

EMPOWER TECHNOLOGIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)

March 31, 2010

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited – Prepared by Management)

	March 31, 2010	December 31, 2009
ASSETS		
Current		
Cash	\$ 47,300	\$ 59,455
Accounts receivable	25,107	20,147
Inventory (Note 3)	55,940	56,610
Prepaid expenses	122,486	59,378
	<u>250,833</u>	<u>195,590</u>
Property and equipment	<u>76,867</u>	<u>81,481</u>
Total assets	<u>\$ 327,700</u>	<u>\$ 277,071</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	\$ 680,507	\$ 521,200
Current portion of obligations under capital lease (Note 4)	3,595	3,595
Debenture proceeds received in advance	318,528	162,128
Convertible debenture (Note 5)	342,318	416,811
Customer deposit	-	5,000
Loans payable (Note 7)	234,051	17,280
	<u>1,578,999</u>	<u>1,126,014</u>
Loans payable (Note 7)	2,152,500	2,152,500
Obligations under capital lease (Note 4)	12,583	13,482
Total liabilities	<u>3,744,082</u>	<u>3,291,996</u>
Shareholders' deficiency		
Capital stock		
Authorized: unlimited common shares without par value		
Issued and outstanding: 42,968,504 shares (2009 – 42,968,504)	19,710,858	19,710,858
Contributed surplus	2,339,968	2,328,285
Equity portion of convertible debenture issued	42,207	41,190
Deficit	(25,509,415)	(25,095,258)
Total shareholders' deficiency	<u>(3,416,382)</u>	<u>(3,014,925)</u>
Total liabilities and shareholders' deficiency	<u>\$ 327,700</u>	<u>\$ 277,071</u>

Basis of presentation (Note 1)

Nature and continuance of operations (Note 2)

Commitments (Note 12)

Subsequent events (Note 13)

On behalf of the Board:

"Paul Leung"

Director

"Edward Bagg"

Director

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

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)

	Three Month Period Ended March 31, 2010	Three Month Period Ended March 31, 2009
SALES	\$ 10,790	\$ 4,538
COST OF SALES	983	352
	<u>9,807</u>	<u>4,186</u>
EXPENSES		
Accounting and audit	5,000	4,500
Advertising and promotion	1,387	7,631
Amortization of property and equipment	3,805	4,929
Amortization of assets under capital lease	809	406
Bank charges and interest	4,756	1,590
Consulting fees	31,000	10,531
Foreign exchange gain	(1,603)	(893)
Insurance	11,842	10,679
Interest and accretion on debentures	22,445	-
Interest on long term debt	49,107	39,901
Legal fees	43,210	33,911
Office expenses	4,113	9,258
Rent	13,818	4,101
Research and development	164,184	161,058
Stock-based compensation	11,683	54,438
Telephone and utilities	14,422	11,744
Transfer agent and filing fees	7,579	9,165
Travel	6,479	7,202
Wages and benefits	84,826	115,216
	<u>(478,862)</u>	<u>(485,367)</u>
Loss before other items	<u>(469,055)</u>	<u>(481,181)</u>
OTHER ITEM		
Interest and other income	5,000	170
Gain on extension of convertible debentures	49,898	-
	<u>54,898</u>	<u>170</u>
Loss and comprehensive loss for the period	<u>\$ (414,157)</u>	<u>\$ (481,011)</u>
Basic and diluted loss per common share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding	42,968,504	39,768,254

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

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY
(Unaudited – Prepared by Management)

	Number of Shares	Price	Capital Stock	Contributed Surplus	Equity Portion of Convertible Debenture	Deficit	Total
Balance, December 31, 2008	39,768,254	\$ -	\$ 19,186,439	\$ 2,094,052	\$ -	\$ (23,030,729)	\$(1,750,238)
Short form offering (net of issuance costs)	2,950,250	0.25	605,559	-	-	-	605,559
Agent's shares issued pursuant to the short form offering	250,000	0.25	-	-	-	-	-
Agent's warrants issued pursuant to the short form offering	-	-	(81,140)	81,140	-	-	-
Issuance of convertible debentures	-	-	-	-	41,190	-	41,190
Stock-based compensation	-	-	-	153,093	-	-	153,093
Loss for the year	-	-	-	-	-	(2,064,529)	(2,064,529)
Balance, December 31, 2009	42,968,504	-	19,710,858	2,328,285	41,190	(25,095,258)	(3,014,925)
Extension of convertible debenture	-	-	-	-	1,017	-	1,017
Stock-based compensation	-	-	-	11,683	-	-	11,683
Loss for the year	-	-	-	-	-	(414,157)	(414,157)
Balance, March 31, 2010	42,968,504	\$ -	\$ 19,710,858	\$ 2,339,968	\$ 42,207	\$ (25,509,415)	\$(3,416,382)

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)

