

FORM 51-102F1
EMPOWER TECHNOLOGIES CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2010

The following discussion and analysis, prepared as of August 24, 2010, should be read together with the unaudited interim consolidated financial statements for the three and six month period ended June 30, 2010 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, 2009. Additional information relating to Empower, including the Annual Information Form filed May 1, 2009, is available on SEDAR at www.sedar.com.

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’s core technology is the LEOs embedded hardware platform. LEOs, which stands for “Linux Embedded Operating System” is the Company’s branded operating software which allows product developers and manufacturers to create their own software and embedded hardware, or integrate the Company’s software or hardware, for their own products. Examples of products that developers and manufacturers may produce include surveillance cameras, and digital signage systems.

The Company’s target customers are product developers and manufacturers in the digital signage and interactive kiosk, security and military, automotive and transportation, radio frequency identification (“RFID”), healthcare, industrial control and consumer electronics sectors. In order for the Company to get market penetration of its core technology, it has developed several models of a LEOs development kit (“Development Kit”) and LEOs embedded computer system boards (“Computer Boards”) that provide all the software development tools and hardware platform for developers to create the software and the embedded hardware for their own products. The Company markets and sells the Development Kits and Computer Boards (also known as “single board computers”) to prospective interested product developers and manufacturers. It is the Company’s goal to sell as many Development Kits and Computer Boards as possible to achieve product adoption. However, there are limitations to the number of Development Kits that can be sold.

Once product developers decide to use the Development Kit to create the software and hardware for their new product, the Company has achieved a “design win” and the product developer must obtain a LEOs license or buy Computer Boards (with LEOs embedded) to go into production. Significant revenue for the Company can occur if the licensee’s product has the potential to have high volume production.

The Company intends to generate or increase revenue by sales of the following:

1. Development Kits, Computer Boards, custom Computer Boards, and custom product solutions designed for the customer;
2. Engineering services – consulting services to customize products or technologies and product development and production services;
3. Solution support services - maintenance contracts to provide ongoing support to customers which purchased the Company’s embedded systems; and
4. Licenses of LEOs to product developers.

In the past, the focus of the Company's strategy was to develop revenue through licensing of LEOs and the sales of consumer products developed by the Company. While the Company may generate some revenue from licensing and through the sale of its own products in the future, the Company is now focused on generating increased sales from Development Kits and Computer Boards and from offering engineering and support services to developers.

Principal Products or Services:

The Company is currently selling Development Kits through its distributors and is selling Computer Boards to several customers. The Company to date has sold Development Kits, Computer Boards and engineering services. To date, there has been no revenue from licensing. Revenue has been generated largely from the following sources:

1. Development Kits

The Company has developed two series of Developments Kits. The earlier series, referred to as the "LDK" or LEOs Development Kit series has been largely replaced by the "EDK" or the Empower Development Kit series. The EDK series contains enhancements helping designers accelerate development of digital video applications.

2. Computer Boards

The Company has also recently sold Computer Boards to a number of customers. Like the Development Kits, the Company has developed a series of Computer Boards.

Computer Boards are currently manufactured by third party contract manufacturers in Asia, however the Company may contract with other manufacturers, subject to the economics. The pricing for the Computer Boards also depends on the features and the volume and may range up to \$750 per board.

3. Engineering and System Development Services

The Company provides its prospective customers with engineering and system development services including maintenance and support for the LEOs and its Computer Boards, custom developments and consultation. The Company intends to increase such services in conjunction with selling the Development Kit and selling its Computer Boards to electronic manufacturers and product developers.

Recent Developments:

Furthermore, during the 2nd quarter of 2010, the Company:

- Signed three year supply agreement with Inflight Canada Inc.(IFC), a Montreal based company. IFC has been operating in the commercial aviation cabin systems business since 1976 and is an experienced integration, installation and maintenance services organization. Under the agreement, Empower will customize and develop a key electronic subassembly and software application based on Empower's SBC6446 Single Board Computer using Empower's LEOs (Linux Embedded Operating System) and the proprietary Empower Media Player application. The customized subassembly also integrates IFC's proprietary designs and aircraft applications. Empower has delivered the first working prototype to IFC to assemble into a full aircraft demo system to be exhibited in the upcoming Aircraft Interiors Expo tradeshow in Germany. The fully developed and tested production ready subassembly will be available by the third quarter of 2010 for delivery to IFC for integration into the IFC aircraft design for airworthiness certification and assembly into IFC production unit. The fully tested and certified IFC production unit will then be qualified for use in both private and commercial aviation.

