



## FORM 51-102F1

### MANAGEMENT DISCUSSION AND ANALYSIS THREE MONTH PERIOD ENDED JUNE 30, 2005

The following discussion and analysis, prepared as of August 10, 2005, should be read together with the unaudited consolidated financial statements for the six month period ended June 30, 2005 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 audited financial statements for the year ended December 31, 2004, and the Management Discussion and Analysis for 2004.

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 Empower Technologies Corporation ("the Company") is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).

## DESCRIPTION OF BUSINESS

The Company is a developer and provider of Linux-based operating software, embedded system technologies and solutions for the consumer electronics industry and the intelligent appliance market. The Company operates through its wholly-owned Washington State subsidiary Empower Technologies, Inc. ("Empower US"), and indirectly; Empower Technologies (Canada) Inc. ("Empower Canada") and Empower Technologies (Shanghai) Inc. ("Empower Shanghai"). The Company trades on the TSX Venture Exchange under the symbol EPT.

## PERFORMANCE SUMMARY

The Company completed its Prospectus Offering ("Offering"), resulting in the sale of 3,186,370 Units at \$2.25 per Unit, for gross proceeds of \$7,169,332. The proceeds of Offering will be used primarily to build and expand the business by achieving milestones in product development, sales and marketing, new management positions, and the remaining balance for working capital. Canaccord Capital Corporation acted as agent for the Offering and received a commission of 7.5% of gross proceeds, of which the Agent elected to be partially paid in Units under the same terms as the Offering.

Since the Company accelerated its efforts to develop new products and commercialize its technologies, the total expenses increased to \$846,965 compared to \$601,008 for the three month period ended June 30, 2004. Revenue decreased to \$468 compared to \$13,869 for the three month period ended June 30, 2004 due to the Company's decision to drop all distributed products and end of life product to make way for the new products developed in-house using the Company's embedded Linux-base operating software technologies LEOs (LinuxDA Embedded O/S).

As at June 30, 2005, the Company had \$6,133,874 cash and equivalents compared to \$1,243,042 at December 31, 2004. The increase was primarily attributed to the proceeds of Offering in the second quarter of 2005. The Company expects overall operating expenses will increase due to the sales and marketing effort to commercialize LEOs, addition of engineering staff and the expansion of the Company office and support.

Furthermore, during the 2nd quarter of 2005, the following events took place:

- The Company officially released its latest LEOs™ (LinuxDA Embedded O/S) development platform - LDK5910 optimized for Texas Instruments™ OMAP5910 dual core CPU. Based on the one-stop shopping concept, LDK5910 encompasses a hardware development board with TI OMAP5910 onboard, LEOs operating software and a software development kit.
- The Company launched its revolutionary new prototype PowerPlay 5.1 Media Chair, at the Electronic Entertainment Expo (E3) in Los Angeles. The PowerPlay Media Chair has a 5.1 surround sound system integrated into the frame, on board digital processing, flexibility with multiple inputs, compatibility with all gaming consoles and a tactile transducer that allows users to not only hear, but feel the action.
- Empower US signed an exclusive worldwide license agreement for sales, marketing and licensing of audio technology. The agreement with Mobile Dynamics Corporation is for exclusive worldwide licensing rights to convert an existing active noise cancellation, acoustic reconciliation and modeling, equalization (EQ) and auto-gain control software audio codec to a TI DSP compatible audio codec or to any other IC (Integrated Circuit) platform.

