EMPOWER TECHNOLOGIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 and 2010

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Empower Technologies Corporation

We have audited the accompanying consolidated financial statements of Empower Technologies Corporation which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Empower Technologies Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to these consolidated financial statements which describes the existence of a material uncertainty that may cast significant doubt about the ability of Empower Technologies Corporation to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 30, 2012

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT December 31, 2011, DECEMBER 31, 2010, AND JANUARY 1, 2010
(Expressed in Canadian Dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current			
Cash	$ 22,199	$ 32,201	$ 59,455
Accounts receivable	18,194	16,723	20,147
Inventory (Note 5)	-	123,973	56,610
Prepaid expenses	9,889	36,321	59,378
Loan receivable (Note 20)	61,045	-	-
	111,327	209,218	195,590
Deposit	7,287	-	-
Property and equipment (Note 6)	45,369	56,534	81,481
Total assets	$ 163,983	$ 265,752	$ 277,071
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Accounts payable and accrued liabilities (Note 13)	$ 736,568	$ 722,137	$ 521,200
Current portion of obligations under finance lease (Note 12)	3,595	3,595	3,595
Debenture proceeds received in advance	-	-	162,128
Convertible debentures and interest	158,464	1,639,042	416,811
Customer deposit	-	45,467	5,000
Loans payable (Note 8)	1,023,787	571,957	17,280
	1,922,414	2,982,198	1,126,014
Long Term			
Loans payable (Note 8)	2,724,457	2,152,500	2,152,500
Obligations under finance lease (Note 12)	6,292	9,887	13,482
Total liabilities	4,653,163	5,144,585	3,291,996
Shareholders' deficiency			
Capital stock (Note 9)			
Authorized: 100,000,000 common shares without par value			
Issued and outstanding: 52,507,279 shares (2010 – 42,968,504)	21,970,497	19,710,858	19,710,858
Contributed surplus (Note 9)	2,589,491	2,394,451	2,353,574
Equity portion of convertible debenture issued	18,182	147,897	41,190
Share proceeds received in advance	-	140,506	-
Deficit	(29,067,350)	(27,272,545)	(25,120,547)
Total shareholders' deficiency	(4,489,180)	(4,878,833)	(3,014,925)
Total liabilities and shareholders' deficiency	$ 163,983	$ 265,752	$ 277,071

Going concern (Note 2)
Commitments (Note 19)
Subsequent events (Note 20)

Approved by the Board of Directors on April 30, 2012:

"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
YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in Canadian Dollars)

	2011	2010
SALES		
Sales of products	$ 157,772	$ 43,188
Engineering and development services	-	276,545
	157,772	319,733
COST OF SALES		
Cost of goods sold	51,127	13,653
Cost of services	-	122,082
Write-off of inventory	73,292	4,415
	124,419	140,150
	33,353	179,583
EXPENSES		
Accounting and audit	9,500	60,888
Advertising and promotion	24,103	15,427
Bad debts (recovery)	(276,988)	240,561
Bank charges and interest	51,567	35,431
Consulting fees	233,453	108,000
Depreciation of property and equipment	10,077	21,711
Depreciation of assets under finance lease	2,589	3,236
Directors’ fees	158,400	192,000
Foreign exchange (gain)	(5,127)	(1,192)
Insurance	24,947	42,190
Interest and accretion on convertible debentures	204,513	196,890
Interest on long term debt	211,078	195,696
Legal fees	90,451	66,363
Office expenses	11,438	29,396
Rent	19,715	45,314
Research and development	201,072	521,374
Share-based payments (Note 10)	124,543	40,877
Telephone and utilities	19,330	43,442
Transaction costs	-	83,378
Transfer agent and filing fees	90,384	72,403
Travel	37,200	36,259
Wages and benefits	163,125	344,316
	(1,405,370)	(2,393,960)
Loss before other items	(1,372,017)	(2,214,377)
OTHER ITEMS		
Interest and other income	830	22,357
Gain (loss) on modification of convertible debenture (Note 7)	(310,482)	40,022
Gain on settlement of accounts payable	30,864	-
Loss on settlement of debt (Note 9)	(144,000)	-
	(422,788)	62,379
Net loss and comprehensive loss for the year	$ (1,794,805)	$ (2,151,998)
Basic and diluted loss per common share	$ (0.04)	$ (0.05)
Weighted average number of common shares outstanding	49,878,768	42,968,504

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

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENT OF EQUITY (DEFICIENCY)
YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in Canadian Dollars)

