

AUDIOTECH HEALTHCARE CORPORATION

SCHEDULE A: CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2004

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, 2004
(Unaudited – prepared by Management)

	Mar. 31 2004	Sep. 30 2003
ASSETS		
CURRENT ASSETS:		
Cash	\$ 325,071	\$ 329,875
Term deposit	15,673	25,673
Accounts receivable	263,737	266,521
Inventory	42,597	64,002
Prepaid expenses	5,402	27,050
	652,480	713,121
CAPITAL ASSETS	303,286	310,196
GOODWILL	942,775	942,775
	\$1,898,541	\$1,966,092
<hr style="border-top: 3px double #000;"/>		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and accruals	\$ 388,766	\$ 425,802
Customer deposits	17,179	26,515
Current portion of long-term debt	210,527	643,944
	616,472	1,096,261
LONG-TERM DEBT	734,122	361,722
SHAREHOLDERS EQUITY		
SHARE CAPITAL	1,635,840	1,635,840
DEFICIT	(1,065,644)	(1,111,714)
FOREIGN EXCHANGE ADJUSTMENT	(22,249)	(16,017)
	547,947	508,109
	\$1,898,541	\$1,966,092
<hr style="border-top: 3px double #000;"/>		

APPROVED BY THE DIRECTORS:

"Osvaldo (Ozzie) Iadarola" Director

"Grant Robertson" Director "

AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
Period Ended March 31, 2004
(Unaudited – prepared by Management)

	Mar. 31 2004 3 months	Mar. 31 2003 3 months	Mar. 31 2004 6 months	Mar. 31 2003 6 months
SALES	\$ 793,892	\$ 708,726	1,570,961	1,499,673
COST OF SALES				
Materials and freight	270,198	307,310	621,415	610,315
GROSS PROFIT	523,694	401,416	949,546	889,358
EXPENSES				
Advertising and promotion	15,835	11,666	17,383	24,475
Amortization	19,863	19,777	37,700	39,401
Corporate development	0	7,528	0	38,306
Equipment lease	90	299	187	9,150
Insurance	6,494	6,695	13,432	12,382
Interest and bank charges	5,524	5,451	11,552	12,502
Interest and long-term debt	20,636	22,724	41,494	46,863
Licences, dues and fees	7,240	3,305	9,078	7,214
Office and sundry	17,717	15,194	27,208	29,595
Professional filing fees	20,797	24,941	27,973	27,079
Rent and utilities	63,888	61,485	119,554	125,468
Repairs and maintenance	2,678	2,902	5,331	6,619
Telephone and fax	13,205	12,837	25,596	26,351
Travel and automotive	12,246	8,942	24,056	17,845
Wages and benefits	280,084	254,569	542,932	543,936
	486,297	458,315	903,476	967,186
INCOME (LOSS) FOR THE PERIOD	37,397	(56,899)	46,070	(77,828)
DEFICIT, beginning of period	(1,103,041)	(1,027,277)	(1,111,714)	(1,006,348)
DEFICIT, end of period	\$(1,065,644)	\$(1,084,176)	(1,065,644)	(1,084,176)
Income (loss) per share, basic	\$0.0028	\$(0.0043)	\$0.0035	\$(0.0058)
Income (loss) per share, fully diluted	\$0.0027	\$(0.0040)	\$0.0033	\$(0.0055)

AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Period ended March 31, 2004
(Unaudited – prepared by Management)

