

**FORM 51-102F1**  
**EMPOWER TECHNOLOGIES CORPORATION**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2007**

The following discussion and analysis, prepared as of November 22, 2007, should be read together with the unaudited interim consolidated financial statements for the nine month period ended September 30, 2007 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 and the Management Discussion and Analysis for the year ended December 31, 2006.

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. References in this document to “we”, “us”, “Empower” and “the Company” refer to Empower Technologies Corporation and its subsidiaries.

## **DESCRIPTION OF BUSINESS**

The Company is a developer and provider of Linux-based embedded operating software (LEOs), development platforms, and system technologies for the embedded computing industry. Empower’s LEOs development platforms are a one stop engineering solution. It enables embedded system developers and manufacturers to rapidly engineer new software and hardware products from prototype to production

Under Empower’s licensing program for its embedded software and system technologies, our customers must purchase our customized System on Chip (SoC) called LEOs Enabling Chip (LEC). The LEC enables the licensee’s application program developed using the LEOs and its runtime library (SDK – Software Development Kit (LDK)) to be operable within their product. Developers running LEOs are required to design their own embedded hardware with the LEC onboard. Under our licensing agreements, developers must also purchase the LEC from Empower when they are ready to go into production.

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 successfully created the core technologies, LEOs and LDK, in prior periods, we are now focusing our efforts on developing new products and on commercializing our core technologies. Therefore, the total expenses excluding stock-based compensation decreased to \$685,394 for the three months ended September 30, 2007 (the “Quarter”), compared to \$913,761 for the three month period ended September 30, 2006. For the nine months ended September 30<sup>th</sup>, the total expenses decreased to \$2,536,859 in 2007 from \$3,176,217 for the same period in 2006. Revenue decreased to \$17,834 for the Quarter, compared to \$19,971 for the three month period ended September 30, 2006. For the nine months ended September 30<sup>th</sup>, the total revenue increased to \$149,204 in 2007 from \$56,677 for the same period in 2006.

As at September 30, 2007, the Company had cash of \$98,987 compared to \$95,530 at December 31, 2006. Cash from the successful completion of a brokered private placement and the exercising of stock options during the first quarter of 2007 was expended on operating expenses in the second and third quarters of 2007.

The Company expects overall operating expenses will increase in future periods due to the sales and marketing efforts to commercialize LEOs, the addition of engineering staff to develop new products and the expansion of the Company’s sales and marketing team and programs.

Furthermore, during the 3rd quarter of 2007, our Company:

- On August 16, introduced LEOs for Texas Instruments' DaVinci™ technology. This is the first time Empower has launched a new embedded CPU platform for LEOs operating software since August 2005 when the Company first announced the introduction of LDK591x – LEOs Development Kit for TI's OMAP591x embedded CPU platform.
- On September 5, joined forces with Global Upholstery (Global) to open the digital furniture market for Empower products. Under this arrangement, through a Letter of Agreement, the Company licensed Global to manufacture, market and sell Empower's PowerPlay branded 5.1 Pro Media Chair through Global's own sales and distribution channels. Through a Letter of Intent, Empower and Global will work together to develop and to create new digital furniture that appeals to the professional, office, and healthcare markets.
- On September 18, contracted with Arrow Electronics, Inc. of Melville, New York for Arrow to distribute Linux development kit for Texas Instruments' OMAP™ dual-core processor. Leveraging the performance and DSP/BIOS M Link provided by TI's OMAPT™ dual core processors, our development kit runs Empower's LEOs® operating software out of the box and can be leveraged by developers as a powerful design reference for both hardware and software to significantly reduce device development time and cost. Subject to mutual approval, other current and future Empower LDK development kits based on different embedded CPU platforms can also be added to Arrow's distribution.

