

**EMPOWER TECHNOLOGIES CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

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

**June 30, 2006**

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

	June 30, 2006	December 31, 2005
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,552,592	\$ 3,440,124
Receivables	66,971	66,686
Promissory note	-	45,000
Inventory	778,758	803,343
Prepaid expenses	80,024	66,413
<b>Total current assets</b>	<b>2,478,345</b>	<b>4,421,566</b>
<b>Property and equipment</b>	<b>190,094</b>	<b>192,355</b>
<b>Total assets</b>	<b>\$ 2,668,439</b>	<b>\$ 4,613,921</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 267,540	\$ 384,382
Current portion of obligations under capital lease (Note 3)	4,410	4,410
<b>Total current liabilities</b>	<b>271,950</b>	<b>388,792</b>
<b>Obligations under capital lease (Note 3)</b>	<b>10,290</b>	<b>12,495</b>
<b>Total liabilities</b>	<b>282,240</b>	<b>401,287</b>
<b>Shareholders' equity</b>		
Capital stock		
Authorized		
Unlimited common shares without par value		
Issued and outstanding 33,555,654 shares (December 31, 2005 – 33,330,654)	15,016,953	14,722,328
Contributed surplus	1,838,844	1,797,589
Deficit	(14,469,598)	(12,307,283)
<b>Total shareholders' equity</b>	<b>2,386,199</b>	<b>4,212,634</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,668,439</b>	<b>\$ 4,613,921</b>

**Basis of Presentation (Note 1)**

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

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

	Six Month Period Ended June 30, 2006	Six Month Period Ended June 30, 2005	Three Month Period Ended June 30, 2006	Three Month Period Ended June 30, 2005
<b>REVENUE</b>				
Sales	\$ 19,886	\$ 33,141	\$ 5,877	\$ 468
Research and development	16,820	-	16,820	-
	36,706	33,141	22,697	468
<b>COST OF SALES</b>				
	23,056	28,628	8,099	963
	13,650	4,513	14,598	(495)
<b>EXPENSES</b>				
Accounting and audit	19,717	14,770	19,717	14,367
Advertising and promotion	227,154	101,609	110,507	58,365
Amortization of property and equipment	23,002	20,025	11,525	10,505
Amortization of assets under capital lease	1,985	1,984	993	992
Bank charges and interest	2,217	4,879	1,076	2,685
Consulting fees	271,210	103,370	207,508	51,000
Foreign exchange (gain) loss	95	31,483	(888)	(2,974)
Insurance	25,063	26,180	11,275	12,805
Research and development	737,724	628,365	370,026	327,056
Interest on long term debt	-	38,540	-	18,954
Directors' fees	51,000	60,000	27,000	30,000
Legal fees	104,482	54,772	47,793	46,095
Office expenses	53,031	40,137	16,923	21,571
Rent	26,585	10,740	13,141	5,450
Stock-based compensation	170,110	143,705	98,821	32,131
Telephone and utilities	44,251	24,928	24,197	14,774
Transfer agent and filing fees	20,293	24,056	8,828	17,360
Travel	89,341	95,752	55,667	35,885
Wages and benefits	336,921	326,348	159,308	149,944
	(2,204,181)	(1,751,643)	(1,183,417)	(846,965)
<b>Loss before other items</b>	(2,190,531)	(1,747,130)	(1,168,819)	(847,460)
<b>OTHER ITEMS</b>				
Interest and other income	28,216	459	10,456	259
<b>Loss for the period</b>	\$ (2,162,315)	\$ (1,746,671)	\$ (1,158,363)	\$ (847,201)
<b>Basic and diluted loss per common share</b>	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ (0.03)
<b>Weighted average number of common shares outstanding</b>	33,513,942	29,609,861	33,555,654	29,963,047

The accompanying notes are an integral part of these consolidated financial statements.

**EMPOWER TECHNOLOGIES CORPORATION**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
(Expressed in Canadian Dollars)  
(Unaudited – Prepared by management)

	Number of Shares	Price	Amount	Contributed Surplus	Deficit	Total
<b>Balance, December 31, 2004</b>	29,008,620	\$ -	\$ 7,136,029	\$ 1,724,613	\$ (8,179,969)	\$ 680,673
Prospectus offering (net of issuance costs)	3,186,370	2.25	6,169,256	-	-	6,169,256
Agent's warrants issued pursuant to the prospectus offering	-	-	-	187,172	-	187,172
Agent's shares issued pursuant to the prospectus offering	91,130	2.25	205,043	-	-	205,043
Exercise of warrants	701,200	1.00	749,450	(48,250)	-	701,200
Exercise of options	343,334	0.77	462,550	(199,883)	-	262,667
Stock-based compensation	-	-	-	133,937	-	133,937
Loss for the year	-	-	-	-	(4,127,314)	(4,127,314)
<b>Balance, December 31, 2005</b>	33,330,654		14,722,328	1,797,589	(12,307,283)	4,212,634
Exercise of options	225,000	0.75	297,606	(128,855)	-	168,751
Stock-based compensation	-	-	-	170,110	-	170,110
Share issuance costs	-	-	(2,981)	-	-	(2,981)
Loss for the period	-	-	-	-	(2,162,315)	(2,162,315)
<b>Balance, June 30, 2006</b>	33,555,654		\$ 15,016,953	\$ 1,838,844	\$ (14,469,598)	\$ 2,386,199