	Number of Shares	Amount of shares	Contributed Surplus	Equity Portion of Convertible Debenture	Share Proceeds Received in advance	Deficit	Total
Balance, January 1, 2010	42,968,504	$ 19,710,858	$ 2,353,574	$ 41,190	-	$ (25,120,547)	$ (3,014,925)
Extension of convertible debentures	-	-	-	1,017	-	-	1,017
Issuance of convertible debentures	-	-	-	105,690	-	-	105,690
Share proceeds received in advance	-	-	-	-	140,506	-	140,506
Share-based payments	-	-	40,877	-	-	-	40,877
Loss for the year	-	-	-	-	-	(2,151,998)	(2,151,998)
Balance, December 31, 2010	42,968,504	19,710,858	2,394,451	147,897	140,506	(27,272,545)	(4,878,833)
Balance, December 31, 2010	42,968,504	19,710,858	2,394,451	147,897	140,506	(27,272,545)	(4,878,833)
Non-brokered private placements	5,101,150	951,737	-	-	(140,506)	-	811,231
Conversion of debentures to shares	2,997,625	947,902	-	(59,219)	-	-	888,683
Modification of conversion feature of debenture	-	-	70,496	(70,496)	-	-	-
Settlement of director's debt for shares	1,440,000	360,000	-	-	-	-	360,000
Share-based payments	-	-	124,544	-	-	-	124,544
Loss for the year	-	-	-	-	-	(1,794,805)	(1,794,805)
Balance, December 31, 2011	52,507,279	$ 21,970,497	$ 2,589,491	$ 18,182	$ -	$ (29,067,350)	$ (4,489,180)

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

EMPOWER TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in Canadian Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,794,805)	$ (2,151,998)
Items not affecting cash:		
Depreciation of property and equipment	10,077	21,711
Depreciation of property and equipment under capital lease	2,589	3,236
Share-based payments	124,544	40,877
Accretion and accrued interest on convertible debenture	56,829	196,890
Accrued interest on loans payable	211,078	223,858
Bad debt	31,500	240,561
Loss (gain) on modification of the terms for convertible debenture	310,482	(40,022)
Loss on settlement of debt	144,000	-
Write-off of inventory	73,292	4,415
Gain on account settlement	(30,684)	-
Changes in non-cash working capital items:		
Increase in receivables	(32,971)	(237,137)
Decrease (increase) in inventory	50,681	(71,778)
Decrease (increase) in prepaid expenses and deposit	19,145	23,057
Decrease (increase) in accounts payable and Accrued liabilities	52,331	(66,078)
Increase (decrease) in customer deposit	(45,467)	40,467
Net cash used in operating activities	(817,379)	(1,771,941)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans receivable	(61,045)	-
Purchase of tools	(1,501)	-
Net cash used in investing activities	(62,546)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital lease obligations	(3,595)	(3,595)
Proceeds of loans payable (short term)	124,787	993,996
Repayment of loans payable (short term)	(26,000)	(439,319)
Proceeds from debenture payable	-	1,081,400
Repayment of debenture payable	(36,500)	(28,301)
Share proceeds received in advance	-	140,506
Proceeds from issuance of common shares, net of issuance costs	811,231	-
Net cash provided by financing activities	869,923	1,744,687
Change in cash during the year	(10,002)	(27,254)
Cash, beginning of year	32,201	59,455
Cash, end of year	$ 22,199	$ 32,201

Supplemental disclosure with respect to cash flows (Note 16)

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

1. REPORTING ENTITY

Empower Technologies Corporation (the "Company") is incorporated in Canada, is a public company listed on the TSX Venture Exchange ("TSX-V") and trades under the symbol EPT. The corporate headquarters and principal place of business is located at 3751 Shell Road, Richmond, BC, V6X 2W2. The consolidated financial statements of the Company comprise of the Company and its subsidiaries. The Company is a provider of Linux-based embedded system technologies and solutions for the consumer electronic industry and the intelligent appliance market.

2. NATURE AND CONTINUANCE OF OPERATIONS

Statement of compliance

The consolidated financial statements have been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. These are the Company's first IFRS financial statements to be presented in accordance with IFRS and IFRS 1 *First time adoption of International Financial Reporting Standards* has been applied. Previously the Company prepared its consolidated annual and interim financial statements in accordance with Canadian generally accepted accounting principles. Note 21 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, operations and comprehensive loss along with reconciliations of the statements of financial position as at January 1, 2010 and December 31, 2010 and the statements of operations and comprehensive loss and cash flows for the year ended December 31, 2010. Subject to certain IFRS transition elections disclosed in Note 21, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as at January 1, 2010 and throughout all periods presented as if policies have always been in effect.

