

SCHEDULES B and C

ISSUER DETAILS

NAME OF ISSUER AUDIOTECH HEALTHCARE CORPORATION		FOR QUARTER ENDED SEPTEMBER 30, 2003	DATE OF REPORT Y M D 0 4 0 2 1 7	
ISSUER ADDRESS 760 – 175 Second Ave.				
CITY Kamloops	PROVINCE BC	POSTAL CODE V2C 5W1	ISSUER FAX NO. (250) 372-3859	ISSUER PHONE NO. (250) 372-5847
CONTACT PERSON Osvaldo Iadarola		CONTACT POSITION President	CONTACT PHONE NO. (250) 372-5847	
CONTACT E-MAIL ADDRESS info@audiotech.org		WEBSITE ADDRESS www.audiotech.org		

CERTIFICATE

The three schedules required to complete this Quarterly Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Quarterly Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE "Osvaldo Iadarola"	PRINT FULL NAME Osvaldo Iadarola	DATE SIGNED Y M D 0 4 0 2 1 6
DIRECTOR'S SIGNATURE "Grant Robertson"	PRINT FULL NAME Grant Robertson	DATE SIGNED Y M D 0 4 0 2 1 6

AUDIOTECH HEALTHCARE CORPORATION
ANNUAL REPORT - FORM 51-901F
SEPTEMBER 30, 2003

SCHEDULE A: FINANCIAL INFORMATION

See attached consolidated financial statements for the Year end period ended September 30, 2003.

SCHEDULE B: SUPPLEMENTARY INFORMATION

1. See attached consolidated financial statements for Year end period ended September 30, 2003.

During the year, the Company paid, under normal terms of trade, \$80,291 (2002 \$80,291) in management salaries to a director of the Company and \$90,969 (2002 \$85,484) in administrative salaries to a director of the Company.

2. During the year, the Company paid, under normal terms of trade, \$10,750 in interest to Ampton Court Mortgage Corporation, a company controlled by a director of Audiotech Healthcare Corporation.

COST OF SALES:

Cost of Product \$1,316,461

3. **SHARE CAPITAL:**

- (a) Authorized and issued share capital:

	2003	2002
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:		
13,329,825 common shares (2002 - 13,329,825 common shares)	\$ 1,635,840	\$ 1,635,840

(b) Stock options:

During the year, the shareholders approved a stock option compensation plan. The 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 must not be less than the "discounted market price" provided the option price shall not be less than \$0.10 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 September 30, 2003, the Company has 545,000 options outstanding with authority to issue a further 787,983 shares based on the presently issued and outstanding share capital.

The following table provides the continuity of stock options from October 1, 2002 to September 30, 2003:

	2003 Number of options	Weighted average exercise price	2002 Number of options	Weighted average exercise price
Balance, beginning of year	1,280,000	\$ 0.29	1,222,500	\$ 0.32
Granted during the year	-	-	440,000	0.30
Exercised during the year	-	-	(30,000)	(0.30)
Expired during the year	(735,000)	(0.28)	(227,500)	(0.48)
Cancelled during the year	-	-	(125,000)	(0.39)
Balance, end of year	545,000	\$ 0.28	1,280,000	\$ 0.29

Details of the Company's outstanding options at September 30, 2003 are as follows:

	Expiry	Exercise price	Number
Employee	September 10, 2004	0.45	20,000
Employee	September 10, 2004	0.45	50,000
Employee	February 24, 2005	0.22	225,000
Employee	February 2, 2006	0.35	50,000
Employee	June 9, 2007	0.28	200,000
Balance, end of year			545,000

The pro forma disclosures of compensation cost based on the fair value of the options granted during the year ended September 30, 2002 have not been provided.

(c) Warrants:

During the year, the remaining 610,000 warrants expired and no new warrants have been issued.

4. a) See Note 4 to the September 30, 2003 financial statements attached as Schedule A.
- b) See Note 4 to the September 30, 2003 financial statements attached as Schedule A
- c) See Note 4 to the September 30, 2003 financial statements attached as Schedule A

SCHEDULE B: SUPPLEMENTARY INFORMATION Continued

d) Escrow

Date:		Per Share	Escrow Sept. 30/03
31-Mar-98	O. Iadarola - performance	\$ 0.20	212,500
31-Mar-98	O. Iadarola - performance	\$ 0.20	<u>212,500</u>
			<u><u>425,000</u></u>

5. List of directors and officers:
- Osvaldo Iadarola - President, CEO/Director
 - Daniel Allen - Vice President, COM/Director
 - Darryl Walker - Corporate Secretary
 - Dr. Gerry Mill - Director
 - Grant Robertson - Director
 - Glen Martin - Director

AUDIOTECH HEALTHCARE CORPORATION

Schedule C - MANAGEMENT DISCUSSION AND ANALYSIS

Management's discussions and analysis of Audiotech's operating results for the year ended September 30, 2003, should be read in conjunction with the company's consolidated financial statements for the period.