	Mar. 31 2004 3 months	Mar. 31 2003 3 months	Mar. 31 2004 6 months	Mar. 31 2003 6 months
OPERATING ACTIVITIES:				
Income (loss) for the period	37,397	(56,899)	46,070	(77,828)
Non-cash items:				
Amortization	19,863	19,777	37,700	39,401
	<u>57,260</u>	<u>33,106</u>	<u>83,770</u>	<u>(38,427)</u>
(Increase) decrease in:				
Accounts receivable	(9,568)	199	2,784	33,246
Inventory	(7,736)	840	21,405	5,958
Prepaid expenses	878	1,045	21,648	1,747
Increase (decrease) in:				
Accounts payable and accruals	1,895	53,072	(37,036)	60,248
Customer deposits	(1,963)	(6,596)	(9,336)	(17,756)
Income taxes	-	-	-	(206)
Cash provided by (used in) operations	<u>40,766</u>	<u>11,438</u>	<u>83,235</u>	<u>44,810</u>
FINANCING ACTIVITIES:				
New borrowing/assumption of debt	-	-	-	-
Debt reduction	(36,816)	(80,443)	(61,017)	(201,632)
Issue of share capital	-	-	-	-
Cash proved by financing	<u>(36,816)</u>	<u>(80,553)</u>	<u>(61,017)</u>	<u>175,140</u>
INVESTING ACTIVITIES:				
Purchase of capital assets	(23,974)	(2,957)	(30,790)	(23,417)
Purchase of long-term investments	-	-	-	-
Cash used in investing	<u>(23,974)</u>	<u>(2,957)</u>	<u>(30,790)</u>	<u>(23,417)</u>
INCREASE (DECREASE) IN CASH	(20,024)	(72,072)	(8,572)	(180,239)
EFFECT OF FOREIGN EXCHANGE ADJUSTMENT	2,496	(7,624)	(6,232)	(18,418)
CASH, beginning of period	<u>358,272</u>	<u>494,856</u>	<u>355,548</u>	<u>613,817</u>
CASH, end of period	<u>340,744</u>	<u>415,160</u>	<u>340,744</u>	<u>415,160</u>

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004
(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:

Basis of presentation:

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries Canadian Hearing Care (BC) Inc., Canadian Hearing Care (Alberta) Inc., HearingDepot Inc., Canadian Hearing Network Canada Inc., American Hearing Care Corporation and Audiology and Hearing Aid Services, Inc.

All significant inter company balances and transactions have been eliminated on consolidation.

Inventory:

Inventory is recorded at the lower of cost as determined on a first-in first out basis, and net realizable value.

Foreign Currency:

The Company's investment in its foreign operations are of a self-sustaining nature. 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 period. Related foreign currency translation adjustments are recorded as a separate component of shareholder's equity and included in the cumulative translation account. The exchange rate between the Canadian dollar and the US dollar at March 31, 2004 was 1.3113 and averaged 1.3192 for the period October 1, 2003 to March 31, 2004.

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
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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004
(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 are 13,329,825 (2002 13,329,825).

Use of Estimates:

The presentation of financial statements in conformity with 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. 2004 Net	Sep. 2003 Net
Equipment	\$ 923,348	\$ 662,007	\$ 261,341	\$ 263,294
Computer equipment	43,225	27,168	16,057	16,685
Leasehold Improvements	79,831	53,943	25,888	30,217
	<u>\$1,046,404</u>	<u>\$743,118</u>	<u>\$303,286</u>	<u>\$310,196</u>

NOTE 5. GOODWILL:

	Cost	Accumulated Amortization	Mar. 2004 Net	Sep. 2003 Net
Goodwill	\$1,045,001	\$102,226	\$942,775	\$942,775

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004
(Unaudited – prepared by Management)

NOTE 6. LONG-TERM DEBT:

	Mar. 2004	Sep. 2003
Promissory notes repayable in monthly instalments of \$3,190 including interest at 10% per annum. Secured by certain personal guarantees of the President. Due April, June and August 2005.	\$ 274,246	\$ 279,919
Equipment loans repayable based on thirteen instalments per annum of \$3,935, non-interest bearing. Unsecured. Due 2006	114,206	144,587
Convertible debentures, repayable in monthly instalments of \$5,643 including interest at 10% per annum, maturing March and May 2004. Debentures are convertible at the holder's option into common shares at prices of \$0.25 and \$0.30 per common share.	556,197	581,160
	944,649	1,005,666
Current portion of long-term debt	210,527	643,944
	\$ 734,122	\$ 361,722

The convertible debentures were issued in March and June 2002, at which time the fair value of the Company's obligation to make future payments of principal and interest was equal to the stated value as a market rate of interest was attach to the repayment of the convertible debentures.

