

AUDIOTECH HEALTHCARE CORPORATION

SCHEDULE A: CONSOLIDATED FINANCIAL STATEMENTS
MARCH 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
March 31, 2002
(Unaudited – prepared by Management)

	Mar. 31 2001	Sep. 30 2001
ASSETS		
CURRENT ASSETS:		
Cash	\$324,691	\$303,102
Accounts receivable	210,179	210,601
Inventory	58,965	61,599
Prepaid expenses	3,187	6,516
Income taxes refundable	-	2,775
	597,022	584,593
 CAPITAL ASSETS	 378,497	 382,120
 GOODWILL	 955,506	 968,900
	\$1,931,025	\$1,935,613
 LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and accruals	\$ 271,764	\$ 438,281
Customer deposits	29,583	54,125
Income taxes	-	-
Current portion of long-term debt	62,474	138,717
	363,821	631,123
LONG-TERM DEBT	870,550	628,167
TOTAL LIABILITIES	1,234,371	1,259,290
 SHAREHOLDERS EQUITY		
SHARE CAPITAL	1,635,840	1,626,840
DEFICIT	(949,375)	(958,920)
FOREIGN EXCHANGE ADJUSTMENT	10,189	8,403
	696,654	676,323
	\$1,931,025	\$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 March 31, 2002
(Unaudited – prepared by Management)

	Mar. 31, 2002 6 months	Mar. 31, 2001 6 months
SALES		
Canada	\$ 951,181	\$ 966,457
United States	497,725	432,028
	<hr/> 1,448,906	<hr/> 1,398,485
COST OF SALES		
Cost of products	512,190	595,603
	<hr/>	<hr/>
GROSS PROFIT	936,716	802,882
EXPENSES		
Advertising and promotion	33,071	44,053
Amortization	51,960	57,552
Corporate development	23,000	67,103
Equipment lease	5,104	5,971
Insurance	10,235	8,769
Interest and bank charges	9,610	11,210
Interest and long-term debt	32,069	17,364
Licences, dues and fees	7,926	9,514
Management salaries	40,145	40,145
Office and sundry	34,924	33,867
Professional filing fees	36,215	41,166
Rent and utilities	112,385	122,511
Repairs and maintenance	4,933	8,011
Telephone and fax	29,678	30,009
Travel	20,838	28,429
Wages and benefits	475,078	520,638
	<hr/> 927,171	<hr/> 1,046,312
INCOME (LOSS) BEFORE MINORITY INTEREST	9,545	(243,431)
Minority interest	-	(22,698)
	<hr/>	<hr/>
INCOME (LOSS) FOR THE PERIOD	9,545	(266,129)
DEFICIT, beginning of period	(958,920)	(383,651)
	<hr/>	<hr/>
DEFICIT, end of period	\$ (949,375)	\$ (649,780)
<hr/>		
Income (loss), per share, basic	\$ 0.0007	\$ (0.020)
<hr/>		
Income (loss) per share, fully diluted	\$ 0.0007	\$ (0.027)
<hr/>		

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

	Mar. 31, 2002 6 months	Mar. 31, 2001 6 months
OPERATING ACTIVITIES:		
Income (loss) for the period	\$ 9,545	\$ (266,129)
Non-cash items:		
Amortization	51,960	57,552
Minority interest	-	22,698
	61,505	(185,879)
(Increase) decrease in:		
Accounts receivable	422	(94,759)
Inventory	2,634	11,475
Prepaid expenses	3,329	2,061
Increase (decrease) in:		
Accounts payable and accruals	(166,517)	122,988
Customer deposits	(24,542)	(16,124)
Income taxes	2,775	(56)
Cash provided by (used in) operations	(120,394)	(160,294)
FINANCING ACTIVITIES:		
New borrowing/assumption of debt	442,586	220,356
Debt reduction	(276,446)	(355,686)
Issuer of share capital	9,000	347,275
Cash provided by financing	175,140	211,945
INVESTING ACTIVITIES:		
Purchase of capital assets	(34,943)	(154,474)
Purchase of long-term investments	-	76,000
Acquisitions	-	(27,889)
Cash used in investing	(34,943)	(106,364)
INCREASE (DECREASE) IN CASH	19,803	(54,713)
EFFECT OF FOREIGN EXCHANGE ADJUSTMENT	1,786	9,564
CASH, beginning of period	303,102	488,389
CASH, end of period	\$ 324,691	\$ 443,240

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 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.

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.
- Hearing Depot 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 March 31, 2002 was 1.5988 and averaged 1.5867 for the period October 1, 2001 to March 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 is amortized using the straight-line basis over 40 years.

