

EMPOWER TECHNOLOGIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2005

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

	March 31, 2005	December 31, 2004
ASSETS		
Current		
Cash	\$ 799,501	\$ 1,243,042
Receivables	168,730	179,524
Inventory	512,908	398,616
Prepaid expenses	45,708	55,403
Total current assets	1,526,847	1,876,585
Property and equipment	163,135	165,547
Total assets	\$ 1,689,982	\$ 2,042,132
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 206,395	\$ 463,363
Due to Related Party (Note 5)	240,720	240,720
Current portion of loan payable (Note 4)	33,336	33,336
Current portion of obligations under capital lease (Note 3)	4,410	4,410
Total Current Liabilities	484,861	741,829
Long term loan payable (Note 4)	30,550	38,884
Obligations under capital lease (Note 3)	15,803	16,538
Due to related party (Note 5)	564,208	564,208
Total Liabilities	1,095,422	1,361,459
Shareholders' equity		
Capital stock	7,837,812	7,136,029
Contributed surplus	1,836,187	1,724,613
Deficit	(9,079,439)	(8,179,969)
Total shareholders' equity	594,560	680,673
Total liabilities and shareholders' equity	\$ 1,689,982	\$ 2,042,132

Basis of Presentation (Note 1)

Nature and continuance of operations (Note 2)

Subsequent Event (Note 8)

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, 2005	Three Month Period Ended March 31, 2004
SALES	\$ 32,673	\$ 43,074
COST OF SALES	<u>27,665</u>	<u>26,955</u>
	<u>5,008</u>	<u>16,119</u>
EXPENSES		
Accounting and audit	403	-
Advertising and promotion	43,244	29,377
Amortization of property and equipment	9,520	3,640
Amortization of assets under capital leases	992	-
Amortization of research and development Costs	-	158,344
Bank charges and interest	2,194	2,637
Consulting fees	52,370	4,500
Foreign exchange (gain) loss	34,457	158
Insurance	13,375	7,030
Research and development	301,309	116,402
Interest on long term debt	19,586	24,062
Directors' fee	30,000	-
Legal fees	8,677	12,530
Office expense	18,566	15,904
Rent	5,290	6,000
Stock-based compensation	111,574	861,097
Telephone and utilities	10,154	8,511
Transfer agent and filing fees	6,696	10,059
Travel	59,867	9,188
Wages and benefits	176,404	42,741
Warranty	-	4,237
	<u>(904,678)</u>	<u>(1,316,417)</u>
Loss before other item	(899,670)	(1,300,298)
OTHER ITEM		
Interest and other income	<u>200</u>	<u>231</u>
Loss for the period	(899,470)	(1,300,067)
Deficit, beginning of period	<u>(8,179,969)</u>	<u>(3,329,139)</u>
Deficit, end of period	\$ (9,079,439)	\$ (4,629,206)
Basic and diluted loss per common share	\$ (0.03)	\$ (0.06)
Weighted average number of common shares outstanding	<u>29,251,633</u>	<u>21,385,403</u>

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, 2005	Three Month Period Ended March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (899,470)	\$ (1,300,067)
Items not affecting cash:		
Accrued interest	-	23,812
Amortization of deferred development costs	-	158,344
Amortization of property and equipment	9,520	3,640
Amortization of property and equipment under capital lease	992	-
Stock-based compensation	111,574	861,097
Changes in non-cash working capital items:		
Decrease in receivables	11,028	123,862
Decrease (Increase) in inventory	(114,292)	11,431
Decrease in prepaid expenses	9,744	6,263
Decrease in accounts payable and accrued liabilities	(257,374)	(99,297)
Net cash used in operating activities	<u>(1,128,278)</u>	<u>(210,915)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(7,977)</u>	<u>(13,943)</u>
Net cash used in investing activities	<u>(7,977)</u>	<u>(13,943)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital lease obligations	(735)	(3,606)
Proceeds from loan payable	-	100,000
Repayment of Loan Payable	(8,334)	(2,778)
Proceeds from issuance of common shares	701,783	993,815
Share issuance costs	-	(50,100)
Net cash provided by financing activities	<u>692,714</u>	<u>1,037,331</u>
Change in cash during the period	(443,541)	812,473
Cash, beginning of period	<u>1,243,042</u>	<u>197,607</u>
Cash, end of period	<u>\$ 799,501</u>	<u>\$ 1,010,080</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, 2005

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.

