

Consolidated Financial Statements of

**AUDIOTECH HEALTHCARE
CORPORATION**

Period ended March 31, 2005

(Unaudited – prepared by Management)

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Balance Sheets

March 31, 2005, with comparative figures for September 30, 2004

	Mar 31 2005	Sep 30 2004
Assets		
Current assets:		
Cash	\$ 427,653	\$608,295
Term deposit	15,962	15,962
Accounts receivable	427,862	361,187
Inventory	56,545	73,343
Prepaid expenses	4,432	5,916
	<u>932,454</u>	<u>1,064,703</u>
Property, plant and equipment (note 2)	876,796	519,455
Goodwill	942,775	942,775
	<u>\$ 2,752,025</u>	<u>\$2,526,933</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 395,906	\$ 512,313
Unearned revenue	24,379	36,427
Current portion of long-term debt	38,267	151,170
Current portion of obligation under capital lease	22,688	13,630
	<u>481,240</u>	<u>713,540</u>
Long-term debt (note 3)	1,279,046	959,812
Obligation under capital lease (note 4)	45,479	24,337
Shareholders' equity:		
Share capital (note 5)	1,705,340	1,635,840
Other paid in capital (note 3)	196,787	176,000
Cumulative translation account	(27,329)	(24,529)
Deficit	(928,538)	(958,067)
	<u>946,260</u>	<u>829,244</u>
Commitments (note 10)		
	<u>\$ 2,752,025</u>	<u>\$ 2,526,933</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Oswaldo (Ozzie) Iadarola"

Director

"Grant Robertson"

Director

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Operations and Deficit

Period ended March 31, 2005, with comparative figures for March 31, 2004

	Mar 31	Mar 31	Mar 31	Mar 31
	2005	2004	2005	2004
	3 months	3 months	6 months	6 months
Sales	\$956,072	793,892	\$1,969,789	1,570,961
Direct clinic costs:				
Materials and freight	318,918	270,198	727,433	621,415
Selling expenses	62,775	29,944	127,205	47,278
Rent, utilities and clinic overheads	101,982	100,243	199,507	179,197
Amortization	14,140	19,459	33,403	36,891
Salaries and benefits	274,777	241,281	569,364	452,923
	772,592	661,125	1,656,912	1,338,239
	183,480	132,767	312,877	232,722
Expenses:				
General and administrative	24,383	15,113	46,706	27,629
Amortization	744	404	1,488	809
Professional fees	8,780	20,414	14,990	26,711
Foreign exchange	(775)	(69)	2,857	-
Interest on long-term debt	24,831	20,636	50,467	41,494
Salaries and benefits	50,979	38,803	104,035	90,009
	108,942	95,301	220,543	186,652
Income (loss) before other expenses	74,538	37,466	92,334	46,070
Other expenses:				
Loss on disposal of equipment	-	-	-	-
Amortization of debenture discount	14,721	-	28,805	-
	14,721	-	28,805	-
Net earnings (loss) for the period	59,817	37,397	63,529	46,070
Deficit, beginning of period	(988,355)	(1,103,041)	(958,067)	(1,111,714)
Prior period adjustment – stock options	-	-	(34,000)	-
Deficit, end of period	\$(928,538)	\$(1,065,644)	\$(928,538)	\$(1,065,644)
Weighted average number of shares outstanding	13,444,269	13,329,825	13,386,418	13,329,825
Earnings (loss) per share (basic)	\$ 0.0044	\$ 0.0028	\$ 0.0047	\$ 0.0035
Earnings (loss) per share (diluted)	\$ 0.0042	\$ 0.0027	\$ 0.0045	\$ 0.0033

See accompanying notes to consolidated financial statements.

Audiotech Healthcare Corporation (the "Company") is incorporated under the laws of the Province of Alberta. Its 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 (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 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
Audiology equipment	Declining balance	20%
Computer equipment	Declining balance	30% and 45%
Leasehold improvements	Straight-line	20%

(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 March 31, 2005

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 and deficit.

(e) Revenue recognition:

Revenue from sales of product is recognized when title passes to the customer, net of an estimated allowance for sales returns. Service revenue is recognized at the time service is provided. Amounts received in advance for products which have not yet transferred title are recorded as unearned revenue.

(f) Foreign currency:

The Company's investment in its foreign operations is 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 shareholders' equity and included in the cumulative translation account.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2005

1. Significant accounting policies (continued):

(g) Stock-based compensation:

Effective October 1, 2004, the Company retroactively adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook Amended Section 3870, Stock Based Compensation and Other Stock-based Payments, ("Amended Section 3870"). Amended Section 3870 requires the Company to account for stock-based compensation awards granted to employees, officers, and directors, on or after January 1, 2002, using the fair value based method.

