



Our Mission:

To Become the leading provider of Linux based embedded system technologies and solutions for the consumer electronics industry.

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To the Shareholders,

2003 was the year Empower Technologies made its mark in Canada. The Company has accomplished many things since it first incorporated in February, 2000 and set the course to become the leading provider of Linux based embedded system technologies and solutions for the consumer electronics industry.

The highlight of the year was the signing of a development agreement with Audio Products International and the nationwide release of Empower Technologies' latest LinuxDA Operating System embedded in our own branded PowerPlay Vs handheld computer. This signified that the Company had gone from research and development to commercialization and sales growth.

It was also the year the Company became a public issuer listed on the TSX Venture Exchange. This provides the Company with another alternative to access capital that will be greatly needed when the Company starts to tap its potential to grow as evidenced with the addition of a new executive joining an already very strong management team.

In summary, I would like to thank all our Shareholders for supporting us throughout these times and we will continue to earn your support well into the future. I would also like to thank our employees and the management who invested so much time and effort beyond the call of their duties. This is a most exciting moment for Empower Technologies. The Company is now well positioned and prepared for the next phase of growth.

Again, thank you for your continuous support and we look forward to another successful year.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Leung". The signature is stylized and written in a cursive-like font.

Paul Leung
Chairman & CEO



To the Shareholders

In April of 2004 I became the President of Empower Technologies. My past career included being a Director of Information Technology Systems for Verizon International for some ten (10) years. I also spent almost 10 years at Texaco International working in their Information Technology Department supporting some 153 countries worldwide. My experience in executive management at both of these companies will be of benefit to the management team at Empower Technologies.

The past year has been pivotal for Empower Technologies. Successes in producing an embedded LinuxDA operating system on a personal handheld device and selling it throughout Canada to Future Shop/Best Buy have put Empower on the road to success. We at Empower Technologies are focused on maintaining our cost structure in line with operational efficiencies.

Currently, the application of Linux has spread into many key areas worldwide. According to the prediction of IDC*, the global Linux market scale will reach as high as 14 billion USD by 2005. Reports from IDC show that Linux has become the second largest operating system in the world. In the coming few years, Linux is predicted to increase by 25% annually in the server market. The Linux operation system's market-share will smoothly increase to 26.77% in 2006 from 4.47% in 2001.

Empower Technologies is in a unique position within the next 18-24 months to be able to define and provide leadership in positioning itself as a Linux based embedded system technologies and solutions provider for consumer electronic manufacturers. Finally, Empower Technologies has established an office in Shanghai, China and that will allow the company to effectively penetrate the largest consumer electronics design and manufacturing industry in Asia. Consequently with these developments and other projects under consideration Empower Technologies is facing a bright sustained future for the company and shareholders.

Sincerely,

A handwritten signature in black ink, appearing to read "Dr. Edward Dennis". The signature is fluid and cursive, written over a light-colored background.

Dr. Edward Dennis
President

* Source by IDC May 2004

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2003

General Empower Technologies Corporation ("Empower Corp") was incorporated under the Company Act (British Columbia) on February 21, 2003. Empower Corp completed its initial public offering ("IPO") on September 19, 2003. The common shares and the warrants issued pursuant to the IPO of Empower Corp commenced trading on the TSX Venture Exchange on September 23, 2003 under the symbol EPT with respect to the common shares and EPT.W with respect to the warrants.

As a condition of the IPO and pursuant to a merger agreement, Empower Corp and Empower Technologies, Inc. ("Empower US") agreed to carry out a merger involving the acquisition of 100% of the issued and outstanding shares of Empower US in exchange for an equivalent number of common shares of Empower Corp. The merger was carried out by way of a merger of ET Merger Corporation, a wholly-owned U.S. subsidiary of Empower Corp, with Empower US.

Empower Corp, through its wholly-owned U.S. subsidiary Empower US, is a provider of Linux-based embedded system technologies and solutions for the consumer electronics industry and the intelligent appliance market.

