

**EMPOWER TECHNOLOGIES CORPORATION**

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Three-month periods ended March 31, 2012 and 2011**

## **Notice to Readers**

Under National Instrument 51-102, Part 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company for the period ending March 31, 2012 have been prepared in accordance with International Accounting Standard 34 for Interim Financial Reporting under International Financial Reporting Standards. These financial statements are the responsibility of the Company's management and have been approved by the Board of Directors. The Company's independent auditors have not performed an audit or review of these condensed interim consolidated financial statements.

**EMPOWER TECHNOLOGIES CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT MARCH 31, 2012**  
(Expressed in Canadian Dollars)  
(Unaudited)

	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 34,683	\$ 22,199
Accounts receivable	16,422	18,194
Prepaid expenses	15,645	9,889
Loan receivable (Note 6)	91,659	61,045
	<u>158,409</u>	<u>111,327</u>
Deposit	7,287	7,287
Property and equipment (Note 7)	42,240	45,369
	<u>42,240</u>	<u>45,369</u>
<b>Total assets</b>	<b>\$ 207,936</b>	<b>\$ 163,983</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 747,271	\$ 736,568
Current portion of obligations under finance lease (Note 13)	3,595	3,595
Convertible debentures and interest (Note 8)	162,349	158,464
Customer deposit	6,688	-
Loans payable (Note 9)	1,079,487	1,023,787
	<u>1,999,390</u>	<u>1,922,414</u>
<b>Long term</b>		
Loans payable (Note 9)	2,724,457	2,724,457
Obligations under finance lease (Note 13)	5,393	6,292
	<u>5,393</u>	<u>6,292</u>
<b>Total liabilities</b>	<b>4,729,240</b>	<b>4,653,163</b>
<b>Shareholders' deficiency</b>		
Capital stock (Note 10)		
Authorized: unlimited common shares without par value		
Issued and outstanding: 55,195,279 shares (2011 – 52,507,279)	22,239,297	21,970,497
Contributed surplus (Note 10)	2,601,347	2,589,491
Equity portion of convertible debenture issued	18,182	18,182
Share proceeds received in advance	114,000	-
Deficit	(29,494,130)	(29,067,350)
	<u>(29,494,130)</u>	<u>(29,067,350)</u>
<b>Total shareholders' deficiency</b>	<b>(4,521,304)</b>	<b>(4,489,180)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>\$ 207,936</b>	<b>\$ 163,983</b>

**Nature and continuance of operations (Note 2)**

**Commitments (Note 19)**

**Subsequent events (Note 20)**

**On behalf of the Board:**

"Paul Leung"

Director

"Edward Bagg"

Director

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

**EMPOWER TECHNOLOGIES CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Expressed in Canadian Dollars)  
(Unaudited)

	Three Month Period Ended March 31, 2012	Three Month Period Ended March 31, 2011
<b>SALES</b>	\$ -	\$ 134,673
<b>COST OF SALES</b>	-	50,447
	-	84,226
<b>EXPENSES</b>		
Advertising and promotion	2,266	7,934
Amortization of property and equipment	2,611	2,482
Amortization of assets under capital lease	518	647
Bad debt	-	48,900
Bank charges and interest	1,863	15,368
Consulting fees	49,150	46,500
Directors' fees	-	24,000
Foreign exchange gain	353	(822)
Insurance	6,135	6,316
Interest on short term debt and debentures	40,284	62,022
Interest on long term debt	64,696	47,453
Legal fees	17,786	721
Office expenses	1,852	2,154
Rent	5,940	5,205
Research and development	38,218	55,772
Share-based payments (Note 11)	11,857	27,101
Telephone and utilities	2,464	3,762
Transfer agent and filing fees	19,297	30,515
Travel	6,662	3,008
Wages and benefits	26,278	46,725
	(298,230)	(435,362)
<b>Loss before other items</b>	(298,230)	(351,136)
<b>OTHER ITEM</b>		
Interest and other income	5,850	6
Expense on amendment of terms of convertible debentures	-	(308,087)
Loss on settlement of debt	(134,400)	-
	(128,550)	(308,081)
<b>Loss and comprehensive loss for the period</b>	\$ (426,780)	\$ (659,217)
<b>Basic and diluted loss per common share</b>	\$ (0.01)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>	52,861,741	42,264,515

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

**EMPOWER TECHNOLOGIES CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Expressed in Canadian Dollars)  
(Unaudited)

