



**FORM 51-102F1  
EMPOWER TECHNOLOGIES CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2013**

The following discussion and analysis, prepared as of August 28, 2013, should be read together with the unaudited interim consolidated financial statements for the six month period ended June 30, 2012 and related notes attached thereto, which are prepared using accounting policies consistent with International Financial Reporting Standards. All amounts are stated in Canadian dollars unless otherwise indicated.

The reader should also refer to the audited financial statements and the Management Discussion and Analysis for the year ended December 31, 2012. Additional information relating to Empower is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements. References in this document to “we”, “us”, “Empower” and “the Company” refer to Empower Technologies Corporation and its subsidiaries. Empower operates through our wholly-owned Washington State subsidiary Empower Technologies, Inc. (“Empower US”), and indirectly through Empower Technologies (Canada) Inc. (“Empower Canada”) and Empower Defense Systems Inc. (“EDS”). The Company trades on the TSX Venture Exchange under the symbol EPT.

Additional information relating to the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

**DESCRIPTION OF BUSINESS**

Empower Technologies (the “Company”) has transformed from an embedded technology company to a full fledged technology, products and services and manufacturing company

The Company was founded on its core technology - engineered embedded hardware and software. The core embedded hardware and software technology product is the LEOs embedded hardware platform (“Platform”). Under this Platform, the core embedded software is LEOs, which stands for “Linux Embedded Operating System” and the core embedded hardware is the knowledge and expertise to design and build ultra-small high performance Single Board Computer (SBC). Together the LEOs embedded technology is made up of a highly optimized and high power computing platform in a very small footprint and low power consumption. It is the Company’s branded operating software “LEOs” and the hardware design which allows product developers and manufacturers to create their own embedded software and hardware, or integrate the Company’s LEOs embedded software or hardware, for their own products.

With Empower’s core LEOs embedded technology, The Company has applied it to create its own real-time image processing technology. Empower’s proprietary innovative real-time image processing technology consist of:

- a) Real-time Image Motion Stabilization (IMS) Technology,
- b) Real-time Image Signal Correction (ISC) Technology

The Company has also applied its own image processing technology to create its own branded image stabilizer base on IMS technology and cameras with ISC and/or IMS technologies built-in. The Company’s proprietary ISC and IMS technologies can be licensed or OEM by imaging product developers and manufacturers in the defense, automotive, security and surveillance industries.

The Company’s technologies, products and services can cater to a broad range of customers such as product developers and manufacturers in the digital signage and interactive kiosk, security and surveillance, military, automotive and transportation, healthcare, industrial control and consumer electronics sectors.

In November 2012, the Company established a wholly-owned subsidiary “Empower Defense Systems Inc.”, it is a full service defense contractor that provides system integration, design, development, engineering, installation, maintenance and manufacturing services. Empower Defense Systems Inc. target customers are large aerospace, marine, land base and homeland security defense suppliers/contractors, militaries and governments.

In order for the Company to gain market penetration and recognition of its advanced technologies, products and services, the Company has commenced a growth strategy based on Merger and Acquisition of revenue producing companies as well as strategically dividing its business into three distinct operating divisions:

**A: The Empower Embedded Engineering Division:**

The embedded engineering division is focused on the sales and marketing of LEOs embedded platforms and tools. Under its administration, the embedded product division has developed several models of a LEOs development kit (“Development Kit”) and LEOs embedded computer system boards (“Computer Boards”) that provide all the software development tools and hardware platform for developers to create the software and the embedded hardware for their own products. The embedded technology product division markets and sells the Development Kits and Computer Boards (also known as “single board computers”) to prospective interested product developers and manufacturers. It is the division’s goal to sell as many Development Kits and Computer Boards as possible to achieve product adoption as well as selling engineering services which include OEM manufacturing. However, there are limitations to the number of Development Kits that can be sold. The division also believes a large portion of the revenue will be generated from engineering services and OEM manufacturing. It is because once product developers decide to use the Development Kit to create the software and hardware for their new product, the division has achieved a “design win” and the product developer must obtain a LEOs license or buy Computer Boards (with LEOs embedded) to go into production. Significant revenue for the Company can occur if the licensee’s product has the potential to have high volume production. There are also possibilities customers coming to Empower only for its OEM manufacturing service and it can generate significant revenue due to the high value of the product or the volume.