## RESULTS OF OPERATIONS

	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
Sales				
Canada	\$ 8,848	\$ 38,416	\$ 1,091	\$ 4,828
United States of America	24,293	18,527	(623)	9,041
	33,141	56,943	468	13,869
Cost of Sales	28,628	44,181	963	17,226
Gross Margin	4,513	12,762	(495)	(3,357)
Total expenses	1,751,643	1,917,426	846,965	601,008
Total expenses without stock-based compensation	1,607,938	1,056,328	814,834	601,008
Total expenses without stock-based compensation, R&D Costs, and amortization of research and development costs	979,573	477,215	487,778	296,641
Loss for the period				
Canada	(1,481,279)	(1,604,115)	(743,887)	(445,159)
People's Republic of China	(120,178)	(62,098)	(61,824)	(39,387)
United States of America	(145,213)	(234,711)	(41,490)	(116,311)
	\$ (1,746,671)	\$ (1,900,924)	\$ (847,201)	\$ (600,857)

## Revenue

Revenues generated for the three months ended June 30, 2005 were \$468 compared with revenues for the three months ended June 30, 2004 of \$13,869. This decrease is attributed to the Company's decision to clear out and to drop all distributed products and end of life product to make way for the new products developed in-house using the Company's embedded technologies including LEOs (LinuxDA Embedded O/S).

The company anticipates revenue to be improved through its plans to: introduce new products using LEOs; move aggressively to set up a strong marketing and sales base in North America; and introduce the new LDK5910 Development Kit.

## Costs of Goods Sold

The gross margin for the three months ended June 30, 2005 decreased due to the Company's decision to clear out and to drop all distributed products and end of life product.

## General and Administrative

General and administrative expenses without the stock-based compensation for the three months ended June 30, 2005 increased to \$814,834 (2004 - \$601,008). Wages and benefits increased to \$149,944 (2004 - \$87,869), reflecting staff additions in all areas of the company; advertising and promotion increased to \$58,365 (2004 - \$31,262) due to the company's effort to commercialize its technologies; and travelling expenses increased to \$35,885 (2004 - \$19,484) due to management's efforts to promote and market products and attending tradeshows.

Management believes that future general and administrative costs will increase due to the addition of staff and the expansion of the Company office and support.

## Research and Development

Research and Development expenses ("R&D expenses") relating to the development of Linux-based embedded system technologies, the development of LEOs, the LDK5910 Development Kit, and new products using LEOs are expensed as incurred unless they meet Canadian generally accepted accounting principles for deferral and amortization.

R&D expenses for the three month period ended June 30, 2005 were \$327,056 compared to \$146,023 for the three month period ended June 30, 2004. This increase is attributed to the Company accelerating its efforts to develop LEOs, LDK5910, and new products.

	Three Month Period Ended June 30, 2005	Three Month Period Ended June 30, 2004
Equipment and supplies	\$ 27,183	\$ 21,251
Rent	12,906	7,147
Salaries and benefits	286,967	68,891
Technical consulting fees	-	48,734
	<u>\$ 327,056</u>	<u>\$ 146,023</u>

## SIGNIFICANT PROJECTS

### LinuxDA Embedded O/S (LEOs)

Empower US has introduced a 32 bit embedded version of LEOs, optimized for the Texas Instruments (“TI”) OMAP5910 processor. LEOs for the OMAP5910 development platform debuts in the Company’s next generation of PowerPlay branded consumer devices.

### LDK5910 Development Kit

Empower US is working on a LEOs for TI OMAP5910 Development Kit (LDK5910). This kit will enable electronic manufacturers and developers to develop new products using the TI OMAP5910 dual core processor with LEOs as the operating software. The kit comes with hardware development boards using, TI OMAP5910 and a CD with LEOs and the SDK (Software Development Kit). The manufacturer's suggested retail price is \$900 USD. LEOs for TI OMAP5910 initiates a new level of performance expectations for intelligent devices with increased headroom for applications and expansion capabilities for other functions.

### Osaka Project

With CD, DVD, MP3 and clock radio capabilities, the Osaka Project is a compact, all-digital audio system. Supporting a wide range of sound functions, it integrates all the elements of personal and home audio, in addition to a PDA with QVGA display. Powered by LEOs for the TI OMAP5910 dual core processor, the Osaka Project increases digital audio decoding standards. The Osaka Project fulfils the needs and demands of the cutting edge consumer.

### PowerPlay 1x

This new mobile data terminal model is still under development. Besides the regular PDA functions, this new model will have wireless communication capability.

