

EMPOWER TECHNOLOGIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)

June 30, 2010

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

	(Unaudited)	
	June 30, 2010	December 31, 2009
ASSETS		
Current		
Cash	\$ 27,390	\$ 59,455
Accounts receivable	212,882	20,147
Inventory (Note 3)	80,947	56,610
Prepaid expenses	112,509	59,378
	433,728	195,590
Property and equipment	72,253	81,481
Total assets	\$ 505,981	\$ 277,071
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	\$ 873,754	\$ 521,200
Current portion of obligations under capital lease (Note 4)	3,595	3,595
Debenture proceeds received in advance (Note 8)	336,534	162,128
Equity proceeds received in advance (Note 8)	100,000	-
Convertible debentures (Note 5)	364,100	416,811
Customer deposit	-	5,000
Loans payable (Note 7)	443,776	17,280
	2,121,759	1,126,014
Long-term		
Loans payable (Note 7)	2,152,500	2,152,500
Obligations under capital lease (Note 4)	11,684	13,482
Total liabilities	4,285,943	3,291,996
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	2,344,897	2,328,285
Equity portion of convertible debenture issued (Note 5)	42,207	41,190
Deficit	(25,877,924)	(25,095,258)
Total shareholders' deficiency	(3,779,962)	(3,014,925)
Total liabilities and shareholders' deficiency	\$ 505,981	\$ 277,071

Basis of presentation (Note 1)

Nature and continuance of operations (Note 2)

Commitments (Note 13)

Subsequent events (Note 14)

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)

	Six Month Period Ended June 30, 2010	Six Month Period Ended June 30, 2009	Three Month Period Ended June 30, 2010	Three Month Period Ended June 30, 2009
SALES	\$ 257,318	\$ 12,867	\$ 246,528	\$ 8,329
COST OF SALES	79,257	1,772	78,274	1,420
	178,061	11,095	168,254	6,909
EXPENSES				
Accounting and audit	48,900	54,356	43,900	49,856
Advertising and promotion	3,094	10,099	1,707	2,468
Amortization of property and equipment	7,610	9,859	3,805	4,930
Amortization of assets under capital lease	1,618	812	809	406
Bank charges and interest	14,770	44,741	10,014	43,151
Consulting fees	52,000	45,187	21,000	34,656
Directors' fee	48,000	-	48,000	-
Foreign exchange gain	(2,983)	(2,388)	(1,380)	(1,495)
Insurance	23,800	21,291	11,958	10,612
Interest and accretion on debentures	62,899	-	40,454	-
Interest on long term debt	99,812	82,190	50,705	42,289
Legal fees	59,336	75,245	16,126	41,334
Office expenses	11,141	26,841	7,028	17,583
Rent	27,636	7,949	13,818	3,848
Research and development	305,931	315,132	141,747	154,074
Stock-based compensation	16,612	101,146	4,929	46,708
Telephone and utilities	23,846	19,485	9,424	7,741
Transfer agent and filing fees	18,314	21,910	10,735	12,745
Travel	16,924	16,063	10,445	8,861
Wages and benefits	176,965	208,296	92,139	93,080
	(1,016,225)	(1,058,214)	(537,363)	(572,847)
Loss before other items	(838,164)	(1,047,119)	(369,109)	(565,938)
OTHER ITEMS				
Interest and other income	5,600	170	600	-
Gain on extension of convertible debenture	49,898	-	-	-
	55,498	170	600	-
Loss and comprehensive loss for the period	\$ (782,666)	\$ (1,046,949)	\$ (368,509)	\$ (565,938)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.03)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	42,968,504	39,768,254	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	-	-	-	16,612	-	-	16,612
Loss for the year	-	-	-	-	-	(782,666)	(782,666)
Balance, June 30, 2010	42,968,504	\$ -	\$ 19,710,858	\$ 2,344,897	\$ 42,207	\$ (25,877,924)	\$ (3,779,962)

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

	Six Month Period Ended June 30, 2010	Six Month Period Ended June 30, 2009	Three Month Period Ended June 30, 2010	Three Month Period Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (782,666)	\$ (1,046,949)	\$ (368,509)	\$ (565,938)
Items not affecting cash:				
Amortization of property and equipment	7,610	9,859	3,805	4,930
Amortization of property and equipment under capital lease	1,618	812	809	406
Stock-based compensation	16,612	101,146	4,929	46,708
Accrued interest on convertible debenture	62,899	27,998	40,454	27,998
Accrued interest on loans payable	110,051	82,487	58,436	42,586
Gain on extension of convertible debenture	(49,898)	-	-	-
Changes in non-cash working capital items:				
Decrease (increase) in receivables	(192,735)	2,129	(187,775)	(5,551)
Increase in inventory	(24,337)	(6,666)	(25,007)	(4,944)
Decrease (increase) in prepaid expenses	(53,131)	(5,623)	9,977	15,487
Increase in accounts payable and accrued liabilities	177,808	195,895	116,139	185,448
Increase (decrease) in customer deposit	(5,000)	-	-	1,102
Net cash used in operating activities	<u>(731,169)</u>	<u>(638,912)</u>	<u>(346,742)</u>	<u>(251,768)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of capital lease obligations	(1,798)	(2,205)	(899)	(2,205)
Proceeds from loans payable	468,893	205,000	219,225	100,000
Repayment of loans payable	(42,397)	(300,000)	(9,500)	-
Proceeds from debenture payable	174,406	326,700	18,006	140,200
Proceeds from equity in advance	100,000	-	100,000	-
Net cash provided by financing activities	<u>699,104</u>	<u>229,495</u>	<u>326,832</u>	<u>237,995</u>
Change in cash during the period	(32,065)	(409,417)	(19,910)	(13,773)
Cash, beginning of period	<u>59,455</u>	<u>421,920</u>	<u>47,300</u>	<u>26,276</u>
Cash, end of period	<u>\$ 27,390</u>	<u>\$ 12,503</u>	<u>\$ 27,390</u>	<u>\$ 12,503</u>

Supplemental disclosure with respect to cash flows (Note 10)

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

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, 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.