The Company has a stock-based compensation plan as described in note 5(b). No compensation cost is recorded for all other stock based employee compensation awards. Consideration paid by employees on the exercise of stock options is recorded as share capital and contributed surplus.

Under the fair value based method, stock based payments to non employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued or liabilities incurred whichever is more reliably measurable. The fair value of stock based payments to non employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock based payments to non-employees that are fully vested and non forfeitable at the grant date is measured and recognized at that date.

Under the fair value based method, compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at the intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. In accordance with the Amended Section 3870, the Company has estimated the fair value of stock options granted to employees and directors on or after January 1, 2002 using the Black-Scholes Options Pricing Model, and recorded an adjustment to opening retained earnings and share capital in the amount of \$34,000, representing the expense for the period from January 1, 2002 to September 30, 2004.

Under the fair value based method, compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at the intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. For awards that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis; for awards that vest on a graded basis, compensation cost is recognized on a pro-rata basis over the vesting period.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2005

1. Significant accounting policies (continued):

(h) 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. 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.

(i) Earnings per share:

Basic earnings per share are 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.

(j) Use of estimates:

The preparation of financial statements in conformity with 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. Actual results could differ from those estimates.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2005

2. Property, plant and equipment:

	Cost	Accumulated amortization	Mar 31 2005 Net book value	Sep 30 2004 Net book value
Land -----	105,070	-	105,070	109,587
Building -----	388,065	-	388,065	67,295
Audiology equipment -----	950,420	687,559	262,861	268,360
Computer equipment -----	76,793	37,574	39,219	23,585
Leasehold improvements -----	55,856	44,291	11,565	14,045
-----	1,576,204	769,424	806,780	482,872
Audiology equipment under capital lease-----	82,009	11,993	70,016	36,583
-----	1,658,213	781,417	876,796	519,455

Amortization expense of \$14,884 (2004 - \$19,863) has been charged to earnings in the current period.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2005

3. Long-term debt:

	Mar 31 2005	Sep 30 2004
Convertible debentures, bearing interest at 10% per annum, maturing April 2007. Debentures are convertible at the holder's option into common shares at prices of \$0.20 per common share in year 1, \$0.22 per common share in year 2 and \$0.25 per common share in year 3. Face value of debentures is \$561,000 and is recorded net of unamortized debenture discount of \$117,332.	456,352	482,334
Equipment loans repayable based on thirteen instalments per annum of \$3,935 each including interest at 5%. Unsecured. Due 2006.	63,050	90,595
Term loan, repayable in monthly instalments of \$4,167, plus an annual payment of interest at a rate of 5.5% per annum. Secured by all assets of the Company. Due 2009.	208,333	233,333
Term loan, repayable in quarterly instalments of \$6,308 plus interest at prime plus 2%. Secured by promissory note of the Company subordinated to the security agreement on the previous term line noted above, and a continuing guarantee. Due 2009.	108,685	126,160
Building loan, bearing interest at 8.5% per annum, repayable in monthly instalments of \$3,834 including interest. Secured by a first position Deed of Trust on real property and guarantees of the Company. Due April, 2010.	372,945	67,295
Promissory notes repayable in monthly instalments of \$1,450 including interest at 10% per annum. Due June, 2005.	107,948	111,265
	1,317,313,	1,110,982
Current portion of long-term debt	38,267	151,170
	\$ 1,279,046	\$959,812

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2005

3. Long-term debt (continued):

During the year ended September 30, 2004, the Company issued new convertible debentures in the amount of \$629,000 and has allocated proceeds between the fair value of the equity and liability components as required for compound financial instruments. The fair value of the equity component was determined using the Black-Scholes option pricing model with residual proceeds assigned to the liability component. As a result, \$176,000 was recorded as other paid in capital and \$453,000 as long-term debt. During the period \$48,000 of the debenture was repaid and \$20,000 was converted into shares. The Other Paid in Capital was reduced by \$13,213. The discount to face value of the long-term debt is being amortized over the life of the debentures.

