

British Columbia

QUARTERLY REPORT

Securities Commission

FORM 51-901F

SCHEDULES B and C

ISSUER DETAILS

| | | | | |
|--|----------------|--------------------------------------|--|------------------------------------|
| NAME OF ISSUER AUDIOTECH HEALTHCARE CORPORATION | | FOR QUARTER ENDED March 31, 2001 | DATE OF REPORT Y M D 0 2 0 5 2 8 | |
| ISSUER ADDRESS 760 – 175 Second Ave. | | | | |
| CITY Kamloops | PROVINCE BC | POSTAL CODE V2C 5W1 | ISSUER FAX NO. (250) 372-3859 | ISSUER PHONE NO. (250) 372-5847 |
| CONTACT PERSON Osvaldo Iadarola | | CONTACT POSITION President | CONTACT PHONE NO. (250) 372-5847 | |
| CONTACT E-MAIL ADDRESS info@audiotech.org | | WEBSITE ADDRESS www.audiotech.org | | |

CERTIFICATE

The three schedules required to complete this Quarterly Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Quarterly Report will be provided to any shareholder who requests it.

| | | |
|--|-------------------------------------|---|
| DIRECTOR'S SIGNATURE "Osvaldo Iadarola" | PRINT FULL NAME Osvaldo Iadarola | DATE SIGNED Y M D 0 2 0 5 2 8 |
| DIRECTOR'S SIGNATURE "Grant Robertson" | PRINT FULL NAME Grant Robertson | DATE SIGNED Y M D 0 2 0 5 2 8 |

| | | | | | | | | |
|----------|---------------|-----------|-------|-----------|----------|---|--------|-----------|
| 05/07/01 | IR D. Andrews | 01-May-02 | 0.30 | 35,000 | (30,000) | | | 5,000 |
| 05/07/01 | IR D. Andrews | 01-May-02 | 0.35 | 35,000 | | | | 35,000 |
| 05/07/01 | IR D. Andrews | 01-May-02 | 0.40 | 35,000 | | | | 35,000 |
| | | | | | | | | |
| | | | Total | 1,222,500 | (30,000) | 0 | 27,500 | 1,165,000 |

SCHEDULE B: SUPPLEMENTARY INFORMATION Continued

4. a) See Note 8 to the Mar 31, 2002 financial statements attached as Schedule A.

b) See Note 8 to the Mar 31, 2002 financial statements attached as Schedule A.

c) See Note 8 to the Mar 31, 2002 financial statements attached as Schedule A

d)

| <u>ESCROW</u> | | Per | Escrow |
|----------------------|---------------------------|-------|----------------|
| DATE | | share | Sep 28/01 |
| 03/31/98 | O. Iadarola - performance | 0.20 | 212,500 |
| 03/31/98 | D. Iadarola - performance | 0.20 | 212,500 |
| | | | <u>425,000</u> |

5. List of directors and officers:
- | | |
|------------------|--------------------------------|
| Osvaldo Iadarola | - President, CEO/Director |
| Daniel Allen | - Vice President, COM/Director |
| Darlene Iadarola | - Corporate Secretary |
| Dr. Gerry Mill | - Director |
| Donald Marriott | - Director |
| Glen Martin | - Director |

AUDIOTECH HEALTHCARE CORPORATION

SCHEDULE C – MANAGEMENT DISCUSSION AND ANALYSIS FOR QUARTER ENDED DECEMBER 31, 2001

Management's discussions and analysis of Audiotech's operating results for the 3 months ended December 31, 2001, should read in conjunction with the company's consolidated financial statements for the period.

Description of Business

Audiotech is one of North America's fastest growing hearing healthcare providers. Since obtaining its public listing in November 1997, Audiotech has expanded its clinic network, and operates and manages a total of fifteen hearing clinics in British Columbia, Alberta, and Idaho.

