

SCHEDULES B and C

ISSUER DETAILS

NAME OF ISSUER AUDIOTECH HEALTHCARE CORPORATION		FOR QUARTER ENDED SEPTEMBER 30, 2004	DATE OF REPORT Y M D 0 5 0 1 2 8	
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 Oswaldo 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 "Oswaldo Iadarola"	PRINT FULL NAME Oswaldo Iadarola	DATE SIGNED Y M D 0 5 0 1 2 8
DIRECTOR'S SIGNATURE "Grant Robertson"	PRINT FULL NAME Grant Robertson	DATE SIGNED Y M D 0 5 0 1 2 8

AUDIOTECH HEALTHCARE CORPORATION
ANNUAL REPORT - FORM 51-901F
SEPTEMBER 30, 2004

SCHEDULE A: FINANCIAL INFORMATION

See attached consolidated financial statements for the year end period ended September 30, 2004.

SCHEDULE B: SUPPLEMENTARY INFORMATION

1. See attached consolidated financial statements for year end period ended September 30, 2004.
2. See note 8, attached consolidated financial statements for year end period ended September 30, 2004.
3. See note 5, attached consolidated financial statements for year end period ended September 30, 2004.
4. a) See Note 5 to the September 30, 2004 financial statements attached as Schedule A.
b) See Note 5 to the September 30, 2004 financial statements attached as Schedule A
c) See Note 5 to the September 30, 2004 financial statements attached as Schedule A
d) Escrow

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

5. List of directors and officers:

Oswaldo 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, 2004, should be read in conjunction with the company's audited 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

Audiotech achieved record revenues of \$1,092,999 during the fourth quarter of fiscal 2004 (3 months ended September 30, 2004), an increase of 29% over the revenues posted during the corresponding quarter in fiscal 2003. The revenues for the quarter were a full 13% higher than the corporation's previous best quarterly performance which was recorded during the third quarter of fiscal 2004.

The increase in revenues can be attributed to robust growth at Audiotech's Canadian clinic operations as a result of successful recent marketing efforts, the hiring of additional audiology staff, and the opening of the new clinic in Vernon, B.C. Revenues at Audiotech's Canadian operations jumped an additional 14% over the previous quarter to \$720,178, an increase of 49% over the revenues reported from the Canadian clinics during the same quarter a year earlier. The fourth quarter marks the second consecutive quarter of double digit quarter-over-quarter revenue growth at the Canadian clinics.

Despite the severe depreciation of the U.S. dollar during the past year, the company's U.S. clinic operations were able to post modest growth of 3.5% during the quarter as compared to the same period in fiscal 2003, posting revenues of \$372,821. As measured in U.S. dollars, the U.S. clinic operations continued to post significant organic growth, however, after conversion to Canadian dollars for consolidated financial reporting, revenue growth was dampened by the significant year-over-year change in the exchange rate. On a very positive note, revenues for the fourth quarter were up 8% over sales in the third quarter which in turn were up 17% over the quarter ended March 31, 2004, despite the exchange rate impacts. This growth is a result of recent marketing efforts, the addition of new services, and the recent opening of a clinic in Blackfoot, Idaho.

Revenues for the last four fiscal quarters were as follows:

Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended
December 31, 2003	March 31, 2004	June 30, 2004	September 30, 2004
\$777,069	\$793,892	\$965,954	\$1,092,000

For the year ended September 30, 2004, Audiotech generated total revenues of \$3,629,914, an increase of 15% over fiscal 2003. Had the Canadian dollar not appreciated so strongly

against the U.S. greenback during the past 18 months, a significantly higher overall growth rate would have been reported.

