



British Columbia Securities Commission

**QUARTERLY AND YEAR END REPORT**  
**BC FORM 51-901F**  
 (previously Form 61)

**Freedom of Information and Protection of Privacy Act:** The personal information requested on this form is collected under the authority of and used for the purpose of administering the *Securities Act*. Questions about the collection or use of this information can be directed to the Supervisor, Financial Reporting (604-899-6729), PO Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver BC V7Y 1L2. Toll Free in British Columbia 1-800-373-6393

|                                  |          |                    |                |                       |              |
|----------------------------------|----------|--------------------|----------------|-----------------------|--------------|
| <b>ISSUER DETAILS</b>            |          | FOR QUARTER ENDED  |                | DATE OF REPORT        |              |
| NAME OF ISSUER                   |          | Y                  | M              | D                     |              |
| EMPOWER TECHNOLOGIES CORPORATION |          | 03                 | 09             | 30                    | 03   11   28 |
| ISSUER ADDRESS                   |          |                    |                |                       |              |
| 120 – 13551 VERDUN PLACE         |          |                    |                |                       |              |
| CITY/                            | PROVINCE | POSTAL CODE        | ISSUER FAX NO. | ISSUER TELEPHONE NO.  |              |
| RICHMOND                         | BC       | V6V 1W5            | 604-278-3102   | 604-278-3100          |              |
| CONTACT PERSON                   |          | CONTACT'S POSITION |                | CONTACT TELEPHONE NO. |              |
| PAUL LEUNG                       |          | CEO, PRESIDENT     |                | 604-278-3100          |              |
| CONTACT EMAIL ADDRESS            |          | WEB SITE ADDRESS   |                |                       |              |

**CERTIFICATE**

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

|                      |                 |             |    |    |
|----------------------|-----------------|-------------|----|----|
| DIRECTOR'S SIGNATURE | PRINT FULL NAME | DATE SIGNED |    |    |
|                      |                 | Y           | M  | D  |
| "Paul Leung"         | Paul Leung      | 03          | 11 | 28 |
| DIRECTOR'S SIGNATURE | PRINT FULL NAME | DATE SIGNED |    |    |
|                      |                 | Y           | M  | D  |
| "Ronald Paton"       | Ronald Paton    | 03          | 11 | 28 |



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| NAME OF ISSUER                   |  | Y                 |  |                    | M              |                |  |                       |  |
| EMPOWER TECHNOLOGIES CORPORATION |  | 03   09   30      |  |                    | 03   11   28   |                |  |                       |  |
| ISSUER ADDRESS                   |  |                   |  |                    |                |                |  |                       |  |
| 120 – 13551 VERDUN PLACE         |  |                   |  |                    |                |                |  |                       |  |
| CITY/                            |  | PROVINCE          |  | POSTAL CODE        |                | ISSUER FAX NO. |  | ISSUER TELEPHONE NO.  |  |
| RICHMOND                         |  | BC                |  | V6V 1W5            |                | 604-278-3102   |  | 604-278-3100          |  |
| CONTACT PERSON                   |  |                   |  | CONTACT'S POSITION |                |                |  | CONTACT TELEPHONE NO. |  |
| PAUL LEUNG                       |  |                   |  | CEO, PRESIDENT     |                |                |  | 604-278-3100          |  |
| CONTACT EMAIL ADDRESS            |  |                   |  | WEB SITE ADDRESS   |                |                |  |                       |  |

**CERTIFICATE**

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

|                      |  |                 |  |             |  |  |
|----------------------|--|-----------------|--|-------------|--|--|
| DIRECTOR'S SIGNATURE |  | PRINT FULL NAME |  | DATE SIGNED |  |  |
| "Paul Leung"         |  | Paul Leung      |  | Y   M   D   |  |  |
| 03                   |  | 11              |  | 28          |  |  |
| DIRECTOR'S SIGNATURE |  | PRINT FULL NAME |  | DATE SIGNED |  |  |
| "Ronald Paton"       |  | Ronald Paton    |  | Y   M   D   |  |  |
| 03                   |  | 11              |  | 28          |  |  |

**EMPOWER TECHNOLOGIES CORPORATION**  
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**SEPTEMBER 30, 2003**

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**SCHEDULE A: FINANCIAL INFORMATION**

See attached unaudited consolidated financial statements for the nine month period ended September 30, 2003.

**SCHEDULE B: SUPPLEMENTARY INFORMATION**

1. See attached unaudited consolidated financial statements for the nine month period ended September 30, 2003.
2. See attached unaudited consolidated financial statements for the nine month period ended September 30, 2003, Note 8, 9.
3. a) Summary of securities issued during the period:

| <u>Date of Issue</u> | <u>Type of Security</u> | <u>Type of Issue</u>        | <u>Number</u> | <u>Price</u> | <u>Total Proceeds</u> | <u>Type of Consideration</u>   |
|----------------------|-------------------------|-----------------------------|---------------|--------------|-----------------------|--|
| August 8, 2003       | Common shares           | Exercise of special warrant | 1,200,317     | \$0.30       | \$ -                  | Conversion of special warrant (\$360,096 was paid at time of purchase) |
| August 8, 2003       | Warrants                | Exercise of special warrant | 1,200,317     | \$ -         | \$ -                  |  |
| September 19, 2003   | Common shares           | Business combination        | 14,614,665    | \$ -         | \$ -                  | Empower US shares pursuant to Merger                                   |
| September 19, 2003   | Common shares           | IPO                         | 4,874,252     | \$0.349      | \$1,701,114           | Cash   |
| September 19, 2003   | Warrants                | IPO                         | 4,874,252     | \$0.001      | \$ 4,874              | Cash   |
| September 19, 2003   | Common shares           | Agent shares                | 200,000       | \$0.35       | \$ 70,000             | Services   |
| September 19, 2003   | Warrants                | Agent warrants              | 974,850       | \$ -         | \$ -                  |  |

