Empower Technologies Corporation

ANNUAL REPORT 2004

LEOs LinuxDA

LinuxDA Embedded for Intelligent Electronics

Features of LEOs:

- SoC (system-on-chip) drives applications requiring high-performance real time signal processing at low power consumption
- Powers personal data terminal (PDT) devices with communication (wired/wireless), real-time data and/or multimedia capabilities
- Priced at **$900 USD**, the LEOs Development Kit with LEOs, the OMAP 5910 dual processor and an evaluation module afford a new level of cost efficiency for developing LEOs-based applications
- No licensing fees exist until applications are ready for commercial release

Simplicity, scalability and versatility

LinuxDA is the powerful suite of Linux operating software from Empower Technologies. Based on the open-source Linux kernel and a proven solution for intelligent consumer electronic devices, LinuxDA O/S fulfills the needs and demands of developers and the dynamic consumer electronics industry.

Working alongside Texas Instruments (TI), Empower developed LinuxDA Embedded O/S (LEOs) configured for TI's OMAP 5910 dual processor. The versatility of LEOs and the power of OMAP initiate a new level of performance expectations for intelligent devices; with increased headroom for applications and expansion capabilities to best suit the needs of developers, manufacturers and developers and consumers.

LinuxDA OMAP™ TEXAS INSTRUMENTS TECHNOLOGY emPOWER Empower Technologies

Our Mission:

To be the leading developer and provider of Linux-based operating software, embedded system technologies and solutions for the consumer electronics industry.

Table of Contents:

Empower Technologies Corporation is a Linux operating software developer for Linux-based embedded system technologies and solutions for the consumer electronics industry.

Dedicated to bringing its Linux-based solutions to the forefront of the intelligent electronics stage and the advancement of digital appliances, Empower has a history of excellence in research and development, building complete Linux-based solutions for license in consumer electronics as illustrated by its two product groups LinuxDA™ O/S and PowerPlay™ devices.

Recognizing the opportunity to provide an alternative option to dominant technology platforms, Empower created LinuxDA from the open-source Linux kernel, developing an operating system that was functional, versatile and easy to use. Drawing on a broad base of knowledge and experience to create cutting-edge technology in LinuxDA, Empower positioned itself as an industry leader in Linux-based embedded system technologies and solutions.

LinuxDA Embedded O/S ("LEOs") is a complete Linux operating system scaled down for the embedded computing platform. A dynamic platform, based on the needs of developers and business professionals, LEOs expresses extreme versatility, expansive compatibility and unlimited upgradeability – perfect for customizing software with the widely available Software Development Kit. LEOs combines the power of other platforms with the flexibility of Linux to deliver complete solutions for intelligent digital electronics.

Dedicated to anticipating, understanding and meeting the demands of this exciting market, Empower develops embedded Linux operating software for embedded system technologies and solutions for consumer electronic manufacturers.

The company operates through its wholly-owned Washington State subsidiary, Empower Technologies, Inc. ("Empower US") and indirectly; Empower Technologies (Canada) Inc. ("Empower Canada") and Empower Technologies (Shanghai) Inc. ("Empower Shanghai"). The company trades on the TSX Venture Exchange under the symbol EPT.

To the Shareholders,

Empower Technologies made outstanding strides in 2004. The Company celebrated its first anniversary as a public entity listed on the TSX Venture Exchange. 2004 also proved to be the year that showed the strength of the team of professionals at Empower Technologies and the depth and reach of its technologies and products. A tremendous effort was generated by the Company's management to achieve its goals.

Showcasing LinuxDA Embedded O/S (LEOs) through PowerPlay

For the past year, the Company focused its effort to build sales and marketing channels to get ready to launch the new products under our house brand "PowerPlay". The Company is now a qualified supplier to the following chains:

BestBuy Canada
CompUSA
Costco
Target

Empower Technologies will embed its latest LEOs in a few selected products to showcase the Company's Linux-based operating software and system technologies. This is the key to building LEOs awareness and software product confidence for the intended audience – consumer electronics manufacturers and developers.

The Company also embarked on a program to broaden its LEOs licensing sales and marketing channels using Value Added Reseller (VAR) and System Integrators. Empower Technologies believes the VAR and System Integrators that specialize in their vertical markets such as medical, transportation, audio/video, safety and security equipment will be the best sales and marketing outlets for LEOs and the LDK5910 Development Kit to sell into their established client base to develop products. ODM Technologies becoming the first LEOs authorized service provider under this initiative was the highlight of the year.

LEOs Development Platform

Empower Technologies' focus on the Texas Instruments (TI) OMAP591x dual core processor platform and its family of Digital Signal Processors (DSP) is finally paying off. The Company is in the process to develop its latest LEOs development platform optimized for the TI OMAP5910, a dual core processor with a TI-enhanced ARM925T and a TI DSP TMS320C55x co-existing on one silicon chip. The Company calls it the "LDK5910 Development Kit". It is a full implementation of Linux-based embedded operating software developed by Empower with full feature dual core processor functionality using TI's DSPLink inside LEOs. Empower Technologies believes DSP will be one of the key engines in the new generation of smart consumer electronics as they start integrating more and more PC functionalities and computing power. The long awaited convergence of the PC and intelligent appliances is happening without the awareness of the public. The DSP software codecs will be one of the key components of that growth and Empower Technologies is committed to DSP software codecs.