	Number of Shares	Capital Stock	Contributed Surplus	Equity Portion of Convertible Debenture	Share Proceeds Received in advance	Deficit	Total
<b>Balance, December 31, 2010</b>	42,968,504	\$ 19,710,858	\$ 2,394,451	\$ 147,897	140,506	\$ (27,272,545)	\$ (4,878,833)
Non-brokered private placement	565,150	141,287	-	-	392,894	-	534,181
Conversion of debentures to shares	2,997,625	947,902	-	(59,219)	-	-	888,683
Services rendered by the Investor relation firm	-	-	5,000	-	-	-	5,000
Share-based payments	-	-	27,102	-	-	-	27,102
Loss for the period	-	-	-	-	-	(659,217)	(659,217)
<b>Balance, March 31, 2011</b>	46,531,279	\$ 20,800,047	\$ 2,426,553	\$ 88,678	533,400	\$ (27,931,762)	\$ (4,083,084)
<b>Balance, December 31, 2011</b>	52,507,279	21,970,497	2,589,491	18,182	-	(29,067,350)	(4,489,180)
Share proceeds received in advance	-	-	-	-	114,000	-	114,000
Settlement of directors debt for shares	2,688,000	268,800	-	-	-	-	268,800
Share-based payments	-	-	11,856	-	-	-	11,856
Loss for the period	-	-	-	-	-	(426,780)	(426,780)
<b>Balance, March 31, 2012</b>	55,195,279	\$ 22,239,297	\$ 2,601,347	\$ 18,182	114,000	(29,494,130)	\$ (4,521,304)

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

**EMPOWER TECHNOLOGIES CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
(Unaudited)

	Three Month Period Ended March 31, 2012	Three Month Period Ended March 31, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (426,780)	\$ (659,217)
Items not affecting cash:		
Amortization of property and equipment	2,611	2,482
Amortization of assets under capital lease	518	647
Share-based payments	11,856	27,101
Fair value of options granted for investor relations	-	5,000
Accretion and accrued interest on convertible debenture	3,885	29,636
Accrued interest on loan payable	68,580	59,883
Loss on settlement of debt	134,400	-
Loss (gain) on amendment of the terms for converted debentures	-	308,087
Changes in non-cash working capital items:		
Decrease in accounts receivable	1,772	10,235
Decrease in inventory	-	50,432
Increase in prepaid expenses and deposit	(5,756)	(6,308)
Decrease in accounts payable and accrued liabilities	(57,877)	(41,917)
Increase (decrease) in customer deposit	6,688	(40,100)
Net cash used in operating activities	<u>(260,103)</u>	<u>(254,039)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loan receivable	<u>(30,614)</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of capital lease obligations	(899)	(899)
Proceeds of loans payable	57,700	18,300
Repayment of loans payable	(2,000)	-
Proceeds from share issuance	134,400	782
Share proceed received in advance	<u>114,000</u>	<u>533,400</u>
Net cash provided by (used in) financing activities	<u>303,201</u>	<u>551,583</u>
<b>Change in cash during the period</b>	12,484	297,544
<b>Cash, beginning of period</b>	<u>22,199</u>	<u>32,201</u>
<b>Cash, end of period</b>	<u>\$ 34,683</u>	<u>\$ 329,745</u>

**Supplemental disclosure with respect to cash flows (Note 16)**

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

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

---

**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 is located at 3751 Shell Road, Richmond, BC, V6X 2W2. The condensed consolidated interim 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. Previously the Company prepared its consolidated annual and interim financial statements in accordance with Canadian generally accepted accounting principles.

**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 liquidation. The Company has incurred losses of \$29,494,130 since inception and further losses are anticipated in the development of its business plan. As at March 31, 2012, the Company has a working capital deficiency of \$1,840,981. 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.

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

---

**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.

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).



**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

---

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Property and equipment (cont'd...)**

*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 March 31, 2012 and 2011 no development expenditures were capitalized.

**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.

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
**(Unaudited)**

---

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**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.

**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

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

---

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**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.

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

---

**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, 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*.

*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*.

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

---

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

i) New accounting standards effective January 1, 2013 (cont'd...)

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.

ii) 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.