Description of Business

Audiotech owns and operates a network of hearing healthcare clinics located in Western Canada and the Pacific- Northwest United States. Since becoming a public company in 1997, the company has grown through acquisitions and the successful start-up of full-fledged and satellite clinics.

Results of Operations

Revenues for the fourth quarter of fiscal 2003 were \$848,143, up roughly 20% over the \$709,718 reported during the comparable period a year earlier, despite the negative impact of the stronger Canadian dollar which reduced the amount of revenues reported from the company's U.S. operations. Audiotech achieved revenues of \$3,167,466 for the year ended September 30, 2003, an increase of 6% compared to the \$2,989,160 reported during fiscal 2002.

Despite the ongoing industry-wide shortage of audiologists in Canada which has stalled clinic network expansion initiatives, revenues from the Audiotech's Canadian clinics showed a marked improvement during the fourth quarter, rising 21% to \$484,678 as compared to the same quarter a year earlier, and up 11% from revenues of \$436,184 reported during the prior quarter. Management is pleased to report that additional audiologists have recently been recruited and announcements with respect to new hirings and the opening of new clinic locations are expected shortly as employment agreements and leases are consummated. Continued operational improvements at the BC and Alberta clinics also contributed to the growth. Overall, revenues derived from the Canadian operations declined 6% during the fiscal year to \$1,737,167.

Revenues from the company's U.S. operations continued to show strength during the fourth quarter of fiscal 2003, growing 18% to reach \$363,465 (fourth quarter of fiscal 2002: \$308,939). This growth was achieved despite the significant strength of the CDN dollar during 2003 which resulted in substantially reduced revenues from the U.S. clinics when US clinics sales were converted into Canadian dollars for reporting purposes. Management anticipates this robust growth to continue as a result of the projected opening of a new clinic in Idaho in fiscal 2004. The adverse shift in the exchange rate will continue to dampen revenue and earnings growth from the U.S. operations to some degree, particularly during the first quarter of fiscal 2004, however, actions by the Bank of Canada to curb the strength of the Canadian dollar against the U.S. greenback, are expected to improve exchange rates during the latter half of 2004. As previously disclosed, Audiotech has been successful in bolstering its clinic staff in the U.S. to facilitate the anticipated rise in patient volume.

Statement of Income

Sept. 30	3 Months ended Sept. 30			12 Months Ended		
	2003	2002	Chg.	2003	2002	Chg.
Canadian Revenues	\$ 484,678	\$ 400,779	+20.9%	\$ 1,737,167	\$ 1,855,175	-6.3%
U.S. Revenues	363,465	308,939	+17.6%	1,430,299	1,133,985	+26.1%
Total Revenues	\$ 848,143	\$ 709,718	+19.5%	\$ 3,167,466	\$ 2,989,160	+6.0%
Net Earnings (Loss)	(114,745)	(58,710)		(105,366)	(47,438)	
EPS - basic	(0.009)	(0.004)		(0.008)	(0.004)	

Earnings before interest, taxes, depreciation, and amortization for the fourth quarter of fiscal 2004 was \$60,084.

At the advice of its audit committee and new auditors, Audiotech has adopted a revised format for the presentation of expense items on its income statement. Expenses related to clinic operations and the corporate head office and other administrative items are now segregated.

Direct Clinic Costs

Materials and freight costs as a percentage of sales rose from 35.6% in fiscal 2002 to 41.6% during fiscal 2003. The increase is related to an unfavorable product sales mix, and a change in the ratio of business billed through third party insurers versus directly to the consumer. Management has taken steps to improve margins and expects to see significant reductions in materials and freight costs as a percentage of sales during the latter half of fiscal 2004.

Rent, utilities, and clinic overhead costs decreased by about 8% as a result of cost reduction measures employed clinic operators, and due to lower expenses reported from U.S. operations due to the strong Canadian dollar.

Salaries and benefits and a clinic level faced some upwards pressure in fiscal 2003, rising 5.5% due to additional staff secured to facilitate additional patient volumes in Idaho, and due to industry-wide salary increases resulting from the high demand and limited supply of audiologists.

Selling expenses and amortization remained very similar to levels reported in fiscal 2003.

