

Consolidated Financial Statements of

AUDIOTECH HEALTHCARE CORPORATION

Period ended December 31, 2007

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Balance Sheets

December 31, 2007, with comparative figures for September 30, 2007

	Dec 31 2007	Sep 30 2007
Assets		
Current assets:		
Cash	\$ 318,817	\$ 413,106
Accounts receivable	336,081	395,918
Inventory	117,611	142,104
Income taxes receivable	46,759	23,897
Prepaid expenses	6,072	9,756
	825,340	984,781
Property, plant and equipment (note 2)	988,346	971,737
Goodwill	942,775	942,775
Future income taxes (note 6)	-	-
	\$ 2,756,461	\$ 2,899,293

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 393,209	\$ 461,026
Unearned revenue	26,461	48,292
Current portion of long-term debt (note 3)	105,223	104,210
Current portion of capital lease (note 4)	33,461	24,404
	558,354	637,932
Long-term debt (note 3)	1,156,895	1,182,540
Obligation under capital lease (note 4)	52,069	34,359
Future income taxes (note 6)	1,300	1,300
	1,768,618	1,856,131
Shareholders' equity:		
Share capital (note 5)	1,750,340	1,750,340
Contributed surplus (note 5)	193,489	193,489
Accumulated other comprehensive income	(85,019)	(83,900)
Deficit	(870,967)	(816,767)
	987,843	1,043,162
	\$ 2,756,461	\$ 2,899,293

Commitments (note 10)

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 Income

Period ended December 31, 2007, with comparative figures for December 31, 2006

	Dec 31 2007 3 months	Dec 31 2006 3 months
Sales	\$ 1,024,343	\$ 937,915
Cost of goods sold (materials and freight)	340,727	279,323
Gross Margin	683,616	658,592
Direct clinic costs:		
Selling expenses	104,915	93,578
Rent, utilities and clinic overheads	138,465	103,094
Amortization	35,024	25,396
Salaries and benefits	370,309	286,025
	648,713	508,093
	34,903	150,499
Expenses:		
General and administrative	22,730	29,228
Amortization	338	547
Professional fees	4,039	7,725
Foreign exchange	784	(980)
Interest on long-term debt	25,258	23,809
Salaries and benefits	58,763	66,208
	111,912	126,537
Income before other expenses	(77,009)	23,962
Other expenses:		
Loss on disposal of equipment	-	587
Amortization of debenture discount	-	6,375
	-	6,962
Income (loss) before income taxes	(77,009)	17,000
Income taxes (recovery):		
Current (note 6)	(22,809)	-
Net income (loss) for the year	(54,200)	17,000
Comprehensive income		
Cumulative translation adjustment	1,119	(9,825)
Comprehensive income for the year	\$ (53,081)	\$ 7,175
Weighted average number of shares outstanding	13,229,825	13,229,825
Earnings (loss) per share (basic)	\$ (0.004)	\$ 0.0013
Earnings (loss) per share (diluted)	\$ (0.004)	\$ 0.0012

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Deficit

Period ended December 31, 2007, with comparative figures for September 30, 2007

	Dec 31 2007	Sep 30 2007
Deficit, beginning of year	\$ (816,767)	\$ (904,704)
Net income (loss) for the year	(54,200)	87,937
Deficit, end of year	\$ (870,967)	\$ (816,767)

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Accumulated Other Comprehensive Income

Period ended December 31, 2007, with comparative figures for September 30, 2007

	Dec 31 2007	Sep 30 2007
Other comprehensive income, beginning of period	\$ (83,900)	\$ (45,657)
Cumulative translation adjustment for the period	(1,119)	(38,243)
Other comprehensive income, end of period	\$ (85,019)	\$ (83,900)

See accompanying notes to consolidated financial statements.