Legally, Empower Corp is the parent of Empower US. However, as a result of the share exchange described above, control of the combined companies passed to the former shareholders of Empower US. This type of share exchange, referred to as a "reverse takeover", deems Empower US to be the acquiror for accounting purposes.

Discussion of Operations and Financial Condition

Empower US continued to sell its products through its own product website with minimal promotional efforts. Empower US focused the majority of its marketing and sales efforts to solicit consumer electronics manufacturers to license its LinuxDA O/S product solutions and to solicit major retailers and developers to OEM, integrate or resale its PowerPlay PDA embedded with LinuxDA O/S. Revenues generated for the year ended December 31, 2003 were \$134,728 compared with the revenues for the 9-month period ended December 31, 2002 of \$7,352. This drastic increase is attributed to the beginning of sales of PowerPlay Vs to Best Buy Canada through Empower US's Canadian subsidiary, Empower Technologies (Canada) Inc. ("Empower Canada"). Net loss for such period was \$1,697,600. The negative gross margin was due to the start up costs necessary to meet Best Buy Canada's vendor requirements.

Operating expenses for the year ended December 31, 2003 were \$1,473,449. In particular, management and consulting fees, office expense and travel expense were \$86,615 for the year ended December 31, 2003. Accounting and legal expenses were \$215,575 for the year ended December 31, 2003. Empower Corp incurred the majority of such legal and accounting fees due to its IPO in order to list on the TSX Venture Exchange and complete the year end audit. Amortization of assets under capital leases was \$5,640 for the year ended December 31, 2003. Wages and benefits were \$142,528 for the year ended December 31, 2003. Bank charges and interest expenses were \$11,286 for the year ended December 31, 2003. Empower Corp granted 2,520,000 (2002 - Nil) stock options during the year to directors, consultants and employees, resulting in compensation costs of \$805,865 (2002 - \$Nil) which were recorded as contributed surplus on the balance sheet. The weighted average fair value of the stock options granted during the year ended December 31, 2003 was \$0.32 per option. For the year ended December 31, 2003, Empower Corp. has maintained its operating costs to a low level enabling Empower Corp. to achieve its product development and commercialization milestones.

The net loss for the year ended December 31, 2003 was \$1,697,600.

On August 27, 2003, Empower Corp announced that Empower US had signed a Joint Development Agreement (the "Definitive Agreement") with Audio Products International Corporation ("API") to jointly develop a new consumer audio appliance that will utilize API's

latest Omnipolar speaker technology and Empower US's LinuxDA embedded operating system technology. API and Empower US will cross-license each other's respective technologies to manufacture and to market the audio appliance.

The audio appliance will be manufactured and sold by API under its selective brands. Empower US can OEM and/or license the audio appliance to selective consumer electronic manufacturers to sell under their own labels. Empower US and API announced their intention to launch the audio appliance in the spring of 2004 in Empower Corp's news release of August 25, 2003. The launch has been revised to the fall of 2004.

Management believes that operating and administrative costs will continue to rise in the coming year due to new sale activities and new products.

The Company entered into the following transactions with related parties, unless disclosed elsewhere in these statements:

- a) Paid or accrued management fees of \$18,000 (nine month period ended December 31, 2002 - \$24,300) to a company with common directors.
- b) Paid or accrued wages and benefits of \$158,500 (nine month period ended December 31, 2002 - \$106,500) to directors, officers and former officers of the Company.
- c) Paid or accrued rent of \$Nil (nine month period ended December 31, 2002 - \$18,000) to a company with common directors.
- d) Accrued interest of \$74,792 (nine month period ended December 31, 2002 - \$68,634) to a director of the Company.

Included in deferred development costs are rent of \$Nil (December 31, 2002 - \$18,000); technical consulting fees of \$120,000 (December 31, 2002 - \$90,000); and salaries and benefits of \$72,000 (December 31, 2002 - \$70,000) paid or accrued to directors and officers and to companies with common directors.

Included in accounts payable is \$2,236 (December 31, 2002 - \$268,812) due to directors, officers and companies controlled by directors.

Empower US previously entered into service and research and development agreements with various companies related by virtue of a common director. The agreements will remain in effect until terminated by both parties.

These transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties. In general, the Company conducts these transactions on terms similar to those that would be encountered were the transactions conducted with arm's length parties.

The amount due to related party is payable to a director of the Company, bears interest at the rate of 9.5%, is secured by the assets of the Company, and is payable in quarterly instalments of \$50,000 beginning on January 1, 2005.

Interest will accrue until January 1, 2005 when all accrued interest shall be paid and thereafter payable monthly commencing February 1, 2005.

Pursuant to a General Security Agreement dated October 10, 2003, security, in the form of the assets of the Company's Canadian subsidiary, Empower Technologies (Canada) Inc., was granted by Empower Technologies (Canada) Inc. in favour of the Bank of Nova Scotia, for a Letter of Credit facility to finance inventory purchasing.

Pursuant to a General Security Agreement dated March 31, 2002, security, in the form of the Company's assets, was granted by the Company in favor of a director of the Company, for all funds loaned pursuant to a Loan Agreement between the Company and the director.

The Company entered into a Communications & Investor Relations Agreement with Renmark Financial Communications Inc. ("Renmark") for a twelve-month term commencing December 1, 2003. The service provided by Renmark during the year was the planning of the Company's investor relations campaign for the year ended December 31, 2004. There were no payments made to Renmark during the current year.

Subsequent Events Subsequent to December 31, 2003:
a) The Company issued 67,332 common shares pursuant to the exercise of warrants at \$0.35 per common share for gross proceeds of \$23,566.
b) The Company issued 235,853 common shares pursuant to the exercise of warrants at \$0.45 per common share for gross proceeds of \$106,134.

Financings, Principal Purposes and Milestones Empower Corp. raised net proceeds of \$2,066,083 from the Special Warrants & IPO. For the year ended December 31, 2003, 274,714 warrants were exercised for proceeds of \$102,455 (See Schedule Below).

Date of Issue	Type of Security	Type of Issue	Number	Price	Total Value	Type of Consideration
August 8, 2003	Common shares	Exercise of special warrants	1,200,317	\$ 0.30	\$ 360,095	Cash
September 19, 2003	Common shares	Business combination	14,614,665	0.01	119,467	Capital stock of subsidiary
September 19, 2003	Common shares	Initial public offering	4,874,252	0.35	1,705,988	Cash
September 19, 2003	Common shares	Agent shares	200,000	0.35	70,000	Services
November 11, 2003	Common shares	Exercise of warrants	191,666	0.35	67,083	Cash
November 13, 2003	Common shares	Exercise of warrants	17,000	0.35	5,950	Cash
November 25, 2003	Common shares	Exercise of warrants	20,000	0.45	9,000	Cash
November 27, 2003	Common shares	Exercise of warrants	10,000	0.45	4,500	Cash
December 4, 2003	Common shares	Exercise of warrants	22,640	0.45	10,188	Cash
December 12, 2003	Common shares	Exercise of warrants	3,000	0.35	1,050	Cash
December 12, 2003	Common shares	Exercise of warrants	7,900	0.45	3,555	Cash
December 1, 2003	Common shares	Exercise of warrants	2,508	0.45	1,129	Cash

Below is the table that shows management's expectations based on the achievement of the minimum financing for the IPO, and then compared to the actual funds raised:

	Budgeted	Actual	Variance
Financing:			
Net Proceeds from Special Warrants & IPO	\$1,301,000 (Min. Offering)	\$2,066,083	\$765,083
Warrants Exercised for the year 2003	\$ 0	\$ 102,455	\$102,455
Total Proceeds	\$1,301,000	\$2,168,538	\$867,538

Liquidity and Solvency Working capital as at December 31, 2003 is \$279,828. It is in line with the expectations of management after the commencement of sales to Best Buy Canada. As a result, Empower Corp has incurred inventory of \$59,112 and receivables of \$230,474 and thus increased the working capital for the year. Empower Corp's working capital should meet the planned cash flow for its effort to develop new products and commercialization of its technologies.

