

EMPOWER TECHNOLOGIES CORPORATION

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

JUNE 30, 2004

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

	June 30 2004	December 31 2003
ASSETS		
Current		
Cash	\$ 689,873	\$ 197,607
Receivables	88,411	230,474
Inventory	43,591	59,112
Prepaid expenses	19,180	27,143
	<u>841,055</u>	<u>514,336</u>
Property and equipment	93,325	43,009
Deferred development costs	<u>1,425,090</u>	<u>1,741,778</u>
	<u>\$ 2,359,470</u>	<u>\$ 2,299,123</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 215,914	\$ 230,902
Due to related party (Note 3)	333,746	-
Current portion of loan payable	25,002	-
Current portion of obligations under capital lease	-	3,606
	<u>574,662</u>	<u>234,508</u>
Loan payable	63,886	-
Due to related party (Note 3)	<u>800,000</u>	<u>1,109,934</u>
	<u>1,438,548</u>	<u>1,344,442</u>
Shareholders' equity		
Capital stock	3,903,363	2,995,375
Contributed surplus	2,247,623	1,288,445
Deficit	<u>(5,230,063)</u>	<u>(3,329,139)</u>
	<u>920,923</u>	<u>954,681</u>
	<u>\$ 2,359,470</u>	<u>\$ 2,299,123</u>

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)

	Six Month Period Ended June 30, 2004	Six Month Period Ended June 30, 2003	Three Month Period Ended June 30, 2004	Three Month Period Ended June 30, 2003
SALES	\$ 56,943	\$ 846	\$ 13,869	\$ 447
COST OF SALES				
Product costs	44,181	611	17,226	294
Amortization of deferred development costs	316,688	-	158,344	-
	360,869	611	175,570	294
	(303,926)	235	(161,701)	153
EXPENSES				
Accounting and audit	12,618	4,000	12,618	-
Advertising and promotion	60,639	4,906	31,262	3,842
Amortization of property and equipment	8,528	7,280	4,889	3,640
Bank charges and interest	3,398	4,942	761	3,049
Translation (gain) loss	(5,556)	104,929	(5,714)	69,193
Insurance	15,947	-	8,917	-
R&D Expenses	262,425	-	146,023	-
Interest on long term debt	52,800	60,568	28,738	30,268
Directors' Fee	30,000	-	30,000	-
Legal fees	49,592	57,594	37,062	13,092
Management and consulting fees	9,000	9,766	4,500	4,500
Office expense	31,167	11,044	15,263	5,481
Rent	12,000	12,000	6,000	6,000
Stock-based compensation	861,097	-	-	-
Telephone and utilities	14,420	12,625	5,909	6,684
Transfer agent and filing fees	19,143	1,358	9,083	1,358
Travel	28,672	5,445	19,484	3,255
Wages and benefits	130,611	67,894	87,869	37,109
Warranty	4,237	-	-	-
	(1,600,738)	(364,351)	(442,665)	(187,471)
Loss before other items	(1,904,663)	(364,116)	(604,366)	(187,318)
OTHER ITEM				
Interest and other income	3,740	-	3,508	-
Loss for the period	(1,900,924)	(364,116)	(600,857)	(187,318)

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

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT (cont'd)
(Expressed in Canadian Dollars)
(Unaudited – Prepared by management)

	Six Month Period Ended June 30, 2004	Six Month Period Ended June 30, 2003	Three Month Period Ended June 30, 2004	Three Month Period Ended June 30, 2003
Loss for the period	(1,900,924)	(364,116)	(600,857)	(187,318)
Deficit, beginning of period	<u>(3,329,139)</u>	<u>(1,631,539)</u>	<u>(4,629,206)</u>	<u>(1,808,337)</u>
Deficit, end of period	<u>\$ (5,230,063)</u>	<u>\$ (1,995,655)</u>	<u>\$ (5,230,063)</u>	<u>\$ (1,995,655)</u>
Basic and diluted loss per common share	\$ (0.09)	\$ (0.02)	\$ (0.03)	\$ (0.01)
Weighted average number of common shares outstanding	22,055,148	16,062,417	22,514,453	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)