Going concern

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 rather than through a process of forced liquation. The Company has incurred losses of $29,067,350 since inception and further losses are anticipated in the development of its business plan. As at December 31, 2011, the Company has a working capital deficiency of $1,811,087. 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.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in Note 3.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

2. NATURE AND CONTINUANCE OF OPERATIONS (cont'd…)

Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Significant areas requiring the use of management estimates include the determination of impairment of property and equipment, depreciation rates for equipment, effective interest rate used in calculating the debt portion of convertible debenture, deferred income tax assets and liabilities, allowance for doubtful accounts, provisions including amounts for inventories and the determination of the assumptions used in calculating fair value of share-based payment calculations. Actual results could differ from these estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Empower Technologies, Inc. (incorporated in United States of America), and its wholly-owned subsidiaries, Empower Technologies (Canada) Inc. (incorporated in Canada) and Empower Technologies (Shanghai) Inc. (incorporated in the People's Republic of China). All intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

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.

Property and equipment

i) Recognition and measurement:

Items of property and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and the costs of dismantling and removing the item and restoring the site on which it is located, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Property and equipment (cont'd…)

i) Recognition and measurement: (cont'd…)

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in net profit (loss).

ii) Subsequent costs:

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit (loss) as incurred.

iii) Depreciation:

Depreciation is calculated using the declining balance method at the following annual rates:

Computer equipment	30%
Furniture and equipment	20%
Leasehold improvements	25%
Tools	20%

Estimates for depreciation methods, useful lives and residual values are reviewed at each reporting period-end and adjusted, if appropriate.

Intangible assets

Research and development:

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria are usually met when a regulatory filing has been made in a major market and approval is considered highly probable. The expenditure capitalized includes the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are expensed as incurred. Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

As at December 31, 2011 and 2010, and January 1, 2010, no development expenditures were capitalized.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivable or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities.

The Company has classified its cash as fair value through profit or loss, accounts receivable and loan receivable as loans and receivables. Accounts payable, amounts due to related parties, loans payable and debentures payable are classified as other financial liabilities, which are measured at amortized cost.

Impairment

i) Financial assets:

A financial asset not carried at fair value through profit or loss is assessed at each consolidated financial statement reporting date to determine whether there is objective evidence that it is impaired if objective evidence indicates that one or more loss events had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net profit (loss) and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net profit (loss).

ii) Non-Financial assets:

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or group of assets. Impairment losses recognized in prior periods are determined at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An asset's carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are assessed by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount on provisions is recognized in finance costs.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using enacted or substantially enacted tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any deferred income tax asset to the extent that it is not probable the asset will be realized

Share-based payments

The Company records all share-based payments at their fair value. The share-based payments costs are charged to operations over the stock option vesting period and agents' options and warrants issued in connection with common share placements are recorded at their fair value on the date of issue as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based payments.

Share-based payment arrangements in which the Company receives goods and services as consideration for its own equity instruments are accounted for as equity-settled share based payment transactions, regardless of how the equity instruments are obtained by the Company.

Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the net loss or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held, if applicable. Diluted loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, if applicable, for the effects of all dilutive potential common shares, which consist of the stock options granted to employees.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

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, the fee is fixed and determinable and collection is probable.

ii) Products

The Company generates revenue through the sale of electronic products. Revenue from the sale of goods are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Foreign currency translation

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Subsidiaries that have functional currencies other than Canadian dollars translate their statement of operations items to Canadian dollars at the average rate during the year. Assets and liabilities are translated at exchange rates prevailing at the end of each reporting period. Exchange variations resulting from the retranslation at closing rate of the net investment in such subsidiaries, together with differences between their statement of operations items translated at actual and average rates, are recognized in the Accumulated Other Comprehensive Income/ Loss.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2011, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

i) New accounting standards effective January 1, 2012

Amendments to IFRS 7 *Financial Instruments: Disclosures* - In October 2010, the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

IAS 12 *Income taxes* - In December 2010, the IASB issued an amendment to IAS 12 that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

ii) New accounting standards effective January 1, 2013

IAS 1 *Presentation of Items of Other Comprehensive Income* - In June 2011, the IASB issued an amendment to IAS 1, which requires entities to separately present items in other comprehensive income based on whether they may be recycled to profit or loss in future periods

IAS 19 *Employee Future Benefits* - In June 2011, the IASB issued an amendment to IAS 19, which changes the recognition, measurement and presentation of defined benefit pension expense and provides for additional disclosures for all employee benefits.