## RESULTS OF OPERATIONS

|   | Nine Month<br>Period Ended<br>September 30,<br>2007 | Nine Month<br>Period Ended<br>September 30,<br>2006 | Three Month<br>Period Ended<br>September 30,<br>2007 | Three Month<br>Period Ended<br>September 30,<br>2006 |
|---|---|---|--|--|
| Revenue   |   |   |  |  |
| Canada  | \$ 135,485  | \$ 21,290   | \$ 17,714  | \$ 4,656   |
| United States of America                                      | 13,719  | 35,387  | 120  | 15,315   |
|   | <u>149,204</u>                                      | <u>56,677</u>                                       | <u>17,834</u>  | <u>19,971</u>  |
| Cost of sales   | <u>167,538</u>                                      | <u>34,196</u>                                       | <u>8,553</u>   | <u>11,140</u>  |
| Gross margin  | <u>(18,334)</u>                                     | <u>22,481</u>                                       | <u>9,281</u>   | <u>8,831</u>   |
| Total expenses  | <u>2,536,859</u>                                    | <u>3,176,217</u>                                    | <u>765,624</u>                                       | <u>972,036</u>                                       |
| Total expenses without stock-based compensation               | <u>2,347,711</u>                                    | <u>2,947,832</u>                                    | <u>685,394</u>                                       | <u>913,761</u>                                       |
| Total expenses without stock-based compensation and R&D costs | <u>1,493,810</u>                                    | <u>1,856,441</u>                                    | <u>414,584</u>                                       | <u>560,094</u>                                       |
| Loss for the period   |   |   |  |  |
| Canada  | (2,485,513)   | (2,931,945)   | (745,820)  | (912,331)  |
| People's Republic of China                                    | 55,072  | (143,422)   | 25,591   | (9,826)  |
| United States of America                                      | <u>(116,424)</u>                                    | <u>(41,851)</u>                                     | <u>(35,909)</u>                                      | <u>(32,746)</u>                                      |
|   | \$ (2,546,865)                                      | \$ (3,117,218)                                      | \$ (756,138)   | \$ (954,903)   |

## Revenue

The Company's activities have shifted in 2007 from primary development of our core technologies to commercializing the sales and marketing of LEOs, the LDK development platform and the reference designs using LEOs. Revenues generated for the Quarter were \$17,834 compared with \$19,971 for the three months ended September 30, 2006. Marketing efforts and product development continued during the Quarter, but did not result in a significant change in revenues from the prior year's result. Year to date, our revenues have increased to \$149,204, an increase of \$92,527 compared with 2006. This increase is attributed to our decision to change the sales and marketing team to align with the change in the sales focus from distributed and end of life products to the Company's core enabling embedded technology: LEOs (LunuxDA Embedded O/S) and LDK591x.

We anticipate revenue to continue to improve through the new sales and marketing strategies that Empower has devised during the course of the marketing transition:

- Creating an efficient sales network that will consist of manufacturer's representatives and major electronics and technologies distributors to market and to sell LEOs and LDK platform development kits among developers, manufacturers, value-added resellers, and system integrators.
- Advancing, since April, from zero to five Manufacturers Rep Agencies (approximately equivalent to having at least 10 commission salesmen) that have a sales territory covering most of the major technology markets in the United States of America.
- Widening the focus of the Company's sales and marketing efforts from the consumer electronics market to the broader embedded-system market, which includes the automotive, RFID, industrial control and medical devices sectors.
- Joining, for the first time, the SEMA 2007 trade show in Las Vegas, Nevada. SEMA (Specialty Equipment Market Association – [www.sema.org](http://www.sema.org)) is a trade organization for the producers and marketers of specialty equipment products and services for the automotive aftermarket.
- Accelerating the process of turning Empower customers choosing our technology as their development platforms ("design wins") into engineered products and the purchase of LEC's when they are ready to go into production.

The increase in revenue to date this year signals that turning design wins into engineered products is progressing well and reinforces the benefits of this marketing strategy.

## Cost of Sales

During the Quarter, our cost of sales was \$8,553, a decrease of \$2,587 from the same period in 2006. At 48% of sales revenue during the Quarter, the cost of sales was an improvement over the 56% for the three months ended September 30, 2006. Year to date, cost of sales was \$167,538, or 112% for 2007, compared with \$34,196 or 60% in 2006. In earlier quarters in 2007, the Company sold initial inventory made in Canada at a significantly higher cost than we anticipate for product sourced elsewhere. With sales activities expected to increase in the future, we anticipate that volumes will enable us to produce in low cost manufacturing centres in Asia. This production strategy is expected to improve our margins significantly in future periods.