DSP, the engine for consumer electronics growth

Our commitment to tie LEOs with the TI OMAP591x dual core embedded CPU platform resulted in Empower Technologies becoming a TI Third Party DSP Network member in October, 2004. Since then, the Company has co-exhibited with Texas Instruments in many trade shows. This benefits Empower Technologies by having our technology and our engineering capability validated by a top semiconductor giant and by having access to TI's global sales and marketing channels, especially in the DSP related applications and solutions.

The line between DSP and CPU is starting to blur as DSP becomes more CPU like and vice versa. This translates into a huge opportunity for Empower Technologies as we have LEOs, a LinuxDA-based operating software that has the DSP programming capabilities and our very own DSP software codecs available to bundle. Consumer electronics manufacturers and developers have a huge requirement to use DSP in their product development. Many times it will be a TI component and Empower Technologies' LEOs and our DSP software codecs will be a natural choice for them.

Our Focus

We, at Empower Technologies, are focused on maintaining a sustained effort to produce new revenues via licensing our state-of-the-art LinuxDA-based operating software and DSP software technologies and rolling out innovative PowerPlay branded consumer products throughout 2005. The future for Empower Technologies is bright and our strong team of professionals is working continuously to deliver to you, our shareholders, the best results possible.

Thank you for your support as the company continues to strive to be the dominant player in the Linux-base embedded operating software and DSP software codecs markets.

Paul Leung *chairman & CEO*	Dr. Edward Dennis *President*	Amy Chan *Chief Financial Officer*	Ken Ho *Vice President* *R & D*

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2004

The following discussion and analysis, prepared as of February 28, 2005, should be read together with the audited consolidated financial statements for the twelve month period ended December 31, 2004 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the company is available for viewing on SEDAR at www.sedar.com.

PERFORMANCE SUMMARY

During the year, the company raised capital of $3,771,835 from proceeds of issuance of common shares and a Short Form Offering. With cash on hand of $1,243,042 on December 31, 2004 compared to $197,607 for 2003, the company should be able to meet its planned cash flow.

Due to the company accelerating its efforts to develop new products and commercialize its technologies; the net loss was increased to $4,850,830 or $0.20 per share in 2004 compared to $1,697,600 or $0.11 per share loss in 2003.

Furthermore, during the year ended December 31, 2004, the following events took place:

- The Short Form Offering was achieved at the maximum offering and resulted in the sale of 1,000,000 units at $0.80 per unit, for a total of $800,000. Each unit consisted of one share and one half warrant, non-transferable, and each whole warrant was exercisable into one common share for a period of one year at $1.00 per share.

- The company appointed Dr. Edward Dennis as President and Mr. Paul Leung as chairman & CEO.

- During the year, 6,794,005 units of warrants were exercised, resulting in proceeds of $2,971,252 to the company.

- The company signed a sixteen month non-exclusive distributorship agreement, renewable at both parties' discretion, with Spherex Inc. for the Xbox® Surround Sound System. Sales of this product will improve and add more revenue to the company. This agreement will also accelerate the company's effort to expand its sales and marketing reach into the multimedia Audio Video consumer electronics market.

- The company also commenced efforts to develop an embedded version of LinuxDA called LinuxDA Embedded O/S ("LEOs") for Texas Instruments' OMAP5910 Development Kit (LDK5910). This consists of a Texas Instruments OMAP5910 evaluation board using LEOs for its operating software. The LDK5910 will include LEOs and a LEOs SDK (Software Development Kit) on a CD.

- In October 2004, the company co-exhibited with Texas Instruments at the Linux World Expo in Frankfurt, Germany to introduce LEOs, optimized for the Texas Instruments OMAP5910 processor. Also at the show, the company unveiled planned new products for 2005; a concept PDA with multimedia and wireless communication capabilities and a new concept digital radio.

RESULTS OF OPERATIONS

	Year Ended Dec. 31, 2004	Year Ended Dec. 31, 2003
Sales		
Canada	$ 124,115	$ 127,276
People's Republic of China	–	–
United States of America	46,254	7,452
	$ 170,369	$ 134,728
Cost of Sales	$ 130,136	$ 358,214
Total Expenses	$(3,116,256)	$ (1,473,449)
Total Expenses without stock-based compensation	$(2,255,159)	$ (667,584)
Total Expenses without stock-based compensation and R&D Costs	$(1,485,117)	$ (667,584)
Income (Loss) for the period		
Canada	$(2,941,390)	$ (1,388,358)
People's Republic of China	(527,094)	(35,351)
United States of America	(1,382,346)	(273,891)
	$(4,850,830)	$ (1,697,600)

Revenue

Revenues generated for the year ended December 31, 2004 were $170,369 compared with $134,728 for fiscal 2003. This increase in sales is attributed to the distribution and online sales of Spherex X-Box® 5.1 surround sound systems in 2004.

