

Consolidated Financial Statements of

AUDIOTECH HEALTHCARE CORPORATION

Period ended March 31, 2007

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Balance Sheets

March 31, 2007, with comparative figures for September 30, 2006

	Mar 31 2007	Sep 30 2006
Assets		
Current assets:		
Cash	\$ 478,110	\$ 393,756
Accounts receivable	470,906	369,062
Inventory	130,679	88,172
Prepaid expenses	4,049	11,844
	1,083,744	862,834
Property, plant and equipment (note 2)	926,797	827,294
Goodwill	942,775	942,775
Future income taxes (note 6)	50,172	50,172
	\$ 3,003,488	\$ 2,683,075

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 566,422	\$ 367,437
Unearned revenue	49,570	14,852
Income taxes payable	79,634	79,488
Current portion of capital lease (note 4)	12,803	18,555
Current portion of long-term debt (note 3)	398,487	467,033
	1,106,916	947,365
Long-term debt (note 3)	807,549	729,768
Obligation under capital lease (note 4)	7,523	12,474
	1,921,988	1,689,607
Shareholders' equity:		
Share capital (note 5)	1,750,340	1,750,340
Other paid in capital (note 5)	193,489	193,489
Cumulative translation account	(38,674)	(45,657)
Deficit	(823,655)	(904,704)
	1,081,500	993,468
Commitments (note 10)		
	\$ 3,003,488	\$ 2,683,075

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Oswaldo Jadarola Director Grant Robertson Director

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Operations and Deficit

Period ended March 31, 2007, with comparative figures for March 31, 2006

	Mar 31	Mar 31	Mar 31	Mar 31
	2007	2006	2007	2006
	3 months	3 months	6 months	6 months
Sales	\$1,068,946	\$972,977	\$2,006,861	\$1,774,007
Cost of goods sold (materials and freight)	328,021	305,778	607,344	559,900
Gross Margin	740,925	667,199	1,399,517	1,214,107
Direct clinic costs:				
Selling expenses	96,335	63,127	189,913	121,143
Rent, utilities and clinic overheads	91,744	83,234	194,838	171,093
Amortization	30,128	26,000	55,524	48,936
Salaries and benefits	316,555	270,729	602,580	527,253
	534,762	443,090	1,042,855	868,425
	206,163	224,109	356,662	345,682
Expenses:				
General and administrative	26,022	22,953	55,250	46,704
Amortization	547	978	1,094	1,956
Professional fees	16,278	13,272	24,003	19,153
Foreign exchange	138	(230)	(842)	(247)
Interest on long-term debt	29,263	26,112	53,072	51,653
Salaries and benefits	64,683	52,680	130,891	107,597
	136,931	115,765	263,468	226,816
Income before other expenses	69,232	108,344	93,194	118,866
Other expenses:				
Loss on disposal of equipment	928	-	1,515	-
Amortization of debenture discount	4,255	6,375	10,630	12,750
	5,183	6,375	12,145	12,750
Net earnings for the period	64,049	101,969	81,049	106,116
Deficit, beginning of period	(887,704)	(1,002,361)	(904,704)	(1,006,508)
Deficit, end of period	\$(823,655)	\$(900,392)	\$(823,655)	\$(900,392)
Weighted average number of shares outstanding	13,229,825	13,229,825	13,229,825	13,472,017
Earnings (loss) per share (basic)	\$ 0.0048	\$ 0.0077	\$ 0.0061	\$ 0.0079
Earnings (loss) per share (diluted)	\$ 0.0046	\$ 0.0074	\$ 0.0058	\$ 0.0075

See accompanying notes to consolidated financial statements.