IFRS 10 *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12 Consolidation - Special Purpose Entities* and parts of *IAS 27 Consolidated and Separate Financial Statements.*

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd…)

ii) New accounting standards effective January 1, 2013 (cont'd…)

IFRS 11 *Joint Arrangements* - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes *IAS 31 Interests in Joint Ventures* and *SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

Each of the new standards, IFRS 10 to 13, IFRIC 20 and the amendments to other standards, is effective for the Company beginning on January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

New accounting standards effective January 1, 2015:

IFRS 9 *Financial Instruments* - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is effective for annual periods beginning on or after January 2015 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

5. INVENTORY

	December 31, 2011	December 31, 2010	January 1, 2010
Material inventories	$ -	$ 7,983	$ 12,872
Work in process	-	50,432	43,204
Finished goods	-	65,558	534
	$ -	$ 123,973	$ 56,610

6. PROPERTY AND EQUIPMENT

Cost	Computer equipment	Furniture and equipment	Leasehold Improvement	Tools	Total
As at January 1, 2010	$144,343	$109,889	$ 28,724	$37,000	$319,956
Additions	-	-	-	-	-
As at December 31, 2010	$144,343	$109,889	$ 28,724	$37,000	$319,956
Additions	-	-	-	1,501	1,501
As at December 31, 2011	$144,343	$109,889	$ 28,724	$38,501	$321,457
Accumulated Depreciation					
As at January 1, 2010	$ 127,069	$65,870	$ 20,070	$25,466	$238,475
Depreciation	5,182	8,804	8,654	2,307	24,947
As at December 31, 2010	$ 132,251	$ 74,674	$ 28,724	$27,773	$263,422
Depreciation	3,628	7,043	-	1,995	12,666
As at December 31, 2011	$ 135,879	$ 81,717	$ 28,724	$29,768	$276,088
Carrying Amounts					
Balance, January 1, 2010	$ 17,274	$44,019	$ 8,654	$11,534	$81,481
Balance, December 31, 2010	$12,092	$35,215	$ -	$9,227	$56,534
Balance, December 31, 2011	$8,464	$28,172	$ -	$8,733	$45,369

7. CONVERTIBLE DEBENTURES

	December 31, 2011	December 31, 2010	January 1, 2010
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. An equity portion of \$18,573 was calculated which reflects the convertible feature attached to the debentures.	\$ -	\$ -	\$ 169,293
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. An equity portion of \$9,887 was calculated which reflects the convertible feature attached to the debentures.	-	-	101,178
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. An equity portion of \$12,730 was calculated which reflects the convertible feature attached to the debentures.	-	-	146,340
In January 2010, the Company extended its existing debenture agreement for an additional year to January 31, 2011. An equity portion of \$1,017 relating to the extension was calculated which reflects the convertible feature attached to the debentures. In January 2011, convertible debentures of \$264,600 were converted into common shares of the Company at a reduced conversion rate of \$0.20 per share. Debenture agreements in the aggregate amount of \$36,500 matured in January 31, 2011 and were repaid in April 2011.	-	390,046	-

Continued ….

7. **CONVERTIBLE DEBENTURES** (cont'd)

	December 31, 2011	December 31, 2010	January 1, 2010
On July 30, 2010, the Company entered into a convertible loan agreement with one director and officer in the aggregate amount of $925,000 subject to TSX Venture approval. The convertible loan bears interest at the rate of 14% per annum and is convertible into common shares of the Company at $0.15 per share until July 30, 2011. The conversion was not approved by the TSX Venture Exchange by January 1, 2011, resulting in the loan becoming due on demand and reclassified as a loan payable. An equity portion of $70,496 originally calculated, reflecting the convertible feature attached to the loan agreement was reclassified to contributed surplus upon cancellation of the conversion feature.	-	883,646	-
On October 14, 2010, the Company closed a private placement of convertible debentures in the aggregate amount of $318,528. The convertible debentures bearing interest at the rate of 12% per annum and are convertible into common shares of the Company at $0.50 per share until December 31, 2011. An equity portion of $35,194 was calculated which reflects the convertible feature attached to the debentures. In January 2011, a convertible debenture of $263,528 was converted into common shares of the Company at a reduced conversion rate of $0.20 per share.	57,089	289,981	-
In January 2011, the Company extended existing debenture agreement with a principal amount of $50,000 maturing on January 31, 2011 to May 15, 2011. In May 2011 it was extended to August 31, 2011 and extended further to December 31, 2011.	50,000	-	-
In January 2011, the Company extended existing debenture agreements with an aggregate principal amount of $20,000 maturing on January 31, 2011 to December 31, 2011.	20,000		
Convertible interest accrued	31,375	75,369	-
	$ 158,464	$ 1,639,042	$ 416,811

In January 2011, the Company reduced the conversion rate of convertible debenture in an aggregate amount of $264,600 and $263,528 with an original conversion rate of $0.40 and $0.50 per share to $0.20 per share maturing on January 31, 2011 and December 31, 2011 respectively. The Company recorded an expense on amendment of terms of convertible debenture of $312,776, which is the difference of the fair value of the consideration the holder receives under the revised terms and under the original terms.

