

AUDIOTECH HEALTHCARE CORPORATION

SCHEDULE A: CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 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 BALANCE SHEET  
June 30, 2003  
(Unaudited – prepared by Management)

	Jun. 30 2003	Sep. 30 2002
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$ 369,979	\$ 293,817
Term deposit	40,000	320,000
Accounts receivable	235,286	242,060
Inventory	46,136	51,859
Prepaid expenses	2,887	3,940
	694,288	911,676
 CAPITAL ASSETS	 331,628	 344,648
 GOODWILL	 942,775	 942,775
	\$1,968,691	\$2,199,099
 <b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts Payable and accruals	\$ 347,441	\$ 250,729
Customer deposits	11,473	37,296
Income taxes	-	206
Current portion of long-term debt	646,022	450,981
	1,004,936	739,212
 LONG-TERM DEBT	 376,939	 821,450
 TOTAL LIABILITIES	 1,381,875	 1,560,662
 <b>SHAREHOLDERS EQUITY</b>		
 SHARE CAPITAL	 1,635,840	 1,635,840
 DEFICIT	 (996,969)	 (1,006,348)
 FOREIGN EXCHANGE ADJUSTMENT	 (52,053)	 8,945
	586,816	638,437
	\$1,968,691	\$2,199,099

APPROVED BY THE DIRECTORS:

"Osvaldo (Ozzie) Iadarola" Director

"Grant Robertson" Director

AUDIOTECH HEALTHCARE CORPORATION  
CONSOLIDATED STATEMENT OF INCOME AND DEFICIT  
Period Ended June 30, 2003  
(Unaudited – prepared by Management)

	Jun. 30 2003 3 months	Jun. 30 2002 3 months	Jun. 30 2003 9 months	Jun. 30 2002 9 months
<b>SALES</b>				
Canada	\$ 436,184	\$ 503,215	1,252,489	1,454,396
United States	383,466	327,321	1,066,834	825,046
	<u>819,650</u>	<u>830,536</u>	<u>2,319,323</u>	<u>2,279,442</u>
<b>COST OF SALES</b>				
Cost of products	312,922	308,954	923,237	821,144
	<u>506,728</u>	<u>521,582</u>	<u>1,396,086</u>	<u>1,458,298</u>
<b>GROSS PROFIT</b>				
<b>EXPENSES</b>				
Advertising and promotion	8,188	11,728	32,663	44,799
Amortization	17,845	33,057	57,246	85,017
Corporate development	8,751	16,652	47,057	39,652
Equipment lease	-	4,040	9,150	9,144
Insurance	8,129	4,224	20,511	14,459
Interest and bank charges	5,914	5,363	18,416	14,973
Interest and long-term debt	21,583	18,130	68,446	50,199
Licences, dues and fees	2,153	1,177	9,367	9,103
Management salaries	20,073	20,073	60,218	60,218
Office and sundry	17,995	25,890	47,590	60,814
Professional filing fees	8,126	19,190	35,205	55,405
Rent and utilities	60,598	68,873	186,066	181,258
Repairs and maintenance	1,738	6,023	8,357	10,956
Telephone and fax	11,440	12,616	37,791	42,294
Travel	17,402	21,775	35,247	42,613
Wages and benefits	209,587	251,034	713,378	726,112
	<u>419,522</u>	<u>519,845</u>	<u>1,386,708</u>	<u>1,447,016</u>
<b>INCOME (LOSS) FOR THE PERIOD</b>	<u>87,207</u>	<u>1,737</u>	<u>9,379</u>	<u>11,282</u>
DEFICIT, beginning of period	(1,084,176)	(949,375)	(1,006,348)	(958,920)
<b>DEFICIT, end of period</b>	<u>\$(996,969)</u>	<u>\$(947,638)</u>	<u>(996,969)</u>	<u>(947,638)</u>
Income (loss) per share, basic	\$0.0065	\$0.0001	\$0.0007	0.0008
Income (loss) per share, fully diluted	\$0.0062	\$0.0001	\$0.0007	0.0008

AUDIOTECH HEALTHCARE CORPORATION  
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION  
Period ended June 30, 2003  
(Unaudited – prepared by Management)