Statement of Income

	3 Months Ended Sept. 30, 2004		Year Ended Sept. 30, 2004	
	2004	2003	2004	2003
Canadian Revenues	\$ 720,178	\$ 484,178	\$ 2,299,029	\$ 1,737,167
U.S. Revenues	372,821	363,465	1,330,885	1,430,299
Total Revenues	\$ 1,092,999	\$ 848,143	\$ 3,629,914	\$ 3,167,466
Net Earnings (Loss)	\$ 106,268	\$ (114,745)	\$ 153,647	\$ (105,366)
EPS – basic & fully diluted	\$ 0.008	\$ (0.009)	\$ 0.012	\$ (0.008)

Gross margins during the fourth quarter of fiscal 2004 far exceeded historical averages, reaching 73.8%, as compared to 53.6% during the same quarter a year earlier. The long-term average has run in the 58 to 60% range for most of the past 5 years. The increase in margins can be attributed to an improved sales mix favoring higher-margin service revenues and private hearing aid sales, as well as the contribution of new bulk volume purchase agreements negotiated with hearing aid manufacturers earlier in fiscal 2004. For the year ended September 30, 2004, gross margins were 63.9%, a significant increase over the 58.4% achieved in fiscal 2003. Management expects that Audiotech will continue to achieve margins in excess of long-term historical averages in fiscal 2005.

Despite the opening of additional clinics, a significant increase in advertising expenditures, the hiring of additional staff, and costs associated with the relocation of one of the company's Calgary clinics, direct clinic costs including clinic staff wages, only increased modestly from \$1,511,098 to \$1,725,921 during fiscal 2004 compared to fiscal 2003. Direct clinic costs declined slightly as a percentage of sales from 47.7% of sales to 47.5% of sales.

Expenses associated with the head office functions decreased 11.5% from \$443,903 to \$393,000 for the year ended September 30, 2004, as compared to fiscal 2003. Of particular note, general and administrative expenses decreased 43.7%. The only category that saw a significant increase in cost was professional fees, which increased 95.6% as a result of a dramatic increase in audit and accounting fees, and a small increase in investor relations expenditures. The audit committee has been asked to review competitive quotations for future audit services given the extent of the increase in audit fees for fiscal 2004 versus fiscal 2003 and previous years.

Net earnings for the fourth quarter ended September 30, 2004 were a record \$106,268 or \$0.008 per share (basic and fully diluted), compared to a loss of \$114,745 or \$0.009 per share during the same quarter of fiscal 2003. Net earnings during the fourth quarter were reduced by a loss on disposal of leasehold improvements in conjunction with the relocation of one of the company's Alberta clinics, as well as the recording of additional amortization of the debenture discount related to the convertible debentures issued earlier in the fiscal year. Prior to these additional non-cash expenses, net earnings for the fourth quarter amounted to \$139,780 or \$0.010 per share (basic and fully diluted).

Net earnings for fiscal 2004 were \$153,647 or \$0.012 per share (basic and fully-diluted), an increase of \$259,013 over the loss of \$105,366 or \$0.008 per share reported in fiscal 2003. Prior to the loss on disposal of leasehold improvements noted above and the amortization of

the debenture discount, net earnings for fiscal 2004 were \$202,409 or \$0.015 per share (basic and fully-diluted).

Operating cash flow for the year ended September 30, 2004, was \$286,100, an increase of \$304,704 over the negative cash flow of \$18,604 generated in fiscal 2003. Earnings before interest, taxes, depreciation, and amortization (EBITDA) was \$379,146.

Liquidity and Financial Resources

During fiscal 2004, a number of major initiatives were undertaken to strengthen Audiotech's balance sheet in preparation for a more aggressive growth phase, including the renewal of the company's convertible debentures and the negotiation of favorable term credit lines from hearing aid manufacturers.

On April 8, 2004, Audiotech completed a convertible debenture financing in the amount of \$659,000. The convertible debentures bear interest at a rate of 10 per cent per annum and mature three years from the date of issue. Of the proceeds derived from the financing, \$409,029 represented the renewal of expired or expiring debentures. The remaining \$249,971 was received from existing debenture holders who increased their investment, or from new investors. The debentures are convertible, at the option of the debenture holder, at any time before the maturity date at a conversion price of 20 cents of debt per share during the initial year, 22 cents of debt per share during the second year, and 25 cents of debt per share during the third and final year of the debenture term.

During fiscal 2004, Audiotech adopted new accounting policies in respect of the valuation of stock-based compensation for all stock-based payments to non-employees as well as direct employee awards of stock. The valuation of this compensation is recorded using the fair value method. In accordance with this method, the convertible debentures issued in April 2004 were assigned both an equity and debt component. The equity component of the convertible debentures is estimated using the Black-Scholes model for convertible securities/options valuation and is based on the average volatility of Audiotech's stock price, the average exercise price of the debenture conversion over their life, and a risk-free interest rate of 2.46%. The equity component, which amounted to \$176,000, is recorded as other paid in capital on the balance sheet and amortized over the 3 year term of the debentures. During fiscal 2004, a total of \$29,334 in amortization related to the debenture discount was recorded on the statement of income, thereby reducing net earnings by the same amount.

