

Consolidated Financial Statements of

AUDIOTECH HEALTHCARE CORPORATION

Period ended December 31, 2008

(Unaudited – prepared by Management)

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Balance Sheets

December 31, 2008, with comparative figures for September 30, 2008

(Unaudited – prepared by Management)

	Dec 31	Sep 30
	2008	2008
Assets		
Current assets:		
Cash	\$ 419,642	\$ 463,623
Accounts receivable	438,533	390,933
Inventory	87,695	93,674
Income taxes receivable	2,444	1,405
Prepaid expenses	13,221	14,483
	961,535	964,118
Property, plant and equipment (note 2)	1,110,409	1,064,393
Goodwill (note 3)	-	-
	\$ 2,071,944	\$ 2,028,511

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 448,096	\$ 486,814
Unearned revenue	13,703	50,243
Current portion of long-term debt (note 4)	473,265	475,075
Current portion of obligation under capital lease (note 5)	42,175	37,206
	977,239	1,049,338
Long-term debt (note 4)	1,155,031	1,145,709
Obligation under capital lease (note 5)	38,343	43,262
	2,170,613	2,238,309
Shareholders' equity (deficit):		
Share capital (note 6)	1,750,340	1,750,340
Contributed surplus (note 6)	193,489	193,489
Accumulated other comprehensive income	(20,391)	(64,526)
Deficit	(2,022,107)	(2,089,101)
	(98,669)	(209,798)
	\$ 2,071,944	\$ 2,028,511

Commitments (note 12)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Oswaldo (Ozzie) Iadarola

Grant Robertson

Director

Director

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Comprehensive Income (Loss)

Period ended December 31, 2008, with comparative figures for December 31, 2007

(Unaudited – prepared by Management)

	Dec 31 2008 3 months	Dec 31 2007 3 months
Sales	\$ 1,279,645	\$ 1,024,343
Cost of goods sold (materials and freight)	385,151	340,727
Gross Margin	894,494	683,616
Direct clinic costs:		
Selling expenses	95,213	104,915
Rent, utilities and clinic overheads	95,542	138,465
Amortization	38,909	35,024
Salaries and benefits	479,499	370,309
	709,163	648,713
	185,331	34,903
Expenses:		
General and administrative	19,052	22,730
Amortization	198	338
Professional fees	14,155	4,039
Foreign exchange	(7,514)	784
Interest on long-term debt	33,014	25,258
Salaries and benefits	59,432	58,763
	118,337	111,912
Income (loss) before other expenses and income taxes	66,994	(77,009)
Income taxes (recovery):		
Current (note 7)	-	(22,809)
	-	(22,809)
Net income (loss) for the period	66,994	(54,200)
Comprehensive income (loss)		
Cumulative translation adjustment	44,135	1,119
Comprehensive income (loss) for the period	\$ 111,129	\$ (53,081)
Weighted average number of shares outstanding	13,229,825	13,229,825
Earnings per share (basic)	\$ 0.005	\$ (0.004)
Earnings per share (diluted)	\$ 0.005	\$ (0.004)

See accompanying notes to consolidated financial statements.

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Deficit

Period ended December 31, 2008, with comparative figures for September 30, 2008

(Unaudited – prepared by Management)

	Dec 31 2008	Sep 30 2008
Deficit, beginning of period	\$(2,089,101)	\$ (816,767)
Net income (loss) for the period	66,994	(1,272,334)
Deficit, end of period	\$(2,022,107)	\$(2,089,101)

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Accumulated Other Comprehensive Income

Period ended December 31, 2008, with comparative figures for September 30, 2008

	Dec 31 2008	Sep 30 2008
Accumulated other comprehensive income, beginning of period	\$ (64,526)	\$ (83,900)
Cumulative translation adjustment for the period	44,135	19,374
Accumulated other comprehensive income, end of period	\$ (20,391)	\$ (64,526)

See accompanying notes to consolidated financial statements.

