

EMPOWER TECHNOLOGIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
(Unaudited-Prepared by management)

MARCH 31, 2004



Empower Technologies Corporation

| | |
|--------------------|----------------|
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NOTICE TO THE MARCH 31, 2004 - INTERIM FINANCIAL STATEMENTS

(REVIEWED BY THE AUDITOR)

May 31, 2004

TO WHOM IT MAY CONCERN

Dear Sir or Madam:

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has performed a review of the interim financial statements, they must be accompanied by a notice indication that the financial statement have been reviewed by an auditor.

Therefore this letter served as the notice that the Company's external auditors, Davidson & Company, have performed a review of these interim financial statements.

Regards

"Paul Leung"

Paul Leung
Chairman & CEO
Empower Technologies Corporation

Regards

"Amy Chan"

Amy Chan
Chief Financial Officer
Empower Technologies Corporation

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)
(Unaudited – Prepared by management)

| | March 31 2004 | December 31 2003 |
|--|--------------------|---------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 1,010,080 | \$ 197,607 |
| Receivables | 106,612 | 230,474 |
| Inventory | 47,681 | 59,112 |
| Prepaid expenses | <u>20,880</u> | <u>27,143</u> |
| | 1,185,253 | 514,336 |
| Property and equipment | 53,312 | 43,009 |
| Deferred development costs | <u>1,583,434</u> | <u>1,741,778</u> |
| | \$ 2,821,999 | \$ 2,299,123 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | 131,606 | 230,902 |
| Shareholders' Loan | 333,746 | - |
| Current portion of loan payable | 33,336 | - |
| Current portion of obligations under capital lease | <u>-</u> | <u>3,606</u> |
| | 498,688 | 234,508 |
| Scotia Bank - Equipment Loan | 63,886 | - |
| Due to related party (Note 3 & 4) | <u>800,000</u> | <u>1,109,934</u> |
| | <u>1,362,574</u> | <u>1,344,442</u> |
| Shareholders' equity | | |
| Capital stock | 3,829,645 | 2,995,375 |
| Contributed surplus | 2,258,986 | 1,288,445 |
| Deficit | <u>(4,629,206)</u> | <u>(3,329,139)</u> |
| | <u>1,459,425</u> | <u>954,681</u> |
| | \$ 2,821,999 | \$ 2,299,123 |

Basis of Presentation (Note 1)

Nature and continuance of operations (Note 2)

Subsequent events (Note 6)

On behalf of the Board:

"Paul Leung"

Director

"Chris Graham"

Director

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

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Expressed in Canadian Dollars)
(Unaudited – Prepared by management)
Three Month Period Ended March 31

| | 2004 | 2003 |
|---|--------------------|--------------------|
| SALES | \$ 43,074 | \$ 399 |
| COST OF SALES | | |
| Product costs | 26,955 | 317 |
| Amortization of deferred development costs | <u>158,344</u> | <u>-</u> |
| | <u>185,299</u> | <u>317</u> |
| | <u>(142,225)</u> | <u>82</u> |
| EXPENSES | | |
| Accounting and audit | - | 4,000 |
| Advertising and promotion | 29,377 | 1,064 |
| Amortization of property and equipment | 3,640 | 3,640 |
| Bank charges and interest | 2,637 | 1,893 |
| Foreign exchange loss | 158 | 35,736 |
| Insurance | 7,030 | - |
| Research and development expenses | 116,402 | - |
| Interest on long term debt | 24,062 | 30,300 |
| Legal fees | 12,530 | 44,502 |
| Management and consulting fees | 4,500 | 5,266 |
| Office expense | 15,904 | 5,563 |
| Rent | 6,000 | 6,000 |
| Stock-based compensation | 861,097 | - |
| Telephone and utilities | 8,511 | 5,941 |
| Transfer agent and filing fees | 10,059 | - |
| Travel | 9,188 | 2,190 |
| Wages and benefits | 42,741 | 30,785 |
| Warranty | <u>4,237</u> | <u>-</u> |
| | <u>(1,158,073)</u> | <u>(176,880)</u> |
| Loss before other items | (1,300,298) | (176,798) |
| OTHER ITEMS | | |
| Interest and other income | 231 | - |
| Loss for the period | (1,300,067) | (176,798) |
| Deficit, beginning of period | <u>(3,329,139)</u> | <u>(1,703,014)</u> |
| Deficit, end of period | \$ (4,629,206) | \$ (1,879,812) |
| Basic and diluted loss per common share | (.06) | (.01) |
| Weighted average number of common shares outstanding | 21,385,403 | 16,062,417 |