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Cash Flows

Period ended March 31, 2007, with comparative figures for March 31, 2006

	Mar 31 2007 3 months	Mar 31 2006 3 months	Mar 31 2007 6 months	Mar 31 2006 6 months
Cash flows from operating activities:				
Net earnings	\$ 64,049	\$ 101,969	\$ 81,049	\$ 106,116
Items not involving cash:				
Amortization of plant and equipment	30,675	26,978	56,618	50,892
Amortization of debenture discount	4,255	6,375	10,630	12,750
Loss on disposal capital assets	928	-	1,515	12,750
	99,907	135,322	149,812	169,758
Change in non-cash operating working capital:				
Accounts receivable	(88,412)	(58,901)	(98,370)	(10,787)
Inventory	(15,545)	(12,295)	(41,541)	(12,280)
Prepaid expenses	2,117	8,563	7,795	1,701
Accounts payable	181,194	89,580	195,228	50,518
Unearned revenue	18,589	13,859	34,718	18,847
	197,850	176,128	247,642	217,757
Financing:				
Proceeds from long-term debt	261,000	-	311,000	-
Principal payments on long-term debt	(293,368)	(43,940)	(325,347)	(91,071)
Proceeds from capital lease	-	-	-	-
Repayment of obligation under capital lease	(5,996)	(5,545)	(11,735)	(11,090)
Issue of Share Capital	-	-	-	-
Reduction of Paid in Capital	-	-	-	-
	(38,364)	(49,485)	(26,082)	(102,161)
Investing:				
Purchases of property, plant and equipment	(72,714)	(15,763)	(139,020)	(44,947)
Reduction of term deposit	-	-	-	16,169
	(72,714)	(15,763)	(139,020)	(28,778)
Effect of changes in exchange rates on foreign denominated cash	(499)	283	1,814	274
Increase (decrease) in cash	86,273	111,163	84,354	87,092
Cash, beginning of period	391,837	378,680	393,756	402,751
Cash, end of period	\$ 478,110	\$ 489,843	\$ 478,110	\$ 489,843

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements
Period ended March 31, 2007

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 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
Building	Declining balance	2%
Audiology equipment	Declining balance	20%
Computer equipment	Declining balance	30% & 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, 2007

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.

(g) Stock based compensation:

The Company has a stock-based compensation plan as described in note 5(b). Effective October 1, 2004, the Company adopted, on a retroactive basis as a current year charge to retained earnings, the recommendations of the CICA with respect to the recognition, measurement, and disclosure of stock-based compensation and other stock based payments. Under this policy the Company is required to value all stock-based compensation granted using the fair value method, as determined using the Black-Scholes option valuation model. The effect of adopting the fair value based method of accounting for stock-based compensation is to increase deficit and contributed surplus by \$127,000.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2007

1. Significant accounting policies (continued):

(g) Stock based compensation (continued):

Prior to October 1, 2004, the Company accounted for all stock-based payments to non-employees, and employee awards that are direct awards of stock, or call for settlement in cash or other assets, granted on or after January 1, 2002, using the fair value based method. No compensation cost is recorded for all other stock-based employee compensation awards. Consideration paid by employees on the exercise of stock options was 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. 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.

(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.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2007

1. Significant accounting policies (continued):

(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.

2. Property, plant and equipment:

	Mar 2007		
	Cost	Accumulated amortization	Net book value
Land	\$ 100,292	\$ -	\$ 100,292
Building	372,674	14,722	357,952
Audiology equipment	1,023,463	719,068	304,395
Computer equipment	91,576	53,760	37,816
Computer software	24,747	10,681	14,066
Leasehold improvements	133,395	61,897	71,498
	1,746,147	860,128	886,019
Audiology equipment under capital lease	78,280	37,502	40,778
	\$ 1,824,427	\$ 897,630	\$ 926,797

	Sep 2006		
	Cost	Accumulated amortization	Net book value
Land	\$ 97,087	\$ -	\$ 97,087
Building	360,764	10,751	350,013
Audiology equipment	928,465	687,381	241,084
Computer equipment	83,987	53,425	30,562
Computer software	19,867	4,494	15,373
Leasehold improvements	105,556	56,243	49,313
	1,595,726	812,294	783,432
Audiology equipment under capital lease	75,779	31,917	43,862
	\$ 1,671,505	\$ 844,211	\$ 827,294

