

**FORM 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**THREE MONTH PERIOD ENDED MARCH 31, 2006**

The following discussion and analysis, prepared as of May 30, 2006, should be read together with the unaudited consolidated financial statements for the three month period ended March 31, 2006 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, 2005, and the Management Discussion and Analysis for 2005.

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**

Since the Company accelerated its efforts to develop new products and commercialize its technologies, the total expenses excluding stock-based compensation increased to \$949,475 compared to \$793,104 for the three month period ended March 31, 2005. Revenue decreased to \$14,009 compared to \$32,673 for the three month period ended March 31, 2005.

As at March 31, 2006, the Company had \$2,520,680 of cash compared to \$3,440,124 at December 31, 2005. The decrease was primarily attributed to the expenditures relating to the ongoing development and marketing of the Company's products. This is consistent with the Company's business plan.

The Company expects overall operating expenses will increase due to the sales and marketing efforts to commercialize LEOs (LinuxDA Embedded O/S), addition of engineering staff and the expansion of the Company's office and support systems.

Furthermore, during the 1st quarter of 2006, the following events took place:

- On February, the Company's product, LEOs-based development platform LDK5910 software development kit has been listed on the Texas Instruments (“TI”) online eStore. Empower is also brought up first out of hundreds of search returns as a TI recommended ‘Best Bet’ when a keyword search is made on TI.com for OMAP5910, Linux or Empower.
- Also, there is a new release of LEOs for OMAP5912 Development Kit (LDK5912), based on TI's OMAP5912 dual-core processor. This one-stop Linux-based development platform to consumer electronics developers kit runs LEOs out of the box, so developers can use the LDK5912 to compile, download and test applications within minutes of set-up. One of the key advantages of the LDK5912 is its ability to support multiple programs and algorithms

optimized for the DSP. These applications supported by LEOs and the LDK5912 include examples for developers on how LEOs can interact with the DSP codecs. Documentation in the box also shows developers how to develop and download DSP codecs for their own custom device applications using an available JTAG interface and the TI Code Composer Studio Integrated Development Environment. This robust functionality reduces software development time and empowers designers to take full advantage of the performance of TI's OMAP processor.

- During the period, the Company attended the following tradeshows:
  - Consumer Electronics Show, Las Vegas, NV, USA, January 5-8, 2006
  - TI Developer Conference, Dallas, TX, USA, February 28 – March 2, 2006
  - Game Developers Conference, San Jose, CA, USA, March 22-24, 2006

## RESULTS OF OPERATIONS

	Three month Period Ended March 31, 2006	Year Ended December 31, 2005	Three Month Period Ended March 31, 2005
Sales			
Canada	\$ 14,009	\$ (32,669)	\$ 7,757
People's Republic of China	-	-	-
United States of America	-	36,415	24,916
	<u>14,009</u>	<u>3,746</u>	<u>32,673</u>
Cost of Sales	<u>14,957</u>	<u>103,082</u>	<u>27,665</u>
Gross Margin	<u>(948)</u>	<u>(99,336)</u>	<u>5,008</u>
Total expenses	<u>1,020,764</u>	<u>4,097,078</u>	<u>904,678</u>
Total expenses without stock-based compensation	<u>949,475</u>	<u>3,963,141</u>	<u>793,104</u>
Total expenses without stock-based compensation, research and development costs, and amortization of research and development costs	<u>581,777</u>	<u>2,633,562</u>	<u>491,795</u>
Loss for the period			
Canada	(918,834)	(3,675,968)	(737,392)
People's Republic of China	(64,453)	(236,751)	(58,354)
United States of America	<u>(20,665)</u>	<u>(214,595)</u>	<u>(103,724)</u>
	<u>\$ (1,003,952)</u>	<u>\$ (4,127,314)</u>	<u>\$ (899,470)</u>

### Revenue

Presently the Company's activities continue to be primarily the development of the Company's LEOs operating software for Texas Instruments embedded processor families, engineering consumer electronics using LEOs and LDK5910 Development Kit, and filing patents for embedded systems and technologies. Revenues generated for the three months ended March 31, 2006 were \$14,009 compared with \$32,673 for the three months ended March 31, 2005. This decrease is attributed to the Company's decision to clear-out and drop all distributed products and end of life product to make way for the new products developed in-house using the Company's core embedded system technology 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 in China for LEOs, the new LDK591x Development Kits, and the consumer products such as the PowerPlay Media Chair and handheld unit using LEOs and LDK591x technology.