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

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
(Unaudited – Prepared by management)
Three month period ended March 31

| | 2004 | 2003 |
|--|---------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss for the period | \$ (1,300,067) | \$ (176,798) |
| Items not affecting cash: | | |
| Accrued interest | 23,812 | 13,315 |
| Amortization of deferred development costs | 158,344 | - |
| Amortization of property and equipment | 3,640 | 3,640 |
| Foreign exchange loss | - | 36,116 |
| Stock-based compensation | 861,097 | - |
| Changes in non-cash working capital items: | | |
| Decrease in receivables | 123,862 | 2,446 |
| Decrease in inventory | 11,431 | 408 |
| Decrease in prepaid expenses | 6,263 | 296 |
| Decrease in accounts payable and accrued liabilities | <u>(99,297)</u> | <u>(16,445)</u> |
| Net cash used in operating activities | <u>(210,915)</u> | <u>(144,231)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (13,943) | - |
| Development costs | <u>-</u> | <u>(70,747)</u> |
| Net cash used in investing activities | <u>(13,943)</u> | <u>(70,747)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of capital lease obligations | (3,606) | (3,605) |
| Advances from related party | - | 60,505 |
| Repayment of loan payable | (2,778) | - |
| Proceeds from loan payable | 100,000 | - |
| Proceeds from issuance of common shares | 993,815 | 175,246 |
| Share issuance costs | <u>(50,100)</u> | <u>(24,877)</u> |
| Net cash provided by financing activities | <u>1,037,331</u> | <u>214,479</u> |
| Change in cash during the period | 812,473 | (499) |
| Cash, beginning of period | <u>197,607</u> | <u>11,187</u> |
| Cash, end of period | <u>\$ 1,010,080</u> | <u>\$ 10,688</u> |

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

EMPOWER TECHNOLOGIES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
(Unaudited – Prepared by management)
March 31, 2004

1. BASIS OF PRESENTATION

The consolidated financial statements contained herein include the accounts of Empower Technologies Corporation and its subsidiaries (the "Company").

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 year. 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 consolidated financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

Development Costs:

Effective January 1, 2004, development costs relating to the development of Linux-based embedded system technologies are expensed as incurred.

Development costs incurred prior to January 1, 2004 that meet Canadian Generally Accepted Accounting Principles for deferral and amortization have been recorded at cost and are amortized on a straight line basis over a period not exceeding three years. The Company reassesses whether there is any impairment in value at each reporting date.

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.

On September 19, 2003, the Company completed a share exchange with Empower Technologies, Inc. ("Empower US"). Sufficient common shares of the Company were issued so that a controlling interest of the Company passed to the former shareholders of Empower US. These consolidated financial statements are a continuation of the financial statements of the accounting acquirer, Empower US, and not the Company, the legal parent. The comparative figures presented are those of Empower US and these consolidated financial statements include the accounts of the Company from the date of acquisition on September 19, 2003.

EMPOWER TECHNOLOGIES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
March 31, 2004

3. DUE TO RELATED PARTY

The amount due to related party is payable to a director of the Company, bears interest at the rate of 9.5%, is secured by the assets of the Company, 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 is thereafter payable monthly commencing February 1, 2005.

4. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$4,500 (three month period ended March 31, 2003 - \$5,266) to a company with common directors.
- b) Paid or accrued wages and benefits of \$39,000 (three month period ended March 31, 2003 - \$30,785) to directors and officers of the Company.
- c) Accrued interest of \$24,062 (three month period ended March 31, 2003 - \$30,300) to a director of the Company.
- d) Recorded stock based compensation of \$861,097 (three month period ended March 31, 2003 - \$Nil) for services provided by directors, officers and employees of the Company.

Included in deferred developments are rent of \$Nil (March 31, 2003 - \$6,000) and technical consulting fees of \$30,000 (March 31, 2003 - \$30,000); and salaries and benefits of \$18,000 (March 31, 2003 - \$24,000) paid or accrued to directors and officers and to companies with directors and officers in common.

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.

EMPOWER TECHNOLOGIES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
March 31, 2004

5. 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:

| | March 31, 2004 | December 31, 2003 |
|----------------------------|---------------------|----------------------|
| Identifiable assets | | |
| Canada | \$ 1,615,132 | \$ 302,185 |
| People's Republic of China | 227,104 | 282,364 |
| United States of America | <u>979,763</u> | <u>1,087,974</u> |
| | <u>\$ 2,821,999</u> | <u>\$ 2,299,123</u> |

| | Three month period ended March 31, 2004 | Three month period ended March 31, 2003 |
|----------------------------|--|--|
| Revenue | | |
| Canada | \$ 33,588 | \$ - |
| People's Republic of China | - | - |
| United States of America | <u>9,486</u> | <u>399</u> |
| | <u>\$ 43,074</u> | <u>\$ 399</u> |
| Loss for the period | | |
| Canada | (1,158,956) | (73,406) |
| People's Republic of China | (22,711) | (3,270) |
| United States of America | <u>(118,400)</u> | <u>(100,122)</u> |
| | <u>\$ (1,300,067)</u> | <u>\$ (176,798)</u> |

6. SUBSEQUENT EVENTS

Subsequent to March 31, 2004:

- a) The Company issued 20,000 common shares pursuant to the exercise of warrants with an exercise price of \$0.35 per common share for gross proceeds of \$7,000.
- b) The Company issued 80,622 common shares pursuant to the exercise of warrants with an exercise price of \$0.45 per common share for gross proceeds of \$36,279.



FORM 51-102F1
MANAGEMENT DISCUSSION AND ANALYSIS
THREE MONTH PERIOD ENDED MARCH 31, 2004

The following discussion and analysis, prepared as of May 25, 2004, should be read together with the unaudited consolidated financial statements for the three month period ended March 31, 2004 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

The reader should also refer to the annual audited financial statements for the year ended December 31, 2003, and the Management Discussion and Analysis for 2003.

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.

Additional information related to the Company is available for view on SEDAR at www.sedar.com.

Description of Business

The Company is a provider of Linux-based embedded system technologies and solutions for the consumer electronics industry and the intelligent appliance market. The Company was incorporated under the Company Act (British Columbia) on February 21, 2003. The Company operates through its wholly-owned subsidiary Empower Technologies, Inc. ("Empower US"), a Washington State registered company. The Company trades on the TSX Venture Exchange under the symbol EPT.

Performance Summary

The following is a summary of significant events and transactions that occurred during the period:

1. On March 16, 2004, the Company announce that Dr. Edward Dennis is to become the President of Empower effective upon successful completion of the short form offering described below. Mr. Paul Leung, the existing President, will resign in favour of Dr. Dennis and will become Chairman and remain Chief Executive Officer.
2. On March 30, 2004, the Company announce the successful completion of a Short Form Offering (the "Offering"). The maximum offering was achieved on March 23, 2004 and the Offering closed on March 30, 2004 resulting in the sale of 1,000,000 units at \$0.80 per Unit, for a total of \$800,000 (each Unit consists of one share and one half warrant, non-transferable, and each whole warrant is exercisable into one common share for a period of one year at \$1.00 per share). The proceeds of the Offering will be used primarily to finance the accelerated roll out of Empower's business including additional product inventory, additional management employees and general working capital.