In January 2011, the Company recorded a gain of $2,294 on extending the maturity date of existing debentures from January 31, 2011 to May 15, 2011. This gain is the difference of the fair value of the existing debentures and extended debentures on the date of extension.

During the year ended December 31, 2010, the Company recorded a gain of $40,022 on extending its existing debentures for an additional year, which is the difference of the fair value of the existing debentures on the date of extension and extended debentures on the date of extension.

8. LOANS PAYABLE

The loans payable are due to a director and officer of the Company, are unsecured, bear interest at the rate of 8.5% to 14% per annum, of which $2,724,457 of is due on January 31, 2013 and $98,787 and $925,000 are due on demand.

The total interest accrued/paid on the loans for the year ended December 31, 2011 was $437,790 (2010 - $267,025).

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

During the year ended December 31, 2011:

The Company closed a non-brokered private placement issuing 565,150 Units at a price of $0.25 per unit for gross proceeds of $141,288. Each unit is comprised of one common share and one common share purchase warrant. Each share purchase warrant is exercisable for a term of one year at a price equal to $0.30.

The Company issued 2,997,625 common shares for convertible debentures and accrued interest of $599,525 (See note 7).

The Company closed a non-brokered private placement issuing 3,300,000 Units at a price of $0.20 per unit for gross proceeds of $660,000. Each unit is comprised of one common share and one half common share purchase warrant. Each share purchase warrant is exercisable for a term of two year at a price equal to $0.25.

The Company issued 1,440,000 shares with a fair value of $360,000 for $216,000 directors' debt. The Company recognized a loss on settlement of debt in the amount of $144,000.

The Company closed a non-brokered private placement issuing 1,236,000 Units at a price of $0.125 per unit for gross proceeds of $154,500. Each unit is comprised of one common share and one half share purchase warrant. Each whole warrant is exercisable for a term of one year at a price equal to $0.20.

There were no shares issued during the year ended December 31, 2010.

10. STOCK OPTIONS

On September 19, 2003, the Company adopted a stock option plan under which it is authorized to grant options to directors and employees to acquire common shares, up to an amount equivalent to 20% of the outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant, less applicable discounts. The options can be granted for a maximum term of 5 years.

On June 28, 2005, the Company amended the vesting period of the options to officers and directors to 1/3 one year after the date of grant, 1/3 two years after the date of grant and 1/3 three years after the date of grant. The Company also amended the vesting period of the options to employees and consultants to 1/4 one year after the date of grant, 1/4 two years after the date of grant, 1/4 three years after the date of grant and 1/4 four years after the date of grant. Under the current option plan, the maximum aggregate number of shares that may be reserved for issuance is 6,000,000 common shares.

As at December 31, 2011, the following incentive stock options are outstanding:

10. STOCK OPTIONS (cont…)

	Number of Shares	Exercise Price ($)	Expiry Date
Stock options	40,000	0.62	August 24, 2012
	2,155,000	0.10	August 23, 2015
	291,662	0.22	February 28, 2013
Total outstanding options	**2,486,662**		

Stock option transactions are summarized as follows:

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	3,217,500	$ 0.51	1,080,000	$ 1.45
Options granted	500,000	0.22	2,510,000	0.10
Options forfeited	(335,838)	0.24	(322,500)	0.21
Options expired	(895,000)	1.54	(50,000)	1.94
Outstanding, end of period	2,486,662	$ 0.12	3,217,500	$ 0.51
Number of options exercisable, end of period	1,039,162	$ 0.15	962,500	$ 1.48

Share-based payments

During the year ended December 31, 2011, the Company granted 500,000 stock options to a non-employee which was valued using the Black-Scholes Option Pricing Model as the fair value of services received was not reliably measurable. The Company recorded $38,963 in share-based payment. Compensation costs of $85,580 (2010 - $40,877) resulted from additional vesting of share-based payments of options granted in the current and prior period.

The following weighted average assumptions were used in the Black-Scholes Option Pricing Model in determining the fair value of share-based payments issued for services during the year:

	2011	2010
Risk-free interest rate	1.79%	2.61%
Expected life	1.67	5 years
Annualized volatility	140%	213.09%
Dividend	-	-

11. WARRANTS

Warrant transactions and the number of warrants outstanding are summarized as follows:

	2011		2010	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	3,642,787	$ 0.29	4,948,282	$ 0.45
Warrants granted	2,833,150	0.25	-	-
Warrants expired	(3,642,787)	0.29	(1,305,495)	0.89
Outstanding, end of period	2,833,150	$ 0.25	3,642,787	$ 0.29
Number of warrants currently exercisable	2,833,150	$ 0.25	3,642,787	$ 0.29

As at December 31, 2011, the following warrants are outstanding:

	Number of Warrants	Exercise Price ($)	Expiry Date
Warrants	565,150	0.30	February 2, 2012
	618,000	0.20	October 20, 2012
	1,650,000	0.25	April 13, 2013
Total outstanding Warrants	**2,833,150**		

12. OBLIGATIONS UNDER FINANCE LEASE

	December 31, 2011	December 31, 2010	January 1, 2010
Payments of $300 per month, non-interest bearing, due over lease terms expiring through September 2014	$ 9,887	$ 13,482	$ 17,077
Less: current portion	(3,595)	(3,595)	(3,595)
	$ 6,292	$ 9,887	$ 13,482
Estimated remaining lease payments are as follows:			
2010	$ -	$ -	$ 3,595
2011	-	3,595	3,595
2012	3,595	3,595	3,595
2013	3,595	3,595	3,595
2014	2,697	2,697	2,697
Balance of obligation	$ 9,887	$ 13,482	$ 17,077

13. RELATED PARTY TRANSACTIONS AND BALANCES

Key management includes directors, and officers of the Company. The Company entered into the following transactions with key management personnel:

	2011	2010
Short-term benefits	$ 419,400	$ 459,000
Share-based payments	79,375	35,091
Total	$ 498,775	$ 494,091

The Company also entered into the following transactions with related parties:

During the year ended December 31, 2011, the Company settled debt of $216,000 with directors and officers for shares with a fair value of $360,000, resulting in a loss of $144,000.

Included in accounts payable and accrued liabilities as at December 31, 2011 is $661,301 (December 31, 2010 - $375,059; January 1, 2010 - $211,484) due to directors and officers of the Company. The amounts are non-interest bearing, unsecured and due on demand.

At December 31, 2011, $1,023,787 (December 31, 2010 - $571,957; January 1, 2010 - $17,280) of short term loans payable is due to a director and officer of the Company. The short term loans bear interest between 8.5% to 14% and are unsecured. The Company also has $2,724,457 (December 31, 2010 - $2,152,000; and January 1, 2010 - $2,152,000) of loans payable (Note 8) to the same director and officer. The long term loans bear interest at 8.5%, and are unsecured. The total interest paid or accrued to the director was $437,790 (2010 - $267,025) for year ended December 31, 2011.

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.

14. INCOME TAXES

A reconciliation of income taxes with the reported taxes is as follows:

	2011	2010
Loss before income taxes	$ (1,794,805)	$ (2,151,998)
Expected income tax recovery	$ (475,623)	$ (613,319)
Differences in foreign tax rates	-	968
Share issuance costs deductible	-	(33,589)
Non-deductible expenses	162,316	214,496
Effect of difference between functional and tax reporting currency	(10,564)	9,317
Difference in current / future tax rates	15,228	-
Unrecognized tax benefit of non-capital operating losses	308,643	422,127
Total income tax recovery	$ -	$ -

14. INCOME TAXES (cont…)

The significant components of the Company's deferred tax assets are as follows:

	2011	2010
Potential deferred income tax assets:		
Non-capital losses available for future years	$ 4,789,000	$ 4,455,000
Property and equipment	49,000	67,000
Share issuance costs and other	30,000	57,000
Capital losses available for future years	18,000	-
	4,886,000	4,579,000
Unrecognized deferred tax assets	(4,886,000)	(4,579,000)
Net deferred income tax assets	$ -	$ -

The Company has available for deduction against future taxable income non-capital losses in Canada of approximately $17,238,000. The Company has available for deduction against future taxable income non operating losses in the U.S. of approximately $1,387,000 (in US dollars). These losses, if not utilized, will expire through to 2031. Deferred tax benefits which may arise as a result of these non-capital losses have not been recognized in these financial statements due to the uncertainty of their realization.

15. 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:

	December 31, 2011	December 31, 2010	January 1, 2010
Property and equipment:			
Canada	$ 45,369	$ 56,534	$ 81,481

	2011	2010
Revenue:		
Canada	$ 30,000	$ 28,142
United States of America	104,673	266,670
Asia	23,099	21,812
Europe	-	3,109
	$ 157,772	$ 319,733

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

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

		2011		2010
Cash paid during the period for interest	$	126,868	$	331,754
Cash paid during the period for income taxes	$	-	$	-

During the year ended December 31, 2011, the Company:

a) Converted $575,907 of its convertible debentures and accrued interest into 2,997,625 common stock.
b) Issued 1,440,000 common stock to settle director's debt of $216,000.

17. FINANCIAL INSTRUMENTS AND RISK

The carrying value of accounts receivable, accounts payable, amounts due to related parties, obligation under finance lease, convertible debenture and loans payable approximated their fair value.