- b) Summary of options granted during the period:

Stock options were granted at September 19, 2003 to purchase up to 2,520,000 common shares of Empower Technologies Corporation at a price of \$0.35 per share exercisable for a period of five years from September 19, 2003.

**EMPOWER TECHNOLOGIES CORPORATION**  
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SEPTEMBER 30, 2003

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**SCHEDULE B: SUPPLEMENTARY INFORMATION** (cont'd...)

4. a) Authorized: 100,000,000 common shares without par value.  
b) Issued and outstanding: 20,889,235 common shares with stated value of \$3,373,180.  
c) Summary of options, warrants and convertible securities outstanding:

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|                      | Number<br>of Shares | Exercise<br>Price | Expiry Date        |
|----------------------|---------------------|-------------------|--------------------|
| <b>Stock options</b> | 2,520,000           | \$ 0.35           | September 19, 2008 |
| <b>Warrants</b>      | 4,874,252           | \$ 0.45           | September 19, 2004 |
|                      | 974,850             | \$ 0.45           | September 19, 2004 |
|                      | 1,200,317           | \$ 0.35           | August 1, 2004     |

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- d) Number of shares held in escrow: 10,200,000.

Number of shares subject to a voluntary pooling agreement: 200,000.

5. List of directors and officers: Paul Leung (President, CEO and Director)  
Edward Bagg (Director)  
Christopher Graham (Director)  
Ian Munro (Director)  
Ronald Paton (Director)  
Amy Chan (Secretary, CFO and Director)  
Kenneth Ho (Vice President, Research and Development)

**SCHEDULE C: MANAGEMENT DISCUSSION**

**Three-Month Period Ended September 30, 2003**

***General***

Empower Technologies Corporation ("Empower Corp") completed its initial public offering ("IPO") on September 19, 2003. The common share and the warrant issued in the IPO of Empower Corp commenced trading on the TSX Venture Exchange on September 23, 2003 under the symbol EPT in respect to the common share and EPT.W in respect to the warrant.

As a condition to the IPO and pursuant to a merger agreement, Empower Corp and Empower Technologies, Inc. (Empower US") agreed to carry out a merger involving the acquisition of 100% of the outstanding shares of Empower US in exchange for an equivalent number of common shares of Empower Corp. The merger was carried out by way of a merger of ET Merger Corporation, a wholly-owned U.S. subsidiary of Empower Corp, with Empower US.

**EMPOWER TECHNOLOGIES CORPORATION**  
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SEPTEMBER 30, 2003

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**SCHEDULE C: MANAGEMENT DISCUSSION** (cont'd...)

Legally, Empower Corp is the parent of Empower US. However, as a result of the share exchange described above, control of the combined companies passed to the former shareholders of Empower US. This type of share exchange, referred to as a "reverse takeover", deems Empower US to be the acquiror for accounting purposes.

***Discussion of Operations and Financial Condition***

Empower US continued to sell its products through its own product website with minimal promotional efforts. Empower US focused the majority of its marketing and sales efforts to solicit consumer electronics manufacturers to license its LinuxDA O/S product solutions and to solicit major retailers and developers to OEM, integrate or resale its PowerPlay PDA embedded with LinuxDA O/S. Revenues generated during the 3-month period ended September 30, 2003 were \$414. Gross loss for such period was (\$29,388). The negative gross margin was due to the efforts of Empower US to provide discounted samples to potential consumer electronics manufacturer licensees. With its effort, Empower US and its subsidiary Empower Technologies (Canada) Inc. ("Empower Canada") have successfully signed two sale contracts with Finite Technology Inc. and Best Buy Canada Ltd.

Operating expenses for the 3-month period ended September 30, 2003 were \$28,946. In particular, management and consulting fee, office expense and travel expense were \$13,037 for the 3-month period ended September 30, 2003. Accounting and legal expenses were \$26,245 for the 3-month period ended September 30, 2003. Empower Corp incurred the majority of such legal and accounting fees due to its Initial Public Offering in order to list on the TSX Venture Exchange. Amortization of assets under capital leases was \$2,115 for the 3-month period ended September 30, 2003. Wage and benefits were \$40,210 for the 3-month period ended September 30, 2003. Advertising and promotion expenses were \$3,417 for the 3-month period ended September 30, 2003. Bank charges and interest expenses were \$2,745 for the 3-month period ended September 30, 2003. Over the 3-month period ended September 30, 2003, Empower Corp maintained its operating costs to a low level such that it can achieve product development and commercialization milestones.