**B. The Empower Imaging Laboratories Division**

This division will take over the marketing and sales of video technology products. One of the very first imaging technology products is Empower’s proprietary real time translational and rotational Image Motion Stabilization (IMS) Technology branded under the name “Bullseye”. This state of the arts real time image stabilizer is the best priced unit under its class. The other is Image Signal Correction (ISC) Technology products which are under development. The Company will also have video analytic products in the future. In order to introduce those Empower proprietary imaging technologies and expedite their market penetration, Empower will embark on a sales and marketing strategy to embed its proprietary imaging technologies into a line of surveillance camera and sell into the security and surveillance industry. The Company believes by offering imaging technology product solutions such as surveillance cameras and video stabilizers that incorporate Empower’s proprietary real time IMS, ISC and video analytics, it will fast track sales into the market and position Empower’s imaging technology as the leader in the industry.

**C. The Empower Defense Systems Division:**

Empower Defense Systems is a full service defense contractor that provides system integration, design, development, engineering, installation, maintenance and manufacturing services. Through other divisions in the Empower Group - “Empower Embedded Engineering” and “Empower Imaging Labs”, Empower Defense Systems can also provide full turnkey computer software, hardware and control electronics design and development and advance imaging technologies, products and services. Empower Defense Systems target customers are large aerospace, marine, land base and homeland security defense suppliers/contractors, militaries and governments.

**The Company Focus**

The Company is currently focused on generating revenue from Empower Defense Systems Inc. to build a sales channel for Empower’s core technologies products and solutions such as LEOs embedded platforms, ISC and IMS surveillance cameras and video stabilizers and from offering embedded engineering and full service manufacturing to developers and manufacturers.

The Company intends to generate and increase revenue by deploying the following strategy:

1. Drive Empower Defense Systems as the catalyst to generate sales and profit growth and,
2. Empower Embedded Engineering and Empower Imaging Labs Divisions will focus their sales and marketing of their respective technology, products and services by leveraging on Empower Defense Systems customers and sales channel;
3. Empower will accelerate its M&A activity of complementary businesses to leverage Empower’s technologies, products and services to achieve rapid revenue and profit growth;

**Principal Products or Services:**

The Company is currently offering embedded technology, products and services, real time image processing technology, products and services and defense contracting services. The Company to date has sold Development Kits, Computer Boards, embedded engineering services, image stabilizer and defense contract manufacturing. Revenue has been generated largely from the following sources:

**1. Defense Contracting**

Provide full service defense contracting services that provide system integration, design, development, engineering, installation, maintenance and manufacturing services.

**2. Embedded Engineering**

The Embedded Engineering Division sells LEOs embedded Computer Boards, products and services. The Company provides its prospective embedded customers with engineering and manufacturing services including maintenance and support for the LEOs and its Computer Boards, imaging technology products, product developments and contract manufacturing

**3. Real-time Image Processing Technology**

The Company has developed in-house real-time video stabilizer technology that can perform shaking and rolling motion stabilization. It has also developed image processing technology called "Image Signal Correction" Technology or ISC. The Company is selling surveillance cameras and video stabilizers that incorporate Empower's proprietary real-time IMS, ISC and video analytics technologies.

**Recent Developments:**

In the last quarter, the Company had the following developments:

1. Announced it has closed its previously announced non-brokered private placement (the "Private Placement") of 4,330,000 units of the Company ("Units") for aggregate gross proceeds of \$216,500. Each Unit consists of a common share of the Company and one-half of a common share purchase warrant (each whole warrant, a "Warrant"). Each whole Warrant entitles the holder to acquire an additional common share of the Company for a period of 12 months from the date of issue at a price of \$0.10 per share.

The common shares, together with the shares issued on the exercise of the Warrants, will be restricted from trading for a period of four months from the date of issuance of the Units, being August 2, 2013, in compliance with TSX Venture Exchange policies and securities legislation.

The proceeds from the Private Placement will be used to finance the ramping up of the operations and purchase order(s) of the newly formed wholly-owned subsidiary Empower Defense Systems Inc. ("EDS") and for general working capital purposes.

2. Announced it has signed a definitive share purchase agreement ("Definitive Agreement") with a privately held corporation (the "Vendor"), to purchase 100% of its wholly owned subsidiary (the "Telco") for Empower shares. Due to the confidentiality agreement with the Vendor and the competitive nature of their business, the name of the Vendor and its subsidiary are withheld at this time until further notice.