### General and Administrative

General and administrative expenses without stock-based compensation and R&D costs for the three months ended March 31, 2006 increased to \$581,777 (2005 - \$491,795). Advertising and promotion increased to \$116,647 (2005 - \$43,244) due to the Company's effort to commercialize its technologies by attending tradeshow and expanding investor relations. Office expenses increased to \$36,108 (2005 - \$18,566) due to the expansion of the Company's office and support systems. Rent increased to \$13,444 (2005 - \$5,290) for our new move to a larger premise. Legal fees increased to \$56,689 (2005 - \$8,677) due to corporate matters such as regulatory and exchange filing and reporting, new contracts, new patents and trademarks application and filing.

### Research and Development

Research and Development costs ("R&D costs") relating to the development of LEOs, the LDK591x Development Kit, and new products using LEOs are expensed as incurred. R&D costs for the period ended March 31, 2006 were \$367,698 compared to \$301,309 for the period ended March 31, 2005.

The R&D cost increase is due to the Company accelerating its efforts to develop its core technology, LEOs operating software, expand the TI embedded processor platform coverage and to apply it to new products to showcase the core technology.

	Three Month Period Ended March 31, 2006	Three Month Period Ended March 31, 2005
Equipment and supplies	\$ 19,806	\$ 25,046
Rent	37,521	12,656
Salaries and benefits	310,371	180,499
Technical consulting fees	-	83,108
	\$ 367,698	\$ 301,309

### SIGNIFICANT PROJECTS

#### LEOs II (LinuxDA Embedded O/S II)

Empower US has commenced work on the next version of LEOs. Once the new LEOs II is tested and released then it will be optimized for the Texas Instruments ("TI") dual-core processors.

#### LDK5912 Development Kit

Empower US has completed work on LEOs for TI OMAP5912 Development Kit (LDK5912). This kit has the same features as the LDK5910. This product completes the LEOs for TI OMAP591x (LDK591x) Development Platform offering. LDK5912 is backward compatible with LDK5910 for both the hardware and the software.

#### Osaka Lite Project

The Osaka Lite Project is a light version of Osaka Project. It is a compact, all-digital audio system with an Apple's iPod dock. Empower has joined the Apple "Made For iPod" licensing and accessories program. 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 Lite Project uses Empower's Totally Digital Audio Platform ("T-DAP") technology. The Osaka Lite Project fulfils the needs and demands of the Apple iPod accessory consumer.

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 uses Empower's Totally Digital Audio Platform ("T-DAP") technology. 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.

**USE OF PROCEEDS OF PROSPECTUS OFFERING FROM LAST FINANCING**

On June 24, 2005, 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 the 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.

The following is a comparison of the relevant estimated milestones with actual usage of funds to March 31, 2006.

DESCRIPTION OF USE OF PROCEEDS	Use of Proceeds as of the Offering	Use of Proceeds as of March 31, 2006	Remaining Proceeds
Product Development			
Milestone 1	\$ 300,000	\$ 300,000	\$ -
Milestone 5	800,000	483,748	316,252
Sales and Marketing			
Milestone 2	306,000	134,190	171,810
Milestone 3	1,100,000	527,291	572,709
Milestone 4	50,000	-	50,000
Management			
Milestone 6	500,000	114,702	385,298
Proposed Acquisition			
Milestone 7	1,000,000	-	1,000,000
Administration and operating expenses	\$ 1,773,000	\$ 1,773,000	\$ -

For a description of the "Milestones" please refer to "Business of the Issuer – Milestones" of the Final Prospectus dated May 12, 2005.

