

**EMPOWER TECHNOLOGIES CORPORATION**

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

**June 30, 2005**

**EMPOWER TECHNOLOGIES CORPORATION**

CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian Dollars)

(Unaudited – Prepared by management)

	June 30, 2005	December 31, 2004
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 6,133,874	\$ 1,243,042
Receivables	180,333	179,524
Inventory	727,522	398,616
Prepaid expenses	92,417	55,403
<b>Total current assets</b>	<b>7,134,146</b>	<b>1,876,585</b>
<b>Property and equipment</b>	<b>162,336</b>	<b>165,547</b>
<b>Total assets</b>	<b>\$ 7,296,482</b>	<b>\$ 2,042,132</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 163,432	\$ 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
<b>Total Current Liabilities</b>	<b>441,898</b>	<b>741,829</b>
<b>Long term loan payable</b> (Note 4)	<b>22,216</b>	<b>38,884</b>
<b>Obligations under capital lease</b> (Note 3)	<b>14,700</b>	<b>16,538</b>
<b>Due to related party</b> (Note 5)	<b>439,928</b>	<b>564,208</b>
<b>Total Liabilities</b>	<b>918,742</b>	<b>1,361,459</b>
<b>Shareholders' equity</b>		
Capital stock (Note 7)	14,399,519	7,136,029
Contributed surplus (Note 7)	1,904,861	1,724,613
Deficit	(9,926,640)	(8,179,969)
<b>Total shareholders' equity</b>	<b>6,377,740</b>	<b>680,673</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 7,296,482</b>	<b>\$ 2,042,132</b>

**Basis of Presentation** (Note 1)

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

**Subsequent Event** (Note 9)

**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)

	Six Month Period Ended June 30, 2005	Six Month Period Ended June 30, 2004	Three Month Period Ended June 30, 2005	Three Month Period Ended June 30, 2004
<b>SALES</b>	\$ 33,141	\$ 56,943	\$ 468	\$ 13,869
<b>COST OF SALES</b>	28,628	44,181	963	17,226
	4,513	12,762	(495)	(3,357)
<b>EXPENSES</b>				
Accounting and audit	14,770	12,618	14,367	12,618
Advertising and promotion	101,609	60,639	58,365	31,262
Amortization of property and equipment	20,025	8,528	10,505	4,889
Amortization of assets under capital leases	1,984	-	992	-
Amortization of research and development costs	-	316,688	-	158,344
Bank charges and interest	4,879	3,398	2,685	761
Consulting fees	103,370	9,000	51,000	4,500
Foreign exchange (gain) loss	31,483	(5,556)	(2,974)	(5,714)
Insurance	26,180	15,947	12,805	8,917
Research and development	628,365	262,425	327,056	146,023
Interest on long term debt	38,540	52,800	18,954	28,738
Directors' Fee	60,000	30,000	30,000	30,000
Legal fees	54,772	49,592	46,095	37,062
Office	40,137	31,167	21,571	15,263
Rent	10,740	12,000	5,450	6,000
Stock-based compensation	143,705	861,097	32,131	-
Telephone and utilities	24,928	14,420	14,774	5,909
Transfer agent and filing fees	24,056	19,143	17,360	9,083
Travel	95,752	28,672	35,885	19,484
Wages and benefits	326,348	130,611	149,944	87,869
Warranty	-	4,237	-	-
	(1,751,643)	(1,917,426)	(846,965)	(601,008)
<b>Loss before other items</b>	(1,747,130)	(1,904,664)	(847,460)	(604,365)
<b>OTHER ITEM</b>				
Interest and other income	459	3,740	259	3,508
<b>Loss for the period</b>	(1,746,671)	(1,900,924)	(847,201)	(600,857)
<b>Deficit, beginning of period</b>	(8,179,969)	(3,329,139)	(9,079,439)	(4,629,206)
<b>Deficit, end of period</b>	\$ (9,926,640)	\$ (5,230,063)	\$ (9,926,640)	\$ (5,230,063)
<b>Basic and diluted loss per common share</b>	\$ (0.06)	\$ (0.09)	\$ (0.03)	\$ (0.03)
<b>Weighted average number of common shares outstanding</b>	29,609,861	22,055,148	29,963,047	22,514,453