Selected Annual Information

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the Financial Statements.

| | Year Ended December 31, 2003 | Nine Month Period Ended December 31, 2002 |
|----------------------------------|---------------------------------|---|
| Total revenues | \$ 134,728 | \$ 7,352 |
| Net loss before other items | (1,696,935) | (581,411) |
| Net loss | (1,697,600) | (581,411) |
| Basic and diluted loss per share | (0.11) | (0.04) |
| Total assets | 2,299,123 | 1,672,523 |
| Total liabilities | 1,344,442 | 1,607,102 |
| Cash dividends | - | - |

Empower US sells its products either through its own product website or its exclusive Canadian retailer Best Buy Canada's two national chains – Future Shops and Best Buy Stores with minimal promotional efforts. The Company 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.

Effective January 1, 2004, the Company's accounting policy is to expense development costs (other than capital expenditures) relating to the development of Linux-based embedded system technologies as incurred unless they meet Canadian generally accepted accounting principles for deferral and amortization. Deferred development costs incurred prior to January 1, 2004 have been 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.

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 a 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 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. During the year ended December 31, 2003, the Company adopted, on a prospective basis, the fair-value method for accounting for all stock-based compensation.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

Results of Operations

The company earned \$43,074 (2003 - \$399) as sales to retailers and on-line sales and the Company incurred a loss of \$1,300,067 (2003 - \$176,798) during the period. Some of the significant expenses are as follows: Management and consulting fees, office expense and travel expense were \$30,136 for the three month period ended March 31, 2004; Amortization of deferred development cost was \$158,344 for the three month period ended March 31, 2004, The Company started amortizing deferred development costs since the fourth quarter of last year 2003; Wages and benefits were \$42,741 for the three month period ended March 31, 2004; Bank charges and interest expenses were \$2,637 for the three month period ended March 31, 2004; The Company granted 1,425,000 (2003 – Nil) stock options during the period to directors, consultants and employees, resulting in compensation costs of \$861,097 (2003 - \$Nil) which were recorded as contributed surplus on the balance sheet.

The current period advertising and promotion were considerably higher than the previous period because there were more expenses performed to complete the Short Form Offering. This also translated into higher filing and transfer agent fees than the previous period.

There are also new insurance costs of \$7,030 (2003 – Nil) for the directors and officers.

These significant expenses of stock-based compensation, the expenses of R&D, and amortization of deferred development costs resulted in a larger net loss during the current period compared to the same period from last year.

Summary of Quarterly Results

| | Three Months Ended March 31, 2004 | Three Months Ended December 31, 2003 | Three Months Ended September 31, 2003 |
|--|--------------------------------------|---|--|
| Total assets | \$ 2,821,999 | \$ 2,299,123 | \$ 2,801,870 |
| Stock Based Compensation | 861,097 | 805,865 | - |
| Amortization of Deferred development costs | 158,344 | 158,344 | - |
| Working capital (deficiency) | 694,898 | 279,828 | 688,658 |
| Shareholders' equity | 1,459,425 | 954,681 | 1,452,645 |
| Revenues | 43,074 | 133,465 | 414 |
| Net Loss | (1,300,067) | (1,408,604) | (29,326) |
| Earnings (loss) per share | (0.06) | (0.09) | (0.01) |

Significant changes in key financial data in 2003 can be attributed to the implementation of stock-based compensation, the amortization of deferred development costs, and revenues generated from sales of PDA to Best Buy.

Liquidity

The Company has financed its operations to date primarily through the issuance of common shares and exercise of stock options. The Company continues to seek capital through various means including the issuance of equity and/or debt.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with 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.