The amount of “Product Development” has been expensed on developing the products since the Offering was completed and any remaining balance is to continue the engineering to completion. The amount of “Sales and Marketing” is less than that identified in the Offering for the following reasons: the Company has decided to have a lower inventory for the LDK5910; the marketing professionals contemplated in the Offering were not required as Texas Instruments and other channels made up the efforts and the Company can use existing sales and marketing resources to support the program. The remaining balance a portion will be reallocated to LDK5912 inventory.

The amount of “Proposed Acquisition” is \$Nil as the Company cancelled the proposed acquisition. Milestone 7 as set out above, for which \$1,000,000 was allocated, was initially with respect to the proposed acquisition of a Vancouver based software developer, which acquisition is not proceeding at this time; however, the Company has amended Milestone 7 and allocated the funds of \$1,000,000 to any future acquisition of another business.

The use of “Administration and operating expenses” is faster than estimated is mainly attributable to the Company’s efforts to commercialize its technologies by attending tradeshow, expanding investor relations work, and moving to the new premises. It is also attributable to an increase in legal fees. Legal fees increased due to corporate matters such as regulatory and exchange filing and reporting, new contracts, new patents and trademarks application and filing.

Management will continue to make adjustment with the use of proceeds according to the changes in its business operating environment and requirements.

## SUMMARY OF QUARTERLY RESULTS

	Three Months Ended March 31, 2006	Three Months Ended December 31, 2005	Three Months Ended September 30, 2005	Three Months Ended June 30, 2005
Total assets	\$ 3,655,735	\$ 4,613,921	\$ 5,808,234	\$ 7,296,482
Stock Based Compensation	71,289	133,937	-	-
Write-off of deferred costs	-	-	-	-
Working capital	3,259,123	4,032,774	5,329,032	6,692,250
Shareholders’ equity	3,447,144	4,212,634	5,462,054	6,377,742
Revenues	14,009	(59,849)	30,454	468
Net Loss	(1,003,952)	(1,307,884)	(1,072,759)	(847,201)
Loss per share	\$ (0.03)	\$ (0.04)	\$ (0.03)	\$ (0.08)

	Three Months Ended March 31, 2005	Three Months December 31, 2004	Three Months Ended September 30, 2004	Three Months Ended June 30, 2004
Total assets	\$ 1,689,982	\$ 2,042,132	\$ 4,184,716	\$ 2,359,470
Stock Based Compensation	-	-	-	-
Amortization of Deferred development costs	-	1,741,778	-	-
Working capital	1,041,987	1,134,756	2,361,674	266,393
Shareholders’ equity	594,560	680,673	2,881,332	920,923
Revenues	32,673	31,241	82,185	13,869
Net Loss	(899,470)	(2,218,543)	(731,363)	(600,857)
loss per share	\$ (0.03)	\$ (0.08)	\$ (0.03)	\$ (0.03)

## 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 March 31, 2006	As at March 31, 2005
Deficit	\$ (13,311,235)	\$ (9,079,439)
Working capital	\$ 3,259,123	\$ 1,041,987

Net cash used in operating activities for the three month period ended March 31, 2006 was \$1,110,986 compared to net cash used of \$1,128,278 for the three month period ended March 31, 2005. The cash used in operating activities for the year consisted primarily of the operating expenses, office move, marketing and sales activities, advertising and promotion, tradeshow, travel and accommodation, and investor relations.

Net cash provided by investing activities for the three month period ended March 31, 2006 was \$25,472 compared to net cash used in investing activities of \$7,977 for the three month period ended March 31, 2005. The cash provided during the current period consisted primarily of the repayment of the loan the Company loaned to an Officer.

Net cash provided by financing activities for the three month period March 31, 2006 was \$166,070 compared to net cash provided by financing activities of \$692,714 for the three month period ended March 31, 2005. The cash provided during the current period consisted primarily of proceeds from the exercise of stock options.