The net loss for the 3-month period ended September 30, 2003 was \$29,326.

On August 27, 2003, Empower Corp announced Empower US has signed a Joint Development Agreement (the "Definitive Agreement") with Audio Products International Corporation ("API") to jointly develop a new consumer audio appliance that will utilize API's latest Omnipolar speaker technology and Empower US's LinuxDA embedded operating system technology. API and Empower US will cross license each other's respective technologies to manufacture and to market the audio appliance.

The audio appliance will be manufactured and sold by API under its selective brands. Empower US can OEM and/or license the audio appliance to selective consumer electronic manufacturers to sell under their own labels. Empower US and API intend to launch the audio appliance in the spring of 2004.

Management believes that operating and administrative costs will start to rise in the coming fourth quarter due to new sale activities and the regulatory reporting requirements by the securities commissions and the TSX Venture Exchange.

**EMPOWER TECHNOLOGIES CORPORATION**  
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SEPTEMBER 30, 2003

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**SCHEDULE C: MANAGEMENT DISCUSSION** (cont'd...)

Empower Corp entered into the following transactions with related parties for the nine month period ended September 30, 2003:

- a) Paid or accrued management fees of \$13,500 (September 30, 2002 - \$19,088) to a company with a director in common.
- b) Paid or accrued wages and benefits of \$23,000 (September 30, 2002 - \$21,100) to a director and an officer of Empower Corp.
- c) Paid or accrued rent of \$Nil (September 30, 2002 - \$18,000) to a company with a director and officer in common.
- d) Accrued interest of \$89,308 (September 30, 2002 - \$57,317) to a director of Empower Corp.

Included in deferred development costs are rent of \$Nil (December 31, 2002 - \$24,000) and technical consulting fees of \$90,000 (December 31, 2002 - \$12,000) paid or accrued to directors and officers and to companies with directors and officers in common.

Included in accounts payable is \$117,448 (December 31, 2002 - \$268,812) due to directors, officers and to companies controlled by directors or officers.

Empower US previously entered into service and research and development agreements with various companies related by virtue of a common director. The agreements will remain in effect until terminated by both parties.

These transactions with related parties were conducted in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties. In general, Empower Corp and its subsidiaries conducts these transactions on terms similar to those that would be encountered were the transactions conducted with arm's length parties.

The amount due to related party is payable to a director of Empower Corp, bore interest during the quarter under review, and pursuant to that Loan Agreement with Empower US dated March 31, 2002, as amended, repayable with interest at the rate of 12% per annum until the Closing Date of the IPO and thereafter at the greater of 9.5% and the prime rate plus 2% per annum, is secured by the assets of the Company (Note 13), and is payable in quarterly instalments of \$50,000 beginning on January 1, 2005. Interest will accrue until January 1, 2005 when all accrued interest shall be paid and thereafter payable monthly commencing February 1, 2005.

Deferred development costs increased \$235,374 to \$1,786,153 as at September 30, 2003 compared to \$1,550,779 as at December 31, 2002. Development costs incurred in the period reflect the continued research and development of the LinuxDA O/, PowerPlay products and the joint audio appliance development project with API. Deferred development costs are recorded at cost and are amortized upon commencement of commercial sales on a straight line basis over a period not exceeding three years. Empower Corp reassesses whether it has met the relevant criteria for deferral and amortization and whether there is any impairment in value at each reporting date.

Management believes the deferred development costs will increase incrementally in the coming quarter as the development of new products intensify.

**SCHEDULE C: MANAGEMENT DISCUSSION** (cont'd...)

Empower Corp has a contingent liability which relates to a General Security Agreement dated March 31, 2002, under which security, in the form of Empower Corp's assets, was granted by Empower Corp in favor of a director of Empower Corp, to secure the repayment of all funds loaned pursuant to a Loan Agreement between Empower Corp and the director (refer to Note 9 of the financial statements appearing in Schedule A).

***Subsequent Events***

On October 23, 2003, Empower Corp announced that Empower US has begun shipping PowerPlay V handheld computer embedded with LinuxDA O/S to Finite Technology, Inc. ("Finite") for integration into their wireless POS system ("**EasyCredit**<sup>TM</sup>"). On November 20, 2003, Empower Corp announced the launch, just in time for the holidays, of its latest handheld computer the PowerPlay Vs (embedded with LinuxDA O/S) to be retailed exclusively in Canada at selected Best Buy and Future Shop stores.

Empower Corp expects there will be increase in revenue in the coming fourth quarter resulting from these contracts.

Also subsequent to September 30, 2003:

- a) Empower Corp issued 191,666 common shares at a value of \$67,083 pursuant to the exercise of 191,666 warrants at \$0.35 per share.
- b) Pursuant to a General Security Agreement dated October, 2003, security, in the form of Empower Corp's assets, was granted by Empower Corp in favor of Bank of Nova Scotia, for a Line of Credit facility to finance inventory purchasing.
- c) Empower Corp entered a Communications & Investor Relations Agreement on November 12, 2003 with Renmark Financial Communications Inc. for a twelve months term commencing December 1, 2003.