Financial instruments measured at fair value on a recurring basis on the financial position are summarized in levels of fair value hierarchy as follows:

Assets		Level 1		Level 2		Level 3		Total
Cash	$	22,199	$	-	$	-	$	22,199

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.

(i) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfil 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 Consolidated Statement of Operations and Comprehensive Loss. The Company is exposed to credit related losses on sales to customers outside of North America due to higher risks of enforceability and collectability. Accounts receivable at December 31, 2011 are comprised of trade accounts receivable. The Company had an allowance of doubtful accounts of $31,500 as at December 31, 2011 (December 31, 2010 - $240,651; January 1, 2010 - $nil).

(ii) 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.

17. FINANCIAL INSTRUMENTS AND RISK (cont…)

(ii) Market Risk (cont…)

(a) 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 ended December 31, 2011 and at December 31, 2010, the Company held only minor amounts of cash deposits in foreign currencies.

(b) 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 December 31, 2011. 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.

(iii) 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 December 31, 2011, the Company had cash of $22,199. The continuation of the Company depends upon the support of its lender and equity investors, which cannot be assured.

18. 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, convertible debentures 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

19. COMMITMENTS

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

Not later than one year	$	33,296
Later than one year and no later than five years		26,665
	$	59,961

b) During the year, the Company entered a Corporate Finance Consulting Agreement with Performance Capital Advisors Inc ("PCA"). PCA is engaged to raise financing of up to $2,000,000. The Company is committed to pay PCA up to $105,000 in cash and 105,000 in share purchase warrants priced the same as the shares issued under any financing until April 2013.

20. SUBSEQUENT EVENTS

Subsequent to year ended December 31, 2011:

a) The Company signed a share purchase agreement ("Definitive Agreement") with Northstar Electronics, Inc. (OTCBB: NEIK) ("Northstar") to purchase 100% of its wholly owned subsidiary, Northstar Network Ltd. ("NNL"), for Cdn$1,000,000 cash, 3,000,000 warrants and assumption of NNL's liabilities, which will not exceed $3,000,000 in the aggregate at closing. In the event the transaction does not close by April 30, 2012, the Company will advance to Northstar an additional $100,000 of the purchase price. However, the Company has not advanced any money against the purchase price. The Definitive Agreement provides for an outside closing date of May 31, 2012 after which the agreement will terminate unless extended by the parties. The transaction is subject to customary closing conditions, including completion of satisfactory due diligence, the Company obtaining adequate financing and receipt of regulatory and third party contractual approvals. In addition, Northstar must obtain the consent of its shareholders.

   As at December 31, 2011, the Company had advanced $61,045 to Northstar under the Amended and Restated Loan Agreement between the Company and Northstar, which bears interest at 12 percent per annum in the event of default, matures on April 30, 2012, and is secured through the general business assets of Northstar.

   The Company has also agreed to provide bridge financing to NNL of up to $550,000 (the "Bridge Loan") during the period before closing. As security for the repayment of the Bridge Loan, NNL has signed a general security agreement securing all of NNL's assets, and a share pledge agreement whereby Northstar will pledge 100% of the outstanding NNL shares as collateral once the Company has advanced the full $550,000. On March 20, 2012, Northstar, NNL and the Company have agreed to change the amount required to advance to turn the NNL shares into collateral from $550,000 to $50,000. Also as part of the changes, Northstar and NNL agreed for the Company to receive payments on NNL receivables and invoices directly from NNL customers. NNL will also pay the Company $10,000 per month for the operation of the loans described above. At the end of each month, Empower will deduct the total Northstar customer payments of each month from the Bridge Loan outstanding. Any cash balance left after deducting the Bridge Loan, the Company and NNL will split equally. As at April 30, 2012, the Company had advanced $79,507 to NNL, which bears interest at 12 percent per annum in the event of default.

b) On March 8, 2012, TSX Venture Exchange approved the agreement between the Company and its directors to settle their outstanding debt of $134,400 for the issuance of 2,688,000 common shares.

c) On January 9, 2012, the Company extended the maturity date of convertible debentures to June 30, 2012 in the principal amounts of $50,000, $30,000, $20,000 and $25,000. The convertible debentures had matured on December 31, 2011.

21. FIRST TIME ADOPTION OF IFRS

i) Transition to IFRS

The Company has adopted IFRS effective January 1, 2011 with a transition date of January 1, 2010. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP.

The comparative information presented in these first financial statements for the year ended December 31, 2011, year ended December 31, 2010 and the opening financial position as at January 1, 2010 (the "Transition Date") have been prepared in accordance with the accounting policies referenced in Note 3 and IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1").

