

**EMPOWER TECHNOLOGIES CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

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

**June 30, 2007**

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

	June 30, 2007	December 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 123,940	\$ 95,530
Receivables	77,186	46,686
Inventory (Note 3)	548,040	662,973
Prepaid expenses	57,110	64,727
<b>Total current assets</b>	<b>806,276</b>	<b>869,916</b>
<b>Property and equipment</b>	<b>138,349</b>	<b>154,738</b>
<b>Total assets</b>	<b>\$ 944,625</b>	<b>\$ 1,024,654</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 244,130	\$ 235,284
Short-term loan	-	95,000
Current portion of obligations under capital lease (Note 4)	4,410	4,410
Customer deposit	7,074	-
<b>Total current liabilities</b>	<b>255,614</b>	<b>334,694</b>
Obligations under capital lease (Note 4)	5,880	8,085
<b>Total liabilities</b>	<b>261,494</b>	<b>342,779</b>
<b>Shareholders' equity</b>		
Capital stock		
Authorized		
Unlimited common shares without par value		
Issued and outstanding 36,545,654 shares (December 31, 2006 – 34,055,654)	17,212,723	15,354,833
Contributed surplus	1,722,292	1,788,199
Deficit	(18,251,884)	(16,461,157)
<b>Total shareholders' equity</b>	<b>683,131</b>	<b>681,875</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 944,625</b>	<b>\$ 1,024,654</b>

**Basis of Presentation** (Note 1)

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

**On behalf of the Board:**

“Paul Leung”

Director

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, 2007	Six Month Period Ended June 30, 2006	Three Month Period Ended June 30, 2007	Three Month Period Ended June 30, 2006
<b>REVENUE</b>				
Sales	\$ 131,370	\$ 19,886	\$ 114,434	\$ 5,877
Research and development	-	16,820	-	16,820
	131,370	36,706	114,434	22,697
<b>COST OF SALES</b>				
	158,985	23,056	148,599	8,099
	(27,615)	13,650	(34,165)	14,598
<b>EXPENSES</b>				
Accounting and audit	35,712	19,717	29,752	19,717
Advertising and promotion	171,788	227,154	110,010	110,507
Amortization of property and equipment	14,438	23,002	8,320	11,525
Amortization of assets under capital lease	4,168	1,985	993	993
Bank charges and interest	4,420	2,217	1,807	1,076
Consulting fees	330,548	271,210	177,548	207,508
Foreign exchange (gain) loss	2,004	95	(1,003)	(888)
Insurance	20,928	25,063	10,464	11,275
Research and development	583,091	737,724	292,545	370,026
Directors' fees	60,000	51,000	30,000	27,000
Legal fees	90,208	104,482	58,994	47,793
Office expenses	25,212	53,031	13,538	16,923
Rent	28,901	26,585	16,439	13,141
Stock-based compensation	108,918	170,110	16,521	98,821
Telephone and utilities	28,286	44,251	13,445	24,197
Transfer agent and filing fees	27,007	20,293	8,919	8,828
Travel	64,961	89,341	24,078	55,667
Wages and benefits	170,645	336,921	75,624	159,308
	(1,771,235)	(2,204,181)	(887,994)	(1,183,417)
<b>Loss before other items</b>	(1,798,850)	(2,190,531)	(922,159)	(1,168,819)
<b>OTHER ITEMS</b>				
Interest and other income	8,123	28,216	6,613	10,456
<b>Loss for the period</b>	\$ (1,790,727)	\$ (2,162,315)	\$ (915,546)	\$ (1,158,363)
<b>Basic and diluted loss per common share</b>	\$ (0.05)	\$ (0.06)	\$ (0.03)	\$ (0.03)
<b>Weighted average number of common shares outstanding</b>	35,981,566	33,513,942	36,545,654	33,555,654