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Cash Flows

Period ended December 31, 2007, with comparative figures for December 31, 2006

	Dec 31 2007 3 months	Dec 31 2006 3 months
Cash flows from operating activities:		
Net income for the year	\$ (54,200)	\$ 17,000
Items not involving cash:		
Amortization of plant and equipment	35,362	25,943
Amortization of debenture discount	-	6,375
Future income taxes	-	-
Loss on disposal of equipment	-	587
	(18,838)	49,905
Change in non-cash operating working capital:		
Accounts receivable	59,140	(9,958)
Inventory	24,497	(25,996)
Prepaid expenses	3,684	5,678
Accounts payable	(67,483)	14,034
Income taxes payable	22,850	-
Unearned revenue	(21,831)	16,129
	(43,681)	49,792
Financing:		
Proceeds from long-term debt	-	50,000
Principal payments on long-term debt	(5,727)	(31,979)
Proceeds from capital lease	32,441	-
Repayment of obligation under capital lease	(23,463)	(5,739)
	3,251	12,282
Investing:		
Purchases of property, plant and equipment	(53,562)	(66,306)
Proceeds from sale of equipment	-	-
	(53,562)	(66,306)
Effect of changes in exchange rates on foreign denominated cash	(297)	2,313
Increase (decrease) in cash	(94,289)	(1,919)
Cash, beginning of period	413,106	393,756
Cash, end of period	\$ 318,817	\$ 391,837
Supplemental cash flow information:		
Interest paid	\$ 25,258	\$ 23,809
Non-cash transactions:		
Investing: Purchase of property, plant and equipment	\$ (32,441)	\$ -
Financing: Capital lease obligation	\$ 32,441	\$ -

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
Period ended December 31, 2007

Audiotech Healthcare Corporation (the "Company") is incorporated under the laws of the Province of Alberta. Its 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

Period ended December 31, 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 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

Period ended December 31, 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 values all stock-based compensation granted using the fair value method, as determined using the Black-Scholes option valuation model. Compensation cost is recognized in the statement of operations over the vesting period.

(h) Financial instruments:

Effective October 1, 2006, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity instruments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized into net income. Available-for-sale financial instruments are measured at their fair value with changes in fair value recorded in other comprehensive income.

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 and accrued liabilities as other liabilities, which are measured at amortized cost.

As a result of application of Section 3855, the Company's deficit as at October 1, 2006 was not affected.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 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 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.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2007

2. Property, plant and equipment:

	Dec 31 2007		
	Cost	Accumulated amortization	Net book value
Land	\$ 86,107	\$ -	\$ 86,107
Building	319,965	17,265	302,700
Audiology equipment	1,059,037	720,072	338,965
Computer equipment	97,678	64,163	33,515
Computer software	24,760	13,404	11,356
Leasehold improvements	190,393	68,026	122,367
	1,777,940	882,930	895,010
Audiology equipment under capital lease	117,290	23,954	93,336
	\$ 1,895,230	\$ 906,884	\$ 988,346

	Sep 30 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 \$35,362 (Sep 2007 - \$25,943) has been charged to earnings in the current period.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2007

3. Long-term debt:

	Dec 31 2007	Sep 30 2007
Term loan, repayable in monthly installments of \$7,000, plus an annual payment of interest at a rate of 5.5% per annum. Secured by all assets of the Company. Due June 2011.	477,546	491,960
Term loan (US\$34,852), 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 2009.	34,549	39,645
Building Loan (US\$274,715), 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.	272,325	274,845
Promissory notes repayable in monthly installments of \$1,450 including interest at 8% per annum. Due June 2009.	85,698	88,300
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 March 2009. Unsecured.	77,000	77,000
Promissory notes, monthly interest payments at 8% per annum. Due August 2009. Unsecured.	200,000	200,000
	1,262,118	1,286,750
Current portion of long-term debt	105,223	104,210
	\$ 1,156,895	\$ 1,182,540

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2007

3. Long-term debt (continued):

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

2008	\$	105,223
2009		439,596
2010		308,615
2011		184,944
2012		73,791
Thereafter		149,949
	\$	1,262,118

4. Obligation under capital lease:

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

	Dec 31 2007	Sep 30 2007
2008	\$ 44,641	\$ 31,620
2009	35,465	23,249
2010	24,716	16,180
	104,822	71,049
Less: amount representing interest at various rates	19,292	12,286
	85,530	58,763
Less: current portion	33,461	24,404
	\$ 52,069	\$ 34,359

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2007

5. 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:

		Dec 31 2007		Sep 30 2007	
	Shares	Amount	Shares	Amount	
Balance, beginning of year	13,229,825	\$ 1,750,340	13,229,825	\$ 1,750,340	
Cancellation of escrow shares	-	-	-	-	
Balance, end of year	13,229,825	\$ 1,750,340	13,229,825	\$ 1,750,340	

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2007

5. Share capital (continued):

(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 \$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.