EMPOWER TECHNOLOGIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2003

DAVIDSON & COMPANY — Chartered Accountants A Partnership of Incorporated Professionals

AUDITORS' REPORT

To the Shareholders of
Empower Technologies Corporation

We have audited the consolidated balance sheets of Empower Technologies Corporation as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the year ended December 31, 2003 and the nine month period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the year ended December 31, 2003 and the nine month period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
March 5, 2004

"DAVIDSON & COMPANY"
Chartered Accountants

A Member of SC INTERNATIONAL

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Telephone (604) 687-0947 Fax (604) 687-6172

CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian Dollars)

AS AT DECEMBER 31

	2003		2002
ASSETS			
Current			
Cash	\$ 197,607	\$	11,187
Receivables	230,474		7,398
Inventory	59,112		36,908
Prepaid expenses	27,143		5,715
	<u>514,336</u>		<u>61,208</u>
Property and equipment (Note 4)	43,009		60,536
Deferred development costs (Note 5)	1,741,778		1,550,779
	<u>\$ 2,299,123</u>	\$	<u>1,672,523</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	\$ 230,902	\$	613,943
Current portion of obligations under capital lease (Note 6)	3,606		14,565
	<u>234,508</u>		<u>628,508</u>
Obligations under capital lease (Note 6)	—		3,458
Due to related party (Note 7)	1,109,934		975,136
	<u>1,344,442</u>		<u>1,607,102</u>
Shareholders' equity			
Capital stock (Note 8)	2,995,375		1,696,960
Contributed surplus (Note 8)	1,288,445		—
Deficit	(3,329,139)		(1,631,539)
	<u>954,681</u>		<u>65,421</u>
	<u>\$ 2,299,123</u>	\$	<u>1,672,523</u>

Nature and continuance of operations (Note 1)

Contingencies (Note 15)

Commitments (Note 16)

Subsequent events (Note 17)

On behalf of the Board:

"Paul Leung" Director "Chris Graham" Director

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Expressed in Canadian Dollars)

	Year Ended December 31, 2003	Nine Month Period Ended December 31, 2002
SALES	\$ 134,728	\$ 7,352
COST OF SALES	<u>358,214</u>	<u>20,862</u>
	<u>(223,486)</u>	<u>(13,510)</u>
EXPENSES		
Accounting and audit	59,574	58,067
Advertising and promotion	24,939	30,915
Amortization of property and equipment	8,919	9,218
Amortization of property and equipment under capital lease	5,640	5,128
Bank charges and interest	11,286	4,808
Foreign exchange (gain) loss	(21,215)	1,325
Insurance	7,504	1,993
Interest on capital lease obligations	3,386	7,745
Interest on long term debt	116,774	68,634
Legal fees	156,001	150,687
Management and consulting fees	23,097	36,105
Office expense	37,054	22,328
Rent	24,000	19,549
Stock-based compensation (Note 9)	805,865	—
Telephone and utilities	24,626	17,726
Transfer agent and filing fees	14,053	—
Travel	26,464	18,810
Wages and benefits	142,528	114,863
Warranty	2,954	—
	<u>(1,473,449)</u>	<u>(567,901)</u>
Loss before other items	<u>(1,696,935)</u>	<u>(581,411)</u>
OTHER ITEMS		
Interest and other income	2,303	—
Write-off of property and equipment	(2,968)	—
	<u>(665)</u>	<u>—</u>
Loss for the period	(1,697,600)	(581,411)
Deficit, beginning of period	<u>(1,631,539)</u>	<u>(1,050,128)</u>
Deficit, end of period	\$ (3,329,139)	\$ (1,631,539)
Basic and diluted loss per common share	\$ (0.11)	\$ (0.04)
Weighted average number of common shares outstanding	16,062,417	14,614,665

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars)