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

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

	Number of Shares	Price	Amount	Contributed Surplus	Deficit	Total
<b>Balance, December 31, 2003</b>	21,163,949	\$ -	\$ 2,995,375	\$ 1,288,445	\$ (3,329,139)	\$ 954,681
Short form offering (net of issuance costs)	1,000,000	0.80	695,640	-	-	695,640
Agent's shares issued pursuant to the short form offering	49,000	-	-	-	-	-
Agent's warrants issued pursuant to the short form offering	-	-	-	48,250	-	48,250
Exercise of warrants	6,794,005	0.44	3,444,431	(473,179)	-	2,971,252
Exercise of options	1,666	0.35	583	-	-	583
Stock-based compensation	-	-	-	861,097	-	861,097
Loss for the year	-	-	-	-	(4,850,830)	(4,850,830)
<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	725,000	0.47	632,505	(288,755)	-	343,750
Stock-based compensation	-	-	-	279,365	-	279,365
Loss for the year	-	-	-	-	(4,153,874)	(4,153,874)
<b>Balance, December 31, 2006</b>	34,055,654		15,354,833	1,788,199	(16,461,157)	681,875
Private placement (net of issuance costs) (Note 5)	1,700,000	0.90	1,308,030	-	-	1,308,030
Agent's options issued pursuant to the Private placement (Note 5)	-	-	-	49,035	-	49,035
Exercise of the agent's over-allotment options (Note 5)	90,000	0.90	81,000	-	-	81,000
Exercise of options	700,000	0.35	468,860	(223,860)	-	245,000
Stock-based compensation	-	-	-	108,918	-	108,918
Loss for the period	-	-	-	-	(1,790,727)	(1,790,727)
<b>Balance, June 30, 2007</b>	36,545,654	\$	17,212,723	\$ 1,722,292	\$ (18,251,884)	\$ 683,131

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, 2007	Six Month Period Ended June 30, 2006	Three Month Period Ended June 30, 2007	Three Month Period Ended June 30, 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$ (1,790,727)	\$ (2,162,315)	\$ (915,546)	\$ (1,158,363)
Items not affecting cash:				
Amortization of property and equipment	14,438	23,002	8,320	11,525
Amortization of property and equipment under capital lease	4,168	1,985	993	993
Stock-based compensation	108,918	170,110	16,521	98,821
Changes in non-cash working capital items:				
Increase in receivables	(30,500)	(285)	(19,446)	(310)
Decrease in inventory	114,933	24,585	108,344	16,227
Decrease (increase) in prepaid expenses	7,617	(13,611)	(15,594)	(6,029)
Increase (decrease) in accounts payable and accrued liabilities	8,846	(116,842)	18,374	74,752
Increase (decrease) in customer deposit	7,074	-	(52,292)	-
Net cash used in operating activities	(1,555,233)	(2,073,371)	(850,326)	(962,384)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Promissory note	-	45,000	-	-
Purchase of property and equipment	(2,217)	(22,726)	-	(3,198)
Net cash provided by (used in) investing activities	(2,217)	22,274	-	(3,198)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of capital lease obligations	(2,205)	(2,205)	(1,103)	(1,103)
Repayment of loan payable	(95,000)	-	-	-
Proceeds from issuance of common shares, net of issuance costs	1,683,065	165,770	-	(1,403)
Net cash provided by (used in) financing activities	1,585,860	163,565	(1,103)	(2,506)
<b>Change in cash during the period</b>	28,410	(1,887,532)	(851,429)	(968,088)
<b>Cash, beginning of period</b>	95,530	3,440,124	975,369	2,520,680
<b>Cash, end of period</b>	\$ 123,940	\$ 1,552,592	\$ 123,940	\$ 1,552,592

**Supplemental disclosure with respect to cash flows (Note 8)**

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, 2007

**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, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

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, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included for the year ended December 31, 2006.

**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. INVENTORY**

The Company has changed its accounting policy with regards to inventory valuation method from the first in first out method to the weighted average method beginning January 1, 2007.

The reasons for applying the weighted average method are 1) cost-saving effect and 2) simplicity in calculating the cost of items used in projects.

The effect of the change of method in inventory valuation had a minor impact on inventory and no impact on cost of goods sold. The net effects are shown as follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Inventory- FIFO	\$662,973	\$803,343	\$398,616
Inventory- Weighted Average	663,498	803,924	398,638
Net increase(decrease) in inventory	(\$60)	\$562	\$21
Net increase(decrease) in research and development expense	\$60	(\$562)	(\$21)

This change of method has no effect on financial statements before 2004.

