
Office and sundry	16,306	14,340
Professional and filing fees	3,666	24,943
Rent and utilities	55,964	58,533
Repairs and maintenance	4,488	2,817
Telephone and fax	13,173	15,922
Travel	6,139	14,639
Wages and benefits	246,610	259,052
	<u>459,417</u>	<u>519,542</u>
 INCOME (LOSS) BEFORE MINORITY INTEREST	 3,933	 (112,393)
Minority interest	-	13,374
	<u>-</u>	<u>13,374</u>
 INCOME (LOSS) FOR THE PERIOD	 3,933	 (125,767)
 DEFICIT, beginning of period	 <u>(958,920)</u>	 <u>(383,651)</u>
 DEFICIT, end of period	 <u>\$ (954,987)</u>	 <u>\$ (509,418)</u>
 Income (loss), per share, basic	 <u>\$ 0.0003</u>	 <u>\$ (0.010)</u>
 Income, per share, fully diluted	 <u>\$ 0.0003</u>	 <u>\$ (0.009)</u>

AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Period ended December 31, 2001
(unaudited - prepared by Management)

	Dec. 31 2001 3 months	Dec. 31 2000 3 months
OPERATING ACTIVITIES:		
Income (loss) for the period	\$ 3,933	\$ (125,766)
Non-cash items:		
Amortization	24,466	29,115
Minority interest	-	13,374
	28,399	(83,277)
(Increase) decrease in:		
Accounts receivable	4,531	(131,200)
Inventory	11,037	22,992
Prepaid expenses	1,878	(2,858)
Increase (decrease) in:		
Operating loan	-	70,000
Accounts payable and accruals	(145,487)	66,559
Customer deposits	(31,687)	(1,845)
Income taxes	-	-
Cash provided by (used in) operations	(131,329)	(59,629)
FINANCING ACTIVITIES:		
New borrowing/assumption of debt	228,373	134,157
Debt reduction	(134,728)	(330,571)
Issuer of share capital	9,000	325,500
Cash provided by financing	102,645	129,086
INVESTING ACTIVITIES:		
Goodwill	-	-
Purchase of capital assets	(1,571)	(152,780)
Purchase of long-term investments	-	76,000
Acquisitions	-	(27,889)
Cash used in investing	(1,571)	(104,669)
INCREASE (DECREASE) IN CASH	(30,255)	(35,212)
EFFECT OF FOREIGN EXCHANGE ADJUSTMENT	548	(663)
CASH, beginning of period	303,102	488,389
CASH, end of period	\$ 273,395	\$ 452,514

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001
(unaudited - prepared by Management)

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 (B.C.) 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 December 31, 2001 was 1.5928 and averaged 1.5806 for the period October 1, 2001 to December 31, 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
December 31, 2001
(unaudited - prepared by Management)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Loss Per Share:

Loss per share is calculated using the weighted average number of shares outstanding during the period which is 13,329,825 (2001 13,012,325).

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.

Cost of Goods Sold:

Cost of Goods Sold include only the cost of the products. All wage costs are listed under "Wages and benefits".

NOTE 3. FINANCIAL INSTRUMENTS:

The Company's financial instruments consists 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. CAPITAL ASSETS:

	Cost	Accumulated Amortization	Dec. 2001 Net	Sep. 2001 Net
Equipment	\$ 688,901	\$ 382,702	\$ 306,199	\$ 318,797
Automotive equipment	-	-	-	517
Computer equipment	56,320	44,886	11,434	14,162
Leasehold improvements	73,280	25,728	47,552	48,644
	<u>\$ 818,501</u>	<u>\$ 453,316</u>	<u>\$ 365,185</u>	<u>\$ 382,120</u>

NOTE 5. GOODWILL:

	Cost	Accumulated Amortization	Dec. 2001 Net	Sep. 2001 Net
Goodwill	<u>\$ 1,045,001</u>	<u>\$ 82,060</u>	<u>\$ 962,941</u>	<u>\$ 968,900</u>

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001
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NOTE 6. **LONG-TERM DEBT:**