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Cash Flows

Period ended December 31, 2008, with comparative figures for December 31, 2007

(Unaudited – prepared by Management)

	Dec 31 2008 3 months	Dec 31 2007 3 months
Cash flows from operating activities:		
Net income for the period	\$ 66,994	\$ (54,200)
Items not involving cash:		
Amortization of plant and equipment	39,107	35,362
	<u>106,101</u>	<u>(18,838)</u>
Change in non-cash operating working capital:		
Accounts receivable	(24,285)	59,140
Inventory	10,285	24,497
Prepaid expenses	1,262	3,684
Accounts payable	(61,893)	(67,483)
Income taxes payable	(1,184)	(22,850)
Unearned revenue	(36,540)	(21,831)
	<u>(6,254)</u>	<u>(43,681)</u>
Financing:		
Principal payments on long-term debt	(36,005)	(23,463)
Proceeds from capital lease	-	32,441
Repayment of obligation under capital lease	(11,527)	(5,727)
	<u>(47,532)</u>	<u>3,251</u>
Investing:		
Purchase of property, plant and equipment	(1,975)	(53,562)
	<u>(1,975)</u>	<u>(53,562)</u>
Effect of changes in exchange rates on foreign denominated cash	11,780	(297)
Increase (decrease) in cash	<u>(43,981)</u>	<u>(94,289)</u>
Cash, beginning of period	463,623	413,106
Cash, end of period	<u>\$ 419,642</u>	<u>\$ 318,817</u>
Supplemental cash flow information:		
Interest paid	\$ 33,014	\$ 25,258
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

Periods ended December 31, 2008 and 2007

(Unaudited – prepared by Management)

Audiotech Healthcare Corporation (the "Company") is incorporated under the laws of the Province of Alberta. On May 2, 2008, the Company which was registered as an extraprovincial company under the laws of British Columbia, has continued into British Columbia from the Jurisdiction of Alberta, under the Business Corporations Act. The Company's 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, 2008 and 2007

(Unaudited – prepared by Management)

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 period. 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 the 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 period. 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
Periods ended December 31, 2008 and 2007
(Unaudited – prepared by Management)

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 accounts for stock options granted to directors, officers, employees and nonemployees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon remeasurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

(h) Financial instruments:

Under Section 3251, *Equity*, Section 3855, *Financial Instruments - Recognition and Measurement* and Section 3861, *Financial Instruments - Disclosure and Presentation*, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held to maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financing will be expensed in the period incurred.

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, accrued liabilities, long term debt, and capital lease obligations as other liabilities, which are measured at amortized cost.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
Periods ended December 31, 2008 and 2007
(Unaudited – prepared by Management)

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 Canadian 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.

(l) Adoption of CICA accounting pronouncements

Accounting changes

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
Periods ended December 31, 2008 and 2007
(Unaudited – prepared by Management)

1. Significant accounting policies (continued):

- (l) Adoption of CICA accounting pronouncements (continued)

Capital Disclosures

In December 2006, the CICA issued a new accounting standard, Handbook Section 1535 – “Capital Disclosures”. This new section specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new standard is effective for annual financial statements relating to fiscal years beginning on or after October 1, 2007. This new standard only applies to disclosure and has no impact on the financial results of the Company. Additional information is provided in Note 10 “Capital Management”.

Financial Instruments – Disclosures and Presentation

In December 2006, the CICA issued two new accounting standards, Handbook Section 3862 – “Financial Instruments – Disclosures”, and Handbook Section 3863 – “Financial Instruments – Presentation”. These new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These new standards are effective for annual financial statements relating to fiscal years beginning on or after October 1, 2007. These new standards only apply to disclosure and have no impact on the financial results of the Company. Additional information is provided in Note 9 “Financial Instruments”.