## General and Administrative

General and administrative expenses without stock-based compensation and R&D costs for Quarter decreased to \$414,584 from \$560,094 for the three months ended September 30, 2006 due to changes in the sales and marketing team, programs and tradeshow exhibition mixes. Advertising and promotion decreased to \$24,351 (2006 - \$76,963). Rent remained the same \$13,180 (2006 - \$13,141). Consulting fees increased to \$163,745 (2006 - \$137,463). Year to date, our general and administrative expenses without stock-based compensation and R&D costs decreased to \$1,493,810 compared with \$1,856,441 in 2006. Decreases in wages and benefits, advertising and promotion and travel were partially offset by an increase in consulting.

## Research and Development

Research and Development costs (“R&D costs”) are expensed as incurred. R&D costs for the Quarter decreased from \$353,667 for the quarter ended September 30, 2006 to \$270,810. Year to date, to September 30<sup>th</sup>, R&D costs were \$853,901 compared to \$1,091,391 for the nine month period ended September 30, 2006.

The R&D cost decrease is due to the Company successfully developing its core technology, LEOs operating software and LDK591x. From here on, for these products, our focus will be on regular maintenance, improvement and upgrading the core technology LEOs and adding new embedded CPU platforms such as TI’s DM64x+ DaVinci<sup>TM</sup> processors.

|                           | Nine Month Period<br>Ended September 30,<br>2007 | Nine Month Period<br>Ended September 30,<br>2006 | Three Month Period<br>Ended September 30,<br>2007 | Three Month Period<br>Ended September 30,<br>2006 |
|---------------------------|--|--|---|---|
| Equipment and supplies    | \$ 66,467  | \$ 92,056  | \$ 16,465   | \$ 44,098   |
| Rent                      | 91,692   | 111,621  | 31,860  | 37,401  |
| Salaries and benefits     | 695,512  | 846,669  | 222,255   | 253,015   |
| Technical consulting fees | 230  | 41,045   | 230   | 19,153  |
|                           | <u>\$ 853,901</u>                                | <u>\$ 1,091,391</u>                              | <u>\$ 270,810</u>                                 | <u>\$ 353,667</u>                                 |

## SIGNIFICANT PROJECTS

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

The next version of LEOs for Texas Instruments’ (TI) latest DaVinci<sup>TM</sup> dual-core microprocessor – DM6441 is completed.

### LDK6441 Development Kit

LEOs III for TI DM6441 Development Kit (LDK6441) is in the prototype stage. This will be a brand new kit made specifically for TI’s new DaVinci<sup>TM</sup> family of dual-core microprocessor.

### PowerPlay iH

This mobile data terminal model is near the end of development. It was previously named “PowerPlay 1x”. The letters “iH” stands for “industrial Handheld”. The Company is working on the industrial design of the housing of the unit. Besides the regular PDA functions, this new model will have wireless communication capability. The “PowerPlay iH” is targeted toward the industrial control market.

### Portable Navigation Device

This is the Portable Navigation Device (PND) reference design Empower is developing using map engine technology licensed from its partner Navigon. The first prototype was exhibited at the SEMA2007 trade show in Las Vegas between October 30 to November 2, 2007.

## SUMMARY OF QUARTERLY RESULTS

|                          | Three Months<br>Ended<br>September 30,<br>2007 | Three Months<br>Ended June 30,<br>2007 | Three Months<br>Ended March 31,<br>2007 | Three Months<br>Ended<br>December 31,<br>2006 |
|--------------------------|--|--|---|---|
| Total assets             | \$ 884,822                                     | \$ 944,625                             | \$ 1,878,671                            | \$ 1,024,654                                  |
| Stock based compensation | 80,230   | 16,521                                 | 92,397                                  | 50,980  |
| Working capital          | 22,965   | 550,662                                | 1,441,477                               | 535,222                                       |
| Shareholders' equity     | 147,223  | 683,131                                | 1,582,156                               | 681,875                                       |
| Revenues                 | 17,834   | 114,434                                | 16,936                                  | 28,461  |
| Net loss                 | (756,138)                                      | (915,546)                              | (875,181)                               | (1,036,656)                                   |
| Loss per share           | \$ (0.02)                                      | \$ (0.03)                              | \$ (0.02)                               | \$ (0.03)                                     |

