

AUDIOTECH HEALTHCARE CORPORATION  
SCHEDULE A: CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 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 BALANCE SHEET  
December 31, 2002  
(Unaudited – prepared by Management)

	Dec. 31 2002	Sep. 30 2002
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 354,856	\$ 293,817
Term deposit	140,000	320,000
Accounts receivable	209,013	242,060
Inventory	46,741	51,859
Prepaid expenses	3,238	3,940
	753,848	911,676
 <b>CAPITAL ASSETS</b>	 345,484	 344,648
 <b>GOODWILL</b>	 942,775	 942,775
	\$2,042,107	\$2,199,099
 <b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and accruals	\$ 257,905	\$ 250,729
Customer deposits	26,136	37,296
Income taxes	-	206
Current portion of long-term debt	345,613	450,981
	629,654	739,212
<b>LONG-TERM DEBT</b>	805,739	821,450
<b>TOTAL LIABILITIES</b>	1,435,393	1,560,662
 <b>SHAREHOLDERS EQUITY</b>		
<b>SHARE CAPITAL</b>	1,635,840	1,635,840
<b>DEFICIT</b>	(1,027,277)	(1,006,348)
<b>FOREIGN EXCHANGE ADJUSTMENT</b>	(1,849)	8,945
	606,714	638,437
	\$2,042,107	\$2,199,099

APPROVED BY THE DIRECTORS:

"Osvaldo (Ozzie) Iadarola" Director

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Daniel P. Allen" Director

AUDIOTECH HEALTHCARE CORPORATION  
CONSOLIDATED STATEMENT OF INCOME AND DEFICIT  
Period Ended December 31, 2002  
(Unaudited – prepared by Management)

	Dec. 31 2002 3 months	Dec. 31 2001 3 months
SALES		
Canada	\$ 422,369	\$ 481,312
United States	368,578	238,917
	790,947	720,229
COST OF SALES		
Cost of products	303,005	256,879
	487,942	463,350
GROSS PROFIT		
EXPENSES		
Advertising and promotion	12,809	25,407
Amortization	19,624	24,466
Corporate development	30,778	12,000
Equipment lease	8,851	3,021
Insurance	5,687	4,074
Interest and bank charges	7,051	3,355
Interest and long-term debt	24,139	15,897
Licences, dues and fees	3,909	4,778
Management salaries	20,073	20,073
Office and sundry	14,401	16,306
Professional filing fees	2,138	3,666
Rent and utilities	63,983	55,964
Repairs and maintenance	3,717	4,488
Telephone and fax	13,514	13,173
Travel	8,903	6,139
Wages and benefits	269,294	246,610
	508,871	459,417
INCOME (LOSS) FOR THE PERIOD	(20,929)	3,933
DEFICIT, beginning of period	(1,006,348)	(958,920)
DEFICIT, end of period	\$(1,027,277)	\$(954,987)
Income (loss), per share, basic	\$(0.0016)	\$0.0003
Income (loss) per share, fully diluted	\$(0.0014)	\$0.0003

AUDIOTECH HEALTHCARE CORPORATION  
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION  
Period ended December 31, 2002  
(Unaudited – prepared by Management)

	Dec. 31 2002 3 months	Dec. 31 2001 3 months
<b>OPERATING ACTIVITIES:</b>		
Income (loss) for the period	(20,929)	3,933
Non-cash items:		
Amortization	19,624	24,466
	(1,305)	28,399
(Increase) decrease in:		
Accounts receivable	33,047	4,531
Inventory	5,118	11,037
Prepaid expenses	702	1,878
Increase (decrease) in:		
Accounts payable and accruals	7,176	(145,487)
Customer deposits	(11,160)	(31,687)
Income taxes	(206)	-
Cash provided by (used in) operations	33,372	(131,329)
<b>FINANCING ACTIVITIES:</b>		
New borrowing/assumption of debt	-	228,373
Debt reduction	(121,079)	(134,728)
Issue of share capital	-	9,000
Cash proved by financing	(121,079)	102,645
<b>INVESTING ACTIVITIES:</b>		
Purchase of capital assets	(20,460)	(1,571)
Purchase of long-term investments	-	-
Cash used in investing	(20,460)	(1,571)
<b>INCREASE (DECREASE) IN CASH</b>	(108,167)	(30,255)
<b>EFFECT OF FOREIGN EXCHANGE ADJUSTMENT</b>	(10,794)	548
CASH, beginning of period	613,817	303,102
CASH, end of period	494,856	273,395

AUDIOTECH HEALTHCARE CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002  
(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.

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 shareholder's 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, 2002 was 1.5776 and averaged 1.5591 for the period October 1, 2002 to December 31, 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 was amortized using the straight-line basis over 40 years up until September 30, 2002 when the company adopted the policy to review annually for impairment.

AUDIOTECH HEALTHCARE CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002  
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**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued):**

**Income (loss) Per Share:**

Income (loss) per share is calculated using the weighted average number of shares outstanding during the period, which are 13,329,825 (2002 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 affects the reported amount 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 includes only the cost of the products. All wage costs are listed under "Wages and benefits".