	Dec. 2001	Sep. 2001
Hurricane Ventures Ltd., loan, repayable in monthly installments of \$525 including interest at 10% per annum, unsecured, due August 1, 2003	\$ 49,527	\$ 49,833
Pat and Marion Griffin, loan, repayable in monthly installments of \$790 including interest at 10% per annum, unsecured, due August 1, 2003	74,223	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	47,119	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	61,201	60,827
611210 B.C. Ltd., loan, repayable in monthly installments of \$634 including interest at 10% per annum, unsecured, due March 1, 2002	1,873	3,700
611211 B.C. Ltd., loan, repayable in monthly installments of \$634 including interest at 10% per annum, unsecured, due March 1, 2002	1,873	3,700
611210 B.C. Ltd., loan, repayable in monthly installments of \$792 including interest at 10% per annum, unsecured, due November, 2003	59,055	-
611211 B.C. Ltd., loan, repayable in monthly installments of \$445 including interest at 10% per annum, unsecured, due November, 2003	42,669	-
Ampton Court Mortgage, loan, repayable in monthly installments of \$1350 including interest at 10% per annum, unsecured, due June, 2002	125,000	-
Non-interest 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.	222,529	247,648
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	70,000	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	50,000	50,000

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001
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NOTE 6. **LONG-TERM DEBT (continued):**

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 year.

	56,000	56,000
611210 B.C. Ltd., loan, repaid during the period	-	18,407
611210 B.C. Ltd., loan, repaid during the period	-	17,015
611210 B.C. Ltd., loan, repaid during the period	-	24,612
611211 B.C. Ltd., loan, repaid during the period	-	18,407
611211 B.C. Ltd., loan, repaid during the period	-	24,612
	861,069	766,834
Less current portion	66,059	138,717
	\$ 795,010	\$ 628,117

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

2002	\$	66,059
2003		168,640
2004		63,796
2005		63,449
2006		27,671

NOTE 7. **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.

AUDIOTECH HEALTHCARE CORPORATION
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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	\$ Dec. 2001	Number of Shares	\$ Sep. 2001
Balance, beginning of period	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	30,000	9,000	167,500	51,025
	<u>30,000</u>	<u>9,000</u>	<u>967,500</u>	<u>394,025</u>
Balance, end of period	<u>13,329,825</u>	<u>\$ 1,635,840</u>	<u>13,299,825</u>	<u>\$ 1,626,840</u>

The Company has the following options outstanding:

	Expiry	Exercise Price	Number
Private Placement	March 19, 2002	\$ 0.35	27,500
Directors	May 17, 2002	\$ 0.50	200,000
Employees	March 31, 2002	\$ 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	5,000
Private Placement	May 1, 2002	\$ 0.35	35,000
Private Placement	May 1, 2002	\$ 0.40	35,000
Employee	February 2, 2006	\$ 0.50	<u>50,000</u>
			<u>1,192,500</u>

The Company has the following warrants outstanding:

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

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001
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NOTE 8. SHARE CAPITAL (continued):

- (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 per common share 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

	Sep. 2001
The Provision for income taxes is comprised as follows:	
Loss before income taxes	<u>\$ (575,326)</u>
Income taxes at statutory Canadian rate of 44.87% (2000 45.52%)	\$ (258,149)
Income tax effect relating to the following items:	
Non-deductible goodwill	3,060
Tax rate variance re foreign subsidiary	(6,312)
Unrealized future income tax benefit	253,420
Non-deductible items	2,192
Other items	<u>5,731</u>
	<u>\$ (58)</u>

NOTE 10. RELATED PARTY TRANSACTIONS:

During the period the Company paid, under normal terms of trade, \$20,073 (2001 \$20,073) in management salaries to a director of the Company and \$20,073 (2001 \$20,073 for the year) in administrative salaries to a director of the Company.

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001
(unaudited - prepared by Management)

NOTE 11. **SEGMENTED INFORMATION:**

Operations and identifiable assets by geographic segment are as follows:

	Dec. 2001	Dec. 2000
Revenue:		
Canada	\$ 481,312	\$ 479,805
United States	238,917	232,660
	<u>\$ 720,229</u>	<u>\$ 712,465</u>
Amortization:		
Canada	\$ 21,212	\$ 27,536
United States	3,254	1,579
	<u>\$ 24,466</u>	<u>\$ 29,115</u>
Earnings before income taxes		
Canada	\$ (33,148)	\$ (137,560)
United States	37,081	25,168
	<u>\$ 3,933</u>	<u>\$ (112,392)</u>
Total assets:		
Canada	\$ 1,696,164	\$ 1,921,605
United States	169,941	252,342
	<u>\$ 1,866,105</u>	<u>\$ 2,173,947</u>