Empower will issue 3,000,000 Empower shares for the purchase of the Telco. The Vendor values the Empower share at \$0.25 per share. There are no long term liabilities or significant liabilities to assume only regular trade payables that are in line with its sales and size of operation. In addition, the Company will pay a performance based earnout bonus payment up to a maximum of \$400,000 ("Maximum Earnout") within the first 3 years from the date of Closing subject to:

- a) the Telco generates positive EBITDA equal to or greater than \$200,000 ("Annual Earnout") within any of those first 3 years from the date of Closing then Empower will pay the Vendor 25% of the positive EBITDA in cash, provided that the Vendor has not received the Maximum Earnout from the cumulative Annual Earnout: or
- a. b) the Telco generates positive EBITDA equal to or greater than \$25,000 but less than \$200,000 within any of those first 3 years from the date of Closing then Empower will pay the Vendor 10% of the positive EBITDA in cash, provided that the Vendor has not received the Maximum Earnout from the cumulative Annual Earnout. The EBITDA amounts above shall be determined by the Company's

auditors calculated based solely on the audited financial statements of the Telco in each of the three year.

Earnout bonus payment, if there is any, the Vendor may elect by written notice to Empower to receive any portion of the Annual Earnout payable to the Vendor in the form of Empower Shares in lieu of cash; and the number of Empower Shares to be issued pursuant to such election shall be determined based on a conversion price that shall be the greater of the following:

1. a conversion price of \$0.25 per Empower Share; or,
2. the Market Price of Empower Shares at the time of notice, as defined by the policies of the TSX Venture Exchange, and shall be subject to resale restrictions, with 25% of such Empower Shares being released from the restrictions every six months.

If any portion of the Annual Earnout is to be paid in cash, it must be paid from the cash flow generated from the Telco or the Business and not from capital or investment provided by Empower. Any financing arrangement to make the cash payment at once or over time must have the mutual approval of the Purchaser and the Vendor, such approval not to be unreasonably withheld.

The Closing date is on or before June 30, 2013 or such later date as the Vendor and Empower may agree upon in writing.

The completion of the purchase of the Telco by Empower is subject to due diligence, receipt of regulatory approval and acceptance by TSX Venture Exchange.

3. Announced the Company is consulting with legal professionals in Canada and the US on the best practices to enforce Empower's stylus based handwriting recognition utility patent ("Utility Patent") first announced on October 9, 2007. Utility Patent is also referred to as "patent for invention". It generally provides the patent owner to exclude others from making, using, or selling the invention for a period up to twenty years from the date of patent application filing. See the U.S. Code Title 35 - Patents for a full description of patent laws. For detail on Types of Patents follow this link:

<http://www.uspto.gov/web/offices/ac/ido/oeip/taf/patdesc.htm>.

4. Announced the Company has granted its directors and officers stock options of 3,000,000 shares at an exercise price of \$0.085 per share for five years. The stock options granted is subject to TSX Venture Exchange approval.
5. Announced it has received from TSX Venture Exchange ("TSXV" or the "Exchange") the final approval to purchase 100% of AIC Global Communications Inc. ("AIC", previously undisclosed "Telco") a wholly owned subsidiary of Y2K Investment Inc. ("Vendor"), a privately held corporation.

AIC is now expanding into business VoIP (Voice over Internet Protocol) markets using Cisco devices and customer premises equipment (CPE). Targeted customers are small to medium sizes enterprises (SME). As of today, AIC has delivered Smart Business VoIP phone services and Hosted IP PBX business systems to the SME market utilizing its Cloud based platforms. Plans are in place to deploy Managed Business Solutions to the SMEs across Canada this year. Revenue growth will be through its existing retail locations, two in the Greater Vancouver, one in Calgary and one in Toronto. AIC current annual revenue is approximately \$2 million and it is EBITDA and cash flow positive.

By acquiring AIC, Empower has gained a very strong and recognizable brand in the Asian Canadian market, a sales and marketing platform for its embedded and video technologies, products and services, and a telecommunication operating system platform. This transaction increases the revenue base of the entire Empower Group immediately. The acquisition provides AIC the ability to access the much needed growth capital from the public market. This enables AIC to grow its VoIP phone services and fuel its expansion to a full service SME Information Technology ("IT") and managed business solutions market which includes security and surveillance, cloud based applications and other IT products and services.