	Jun. 30 2003 3 months	Jun. 30 2002 3 months	Jun. 30 2003 9 months	Jun. 30 2002 9 months
<b>OPERATING ACTIVITIES:</b>				
Income (loss) for the period	87,207	1,737	9,379	11,282
Non-cash items:				
Amortization	17,845	33,057	57,246	85,017
	<u>105,052</u>	<u>34,794</u>	<u>66,625</u>	<u>96,299</u>
(Increase) decrease in:				
Accounts receivable	(26,472)	6,991	6,774	7,413
Inventory	(235)	10,838	5,723	13,472
Prepaid expenses	(694)	(1,678)	1,053	1,651
Increase (decrease) in:				
Accounts payable and accruals	36,464	(61,299)	96,712	(227,816)
Customer deposits	(8,067)	(5,816)	(25,823)	(30,358)
Income taxes	-	-	(206)	2,775
Cash provided by (used in) operations	<u>106,048</u>	<u>(16,170)</u>	<u>150,858</u>	<u>(136,564)</u>
<b>FINANCING ACTIVITIES:</b>				
New borrowing/assumption of debt	118,881	420,000	118,881	862,586
Debt reduction	(166,719)	(48,533)	(368,351)	(324,979)
Issue of share capital	-	-	-	9,000
Cash proved by financing	<u>(47,838)</u>	<u>371,467</u>	<u>(249,470)</u>	<u>546,607</u>
<b>INVESTING ACTIVITIES:</b>				
Purchase of capital assets	(20,809)	(8,378)	(44,226)	(43,321)
Purchase of long-term investments	-	-	-	-
Cash used in investing	<u>(20,809)</u>	<u>(8,378)</u>	<u>(44,226)</u>	<u>(43,321)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<b>37,401</b>	<b>346,919</b>	<b>(142,838)</b>	<b>366,722</b>
<b>EFFECT OF FOREIGN EXCHANGE ADJUSTMENT</b>	<b>(42,582)</b>	<b>7,735</b>	<b>(61,000)</b>	<b>(5,949)</b>
CASH, beginning of period	<u>415,160</u>	<u>324,691</u>	<u>613,817</u>	<u>303,102</u>
CASH, end of period	<u>409,979</u>	<u>663,875</u>	<u>409,979</u>	<u>663,875</u>

AUDIOTECH HEALTHCARE CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 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 June 30, 2003 was 1.2820 and averaged 1.4919 for the period October 1, 2002 to June 30, 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  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2003  
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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	Jun. 2003 Net	Sep. 2002 Net
Capital Assets	\$ 926,136	\$ 594,508	\$ 331,628	\$ 344,648

**NOTE 5. GOODWILL:**

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

AUDIOTECH HEALTHCARE CORPORATION  
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**NOTE 6. LONG-TERM DEBT:**

	Jun. 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	\$ 46,170	\$ 46,662
Martin and Elsie Jackson, loan repaid during the year	-	60,138
611210 BC Ltd., loan repayable in monthly instalments of \$880 including interest at 10% per annum, unsecured, due November 2005.	63,071	-
611211 BC Ltd., loan repayable in monthly instalments of \$570 including interest at 10% per annum, unsecured, due November 2005.	55,810	-
Hurricane Ventures Ltd., loan repayable in monthly instalments of \$525 including interest at 10% per annum, unsecured, due August 1, 2003. Subsequent to the balance sheet date, the loan has been renewed with the same conditions as before with a maturity date of August 2005.	47,199	48,406
Pat and Marion Griffin, loan repayable in monthly instalments of \$790 including interest at 10% per annum, unsecured, due August 1, 2003. Subsequent to the balance sheet date, the loan has been renewed with the same conditions as before with a maturity date of August 2005.	70,404	72,382
Non-interest bearing equipment loans from a supplier. The loans require thirteen instalments per annum of \$3,935.	156,393	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.	175,959	178,441
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.	407,955	413,336

AUDIOTECH HEALTHCARE CORPORATION  
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**NOTE 6. LONG-TERM DEBT (continued):**

	Jun. 2003	Sep. 2002
611211 BC Ltd., repaid during the period	-	41,694
611210 BC Ltd., repaid during the period	-	56,074
Convertible debentures, repaid during the period	-	56,000
Ampton Court Mortgage, repaid during the period	-	49,895
Convertible debentures, repaid during the period	-	50,000
	1,022,961	1,272,431
Less current portion	646,022	450,981
	\$ 376,939	\$ 821,450

Principal repayments due in the ensuing 5 years as follows:

1 <sup>st</sup> year	\$646,022
2 <sup>nd</sup> year	322,859
3 <sup>rd</sup> year	44,977
4 <sup>th</sup> year	9,103
5 <sup>th</sup> year	-

**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	\$ Jun. 30 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	70,000
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>745,000</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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June 30 2003  
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**NOTE 10. RELATED PARTY TRANSACTIONS:**

During the period the Company paid, under normal terms of trade, \$60,218 (June 30, 2002 \$60,218) in management salaries to a director of the Company and \$67,912 (June 30, 2002 \$63,934) in administrative salaries to a director of the Company.

**NOTE 11. SEGMENTED INFORMATION:**

Operations and identifiable assets by geographic segment are as follows:

	Jun. 30 2003	Jun.30 2002
Revenue:		
Canada	\$1,252,489	\$1,454,396
United States	1,066,834	825,046
	\$2,319,323	\$2,279,442
Amortization		
Canada	\$52,696	\$78,712
United States	4,550	6,305
	\$57,246	\$85,017
Earnings before income taxes		
Canada	\$ (148,287)	\$ (106,382)
United States	157,666	117,664
	\$ 9,379	\$ 11,282
Total assets:		
Canada	\$1,663,164	\$ 2,018,491
United States	305,527	210,888
	\$1,968,691	\$2,229,379