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002
(Unaudited – prepared by Management)

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 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 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, 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	Mar. 2002 Net	Sep. 2001 Net
Equipment	\$ 719,464	\$ 400,704	\$ 318,760	\$ 318,797
Automotive equipment	-	-	-	517
Computer equipment	60,700	46,083	14,617	14,162
Leasehold improvements	73,280	28,160	45,120	48,644
	<u>\$ 853,444</u>	<u>\$ 453,316</u>	<u>\$ 378,497</u>	<u>\$ 382,120</u>

NOTE 5. **GOODWILL:**

	Cost	Accumulated Amortization	Mar. 2002 Net	Sep. 2001 Net
Goodwill	\$ 1,045,001	\$ 89,395	\$ 955,506	\$ 968,900

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002
(Unaudited – prepared by Management)

NOTE 6. **LONG-TERM DEBT:**

	Mar. 2002	Sept. 2001
Martin and Elsie Jackson, loan repayable in monthly instalments of \$425 including interest at 10%, secured by personal guarantee of the President, due April 1, 2003.	46,971	47,265
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.	60,491	60,827
611210 BC Ltd., loan, repayable in monthly instalments of \$792 including interest at 10% per annum, unsecured, due November, 2003.	58,085	-
611211 BC Ltd., loan, repayable in monthly instalments of \$445 including interest at 10% per annum, unsecured, due November, 2003.	42,352	-
Hurricane Ventures Ltd., loan, repayable in monthly instalments of \$525 including interest at 10% per annum, unsecured, due August 1, 2003.	49,162	49,833
Pat and Marion Griffin, loan, repayable in monthly instalments of \$790 including interest at 10% per annum, unsecured, due August 1, 2003.	73,624	74,808
Ampton Court Mortgage, loan, repayable in monthly instalments of \$800 including interest at 10% per annum, unsecured, due June 15, 2002.	74,418	-
Non-interest bearing equipment loans from a supplier. The loan require thirteen instalments per annum of \$3,935 and are reduced by the application of purchase discounts.	206,459	247,648

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002
(Unaudited – prepared by Management)

NOTE 6. **LONG-TERM DEBT (continued) :**

	Mar. 2002	Sept. 2001
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.	180,000	-
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 year.	50,000	50,00
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
Convertible debentures, repaid during the period	-	70,000
611210 BC Ltd., loan, repaid during the period	-	3,700
611211 BC Ltd., loan, repaid during the period	-	3,700
611210 BC Ltd., loan, repaid during the period	-	18,407
611210 BC Ltd., loan, repaid during the period	-	17,015
611210 BC Ltd., loan, repaid during the period	-	24,612
611211 BC Ltd., loan, repaid during the period	-	18,407
611211 BC Ltd., loan, repaid during the period	-	24,612
	933,024	766,834
Less current portion	62,474	138,717
	\$ 870,550	\$ 628,117

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

2002	\$ 138,717
2003	168,349
2004	63,486
2005	64,739
2006	46,443

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002
(Unaudited – prepared by Management)

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.

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	\$ Mar 31. 2002	Number of Shares	\$ Sept. 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
	30,000	9,000	967,500	394,025
Balance, end of period	13,329,825	\$ 1,635,840	13,299,825	\$ 1,626,840

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002
(Unaudited – prepared by Management)

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

The Company has the following options outstanding:

	Expiry	Exercise Price	Number
Employee	Mar. 31, 2003	\$ 0.20	290,000
Directors	May 17, 2002	\$ 0.50	200,000
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	50,000
			<u>1,165,000</u>

The Company has the following warrants outstanding:

June 4, 2002	190,000 (1)
November 22, 2002	<u>610,000 (2)</u>
	<u>800,000</u>

1. 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.
2. 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	5,731
	<u>\$ (58)</u>

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002
(Unaudited – prepared by Management)

NOTE 10. **RELATED PARTY TRANSACTIONS:**

During the period the Company paid, under normal terms of trade, \$40,145 (Mar. 31, 2001 \$40,145) in management salaries to a director of the Company and \$41,751 (Mar. 31, 2001 \$40,145) in administrative salaries to a director of the Company.

NOTE 11. **SEGMENTED INFORMATION:**

Operations and identifiable assets by geographic segment are as follows:

	Mar. 2002	Mar. 2001
Revenue:		
Canada	\$ 951,181	\$ 966,457
United States	497,725	432,028
	\$ 1,448,906	\$ 1,398,485
Amortization		
Canada	\$ 6,886	\$ 8,353
United States	6,508	3,157
	\$ 13,394	\$ 11,510
Earnings before income taxes		
Canada	\$ (57,185)	\$ (243,431)
United States	66,730	22,698
	\$ 9,545	\$ (266,129)
Total assets:		
Canada	\$ 1,729,976	\$ 1,872,493
United States	201,048	235,595
	\$ 1,931,024	\$ 2,108,088