AIC will leverage Empower's embedded hardware and software expertise to offer state-of-the-art communication, mobile and video technologies, products and services to their customers. For example, Empower's Image Signal Correction (ISC) and Image Motion Stabilization (IMS) enabled surveillance camera

will be sold through AIC's sales and marketing channels to shopping malls, schools, universities, and commercial/industrial buildings for their cloud based video surveillance network needs.

The primary objective of AIC's expansion in the near term is to achieve rapid revenue growth and market penetration in metro Vancouver, Calgary and Toronto. Over the longer term, Empower is positioning AIC as a dominant VoIP phone service, security and surveillance, IT and managed business solution, products and services provider for small and medium enterprises and to leverage Empower's advanced embedded and video technologies for a competitive advantage.

The Closing date has been extended from June 30, 2013 to on or before July 31, 2013 for the parties to prepare the closing documents and to complete the transaction.

## PERFORMANCE SUMMARY

For the three month period ended June 30, 2013, the Company has incurred a loss of \$301,901 or \$0.01 per share, compared with a loss of \$259,286 or \$0.01 per share for the three month period ended June 30, 2012. This loss represents expenditures related to the ongoing development and marketing of the Company's products and the acquisition of Northstar Network Ltd. from Northstar Electronics, Inc. which is still subject to TSX Venture Exchange approval. This is consistent with the Company's business plan.

The total expenses excluding share-based compensation increased to \$302,851 for the three months ended June 30, 2013, compared with \$272,384 for the three month period ended June 30, 2012. Revenue increased to \$32,235 for the Quarter, compared to \$21,865 for the three month period ended June 30, 2012. For the six months ended June 30, 2013, total expense excluding stock-based compensation increased to \$615,776 compared to \$571,466 for the six month period ended June 30, 2012. Revenue increased for the six months ended June 30, 2013 to \$88,069 from \$21,865 for the six month period ended June 30, 2012. The increase is mainly attributable to EDS sales

As at June 30, 2013, the Company had cash of \$12,396 compared to \$3,052 at December 31, 2012.

The Company expects overall operating expenses will stay at current level in the foreseeable future until significant product shipments begin and/or completion of acquisition of the Telco company.

## RESULTS OF OPERATIONS

	Six Month Period Ended June 30, 2013	Six Month Period Ended June 30, 2012	Three Month Period Ended June 30, 2013	Three Month Period Ended June 30, 2012	Year Ended December 31, 2012
<b>Sales</b>					
Canada	\$ 88,069	\$ -	\$ 35,235	\$ -	\$ -
United States of America	-	-	-	-	-
Asia	-	21,865	-	21,865	46,532
	<u>88,069</u>	<u>21,865</u>	<u>35,235</u>	<u>21,865</u>	<u>46,532</u>
<b>Cost of Sales</b>					
Cost of goods sold	94,324	10,152	53,242	10,152	10,152
Write-down of inventory	-	-	-	-	-
	<u>(6,255)</u>	<u>10,152</u>	<u>(18,007)</u>	<u>10,152</u>	<u>10,152</u>
Gross margin	<u>-</u>	<u>11,713</u>	<u>-</u>	<u>11,713</u>	<u>36,380</u>
Total expenses	<u>1,605</u>	<u>606,893</u>	<u>284,844</u>	<u>308,663</u>	<u>1,243,320</u>
Other items	<u>950</u>	<u>(90,886)</u>	<u>950</u>	<u>37,664</u>	<u>(246,833)</u>
<b>Income (loss) for the period:</b>					
Canada	(680,371)	(680,371)	(302,851)	(264,505)	(1,444,654)
People's Republic of China	-	-	-	-	-
United States of America	<u>-</u>	<u>(5,695)</u>	<u>-</u>	<u>(5,219)</u>	<u>(9,119)</u>

	\$ (614,171)	\$ (686,066)	\$ (301,901)	\$ (259,286)	\$ (1,453,773)
Loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.03)
Total assets	\$ 68,058	\$ 356,335	\$ 68,058	\$ 356,335	\$ 64,888

## Revenue

Revenues generated for the three months ended June 30, 2013 were \$35,235, compared with \$21,865 for the three months ended June 30, 2012. For the six months ended June 30, 2013, revenues were \$88,069 compared with \$21,865 for the six months ended June 30, 2012. The reason for the increase in revenue is due to the Company changing its sales and marketing effort to realign the business into three divisions – the embedded engineering, the imaging laboratories and Empower Defense Systems. EDS is generating the majority of the revenue.