General Standards of Financial Statement Presentation

In June 2007, the CICA amended Handbook Section 1400 – “General Standards of Financial Statement Presentation” to include requirements to assess an entity’s ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The mandatory effective date is for annual and interim financial statements for years beginning on or after January 1, 2008. This new requirement has been adopted by the Company effective October 1, 2008. The adoption of this Section is not expected to have an impact on the consolidated financial statements.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
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(Unaudited – prepared by Management)

1. Significant accounting policies (continued):

Inventories

In June 2007, the CICA issued the new accounting standard, Handbook Section 3031 – “Inventories” replacing Handbook Section 3030 – “Inventories”. This standard is effective for interim and annual consolidated financial statements for reporting periods beginning on January 1, 2008. This section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The Company does not believe that these new standards have had a significant impact on its consolidated results when adopted on October 1, 2008.

Goodwill and intangible assets

The Canadian Accounting Standards Board (“AcSB”) issued CICA Handbook Section 3064 which replaces Section 3062 – “Goodwill and Other Intangible Assets”, and Section 3450 – “Research and Development Costs”. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and has not had an impact on the Company’s financial results.

(m) Recent accounting pronouncements

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the period ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
 Periods ended December 31, 2008 and 2007
 (Unaudited – prepared by Management)

2. Property, plant and equipment:

	Dec 31 2008		
	Cost	Accumulated amortization	Net book value
Land	\$ 105,799	\$ -	\$ 105,799
Building	393,138	28,652	364,486
Audiology equipment	1,237,664	870,991	366,673
Computer equipment	111,392	82,008	29,384
Computer software	25,718	21,638	4,080
Leasehold improvements	242,992	97,645	145,347
	2,116,703	1,100,934	1,015,769
Audiology equipment under capital lease	123,189	28,549	94,640
	\$ 2,239,892	\$ 1,129,483	\$ 1,110,409

	Sep 30 2008		
	Cost	Accumulated amortization	Net book value
Land	\$ 92,440	\$ -	\$ 92,440
Building	343,496	23,434	320,062
Audiology equipment	1,152,113	792,718	359,395
Computer equipment	107,861	77,682	30,179
Computer software	25,068	19,628	5,440
Leasehold improvements	242,992	89,352	153,640
	1,963,970	1,002,814	961,156
Audiology equipment under capital lease	143,783	40,546	103,237
	\$ 2,107,753	\$ 1,043,360	\$ 1,064,393

Amortization expense of \$39,107 (December 2007 - \$35,362) has been charged to earnings in the current fiscal year.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Periods ended December 31, 2008 and 2007

(Unaudited – prepared by Management)

3. Goodwill:

Pursuant to the Company's accounting policies, an annual goodwill impairment test is undertaken to compare the fair value of the Company's U.S. and Canadian reporting units to their carrying value on the balance sheet. The goodwill impairment test involves a two step approach. The first step identifies a potential impairment. As a result of the operating loss in fiscal 2008, the uncertainty in the projected earnings of a number of new clinics opened during the period, and the impact these had on the estimation of the future earning trends of the reporting units, the company's estimated present value of future cash flows determined that the carrying value of both of the company's reporting units exceeded their fair value. Accordingly, an impairment provision of \$942,775 was recorded during the fourth quarter of fiscal 2008, reflecting a write-down of goodwill for both the U.S. and Canadian segments in the amount of \$494,114 and \$448,661 respectively. The provision represented the company's initial estimate of goodwill impairment given the aforementioned uncertainty. In light of the significant improvement in operating cash flow during the first quarter of fiscal 2009, management is currently assessing the implications on the completion of the second step of the impairment test. Any subsequent determination based on completion of the second step of the impairment test as additional information becomes available, will be reflected prospectively in a subsequent period.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
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 (Unaudited – prepared by Management)