Results of Operations

Management is pleased to report that the cost cutting measures undertaken during the first quarter of fiscal 2002 have had a considerable positive impact on profitability. The corporation reported record revenues of \$720,229 and a small operating profit for the quarter. Revenues in Canada were \$481,312, up slightly from the \$479,805 reported for the corresponding quarter a year earlier. U.S. revenues reached \$238,917 as compared to \$232,660 in the first quarter of fiscal 2001.

Geographic Breakdown of Revenues in Canadian Dollars (3 Months Ended December 31):

| | 2001 | 2000 |
|--------|------------|------------|
| Canada | \$ 481,312 | \$ 479,805 |
| U.S. | 238,917 | 232,660 |
| Total | 720,229 | 712,465 |

As a result of improved cost efficiencies, cost of sales as a percentage of revenues declined significantly, resulting in an increase in gross margins to 64.3% from only 57.1% during the same quarter last year.

General and administrative expenses declined from \$519,542 in the first quarter of fiscal 2001 to \$459,417 during the first quarter of fiscal 2002. Major cost reductions were achieved in a number of categories including corporate development (includes start-up costs associated with e-commerce operations in fiscal 2001), professional and filing fees, travel, and wages. These cost reductions were accomplished without affecting service levels at our clinics.

As a result of the first quarter revenue growth, improved operating margins, and reduced general and administrative expenses, Audiotech reported a net profit of \$3,933 or \$0.0003 per share for the quarter ended December 31, 2001, compared to a loss of \$125,767 or \$0.010 per share during the first quarter of 2001. Audiotech achieved positive operating cash flow from operations of \$28,399 for the quarter, an improvement of \$111,676 as compared to same period a year earlier.

Management is confident that the impact of further cost reduction initiatives will be realized during the second quarter.

Liquidity and Financial Resources

As at December 31, 2001, Audiotech had a cash balance of \$273,935 with which to pursue acquisitions and to fund further growth initiatives. During the quarter ended December 31, 2001, the corporation raised \$228,373 in new borrowings and repaid a total of \$134,728 in existing debt, resulting in a net increase in debt financing of \$93,645. An

additional \$9,000 was raised through the issuance of common shares upon the exercise of stock options by management and directors. No material capital purchases were made during the quarter.

As a result of the new financing, the company's working capital position at the end of the quarter improved significantly as compared to the end of fiscal 2001 (September 30, 2001). Working capital stood at \$156,688 at December 31, 2001, up from a deficit of \$45,628 only three months earlier.

The corporation anticipates the completion of additional equity or debt financing or refinancing of certain shorter-term debt in fiscal 2002 to further bolster working capital.

Approximately \$250,000 of Audiotech's long-term debt is comprised of interest-free loans from major North American hearing aid suppliers. These loans are reduced over time by the application of the company's bulk purchasing discounts.

Future Outlook

Management is optimistic about the corporation's outlook for growth in fiscal 2002 and beyond. Shifting demographic trends and emerging hearing aid technologies continue to create new opportunities for Audiotech. We are confident that we have positioned the company to take full advantage of these opportunities. The effects of our cost reduction initiatives are already beginning to show positive results with a major turnaround in operating cash flow and the achievement of a small profit for the first quarter of fiscal 2002. We are confident that the cost restructuring carried out in early fiscal 2002 will lead to improved profitability in coming quarters, and that equity markets will soon create an environment more suitable for equity-financed acquisition/consolidation business model like ours.

AUDIOTECH HEALTHCARE CORPORATION

SCHEDULE C –

MANAGEMENT DISCUSSION AND ANALYSIS FOR PERIOD ENDED MARCH 31, 2002

Management's discussions and analysis of Audiotech's operating results for the 6 months ended March 31, 2002, should be read in conjunction with the company's consolidated financial statements for the period.

Description of Business

Audiotech is one of North America's fastest growing hearing healthcare providers. Since obtaining its public listing in November 1997, Audiotech has expanded its clinic network, and operates and manages a total of fifteen hearing clinics in British Columbia, Alberta, and Idaho.