## Cost of Sales

Cost of material sold during the Quarter was \$53,242, compared with \$10,152 for the period ended June 30, 2012. For the six months ended June 30, 2013, cost of sales was \$94,324, compared with \$10,152 during the six months ended June 30, 2012. Cost of sales as a percentage of sales amounted to negative in the first half of 2013, compared with 46% for the same period in 2012. The Cost of sales was higher due to the high cost of starting the EDS operation in St. John's Newfoundland. Subsequently, the Company has closed down the Newfoundland operation and in the process of setting it up in the Lower Mainland in BC.

## General and Administrative

General and administrative expenses without stock-based compensation and R&D costs for the three months ended June 30, 2013 decreased to \$266,260 (2012 - \$272,240) due to the decrease in financing and R&D activities. Advertising and promotion decreased to \$2,935 (2012 - \$4,555) due to decrease in promotional activities. Consulting fees decreased to \$49,943 (2012 - \$53,350) due to the Company's decrease in engineering contracting and promotion activities. For the six months ended June 30, 2013, general and administrative costs without stock-based compensation and R&D costs increased to \$576,353 (2011 - \$520,395). The slight increase is due to the start-up cost of the EDS operation and the acquisition of AIC in the period.

## Research and Development

Research and Development costs ("R&D costs") relating to the development and maintenance of LEOs, adding new operating software and new products are expensed as incurred. R&D costs for the three month period ended June 30, 2013 were \$18,584 compared to \$4,935 for the period ended June 30, 2012. For the six months period ended June 30, 2013, R&D costs were \$33,168, compared to \$62,784 for the same period ended June 30, 2012. The R&D cost decrease is due to the Company's successful completion of developing its core technology - LEOs operating software.

	Six Month Period Ended June 30, 2013	Six Month Period Ended June 30, 2012	Three Month Period Ended June 30, 2013	Three Month Period Ended June 30, 2012
Equipment and supplies	\$ -	\$ 170	\$ -	\$ 81
Rent	22,392	25,375	11,667	11,515
Salaries and benefits	11,226	37,239	6,917	12,970
	\$ 33,618	\$ 62,784	\$ 18,584	\$ 24,566

## SUMMARY OF QUARTERLY RESULTS

	Three Months Ended June 30, 2013	Three Months Ended March 31, 2013	Three Months Ended December 31, 2012	Three Months Ended September 30, 2012
Total assets	\$ 68,058	\$ 130,250	\$ 64,888	\$ 342,945
Share-based payments	-	-	(5,017)	8,615
Working capital (deficiency)	(3,152,484)	(2,900,555)	(2,760,858)	(2,282,776)
Shareholders' deficiency	(4,687,683)	(5,593,282)	(3,452,562)	(4,965,348)
Revenues	21,865	-	24,667	-
Net loss	(301,901)	(312,270)	(481,427)	(286,280)
Loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

	Three Months Ended June 30, 2012	Three Months Ended March 31, 2012	Three Months Ended December 31, 2011	Three Months Ended September 30, 2011
Total assets	\$ 356,335	\$ 207,936	\$ 163,983	\$ 216,057
Share-based payments	11,857	11,857	49,284	21,285
Working capital (deficiency)	(2,006,692)	(1,840,981)	(1,811,087)	(2,212,622)
Shareholders' deficiency	(4,687,683)	(4,521,304)	(4,489,180)	(4,306,435)
Revenues	21,865	-	(7,385)	12,000
Net loss	(259,286)	(426,780)	(356,980)	(324,635)
Loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)

