

**EMPOWER TECHNOLOGIES CORPORATION**

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

**September 30, 2004**

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

	September 30 2004	December 31 2003
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 2,490,829	\$ 197,607
Receivables	127,604	230,474
Inventory	85,497	59,112
Prepaid expenses	97,242	27,143
	<hr/>	<hr/>
	2,801,172	514,336
<b>Property and equipment</b>	116,798	43,009
<b>Deferred development costs</b>	1,266,746	1,741,778
	<hr/>	<hr/>
	\$ 4,184,716	\$ 2,299,123
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 340,186	\$ 230,902
Due to related party (Note 3)	82,644	-
Current portion of loan payable	16,668	-
Current portion of obligations under capital lease	-	3,606
	<hr/>	<hr/>
	439,498	234,508
<b>Loan payable</b>	63,886	-
<b>Due to related party (Note 3)</b>	800,000	1,109,934
	<hr/>	<hr/>
	1,303,384	1,344,442
<b>Shareholders' equity</b>		
Capital stock	7,166,395	2,995,375
Contributed surplus	1,676,363	1,288,445
Deficit	(5,961,426)	(3,329,139)
	<hr/>	<hr/>
	2,881,332	954,681
	<hr/>	<hr/>
	\$ 4,184,716	\$ 2,299,123

**Basis of Presentation** (Note 1)

**Nature and continuance of operations** (Note 2)

**Subsequent Event** (Note 6)

**On behalf of the Board:**

\_\_\_\_\_  
“Paul Leung” Director

\_\_\_\_\_  
“Edward Bagg” 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)

	Nine Month Period Ended September 30, 2004	Nine Month Period Ended September 30, 2003	Three Month Period Ended September 30, 2004	Three Month Period Ended September 30, 2003
<b>SALES</b>	\$ 139,128	\$ 1,263	\$ 82,185	\$ 414
<b>COST OF SALES</b>				
Product costs	104,454	1,287	60,273	856
Amortization of deferred development costs	475,032	-	158,344	-
	<u>579,486</u>	<u>1,287</u>	<u>218,617</u>	<u>856</u>
	<u>(440,358)</u>	<u>(24)</u>	<u>(136,432)</u>	<u>(442)</u>
<b>EXPENSES</b>				
Accounting and audit	20,493	22,215	7,875	18,215
Advertising and promotion	133,522	8,346	72,883	3,417
Amortization of property and equipment	15,749	10,919	7,221	3,640
Bank charges and interest	5,827	7,640	2,429	2,745
Translation (gain) loss	(20,605)	(107,220)	(15,049)	(109,586)
Insurance	19,139	700	3,192	700
Research & development expenses	496,510	-	234,085	-
Interest on capital lease obligations	-	2,879	-	689
Interest on long term debt	76,056	89,308	23,256	30,862
Directors' Fee	60,000	-	30,000	-
Legal fees	61,303	63,678	11,711	8,030
Management and consulting fees	46,000	15,841	37,000	4,668
Office expense	42,381	15,593	11,214	4,295
Rent	23,257	18,000	11,257	6,000
Stock-based compensation	861,097	-	-	-
Telephone and utilities	24,466	17,004	10,046	4,478
Transfer agent and filing fees	24,323	6,509	5,180	6,509
Travel	55,600	9,519	26,928	4,074
Wages and benefits	246,604	108,103	115,993	40,210
Warranty	4,237	-	-	-
	<u>(2,195,959)</u>	<u>(289,034)</u>	<u>(595,221)</u>	<u>(28,946)</u>
<b>Loss before other item</b>	(2,636,317)	(289,058)	(731,653)	(29,388)

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)

	Nine Month Period Ended September 30, 2004	Nine Month Period Ended September 30, 2003	Three Month Period Ended September 30, 2004	Three Month Period Ended September 30, 2003
<b>Loss before other item</b>	(2,636,317)	(289,058)	(731,653)	(29,388)
<b>OTHER ITEM</b>				
Interest and other income	4,030	62	290	62
<b>Loss for the period</b>	(2,632,287)	(288,996)	(731,363)	(29,326)
<b>Deficit, beginning of period</b>	(3,329,139)	(1,631,539)	(5,230,063)	(1,891,209)
<b>Deficit, end of period</b>	\$ (5,961,426)	\$ (1,920,535)	\$ (5,961,426)	\$ (1,920,535)
<b>Basic and diluted loss per common share</b>	\$ (0.11)	\$ (0.23)	\$ (0.03)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>	23,973,485	1,247,113	24,422,720	3,700,674

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)

