

AUDIOTECH HEALTHCARE CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004

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, 2004
(Unaudited – prepared by Management)

	Jun. 30 2004	Sep. 30 2003
ASSETS		
CURRENT ASSETS:		
Cash	\$ 556,120	\$ 329,875
Term deposit	15,673	25,673
Accounts receivable	312,159	266,521
Inventory	77,094	64,002
Prepaid expenses	6,932	27,050
	967,978	713,121
 CAPITAL ASSETS	 293,693	 310,196
 GOODWILL	 942,775	 942,775
	\$2,204,446	\$1,966,092
 LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and accruals	\$ 452,339	\$ 425,802
Customer deposits	65,436	26,515
Current portion of long-term debt	107,791	643,944
	625,566	1,096,261
 LONG-TERM DEBT	 844,556	 361,722
 SHAREHOLDERS EQUITY		
SHARE CAPITAL	1,635,840	1,635,840
OTHER PAID IN CAPITAL	219,000	-
DEFICIT	(1,100,335)	(1,111,714)
FOREIGN EXCHANGE ADJUSTMENT	(20,181)	(16,017)
	734,324	508,109
	\$2,204,446	\$1,966,092

APPROVED BY THE DIRECTORS:

"Osvaldo (Ozzie) Iadarola" Director

"Grant Robertson" Director

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AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
Period Ended June 30, 2004
(Unaudited – prepared by Management)

	Jun. 30 2004 3 months	Jun. 30 2003 3 months	Jun. 30 2004 9 months	Jun. 30 2003 9 months
SALES	\$ 965,954	\$ 819,650	2,536,915	2,319,323
COST OF SALES				
Materials and freight	400,961	312,922	1,022,376	923,237
GROSS PROFIT	564,993	506,728	1,514,539	1,396,086
EXPENSES				
Advertising and promotion	52,523	8,188	69,906	32,663
Amortization	17,239	17,845	54,939	57,246
Corporate development	0	8,751	0	47,057
Equipment lease	104	0	291	9,150
Insurance	7,477	8,129	20,909	20,511
Interest and bank charges	7,003	5,914	18,555	18,416
Interest and long-term debt	21,307	21,583	62,801	68,446
Licences, dues and fees	207	2,153	9,285	9,367
Office and sundry	15,532	17,995	42,740	47,590
Professional filing fees	17,834	8,126	45,807	35,205
Rent and utilities	60,198	60,598	179,752	186,066
Repairs and maintenance	8,762	1,738	14,093	8,357
Telephone and fax	14,388	11,440	39,984	37,791
Travel and automotive	20,285	17,402	44,341	35,247
Wages and benefits	305,575	229,660	848,507	773,596
	548,434	419,522	1,451,910	1,386,708
INCOME FROM OPERATIONS	16,559	87,207	62,629	9,379
OTHER INCOME (EXPENSE)				
Amortization of debenture discount	15,250	0	15,250	0
INCOME FOR THE PERIOD	1,309	87,207	47,379	9,379
DEFICIT, beginning of period	(1,101,644)	(1,084,176)	(1,147,714)	(1,006,348)
DEFICIT, end of period	\$(1,100,335)	\$(996,969)	(1,100,335)	(996,969)
Income per share, basic & fully diluted	\$0.0001	\$0.0065	\$0.0036	\$0.0007

AUDIOTECH HEALTHCARE CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Period ended June 30, 2004
(Unaudited – prepared by Management)

	Jun. 30 2004 3 months	Jun. 30 2003 3 months	Jun. 30 2004 9 months	Jun. 30 2003 9 months
OPERATING ACTIVITIES:				
Income (loss) for the period	1,309	87,207	47,379	9,379
Non-cash items:				
Amortization	17,239	17,845	69,906	57,246
Amortization debenture discount	15,250	0	15,250	0
	<u>33,798</u>	<u>105,052</u>	<u>132,535</u>	<u>66,625</u>
(Increase) decrease in:				
Accounts receivable	(48,422)	(26,472)	(45,638)	6,774
Inventory	(34,497)	(235)	(13,092)	5,723
Prepaid expenses	(1,530)	(694)	20,118	1,053
Increase (decrease) in:				
Accounts payable and accruals	63,573	36,464	26,537	96,712
Customer deposits	48,257	(8,067)	38,921	(25,826)
Income taxes	-	-	-	(206)
Cash provided by (used in) operations	<u>61,179</u>	<u>106,048</u>	<u>159,381</u>	<u>150,858</u>
FINANCING ACTIVITIES:				
Net new borrowing/assumption of debt	726,000	118,881	726,000	118,881
Debt reduction	(733,552)	(166,719)	(794,569)	(368,351)
Other paid in capital	183,000	-	183,000	-
Cash proved by financing	<u>175,448</u>	<u>(47,838)</u>	<u>114,431</u>	<u>(249,470)</u>
INVESTING ACTIVITIES:				
Purchase of capital assets	(7,646)	(20,809)	(53,403)	(44,226)
Purchase of long-term investments	-	-	-	-
Cash used in investing	<u>(7,646)</u>	<u>(20,809)</u>	<u>(53,403)</u>	<u>(44,226)</u>
INCREASE (DECREASE) IN CASH	228,981	37,401	220,409	(142,838)
EFFECT OF FOREIGN EXCHANGE ADJUSTMENT	(2,068)	(42,582)	(4,164)	(61,000)
CASH, beginning of period	<u>340,744</u>	<u>415,160</u>	<u>355,548</u>	<u>613,817</u>
CASH, end of period	<u>571,793</u>	<u>409,979</u>	<u>571,793</u>	<u>409,979</u>

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004
(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:

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 inter company balances and transactions have been eliminated on consolidation.

Inventory:

Inventory is recorded at the lower of cost as determined on a first-in first out basis, and net realizable value.