The estimated principal repayments required in the next five years are as follows:

2005	\$ 150,952
2006	140,347
2007	749,936
2008	123,774
2009	94,567
Thereafter	67,299
	\$ 1,317,313

4. Obligation under capital lease:

The Company has financed certain equipment purchases by entering into a capital leases. Capital lease repayments are due as follows:

	Mar 31 2005	Sep 30 2004
2005	\$ 26,805	\$ 15,216
2006	26,805	15,216
2007	14,646	10,143
2008	8,143	-
	76,399	40,575
Less: amount representing interest	8,232	2,608
	68,167	37,967
Less: current portion	22,688	13,630
	\$ 45,479	\$ 24,337

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2005

5. Share capital:

(a) Authorized and issued share capital:

	Mar 31 2005	Sep 30 2004
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 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:		
13,654,825 common shares (September 30, 2004 - 13,329,825 common shares)	\$ 1,705,340	\$ 1,635,840

(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 can not be less than the Discounted Market Price provided the option price is 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; and 15% for share prices above \$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.

During the year ended September 30, 2004, the Company granted 450,000 options to employees and directors of the Company under the terms of its stock option plan. As at March 31, 2005 the Company has 700,000 options outstanding with authority to issue a further 665,483 options based on the presently issued and outstanding share capital.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
 Period ended March 31, 2005

5. Share capital (continued):

	Mar 31 2005 Number of options	Weighted average exercise price	Sep 30 2004 Number of options	Weighted average exercise price
Balance, beginning of year	925,000	\$ 0.21	545,000	\$ 0.28
Granted during the period	-		450,000	0.16
Expired during the period	-		(70,000)	(0.45)
Exercised during the period	(225,000)	0.22	-	-
Balance, end of period	700,000	\$ 0.21	925,000	\$ 0.21

Details of the Company's outstanding options at March 31, 2005 are as follows:

Exercise	Expiry	Price	Number
Employee	February 2, 2006	0.35	50,000
Employee	June 9, 2007	0.28	200,000
Employee	May 18, 2009	0.16	450,000
Balance, end of period			700,000

No compensation costs were recorded in the consolidated statement of earnings for the period for options granted to employees (2004 – nil), as no options were issued during the period.

6. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 35.60% (2003 - 37.60%) to earnings before income taxes, due to use of tax loss carryforwards not previously recognized, and the difference in effective tax rates for the company's self-sustaining U.S. operations. During the 3 months ended December 31, 2004, and the comparative period in fiscal 2004, all income taxed that would have been otherwise payable have been offset by the use of tax loss carryforwards not previously recognized.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2005

7. 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:

	Mar 31 2005	Mar 31 2004
Revenue:		
Canada	\$ 1,302,702	\$ 949,573
United States	667,087	621,388
	<u>\$ 1,969,789</u>	<u>\$ 1,570,961</u>
Interest on long-term debt:		
Canada	\$ 43,194	\$ 41,494
United States	7,273	-
	<u>\$ 50,467</u>	<u>\$ 41,494</u>
Amortization expense:		
Canada	\$ 49,980	\$ 30,682
United States	13,716	7,018
	<u>\$ 63,696</u>	<u>\$ 37,700</u>
Earnings (loss) before income taxes:		
Canada	\$ 26,455	\$ 10,365
United States	37,074	35,705
	<u>\$ 63,529</u>	<u>\$ 46,070</u>
Equipment and leasehold improvements:		
Canada	\$ 241,150	\$ 240,128
United States	635,646	63,157
	<u>\$ 876,796</u>	<u>\$ 303,285</u>
Goodwill:		
Canada	\$ 448,661	\$ 448,661
United States	494,114	494,114
	<u>\$ 942,775</u>	<u>\$ 942,775</u>
Total assets:		
Canada	\$ 1,052,883	\$ 1,671,932
United States	699,142	226,609
	<u>\$ 2,752,025</u>	<u>\$ 1,898,541</u>

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2005

8. Related party transactions:

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

	Mar 31 2005	Mar 31 2004
MediaWave Communications Corp., a company controlled by a Director of the Company		
Commissions paid	\$ 529	\$ 810
Internet services	1,213	866
Sherwood Real Estate Corp., a company controlled by a Director of the Company		
Rent paid	\$ 16,504	\$ -

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.

9. Financial instruments:

The carrying values of cash, term deposit, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these items.

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

Approximately 74% of the Company's accounts receivable are due from customers in Canada with the remainder due from customers in the United States. The maximum credit risk associated with the Company's financial assets is the carrying value of those assets. The Company's exposure to foreign exchange risk associated with self-sustaining foreign operations is limited to its net investment in those operations.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2005

10. 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:

2005	\$ 164,698
2006	139,965
2007	100,704
2008	81,495
2009	43,048
	<hr/>
	\$ 529,910