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.

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3. OBLIGATIONS UNDER CAPITAL LEASE

	March 31, 2005	December 31, 2004
Payments of \$367 per month, due over lease terms expiring through September 2009	\$ 20,213	\$ 20,948
Less: current portion	(4,410)	(4,410)
	<u>\$ 15,803</u>	<u>\$ 16,538</u>
Estimated Remaining lease payments are as follows:		
2005	\$ 3,675	\$ 4,410
2006	4,410	4,410
2007	4,410	4,410
2008	4,410	4,410
2009	3,308	3,308
Balance of obligation	<u>\$ 20,213</u>	<u>\$ 20,948</u>

4. LOAN PAYABLE

The non-revolving term loan of up to \$100,000 available to the Company bears interest at the Bank of Nova Scotia's prime lending rate plus 1.00% per annum, payable in 35 equal monthly instalments of principal and interest of \$2,778, matures in February, 2007 and is secured by the assets of the Company.

	March 31, 2005	December 31, 2004
Principal amount	\$ 63,886	\$ 72,220
Less: current portion	(33,336)	(33,336)
	<u>\$ 30,550</u>	<u>\$ 38,884</u>
Estimated minimal principal payments are as follows:		
2005	\$ 25,002	\$ 33,336
2006	33,336	33,336
2007	5,548	5,548
Balance, end of period	<u>\$ 63,886</u>	<u>\$ 72,220</u>

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5. 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 Empower US, and is payable in quarterly instalments of US\$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.

6. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued wages and benefits of \$43,050 (three month period ended March 31, 2004 - \$39,000) to directors and officers of the Company.
- b) Paid or accrued interest of \$19,586 (three month period ended March 31, 2004 - \$24,062) to a director of the Company.
- c) Paid or accrued directors' fees of \$30,000 (three month period ended March 31, 2004 - \$Nil) for services provided by directors of the Company.
- d) Recorded stock-based compensation of \$111,574 (three month period ended March 31, 2004 - \$861,097) for options granted to an officer of the Company.

Included in research and development costs are wages and benefits of \$27,000 (March 31, 2004 - \$18,000) to an officer of the company.

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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7. 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, 2005	December 31, 2004
Property and equipment		
Canada	\$ 139,617	\$ 141,648
People's Republic of China	23,518	23,899
	\$ 163,135	\$ 165,547

	Three month period ended March 31, 2005	Three month period ended March 31, 2004
Revenue:		
Canada	\$ 7,757	\$ 33,588
United States of America	24,916	9,486
	\$ 32,673	\$ 43,074

8. SUBSEQUENT EVENTS

- a) The Company granted Coal Harbor Communication Inc., an investor relations services provider, stock options for 60,000 shares exercisable for one year. The stock options are valued at \$27,241 based on the fair-value method of accounting for all stock-based compensation.
- b) The Company has received the receipt for filing the final prospectus with the British Columbia, Alberta and Ontario Securities Commissions offering 3,333,333 units at \$2.25 per unit. Each unit consists of one common share and one-half of one non-transferable warrant. Each whole warrant will entitle the holder to purchase one additional common share, for a period of 12 months from the date of completion of this offering at a price of \$2.50 per share. Pursuant to an Agency Agreement with Canaccord Capital Corporation (the "Agent"), the Agent will receive a commission of 7.5% of the gross proceeds, be paid a cash administration fee of \$7,500, and be issued non-transferable warrants equal to 12% of the units sold in the offering on the same terms exercisable for a period of 12 months from the date of completion of this offering. The Agent will also be receiving a corporate finance fee, payable in units of the issuer of 50,000 units on closing of the offering. The cost of the public offering excluding the Agent's commissions and expenses is estimated to be a total of \$150,000.