Corporate Expenses

General and administrative expenses were reduced to only \$134,899 for the year ended September 30, 2003, a decrease of 16% over the prior fiscal year. Expenses have declined every quarter since management initiated its aggressive cost reduction program during the latter half of fiscal 2002. Cost reductions have been achieved in virtually every major cost category. Management anticipates that general and administrative expenses will stabilize near current levels for the foreseeable future.

Due to the strength in the Canadian dollar, a foreign currency translation loss in the amount of more than \$15,000 was recorded during fiscal 2003. As noted above, continued weakness in the CDN dollar during the first quarter of fiscal 2004 is expected to have an adverse affect the company's reported revenues from its U.S. operations, and may result in further minor foreign currency translation losses. However, there is strong evidence that the Bank of Canada will lower interest rates or take other steps to curb the

rise in the dollar. During January 2004, the exchange rate shifted more positively.

Interest on long-term debt increased from \$84,437 to \$89,437. Management expects that interest costs associated with long-term debt will decrease as a result of further debt reductions expected in fiscal 2004 – see below.

Salaries and benefits at a corporate administration level decreased slightly from \$220,209 to \$205,565.

Audiotech recorded a small loss of \$105,366 or less than 1 cent per share after amortization of \$85,392 for the fiscal year.

It should be noted that as outlined in its fiscal 2002 year end Management Discussion & Analysis Report, that Audiotech has adopted a new accounting policy for the recognition and recording of goodwill amortization pursuant to a new disclosure policy recently pronounced by the Canadian Institute of Chartered Accountants. Under this new policy, goodwill is only expensed in the event of an impairment in value rather than on the basis of a subjective percentage per accounting period. Goodwill was previously amortized on a straight-line basis over 40 years. In conjunction with its new auditors, KPMG, a detailed review of goodwill for each business unit was carried out. No impairments in value of the goodwill assets were found, and accordingly, none were recorded during the current fiscal year.

Liquidity and Financial Resources

As at June 30, 2003, Audiotech had a cash balance of \$355,548, including term deposits in the amount of \$25,673, compared to \$613,817 as at the beginning of fiscal 2003. The reduction in cash balances is primarily due to the use of the corporation's term deposits to retire long-term debt. A total of \$266,765 in long-term debt was repaid during the year.

Management's objective for fiscal 2004 remains to substantially reduce, or if market conditions are amenable, to eliminate the company's long-term debt. This will have a positive impact on profitability going forward by reducing interest costs. As at September 30, 2003, \$144,587 of Audiotech's long-term debt was comprised of interest-free loans from a major North American hearing aid supplier (currently \$122,076).

Included in long-term debt as at September 30, 2003, was \$581,160 in convertible debentures maturing in March and May 2004. Canadian Generally Accepted Accounting Principals (GAAP) require that this amount be recorded entirely as current liabilities despite the fact that the company has received positive indications and commitments from a majority of the holders of the debentures that they intend to renew their debentures for an additional long-term period under similar terms. Had these amounts been included in long-term debt as opposed to the current portion thereof, the current portion of long-term debt balance would have amounted to only \$72,836. Similarly, the total current liabilities would have totaled \$525,153 instead of \$1,096,261. Accordingly, management is very confident that existing cash resources and operating cash flow will be sufficient to meet all debt repayment obligations as well as the corporation's accelerated debt retirement goals and growth plans.

Capital purchases of clinic equipment totaling \$56,959 were made during the year. These purchases were made in the normal course of clinic operations. No major capital

purchases are planned in upcoming quarters, however, minor capital investments will be made in conjunction with the expansion of its U.S. and Canadian clinic base.

No share issuances were made during fiscal 2003.

Future Outlook

In light of the success of the company's cost reduction program and continued growth, management continues to examine acquisitions and other transactions and initiatives to maximize shareholder value. It is management's opinion that Audiotech's share price does not reflect the underlying value of its operations. Accordingly, the board of directors is currently reviewing various alternatives to create increased awareness in the financial community of the company's assets and growth plans.

Management is optimistic that the addition of further professional staff in Canada and the planned expansion of its U.S. clinic base in fiscal 2004 will continue to fuel revenue growth. While the state of the U.S./Canadian dollar exchange rate places some constraints on revenue growth from our Idaho clinics which have been performing very well, U.S.-based capital investments including the opening of new clinic operations or the acquisition of existing clinics have become substantially more affordable.

In Canada, the addition of new audiological staff is expected to permit us to resume opening new clinics and expanding the patient base of existing clinics. As noted previously, we hope to be able to announce new employment agreements and clinic openings shortly. In addition, a renewed focus on improving our product sales mix is expected to increase operating margins.

With our cost structure vastly improved over prior years, Audiotech should see a very positive improvement to its bottom line in the event that it is successful in these efforts in fiscal 2004 and beyond.