

AUDIOTECH HEALTHCARE CORPORATION
SCHEDULE A: CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003

CONSOLIDATED BALANCE SHEET
CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
NOTES TO CONSOLIDATED STATEMENTS

AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
Period Ended March 31, 2003
(Unaudited – prepared by Management)

	Mar. 31 2003 3 months	Mar. 31 2002 3 months	Mar. 31 2003 6 months	Mar. 31 2002 6 months
SALES				
Canada	\$ 393,936	\$ 469,869	816,305	951,181
United States	314,790	258,808	683,368	497,725
	<u>708,726</u>	<u>728,677</u>	<u>1,499,673</u>	<u>1,448,906</u>
COST OF SALES				
Cost of products	<u>307,310</u>	<u>255,311</u>	<u>610,315</u>	<u>512,190</u>
GROSS PROFIT	401,416	473,366	889,358	936,716
EXPENSES				
Advertising and promotion	11,666	7,664	24,475	33,071
Amortization	19,777	27,494	39,401	51,960
Corporate development	7,528	11,000	38,306	23,000
Equipment lease	299	2,083	9,150	5,104
Insurance	6,695	6,161	12,382	10,235
Interest and bank charges	5,451	6,255	12,502	9,610
Interest and long-term debt	22,724	16,172	46,863	32,069
Licences, dues and fees	3,305	3,148	7,214	7,926
Management salaries	20,072	20,072	40,145	40,145
Office and sundry	15,194	18,618	29,595	34,924
Professional filing fees	24,941	32,549	27,079	36,215
Rent and utilities	61,485	56,421	125,468	112,385
Repairs and maintenance	2,902	445	6,619	4,933
Telephone and fax	12,837	16,505	26,351	29,678
Travel	8,942	14,699	17,845	20,838
Wages and benefits	234,497	228,468	503,791	475,078
	<u>458,315</u>	<u>467,754</u>	<u>967,186</u>	<u>927,171</u>
INCOME (LOSS) FOR THE PERIOD	<u>(56,899)</u>	<u>5,612</u>	<u>(77,828)</u>	<u>9,545</u>
DEFICIT, beginning of period	(1,027,277)	(954,987)	(1,006,348)	(958,920)
DEFICIT, end of period	<u><u>\$(1,084,176)</u></u>	<u><u>\$(949,375)</u></u>	<u><u>(1,084,176)</u></u>	<u><u>(949,375)</u></u>
Income (loss) per share, basic	\$(0.0043)	\$0.0004	\$(0.0058)	0.0007
Income (loss) per share, fully diluted	\$(0.0040)	\$0.0004	\$(0.0055)	0.0007

AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Period ended March 31, 2003
(Unaudited – prepared by Management)

	Mar. 31 2003 3 months	Mar. 31 2002 3 months	Mar. 31 2003 6 months	Mar. 31 2002 6 months
OPERATING ACTIVITIES:				
Income (loss) for the period	(56,899)	5,612	(77,828)	9,545
Non-cash items:				
Amortization	19,777	27,494	39,401	51,960
	(37,122)	33,106	(38,427)	61,505
(Increase) decrease in:				
Accounts receivable	199	(4,109)	33,246	422
Inventory	840	(8,403)	5,958	2,634
Prepaid expenses	1,045	1,451	1,747	3,329
Increase (decrease) in:				
Accounts payable and accruals	53,072	(21,030)	60,248	(166,517)
Customer deposits	(6,596)	7,145	(17,756)	(24,542)
Income taxes	-	2,775	(206)	2,775
Cash provided by (used in) operations	11,438	10,935	44,810	(120,394)
FINANCING ACTIVITIES:				
New borrowing/assumption of debt	-	214,213	-	442,586
Debt reduction	(80,553)	(141,718)	(201,632)	(276,446)
Issue of share capital	-	-	-	9,000
Cash proved by financing	(80,553)	72,495	(201,632)	175,140
INVESTING ACTIVITIES:				
Purchase of capital assets	(2,957)	(33,372)	(23,417)	(34,943)
Purchase of long-term investments	-	-	-	-
Cash used in investing	(2,957)	(33,372)	(23,417)	(34,943)
INCREASE (DECREASE) IN CASH	(72,072)	50,058	(180,239)	19,803
EFFECT OF FOREIGN EXCHANGE ADJUSTMENT	(7,624)	1,238	(18,418)	1,786
CASH, beginning of period	494,856	273,395	613,817	303,102
CASH, end of period	415,160	324,691	415,160	324,691

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2003
(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 March 31, 2003 was 1.4678 and averaged 1.5392 for the period October 1, 2002 to March 31, 2003.