Liquidity (cont'd...)

| | March 31 2004 | December 31 2003 |
|------------------------------|------------------|---------------------|
| Deficit | (\$4,634,622) | (\$3,329,139) |
| Working capital (deficiency) | \$694,898 | \$279,828 |

Net cash used on operating activities for the three month period ended March 31, 2004 was (\$210,915) compared to net cash used of (\$144,231) during the three month period ended March 31, 2003. The cash used in operating activities for period consists primarily of the operating loss and a change in non-cash working capital.

Net cash used for investing activities for the three month period ended March 31, 2004 was (\$13,943) compared to net cash provided by investing activities of (\$70,747) during the three month period ended March 31, 2003. Cash used during the current period consists primarily of expenditures of \$13,943 for the purchase of property and equipment.

Financing activities provided cash of \$1,037,331 during the three month period ended March 31, 2004, compared to \$214,479 for the three month period ended March 31, 2003. Cash provided during the current period consisted of a loan from Scotia Bank, proceeds from the Short Form Offering and proceeds from the issuance of common shares.

Capital Resources

The Company completed the Short Form Offering on March 30, 2004 and the Offering closed on March 30, 2004, resulting in the sale of 1,000,000 units at \$0.80 per Unit, for a total of \$800,000 (each Unit consists of one share and one half warrant, non-transferable, and each whole warrant is exercisable into one common share for a period of one year at \$1.00 per share).

For the three month period ended March 31, 2004, the Company received \$193,815 for 445,685 warrants exercised.

The Company was granted a loan of \$100,000 from Scotia Bank for equipment and inventory on February 19, 2004.

The working capital is in line with the expectations of management after the completion of short form offering of \$800,000. As a result, the Company has improved its cash position to \$1,010,080 on March 31, 2004 from \$197,607 on December 31, 2003. The Company's working capital should meet the planned cash flow and the strong cash position should also enable the Company to accelerate its effort to develop new products and commercialization of its technologies.

Related Party Transactions

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$4,500 (three month period ended March 31, 2003 - \$5,266) to a company with common directors.
- b) Paid or accrued wages and benefits of \$39,000 (three month period ended March 31, 2003 - \$30,785) to directors, officers and former officers of the Company.
- d) Accrued interest of \$24,062 (three month period ended March 31, 2003 - \$30,300) to a director of the Company.
- e) Recorded stock based compensation of \$861,097 (three month period ended March 31, 2003 - \$Nil) for services provided by directors, officers and employee of the Company.

Included in deferred developments are rent of \$Nil (March 31, 2003 - \$6,000) and technical consulting fees of \$30,000 (March 31, 2003 - \$30,000); and salaries and benefits of \$18,000 (March 31, 2003 - \$24,000) paid or accrued to directors and officers and to companies with directors and officers in common.

Empower USA, a wholly-owned subsidiary 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.

The amount due to related party is payable to a director of the Company, bears interest at the rate of 9.5%, is secured by the assets of the Company, 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.

Pursuant to a General Security Agreement dated October 10, 2003, security, in the form of the assets of the Company's Canadian subsidiary, Empower Canada, was granted by Empower Canada in favour of the Bank of Nova Scotia, for a Letter of Credit facility to finance inventory purchasing.

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.

The Company entered into a Communications & Investor Relations Agreement with Renmark Financial Communications Inc. ("Renmark") for a twelve-month term commencing December 1, 2003. Investor relation services provided by Renmark during the period was the communication of the message of the Company to the investment communities and the planning of road shows. There were payments of \$3,896 made to Renmark for the three months period end March 31, 2004.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

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, currency 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.

Subsequent Events

Subsequent to March 31, 2004:

- a) The Company issued 20,000 common shares pursuant to the exercise of warrants with an exercise price of \$0.35 per common share for gross proceeds of \$7,000.
- b) The Company issued 80,622 common shares pursuant to the exercise of warrants with an exercise price of \$0.45 per common share for gross proceeds of \$36,280