Amortization expense of \$56,618 (2006- \$50,892) has been charged to earnings in the current year.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2007

3. Long-term debt:

	Mar 31 2007	Sep 30 2006
Convertible debenture, repaid during period.	\$ -	\$ 250,370
Term loan, repayable in monthly installments of \$6,887, plus an annual payment of interest at a rate of 5.5% per annum. Secured by all assets of the Company. Due June 2011.	351,215	392,535
Term loan (US\$49,852), repayable in quarterly installments of US\$5,000 plus interest at prime plus 2%. Secured by promissory note of the Company subordinated to the security agreement on the previous term loan noted above, and a continuing guarantee. Due 2009.	57,560	66,897
Building Loan (US\$284,359), bearing interest at 8.5% per annum, repayable in monthly installments of US\$3,232 including interest and property taxes. Secured by a first position Deed of Trust on real property and guarantees of the Company. Due April 2010.	328,321	325,028
Promissory notes repayable in monthly installments of \$1,450 including interest at 10% per annum. Due June 2007.	92,940	96,971
Promissory notes, monthly interest payments at 8% per annum. Due October 2011. Unsecured.	50,000	-
Promissory notes, monthly interest payments at 8% per annum. Due August 2011. Unsecured.	65,000	65,000
Promissory notes, monthly interest payments at 8% per annum. Due March 2009. Unsecured.	77,000	-
Promissory note, monthly interest payments at 8% per annum. Due June 2007. Unsecured.	184,000	-
	1,206,036	1,196,801
Current portion of long-term debt	398,487	467,033
	\$ 807,549	\$ 729,768

The convertible debentures were issued in April 2004, 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 attached to the repayment of the convertible debentures.

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2007

3. Long-term debt (continued):

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

2007	\$	398,487
2008		199,892
2009		112,634
2010		102,841
2011		157,579
Thereafter		234,603
	\$	1,206,036

4. Obligation under capital lease:

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

	Mar 31 2007	Sep 30 2006
2006	\$ -	\$ 20,275
2007	13,980	11,286
2008	7,772	1,881
2009	-	-
	21,752	33,442
Less: amount representing interest at 4.5% per annum	1,426	2,413
	20,326	31,029
Less: current portion	12,803	18,555
	\$ 7,523	\$ 12,474

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2007

5. Share capital:

(a) Authorized and issued share capital:

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:

Voting common shares:

	6 mo. ended Mar 31 2007		Year ended Sep 30 2006	
	Shares	Amount	Shares	Amount
Balance, beginning of year	13,229,825	\$ 1,750,340	13,654,825	\$ 1,750,340
Stock options exercised	-	-	-	-
Cancellation of escrow shares	-	-	(425,000)	-
Debentures converted to shares	-	-	-	-
Balance, end of year	13,229,825	\$ 1,750,340	13,229,825	\$ 1,750,340

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2007

5. Share capital (continued):

(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 cannot be less than the "discounted market price" provided the option price shall 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. The maximum term of any option will be ten years and the Company may terminate an option at any time without notice.

As at March 31, 2007, the Company under the terms of its stock option plan has 650,000 options outstanding with authority to issue a further 672,982 options based on the presently issued and outstanding share capital.