PERFORMANCE SUMMARY

For the three month period ended June 30, 2010, the Company has incurred a loss of \$368,509 or \$0.01 per share, compared with a loss of \$565,938 or \$0.01 per share for the three month period ended June 30, 2009.

This loss represents expenditures related to the ongoing development and marketing of the Company's products. This is consistent with the Company's business plan.

The total expenses excluding stock-based compensation increased to \$532,434 for the three months ended June 30, 2010, compared with \$526,139 for the three month period ended June 30, 2009. Revenue increased to \$246,528 for the Quarter, compared to \$8,329 for the three month period ended June 30, 2009. For the six months ended June 30, 2010, total expense excluding stock-based compensation increased to \$999,613 compared to \$957,068 for the six month period ended June 30, 2009. Revenue increased for the six months ended June 30, 2010 to 257,318 from \$12,867 for the six month period ended June 30, 2009. The increase is mainly attributable to products and services provided to Pixon Imaging and Inflight Canada.

As at June 30, 2010, the Company had cash of \$27,390 compared to \$59,455 at December 31, 2009.

The Company expects overall operating expenses will stay at current level in the foreseeable future until significant product shipments begin.

RESULTS OF OPERATIONS

	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	Year Ended December 31, 2009
Sales					
Canada	\$ -	\$ 5,630	\$ -	\$ 2,898	\$ 5,836
United States of America	234,900	405	230,926	405	404
Asia	19,309	6,832	12,493	5,026	14,819
Europe	3,109	-	3,109	-	-
	<u>257,318</u>	<u>12,867</u>	<u>246,528</u>	<u>8,329</u>	<u>21,059</u>
Cost of Sales					
Cost of goods sold	79,257	1,772	78,274	1,420	5,026
Write-down of inventory	-	-	-	-	10,793
	<u>79,257</u>	<u>1,772</u>	<u>78,274</u>	<u>1,420</u>	<u>15,819</u>
Gross margin	<u>178,061</u>	<u>11,095</u>	<u>168,254</u>	<u>6,909</u>	<u>5,240</u>
Total expenses	<u>1,016,225</u>	<u>1,058,214</u>	<u>537,363</u>	<u>572,847</u>	<u>2,068,697</u>
Other items	<u>55,498</u>	<u>170</u>	<u>600</u>	<u>-</u>	<u>(1,072)</u>
Income (loss) for the period:					
Canada	(753,410)	(1,037,645)	(357,620)	(562,877)	(2,044,591)
People's Republic of China	(11,839)	35,518	(29,025)	54,231	(98,080)
United States of America	(17,417)	(44,822)	18,136	(57,292)	78,142
	<u>\$ (782,666)</u>	<u>\$ (1,046,949)</u>	<u>\$ (368,509)</u>	<u>\$ (565,938)</u>	<u>\$ (2,064,529)</u>
Loss per share	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.05)</u>
Total assets	<u>\$ 505,981</u>	<u>\$ 197,014</u>	<u>\$ 505,981</u>	<u>\$ 197,014</u>	<u>\$ 277,071</u>

Revenue

Revenues generated for the three months ended June 30, 2010 were \$246,528, compared with \$8,329 for the three months ended June 30, 2009. For the six months ended June 30, 2010, revenues were \$257,318 compared with \$12,867 for the six months ended June 30, 2009. The increase in revenues is mainly due to the sales and marketing of LEOs and EDKxxxx development platforms, single board computers, solutions using LEOs and professional services. These sales are attributed to the ongoing execution of the Company's decision to focus on the sales and marketing of the Company's core enabling embedded technology and solutions. The majority of the sales in this period is attributable to products and services provided to Pixon Imaging and Inflight Canada.

Cost of sales

Cost of sales during the Quarter was \$78,274, compared with \$1,420 for the three months period ended June 30, 2009. For the six months ended June 30, 2010, cost of sales was \$79,257, compared with \$1,772 during the six months ended June 30, 2009. Cost of sales as a percentage of sales amounted to 31% in the first half of 2010, compared with 14% for the same period in 2009. The change is attributable to the increase in sales of goods and services relative to profit margin.

General and Administrative

General and administrative expenses without stock-based compensation and R&D costs for the three months ended June 30, 2010 increased to \$390,687 (2009 - \$372,065). This expense category includes operation expense such as sourcing, logistics for production and prototyping, office supplies, shipping and courier charges. Advertising and promotion decreased to \$1,707 (2009 - \$2,468) due to reduced tradeshow activities. Rent increased to \$13,818 (2009 - \$3,848) due to the expiration of free rent period. Consulting fees decreased to \$21,000 (2009 - \$34,656) due to the Company's effort to reduce costs which resulted in engagement with new contractors and consultants. For the six months ended June 30, 2010, general and administrative costs without stock-based compensation and R&D costs increased to \$693,682 (2009 - \$641,936).