	Six Month Period Ended June 30, 2004	Six Month Period Ended June 30, 2003	Three Month Period Ended June 30, 2004	Three Month Period Ended June 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (1,900,924)	\$ (364,116)	\$ (600,857)	\$ (187,318)
Items not affecting cash:				
Accrued interest	23,812	27,182	-	13,868
Amortization of deferred development costs	316,688	-	158,344	-
Amortization of property and equipment	8,528	7,280	4,889	3,640
Translation gain / (loss)	(4,945)	35,171	(4,945)	(945)
Stock-based compensation	861,097	-	-	-
Changes in non-cash working capital items:				
Decrease (Increase) in receivables	142,116	(7,141)	18,254	(9,587)
Decrease in inventory	21,869	1,353	10,438	945
Decrease (Increase) in prepaid expenses	7,963	(31,329)	1,700	(31,625)
Increase (decrease) in accounts payable and accrued liabilities	(16,445)	90,174	82,852	106,619
Net cash used in operating activities	<u>(540,241)</u>	<u>(241,426)</u>	<u>(329,325)</u>	<u>(104,403)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(58,844)	-	(44,902)	-
Development costs	<u>-</u>	<u>(146,530)</u>	<u>-</u>	<u>(75,783)</u>
Net cash used in investing activities	<u>(58,844)</u>	<u>(146,530)</u>	<u>(44,902)</u>	<u>(75,783)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of capital lease obligations	(3,606)	(7,053)	-	(3,449)
Advances from related party	-	70,380	-	9,875
Proceeds from loan payable	100,000	-	-	-
Repayment of loan payable	(11,112)	-	(8,334)	-
Proceeds from issuance of common shares	1,056,169	360,096	62,354	184,850
Share issuance costs	<u>(50,100)</u>	<u>(41,484)</u>	<u>-</u>	<u>(16,608)</u>
Net cash provided by financing activities	<u>1,091,351</u>	<u>381,939</u>	<u>54,020</u>	<u>174,668</u>
Change in cash during the period	<u>492,266</u>	<u>(6,017)</u>	<u>(320,207)</u>	<u>(5,518)</u>
Cash, beginning of period	<u>197,607</u>	<u>11,187</u>	<u>1,010,080</u>	<u>10,688</u>
Cash, end of period	<u>\$ 689,873</u>	<u>\$ 5,170</u>	<u>\$ 689,873</u>	<u>\$ 5,170</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)
June 30, 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 met 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)
June 30, 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 \$9,000 (six month period ended June 30, 2003 - \$9,766) to a company with common directors.
- b) Paid or accrued salaries and benefits of \$82,373 (six month period ended June 30, 2003 - \$51,785) to directors and officers of the Company.
- c) Paid or accrued interest of \$52,800 (six month period ended June 30, 2003 - \$60,568) to a director of the Company.
- d) Paid or accrued directors' fee of \$30,000 (six month period ended June 30, 2003 - \$Nil) for services provided by directors of the Company.
- e) Recorded stock-based compensation of \$861,097 (six month period ended June 30, 2003 - \$NIL) for options granted to directors, officers and employees of the Company.

Included in deferred developments are rent of \$Nil (June, 2003 - \$12,000) and technical consulting fees of \$60,000 (June 30, 2003 - \$60,000); and wages and benefits of \$36,031 (June 30, 2003 - \$42,000) 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)
June 30, 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:

	June 30, 2004	December 31, 2003
Identifiable assets		
Canada	\$ 990,350	\$ 965,523
People's Republic of China	199,853	249,816
United States of America	1,169,267	1,083,784
	\$ 2,359,470	\$ 2,299,123

	Six Month Period Ended June 30, 2004	Six Month Period Ended June 30, 2003	Three Month Period Ended June 30, 2004	Three Month Period Ended June 30, 2003
Revenue				
Canada	\$ 38,416	\$ -	\$ 4,828	\$ -
People's Republic of China	-	-	-	-
United States of America	18,527	846	9,041	447
	\$56,943	\$846	\$13,869	\$447
Loss for the period				
Canada	(1,604,113)	(210,836)	(445,157)	(137,430)
People's Republic of China	(62,100)	(16,836)	(39,389)	(13,566)
United States of America	(234,711)	(136,444)	(116,311)	(36,322)
	\$ (1,900,924)	\$ (364,116)	\$ (600,857)	\$ (187,318)

6. SUBSEQUENT EVENTS

Subsequent to June 30, 2004:

1. The Company issued 240,426 common shares pursuant to the exercise of warrants with an exercise price of \$0.35 per common share for gross proceeds of \$84,149.
2. The Company issued 43,876 common shares pursuant to the exercise of warrants with an exercise price of \$0.45 per common share for gross proceeds of \$19,744.