**NOTE 3. FINANCIAL INSTRUMENTS:**

The Company's financial instruments consist of cash, accounts receivable, and accounts payable and long-term debt. Unless otherwise notes, 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. 2002 Net	Sep. 2002 Net
Equipment	\$ 764,713	\$ 467,540	\$ 297,173	\$ 292,111
Computer equipment	64,377	50,156	14,221	15,427
Leasehold Improvements	73,280	39,190	34,,090	37,110
	<u>\$ 902,730</u>	<u>\$ 556,886</u>	<u>\$ 345,484</u>	<u>\$ 344,648</u>

**NOTE 5. GOODWILL:**

	Cost	Accumulated Amortization	Dec. 2002 Net	Sep. 2002 Net
<b>Goodwill</b>	<u>\$1,045,001</u>	<u>\$102,226</u>	<u>\$942,775</u>	<u>\$942,775</u>

AUDIOTECH HEALTHCARE CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002  
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**NOTE 6. LONG-TERM DEBT:**

	Dec. 2002	Sep. 2002
Martin and Elsie Jackson, loan repayable in monthly instalments of \$425 including interest at 10% per annum, secured by personal guarantee of the President, due April 1, 2003.	\$ 46,502	\$ 46,662
Martin and Elsie Jackson, loan repayable in monthly instalments of \$540 including interest at 10%, secured by personal guarantee of the President, due February 15, 2003.	59,955	60,138
611210 BC Ltd., loan repayable in monthly instalments of \$792 including interest at 10% per annum, unsecured, due November 2003.	55,032	56,074
611211 BC Ltd., loan repayable in monthly instalments of \$445 including interest at 10% per annum, unsecured, due November 2003.	41,353	41,694
Hurricane Ventures Ltd., loan repayable in monthly instalments of \$525 including interest at 10% per annum, unsecured, due August 1, 2003.	48,013	48,406
Pat and Marion Griffin, loan repayable in monthly instalments of \$790 including interest at 10% per annum, unsecured, due August 1, 2003.	71,738	72,382
Non-interest bearing equipment loans from a supplier. The loans require thirteen instalments per annum of \$3,935.	183,530	199,403
Convertible debentures, bearing 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.	177,634	178,441
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

AUDIOTECH HEALTHCARE CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002  
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**NOTE 6. LONG-TERM DEBT (continued):**

	Dec. 2002	Sep. 2002
Convertible debentures, bearing 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.	411,595	413,336
Ampton Court Mortgage, loan repaid during the year.	-	49,895
Convertible debentures, repaid during the period	-	50,000
	1,151,352	1,272,431
Less current portion	345,613	450,981
	\$ 805,739	\$ 821,450

Principal repayments due in the ensuing 5 years as of  
The year-end is 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:

		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.

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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. 30. 2002	Number of Shares	\$ Sep. 2002
Balance, beginning of period	13,299,825	\$ 1,635,840	13,299,825	\$ 1,626,840
Issued during the year:				
Issued on Private Placement for cash	-	-	-	-
Issued on options	-	-	30,300	9,000
	-	-	30,300	9,000
Balance, end of period	13,329,825	\$ 1,635,840	13,329,825	\$ 1,635,840

The Company has the following options outstanding:

	Expiry	Exercise Price	Number
Employees	03 Mar. 2003	\$ 0.20	285,000
Private Placement	01 May 2003	\$ 0.30	60,000
Private Placement	01 May 2003	\$ 0.35	60,000
Private Placement	01 May 2003	\$ 0.40	60,000
Private Placement	01 May 2003	\$ 0.45	60,000
Director	15 July 2003	\$ 0.27	200,000
Employees	20 Sep. 2004	\$ 0.45	80,000
Directors	24 Feb. 2005	\$ 0.22	225,000
Employee	02 Feb. 2006	\$ 0.50	50,000
Employee	09 Jun. 2007	\$ 0.28	200,000
			<u>1,280,000</u>

The Company has no warrants outstanding:

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**NOTE 9. INCOME TAXES**

The Provision for income taxes is comprised as follows:

	Sep. 2002
Loss before income taxes	\$ (47,222)
Income taxes at statutory Canadian rate of 40.88% (2001 44.87)	\$ (19,304)
Income tax effect relating to the following items:	
Non-deductible goodwill	5,050
Tax rate variance re foreign subsidiary	(17,111)
Unrealized future income tax benefit	39,637
Non-deductible items	1,484
Other items	222
	\$ 9,978

**NOTE 10. RELATED PARTY TRANSACTIONS:**

During the period the Company paid, under normal terms of trade, \$20,073 (December 31, 2001 \$20,073) in management salaries to a director of the Company and \$21,550 (December 31, 2001 \$20,073) in administrative salaries to a director of the Company.

**NOTE 11. SEGMENTED INFORMATION:**

Operations and identifiable assets by geographic segment are as follows:

	Dec. 2002	Dec. 2001
Revenue:		
Canada	\$ 422,369	\$ 481,312
United States	368,578	238,917
	\$ 790,9475	\$ 720,229
Amortization		
Canada	\$ 17,584	\$ 21,212
United States	2,040	3,254
	\$ 19,624	\$ 24,466
Earnings before income taxes		
Canada	\$ (56,209)	\$ (33,148)
United States	35,280	37,081
	\$ (20,929)	\$ 3,933
Total assets:		
Canada	\$ 1,846,612	\$ 1,696,164
United States	195,495	169,941
	\$ 2,042,107	\$ 1,866,105