Research and Development

Research and Development costs ("R&D costs") relating to the development of LEOs, adding new operating software, developing new embedded hardware and new solutions. R&D costs for the three months period ended June 30, 2010 were \$141,747 compared to \$154,074 for the same period ended June 30, 2009. For the six months period ended June 30, 2010, R&D costs were \$305,931, compared to \$315,132 for the same period ended June 30, 2009.

Expenditures are expected to relate to regular maintenance, improvement and upgrade to the core technology LEOs adding new embedded CPU platforms such as TI's DM6467 and OMAP35xx, purchase development tools for software and hardware, and prototyping services to customers and in-house requirements.

	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
Equipment and supplies	\$ 16,275	\$ 7,646	\$ 13,204	\$ 7,646
Rent	64,486	18,547	32,243	8,978
Salaries and benefits	225,170	288,939	96,300	137,450
	<u>\$ 305,931</u>	<u>\$ 315,132</u>	<u>\$ 141,747</u>	<u>\$ 154,074</u>

SUMMARY OF QUARTERLY RESULTS

	Three Months Ended June 30, 2010	Three Months Ended March 31, 2010	Three Months Ended December 31, 2009	Three Months Ended September 30, 2009
Total assets	\$ 505,981	\$ 327,700	\$ 277,071	\$ 220,955
Stock-based compensation	4,929	11,683	17,264	34,683
Working capital	(1,688,031)	(1,328,166)	(930,424)	(581,508)
Shareholders' deficiency	(3,779,962)	(3,416,382)	(3,014,925)	(2,521,693)
Revenues	246,528	10,790	4,497	3,695
Net loss	(368,509)	(414,157)	(510,496)	(507,084)
Loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

	Three Months Ended June 30, 2009	Three Months Ended March 31, 2009	Three Months Ended December 31, 2008	Three Months Ended September 30, 2008
Total assets	\$ 197,014	\$ 221,115	\$ 606,942	\$ 532,979
Stock-based compensation	46,708	54,438	41,577	78,748
Working capital	(806,164)	(410,505)	182,778	55,718
Shareholders' deficiency	(2,654,851)	(2,153,856)	(1,750,238)	(1,404,105)
Revenues	8,329	4,538	25,931	89,818
Net loss	(565,938)	(481,011)	(387,710)	(650,725)
Loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)

SELECTED ANNUAL INFORMATION

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Sales			
Canada	\$ 5,836	\$ 6,778	\$ 848
United States of America	404	104,611	148,825
Asia	14,819	27,499	43,579
Europe	-	7,560	1,534
	<u>21,059</u>	<u>146,448</u>	<u>194,786</u>
Cost of sales			
Cost of material sold	5,026	41,980	208,503
Write-off of inventory	10,793	127,691	385,277
	<u>15,819</u>	<u>169,671</u>	<u>593,780</u>
Gross margin	<u>5,240</u>	<u>(23,223)</u>	<u>(398,994)</u>
Total expenses	<u>2,068,697</u>	<u>2,629,509</u>	<u>3,482,917</u>
Other items	<u>(1,072)</u>	<u>(43,880)</u>	<u>8,951</u>

Loss for the period			
Canada	(2,044,591)	(2,609,403)	(3,744,902)
People's Republic of China	(98,080)	115,587	(84,162)
United States of America	78,142	(202,796)	(43,896)
	<u>\$(2,064,529)</u>	<u>\$ (2,696,612)</u>	<u>\$(3,872,960)</u>
Loss per share	<u>\$ (0.05)</u>	<u>\$ (0.07)</u>	<u>\$ (0.11)</u>
Total assets	\$ 277,071	\$ 606,942	\$ 1,129,338

Our operations throughout the years displayed above have been mainly focused on providing professional services, products and prototypes for our customers and a smaller focus on development of our technologies. The Company has demonstrated it has successfully promoted Empower's high performance embedded technologies to product designers and engineers.

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. As at June 30, 2010, there were 3,642,787 share purchase warrants outstanding. These warrants represent a source of equity capital for empower, should they be exercised.