***Financings, Principal Purposes and Milestones***

Empower Corp raised gross proceeds of \$1,705,988 from the IPO. The share issuance costs totaled \$183,410, resulting in net proceeds from the IPO of \$1,548,756. Deferred acquisition costs of \$190,074 were included in capital stock as issuance costs after the completion of the IPO and the merger in the 3-month period ending September 30, 2003.

Below is the table that shown the management base on minimum financing plan and then compare the budgeted amount to actual funds raised and the associated expenses:

|                            | Budgeted                    | Actual      | Variance    |
|----------------------------|-----------------------------|-------------|-------------|
| Financing:                 |                             |             |             |
| Special Warrants           | \$ 150,000 (Min. Offering)  | \$ 360,096  | \$210,096   |
| Deferred acquisition costs | \$ 47,000 (Min. Offering)   | \$ 190,074  | (\$147,074) |
| Cash from IPO              | \$1,400,000 (Min. Offering) | \$1,705,988 | \$305,988   |
| Share Issuance Costs       | \$ 112,000 (Min. Offering)  | \$ 183,410  | (\$ 71,410) |
| Cost of IPO and the Merger | \$ 90,000                   | \$ 118,032  | (\$ 28,032) |
| Net Proceeds               | \$1,301,000                 | \$1,574,568 | \$273,568   |

**SCHEDULE C: MANAGEMENT DISCUSSION** (cont'd...)

The deferred acquisition cost was higher than expected because the transaction took longer and resulting in higher legal and other cost than anticipated. The merger agreement was a condition of the Special Warrants brokered private placement and it was complicated with the fact that Empower Technologies, Inc. is a Washington state, US registered company. The cross border issues and the tax implication required legal opinions and accounting advise from both jurisdictions and thus inflated the time and costs accordingly.

The share issuance costs and the cost of IPO and the Merger are also higher than expected because the US opinion from Empower Corp's US lawyer was required by the Agent for the Closing of the IPO and the Merger. They also require their US legal counsel in Washington State to review and to approve the US opinion prior to Closing of the IPO and the Merger.

***Liquidity and Solvency***

Working capital as at September 30, 2003 is \$688,658. It is in line with the expectation of the management after the IPO. Empower Corp's working capital should meet the planned cash flow for its on-going operations.



**EMPOWER TECHNOLOGIES CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited - Prepared by Management)**

**SEPTEMBER 30, 2003**

**EMPOWER TECHNOLOGIES CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited - Prepared by Management)

|  | September 30,<br>2003 | December 31,<br>2002 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>                                      |                       |                      |
| <b>Current</b>                                     |                       |                      |
| Cash   | \$ 876,164            | \$ 11,187            |
| Receivables  | 17,751                | 7,398                |
| Inventory  | 34,370                | 36,908               |
| Prepaid expenses                                   | <u>37,815</u>         | <u>5,715</u>         |
|  | 966,100               | 61,208               |
| <b>Capital assets (Note 5)</b>                     | 49,617                | 60,536               |
| <b>Deferred development costs (Note 6)</b>         | <u>1,786,153</u>      | <u>1,550,779</u>     |
|  | <u>\$ 2,801,870</u>   | <u>\$ 1,672,523</u>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>        |                       |                      |
| <b>Current</b>                                     |                       |                      |
| Accounts payable and accrued liabilities           | \$ 269,892            | \$ 613,943           |
| Current portion of obligations under capital lease | <u>7,550</u>          | <u>14,565</u>        |
|  | 277,442               | 628,508              |
| <b>Obligations under capital lease</b>             | -                     | 3,458                |
| <b>Due to related party (Note 8)</b>               | <u>1,071,783</u>      | <u>975,136</u>       |
|  | <u>1,349,225</u>      | <u>1,607,102</u>     |
| <b>Shareholders' equity</b>                        |                       |                      |
| Capital stock (Note 10)                            | 3,373,180             | 1,696,960            |
| Deficit  | <u>(1,920,535)</u>    | <u>(1,631,539)</u>   |
|  | <u>1,452,645</u>      | <u>65,421</u>        |
|  | <u>\$ 2,801,870</u>   | <u>\$ 1,672,523</u>  |

**Nature and continuance of operations (Note 1)**

**Contingencies (Note 13)**

**Commitment (Note 14)**

**Subsequent events (Note 15)**

**On behalf of the Board:**

\_\_\_\_\_  
"Paul Leung"

Director

\_\_\_\_\_  
"Ronald Paton"

Director

The accompanying notes are an integral part of these consolidated financial statements.