4. Long-term debt:

	Dec 31 2008	Sep 30 2008
\$1 million term loan facility, repayable in monthly installments of \$9,500, plus an annual payment of interest at a rate of 5.5% per annum. Secured by all assets of the Company. Due August 2013.	\$ 579,522	\$ 599,867
Term loan (US\$14,852), 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 August 2009.	18,090	21,127
Building Loan (US\$257,930), 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.	314,159	280,390
Promissory notes, monthly interest payments at 8% per annum. Due March 2009. Unsecured.	77,000	77,000
Promissory notes repayable in monthly installments of \$1,450 including interest at 8% per annum. Due June 2009. Unsecured.	74,525	77,400
Promissory notes, monthly interest payments at 8% per annum. Due August 2009. Unsecured.	200,000	200,000
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 April 2013. Unsecured.	100,000	100,000
Promissory notes, monthly interest payments at 8% per annum. Due July 2013. Unsecured.	50,000	50,000
Promissory notes, monthly interest payments at 8% per annum. Due June 2013. Unsecured.	100,000	100,000
	1,628,296	1,620,784
Current portion of long-term debt	473,265	475,075
	\$ 1,155,031	\$ 1,145,709

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
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4. Long-term debt (continued):

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

2009	\$	473,265
2010		383,718
2011		158,999
2012		149,301
2013		354,902
Thereafter		108,111
	\$	1,628,296

5. 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	Sep 30
	2008	2008
2009	\$ 51,787	\$ 47,039
2010	38,580	39,478
2011	2,737	7,934
	93,104	94,451
Less: amount representing interest at various rates (9% - 15%)	12,586	13,983
	80,518	80,468
Less: current portion	42,175	37,206
	\$ 38,343	\$ 43,262

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
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6. 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		Sep 30	
	2008		2008	
	Shares	Amount	Shares	Amount
Balance, beginning and end of year	13,229,825	\$ 1,750,340	13,229,825	\$ 1,750,340

(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.

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6. Share capital (continued):

(b) Stock options (continued)

As at December 31 2008, 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.

	Dec 31 2008 3 mo. Ended Number of options	Weighted average exercise price	Sep 30 2008 Year Ended Number of options	Weighted average exercise price
Balance, beginning of period	450,000	\$ 0.16	450,000	\$ 0.16
Expired during the period	-	0	-	-
Exercised during the period	-	-	-	-
Balance, end of period	450,000	\$ 0.16	450,000	\$ 0.16

Details of the Company's outstanding and exercisable options at December 31, 2008 are as follows:

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

(c) Contributed surplus:

	3 mo. Ended Dec 31, 2008	Year Ended Sep 30, 2008
Balance, beginning and end of period	\$ 193,489	\$ 193,489

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7. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 31.91% (2007 – 34.12%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	3 mo. Ended	3 mo. Ended
	Dec 31 2008	Dec 31 2007
Income (loss) before income taxes	\$ 66,994	\$ (77,009)
Tax at applicable tax rate	\$ 27,711	\$ (26,275)
Application of prior period loss carry forward	(31,229)	-
Effect of tax rate change	-	39,900
Non-deductible items	3,518	3,466
	\$ -	\$ (22,809)

The tax effect of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at September 30, 2008 and 2007 are as follows:

	2008	2007
Future tax assets:		
Non-capital loss carry forwards	\$ 147,200	\$ 141,000
Property, plant and equipment	200	-
Goodwill deductibility	19,600	-
Future tax liabilities:		
Goodwill deductibility	-	(125,000)
Property, plant and equipment	-	(17,300)
Less: Valuation allowance	(167,000)	-
	\$ -	\$ (1,300)

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 \$542,132 expire, as follows:

2009	\$ 27,711
2010	157,175
2015	416
2026	37,338
2027	643
2028	251,855
	\$ 475,138

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 (Unaudited – prepared by Management)