Also during the year, Audiotech entered into a multi-faceted agreement with a major hearing aid manufacturer. Under the agreement, the hearing aid manufacturer provided Audiotech with an initial advance from a term credit facility in the amount of \$250,000 on April 15, 2004. The loan bears interest at 5.5% per annum. \$158,000 of the proceeds have been applied to the reduction of outstanding promissory notes. These promissory notes bore interest at 10%, therefore, future interest costs have been reduced substantially. The remainder of the proceeds will be used for marketing and for expansion either through new clinic openings or acquisitions.

During the fourth quarter of fiscal 2004, Audiotech's U.S. division started construction of a new state-of-the-art hearing & balance center in Idaho Falls, Idaho. The corporation completed the purchase of land in a medical complex adjacent to the primary regional hospital in Idaho Falls where the new clinic will be located. Audiotech's existing clinic in

Idaho Falls will be relocated to the new facility upon completion. The new hearing and balance centre will allow the company's U.S. division to expand the range of services it offers to the community. In addition, the new location is expected to result in a substantial increase in referrals from physicians at the regional hospital, and to be more convenient for new and existing patients. Construction is currently ahead of schedule and the clinic is expected to open in the spring of 2005. Financing for the project was secured through a term loan from a major hearing aid manufacturer to assist in the property purchase, and a construction loan from the builder's private investors, at what management considers to be very favourable terms. Investments have and will be made in new and additional equipment for the facility, and will be financed from existing working capital that had previously been reserved for the expansion of U.S. operations.

As at September 30, 2004, Audiotech had a cash balance of \$624,257, including term deposits in the amount of \$15,673, compared to \$355,548 as at the beginning of fiscal 2004. As a result of the above-noted financings and operating cash flow for fiscal 2004, Audiotech's working capital position has improved dramatically from a deficit of roughly \$380,000 as at September 31, 2003, to a surplus of \$351,163 at the end of fiscal 2004. Management is very confident that existing cash resources, operating cash flow, and existing credit lines will be sufficient to meet all debt repayment obligations as well as the corporation's growth plans. However, equity financings may be undertaken during fiscal 2005, when deemed appropriate to the board of directors, to repay debt or to accelerate growth initiatives as opportunities arise.

Capital expenditures totaling \$286,009 were made during fiscal 2004, the majority of which were undertaken during the fourth quarter to support the future growth of the U.S. clinic operations and new clinic start-ups in Canada. The capital expenditures include purchases of clinic equipment (\$109,127), land (\$109,587), and the initial construction costs associated with the new hearing and balance center (\$67,295)

A key management objective for fiscal 2005 is to continue to reduce debt service costs through the negotiation of more favorable credit terms, the repayment of higher-interest debt, and potentially the conversion of some or all of the outstanding convertible debentures. It is important to note that the conversion of the existing debentures into common shares is anti-dilutive in that the increase in earnings resulting from the reduction of interest costs more than compensates for the additional shares that would be issued upon conversion.

No share issuances were made during fourth quarter or fiscal 2004. A total of 450,000 stock options were issued during the year to senior management and an outside director. No compensation expense is presently recorded upon the granting or vesting of employee and director stock options.

Future Outlook

Fiscal 2004 was a landmark year for Audiotech. In addition to posting strong organic revenue growth and posting a significant operating profit, further groundwork was laid for the next phase of growth. Integral to the building of this platform for growth was the negotiation of additional bulk-volume purchase discounts and the strengthening of marketing alliances with major hearing aid manufacturers, the renewal of the expiring convertible debentures, the opening of new clinics in Canada, the hiring of several new audiologists, and of course, the commencement of construction of the new hearing and balance center in Idaho Falls.

Management is confident that Audiotech will continue to achieve strong internal revenue growth in fiscal 2005 as a result of these initiatives. Additional growth is expected as a result of the resumption of an acquisition program aimed at clinics that meet strict profitability and best-practices standards in the industry.