	Year Ended December 31, 2003	Nine Month Period Ended December 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (1,697,600)	\$ (581,411)
Items not affecting cash:		
Accrued interest	74,792	68,634
Amortization of deferred development costs	158,344	—
Amortization of property and equipment	8,919	9,218
Amortization of property and equipment under capital lease	5,640	5,128
Deferred acquisition costs expensed	—	15,000
Stock-based compensation	805,865	—
Write-off of property and equipment	2,968	—
Changes in non-cash working capital items:		
Increase in receivables	(212,676)	(1,483)
Increase in inventory	(22,204)	(36,908)
(Increase) decrease in prepaid expenses	(20,828)	64,379
Increase (decrease) in accounts payable and accrued liabilities	(558,404)	302,555
Net cash used in operating activities	<u>(1,455,184)</u>	<u>(154,888)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired on purchase of subsidiary	283,830	—
Purchase of property and equipment	—	(962)
Development costs	(349,343)	(303,518)
Net cash used in investing activities	<u>(65,513)</u>	<u>(304,480)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital lease obligations	(14,417)	(8,274)
Advances from related party	105,316	257,559
Repayment of advances from related party	(45,310)	—
Proceeds from issuance of common shares	1,808,443	143,565
Share issuance costs	(146,915)	—
Net cash provided by financing activities	<u>1,707,117</u>	<u>392,850</u>
Change in cash during the period	186,420	(66,518)
Cash, beginning of period	<u>11,187</u>	<u>77,705</u>
Cash, end of period	\$ 197,607	\$ 11,187

Supplemental disclosure with respect to cash flows (Note 13)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

DECEMBER 31, 2003

1. NATURE AND CONTINUANCE OF OPERATIONS The Company was incorporated under the Company Act (British Columbia) on February 21, 2003. The Company is a provider of Linux-based embedded system technologies and solutions for the consumer electronics industry and the intelligent appliance market.

On September 19, 2003, the Company completed a share exchange with Empower Technologies, Inc. ("Empower US") (Note 3). Sufficient common shares of the Company were issued so that a controlling interest of the Company passed to the former shareholders of Empower US. These consolidated financial statements are a continuation of the financial statements of the accounting acquirer, Empower US, and not the Company, the legal parent. The comparative figures presented are those of Empower US and these consolidated financial statements include the accounts of the Company from the date of acquisition on September 19, 2003.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

	2003	2002
Deficit	\$ (3,329,139)	\$ (1,631,539)
Working capital (deficiency)	279,828	(567,300)

2. SIGNIFICANT ACCOUNTING POLICIES **Principles of consolidation** These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Significant inter-company balances and transactions have been eliminated upon consolidation.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

Inventories

Finished goods are stated at the lower of average cost and net realizable value. Cost is determined on a first in, first out basis.

Deferred development costs

Development costs (other than capital expenditures) relating to the development of Linux-based embedded system technologies are expensed as incurred unless they meet Canadian generally accepted accounting principles for deferral and amortization. Deferred development costs are recorded at cost and are amortized upon commencement of commercial sales on a straight line basis over a period not exceeding three years. The Company reassesses whether it has met the relevant criteria for deferral and amortization and whether there is any impairment in value at each reporting date.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the declining balance method at the following annual rates:

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

Revenue recognition

The Company records revenue when services have been completed, a sales invoice has been rendered, transfer of title has occurred and collection of the amount is reasonably assured.

Income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Foreign currency translation

The Company's activities denominated in currencies other than Canadian dollars are translated as integrated operations using the temporal method. Under this method, monetary items are translated into Canadian dollar equivalents at the exchange rate in effect at the balance sheet date, non-monetary items are translated at historical rates, and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations. Exchange gains or losses arising on translation of foreign currency items are included in operating results.

Stock-based compensation

Effective April 1, 2002, the Company adopted the new CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which recommends the use of a fair value-based methodology for measuring compensation costs. The policy has been applied to awards granted on or after the date of adoption. The new section also permits, and the Company adopted, the use of the intrinsic value-based method, which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted.

During the year, the Company adopted, on a prospective basis, the fair-value method of accounting for all stock-based compensation.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase

common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the period.

Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

3. ACQUISITION OF SUBSIDIARY *Effective September 19, 2003, the Company acquired all of the issued and outstanding common shares of Empower US by issuing 14,614,665 common shares.*

Legally, the Company is the parent of Empower US. However as a result of the share exchange described above, control of the combined companies passed to the former shareholders of Empower US. This type of share exchange is referred to as a "reverse takeover". A reverse takeover involving a non-public enterprise and a non-operating public enterprise with nominal net non-monetary assets is a capital transaction in substance, rather than a business combination. That is, the transaction is equivalent to the issuance of shares by Empower US for the net assets of the Company, accompanied by a recapitalization of Empower US. The net assets of the Company totaled \$119,467 at the date of acquisition.

The balance sheet at December 31, 2002 and the statements of operations and cash flows for the nine month period then ended are those of Empower US. The equity amounts are also Empower US's.

The consolidated statements of operations and cash flows include Empower US's results of operations and cash flows for the year ended December 31, 2003 and the Company's results of operations from September 19, 2003 (date of acquisition) to December 31, 2003. The number of common shares outstanding at December 31, 2003 are the Company's (Note 8).

Supplemental information

The results of operations of the Company for the period from incorporation on February 21, 2003 to September 19, 2003 (date of acquisition) are as follows:

Expenses	
Office and general	\$ 76
Professional fees	<u>17,078</u>
	17,154
Other item	
Foreign exchange gain	<u>(773)</u>
Loss for the period	<u>\$ 16,381</u>

4. PROPERTY AND EQUIPMENT

	2003			2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$56,361	\$35,391	\$20,970	\$60,867	\$27,941	\$32,926
Furniture and equipment	36,785	15,488	21,297	36,785	10,164	26,621
Leasehold improvements	1,750	1,008	742	1,750	761	989
	<u>\$94,896</u>	<u>\$51,887</u>	<u>\$43,009</u>	<u>\$99,402</u>	<u>\$38,866</u>	<u>\$60,536</u>

Included in property and equipment is \$34,252 (December 31, 2002 - \$34,252) of computer equipment and furniture and equipment under capital lease with related accumulated amortization of \$14,641 (December 31, 2002 - \$9,001).

5. DEFERRED DEVELOPMENT COSTS

	2003	2002
Balance, beginning of period	<u>\$1,550,779</u>	<u>\$1,247,261</u>
Equipment and supplies	17,308	9,114
Rent	28,588	41,165
Salaries and benefits	179,947	160,239
Technical consulting fees	<u>123,500</u>	<u>93,000</u>
	<u>349,343</u>	<u>303,518</u>
Amortization for the period	<u>(158,344)</u>	<u>—</u>
Balance, end of period	<u>\$1,741,778</u>	<u>\$1,550,779</u>

6. OBLIGATIONS UNDER CAPITAL LEASE

	2003	2002
Payments of \$1,380 per month including interest, due over lease terms expiring through May 2004	\$3,606	\$18,023
Less: current portion	<u>(3,606)</u>	<u>(14,565)</u>
	<u>\$ —</u>	<u>\$3,458</u>

7. DUE TO RELATED PARTY

The amount due to related party is payable to a director of the Company, bears interest at the rate of 9.5%, is secured by the assets of the Company (Note 15), and is payable in quarterly instalments of \$50,000 beginning on January 1, 2005.

Interest will accrue until January 1, 2005, when all accrued interest shall be paid, and is thereafter payable monthly commencing February 1, 2005.

**8. CAPITAL STOCK
AND CONTRIBUTED
SURPLUS**

	Shares	Capital Stock	Contributed Surplus
Authorized			
100,000 common shares without par value			
Issued			
Balance, March 31, 2002	\$14,393,795	\$1,553,395	\$ —
Private placement	220,870	143,565	—
Balance, December 31, 2002	14,614,665	1,696,960	—
Common shares of the Company at September 19, 2003	1,200,318	—	—
Common shares of Empower US	(14,614,665)	—	—
Shares issued on acquisition of Empower US (Note 3)	14,614,665	119,467	—
Initial public offering	4,874,252	1,248,929	457,059
Exercise of warrants	274,714	107,471	(5,016)
Agent shares issued pursuant to the initial public offering	200,000	70,000	—
Agent's warrants	—	—	91,412
Stock-based compensation	—	—	805,865
Share issuance costs	—	(247,452)	(60,875)
Balance, December 31, 2003	\$21,163,949	\$2,995,375	\$1,288,445

Included in issued share capital are 9,180,000 common shares of the Company which are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with without the consent of the regulatory bodies having jurisdiction thereon.