	Nine Month Period Ended September 30, 2004	Nine Month Period Ended September 30, 2003	Three Month Period Ended September 30, 2004	Three Month Period Ended September 30, 2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$(2,632,287)	\$ (288,996)	\$ (731,363)	\$ (29,326)
Items not affecting cash:				
Accrued interest	75,010	89,308	51,198	30,862
Amortization of deferred development costs	475,032	-	158,344	-
Amortization of property and equipment	15,749	10,919	7,221	3,640
Translation gain / (loss)	(48,710)	43,822	(43,765)	(38,038)
Stock-based compensation	861,097	-	-	-
Changes in non-cash working capital items:				
Decrease (Increase) in receivables	102,870	48	(39,246)	(3,212)
Decrease (Increase) in inventory	(26,385)	2,538	(48,254)	856
Decrease (Increase) in prepaid expenses	(70,100)	(31,500)	(78,063)	371
Increase (Decrease) in accounts payable and accrued liabilities	80,694	(519,415)	97,139	(465,805)
Net cash used in operating activities	<u>(1,167,030)</u>	<u>(693,276)</u>	<u>(626,789)</u>	<u>(500,652)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property and equipment	(89,538)	-	(30,694)	-
Development costs	-	(235,374)	-	(89,032)
Net cash used in investing activities	<u>(89,538)</u>	<u>(235,374)</u>	<u>(30,694)</u>	<u>(89,032)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of capital lease obligations	(3,606)	(10,473)	-	(3,761)
Advances from related party	-	111,500	-	90,392
Repayment of advances from related party	(225,000)	-	(225,000)	-
Proceeds from loan payable	100,000	-	-	-
Repayment of loan payable	(19,446)	-	(8,334)	-
Proceeds from issuance of common shares	3,747,942	1,692,600	2,691,773	1,374,034
Share issuance costs	(50,100)	-	-	-
Net cash provided by financing activities	<u>3,549,790</u>	<u>1,793,627</u>	<u>2,458,439</u>	<u>1,460,665</u>
<b>Change in cash during the period</b>	<u>2,293,222</u>	<u>864,977</u>	<u>1,800,956</u>	<u>870,981</u>
<b>Cash, beginning of period</b>	<u>197,607</u>	<u>11,187</u>	<u>689,873</u>	<u>5,183</u>
<b>Cash, end of period</b>	<u>\$ 2,490,829</u>	<u>\$ 876,164</u>	<u>\$ 2,490,829</u>	<u>\$ 876,164</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)  
September 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 disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have 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)  
(Unaudited – Prepared by management)  
September 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% per annum, is secured by the assets of the Company, and is payable in quarterly instalments of \$50,000 beginning on January 1, 2005. However, the Company determined to repay the loan ahead of time to improve the Company's ability to obtain trade credit to procure parts for new product manufacturing. Loan payments of \$225,000 and interest of \$8,260 have been paid.

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 (nine month period ended September 30, 2003 - \$13,500) to a company with common directors.
- b) Paid or accrued wages and benefits of \$107,100 (nine month period ended September 30, 2003 - \$79,000) to directors and officers of the Company.
- c) Paid or accrued interest of \$75,010 (nine month period ended September 30, 2003 - \$89,308) to a director of the Company.
- d) Paid or accrued directors' fees of \$60,000 (nine month period ended September 30, 2003 - \$Nil) for services provided by directors of the Company.
- e) Recorded stock-based compensation of \$861,097 (nine month period ended September 30, 2003 - \$NIL) for options granted to directors and officers of the Company.

Included in research development costs are wages and benefits of \$54,094 (September 30, 2003 - \$54,000); and technical consulting fees of \$90,000 (September 30, 2003 - \$90,000) 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)  
(Unaudited – Prepared by management)  
September 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:

	September 30, 2004	December 31, 2003
Identifiable assets		
Canada	\$ 2,545,040	\$ 965,523
People's Republic of China	356,591	249,816
United States of America	1,283,085	1,083,784
	\$ 4,184,716	\$ 2,299,123

	Nine Month Period Ended September 30, 2004	Nine Month Period Ended September 30, 2003	Three Month Period Ended September 30, 2004	Three Month Period Ended September 30, 2003
Sales				
Canada	\$ 120,337	\$ -	\$ 81,921	\$ -
People's Republic of China	-	-	-	-
United States of America	18,791	1,263	264	414
	\$139,128	\$1,263	\$82,185	\$ 414
Income (Loss) for the period				
Canada	(2,105,806)	(267,361)	(501,693)	(58,121)
People's Republic of China	(170,779)	(341)	(108,679)	(341)
United States of America	(355,702)	(21,294)	(120,991)	29,136
	\$ (2,632,287)	\$ (288,996)	\$ (731,363)	\$ (29,326)

**6. SUBSEQUENT EVENT**

Subsequent to September 30, 2004, the Company issued 16,000 common shares pursuant to the exercise of warrants with an exercise price of \$1.00 per common share for gross proceeds of \$16,000.