AUDIOTECH HEALTHCARE CORPORATION

SCHEDULE A: CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

Consolidated Financial Statements of

AUDIOTECH HEALTHCARE CORPORATION

Year ended September 30, 2003

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Balance Sheets

September 30, 2003, with comparative figures for 2002

	2003	2002
Assets		
Current assets:		
Cash	$ 329,875	$ 293,817
Term deposit	25,673	320,000
Accounts receivable	266,521	242,060
Inventory	64,002	51,859
Prepaid expenses	27,050	3,940
	713,121	911,676
Equipment and leasehold improvements (note 2)	310,196	344,648
Goodwill	942,775	942,775
	$ 1,966,092	$ 2,199,099
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 425,802	$ 250,935
Unearned revenue	26,515	37,296
Current portion of long-term debt	643,944	450,981
	1,096,261	739,212
Long-term debt (note 3)	361,722	821,450
Shareholders' equity:		
Share capital (note 4)	1,635,840	1,635,840
Cumulative translation account	(16,017)	8,945
Deficit	(1,111,714)	(1,006,348)
	508,109	638,437
Commitments (note 8)		
	$ 1,966,092	$ 2,199,099

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_________________________________ Director

_________________________________ Director

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Operations and Deficit

Year ended September 30, 2003, with comparative figures for 2002

	2003	2002
Sales	$ 3,167,466	$ 2,989,160
Direct clinic costs:		
Materials and freight	1,316,461	1,063,516
Selling expenses	126,871	129,493
Rent, utilities and clinic overheads	393,962	436,573
Amortization	84,029	82,464
Salaries and benefits	906,236	858,995
	2,827,559	2,571,041
	339,907	418,119
Expenses:		
General and administrative	134,899	160,149
Foreign exchange	15,372	495
Interest on long-term debt	89,437	84,694
Salaries and benefits	205,565	220,209
	445,273	465,547
Loss for the year	(105,366)	(47,428)
Deficit, beginning of year	(1,006,348)	(958,920)
Deficit, end of year	$ (1,111,714)	$ (1,006,348)
Weighted average number of shares outstanding	13,329,825	13,324,285
Loss per share (basic and diluted)	$ (0.01)	$ -

See accompanying notes to consolidated financial statements.

AUDIOTECH HEALTHCARE CORPORATION

Consolidated Statements of Cash Flows

Year ended September 30, 2003, with comparative figures for 2002

	2003	2002
Cash flows provided by (used in):		
Operations:		
Cash received from customers	$ 3,177,156	$ 2,957,226
Cash paid to suppliers and employees	(2,980,499)	(3,013,297)
Interest paid	(110,628)	(104,954)
Income taxes recovered	-	2,775
	86,029	(158,250)
Financing:		
Issue of long-term debt	-	847,586
Principal payments on long-term debt	(266,765)	(342,039)
Issue of common shares	-	9,000
	(266,765)	514,547
Investing:		
Purchases of equipment and leasehold improvements	(56,959)	(46,624)
Proceeds on sale of equipment and leasehold improvements	-	500
Reduction of term deposit	294,327	(320,000)
	237,368	(366,124)
Effect of changes in exchange rates on foreign denominated cash	(20,574)	542
Increase (decrease) in cash	36,058	(9,285)
Cash beginning of year	293,817	303,102
Cash end of year	$ 329,875	$ 293,817

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 first-in first-out basis, and net realizable value.

(c) Equipment and leasehold improvements:

Equipment and leasehold improvements are recorded at cost. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Audiology equipment	Declining balance	20%
Computer equipment	Declining balance	30%
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.

1. Significant accounting policies (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 impariment 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 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 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 4(b). The Company accounts 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 is recorded as share capital and contributed surplus.

1. Significant accounting policies (continued):

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 intruments 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 intruments. 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.

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. Equipment and leasehold improvements:

			2003	2002
	Cost	Accumulated amortization	Net book value	Net book value
Audiology equipment	$ 902,577	$ 639,283	$ 263,294	$ 292,111
Computer equipment	41,351	24,666	16,685	15,427
Leasehold improvements	78,538	48,321	30,217	37,110
	$ 1,022,466	$ 712,270	$ 310,196	$ 344,648

Amortization expense of $85,392 (2002 - $83,596) has been charged to earnings in the current year.

3. Long-term debt:

		2003		2002
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.	$	581,160	$	697,777
Equipment loans repayable based on thirteen instalments per annum of $4,230 each including interest at 0%. Unsecured. Due 2006.		144,587		199,403
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.		279,919		325,356
Ampton Court Mortage Corporation, repaid during the year.		-		49,895
		1,005,666		1,272,431
Current portion of long-term debt		643,944		450,981
	$	361,722	$	821,450

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 attached to the repayment of the convertible debentures.

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

2004	$	72,836
2005		75,072
2006		62,090
2007		35,669
2008		32,103
Thereafter		727,896
	$	1,005,666

4. 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

4. Share capital (continued):

(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

4. Share capital (continued):

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. Income taxes:

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. The reasons for the differences and related tax effects are as follows:

	2003	2002
Loss before income taxes	$ (105,366)	$ (47,222)
Tax (recovery) at applicable tax rate	(39,618)	(19,304)
Rate variance on self-sustaining foreign operation	(2,259)	(17,111)
Non-deductible items	3,296	6,534
Tax benefits of losses not recognized	38,581	39,637
Application of prior year losses	-	(9,772)
Other	-	16
	$ -	$ -

5. 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:

	2003	2002
Revenue:		
Canada	$ 1,737,167	$ 1,855,175
United States	1,430,299	1,133,985
	3,167,466	2,989,160
Interest expense:		
Canada	104,569	99,216
United States	9,163	5,738
	113,732	104,954
Amortization expense:		
Canada	70,636	102,001
United States	14,756	7,720
	85,392	109,721
Earnings (loss) before income taxes:		
Canada	(177,245)	(89,079)
United States	71,883	41,857
	(105,362)	(47,222)
Equipment and leasehold improvements:		
Canada	262,910	319,234
United States	47,286	25,414
	310,196	344,648
Goodwill:		
Canada	448,661	448,661
United States	494,114	494,114
	942,775	942,775
Total assets:		
Canada	1,783,616	1,963,836
United States	182,476	235,263
	1,966,092	2,199,099

6. Related party transactions:

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

	2003	2002
Ampton Court Mortgage Corporation, a company controlled by a Director of the Company		
Interest paid	$ 3,120	$ 10,750
Repayments of long-term debt	49,895	-

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.

7. 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 81% 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.

8. Commitments:

The Company leases premises at various locations thoughout 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:

2004	$	151,310
2005		66,663
2006		54,742
2007		39,762
2008		27,538
	$	340,015

9. Comparative figures:

Certain prior year comparative figures have been reclassified to conform with the financial presentation adopted for the current year.