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

**5. INVENTORY**

	March 31, 2012	March 31, 2011
Material inventories	\$ -	\$ 7,983
Work in process	-	-
Finished goods	-	65,558
	\$ -	\$ 73,541

**6. LOAN RECEIVABLE**

On November 9, 2011, the Company and Northstar Electronics, Inc. (Northstar) signed the Binding Letter of Intent and on February 14, 2012, the Company and Northstar signed the Share Purchase Agreement (Definitive Agreement) for Northstar to sell 100% ownership of its subsidiary “Northstar Network Ltd.” in St. John’s, Newfoundland to Empower. As a condition in both the Binding Letter of Intent and the Definitive Agreement, the Company will provide certain amount of cash loans subject to respective Loan Agreement to Northstar and to its subsidiary Northstar Network.

On March 30, 2012, Empower has commenced loaning Northstar Network Ltd. (NNL) funds to meet its production schedule and sales commitment to their customers. Under the Loan Agreement (NNL Loan Agreement) between Northstar, NNL and Empower and subject to certain conditions, Empower had agreed to provide bridge financing to NNL, the subsidiary of Northstar 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 Empower 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 trigger the NNL shares into collateral from \$550,000 to \$50,000. Also as part of the changes, Northstar and NNL agreed to let Empower receive payments on NNL receivables/invoices directly from NNL customers. Also the total NNL loan amount cannot be greater than 80% of the total current receivables NNL has on hand. NNL also has to pay \$10,000 per month for the operation of the Bridge Loan starting in March 20, 2012. At the end of each month, Empower will deduct the total Northstar customer payments received in the month from the Bridge Loan outstanding. Any cash balance left after deducting the Bridge Loan and fees, Empower and NNL will split the proceeds in half as earning between each other.

End of 2011 last year, Empower had also advanced \$61,045 to Northstar the parent under a separate Loan Agreement (Northstar Electronics Loan Agreement) that is backed by a general security agreement on Northstar the parent. There will not be any further advance under this Loan Agreement except for the amount noted in this paragraph.

Loan Receivable is fully attributable to loans to Northstar Network and its parent Northstar Electronics under the two Loan Agreements stated above. For the three months ended March 31, 2012 Loan Receivable were \$91,659, compared with \$61,045 for the year ended December 31, 2011.

The purchase of NNL by Empower is subject to acceptance by TSX Venture Exchange.

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

**7. PROPERTY AND EQUIPMENT**

Cost	Computer equipment	Furniture and equipment	Leasehold Improvement	Tools	Total
As at December 31, 2011	\$144,343	\$109,889	\$ 28,724	\$38,501	\$321,457
As at March 31, 2012	\$144,343	\$109,889	\$ 28,724	\$38,501	\$321,457
Accumulated Depreciation					
As at December 31, 2011	\$ 135,879	\$81,717	\$ 28,724	\$29,768	\$276,088
Depreciation	907	1,761	-	461	3,129
As at March 31, 2012	\$ 136,786	\$ 83,478	\$ 28,724	\$30,229	\$279,217
Carrying Amounts					
Balance, December 31, 2011	\$8,464	\$28,172	\$ -	\$8,733	\$45,369
Balance, March 31, 2012	\$7,557	\$26,411	\$ -	\$8,272	\$42,240

**8. CONVERTIBLE DEBENTURES**

	March 31, 2012	December 31, 2011
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. It was further extended to June 30, 2012.	55,000	57,089
In January 2011, the Company extended existing debenture agreement with a principle amount of \$50,000 maturing on January 31, 2011 to May 18, 2011 and further extended to June 30, 2012.	50,000	50,000
In January 2011, the Company extended existing debenture agreements with an aggregate principle amount of \$20,000 maturing on January 31, 2011 to December 31, 2011 and further extended to June 30, 2012.	20,000	20,000
Interest accrued	37,349	31,375
	<u>\$ 162,349</u>	<u>\$ 158,464</u>

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 \$4,689 on extending the maturity date of existing debentures from January 31, 2011 to May 31, 2011 and December 31, 2011, which is the difference of the fair value of the existing debentures and extended debentures on the date of extension.

In January 2012, the Company extended the maturity date of existing debentures from December 31, 2011 to June 30, 2012.

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

**9. 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 is due on April 30, 2013 and \$154,487 and \$925,000 are due on demand.

The total interest accrued/paid on the loans for three month period ended March 31, 2012 was \$104,979 (2011 - \$123,025).

**10. CAPITAL STOCK AND CONTRIBUTED SUPRLUS**

During the three month period ended March 31, 2012, the Company issued 2,688,000 common shares for the settlement of \$134,400 debt to its directors.

During the three month period ended March 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.