FORM 51-102F1
MANAGEMENT DISCUSSION AND ANALYSIS
THREE MONTH PERIOD ENDED JUNE 30, 2004

The following discussion and analysis, prepared as of July 30, 2004, should be read together with the unaudited consolidated financial statements for the six month period ended June 30, 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 Washington State subsidiary Empower Technologies, Inc. ("Empower US"), and indirectly; Empower Technologies (Canada) Inc. ("Empower Canada") and Linux DA (Shanghai) Inc. ("Empower Shanghai"). The Company trades on the TSX Venture Exchange under the symbol EPT.

PERFORMANCE SUMMARY

Since the Company slowly phases out PowerPlay Vs and plans to phase in the new model when available later this year, the revenue from this quarter was down to \$13,869, the net loss was increased to (\$600,857). However with the strong cash position forecasted next quarter, the Company should be able to accelerate its efforts to develop new products and commercialization of its technologies.

Furthermore, during the 2nd quarter of 2004, the following events have taken place:

1. Empower US and Spherex Inc. signed a three-year licensing agreement for the LinuxDA Embedded O/S license.

The thirty-six month agreement is to jointly develop an intelligent multi-function audio device, incorporating the licensed Spherex Optimized Surround Sound technology and Empower US's LinuxDA Embedded Operating System and circuitry.

Performance Summary (cont'd ...)

Under the agreement, Empower US and Spherex will cross license each other's licensed technology to manufacture and market the audio device. The audio device is to be manufactured and sold by Spherex under its selective brands. Empower US can OEM (Original Equipment Manufacture) and/or license the audio device to selective consumer electronics manufacturers to sell under their own labels.

2. Empower US has entered into an agreement with Experience Wireless Fidelity (India), a Company incorporated in India.

This agreement grants Experience Wireless Fidelity (India) exclusive sales, distribution and service responsibility for marketing of Empower's PowerPlay series of PDAs and future mobile smart communication devices through their distribution sales channels in India.

RESULTS OF OPERATIONS

	Six Month Period Ended June 30, 2004	Six Month Period Ended June 30, 2003	Three Month Period Ended June 30, 2004	Three Month Period Ended June 30, 2003
Sales				
Canada	\$ 38,416	\$ -	\$ 4,828	\$ -
People's Republic of China	-	-	-	-
United States of America	18,527	846	9,041	447
	<u>\$56,943</u>	<u>\$846</u>	<u>\$13,869</u>	<u>\$447</u>
Cost of Sales without Amortization of deferred development costs	44,181	611	17,226	294
Total Expenses with stock-based compensation	(1,600,738)	(364,351)	(442,664)	(187,471)
Total Expenses without stock-based compensation	(739,641)	(364,351)	(442,664)	(187,471)
Total Expenses without stock-based compensation and R&D Costs	(477,216)	(364,351)	(296,641)	(187,471)
Loss for the period				
Canada	(1,604,113)	(210,836)	(445,159)	(137,430)
People's Republic of China	(62,100)	(16,836)	(39,389)	(13,566)
United States of America	(234,711)	(136,444)	(116,311)	(36,322)
	<u>\$ (1,900,924)</u>	<u>\$ (364,116)</u>	<u>\$ (600,857)</u>	<u>\$ (187,318)</u>

Revenue

Revenues generated for the six months ended June 30, 2004 were \$56,943 compared with the revenues for the six months period ended June 30, 2003 of \$846. This drastic increase is attributed to the continued sales of PowerPlay Vs to Best Buy Canada through Empower US's Canadian subsidiary, Empower Technologies (Canada) Inc. ("Empower Canada") in the period.

However the revenue decreased 68% from the previous quarter due to the fact that the Company is slowly phasing out PowerPlay Vs and plans to phase in the new model when it is available in the later part of this year. This has been communicated to Best Buy Canada's Future Shop and Best Buy Store buyers and they have agreed with the new PowerPlay PDA model change scheme in their respective stores. The Company anticipates revenue to be improved when the new PowerPlay PDA starts shipping. Consumer electronics usually slow down after Christmas and New Year and then ramp up again starting with back to school sales in late August.