Results of Operations

Management is pleased to report that the cost cutting measures undertaken during late fiscal 2001 and the first quarter of fiscal 2002 have had a considerable positive impact on profitability. The corporation reported revenues of \$1,448,906 and an operating profit for the first 6 months of fiscal 2002. Revenues for the quarter ended March 31, 2002 reached a record \$728,677 as a result of further organic growth at existing clinics particularly at the company's Idaho operations.

Geographic Breakdown of Revenues in Canadian Dollars (6 Months Ended March 31):

| | 2002 | 2001 |
|--------|------------|------------|
| Canada | \$ 951,181 | \$ 966,457 |
| U.S. | 497,725 | 432,028 |
| Total | 1,448,906 | 1,398,485 |

As a result of improved cost efficiencies, cost of sales as a percentage of revenues declined significantly, resulting in a considerable increase in gross margins to 64.6% from only 57.4% during the same period last year. Gross margins were also up slightly from those during the first quarter as a result of further efficiencies.

Management was successful in sustaining the cost reduction program initiated in late fiscal 2001 and the first quarter of fiscal 2002. General and administrative expenses totaled \$927,171 during the first two quarters of fiscal 2002, a decrease of 11.4% from the \$1,046,312 during the same period in fiscal 2001. The reduction equates to an annual savings of approximately \$250,000. Major cost reductions were achieved in a number of categories including corporate development (includes start-up costs associated with e-commerce operations in fiscal 2001), professional and filing fees, travel, and wages. These cost reductions were accomplished without affecting service levels at our clinics.

As a result of the revenue growth to date in fiscal 2002, significantly improved operating margins, and reduced general and administrative expenses, Audiotech reported a net profit of \$9,545 or \$0.001 per share for the 6 months ended March 31, 2002, compared to a loss of \$266,129 or \$0.027 per share during the first half of fiscal 2001, an improvement of \$275,674. Audiotech achieved positive operating cash flow from operations of \$61,505 for the 6 months ended March 31, 2002.

Management is confident that the trend towards increasing profitability will continue.

Liquidity and Financial Resources

As at March 31, 2002, Audiotech had a cash balance of \$324,691 with which to pursue acquisitions and to fund further growth initiatives. During the first half of fiscal 2002, the corporation raised a total of \$442,586 in new borrowings and repaid a total of \$276,446 in existing debt, resulting in a net increase in debt financing of \$166,140. An additional \$9,000 was raised through the issuance of common shares upon the exercise of stock options by management and directors. Capital purchases of clinical equipment totaling \$34,943 were made during the latest quarter.

As a result of the positive operating cash flow to date in fiscal 2002, and new financing obtained since the beginning of the fiscal year, the company's working capital position at the end of the second quarter improved significantly as compared to the end of fiscal 2001 (September 30, 2001). Working capital stood at \$233,201 at the end of the reporting period, a further improvement over the end of the prior quarter, and up from a deficit of \$45,628 only six months earlier. The corporation anticipates the completion of additional equity or debt financing or refinancing of certain shorter-term debt in fiscal 2002 to further bolster working capital in preparation for additional acquisitions.

Approximately \$250,000 of Audiotech's long-term debt is comprised of interest-free loans from major North American hearing aid suppliers. These loans are reduced over time by the application of the company's bulk purchasing discounts.

Future Outlook

Management is optimistic about the corporation's outlook for growth during the remainder of fiscal 2002 and beyond. Shifting demographic trends and emerging hearing aid technologies continue to create new opportunities for Audiotech. We are confident that we have positioned the company to take full advantage of these opportunities. Our cost reduction initiatives have clearly been successful as demonstrated by the major turnaround in the corporation's operating cash flow and the achievement of a profit for the first half of fiscal 2002. As expected, suitable new acquisition opportunities in the healthcare sector are again becoming more plentiful. Audiotech has emerged from the difficult markets of 2000/2001 in a healthy position to move forth with its acquisition / consolidation business strategy. Management looks forward to announcing its progress in this regard as significant milestones are achieved.