## SUMMARY OF QUARTERLY RESULTS

	Three Months Ended June 30, 2005	Three Months Ended March 31, 2005	Three Months Ended December 31, 2004	Three Months Ended September 30, 2004
Total assets	\$ 7,296,482	\$ 1,689,982	\$ 2,042,132	\$ 4,184,716
Stock Based Compensation	32,131	111,574	-	-
Write-off of deferred costs	-	-	1,741,778	-
Working capital	6,692,250	1,041,987	1,134,756	2,361,674
Shareholders' equity	6,377,742	594,560	680,673	2,881,332
Revenues	468	32,673	31,241	82,185
Net Loss	(847,201)	(899,470)	(2,218,543)	(731,363)
Loss per share	\$ (0.03)	\$ (0.03)	\$ (0.08)	\$ (0.03)

	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	-
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)
Loss per share	\$ (0.03)	\$ (0.06)	\$ (0.09)	\$ (0.01)

Significant changes in key financial data in 2005 can be attributed to the implementation of stock-based compensation, and the Company accelerating its efforts to develop new products.

## LIQUIDITY

The Company has financed its operations to date primarily through the issuance of common shares and the exercise 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, 2005	As at June 30, 2004
Deficit	\$ (9,926,640)	\$ (5,230,063)
Working capital	\$ 6,692,250	\$ 266,393

Net cash used in operating activities for the three month period ended June 30, 2005 was \$1,119,801 compared to net cash used of \$329,325 for the three month period ended June 30, 2004. 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, 2005 was \$10,361 compared to net cash used by investing activities of \$44,902 for the three month period ended June 30, 2004. The cash used during the current period consists primarily of the purchase of property and equipment.

Net cash provided by financing activities for the three month period June 30, 2005 was \$6,464,535 compared to net cash provided by financing activities of \$54,020 for the three month period ended June 30, 2004. The cash provided during the current period consists primarily of proceeds from the Prospectus Offering.

As at June 30, 2005, the Company had \$6,133,874 in cash and equivalents. The Company has been incurring operating losses at the average rate of \$267,944 per month over the last three months.

## CAPITAL RESOURCES

The authorized capital of the Company consists of 100,000,000 common shares without par value. As at June 30, 2005, there are 33,005,654 common shares issued and outstanding.

The company has 2,021,114 warrants from a Prospectus Offering (“Offering”) outstanding. Each Offering warrant entitles the holder to purchase a common share of the Company at a price of \$2.50 at any time on or before June 23, 2006. These warrants represent a source of new equity capital for the company in the event that market conditions lead to their being exercised.

As at June 30, 2005	Shares	Exercise Price	Expiry Date	Amount
Warrants outstanding for Offering	2,021,114	\$2.50	June 23, 2006	\$5,052,786
	2,021,114			\$5,052,786

It is expected that the Prospectus Offering warrants will be a valuable source of new equity capital and currently the company is not committed to any material future capital expenditure.

## OUTSTANDING SHARES

As at June 30, 2005, the Company has shares outstanding as followings:

	Shares
Authorized 100,000,000 common shares without par value	
Balance, December 31, 2004	29,008,620
Exercise of warrants	701,200
Exercise of options	18,334
Prospectus Offering	3,186,370
Agent shares issued pursuant to the Prospectus Offering	91,130
Balance, June 30, 2005	33,005,654

## RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- 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.
- 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.

The amount due to related party \$686,807, 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 US\$50,000 beginning on January 1, 2005. Interest shall be payable monthly commencing February 1, 2005.

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 favour of a director of the company, for all funds loaned pursuant to a Loan Agreement between Empower US and the director.

## **OFF-BALANCE SHEET ARRANGEMENT**

The Company has no off-balance sheet arrangements.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

### 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.

### 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%
Tools	20%

### 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.

### Stock-based compensation

The Company uses the fair-value method of accounting for all stock-based compensation.

## **FINANCIAL INSTRUMENTS**

The company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, loan payable, 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.

## **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.