**EMPOWER TECHNOLOGIES CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited - Prepared by Management)

|   | Nine Month<br>Period Ended<br>September 30,<br>2003 | Nine Month<br>Period Ended<br>September 30,<br>2002 | Three Month<br>Period Ended<br>September 30,<br>2003 | Three Month<br>Period Ended<br>September 30,<br>2002 |
|---|---|---|--|--|
| <b>SALES</b>  | \$ 1,263  | \$ 26,692   | \$ 414   | \$ 1,938   |
| <b>COST OF SALES</b>  | <u>1,287</u>  | <u>51,455</u>                                       | <u>856</u>   | <u>5,089</u>   |
|   | <u>(24)</u>   | <u>(24,763)</u>                                     | <u>(442)</u>   | <u>(3,151)</u>                                       |
| <b>EXPENSES</b>   |   |   |  |  |
| Accounting and audit  | 22,215  | 40,497  | 18,215   | 951  |
| Advertising and promotion                                   | 8,346   | 21,732  | 3,417  | 11,821   |
| Amortization  | 6,689   | 13,198  | 1,525  | 4,340  |
| Amortization of assets under capital leases                 | 4,230   | 1,327   | 2,115  | 442  |
| Bank charges and interest                                   | 7,640   | 3,139   | 2,745  | 1,580  |
| Foreign exchange (gain) loss                                | (107,220)   | (21,281)  | (109,586)  | 40,559   |
| Insurance   | 700   | -   | 700  | -  |
| Interest on capital lease obligations                       | 2,879   | 5,660   | 689  | 1,619  |
| Interest on long term liability                             | 89,308  | 57,317  | 30,862   | 27,416   |
| Legal fees  | 63,678  | 119,656   | 8,030  | 76,860   |
| Management and consulting fees                              | 15,841  | 53,600  | 4,668  | 8,100  |
| Office expense  | 15,593  | 26,801  | 4,295  | 6,528  |
| Rent  | 18,000  | 18,000  | 6,000  | 6,211  |
| Telephone and utilities                                     | 17,004  | 17,515  | 4,478  | 5,689  |
| Transfer agent and regulatory fees                          | 6,509   | -   | 6,509  | -  |
| Travel  | 9,519   | 29,779  | 4,074  | 7,233  |
| Wages and benefits  | <u>108,103</u>                                      | <u>136,254</u>                                      | <u>40,210</u>  | <u>22,065</u>  |
|   | <u>(289,034)</u>                                    | <u>(523,194)</u>                                    | <u>(28,946)</u>                                      | <u>(221,414)</u>                                     |
| <b>Loss before other item</b>                               | (289,058)   | (547,957)   | (29,388)   | (224,565)  |
| <b>OTHER ITEM</b>   |   |   |  |  |
| Interest and other income                                   | <u>62</u>   | <u>-</u>  | <u>62</u>  | <u>-</u>   |
| <b>Loss for the period</b>                                  | (288,996)   | (547,957)   | (29,326)   | (224,565)  |
| <b>Deficit, beginning of period</b>                         | <u>(1,631,539)</u>                                  | <u>(882,864)</u>                                    | <u>(1,891,209)</u>                                   | <u>(1,206,256)</u>                                   |
| <b>Deficit, end of period</b>                               | <u>\$ (1,920,535)</u>                               | <u>\$ (1,430,821)</u>                               | <u>\$ (1,920,535)</u>                                | <u>\$ (1,430,821)</u>                                |
| <b>Basic and diluted loss per common share</b>              | <u>\$ (0.23)</u>                                    | <u>\$ (0.04)</u>                                    | <u>\$ (0.01)</u>                                     | <u>\$ (0.02)</u>                                     |
| <b>Weighted average number of common shares outstanding</b> | <u>1,247,113</u>                                    | <u>14,351,629</u>                                   | <u>3,700,674</u>                                     | <u>14,473,020</u>                                    |

The accompanying notes are an integral part of these consolidated financial statements.

**EMPOWER TECHNOLOGIES CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited - Prepared by Management)

|   | Nine Month<br>Period Ended<br>September 30,<br>2003 | Nine Month<br>Period Ended<br>September 30,<br>2002 | Three Month<br>Period Ended<br>September 30,<br>2003 | Three Month<br>Period Ended<br>September 30,<br>2002 |
|---|---|---|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |   |   |  |  |
| Loss for the period   | \$ (288,996)  | \$ (547,957)  | \$ (29,326)  | \$ (224,565)   |
| Items not affecting cash:                                       |   |   |  |  |
| Accrued interest  | 89,308  | 57,317  | 30,862   | 27,416   |
| Amortization  | 6,689   | 13,198  | 1,525  | 4,694  |
| Amortization of assets under capital leases                     | 4,230   | 1,327   | 2,115  | 88   |
| Foreign exchange (gain) loss                                    | 43,822  | (4,637)   | (38,038)   | 278  |
| Changes in non-cash working capital items:                      |   |   |  |  |
| (Increase) decrease in receivables                              | 48  | 6,582   | (3,212)  | 782  |
| Decrease in inventory   | 2,538   | (48,223)  | 856  | (6,404)  |
| (Increase) decrease in prepaid expenses                         | (31,500)  | (16,418)  | 371  | 22,913   |
| Increase (decrease) in accounts payable and accrued liabilities | <u>(519,415)</u>                                    | <u>127,330</u>                                      | <u>(465,805)</u>                                     | <u>120,862</u>                                       |
| Net cash used in operating activities                           | <u>(693,276)</u>                                    | <u>(411,481)</u>                                    | <u>(500,652)</u>                                     | <u>(53,936)</u>                                      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |   |   |  |  |
| Purchase of capital assets                                      | -   | (1,270)   | -  | -  |
| Development costs   | (235,374)   | (356,244)   | (89,032)   | (80,328)   |
| Deferred acquisition costs                                      | <u>-</u>  | <u>(11,993)</u>                                     | <u>-</u>   | <u>(3,007)</u>                                       |
| Net cash used in investing activities                           | <u>(235,374)</u>                                    | <u>(369,507)</u>                                    | <u>(89,032)</u>                                      | <u>(83,335)</u>                                      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |   |   |  |  |
| Repayment of capital lease obligations                          | (10,473)  | (7,677)   | (3,761)  | (2,831)  |
| Advances from related party                                     | 111,500   | 549,350   | 90,392   | 152,424  |
| Proceeds from issuance of common shares                         | <u>1,692,600</u>                                    | <u>235,222</u>                                      | <u>1,374,034</u>                                     | <u>-</u>   |
| Net cash provided by financing activities                       | <u>1,793,627</u>                                    | <u>776,895</u>                                      | <u>1,460,665</u>                                     | <u>149,593</u>                                       |
| <b>Change in cash during the period</b>                         | 864,977   | (4,093)   | 870,981  | 12,322   |
| <b>Cash, beginning of period</b>                                | <u>11,187</u>                                       | <u>26,619</u>                                       | <u>5,183</u>   | <u>10,204</u>  |
| <b>Cash, end of period</b>                                      | \$ 876,164  | \$ 22,526   | \$ 876,164   | \$ 22,526  |

