

**EMPOWER TECHNOLOGIES CORPORATION**

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

**September 30, 2005**

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

	September 30, 2005	December 31, 2004
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 4,501,280	\$ 1,243,042
Receivables	195,016	179,524
Inventory	853,332	398,616
Prepaid expenses	98,104	55,403
<b>Total current assets</b>	<b>5,647,732</b>	<b>1,876,585</b>
<b>Property and equipment</b>	<b>160,502</b>	<b>165,547</b>
<b>Total assets</b>	<b>\$ 5,808,234</b>	<b>\$ 2,042,132</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 280,954	\$ 463,363
Due to related party (Note 5)	-	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>318,700</b>	<b>741,829</b>
<b>Long term loan payable</b> (Note 4)	<b>13,882</b>	<b>38,884</b>
<b>Obligations under capital lease</b> (Note 3)	<b>13,598</b>	<b>16,538</b>
<b>Due to related party</b> (Note 5)	<b>-</b>	<b>564,208</b>
<b>Total Liabilities</b>	<b>346,180</b>	<b>1,361,459</b>
<b>Shareholders' equity</b>		
Capital stock (Note 7)	14,556,592	7,136,029
Contributed surplus (Note 7)	1,904,861	1,724,613
Deficit	(10,999,399)	(8,179,969)
<b>Total shareholders' equity</b>	<b>5,462,054</b>	<b>680,673</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 5,808,234</b>	<b>\$ 2,042,132</b>

**Basis of Presentation** (Note 1)

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

**Subsequent Events** (Note 10)

**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, 2005	Nine Month Period Ended September 30, 2004	Three Month Period Ended September 30, 2005	Three Month Period Ended September 30, 2004
<b>SALES</b>	\$ 63,595	\$ 139,128	\$ 30,454	\$ 82,185
<b>COST OF SALES</b>	55,041	104,454	26,413	60,273
	8,554	34,674	4,041	21,912
<b>EXPENSES</b>				
Accounting and audit	21,996	20,493	7,226	7,875
Advertising and promotion	218,354	133,522	116,745	72,883
Amortization of property and equipment	29,659	15,749	9,635	7,221
Amortization of assets under capital leases	2,977	-	992	-
Amortization of research and development costs	-	475,032	-	158,344
Bank charges and interest	7,088	5,827	2,209	2,429
Consulting fees	155,313	46,000	51,943	37,000
Foreign exchange (gain) loss	27,637	(20,605)	(3,845)	(15,049)
Insurance	39,855	19,139	13,675	3,192
Research and development	974,743	496,510	346,378	234,085
Interest on long term debt	52,177	76,056	13,637	23,256
Directors' Fee	84,000	60,000	24,000	30,000
Legal fees	109,165	61,303	54,393	11,711
Office	59,567	42,381	19,429	11,214
Rent	16,190	23,257	5,450	11,257
Stock-based compensation	143,705	861,097	-	-
Telephone and utilities	37,837	24,466	12,909	10,046
Transfer agent and filing fees	31,648	24,323	7,592	5,180
Travel	146,847	55,600	51,095	26,928
Wages and benefits	696,879	246,604	370,531	115,993
Warranty	-	4,237	-	-
	(2,855,637)	(2,670,991)	(1,103,994)	(753,565)
<b>Loss before other items</b>	(2,847,083)	(2,636,317)	(1,099,953)	(731,653)
<b>OTHER ITEM</b>				
Interest and other income	27,653	4,030	27,194	290
<b>Loss for the period</b>	(2,819,430)	(2,632,287)	(1,072,759)	(731,363)
<b>Deficit, beginning of period</b>	(8,179,969)	(3,329,139)	(9,926,640)	(5,230,063)
<b>Deficit, end of period</b>	\$ (10,999,399)	\$ (5,961,426)	\$ (10,999,399)	\$ (5,961,426)
<b>Basic and diluted loss per common share</b>	\$ (0.09)	\$ (0.12)	\$ (0.03)	\$ (0.03)
<b>Weighted average number of common shares outstanding</b>	30,806,428	22,802,166	33,160,545	24,422,720

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, 2005	Nine Month Period Ended September 30, 2004	Three Month Period Ended September 30, 2005	Three Month Period Ended September 30, 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$ (2,819,430)	\$ (2,632,287)	\$ (1,072,759)	\$ (731,363)
Items not affecting cash:				
Accrued interest	-	75,010	-	51,198
Amortization of research and development costs	-	475,032	-	158,344
Amortization of property and equipment	29,659	15,749	9,635	7,221
Amortization of property and equipment under capital lease	2,977	-	992	-
Stock-based compensation	143,705	861,097	-	-
Changes in non-cash working capital items:				
Decrease (Increase) in receivables	(15,061)	97,925	(14,666)	(39,246)
Decrease (Increase) in inventory	(454,716)	(26,385)	(125,810)	(48,254)
Decrease (Increase) in prepaid expenses	(42,778)	(70,100)	(5,906)	(78,063)
Increase (Decrease) in accounts payable and accrued liabilities	(182,543)	36,929	118,406	53,374
Net cash used in operating activities	<u>(3,338,187)</u>	<u>(1,167,030)</u>	<u>(1,090,108)</u>	<u>(626,789)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property and equipment	<u>(27,811)</u>	<u>(89,538)</u>	<u>(9,473)</u>	<u>(30,694)</u>
Net cash used in investing activities	<u>(27,811)</u>	<u>(89,538)</u>	<u>(9,473)</u>	<u>(30,694)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of capital lease obligations	(2,940)	(3,606)	(1,103)	-
Proceeds from loan payable	-	100,000	-	-
Repayment of loan payable	(25,002)	(19,446)	(8,334)	(8,334)
Repayment of advances from related party	(804,928)	(225,000)	(680,648)	(225,000)
Proceeds from issuance of common shares	8,084,449	3,747,942	200,000	2,691,773
Share issuance costs	(627,343)	(50,100)	(42,928)	-
Net cash provided by (used in) financing activities	<u>6,624,236</u>	<u>3,549,790</u>	<u>(533,013)</u>	<u>2,458,439</u>
<b>Change in cash and equivalents during the period</b>	<b>3,258,238</b>	<b>2,293,222</b>	<b>(1,632,594)</b>	<b>1,800,956</b>
<b>Cash and equivalents, beginning of period</b>	<u>1,243,042</u>	<u>197,607</u>	<u>6,133,874</u>	<u>689,873</u>
<b>Cash and equivalents, end of period</b>	<u>\$ 4,501,280</u>	<u>\$ 2,490,829</u>	<u>\$ 4,501,280</u>	<u>\$ 2,490,829</u>