## SELECTED ANNUAL INFORMATION

	Year Ended December 31, 2012 (i)	Year Ended December 31, 2011 (i)	Year Ended December 31, 2010 (ii)
Sales			
Canada	\$ -	\$ 30,000	\$ 28,142
United States of America	-	104,673	266,670
Asia	46,532	23,099	21,812
Europe	-	-	3,109
	<u>46,532</u>	<u>157,772</u>	<u>319,733</u>
Cost of Sales			
Cost of material sold	10,152	51,127	13,653
Cost of services	-	-	122,082
Write-off of inventory	-	73,292	4,415
	<u>10,152</u>	<u>124,419</u>	<u>140,150</u>
	<u>36,380</u>	<u>33,353</u>	<u>179,583</u>
Total expenses	<u>1,243,320</u>	<u>1,405,370</u>	<u>2,393,960</u>
Other items	<u>(246,833)</u>	<u>(422,788)</u>	<u>62,379</u>
Loss for the period			

Canada	(1,444,654)	(1,824,253)	(2,169,590)
People's Republic of China	-	-	-
United States of America	9,119	29,448	17,592
	<u>\$(1,453,773)</u>	<u>\$ (1,794,805)</u>	<u>\$(2,151,998)</u>
Loss per share	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>
Total assets	\$ 64,888	\$ 163,983	\$ 265,752

- (i) Presented using accounting policies consistent with International Financial Reporting Standards.  
(ii) Presented in accordance with Canadian GAAP and was not required to be restated to IFRS.

Our operations throughout the years displayed above have been focused on the sales and marketing of our technologies and promoting those technologies to product designers and engineers, bidding and winning defense contracts and the acquisition of complementary revenue producing businesses.

## LIQUIDITY

The Company has financed its operations to date primarily through the issuance of common shares. The Company continues to seek capital through various means including the issuance of equity and/or debt. As at June 30, 2013, there were 2,940,000 share purchase warrants outstanding. These warrants represent a source of equity capital for empower, should they be exercised.

The consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards on the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

	As at June 30, 2013		As at June 30, 2012	
Deficit	\$	(31,135,284)	\$	(29,753,416)
Working capital	\$	(3,152,484)	\$	(2,006,692)

Net cash used in operating activities for the quarter was \$109,306 compared to net cash used of \$274,164 for the three month period ended June 30, 2012. The decrease in the use of cash was primarily due to reduction in R&D activities. For the six month period ended June 30, 2013, the net cash used in operating activities was \$250,123 compared with net cash used in operating activities of \$534,267 for the six month period ended June 30, 2012.

Net cash used in investing activities for the quarter was \$nil compared to net cash used of \$97,876 for the three month period ended June 30, 2012. For the six months ended June 30, 2013, the net cash used in investing activities was \$nil, compared with net cash used in investing activities of \$128,490 for the six month period ended June 30, 2012. The cash used during the six month period of 2012 was caused primarily by giving loan to Northstar Network Ltd.

Net cash generated in financing activities for the Quarter was \$88,816 compared to net cash used of \$393,301 for the three month period ended June 30, 2012. For the six months ended June 30, 2013, net cash generated by financing activities was \$259,467, compared with net cash generated by financing activities of \$696,502 for the six months ended June 30, 2012. The cash generated was caused primarily by proceeds of debenture, shares proceeds received in advance and loan and the cash used in financing activities was caused by payment of loans.

At June 30, 2013, the Company had \$12,396 in cash. The Company has been incurring operating losses (excluding stock-based compensation and amortization) at the average rate of \$101,587 per month over the last six months.

## OUTSTANDING SHARE DATA

As at August 28, 2013, there were 61,075,279 common shares outstanding, in addition there were 1,440,000 stock options outstanding ranging between \$0.10 per share, and 2,940,000 share purchase warrants ranging between \$0.15 and \$0.10. More information on these instruments and terms of their conversion is set out in note 9, 10 and 11 of the interim Financial Statements.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

Key management includes directors, and officers of the Company. The Company entered into the following transactions with related parties:

- a) Recorded share-based payments of \$Nil (six month period ended June 30, 2012 - \$22,316) for services provided by directors and officers.
- b) Paid or accrued consulting fees of \$96,000 (six month period ended June 30, 2012 - \$88,000) for services provided by officers and directors of the Company.
- c) Paid or accrued directors' fees of \$36,000 (six month period ended June 30, 2012 - \$Nil) for services provided by directors of the Company.
- d) Paid or accrued salaries and benefits of \$Nil (six month period ended June 30, 2012 - \$36,000) to an officer of the Company included in research and development costs.
- e) Paid or accrued salaries and benefits of \$Nil (six month period ended June 30, 2012 - \$8,000) to directors and officers of the Company. Included in current accounts payable is \$908,646 (six month period ended June 30, 2012- \$671,665) due to directors and officers of the Company.