As at December 31, 2007, 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.

	3 mo. ended		Year Ended	
	Dec 31 2007 Number of options	Weighted average exercise price	Sep 30 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 period	450,000	\$ 0.16	450,000	\$ 0.20

Details of the Company's outstanding options at December 31, 2007 are as follows:

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

(c) Contributed surplus:

	3 mo. Ended	Year Ended
	Dec 31, 2007	Sep 30, 2007
Balance, beginning and end of year	\$ 193,489	\$ 193,489

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2007

6. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 34.12% (2006 – 34.12%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	3 mo. ended	Year Ended
	Dec 31, 2007	Sep 30, 2007
Income (loss) before income taxes	\$ (77,009)	\$ 105,035
Tax at applicable tax rate	\$ (26,275)	\$ 35,838
Rate variance on self-sustaining foreign operation	-	(690)
Non-deductible items	3,466	9,164
Change in valuation allowance	-	(27,214)
	\$ (22,809)	\$ 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, 2007 and 2006 are represented below:

	2007	2006
Future tax assets:		
Non-capital loss carry forwards	\$ 141,000	\$ 148,612
Property, plant and equipment	-	21,670
Future tax liabilities:		
Goodwill deductibility	(125,000)	(120,110)
Property, plant and equipment	(17,300)	-
Less: Valuation allowance	-	-
	\$ (1,300)	\$ 50,172

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 \$413,225 expire, as follows:

2008	\$ 121,930
2009	94,705
2010	158,193
2015	416
2026	37,338
2027	643
	<u>\$ 413,225</u>

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2007

7. 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:

	Dec 31 2007 3 mo.	Dec 31 2006 3 mo.
Revenue:		
Canada	\$ 728,926	\$ 645,406
United States	295,417	292,509
	\$ 1,024,343	\$ 937,915
Interest expense:		
Canada	\$ 16,402	\$ 15,844
United States	8,856	7,965
	\$ 25,258	\$ 23,809
Amortization expense:		
Canada	\$ 25,978	\$ 17,440
United States	9,384	8,503
	\$ 35,362	\$ 25,943
Earnings (loss) before income taxes:		
Canada	\$ (73,914)	\$ (8,817)
United States	(3,095)	25,817
	\$ (77,009)	\$ 17,000
Property, plant and equipment:		
Canada	\$ 442,437	\$ 307,151
United States	545,909	583,888
	\$ 988,346	\$ 891,039
Goodwill:		
Canada	\$ 448,661	\$ 448,661
United States	494,114	494,114
	\$ 942,775	\$ 942,775
Total assets:		
Canada	\$ 1,939,897	\$ 1,956,104
United States	816,564	825,715
	\$ 2,756,461	\$ 2,781,819

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2007

8. Related party transactions:

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

	Dec 31 2007 3 mo.	Dec 31 2006 3 mo.
MediaWave Communications Corp., a company controlled by a Director of the Company		
Commissions paid	\$ 386	\$ 809
Internet services	352	-
Sherwood Real Estate Corp., a company controlled by a Director the Company		
Rent paid	\$ 7,154	\$ 7,512

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.

9. Financial instruments:

The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these items.

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

Approximately 61% of the Company's accounts receivable are due from customers in Canada with the remainder due from customers in the United States. The maximum credit risk associated with the Company's financial assets is the carrying value of those assets. The Company's exposure to foreign exchange risk associated with self-sustaining foreign operations is limited to its net investment in those operations.

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	\$ 95,041
Accounts receivable	130,732
Accounts payable	119,064

U.S. Dollar are translated at \$0.9913 to \$\$1.00 Canadian

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended December 31, 2007

10. 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 is as follows:

2008	\$	278,680
2009		217,626
2010		193,586
2011		168,640
2012		87,656
	\$	946,188