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 \$25,829,924 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.

	June 30, 2010	December 31, 2009
Deficit	\$ (25,877,924)	\$ (25,095,258)
Working capital (deficiency)	\$ (1,688,031)	\$ (930,424)

3. INVENTORY

	June 30, 2010	December 31, 2009
Material inventories	\$ 12,398	\$ 12,872
Work in process	-	43,204
Finished goods	68,549	534
	<u>\$ 80,947</u>	<u>\$ 56,610</u>

EMPOWER TECHNOLOGIES CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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June 30, 2010

4. OBLIGATIONS UNDER CAPITAL LEASE

	June 30, 2010	December 31, 2009
Payments of \$300 per month, non-interest bearing, due over lease terms expiring through September 2014	\$ 15,279	\$ 17,077
Less: current portion	<u>(3,595)</u>	<u>(3,595)</u>
	<u>\$ 11,684</u>	<u>\$ 13,482</u>
Estimated remaining lease payments are as follows:		
2010	\$ 1,797	\$ 3,595
2011	3,595	3,595
2012	3,595	3,595
2013	3,595	3,595
2014	<u>2,697</u>	<u>2,697</u>
Balance of obligation	<u>\$ 15,279</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 (six month period ended June 30, 2009 - \$67,180) for services provided by directors and officers.

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

- b) Paid or accrued consulting fees of \$42,000 (six month period ended June 30, 2009 - \$22,500) for services provided by officers and directors of the Company.
- c) Paid or accrued directors' fees of \$48,000 (six month period ended June 30, 2009 - \$Nil) for services provided by directors of the Company.
- d) Paid or accrued salaries and benefits of \$36,000 (six month period ended June 30, 2009 - \$43,000) to an officer of the Company included in research and development costs.

Paid or accrued salaries and benefits of \$45,000 (six month period ended June 30, 2009 – \$73,500) to directors and officers of the Company. Included in current accounts payable is \$411,692 (December 31, 2009 - \$203,333) due to directors and officers of the Company.

At June 30, 2010, the short term and 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 \$110,051 (June 30, 2009- \$82,487) for the six month period ended June 30, 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 July 31, 2011 and \$443,776 are due on demand. The total interest accrued on the loans for the six month period ended June 30, 2010 was \$110,051 (six month period ended June 30, 2009 - \$82,190).

8. OTHER LIABILITIES

- a) The Company raised \$336,534 debenture proceeds in advance. The debenture proceeds bear interest at the rate of 12% per annum. Interest is payable semi-annually. No closing date has been set for the proceeds.
- b) The Company raised \$100,000 equity proceeds in advance. No closing date has been set for the proceeds.

9. 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, 2010	December 31, 2009
Property and equipment:		
Canada	\$ 72,253	\$ 81,481

EMPOWER TECHNOLOGIES CORPORATION
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9. SEGMENTED INFORMATION (cont'd...)

	Six month period ended June 30, 2010	Six month period ended June 30, 2009	Three month period ended June 30, 2010	Three month period ended June 30, 2009
Revenue:				
Canada	\$ -	\$ 5,630	\$ -	\$ 2,898
United States of America	234,900	405	230,926	405
Asia	19,309	6,832	12,493	5,026
Europe	3,109	-	3,109	-
	<u>\$ 257,318</u>	<u>\$ 12,867</u>	<u>\$ 246,528</u>	<u>\$ 8,329</u>

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

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Six month period ended June 30, 2010	Six month period ended June 30, 2009
Cash paid during the period for interest	\$ 445	\$ 445
Cash paid during the period for income taxes	\$ -	\$ -

During the six month period ended June 30, 2010 the Company:

- extended \$371,100 convertible debentures for additional year to January 31, 2011

There are no significant non-cash transactions during the six month period ended June 30, 2009.

11. 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	\$ 27,390	\$ -	\$ -	\$ 27,390

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.

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

(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 June 30, 2010 are comprised of trade accounts receivable. There is no provision for doubtful accounts at June 30, 2010.

(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 June 30, 2010 and at June 30, 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 June 30, 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 June 30, 2010, the Company had cash of approximately \$27,390. Monthly operating expenses approximate \$170,000. 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.

12. 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.

13. 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	\$	32,979
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14. SUBSEQUENT EVENTS

- a) On July 30, 2010, the Company announced obtaining debt financing of \$925,000, through its directors and officers (“Lenders”). The terms of the debt are subject to the acceptance of the TSX Venture exchange. The net proceeds of the debt financing will be used for general corporate working capital. The debt is repayable in 12 months, carries an annual interest rate of 14% and, subject to TSX-V approval, will be convertible into common shares of the Company at the market price of the common shares, and will be secured by a general security agreement over all of the Company’s assets. The Company has also agreed to pay for the costs of borrowing and pledging of the collateral of the Lenders which include legal, security pledge, disbursements and a 4% work fee. If TSX-V acceptance of the grant of security or the conversion features of the debt financing is not obtained, then the debt shall be repayable on demand by the Lenders.