During the three month period ended March 31, 2011, the Company issued 2,997,625 common shares for convertible debenture and accrued interest of \$599,525 (See note 7).

**11. 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 March 31, 2012, the following incentive stock options are outstanding:

	Number of Shares	Exercise Price ( \$ )	Expiry Date
Stock options	40,000	0.62	August 24, 2012
	<u>2,155,000</u>	0.10	August 23, 2015
<b>Total outstanding options</b>	<b>2,195,000</b>		



**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

**11. STOCK OPTIONS (cont'd...)**

Stock option transactions are summarized as follows:

	Three-month Period Ended March 31, 2012		Year Ended December 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,486,662	\$ 0.15	3,217,500	\$ 1.48
Options granted	-	-	500,000	0.22
Options forfeited	-	-	(335,838)	0.20
Options expired or cancelled	(291,662)	0.22	(895,000)	1.54
Outstanding, end of period	2,195,000	\$ 0.11	2,486,662	\$ 0.12
Number of options exercisable, end of period	747,500	\$ 0.13	1,039,162	\$ 0.15

**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.

For the three month period ended March 31, 2012 the company recorded \$11,857 (2011-\$27,101) for share based compensation.

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:

	2012	2011
Risk-free interest rate	-	1.79%
Expected life	-	1.67 years
Annualized volatility	-	140%
Dividend	-	-

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

**12. WARRANTS**

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

	Three-month Period Ended March 31, 2012		Year Ended December 31, 2011	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	2,833,150	\$ 0.25	3,642,787	\$ 0.29
Warrants granted	-	-	2,833,150	0.25
Warrants expired	(565,150)	0.30	(3,642,787)	0.29
Outstanding, end of period	2,268,000	\$ 0.24	2,833,150	\$ 0.25
Number of warrants currently exercisable	2,268,000	\$ 0.24	2,833,150	\$ 0.25

As at March 31, 2012, the following warrants are outstanding:

	Number of Warrants	Exercise Price ( \$ )	Expiry Date
Warrants	618,000	0.20	October 20, 2012
	1,650,000	0.25	April 13, 2013
Total outstanding Warrants	<b>2,268,000</b>		

**13. OBLIGATIONS UNDER FINANCE LEASE**

	March 31, 2012	December 31, 2011
Payments of \$300 per month, non-interest bearing, due over lease terms expiring through September 2014	\$ 8,988	\$ 9,887
Less: current portion	(3,595)	(3,595)
	\$ 5,393	\$ 6,292

Estimated remaining lease payments are as follows:

2012	\$ 2,696	\$ 3,595
2013	3,595	3,595
2014	2,697	2,697
Balance of obligation	\$ 8,988	\$ 9,887

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

**14. RELATED PARTY TRANSACTIONS**

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

- a) Recorded share-based payments of \$11,158 (three month period ended March 31, 2011 - \$24,294) for services provided by directors and officers.
- b) Paid or accrued consulting fees of \$40,000 (three month period ended March 31, 2011 - \$36,500) for services provided by officers and directors of the Company.
- c) Paid or accrued directors' fees of \$Nil (three month period ended March 31, 2011 - \$24,000) for services provided by directors of the Company.
- d) Paid or accrued salaries and benefits of \$18,000 (three month period ended March 31, 2011 - \$18,000) to an officer of the Company included in research and development costs.
- e) Paid or accrued salaries and benefits of \$8,000 (three month period ended March 31, 2011 - \$11,500) to directors and officers of the Company. Included in current accounts payable is \$475,050 (December 31, 2011 - \$375,059) due to directors and officers of the Company.

At March 31, 2012, \$1,079,487 (December 31, 2011 - \$1,023,787) of short term loans payable is due to a director and officer of the Company. The short term loans bear interest at 8.5% and are unsecured. The Company also has \$2,724,457 (December 31, 2011 - \$2,724,457) of long term loans payable (Note 8) to the same director and officer. The loans bear interest at 8.5%, and are unsecured. The total interest paid or accrued to the director was \$104,979 (March 31, 2011 - \$123,025) for the three month period ended March 31, 2012.

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.

**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:

	March 31, 2012	December 31, 2011
Property and equipment:		
Canada	\$ 42,240	\$ 45,369
<hr/>		
	Three month period ended March 31, 2012	Three month period ended March 31, 2011
Revenue:		
Canada	\$ -	\$ 30,000
United States of America	-	104,673
Asia	-	-
	\$ -	\$ 134,673

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

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

**16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	Three month period ended March 31, 2012		Three month period ended March 31, 2011	
Cash paid during the period for interest	\$	32,468	\$	32,376
Cash paid during the period for income taxes	\$	-	\$	-

During the three month period ended March 31, 2012 the Company:

- a) issued \$2,688,000 of common stock, the proceeds of \$134,400 for the debt to directors.