Supplemental disclosure with respect to cash flows (Note 12)

The accompanying notes are an integral part of these consolidated financial statements.

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**1. BASIS OF PRESENTATION**

The interim period consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding period. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of the Company, its unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

**2. NATURE AND CONTINUANCE OF OPERATIONS**

The Company was incorporated under the *Company Act* (British Columbia) on February 21, 2003. The Company is a provider of Linux-based embedded system technologies and solutions for the consumer, electronics industry and the intelligent appliance market.

The consolidated statements of operations and deficit and cash flows for the nine month period ended September 30, 2003 include the Company's results of operations from September 19, 2003 (date of acquisition) to September 30, 2003. Comparative figures for the period ended September 30, 2002 are those of Empower Technologies Inc. ("Empower US").

**3. BUSINESS COMBINATION**

Pursuant to a merger agreement, the Company and Empower US have agreed to carry out a merger involving the acquisition of 100% of the outstanding shares of Empower US in exchange for an equivalent number of common shares of the Company. The merger was carried out by way of a merger of ET Merger Corporation ("Mergco"), a wholly-owned U.S. subsidiary of the Company, with Empower US.

Pursuant to the provisions of the merger agreement, all of the issued and outstanding common shares of Empower US were exchanged for 14,614,665 common shares of the Company on September 19, 2003.

Upon closing of the merger contemplated hereof, Mergco and Empower US merged into one company with Empower US as the surviving company. Empower US also became a wholly-owned subsidiary of the Company after the merger.

Legally, the Company is the parent of Empower US. However, as a result of the share exchange described above, control of the combined companies passed to the former shareholders of Empower US. This type of share exchange, referred to as a "reverse takeover", deems Empower US to be the acquiror for accounting purposes. Accordingly, the deemed acquisition of the Company is accounted for by the purchase method with the net assets of the Company recorded at fair value at the date of acquisition.

The cost of an acquisition should be based on the fair value of the consideration given, except where the fair value of the consideration given is not clearly evident.

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**3. BUSINESS COMBINATION (cont'd...)**

Since the shares issued by the Company pursuant to this non-monetary reverse takeover represented approximately 100% of the Company's issued and outstanding capital stock and that both the Company and Empower US have a director and shareholder in common, it was not possible to estimate the fair market value of the 14,614,665 common shares issued.

Therefore, the value of the shares issued on acquisition was based on the carrying value of the net assets acquired. The fair value of the Company's net assets had a nominal value of \$1 at date of acquisition.

**4. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Significant inter-company balances and transactions have been eliminated upon consolidation.

**Use of estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

**Inventories**

Finished goods are stated at the lower of average cost and net realizable value. Cost is determined on a first in, first out basis.

**Deferred development costs**

Deferred development costs (other than capital expenditures) relating to the development of Linux-based embedded system technologies are expensed as incurred unless they meet Canadian generally accepted accounting principles for deferral and amortization. Deferred development costs are recorded at cost and are amortized upon commencement of commercial sales on a straight line basis over a period not exceeding three years. The Company reassesses whether it has met the relevant criteria for deferral and amortization and whether there is any impairment in value at each reporting date.

**Capital assets**

Capital assets are recorded at cost less accumulated amortization. Amortization has been provided using the declining balance method with the following rates:

|                         |     |
|-------------------------|-----|
| Computer equipment      | 30% |
| Furniture and equipment | 20% |
| Leasehold improvements  | 25% |

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**4. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Revenue recognition**

The Company records revenue when services have been completed or goods delivered, a sales invoice has been rendered, transfer of title has occurred and collection of the amount is reasonably assured.

**Income taxes**

Future income taxes are recorded using the asset and liability method whereby 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 when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Foreign currency translation**

The Company's activities denominated in currencies other than Canadian dollars are translated as integrated operations using the temporal method. Under this method, monetary items are translated into Canadian dollar equivalents at the exchange rate in effect at the balance sheet date, non-monetary items are translated at historical rates, and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations. Exchange gains or losses arising on translation of foreign currency items are included in operating results.