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**4. OBLIGATIONS UNDER CAPITAL LEASE**

	June 30, 2007	December 31, 2006
Payments of \$367 per month, due over lease terms expiring through September 2009	\$ 10,290	\$ 12,495
Less: current portion	(4,410)	(4,410)
	<u>\$ 5,880</u>	<u>\$ 8,085</u>
Estimated remaining lease payments are as follows:		
2007	\$ 2,206	\$ 4,410
2008	4,410	4,410
2009	3,674	3,675
	<u>\$ 10,290</u>	<u>\$ 12,495</u>

**5. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

During the six month period ended June 30, 2007, the Company completed a brokered private placement with Union Securities Ltd. (“the Agent”). The private placement was for 1,700,000 Units (the “Offering”) at a price of \$0.90 per Unit for total proceeds of \$1,530,000. Each Unit consists of one common share and one-half common share purchase warrant. Each whole warrant has an exercise price of \$1.25 with an expiry date of February 20, 2008. The Company granted the Agent an Over-Allotment Option (“Over-Allotment Option”) exercisable to February 27, 2007 to purchase 170,000 Units on the same terms as the Units in the offering. 90,000 of the Over-Allotment Options were exercised by the Agent immediately and the balance expired. The Agent’s compensation includes a commission of 8% of the gross subscription amount and the Over-Allotment Option. In addition, the Agent received 179,000 compensation options (the “Agent’s Compensation Options” valued at \$49,035) equal to 10% of all Units sold pursuant to the Offering and the Over-Allotment Option. Each Agent’s Compensation Option entitles the Agent to purchase one Unit of the Company at \$0.90 per Unit at any time prior to February 20, 2008.

In February 2007, the TSX Venture Exchange approved the repricing of the Company’s 1,593,185 share purchase warrants from an exercise price of \$2.50 to \$1.25 per share. Those repriced warrants expired on June 20, 2007 without being exercised.

The Company also has 895,000 warrants outstanding from the brokered private placement described above. Each warrant entitles the holder to purchase one share of the Company at a price of \$1.25 at any time on or before February 20, 2008.

These warrants represent a source of new equity capital for the company in the event that market conditions lead to their being exercised.

**6. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued directors’ fees of \$60,000 (six month period ended June 30, 2006 - \$51,000) for services provided by directors and officers of the Company,
- b) Recorded stock-based compensation of \$80,660 (six month period ended June 30, 2006 - \$32,696) for services provided by directors and officers of the Company.
- c) Paid or accrued consulting fees of \$302,000 (six month period ended June 30, 2006- \$191,000) for services provided by directors and officers of the Company.

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**6. RELATED PARTY TRANSACTIONS (cont'd...)**

Included in research and development costs are wages and benefits of \$60,000 (six month period ended June 30, 2006 - \$98,286) paid to an officer of the Company.

Included in current accounts payable is \$107,520 (six month period ended June 30, 2006 - \$95,230) due to directors and officers of the Company.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

**7. 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, 2007		December 31, 2006	
Property and equipment:				
Canada	\$	138,349	\$	154,738

  

	Six month period ended June 30, 2007	Six month period ended June 30, 2006	Three month period ended June 30, 2007	Three month period ended June 30, 2006
Revenue:				
Canada	\$ 117,771	\$ 16,634	\$ 110,846	\$ 2,625
United States of America	13,599	20,072	3,588	20,072
	\$ 131,370	\$ 36,706	\$ 114,434	\$ 22,697

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

	Six month period ended June 30, 2007		Six month period ended June 30, 2006	
Cash paid during the period for interest	\$	2,251	\$	-
Cash paid during the period for income taxes		-		-

During the six month period ended June 30, 2007, the Company:

Granted 179,000 compensation options (valued at \$49,035) as agent service fees pursuant to a brokered private placement.

Granted 30,000 compensation options (valued at \$4,313) to a service provider.

During the six month period ended June 30, 2006, there were no significant non-cash transactions.



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**9. SUBSEQUENT EVENTS**

Subsequent to June 30, 2007, 400,000 options were exercised by a director of the Company in July 2007, at \$0.35 each for total proceeds \$140,000.