The 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 June 30, 2010		As at June 30, 2009	
Deficit	\$	(25,877,924)	\$	(24,077,678)
Working capital	\$	(1,688,031)	\$	(806,164)

Net cash used in operating activities for the Quarter was \$346,742 compared to net cash used of \$251,768 for the three month period ended June 30, 2009. The increase in the use of cash was primarily caused by increased spending on the Company's inventory, prepayment and interest on financing. For the six month period ended June 30, 2010, the net cash used in operating activities was \$731,169 compared with net cash used in operating activities of \$638,912 for the six month period ended June 30, 2009.

The Company had no investing activities for the three month period ended June 30, 2010 and had no investing activities for three month period ended June 30, 2009 either. For the six months ended June 30, 2010, the net cash used in investing activities was \$nil, compared with net cash used in investing activities of \$nil for the six month period ended June 30, 2009.

Net cash generated by financing activities for the Quarter was \$326,832 compared to net cash generated by financing activities of \$237,995 for the three month period ended June 30, 2009. The cash generated during the current period was due to the proceeds of loan, convertible debenture and equity. For the six months ended June 30, 2010, net cash generated by financing activities was \$699,104, compared with net cash generated by financing activities of \$229,495 for the six months ended June 30, 2009. The increase is attributable to the increased amount of cash raised through the proceeds from debenture, loan and equity.

At June 30, 2010, the Company had \$27,390 in cash. The Company has been incurring operating losses (excluding stock-based compensation and amortization) at the average rate of \$135,387 per month over the last six months.

CAPITAL RESOURCES

The authorized capital of the Company consists of unlimited common shares without par value. As at June 30, 2010, there were 42,968,504 common shares issued and outstanding. The Company has warrants outstanding as follows:

As at June 30, 2010	Shares	Exercise Price	Expiry Date	Amount
Warrants outstanding	2,950,250	0.30	July 9, 2011	885,075
Agent's warrants outstanding	250,000	0.30	July 9, 2011	75,000
Agent's warrants outstanding	442,537	0.25	July 9, 2011	110,634
	3,642,787			\$ 1,070,709

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

OUTSTANDING SHARES

As at June 30, 2010, the Company has shares outstanding as follows:

	Shares
Authorized Unlimited common shares without par value	
Balance, June 30, 2010	42,968,504

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- Recorded stock-based compensation of \$Nil (six month period ended June 30, 2009 - \$67,180) for services provided by directors and officers.
- 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.
- 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Principles of consolidation

The consolidated 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.

Allowance for receivables

The Company establishes an allowance for receivables on a specific account basis. The Company had no allowance for doubtful accounts as at June 30, 2010 and had the same \$Nil as at June 30, 2009.

Inventories

Inventories are carried at the lower of cost, using the weighted average method, and net realizable value. 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 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.

iii) Engineering Services

The Company recognizes revenue through providing engineering and system development services when services are completely done based on the contractual arrangement and the customer acceptance has occurred.

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 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.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, convertible debentures and 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.

NEWLY ADOPTED ACCOUNTING POLICIES

Amendment to Financial Instruments – Disclosures

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly

Level 3 – Inputs that are not based on observable market data.

Goodwill and Intangible Assets

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the

previous Section 3062. The Company adopted the section effective January 1, 2009 and management does not expect the adoption to have a material impact on the Company's financial results.

RECENT ACCOUNTING PRONOUNCEMENTS

International financial reporting standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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.

Changeover Plan to International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standard Board (IASB) will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

For the Company, the changeover to IFRS will be required for interim and annual financial statements beginning on January 1, 2011. As a result, the Company will begin to develop a plan to convert its Consolidated Financial Statements to IFRS. The Company will provide training to key employees and will be monitoring the impact of the transition on its business practices, systems and internal controls over financial reporting.

Financial Instruments and Risk

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of potential loss to the Company if a customer or counterparty to a financial instrument

fails to meet its contractual obligations. The Company's credit risk is limited to the carrying amount on the balance sheet and arises from the Company's cash, marketable securities, receivables and reclamation bonds.

The Company's cash, marketable securities, and reclamation bonds are held through a Canadian chartered bank and brokerage firm, which are high-credit quality financial institutions. The Company's receivables primarily consist of goods and services tax due from Federal Government of Canada.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2010, the Company had a cash balance of \$27,390 to settle current liabilities of \$2,121,759. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

The Company has cash balances and no outsider interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency rate risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is insignificant and therefore does not hedge its foreign exchange risk.

Sensitivity analysis

The carrying value of cash, marketable securities, receivables, reclamation bonds, accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturities of these financial instruments. Based on management's knowledge of and experience in the financial markets, management does not believe that the Company's current financial instruments will be materially affected by credit risk, liquidity risk or market risk.

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.