**Stock-based compensation**

Effective April 1, 2002, the Company adopted the new CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which recommends the use of fair value-based methodology for measuring compensation costs. The policy has been applied to awards granted on or after the date of adoption. The new section also permits, and the Company has adopted, the use of the intrinsic value-based method, which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted.

The adoption of this section does not have any impact on its financial statements since the stock options granted to holders to purchase 2,520,000 common shares at \$0.35 per share were issued at the initial public offering price which approximates fair value.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Diluted loss per share amounts have not been presented as there are no outstanding options or warrants.

Loss per share is calculated using the weighted-average number of common shares outstanding during the period.

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**4. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current period's presentation.

**5. CAPITAL ASSETS**

|                         | September 30, 2003 |                             |                   | December 31, 2002 |                             |                   |
|-------------------------|--------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
|                         | Cost               | Accumulated<br>Amortization | Net<br>Book Value | Cost              | Accumulated<br>Amortization | Net<br>Book Value |
| Computer equipment      | \$ 60,867          | \$ 34,681                   | \$ 26,186         | \$ 60,867         | \$ 27,941                   | \$ 32,926         |
| Furniture and equipment | 36,785             | 14,157                      | 22,628            | 36,785            | 10,164                      | 26,621            |
| Leasehold improvements  | <u>1,750</u>       | <u>947</u>                  | <u>803</u>        | <u>1,750</u>      | <u>761</u>                  | <u>989</u>        |
|                         | \$ 99,402          | \$ 49,785                   | \$ 49,617         | \$ 99,402         | \$ 38,866                   | \$ 60,536         |

Included in capital assets is \$34,252 (December 31, 2002 - \$34,252) of computer equipment and furniture and equipment under capital lease with related accumulated amortization of \$13,231 (December 31, 2002 - \$9,001).

**6. DEFERRED DEVELOPMENT COSTS**

|                              | September 30,<br>2003 | December 31,<br>2002 |
|------------------------------|-----------------------|----------------------|
| Balance, beginning of period | \$ 1,550,779          | \$ 1,247,261         |
| Equipment and supplies       | 14,783                | 9,114                |
| Rent                         | 21,441                | 41,165               |
| Salaries and benefits        | 115,650               | 160,239              |
| Technical consulting fees    | <u>83,500</u>         | <u>93,000</u>        |
|                              | <u>235,374</u>        | <u>303,518</u>       |
| Balance, end of period       | \$ 1,786,153          | \$ 1,550,779         |



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**7. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, obligations under capital lease and due to related party. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Certain operations of the Company are conducted in the People's Republic of China ("PRC"). As a result, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC economy. The operations in the PRC are subject to different considerations and other risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

**8. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties, unless disclosed elsewhere in these statements:

- a) Paid or accrued management fees of \$13,500 (September 30, 2002 - \$19,088) to a company with a director in common.
- b) Paid or accrued wages and benefits of \$23,000 (September 30, 2002 - \$21,100) to a director and an officer of the Company.
- c) Paid or accrued rent of \$Nil (September 30, 2002 - \$18,000) to a company with a director and officer in common.
- d) Accrued interest of \$89,308 (September 30, 2002 - \$57,317) to a director of the Company.

Included in deferred development costs are rent of \$Nil (December 31, 2002 - \$24,000) and technical consulting fees of \$90,000 (December 31, 2002 - \$12,000) paid or accrued to directors and officers and to companies with directors and officers in common.

Included in accounts payable is \$117,448 (December 31, 2002 - \$268,812) due to directors, officers and to companies controlled by directors or officers.

Empower US previously entered into service and research and development agreements with various companies related by virtue of a common director. The agreements will remain in effect until terminated by both parties. These transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties. In general the Company conducts these transactions on terms similar to those that would be encountered were the transactions conducted with arm's length parties.

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**9. DUE TO RELATED PARTY**

The amount due to related party is payable to a director of the Company, pursuant to that Loan Agreement with Empower US dated March 31, 2002, as amended, repayable with interest at the rate of 12% per annum until the Closing Date of the IPO and thereafter at the rate of 9.5% per annum, is secured by the assets of the Company (Note 13), and is payable in quarterly instalments of \$50,000 beginning on January 1, 2005. Interest will accrue until January 1, 2005 when all accrued interest shall be paid and thereafter payable monthly commencing February 1, 2005.

**10. CAPITAL STOCK**

|  | Number<br>of Shares | Amount              |
|--|---------------------|---------------------|
| Authorized   |                     |                     |
| 100,000,000 common shares without par value            |                     |                     |
| Issued   |                     |                     |
| Common shares of the Company at February 21, 2003      | 1                   | \$ 1                |
| Common stock of the Company                            | -                   | (1)                 |
| Common shares of Empower US                            | 14,614,665          | 1,696,960           |
| Common shares of Empower US                            | (14,614,665)        | -                   |
| Shares issued on exchange for Empower US common shares | 14,614,665          | 1                   |
| Deficit of the Company                                 | -                   | (16,381)            |
| Initial public offering                                | 4,874,252           | 1,705,988           |
| Conversion of special warrant financing                | 1,200,317           | 360,096             |
| Agent shares issued pursuant to the IPO                | 200,000             | -                   |
| Acquisition costs                                      | -                   | (190,074)           |
| Share issuance costs                                   | -                   | (183,410)           |
| <b>Balance as at September 30, 2003</b>                | <b>20,889,235</b>   | <b>\$ 3,373,180</b> |

Included in issued share capital are 10,200,000 common shares of the Company which are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with without the consent of the regulatory bodies having jurisdiction thereon.