|                          | Three Months<br>Ended<br>September 30,<br>2006 | Three Months<br>Ended June 30,<br>2006 | Three Months<br>Ended March 31,<br>2006 | Three Months<br>Ended<br>December 31,<br>2005 |
|--------------------------|--|--|---|---|
| Total assets             | \$ 1,628,819                                   | \$ 2,668,439                           | \$ 3,655,735                            | \$ 4,613,921                                  |
| Stock based compensation | 58,275   | 98,821                                 | 71,289                                  | 133,937                                       |
| Working capital          | 1,384,272                                      | 2,206,395                              | 3,259,123                               | 4,032,774                                     |
| Shareholders' equity     | 1,559,571                                      | 2,386,199                              | 3,447,144                               | 4,212,634                                     |
| Revenues                 | 19,971   | 22,697                                 | 14,009                                  | (59,849)                                      |
| Net loss                 | (954,903)                                      | (1,158,363)                            | (1,003,952)                             | (1,307,884)                                   |
| Loss per share           | \$ (0.03)                                      | \$ (0.03)                              | \$ (0.03)                               | \$ (0.04)                                     |

## LIQUIDITY

The Company has financed its operations to date primarily through the issuance of common shares. 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 on 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 September 30, 2007 | As at September 30, 2006 |
|-----------------|--------------------------|--------------------------|
| Deficit         | \$ (19,008,022)          | \$ (15,424,501)          |
| Working capital | \$ 22,965                | \$ 1,384,272             |

Net cash used in operating activities for the Quarter was \$605,851 compared to net cash used of \$1,122,595 for the three month period ended September 30, 2006. Year to date, the cash used in operating activities was \$2,161,084, compared with \$3,195,966 for the nine months ended September 30, 2006. The cash used in operating activities for both the quarter and the year to date to September 30, 2007 consisted primarily of research and development expenses, marketing and sales activities, advertising and promotion, tradeshow, travel and accommodation and remuneration of employees and consultants. The decrease in the use of cash was primarily caused by reduced spending on the Company's operations.

Net cash used in investing activities for the Quarter is nil compared to net cash used in investing activities of \$6,696 for the three month period ended September 30, 2006. Year to date, the net cash used in investing activities was \$2,217, compared with cash contributed by investing activities of \$15,578 for the same period in 2006. In 2006, capital spending partially offset the proceeds from the repayment of a loan. For 2007, there has been only the purchase of a minor amount of capital equipment.

Net cash generated by financing activities for the Quarter was \$580,898 compared to net cash generated by financing activities of \$68,898 for the three month period ended June 30, 2006. The cash generated during the current period consisted of common shares issued upon the exercise of stock options and loans advanced by an officer, partially offset by the repayment of capital lease amounts. Year to date in 2007, cash provided by financing activities was \$2,166,758, compared with cash provided of \$232,463 for the same period in 2006. The increase in 2007 was mostly due to the issue of common shares during the first quarter of 2007.

At September 30, 2007, the Company had \$98,987 in cash and equivalents. The Company has been incurring operating losses (excluding stock-based compensation and amortization) at the average rate of \$222,267 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 September 30, 2007, there are 36,945,654 common shares issued and outstanding.

During the nine month period ended September 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 included 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 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. Subsequent to September 30, 2007, we announced our intent to change the exercise price of these warrants to \$0.90, subject to the approval of the TSX Venture Exchange and the holders of these warrants.

| As at September 30, 2007 | Shares  | Exercise Price | Expiry Date       | Amount      |
|--------------------------|---------|----------------|-------------------|-------------|
| Warrants outstanding     | 895,000 | \$1.25         | February 20, 2008 | \$1,118,750 |
|                          | 895,000 |                |                   | \$1,118,750 |

Currently the Company is not committed to any material future capital expenditure.