On September 19, 2003, the Company issued 4,874,252 units at \$0.35 per unit pursuant to an initial public offering. Each unit consisted of one common share and one share purchase warrant enabling the holder to acquire an additional common share of the Company for \$0.45 until September 19, 2004. The share purchase warrants issued as part of the initial public offering have been recorded at a fair value of \$457,059, which is included in contributed surplus. Agent's fees included the Company issuing 200,000 common shares at a value of \$70,000 and 974,850 share purchase warrants enabling the holder to purchase 974,850 common shares of the Company at \$0.45 per common share until September 19, 2004. The agent's warrants have been recorded at a fair value of \$91,412, which is included in contributed surplus.

The following weighted-average assumptions were used for the Black-Scholes Option Model ("Black-Scholes") in determining the fair value of warrants issued during the year:

Risk-free interest rate	3.66%
Expected life of warrants	1 year
Annualized volatility	100%
Dividend rate	0.00%

9. STOCK OPTIONS AND WARRANTS

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. As at December 31, 2003, 4,232,789 options are available to be granted, of which 2,495,000 options were outstanding as at the end of the year. 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 the applicable discount. The options can be granted for a maximum term of 5 years.

As at December 31, 2003, the following incentive stock options and warrants are outstanding and exercisable:

	Number of Shares	Exercise Price	Expiry Date
Stock options	15,000	\$ 0.35	January 31, 2004 (subsequently expired)
	2,480,000	0.35	September 19, 2008
Warrants	988,651	0.35	August 8, 2004
	5,786,054	0.45	September 19, 2004

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2002	—	\$ —
Options granted	2,520,000	0.35
Options expired	(25,000)	0.35
Outstanding, December 31, 2003	2,495,000	\$ 0.35
Number of options currently exercisable	2,495,000	\$ 0.35

Stock-based compensation

The Company granted 2,520,000 (December 31, 2002 – Nil) stock options during the year to directors, consultants and employees, resulting in compensation costs of \$805,865 (nine month period ended December 31, 2002 - \$Nil) which was recorded as contributed surplus on the balance sheet. The weighted average fair value of the stock options granted during the year ended December 31, 2003 was \$0.32 (December 31, 2002 - \$Nil) per option.

The following assumptions were used for the Black-Scholes valuation of stock options granted during the year:

Risk-free interest rate	3.82%
Expected life of options	5 years
Annualized volatility	100%
Dividend rate	0.00%

10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$18,000 (nine month period ended December 31, 2002 - \$24,300) to a company with common directors.
- b) Paid or accrued wages and benefits of \$86,500 (nine month period ended December 31, 2002 - \$106,500) to directors, officers and former officers of the Company.
- c) Paid or accrued rent of \$Nil (nine month period ended December 31, 2002 - \$18,000) to a company with common directors.
- d) Accrued interest of \$74,792 (nine month period ended December 31, 2002 - \$68,634) to a director of the Company.
- e) Recorded stock-based compensation of \$768,000 (nine month period ended December 31, 2002 - \$Nil) for services provided by directors and officers.

Included in deferred development costs are rent of \$Nil (December 31, 2002 - \$18,000); technical consulting fees of \$120,000 (December 31, 2002 - \$90,000); and salaries and benefits of \$72,000 (December 31, 2002 - \$70,000) paid or accrued to directors and officers and to companies with common directors.

Included in accounts payable is \$2,236 (December 31, 2002 - \$268,812) due to directors, officers and companies controlled by directors.

Empower US previously entered into service and research and development agreements with various companies related by virtue of a common director. The agreements will remain in effect until terminated by both parties.

These transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties. In general, the Company conducts these transactions on terms similar to those that would be encountered were the transactions conducted with arm's length parties.