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, 2005	Six Month Period Ended June 30, 2004	Three Month Period Ended June 30, 2005	Three Month Period Ended June 30, 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$ (1,746,671)	\$ (1,900,924)	\$ (847,201)	\$ (600,857)
Items not affecting cash:				
Accrued interest	-	23,812	-	-
Amortization of research and development costs	-	316,688	-	158,344
Amortization of property and equipment	20,025	8,528	10,505	4,889
Amortization of property and equipment under capital lease	1,984	-	992	-
Stock-based compensation	143,705	861,097	32,131	-
Changes in non-cash working capital items:				
Decrease (Increase) in receivables	(395)	137,171	(11,424)	13,309
Decrease (Increase) in inventory	(328,906)	21,869	(214,614)	10,438
Decrease (Increase) in prepaid expenses	(36,872)	7,963	(46,617)	1,700
Increase (Decrease) in accounts payable and accrued liabilities	(300,949)	(16,445)	(43,573)	82,852
Net cash used in operating activities	<u>(2,248,079)</u>	<u>(540,241)</u>	<u>(1,119,801)</u>	<u>(329,325)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property and equipment	<u>(18,338)</u>	<u>(58,844)</u>	<u>(10,361)</u>	<u>(44,902)</u>
Net cash used in investing activities	<u>(18,338)</u>	<u>(58,844)</u>	<u>(10,361)</u>	<u>(44,902)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of capital lease obligations	(1,838)	(3,606)	(1,103)	-
Proceeds from loan payable	-	100,000	-	-
Repayment of loan payable	(16,668)	(11,112)	(8,334)	(8,334)
Repayment of advances from related party	(124,280)	-	(124,280)	-
Proceeds from issuance of common shares	7,884,450	1,056,169	7,182,667	62,354
Share issuance costs	(584,415)	(50,100)	(584,415)	-
Net cash provided by financing activities	<u>7,157,249</u>	<u>1,091,351</u>	<u>6,464,535</u>	<u>54,020</u>
<b>Change in cash and equivalents during the period</b>	<b>4,890,832</b>	<b>492,266</b>	<b>5,334,373</b>	<b>(320,207)</b>
<b>Cash and equivalents, beginning of period</b>	<u><b>1,243,042</b></u>	<u><b>197,607</b></u>	<u><b>799,501</b></u>	<u><b>1,010,080</b></u>
<b>Cash and equivalents, end of period</b>	<u><b>\$ 6,133,874</b></u>	<u><b>\$ 689,873</b></u>	<u><b>\$ 6,133,874</b></u>	<u><b>\$ 689,873</b></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, 2005

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**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.

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**3. OBLIGATIONS UNDER CAPITAL LEASE**

	June 30, 2005	December 31, 2004
Payments of \$367 per month, due over lease terms expiring through September 2009	\$ 19,110	\$ 20,948
Less: current portion	(4,410)	(4,410)
	<u>\$ 14,700</u>	<u>\$ 16,538</u>
Estimated Remaining lease payments are as follows:		
2005	\$ 2,572	\$ 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>\$ 19,110</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.

	June 30, 2005	December 31, 2004
Principal amount	\$ 55,552	\$ 72,220
Less: current portion	(33,336)	(33,336)
	<u>\$ 22,216</u>	<u>\$ 38,884</u>
Estimated remaining lease payments are as follows:		
2005	\$ 16,668	\$ 33,336
2006	33,336	33,336
2007	5,548	5,548
Balance, end of period	<u>\$ 55,552</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 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 \$89,100 (six month period ended June 30, 2004 - \$82,373) to directors and officers of the Company.
- b) Paid or accrued interest of \$38,540 (six month period ended June 30, 2004 - \$52,800) to a director of the Company.
- c) Paid or accrued directors' fees of \$60,000 (six month period ended June 30, 2004 - \$30,000) for services provided by directors of the Company.
- d) Recorded stock-based compensation of \$111,574 (six month period ended June 30, 2004 - \$861,097) for options granted to an officer of the Company.

Included in research and development costs are wages and benefits of \$54,000 (six month period ended June 30, 2004 - \$36,031) 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. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Shares	Capital Stock	Contributed Surplus
Authorized 100,000,000 common shares without par value			
Balance, December 31, 2004	29,008,620	\$ 7,136,029	\$ 1,724,613
Prospectus offering	3,186,370	7,169,332	-
Share issuance Costs	-	(826,002)	-
Exercise of warrants	701,200	701,200	-
Exercise of options	18,334	13,917	-
Agent's warrants issued pursuant to the prospectus offering	-	-	36,543
Agent's shares issued pursuant to the prospectus offering	91,130	205,043	-
Stock-based compensation	-	-	143,705
<b>Balance, June 30, 2005</b>	<b>33,005,654</b>	<b>\$ 14,399,519</b>	<b>\$ 1,904,861</b>

**8. 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, 2005	December 31, 2004
Property and equipment:		
Canada	\$ 140,036	\$ 141,648
People's Republic of China	22,300	23,899
	<b>\$ 162,336</b>	<b>\$ 165,547</b>



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

	Six month period ended June 30, 2005	Six month period ended June 30, 2004	Three month period ended June 30, 2005	Three month period ended June 30, 2004
Revenue:				
Canada	\$ 8,848	\$ 38,416	\$ 1,091	\$ 4,828
United States of America	24,293	18,527	(623)	9,041
	<u>\$ 33,141</u>	<u>\$ 56,943</u>	<u>\$ 468</u>	<u>\$ 13,869</u>

**9. SUBSEQUENT EVENT**

The Company granted an officer of the stock options for 100,000 shares exercisable in five years at a price of \$2.10.