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, 2006	Six Month Period Ended June 30, 2005	Three Month Period Ended June 30, 2006	Three Month Period Ended June 30, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$ (2,162,315)	\$ (1,746,671)	\$ (1,158,363)	\$ (847,201)
Items not affecting cash:				
Amortization of property and equipment	23,002	20,025	11,526	10,505
Amortization of property and equipment under capital lease	1,985	1,984	992	992
Stock-based compensation	170,110	143,705	98,821	32,131
Changes in non-cash working capital items:				
Increase in receivables	(285)	(395)	(310)	(11,424)
Decrease (Increase) in inventory	24,585	(328,906)	16,227	(214,614)
Increase in prepaid expenses	(13,611)	(36,872)	(6,029)	(46,617)
Increase (Decrease) in accounts payable and accrued liabilities	(116,842)	(300,949)	74,752	(43,573)
Net cash used in operating activities	(2,073,371)	(2,248,079)	(962,384)	(1,119,801)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Promissory note	45,000	-	-	-
Purchase of property and equipment	(22,726)	(18,338)	(3,198)	(10,361)
Net cash provided by (used in) investing activities	22,274	(18,338)	(3,198)	(10,361)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of capital lease obligations	(2,205)	(1,838)	(1,103)	(1,103)
Repayment of loan payable	-	(16,668)	-	(8,334)
Repayment of advances from related party	-	(124,280)	-	(124,280)
Proceeds from issuance of common shares, net of issuance costs	165,770	7,300,035	(1,403)	6,598,252
Net cash provided by (used in) financing activities	163,565	7,157,249	(2,506)	6,464,535
<b>Change in cash during the period</b>	(1,887,532)	4,890,832	(968,088)	5,334,373
<b>Cash, beginning of period</b>	3,440,124	1,243,042	2,520,680	799,501
<b>Cash, end of period</b>	\$ 1,552,592	\$ 6,133,874	\$ 1,552,592	\$ 6,133,874

**Supplemental disclosure with respect to cash flows (Note 6)**

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)  
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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 six month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

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, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included for the year ended December 31, 2005.

**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.

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.

**3. OBLIGATIONS UNDER CAPITAL LEASE**

	June 30, 2006	December 31, 2005
Payments of \$367 per month, due over lease terms expiring through September 2009	\$ 14,700	\$ 16,905
Less: current portion	(4,410)	(4,410)
	<u>\$ 10,290</u>	<u>\$ 12,495</u>
Estimated remaining lease payments are as follows:		
2006	\$ 2,206	\$ 4,410
2007	4,410	4,410
2008	4,410	4,410
2009	3,674	3,675
	<u>\$ 14,700</u>	<u>\$ 16,905</u>

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**4. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued compensation and benefits of \$302,000 (six month period ended June 30, 2005 - \$89,100) for the services provided by the directors and officers of the Company.
- b) Paid or accrued directors' fees of \$51,000 (six month period ended June 30, 2005 - \$60,000) for services provided by directors of the Company.
- c) Recorded stock-based compensation of \$32,696 (six month period ended June 30, 2005 - \$111,574) for options granted to officers of the company.

Included in research and development costs are compensations and benefits of \$98,286 (six month period ended June 30, 2005 - \$54,000) paid to an officer of the Company.

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.

**5. 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:

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	June 30, 2006	December 31, 2005
Property and equipment:		
Canada	\$ 172,748	\$ 171,776
People's Republic of China	17,346	20,579
	\$ 190,094	\$ 192,355

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

	Six month period ended June 30, 2006	Six month period ended June 30, 2005	Three month period ended June 30, 2006	Three month period ended June 30, 2005
Revenue:				
Canada	\$ 16,634	\$ 8,848	\$ 2,625	\$ 1,091
United States of America	20,072	24,293	20,072	(623)
	\$ 36,706	\$ 33,141	\$ 22,697	\$ 468

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

	Six Month Period Ended June 30, 2006	Six Month Period Ended June 30, 2005
Cash paid during the period for long term debt interest	\$ -	\$ 38,540
Cash paid during the period for income taxes	-	-

There were no material non-cash financing or investing activities during the periods presented.