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
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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 13,329,825).

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	Mar. 2003 Net	Sep. 2002 Net
Equipment	\$ 764,713	\$ 483,743	\$ 280,970	\$ 292,111
Computer equipment	66,047	50,710	15,337	15,427
Leasehold Improvements	74,567	42,210	32,357	37,110
	<u>\$ 905,327</u>	<u>\$ 576,663</u>	<u>\$ 328,664</u>	<u>\$ 344,648</u>

NOTE 5. GOODWILL:

	Cost	Accumulated Amortization	Mar. 2003 Net	Sep. 2002 Net
Goodwill	<u>\$1,045,001</u>	<u>\$102,226</u>	<u>\$942,775</u>	<u>\$942,775</u>

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NOTE 6. LONG-TERM DEBT:

	Mar. 2003	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, 2004	\$ 46,338	\$ 46,662
Martin and Elsie Jackson, loan repaid during the year	-	60,138
611210 BC Ltd., loan repayable in monthly instalments of \$792 including interest at 10% per annum, unsecured, due November 2003.	53,965	56,074
611211 BC Ltd., loan repayable in monthly instalments of \$445 including interest at 10% per annum, unsecured, due November 2003.	41,004	41,694
Hurricane Ventures Ltd., loan repayable in monthly instalments of \$525 including interest at 10% per annum, unsecured, due August 1, 2003.	47,611	48,406
Pat and Marion Griffin, loan repayable in monthly instalments of \$790 including interest at 10% per annum, unsecured, due August 1, 2003.	71,079	72,382
Non-interest bearing equipment loans from a supplier. The loans require thirteen instalments per annum of \$3,935.	168,199	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.	176,806	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
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.	409,797	413,336

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NOTE 6. LONG-TERM DEBT (continued):

	Mar. 2003	Sep. 2002
Ampton Court Mortgage, loan repaid during the year.	-	49,895
Convertible debentures, repaid during the period	-	50,000
	1,070,799	1,272,431
Less current portion	543,960	450,981
	\$ 526,839	\$ 821,450

Principal repayments due in the ensuing 5 years as follows:

1 st year	\$543,960
2 nd year	460,954
3 rd year	51,156
4 th year	14,081
5 th year	648

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	\$ Mar. 31. 2003	Number of Shares	\$ Sep. 2002
Balance, beginning of period	13,329,825	\$ 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
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>755,000</u>

The Company has no warrants outstanding:

NOTE 9. INCOME TAXES

The Provision for income taxes is comprised as follows:

	Sep. 2002
Loss before income taxes	<u>\$ (47,222)</u>
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
	<u>\$ 9,978</u>

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NOTE 10. RELATED PARTY TRANSACTIONS:

During the period the Company paid, under normal terms of trade, \$40,145 (March 31, 2002 \$40,145) in management salaries to a director of the Company and \$43,100 (March 31, 2002 \$41,751) in administrative salaries to a director of the Company.

NOTE 11. SEGMENTED INFORMATION:

Operations and identifiable assets by geographic segment are as follows:

	Mar. 31 2003	Mar.31 2002
Revenue:		
Canada	\$ 816,305	\$ 951,181
United States	683,368	497,725
	<u>\$ 1,499,673</u>	<u>\$ 1,448,906</u>
Amortization		
Canada	\$ 35,245	\$ 6,886
United States	4,156	6,508
	<u>\$ 39,401</u>	<u>\$ 13,394</u>
Earnings before income taxes		
Canada	\$ (122,046)	\$ (57,185)
United States	44,218	66,730
	<u>\$ (77,828)</u>	<u>\$ 9,545</u>
Total assets:		
Canada	\$ 1,721,994	\$ 1,729,976
United States	221,513	201,048
	<u>\$ 1,943,507</u>	<u>\$ 1,931,024</u>