	6 mo. ended		Year Ended	
	Mar 31 2007	Weighted	Sep 30 2006	Weighted
	Number of	average	Number of	average
	options	exercise price	options	exercise price
Balance, beginning of year	650,000	\$ 0.20	700,000	\$ 0.21
Expired during the year	-		(50,000)	.35
Exercised during the year	-		-	
Balance, end of period	650,000	\$ 0.20	650,000	\$ 0.20

Details of the Company's outstanding options at March 31, 2007 are as follows:

Exercise	Expiry	price	Number
Employee	June 9, 2007	\$ 0.28	200,000
Employee	May 18, 2009	\$ 0.16	450,000
Balance, end of period			650,000

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2007

5. Share capital (continued):

(c) Contributed surplus:

	6 mo. Ended	Year Ended
	Mar 31, 2007	Sep 30, 2006
Balance, beginning of the year	\$ 193,489	\$ 193,489
Cumulative adjustment for stock based compensation	-	-
Debentures converted or repaid during the year	-	-
Balance, end of year	\$ 193,489	\$ 193,489

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2007

6. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 34.12% (2005 – 34.12%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	6 mo. ended	Year Ended
	Mar 31, 2007	Sep 30, 2006
Income before income taxes	\$ 81,049	\$ 167,149
Tax at applicable tax rate	27,654	57,031
Rate variance on self-sustaining foreign operation	-	(3,389)
Non-deductible items	-	25,946
Tax benefits of losses not recognized	(27,654)	(16,243)
	\$ -	\$ 63,345

The tax effect of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at September 30, 2006 and 2005 are represented below:

	2006	2005
Future tax assets:		
Non-capital loss carry forwards	\$ 214,933	\$ 204,687
Future tax liabilities:		
Goodwill deductibility	(164,761)	(168,758)
Less: Valuation allowance	-	-
	\$ 50,172	\$ 35,929

The Company has available non-capital losses for Income tax purposes, which may be carried forward to reduce taxable income in future years. If not utilized, the non-capital losses in the amount of \$562,478 expire, as follows:

2007	\$ 48,277
2008	259,336
2009	94,705
2010	159,308
2015	416
2016	436
	<u>\$562,478</u>

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2007

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 2007 6 mo.	Mar 31 2006 6 mo.
Revenue:		
Canada	\$ 1,354,520	\$ 1,254,596
United States	652,341	519,411
	\$ 2,006,861	\$ 1,774,007
Interest expense:		
Canada	\$ 35,018	\$ 32,446
United States	18,054	19,207
	\$ 53,072	\$ 51,653
Amortization expense:		
Canada	\$ 39,370	\$ 29,804
United States	17,248	21,088
	\$ 56,618	\$ 50,892
Earnings (loss) before income taxes:		
Canada	\$ (14,985)	\$ 100,985
United States	96,034	5,132
	\$ 81,049	\$ 106,116
Capital assets and leasehold improvements:		
Canada	\$ 356,939	\$ 215,416
United States	569,858	608,610
	\$ 926,797	\$ 824,026
Goodwill:		
Canada	\$ 448,661	\$ 448,661
United States	494,114	494,114
	\$ 942,775	\$ 942,775
Total assets:		
Canada	\$ 2,087,741	\$ 1,874,609
United States	915,747	802,211
	\$ 3,003,488	\$ 2,676,820

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2007

8. Related party transactions:

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

	Mar 31 2007 6 mo.	Mar 31 2006 6 mo.
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MediaWave Communications Corp., a company controlled by a Director of the Company

Commissions paid	\$ 1,299	\$ 370
Internet services	637	1,081

Sherwood Real Estate Corp., a company controlled by a Director the Company

Rent paid	\$ 15,095	\$ 21,256
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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, 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 64% 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.

Certain financial instruments of the company include amounts translated from foreign currencies into Canadian dollars. Listed below are the relevant instruments and the amount of foreign currencies included in their balances:

	U.S. Dollars
Cash	\$ 81,812
Accounts receivable	168,368
Accounts payable	151,786

U.S. Dollar are translated at 1.1546

AUDIOTECH HEALTHCARE CORPORATION

Notes to Consolidated Financial Statements

Period ended March 31, 2007

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 is as follows:

2008	\$	237,702
2009		158,977
2010		111,218
2011		96,458
2012		77,244
	\$	681,599