**Stock options and warrants**

The Company follows the policies of the TSX Venture Exchange under which it is authorized to grant options to officers, directors, employees and consultants.

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**10. CAPITAL STOCK (cont'd...)**

**Stock options and warrants (cont'd...)**

As at September 30, 2003, the following incentive stock options and warrants are outstanding and exercisable:

|                      | Number<br>of Shares | Exercise<br>Price | Expiry Date        |
|----------------------|---------------------|-------------------|--------------------|
| <b>Stock options</b> | 2,520,000           | \$ 0.35           | September 19, 2008 |
| <b>Warrants</b>      | 4,874,252           | \$ 0.45           | September 19, 2004 |
|                      | 974,850             | 0.45              | September 19, 2004 |
|                      | 1,200,317           | 0.35              | August 1, 2004     |

**11. SEGMENTED INFORMATION**

The Company currently conducts substantially all of its operations in one business segment, being the development of Linux-based embedded systems technologies, in the following geographical areas:

|                            | September 30,<br>2003 | December 31,<br>2002 |
|----------------------------|-----------------------|----------------------|
| Identifiable assets        |                       |                      |
| Canada                     | \$ 971,714            | \$ 302,185           |
| People's Republic of China | 282,023               | 282,364              |
| United States of America   | <u>1,548,133</u>      | <u>1,087,974</u>     |
|                            | \$ 2,801,870          | \$ 1,672,523         |

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**11. SEGMENTED INFORMATION (cont'd...)**

|                              | Nine Month<br>Period Ended<br>September 30,<br>2003 | Nine Month<br>Period Ended<br>September 30,<br>2002 | Three Month<br>Period Ended<br>September 30,<br>2003 | Three Month<br>Period Ended<br>September 30,<br>2002 |
|------------------------------|---|---|--|--|
| Revenue                      |   |   |  |  |
| Canada                       | \$ -  | \$ -  | \$ -   | \$ -   |
| People's Republic of China   | -   | -   | -  | -  |
| United States of America     | <u>1,263</u>  | <u>26,692</u>                                       | <u>414</u>   | <u>1,938</u>   |
|                              | <u>\$ 1,263</u>                                     | <u>\$ 26,692</u>                                    | <u>\$ 414</u>  | <u>\$ 1,938</u>                                      |
| Income (loss) for the period |   |   |  |  |
| Canada                       | \$ (267,361)  | \$ (355,864)  | \$ (58,121)  | \$ (90,788)  |
| People's Republic of China   | (341)   | (24,252)  | (341)  | (2,261)  |
| United States of America     | <u>(21,294)</u>                                     | <u>(167,841)</u>                                    | <u>29,136</u>  | <u>(131,516)</u>                                     |
|                              | <u>(288,996)</u>                                    | <u>(547,957)</u>                                    | <u>(29,326)</u>                                      | <u>(224,565)</u>                                     |

**12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

|   | Nine Month<br>Period Ended<br>September 30,<br>2003 | Nine Month<br>Period Ended<br>September 30,<br>2002 | Three Month<br>Period Ended<br>September 30,<br>2003 | Three Month<br>Period Ended<br>September 30,<br>2002 |
|---|---|---|--|--|
| Cash paid during the period for interest        | \$ 2,879  | \$ 5,660  | \$ 689   | \$ 1,619   |
| Cash paid during the period for<br>income taxes | -   | -   | -  | -  |

During the nine month period ended September 30, 2003, the Company:

- a) Issued 14,614,665 common shares for the equivalent amount of common shares of Empower US.
- b) Issued 200,000 agent shares pursuant to the IPO.

There is no significant non-cash transaction for the nine month period ended September 30, 2002.

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**13. CONTINGENCIES**

Pursuant to a General Security Agreement dated March 31, 2002, security, in the form of the Company's assets, was granted by the Company in favor of a director of the Company, for all funds loaned pursuant to a Loan Agreement between the Company and the director (Note 9).

**14. COMMITMENT**

The Company has entered into a sub-lease agreement for premises with a company controlled by a director. The annual lease commitments under these leases are as follows:

|      |    |        |
|------|----|--------|
| 2003 | \$ | 54,000 |
| 2004 |    | 40,500 |

**15. SUBSEQUENT EVENTS**

Subsequent to September 30, 2003:

- a) The Company issued 191,666 common shares at a value of \$67,083 pursuant to the exercise of 191,666 warrants at \$0.35 per share.
- b) Pursuant to a General Security Agreement dated October 10, 2003, security, in the form of the Company's assets, was granted by the Company in favor of Bank of Nova Scotia, for a Line of Credit facility to finance inventory purchasing.
- c) The Company entered a Communications & Investor Relations Agreement on November 12, 2003 with Renmark Financial Communications Inc. for a twelve months term commencing December 1, 2003.