Subsequent to the balance sheet date, \$409,029 of the convertible debentures outstanding as at March 31, 2004, was re-financed with the same debenture holders under identical terms. The re-financed debentures mature on April 8, 2007. Since the maturity of the re-financed debentures extends beyond 12 months, \$409,029 of the convertible debenture obligations as at March 31, 2004, have been classified as long-term debt. The remaining portion of the convertible debentures were repaid in their entirety subsequent to the balance sheet date and accordingly have been included in the current portion of long-term debt. See Subsequent Note 12.

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

2004	\$210,527
2005	64,601
2006	435,734
2007	16,319
2008	17,923
Thereafter	199,545

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004
(Unaudited – prepared by Management)

NOTE 7. 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. 2004	Number of Shares	\$ Sep. 2003
Balance, beginning of period	13,329,825	\$ 1,635,840	13,329,825	\$ 1,635,840
Issued during the year:				
Issued on Private Placement for cash	-	-	-	-
Issued on options	-	-	-	-
Balance, end of period	13,329,825	\$ 1,635,840	13,329,825	\$ 1,635,840

Details of the Company's outstanding options as follows:

	Expiry	Exercise Price	Number
Employee	10 Sep. 2004	\$ 0.45	20,000
Employee	10 Sep. 2004	\$ 0.45	50,000
Employee	24 Feb. 2005	\$ 0.22	225,000
Employee	02 Feb. 2006	\$ 0.35	50,000
Employee	09 Jun. 2007	\$ 0.28	200,000
			<u>545,000</u>

The Company has no warrants outstanding:

NOTE 8. 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:

	<u>Sep. 30, 2003</u>
2004	\$ 151,310
2005	66,663
2006	54,742
2007	39,762
2008	27,538
	<u>\$ 340,015</u>

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31 2004
(Unaudited – prepared by Management)

NOTE 9. INCOME TAXES

For the six-month period ended March 31, 2004, income taxes were offset by loss carry forwards from prior years. Accordingly, no provision for income taxes was recorded during the period. Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 37.60% (2002 – 40.88%) to earnings before income taxes.

NOTE 10. RELATED PARTY TRANSACTIONS:

During the period the Company paid, under normal terms of trade, \$46,321 (March 31, 2003 \$40,145) in management salaries to a director of the Company and \$47,299 (March 31, 2003 \$43,100) in administrative salaries to a director of the Company, \$810 (March 31, 2003 \$1,695) in commissions to MediaWave Communications Corp., a company controlled by a Director of the Company.

NOTE 11. SEGMENTED INFORMATION:

Operations and identifiable assets by geographic segment are as follows:

	Mar. 2004	Mar. 2003
Revenue:		
Canada	\$ 949,573	\$ 816,305
United States	621,388	683,368
	\$1,570,961	\$1,499,673
Amortization		
Canada	\$ 30,682	\$ 35,245
United States	7,018	4,156
	\$37,700	\$39,401
Earnings before income taxes		
Canada	\$ 10,365	\$ (122,046)
United States	35,705	44,218
	\$46,070	\$ (77,828)
Total assets:		
Canada	\$ 1,671,932	\$ 1,721,994
United States	226,609	221,513
	\$1,898,541	\$1,943,507

NOTE 12. SUBSEQUENT EVENT:

On April 8, 2004, Audiotech completed a convertible debenture financing in the amount of \$659,000. The convertible debentures bear interest at a rate of 10 per cent per annum and mature three years from the date of issue. Of the proceeds derived from the financing, \$409,029 represented the renewal of expired or expiring debentures. The remaining \$249,971 was received from existing debenture holders who increased their investment, or from new investors. The debentures are convertible, at the option of the debenture holder, at any time before the maturity date at a conversion price of 20 cents of debt per share during the initial year, 22 cents of debt per share during the second year, and 25 cents of debt per share during the third and final year of the debenture term.