11. **INCOME TAXES** A reconciliation of income taxes with the reported taxes is as follows:

	Year Ended December 31, 2003	Nine Month Period Ended December 31, 2002
Loss before income taxes	\$ (1,697,600)	\$ (581,411)
Expected income tax recovery	\$ (620,449)	\$ (230,238)
Share issue costs deductible	(33,176)	—
Non-deductible expenses and deferred start-up costs	206,068	(30,289)
Unrecognized tax benefit of non-capital operating losses	447,557	260,527
Total income tax recovery	\$ —	\$ —

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

	2003	2002
Future income tax assets:		
Net operating losses available for future periods	\$ 1,094,474	\$ 606,430
Capital assets	18,130	15,264
Deferred start-up costs	149,531	(404,644)
Share issue costs and other	126,778	—
	1,388,913	217,050
Future income tax liabilities:		
Research and development costs	(192,207)	—
	1,196,706	217,050
Valuation allowance	(1,196,706)	(217,050)
Net future income tax assets	\$ —	\$ —

The Company has non-capital losses carried forward of approximately \$3,100,000 which expire commencing 2004. Future tax benefits which may arise as a result of these losses have not been recognized in these financial statements and have been offset by a valuation allowance.

12. 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:

	2003	2002
Identifiable assets:		
Canada	\$ 965,523	\$ 302,185
People's Republic of China	249,816	282,364
United States of America	1,083,784	1,087,974
	<u>\$ 2,299,123</u>	<u>\$ 1,672,523</u>

	Year Ended December 31, 2003	Nine Month Period Ended December 31, 2002
Revenue		
Canada	\$ 127,276	\$ —
United States of America	7,452	7,352
	<u>\$ 134,728</u>	<u>\$ 7,352</u>
Identifiable assets:		
Canada	\$(1,388,358)	\$ (316,356)
People's Republic of China	(35,351)	(26,644)
United States of America	(273,891)	(238,411)
	<u>\$(1,697,600)</u>	<u>\$ (581,411)</u>

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Year Ended December 31, 2003	Nine Month Period Ended December 31, 2002
Cash paid during the period for interest	\$ 44,836	\$ 4,808
Cash paid during the period for income taxes	—	—

During the year ended December 31, 2003, the Company:

- a) Issued 14,614,665 common shares for the acquisition of 100% of the common shares of Empower US (Note 3).
- b) Issued 200,000 common shares as finders' fees pursuant to the initial public offering.

There were no significant non-cash transactions for the nine month period ended December 31, 2002.

14. FINANCIAL INSTRUMENTS The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, obligations under capital lease and due to related party. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Certain operations of the Company are conducted in the People's Republic of China ("PRC"). As a result, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC economy. The operations in the PRC are subject to different considerations and other risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

15. CONTINGENCIES Pursuant to a General Security Agreement dated October 10, 2003, security, in the form of the assets of the Company's Canadian subsidiary, Empower Technologies (Canada) Inc., was granted by Empower Technologies (Canada) Inc. in favour of the Bank of Nova Scotia, for a Letter of Credit facility to finance inventory purchasing.

Pursuant to a General Security Agreement dated March 31, 2002, security, in the form of the Company's assets, was granted by the Company in favor of a director of the Company, for all funds loaned pursuant to a Loan Agreement between the Company and the director (Note 7).

16. COMMITMENTS The Company entered into a Communications & Investor Relations Agreement with Renmark Financial Communications Inc. for a twelve-month term commencing December 1, 2003.

The Company entered into a Supply Agreement with Finite Technology Inc. for a three-year term commencing September 25, 2003.

The Company has entered into an operating lease agreement for premises. The annual lease commitments under these leases are as follows:

2004	\$ 40,500
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17. SUBSEQUENT EVENTS Subsequent to December 31, 2003:

- a) The Company issued 67,332 common shares pursuant to the exercise of warrants with an exercise price of \$0.35 per common share for gross proceeds of \$23,566.
- b) The Company issued 235,853 common shares pursuant to the exercise of warrants with an exercise price of \$0.45 per common share for gross proceeds of \$106,134.

Note

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Note