**Supplemental disclosure with respect to cash flows (Note 9)**

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, 2005

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**1. BASIS OF PRESENTATION**

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of management, all adjustments (consisting of normal and recurring accruals) considered necessary for fair presentation have been included. Operating results for the nine month period ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005.

The interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual consolidated financial statements for the year ended December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included for the year ended December 31, 2004.

**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**

	September 30, 2005	December 31, 2004
Payments of \$367 per month, due over lease terms expiring through September 2009	\$ 18,008	\$ 20,948
Less: current portion	(4,410)	(4,410)
	<u>\$ 13,598</u>	<u>\$ 16,538</u>
Estimated remaining lease payments are as follows:		
2005	\$ 1,470	\$ 4,410
2006	4,410	4,410
2007	4,410	4,410
2008	4,410	4,410
2009	3,308	3,308
	<u>\$ 18,008</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.

	September 30, 2005	December 31, 2004
Principal amount	\$ 47,218	\$ 72,220
Less: current portion	(33,336)	(33,336)
	<u>\$ 13,882</u>	<u>\$ 38,884</u>
Estimated remaining principal payments are as follows:		
2005	\$ 8,334	\$ 33,336
2006	33,336	33,336
2007	5,548	5,548
	<u>\$ 47,218</u>	<u>\$ 72,220</u>

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**5. DUE TO RELATED PARTY**

The amount due to related party was payable to a director of the Company, bore interest at the rate of 9.5% per annum, was secured by the assets of Empower US, and was payable in quarterly instalments of US\$50,000 beginning on January 1, 2005.

Interest was accrued until January 1, 2005, when all accrued interest was to be paid, and was thereafter payable monthly commencing February 1, 2005.

On September 19, 2005, the Company repaid the full amount owing to the related party.

**6. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued wages and benefits of \$267,471 (nine month period ended September 30, 2004 - \$107,100) to directors and officers of the Company.
- b) Paid or accrued interest of \$52,177 (nine month period ended September 30, 2004 - \$75,010) to a director of the Company.
- c) Paid or accrued directors' fees of \$84,000 (nine month period ended September 30, 2004 - \$60,000) for services provided by directors of the Company.
- d) Paid or accrued consulting fees of \$153,000 (nine month period ended September 30, 2004 - \$20,000) for services provided by an officer of the Company.

Included in research and development costs are wages and benefits of \$81,000 (nine month period ended September 30, 2004 - \$54,000) paid 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	-	(868,929)	-
Exercise of warrants	701,200	701,200	-
Exercise of options	268,334	213,917	-
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, September 30, 2005</b>	<b>33,255,654</b>	<b>\$ 14,556,592</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:

	September 30, 2005	December 31, 2004
Property and equipment:		
Canada	\$ 137,643	\$ 141,648
People's Republic of China	22,859	23,899
	<b>\$ 160,502</b>	<b>\$ 165,547</b>

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

	Nine month period ended September 30, 2005	Nine month period ended September 30, 2004	Three month period ended September 30, 2005	Three month period ended September 30, 2004
Revenue:				
Canada	\$ 35,296	\$ 120,337	\$ 26,448	\$ 81,921
United States of America	28,299	18,791	4,006	264
	<u>\$ 63,595</u>	<u>\$ 139,128</u>	<u>\$ 30,454</u>	<u>\$ 82,185</u>

**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	Nine Month Period Ended September 30, 2005	Nine Month Period Ended September 30, 2004
Cash paid during the period for interest	\$52,177	\$ -
Cash paid during the period for income taxes	-	-

During the nine month period ended September 30, 2005, the Company:

- a) Issued 91,130 common share units and 382,364 share purchase warrants with a total value of \$241,586 as agent service fees pursuant to a prospectus offering.

During the nine month period ended September 30, 2004, the Company:

- a) Issued 49,000 common share units and 200,000 share purchase warrants with a total value of \$87,450 as agent service fees pursuant to the short form offering.

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**10. SUBSEQUENT EVENTS**

- a) On October 3rd, 2005, the Company loaned \$45,000 to an officer of the Company for home relocation to Vancouver. The principal amount of \$45,000 together with interest at the rate of 4.0% per annum, calculated before and after maturity, is to be repaid in full on or before January 31, 2006.
- b) A legal proceeding has been commenced against the Company by Infinite Media, the Company's previous Brand Development Account. On September 26, 2005, the Company has filed a Statement of Defence and Counterclaim.