21. FIRST TIME ADOPTION OF IFRS (cont'd…)

ii) Initial elections upon adoption

The Company adopted IFRS in accordance with IFRS 1 which requires the retrospective application of IFRS at the Transition Date with all adjustments to assets and liabilities taken to deficit, subject to mandatory exceptions and the application of optional exemptions. The IFRS 1 exceptions applied in the conversion from Canadian GAAP to IFRS by the Company are explained as follows:

(a) Share-based payments – The Company elected under IFRS 1 to apply IFRS 2, *Share-Based Payments* only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date

(b) Business combinations – The Company elected under IFRS 1 to not to apply IFRS 3, *Business Combinations* retrospectively to any business combinations that may have occurred prior to its Transition Date and such business combinations have not been restated.

(c) Compound financial instruments – The Company has elected under IFRS 1 not to retrospectively apply IAS 32, *Financial Instruments – Presentation* to compound instruments settled before the Transition Date.

(d) Borrowing costs – The Company has elected to apply the transitional provisions of IAS 23, *Borrowing Costs* ("IAS 23") to qualifying assets that occurred before the date of transition to IFRS.

iii) Estimates

IFRS 1 does not permit changes to estimates previously made. Accordingly, estimates used at the Transition Date are consistent with estimates made at the same date under Canadian GAAP.

iv) Reconciliation between Canadian GAAP and IFRS

In preparing the Company's IFRS Transition Date statement of financial position management noted that adjustments related to share-based compensation were necessary to be made by the Company previously in its financial statements prepared in accordance with previous Canadian GAAP.

Share-based payments

In certain situations, stock options granted vest in instalments over a specified vesting period. When the only vesting condition is service from the grant date to the vesting date of each tranche awarded, then each instalment should be accounted for as a separate share-based payment arrangement under IFRS, otherwise known as graded vesting. Canadian GAAP permits an entity the accounting policy choice with respect to graded vesting awards. Each installment can be considered as a separate award, each with a different vesting period, consistent with IFRS, or the arrangement can be treated as a single award with a vesting period based on the average vesting period of the instalments depending on the policy elected.

The Company's policy under Canadian GAAP was to treat graded vesting awards under the latter method and, as a result, an adjustment of $25,289 was required on the application of IFRS 2 at the transition date and an adjustment of ($10,289) was required for the restated December 31, 2010

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

21. FIRST TIME ADOPTION OF IFRS (cont'd…)

iv) Reconciliation between Canadian GAAP and IFRS (cont'd…)

Statement of Financial Position		January 1, 2010 Canadian GAAP		Effect of IFRS Transition		January 1, 2010 IFRS
Total Assets	$	277,071	$	–	$	277,071
Total Liabilities	$	3,291,996	$	–	$	3,291,996
Shareholders' Deficiency						
Share capital		19,710,858		–		19,710,858
Contributed surplus		2,328,285		25,289		2,353,574
Equity portion of convertible debenture		41,190		–		41,190
Deficit		(25,095,258)		(25,289)		(25,120,547)
Total Shareholders' Deficiency		(3,014,925)		–		(3,014,925)
Total Liabilities and Shareholder's Deficiency	$	277,071	$	–	$	277,071

The December 31, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

Statement of Financial Position		December 31, 2010 Canadian GAAP		Effect of IFRS Transition		December 31, 2010 IFRS
Total Assets	$	265,752	$	–	$	265,752
Total Liabilities	$	5,144,585	$	–	$	5,144,585
Shareholders' Deficiency						
Share capital		19,710,858		–		19,710,858
Contributed surplus		2,379,451		15,000		2,394,451
Equity portion of convertible debenture		147,897		–		147,897
Share proceeds received in advance		140,506		–		140,506
Deficit		(27,257,545)		(15,000)		(27,272,545)
Total Shareholders' Deficiency		(4,878,833)		–		(4,878,833)
Total Liabilities and Shareholder's Deficiency	$	265,752	$	–	$	265,752

The December 31, 2010 Canadian GAAP statement of operations and comprehensive loss has been reconciled to IFRS as follows

Statement of Operations and Comprehensive Loss		Year Ended Dec. 31, 2010 Canadian GAAP		Effect of IFRS Transition		Year Ended Dec. 31, 2010 IFRS
Sales	$	319,733	$	–	$	319,733
Cost of sales		140,150	$	–	$	140,150
Share-based payments	$	51,166	$	(10,289)	$	40,877
Total expenses	$	2,404,249	$	(10,289)	$	2,393,960
Total other income	$	(62,379)	$	–	$	(62,379)
Net loss and comprehensive loss	$	(2,162,287)	$	10,289	$	(2,151,998)

There are no material differences between the consolidated statement of cash flows presented under IFRS and the consolidated statement of cash flows presented under previous Canadian GAAP.