## OUTSTANDING SHARES

As at September 30, 2007, the Company has shares outstanding as followings:

|  | Shares     |
|--|------------|
| Authorized   |            |
| Unlimited common shares without par value                        |            |
| Balance, December 31, 2006                                       | 34,055,654 |
| Brokered private placement                                       | 1,700,000  |
| Agent's shares issued pursuant to the brokered private placement | 90,000     |
| Exercise of options  | 1,100,000  |
| Balance, September 30, 2007                                      | 36,945,654 |

## RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- Paid or accrued directors' fees of \$90,000 (nine month period ended September 30, 2006 - \$81,000) for services provided by directors and officers of the Company.
- Recorded stock-based compensation of \$137,715 (nine month period ended September 30, 2006 - \$122,564) for options granted to directors and officers of the company.
- Paid or accrued consulting fees of \$446,026 (nine month period ended September 30, 2006-\$453,000) for services provided by directors and officers of the Company.

Included in research and development costs are compensation and benefits of \$90,000 (nine month period ended September 30, 2006 - \$147,422) paid to an officer of the Company.

Included in current accounts payable is \$93,500 (nine month period ended September 30, 2006 - \$Nil) 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.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

### Principles of consolidation

The consolidated interim 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.

### Inventories

The Company has changed its inventory valuation method from FIFO to Weighted Average beginning January 1, 2007.

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 are 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.

## **CHANGE OF ACCOUNTING POLICY**

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.

## **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, obligations under capital leases and the loans payable. 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 considerations 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.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Company's Chief Executive Officer, former Chief Financial Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures for the nine month period ending September 30, 2007 and concluded that our disclosure controls and procedures provided reasonable assurance that material information relating to the company was made known to them and reported as required.

Our Chief Executive Officer and Chief Financial Officer are also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. They have evaluated the design of our internal controls and procedures over financial reporting as of the end of the period covered by the annual filings and believe the design to be sufficient to provide such reasonable assurance. To the date of this interim management discussion & analysis, there have not been any changes that materially affect, or are likely to affect, our internal controls over financial reporting.

## SUBSEQUENT EVENTS

Subsequent to September 30, 2007, the Company;

- Was granted a US patent on our pen-based (or stylus-based) handwriting recognition method for computing devices. The patent is for an improved system and method for pen-based handwritten and keystroke data input into a computer system (such as a smart phone or a tablet computer with pen/stylus-based handwriting input capability).
- Appointed a new Chief Financial Officer and granted him 100,000 options to acquire common shares, with an exercise price of \$0.85, expiring October 16, 2012.
- Announced an intent to proceed with a Short Form Offering (the "Offering") to raise up to \$2,000,000. The Offering is not subject to any minimum and is to be of up to 2,666,667 units (the "Units") at \$0.75 per Unit, with each Unit consisting of one share and one half warrant. Each whole warrant is exercisable into one common share for a period of two years at \$0.90 per share. The warrants will be non-transferable. The Agent is to receive 8% cash commission and Agent's warrants equal to 15% of the Offering sold, with each Agent's warrant exercisable into one common share for a period of two years at \$0.75 per share. The Agent is to also receive a corporate finance fee of 150,000 Units having the same terms as the Units offered and is to receive an administration fee of \$5,000. The Offering will be pursuant to a Short Form Offering Document which has been filed with and is subject to acceptance by TSX Venture Exchange.
- Announced a plan to reprice the 895,000 share purchase warrants ("the Warrants") that currently have an exercise price of \$1.25 and expire on February 20th, 2008. The Company proposed to reduce the exercise price to \$0.90 per share. The TSX Venture Exchange requires that for the proposed repricing of the Warrants, the exercise period must be amended to be shortened to a period of 30 days if, for 10 consecutive trading days, the closing price of Empower's shares exceeds the revised exercise price by 20%, that price being \$1.08. The proposed repricing of the Warrants is subject to TSX Venture Exchange and warrant holders' approval.
- Received \$70,000 from an officer upon the exercise of 200,000 options to acquire common shares at \$0.35.
- Received loans from officers totaling \$140,000. The loans are unsecured and bear interest at 8.5%. \$40,000 is repayable upon demand and \$100,000 is repayable on January 31, 2009.