Costs of Goods Sold

The gross margin for 2nd quarter is lower than the 1st quarter due to the higher quantity of products returned. Overall, the gross margin for the six months ended June 30, 2004 improved over 2003 due to the elimination of some of the startup costs to meet Best Buy Canada's vendor requirements.

General and Administrative

General and administrative expenses for the six month period ended June 30, 2004 increased to \$1,600,738 (2003 - \$364,151). Of this increase, Research and development expenses increased due to the Company accelerated its effort to develop new products; Wages and benefits and office expense increased to \$130,611 (2003 - \$67,894), reflecting staff additions within all areas of the Company; Advertising and promotion increased to \$60,639 (2003 - \$4,906) and travelling expenses increased to \$28,672 (2003 - \$5,445) due to management's efforts to promote and market its products.

There are also new expenses of \$30,000 for directors' fees for services rendered by the directors.

Management believes that future quarterly 2004 costs will be much higher than 2003 levels due to additions of staff and the re-opening of the Shanghai office.

Research and Development

Research and Development costs ("R&D costs") 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. R&D costs for the six month period ended June 30, 2004 were \$262,425 (see below table for details).

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. As at June 30, 2004, there is a balance of \$1,425,090.

Research and Development (cont'd ...)

	Three Months Ended June 30, 2004	Three Months Ended March 31, 2004	Year Ended December 31, 2003
Balance, beginning of period	\$1,583,434	\$1,741,778	\$1,550,779
Equipment and supplies	21,251	6,559	17,308
Rent	7,147	7,134	28,588
Salaries and benefits	68,891	47,750	179,947
Technical consulting fees	48,734	54,960	123,500
	146,023	116,402	349,343
Expensed R & D Costs	(146,023)	(116,402)	-
Amortization for the period	(158,344)	(158,344)	(158,344)
Balance, end of period	\$1,425,090	\$1,583,434	\$1,741,778

SIGNIFICANT PROJECTS

New Model to replace PowerPlay Vs

The Company has developed an embedded LinuxDA O/S personal handheld device ("PowerPlay Vs"), which is sold through Best Buy Canada. The Company phases out PowerPlay Vs and plans to phase in the new model when available later this year. Currently the Company is still working on finishing the product development of the new model and the Company expects production to begin in 4th quarter.

This new model has been communicated to Best Buy Canada's Future Shop and Best Buy Store buyers and they have agreed with the new PowerPlay PDA model change scheme in their respective stores.

Joint development with Spherex Inc.

Empower US and Spherex Inc. are jointly working on a confidential development project. The Company plans to introduce the confidential product by the 4th quarter of this year. The confidential product is to have the licensed LinuxDA Embedded Operating System on board and to also contain the licensed Spherex Optimized Surround Sound technology.

USE OF PROCEEDS OF IPO FROM LAST YEAR'S FINANCING

On September 19, 2003, the Company successfully completed its initial public offering ("IPO") for gross proceeds of \$1,705,988. The agent for the IPO was Canaccord Capital Corporation and its fees for the IPO included a cash commission of \$136,479, being 8% of the gross proceeds of the IPO.

As cited in the Prospectus dated July 31, 2003, "the Company intended to use these funds to pay the working capital deficiency of \$583,409 (as of June 30, 2003), product development of \$130,000, and sales and marketing expenses of between \$119,000 and \$149,000, with the balance to be applied towards working capital."

The following is a comparison of the relevant estimated items with actual usage of funds on June 30, 2004.

USE OF PROCEEDS DESCRIPTION	ESTIMATE at July 31, 2003	ACTUAL to June 30, 2004	VARIANCE INDEX
Working capital (deficiency)	\$583,409	\$583,409	100%
Product Development	\$130,000	\$144,796	111%
Marketing and Sales (12 months)	\$149,000	NA	
Administration and operating expenses (12 months)	\$210,000	\$1,118,168	401%
Unallocated working capital	\$497,100	NA	
TOTAL	\$1,569,509	\$1,846,373	

The actual product development costs of "development software for the wireless enabled embedded Linux DA O/S to handle communication protocol for Bluetooth, IEEE802.11 and 3G"; and "development software to complete the LinuxDA O/S for target platform" were 11% greater than estimated due to higher engineering costs.

The actual expenses for marketing and sales is \$NIL (budgeted - \$149,000) due to the management reached an agreement with Best Buy Canada, and there is no further sales force required at current stage.