8. 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 2008 3 mo.	Dec 31 2007 3 mo.
Revenue:		
Canada	\$ 900,968	\$ 728,926
United States	378,677	295,417
	<u>\$ 1,279,645</u>	<u>\$ 1,024,343</u>
Interest expense:		
Canada	\$ 22,790	\$ 16,402
United States	10,224	8,856
	<u>\$ 33,014</u>	<u>\$ 25,258</u>
Amortization expense:		
Canada	\$ 27,679	\$ 25,978
United States	11,428	9,384
	<u>\$ 39,107</u>	<u>\$ 35,362</u>
Earnings (loss) before income taxes:		
Canada	\$ 69,977	\$ (73,914)
United States	(2,983)	(3,095)
	<u>\$ 66,994</u>	<u>\$ (77,009)</u>
Property, plant and equipment:		
Canada	\$ 462,992	\$ 442,437
United States	647,417	545,909
	<u>\$ 1,110,409</u>	<u>\$ 988,346</u>
Goodwill:		
Canada	\$ -	\$ 448,661
United States	-	494,114
	<u>\$ -</u>	<u>\$ 942,775</u>
Total assets:		
Canada	\$ 1,125,450	\$ 1,939,897
United States	946,494	816,564
	<u>\$ 2,071,944</u>	<u>\$ 2,756,461</u>

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9. Related party transactions:

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

	Dec 31 2008 3 mo.	Dec 31 2007 3 mo.
MediaWave Communications Corp., a company controlled by a Director of the Company		
Commissions paid	\$ 494	\$ 386
Internet services	352	352
Sherwood Real Estate Corp., a company controlled by a Director the Company		
Rent paid	\$ 7,327	\$ 7,154

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.

10. Financial instruments:

Fair value of financial instruments

The fair values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments.

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

Foreign exchange risk

The Company's exposure to foreign exchange risk associated with self-sustaining foreign operations is limited to its net investment in those operations. The Company does not use forward looking foreign exchange contracts.

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	\$ 75,607
Accounts receivable	150,823
Accounts payable	124,309

U.S. Dollars are translated at \$1.2180 to \$1.00 Canadian

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10. Financial instruments (continued):

Credit risk

Credit risk refers to the risk that a party to a financial instrument defaults on its obligation and thus brings about a financial loss to the Company. Credit risks arise mainly from trade accounts receivables. Company's policy requires that trade accounts receivable become due when services are rendered. The Company continually analyzes and manages the accounts. The Company has had history of few bad debts. Bad debt provision is maintained at a level considered sufficient to cover all potential losses.

Interest rate risk

The Company has cash balances, interest-bearing debt and capital lease obligations. Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's exposure to the risk in market interest rates relates to entering into fixed or variable interest rate borrowing arrangements as required. The existing debt and capital lease obligations are held at fixed interest rates. See notes 4 and 5 respectively. The Company is also exposed to interest rate fluctuations on its cash balances and cash equivalents.

A sensitivity analysis for interest rate risk has not been performed for the period ending September 30, 2008 as the effect of a change in interest rates would have been minimal as the existing debt (note 4) and capital lease obligations (note 5) are held at fixed interest rates.

Liquidity risk

Liquidity risk is defined as the risk that the Company would not be able to meet its financial obligations due to a lack of liquidity. It is managed through diverse financing sources to maintain flexibility and by closely planning operational needs. The Company prepares budgetary and treasury projections to insure that it will have the funds necessary to meet its obligations. A large part of the Company's needs are met by its cash flow from operations. To finance business expansion the Company negotiates financing facilities to meet its obligations when due.

11. Capital Management:

The Company's objective's when managing capital are: (i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; (ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, (iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial commitments.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue future business opportunities to maintain flexible capital structure which optimizes the costs of capital at an acceptable rate.

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11. Capital Management (continued):

The Company manages the capital structure and makes adjustments to it depending on economic conditions and the rate of anticipated expenditures. To maintain or adjust the capital structure, the Company may attempt to issue new shares, renegotiate its existent loans or negotiate new term loans.

The Company's financial objectives and strategy as described above have remained substantially unchanged over the last two completed fiscal years. These objectives and this strategy are reviewed on an annual basis.

12. 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 are as follows:

2009	\$	295,487
2010		220,830
2011		190,843
2012		124,809
2013		74,518
	\$	906,487