As at March 31, 2006, the Company had \$2,520,680 in cash and equivalents. The Company has been incurring operating losses at the average rate of \$312,651 per month over the last three months.

## CAPITAL RESOURCES

The authorized capital of the Company consists of unlimited common shares without par value. As at March 31, 2006, there are 33,555,654 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 20, 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 March 31, 2006	Shares	Exercise Price	Expiry Date	Amount
Warrants outstanding	2,021,114	\$2.50	June 20, 2006	\$5,052,785
	2,021,114			\$5,052,785

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 March 31, 2006, the Company has shares outstanding as followings:

	Shares
Authorized Unlimited common shares without par value	
Balance, December 31, 2005	33,330,654
Exercise of options	225,000
Balance, March 31, 2006	33,555,654

## **RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued compensation and benefits of \$129,750 (three month period ended March 31, 2005 - \$94,050) for the services provided by the directors and officers of the Company.
- b) Paid or accrued directors' fees of \$24,000 (three month period ended March 31, 2005 - \$30,000) for services provided by directors of the Company.
- c) Recorded stock-based compensation of \$21,574 (three month period ended March 31, 2005 - \$111,574) for options granted to officers of the company.

Included in research and development costs are wages and benefits of \$32,450 (three month period ended March 31, 2005 - \$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.

## **OFF-BALANCE SHEET ARRANGEMENT**

The Company has no off-balance sheet arrangements.

# CRITICAL ACCOUNTING POLICIES AND ESTIMATES

## Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Significant inter-company balances and transactions have been eliminated upon consolidation.

## Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

## Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

## Allowance for receivables

The Company establishes an allowance for receivables on a specific account basis. The Company had an allowance for doubtful accounts of \$18,970. No allowance for receivables was recorded by the Company as at December 31, 2004.

## Inventories

Inventories are carried at the lower of cost using the first-in, first-out method and net realizable value.

Inventories consist of material inventories, work in process and finished goods. The material inventory balances include electronic parts for research and development use. The work in process and finished goods balances include electronic consumer products.

## Research and development expenses

Costs related to research, design and development of software products are charged to research and development expense as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established, which generally occurs upon completion of a working model, and ending when a product is available for general release to customers. All subsequent costs are expensed as incurred. The Company reassesses whether it has met the relevant criteria for deferral and amortization and whether there is any impairment in value at each reporting date.

## 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

### i) Software

The Company recognizes revenue as described below which is consistent with Statement of Position 97-2, “*Software Revenue Recognition*” (“SOP 97-2”) issued by the American Institute of Certified Public Accountants.

The Company recognizes revenue from packaged software and license fees when the software is delivered, title has passed and customer acceptance has occurred, there is persuasive evidence that an arrangement exists, the fee is fixed and determinable, and collection is probable.

### ii) Products

The Company generates revenue through the sale of electronic products. Revenue is recognized only when persuasive evidence for a sales arrangement exists i.e., delivery of the product has occurred; the product fee is fixed or determinable; and collection of the sale 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 year 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 subsidiaries whose functional currencies other than the Canadian dollar 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.

## Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the year.

## **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, promissory note, accounts payable and accrued liabilities, obligations under capital leases, loan payable 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.

Certain operations of the Company are conducted in the People's Republic of China ("PRC"). As a result, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC economy. The operations in the PRC are subject to different considered rations and other risks not typically associated with companies in North America. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittances abroad, and rates and methods of taxation, among other things.

## **SUBSEQUENT EVENTS**

- a) The Company has granted the existing officers options for 300,000 shares at \$2.50 each for five years.
- b) The Company has appointed Dr. K.T. Ma as the new Chief Operating Officer and Senior Vice President of Business Development for its US subsidiary Empower Technologies, Inc., and granted options of 50,000 to be exercised at \$1.12 each in a five year period.
- c) The legal proceeding against the Company by Infinite Media has been settled.
- d) Mr. Suresh (Steve) Gupta is appointed as an additional director of the Company effective May 16, 2006.