To the date of June 30, 2004, the Company has spent \$1,118,168 for administration and operating expenses since the completion of the IPO. The over budgeted amount (actual \$1,118,168 – budgeted \$210,000) is \$908,168. The followings are the material items which accounted for the increase in the actual over the budgeted amount:

- The Company incurred R&D costs of \$262,425 (budgeted - \$NIL). For the details of the R&D costs of \$262,425, please refer to "Research and Development" under "Results of the operation". The Company did not budget any for the joint development of a new consumer audio appliance with Spherex Inc., a wholly owned subsidiary of Audio Products International Corporation ("API"); and did not budget any costs for the development of the new PDA and the confidential project with Spherex Inc. For a description of the new PDA project and the confidential project with Spherex Inc., please refer to "Significant Projects". The significant projects were anticipated after the Prospectus was filed.
- The legal fees over budget by (actual \$141,915 - budgeted \$6,000) \$135,915 to patent its technologies, to trademark its name and its brands, to advise and to work on legal, securities, TSX Venture Exchange, and British Columbia Security Commission matters. The Company only budgeted to have minimum legal advice and work;
- The foreign exchange fluctuation of \$80,449 (budgeted - \$NIL) was due to the foreign exchange fluctuation. The Company did not budget any provision for gain or loss due to foreign exchange fluctuation;

Use Of Proceeds Of IPO From Last Year's Financing (cont'd ...)

- Interest expense of \$80,266 (budgeted - \$NIL), please refer to Note 3 in the financial statement, the Company did not budget the interest expense;
- Advertising and promotion of \$77,232 (budgeted - \$NIL), the Company did not budget for the IPO printing and mailing in 4th Quarter of 2003 and the Short Form Offering printing and mailing in 1st Quarter of 2004;
- Auditing fees over budget by (actual \$49,977 - budgeted \$18,000) \$31,977, the Company under budgeted the amount required for auditing and accounting advice;
- Traveling expenses of \$45,593 (budgeted - \$NIL). The Company did not budget for any roadshows or customer site visit;
- The Directors' Fee of \$30,000 (budgeted - \$NIL) for the directors services rendered, the Company did not budget any Directors' Fee.
- The insurance costs of \$22,751 (budgeted - \$NIL) for the directors and officers, the Company did not budget any D&O (Director & Officer) insurance.

Due to the changes in the Company's business operating environment and requirements, the manager made adjustment to the use of the proceeds. Although there were variances in individual items, overall the Company met the objectives and milestones in its estimation of the use of the proceeds of Initial Public Offering.

SUMMARY OF QUARTERLY RESULTS

	Three Months Ended June 30, 2004	Three Months Ended March 31, 2004	Three Months Ended December 31, 2003	Three Months Ended September 31, 2003
Total assets	\$ 2,359,470	\$ 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	158,344	-
Working capital	266,393	694,898	279,828	688,658
Shareholders' equity	920,923	1,459,425	954,681	1,452,645
Revenues	13,869	43,074	133,465	414
Net Loss	\$ (600,857)	\$ (1,300,067)	\$ (1,408,604)	\$ (29,326)
Earnings (loss) per share	(0.03)	(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 the PDA to Best Buy Canada.

LIQUIDITY

The Company has financed its operations to date primarily through the issuance of common shares and the exercising of warrants. 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.

	As at June 30 2004	As at December 31 2003
Deficit	(\$5,230,063)	(\$3,329,139)
Working capital	\$266,393	\$279,828

Net cash used in operating activities for the six month period ended June 30, 2004 was \$540,241 compared to net cash used of \$241,426 during the six month period ended June 30, 2003. The cash used in operating activities for the 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 June 30, 2004 was \$58,844 compared to net cash used by investing activities of \$146,530 during the six month period ended June 30, 2003. The cash used during the current period consist primarily of expenditures of \$58,844 for the purchase of property and equipment.

Net cash provided by financing activities for the six month period end June 30, 2004 was \$1,091,351 compared to net cash provided by financing activities of \$381,939 during the six month period ended June 30, 2003. The cash provided during the current period consisted primarily of proceeds from the issuance of common shares and proceeds from the Short Form Offering.

As at June 30, 2004, the Company had \$689,873 in cash. The Company has been incurring operating losses at the average rate of \$123,274 per month over the last six months. With the expectation of new equity capital of \$3,315,308 raised from the warrants as listed below in the section "Capital Resources", the management believes the working capital should meet the planned cash flow and the strong cash position forecasted next quarter should enable the Company to accelerate its efforts to develop new products and commercialization of its technologies.