	Three Month Period Ended March 31, 2010	Three Month Period Ended March 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (414,157)	\$ (481,011)
Items not affecting cash:		
Amortization of property and equipment	3,805	4,929
Amortization of assets under capital lease	809	406
Stock-based compensation	11,683	54,438
Accrued interest on convertible debenture	22,445	-
Accrued interest on loan payable	51,615	-
Gain on extension on convertible debenture	49,898	-
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	(4,960)	7,680
Decrease (increase) in inventory	670	(1,722)
Decrease in prepaid expenses	(63,108)	(21,110)
Increase in accounts payable and accrued liabilities	107,692	50,348
Decrease in customer deposit	(5,000)	(1,102)
Net cash used in operating activities	<u>(238,608)</u>	<u>(387,144)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital lease obligations	(899)	-
Proceeds of loans payable	249,668	105,000
Repayments of loans payable	(32,897)	(300,000)
Repayments of debenture payable	(145,819)	-
Proceeds from debenture received in advance	<u>156,400</u>	<u>186,500</u>
Net cash provided by (used in) financing activities	<u>226,453</u>	<u>(8,500)</u>
Change in cash during the period	(12,155)	(395,644)
Cash, beginning of period	<u>59,455</u>	<u>421,920</u>
Cash, end of period	<u>\$ 47,300</u>	<u>\$ 26,276</u>

Supplemental disclosure with respect to cash flows (Note 9)

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

EMPOWER TECHNOLOGIES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)
March 31, 2010

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 three month period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010.

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, 2009, except for the new accounting policies adopted effective January 1, 2009 discussed below. For further information, refer to the consolidated financial statements and footnotes thereto included for the year ended December 31, 2009.

Newly adopted accounting policies

In February 2008, the CICA issued new handbook Section 3064 – “Goodwill and Intangible Assets” that supersedes Section 3062 – “Goodwill and Other Intangible Assets” and 3450 – “Research and Development Costs”. This section provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs can be deferred only when relating to an item meeting the definition of an asset. The new accounting standard is effective for interim or annual financial statements relating to fiscal years beginning on or after October 31, 2008. The Company, having no intangible assets, does not expect any impact on its consolidated financial statements from this accounting standard.

Future accounting policies

International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian public enterprises will need to adopt International Financial Reporting Standards effective for years beginning on or after January 1, 2011. The Company has not yet evaluated the impact this new framework will have on its consolidated financial statements.

Business combinations, non-controlling interest and consolidated financial statements

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

EMPOWER TECHNOLOGIES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)
March 31, 2010

2. NATURE AND CONTINUANCE OF OPERATIONS

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 controlling interest in 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 (“GAAP”) on a going concern basis which assumes 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 Company has incurred losses of \$25,509,415 since inception and further losses are anticipated in the development of its business plan. These circumstances lead to significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company’s continuing operations as intended are dependent upon its ability to develop products and technologies that can be commercialized. In order to continue as a going concern and meet its corporate objectives, the Company will require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. 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. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

	March 31, 2010	December 31, 2009
Deficit	\$ (25,509,415)	\$ (25,095,258)
Working capital (deficiency)	\$ (1,328,166)	\$ (930,424)

3. INVENTORY

	March 31, 2010	December 31, 2009
Material inventories	\$ 12,736	\$ 12,872
Work in process	43,204	43,204
Finished goods	-	534
	<u>\$ 55,940</u>	<u>\$ 56,610</u>

EMPOWER TECHNOLOGIES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)
March 31, 2010

4. OBLIGATIONS UNDER CAPITAL LEASE

	March 31, 2010	December 31, 2009
Payments of \$300 per month, non-interest bearing, due over lease terms expiring through September 2014	\$ 16,178	\$ 17,077
Less: current portion	(3,595)	(3,595)
	<u>\$ 12,583</u>	<u>\$ 13,482</u>
Estimated remaining lease payments are as follows:		
2010	\$ 2,696	\$ 3,595
2011	3,595	3,595
2012	3,595	3,595
2013	3,595	3,595
2014	2,697	2,697
Balance of obligation	<u>\$ 16,178</u>	<u>\$ 17,077</u>

5. CONVERTIBLE DEBENTURE

a) On January 20, 2009, the Company closed the first tranche of its private placement of convertible debentures in the aggregate amount of \$160,000 of which \$70,000 was received before December 31, 2008. The convertible debentures bearing interest at the rate of 10% per annum are convertible into common shares of Empower at \$0.40 per share until January 31, 2010. Interest is payable semi-annually on July 31, 2009 and January 31, 2010. The convertible debentures and any shares issued upon conversion have a hold period expiring May 16, 2009.

b) On March 20, 2009, the Company closed the second tranche of its private placement of convertible debentures in the aggregate amount of \$96,500. The convertible debentures bearing interest at the rate of 10% per annum are convertible into common shares of Empower at \$0.40 per share until January 31, 2010. Interest is payable semi-annually on July 31, 2009 and January 31, 2010. The convertible debentures and any shares issued upon conversion have a hold period expiring July 17, 2009.

c) On April 28, 2009, the Company closed the third and final tranche of its private placement of convertible debentures in the aggregate amount of \$140,200. The convertible debentures bear interest at the rate of 10% per annum and are convertible into common shares of Empower at \$0.40 per share until January 31, 2010. The convertible debentures and any shares issued upon conversion have a hold period expiring August 25, 2009.

d) In January 2010, the Company extended its existing debentures for additional year to January 31, 2011. An Equity portion of \$42,207 relating to the extension was calculated which reflects the convertible feature attached to the debentures.

6. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Recorded stock-based compensation of \$Nil (three month period ended March 31, 2009 - \$37,548) for services provided by directors and officers.

EMPOWER TECHNOLOGIES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)
March 31, 2010

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

- b) Paid or accrued consulting fees of \$21,000 (three month period ended March 31, 2009 - \$3,000) for services provided by officers and directors of the Company.
- c) Paid or accrued salaries and benefits of \$18,000 (three month period ended March 31, 2009 - \$21,000) to an officer of the Company included in research and development costs.

Paid or accrued salaries and benefits of \$21,000 (three month period ended March 31, 2009 - \$45,000) to two directors and officers of the Company. Included in current accounts payable is \$284,257 (December 31, 2009 - \$211,484) due to directors and officers of the Company.

At March 31, 2010, the long term loans payable are due to a director of the Company. The loans bear interest at 8.5%, and are unsecured. The total interest paid or accrued to the director was \$51,615 (March 31, 2009 - \$39,901) for the three month period ended March 31, 2010.

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. LOANS PAYABLE

The loans payable are due to a director of the Company, are unsecured, bear interest at the rate of 8.5% per annum, of which \$2,152,500 of loans are due on April 30, 2011 and \$234,051 are due on demand. The total interest accrued on the loans for the three month period ended March 31, 2010 was \$51,615 (three month period ended March 31, 2009 - \$39,901).

8. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in one business segment, being the development of Linux-based embedded systems technologies, in the following geographical areas:

	March 31, 2010	December 31, 2009
Property and equipment:		
Canada	\$ 76,867	\$ 81,481
Revenue:		
Canada	\$ -	\$ 2,732
United States of America	3,974	-
Asia	6,816	1,806
	\$ 10,790	\$ 4,538

Revenues are attributed to geographic areas based upon the location of the customers.

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(Unaudited – Prepared by Management)
March 31, 2010

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Three month period ended March 31, 2010		Three month period ended March 31, 2009	
Cash paid during the period for interest	\$	223	\$	223
Cash paid during the period for income taxes	\$	-	\$	-

During the three month period ended March 31, 2010 the Company:

a) extended \$371,100 convertible debentures for additional year to January 31, 2011.

There are no significant non-cash transactions during the three month period ended March 31, 2009.

10. FINANCIAL INSTRUMENTS AND RISK

The carrying value of accounts receivable, accounts payable and accrued liabilities, convertible debenture and loan payable approximated their fair value.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash	\$ 47,300	\$ -	\$ -	\$ 47,300

The Company is exposed to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk. Management, the Board of Directors and the Audit Committee monitor risk management activities and review the adequacy of such activities.

(a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations. Such risk arises principally from certain financial assets held by the Company consisting of trade receivables. The maximum exposure to credit risk of the Company at period end is the carrying value of these financial assets.

The Company's cash is held with high-credit quality financial institutions. Provisions for doubtful accounts are made on a customer by customer basis. All write downs against receivables are recorded in the expenses on the Consolidated Statement of Operations. The Company is exposed to credit related losses on sales to customers outside of North America due to higher risks of enforceability and collectibility. Accounts receivable at March 31, 2010 are comprised of trade accounts receivable. There is no provision for doubtful accounts at March 31, 2010.

EMPOWER TECHNOLOGIES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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March 31, 2010

10. FINANCIAL INSTRUMENTS AND RISK (cont'd...)

(b) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holding of financial instruments.

(i) Foreign Exchange Risk – The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily the U.S. Dollar and the Chinese Renminbi. Foreign exchange risk arises from sales and purchase transactions as well as recognized financial assets and liabilities that are denominated in currencies other than the Canadian dollar, which is the functional currency of the Company and its subsidiaries.

During the year period ended March 31, 2010 and at March 31, 2010, the Company held only minor amounts of cash deposits in foreign currencies.

(ii) Interest Rate Risk – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not have any debt instruments outstanding with variable interest rates at March 31, 2010. Financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. No hedging relationships have been established for the related monthly interest or for the principal payments. The Company manages its interest rate risk by minimizing financing costs on its borrowings and maximizing income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day to day basis. The carrying value of long-term debt approximates its fair value.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At March 31, 2010, the Company had cash of approximately \$47,300. Monthly operating expenses approximate \$160,000. The continuation of the Company depends upon the support of its lender and equity investors, which cannot be assured. The Company's debt is from a related party and approximates fair value.

11. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its assets while at the same time maintaining investor and market confidence and to sustain future development of the business. In the management of capital, the Company includes shareholder's equity and loans payable in the definition of capital. To maintain or adjust the capital structure, the Company may issue new shares, issue new debt with different characteristics or acquire and dispose of assets. There were no changes in the Company's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

12. COMMITMENTS

The Company has entered into an operating lease agreement for its premises. The remaining annual lease commitments under this lease are as follows:

2010	\$ 65,959
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13. SUBSEQUENT EVENTS

There are no subsequent events to be disclosed as of March 31, 2010.