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 shareholder's equity and included in the cumulative translation account. The exchange rate between the Canadian dollar and the US dollar at June 30, 2004 was 1.3338 and averaged 1.3310 for the period October 1, 2003 to June 30 2004.

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
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.

Income Per Share:

Income per share is calculated using the weighted average number of shares outstanding during the period, which are 13,329,825 (2003 13,329,825).

Use of Estimates:

The presentation of financial statements in conformity with 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.

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004
(Unaudited – prepared by Management)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Cost of Goods Sold:

Cost of Goods Sold includes only the cost of the products. All wage costs are listed under "Wages and benefits".

Stock-based Compensation:

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. The Company discloses the pro forma effect of accounting for these awards under the fair value based method.

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.

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. 2004 Net	Sep. 2003 Net
Equipment	\$ 930,994	\$ 669,502	\$ 261,492	\$ 263,294
Computer equipment	43,225	28,372	14,853	16,685
Leasehold Improvements	79,831	62,483	17,348	30,217
	<u>\$1,054,050</u>	<u>\$760,357</u>	<u>\$293,693</u>	<u>\$310,196</u>

AUDIOTECH HEALTHCARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5. GOODWILL:

	Cost	Accumulated Amortization	Jun. 2004 Net	Sep. 2003 Net
Goodwill	\$1,045,001	\$102,226	\$942,775	\$942,775

NOTE 6. LONG-TERM DEBT:

	Jun. 2004	Sep. 2003
Promissory notes repayable in monthly instalments of \$1,450 including interest at 10% per annum. Secured by certain personal guarantees of the President. Due June 2005.	\$ 112,863	\$ 279,919
Equipment loans repayable based on thirteen instalments per annum of \$3,935, non-interest bearing. Unsecured. Due 2006	102,401	144,587
Line of Credit, repayable in monthly installments of \$4167, plus an annual payment of interest at a rate of 5.5% per annum.	245,833	-
Convertible debenture, interest at 10% per annum payable monthly in instalments of \$5,491, maturing April 2007. Debentures are convertible at the holder's option into common shares at prices of \$0.20, \$0.22 and \$0.25 per common share.	491,250	581,160
	952,347	1,005,666
Current portion of long-term debt	107,791	643,944
	\$ 844,556	\$ 361,722

The convertible debentures issued in March and June 2002, were repaid during the period.

During the period, the Company issued new convertible debentures in the amount of \$659,000 recorded as \$476,000 long-term debt and \$183,000 Other Paid In Capital. The debentures carry an interest rate of 10% per annum maturing on April 7, 2007. 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.

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

2004	\$107,791
2005	102,293
2006	723,332
2007	58,891
2008	55,635
Thereafter	72,155

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NOTE 7. 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. 2004	Number of Shares	\$ Sep. 2003
Balance, beginning of period	13,329,825	\$ 1,635,840	13,329,825	\$ 1,635,840
Issued during the year:				
Issued on Private Placement for cash	-	-	-	-
Issued on options	-	-	-	-
Balance, end of period	13,329,825	\$ 1,635,840	13,329,825	\$ 1,635,840

Details of the Company's outstanding options as follows:

	Expiry	Exercise Price	Number
Employee	10 Sep. 2004	\$ 0.45	20,000
Employee	10 Sep. 2004	\$ 0.45	50,000
Employee	24 Feb. 2005	\$ 0.22	225,000
Employee	02 Feb. 2006	\$ 0.35	50,000
Employee	09 Jun. 2007	\$ 0.28	200,000
			<u>545,000</u>

The Company has no warrants outstanding:

During the 9 months ended June 30, 2004, no compensation costs were recorded in the consolidated statement of earnings for options granted to employees (2003 - nil).

Had compensation costs been determined using the fair value based method at the grant dates for awards under the plan, the Company's pro forma net income, income per share and diluted earnings per share would have been as follows:

	9 Months Ended June 30 2004	2003
Pro forma net income	\$ 13,379	\$ 9,379
Pro forma income per share (basic & fully diluted)	0.0010	0.0007

The compensation costs of \$34,000 (2003 - \$nil) reflected in these pro forma amounts were calculated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 3.80%, a dividend yield of 0%, an expected volatility of 73% and expected lives of stock options of five years.

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NOTE 8. 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:

	Sep. 30, 2003
2004	\$ 151,310
2005	66,663
2006	54,742
2007	39,762
2008	27,538
	\$ 340,015

NOTE 9. INCOME TAXES

For the six-month period ended June 30, 2004, income taxes were offset by loss carry forwards from prior years. Accordingly, no provision for income taxes was recorded during the period. 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.

NOTE 10. RELATED PARTY TRANSACTIONS:

During the period the Company paid, under normal terms of trade, \$66,394 (June 30, 2003 \$60,218) in management salaries to a director of the Company and \$71,003 (June 30, 2003 \$67,912) in administrative salaries to a director of the Company, \$965 (June 30, 2003 \$2,057) in commissions to MediaWave Communications Corp., a company controlled by a Director of the Company.

NOTE 11. SEGMENTED INFORMATION:

Operations and identifiable assets by geographic segment are as follows:

	Jun. 2004	Jun. 2003
Revenue:		
Canada	\$ 1,578,851	\$ 1,252,489
United States	958,064	1,066,834
	\$2,536,915	\$2,319,323
Amortization		
Canada	\$ 43,910	\$ 52,696
United States	11,029	4,550
	\$54,939	\$57,246
Earnings before income taxes		
Canada	\$ (1,534)	\$ (148,287)
United States	64,163	157,666
	\$62,629	\$ 9,379
Total assets:		
Canada	\$1,931,952	\$1,663,164
United States	272,494	305,527
	\$2,204,446	\$1,968,691