CAPITAL RESOURCES

The authorized capital of the Company consists of 100,000,000 common shares without par value. As at July 30, there are 23,571,068 common shares issued and outstanding. The Company has 658,543 Special Warrant warrants outstanding, 5,245,151 warrants from Initial Public Offering (“IPO”) outstanding and 724,500 warrants from Short Form Offering (“SFO”) outstanding.

These warrants represent an important source of new equity capital for the Company in the event that market conditions lead to their being exercised.

Each Special Warrant warrant entitles the holder thereof to purchase an Empower Technologies common share at a price of \$0.35 at any time on or before August 8, 2004; Each IPO warrant entitles the holder to purchase an Empower Technologies common share at a price of \$0.45 at any time on or before September 19, 2004; and each SFO warrant entitles the holder to purchase an Empower Technologies common share at a price of \$1.00 at any time on or before March 30, 2005.

As at July 30, 2004		Exercise Price	Expiry Day	Amount
Special Warrant warrants outstanding	658,543	\$0.35	August 8, 2004	\$ 230,490
Warrants outstanding for IPO	5,245,151	\$0.45	September 19, 2004	\$ 2,360,318
Warrants outstanding for SFO	724,500	\$1.00	March 30, 2005	\$ 724,500
	6,628,194			\$ 3,315,308

It is expected that the Special Warrant warrants, IPO warrants, and SFO warrants will be a significant source of new equity capital, and currently the Company is not committed to any material future capital expenditure.

OUTSTANDING SHARES

As at July 30, 2004, the Company has shares, warrants and options outstanding as followings:

	Shares
Authorized	
100,000,000 common shares without par value	
Balance, December 31, 2003	21,163,949
Short Form Offering	1,000,000
Exercise of warrants during 2004	873,519
Agent shares in 2003	484,600
Agent shares issued pursuant to Short Form Offering	49,000
Options granted prior to December 31, 2003	2,480,000
Options granted after December 31, 2003	1,425,000
Special Warrant warrants outstanding	658,543
Warrants outstanding for IPO	5,245,151
Warrants outstanding for SFO	724,500
Fully Diluted Shares	34,104,262

RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$9,000 (six month period ended June 30, 2003 - \$9,766) to a company with common directors.
- b) Paid or accrued salaries and benefits of \$82,373 (six month period ended June 30, 2003 - \$51,785) to directors and officers of the Company.
- c) Paid or accrued interest of \$52,800 (six month period ended June 30, 2003 - \$60,568) to a director of the Company.
- d) Paid or accrued directors' fee of \$30,000 (six month period ended June 30, 2003 - \$Nil) for services provided by directors of the Company.
- e) Recorded stock-based compensation of \$861,097 (six month period ended June 30, 2003 - \$NIL) for options granted to directors, officers and employees of the Company.

Included in deferred developments are rent of \$Nil (June, 2003 - \$12,000) and technical consulting fees of \$60,000 (June 30, 2003 - \$60,000); and wages and benefits of \$36,031 (June 30, 2003 - \$42,000) paid or accrued to directors and officers and to companies with directors and officers in common.

Empower US, 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, \$1,133,746, is payable to a director of the Company, bears interest at the rate of 9.5%, is secured by the assets of Empower US, 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 favor 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 Empower US's assets, was granted by Empower US in favor of a director of the Company, for all funds loaned pursuant to a Loan Agreement between Empower US and the director.

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.

OFF-BALANCE SHEET ARRANGEMENT

The Company has no off-balance sheet arrangements.

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 June 30, 2004:

- a) The Company issued 240,426 common shares pursuant to the exercise of warrants with an exercise price of \$0.35 per common share for gross proceeds of \$84,149.
- b) The Company issued 43,876 common shares pursuant to the exercise of warrants with an exercise price of \$0.45 per common share for gross proceeds of \$19,744.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

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.

Critical Accounting Policies And Significant Estimates (cont'd ...)

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

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.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the declining balance method at the following annual rates:

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

Revenue recognition

The Company records revenue when services have been completed, 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.

Critical Accounting Policies And Significant Estimates (cont'd ...)

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 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, the Company adopted, on a prospective basis, the fair-value method of accounting for all stock-based compensation.