**17. FINANCIAL INSTRUMENTS AND RISK**

The carrying value of accounts receivable, accounts payable and accrued liabilities, obligation under finance lease, convertible debenture and loans payable approximated their fair value.

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

Assets	Level 1	Level 2	Level 3	Total
Cash	\$ 34,683	\$ -	\$ -	\$ 34,683

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 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 March 31, 2012 are comprised of trade accounts receivable. Sufficient allowance for doubtful accounts is set up as at March 31, 2012.

(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.

- (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 Renmibi. 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.

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

---

**17. FINANCIAL INSTRUMENTS AND RISK** (cont'd...)

During the three month period ended March 31, 2012 and at December 31, 2011, 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 March 31, 2012. 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 March 31, 2012, the Company had cash of \$34,683. Monthly operating expenses approximate \$99,000. 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**

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

2012	22,291
2013	<u>26,663</u>
	<u><u>48,954</u></u>

**20. SUBSEQUENT EVENTS**

Subsequent to period ended March 31, 2012:

- a) On May 14, 2012 the Company announced proceeding with a non-brokered private placement of units (the "Offering") to raise up to \$150,000. Then on May 23, 2012, the Company announced the closing of the offering and change the amount to close from \$150,000 to \$155,000.

The Offering is not subject to any minimum and is to be of up to 1,500,000 units (the "Units") at \$0.10 per Unit, with each Unit consisting of one share and one half warrant. Each whole warrant is exercisable into one common share for a period of one year at \$0.15 per share. The warrants will be non-transferable. The proceeds of the Offering will be used to finance the purchase of Northstar Network Ltd. ("NNL") from its parent Northstar Electronics Inc. ("Northstar") and for general working capital.

**EMPOWER TECHNOLOGIES CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011**  
(Unaudited)

---

**20. SUBSEQUENT EVENTS (cont'd...)**

- b) On May 14, 2012 the Company announced, further updates to the Northstar Network Ltd. (NNL) purchase agreement on March 30, 2012. According to the agreement Empower and Northstar Electronics Inc. (Northstar) had accepted to certain changes in the purchase price and the payments as follows:

Subject to certain conditions, Empower will pay \$40,000 of the cash portion of the purchase price to Northstar in advance on or before May 18, 2012 and another \$100,000 on closing and pay a further \$100,000 in 30 days after closing. For the equity portion of the purchase price, \$340,000 in Empower common shares will be issued at closing and a further \$320,000 in shares at the end of 18 months from closing subject to NNL having incurred at least \$6mm or more in revenue within the last 18 months. In both cases, Empower will issue (or arrange to be transferred) to Northstar such number of free trading Empower shares equal to the amount then due divided by the then 10 day weighted average closing price of Empower's shares on the TSX Venture Exchange and subject to escrow provisions imposed by TSX Venture Exchange. There shall be no other changes except noted above.

Then on May 25, 2012, the Company announced, further to May 14, 2012 announcement, Empower and Northstar Electronics Inc. (Northstar) changed the date of the advance payment of \$40,000 of the cash portion of the purchase price to Northstar from "on or before May 18, 2012" to "on or before closing or at closing" and Empower has already submitted the application to TSX Venture Exchange (the "Exchange") for the approval of the Purchase. As a result, Empower and Northstar moved the closing date of the Purchase from May 31, 2012 to "on or before June 29, 2012". There is no assurance Empower will receive the Exchange approval for the Purchase of Northstar Network.

- c) On May 16, 2012, the Company announced, proceeding with a non-brokered private placement of unsecured convertible debentures ("Debentures") up to \$375,000 (the "Offering"). The Debentures will bear simple interest at the rate of 10% per annum payable quarterly and are due 18 months from the date of closing. The Debentures are convertible into common shares of Empower at a conversion price of \$0.15 per share. In consideration of the finder's efforts in locating investors for the Debentures Private Placement, the Company will pay 7% finder's fee in cash plus 7% in Empower share purchase warrants. Each warrant is for one year at \$0.15 per share. Proceeds of the Offering will be used for continued sales and marketing of Empower's products and general working capital.