At June 30, 2013, \$1,415,872 (December 31, 2012 - \$1,278,912) of short term loans payable is due to a director and officer of the Company. The short term loans bear interest at 14% and are unsecured. The Company also has \$2,724,457 (December 31, 2012 - \$2,724,457) of long term loans payable (Note 8) to the same director and officer. The loans bear interest at 10%, and are unsecured. The total interest paid or accrued to the director was \$258,317 (June 30, 2012 - \$205,074) for the six month period ended June 30, 2013.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

## CRITICAL ACCOUNTING ESTIMATES

### Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Significant areas requiring the use of management estimates include the determination of impairment of property and equipment, depreciation rates for equipment, effective interest rate used in calculating the debt portion of convertible debenture, deferred income tax assets and liabilities, allowance for doubtful accounts, provisions including amounts for inventories and the determination of the assumptions used in calculating fair value of share-based payment calculations. Actual results could differ from these estimates.

## FINANCIAL INSTRUMENTS AND RISK

The carrying value of accounts receivable, accounts payable and accrued liabilities, obligation under finance lease, convertible debenture and loans payable approximated their fair value.

Financial instruments measured at fair value on the financial position are summarized in levels of fair value hierarchy as follows:

The Company is exposed to the following risks from its use of								
	Assets	Level 1	Level 2	Level 3	Total			
Cash	\$	12,396	\$	-	\$	-	\$	12,396

financial instruments: credit risk, market risk and liquidity risk. Management, the Board of Directors and the Audit Committee monitor risk management activities and review the adequacy of such activities.

(i) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfil its contractual obligations. Such risk arises principally from certain financial assets held by the Company consisting of trade receivables. The maximum exposure to credit risk of the Company at period end is the carrying value of these financial assets.

The Company's cash is held with high-credit quality financial institutions. Provisions for doubtful accounts are made on a customer by customer basis. All write downs against receivables are recorded in the Consolidated Statement of Comprehensive Loss. The Company is exposed to credit related losses on sales to customers outside of North America due to higher risks of enforceability and collectability. Accounts receivable at June 30, 2013 are comprised of trade accounts receivable. Sufficient allowance for doubtful accounts is set up as at June 30, 2013.

(ii) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holding of financial instruments.

(a) Foreign Exchange Risk – The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily the U.S. Dollar and the Chinese Renminbi. Foreign exchange risk arises from sales and purchase transactions as well as recognized financial assets and liabilities that are denominated in currencies other than the Canadian dollar, which is the functional currency of the Company and its subsidiaries.

During the six month period ended June 30, 2013 and at December 31, 2012, the Company held only minor amounts of cash deposits in foreign currencies.

b) Interest Rate Risk – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not have any debt instruments outstanding with variable interest rates at June 30, 2013. Financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. No hedging relationships have been established for the related monthly interest or for the principal payments. The Company manages its interest rate risk by minimizing financing costs on its borrowings and maximizing income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day to day basis.

(iii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At June 30, 2013, the Company had cash of \$12,396. Monthly operating expenses approximate \$100,310. The continuation of the Company depends upon the support of its lender and equity investors, which cannot be assured.

## **SUBSEQUENT EVENTS**

Subsequent to period ended June 30, 2013:

- a) On July 2, 2013, the Company announced it is proceeding with a non-brokered private placement of units (the "Offering") to raise up to \$1,200,000. The Offering is not subject to any minimum and is to be of up to 12,000,000 units (the "Units") at \$0.10 per Unit, with each Unit consisting of one share and one half warrant. Each whole warrant is exercisable into one common share for a period of one year at \$0.15 per share. The warrants will be non-transferable. The proceeds of the Offering will be mainly used to finance sales and marketing of the products and services offered by the Empower Group and general working capital. Furthermore, part of the proceeds will also be used to facilitate active pursuit of legal options to materialize and to maximize the monetary value of the Company's US Patent No. 7,280,695 titled "System and Method of pen-based data input into a computing device".

The Offering is subject to acceptance by TSX Venture Exchange.

- b) On July 31, 2013, the Company announced it has closed the 100% purchase of AIC Global Communications Inc. (“AIC”, previously undisclosed “Telco”) from Y2K Investment Group Limited (“Vendor”), a privately held corporation.