The company anticipates revenue to be improved through its plans to: introduce the new products using LEOs; move aggressively to set up a strong marketing and sales base in North America; and introduce the new LDK5910 Development Kit.

Costs of Goods Sold

The gross margin for 2004 improved due to the elimination of some of the startup costs to meet Best Buy Canada’s vendor requirements and distribution and online sales of Spherex X-Box® 5.1 surround sound systems.

General and Administrative

General and administrative expenses for the year ended December 31, 2004 increased to $3,116,256 (2003 - $1,473,449). Wages and benefits increased to $446,493 (2003 - $142,528), reflecting staff additions in all areas of the company and the expansion of the Shanghai office; advertising and promotion increased to $236,839 (2003 - $24,939) due to the company’s effort to commercialize its technologies; and travelling expenses increased to $104,063 (2003 - $26,464) due to management’s efforts to promote and market products and attending tradeshows.

Management believes that future general and administrative costs will increase due to additions of staff and the expansion of the Shanghai office.

Research and Development

Research and Development costs (“R&D costs”) relating to the development of LEOs, the LDK5910 Development Kit, and new products using LEOs are expensed as incurred. R&D costs for the year ended December 31, 2004 were $770,042 compared to $349,343 for 2003.

Deferred development costs were 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. After conducting its annual review, management decided that as of December 31, 2004, recovery of the unamortized balance of deferred development costs, through related future revenues less relevant costs, was not reasonably assured. Therefore, management decided the entire unamortized balance of $1,741,778 was to be written off to operations in 2004.

Research and Development (cont'd...)

	2004	2003
Balance, beginning of year	$ 1,741,778	$ 1,550,779
Equipment and supplies	–	17,308
Rent	–	28,588
Salaries and benefits	–	179,947
Technical consulting fees	–	123,500
	–	349,343
Amortization for the year	–	(158,344)
Write-off of deferred costs	(1,741,778)	–
Balance, end of year	$ –	$ 1,741,778

The R&D cost increase is due to the company accelerating its efforts to develop its core technology, LEOs operating software, and to apply it to new products to showcase the core technology.

SIGNIFICANT PROJECTS

LinuxDA Embedded O/S (LEOs)

Empower US has introduced a 32 bit embedded version of LEOs, optimized for the Texas Instruments ("TI") OMAP5910 processor. LEOs for the OMAP5910 development platform debuts in Empower's next generation of PowerPlay PDA devices.

LDK5910 Development Kit

Empower US is working on a LEOs for TI OMAP5910 Development Kit (LDK5910). This kit will enable electronic manufacturers and developers to develop new products using the TI OMAP5910 dual core processor with LEOs as the operating software. The kit comes with hardware development boards, TI OMAP5910 and a CD with LEOs and the SDK (Software Development Kit). The manufacturers' suggested retail price is $900 USD. LEOs for OMAP5910 initiates a new level of performance expectations for intelligent devices with increased headroom for applications and expansion capabilities for other functions.

Osaka Project

With CD, DVD, MP3 and clock radio capabilities, the Osaka Project is a compact, all-digital audio system. Supporting a wide range of sound functions, it integrates all the elements of personal and home audio, in addition to a PDA with QVGA display. Powered by LinuxDA Embedded Operating System (LEOs) for the Texas Instruments' OMAP5910 processor, the Osaka Project increases digital audio decoding standards. The Osaka Project fulfills the needs and demands of the cutting edge consumer.

PowerPlay 1x to replace PowerPlay Vs

The company had developed a 16 bit LEOs powered personal handheld device PowerPlay Vs, which was sold through Best Buy Canada. The company plans to replace it with a new PDA model. This new model has been communicated to Best Buy Canada's Future Shop and Best Buy Store buyers and they have agreed with the new PowerPlay PDA model change scheme in their respective stores.

SUMMARY OF QUARTERLY RESULTS

	3 Months Ended Dec. 31, 2004	3 Months Ended Sept. 30, 2004	3 Months Ended June 30, 2004
Total assets	$ 2,042,132	$ 4,184,716	$ 2,359,470
Stock based compensation	–	–	–
Amortization of deferred development costs	–	–	–
Write-off of deferred costs	1,741,778	–	–
Working capital	1,134,756	2,361,674	266,393
Shareholders' equity	680,673	2,881,332	920,923
Revenues	31,241	82,185	13,869
Net Loss	$(2,218,543)	$ (731,363)	$ (600,857)
Earnings (loss) per share	(0.08)	(0.03)	(0.03)
	3 Months Ended March 31, 2004	**3 Months Ended Dec. 31, 2003**	**3 Months Ended Sept. 30, 2003**
Total assets	$ 2,821,999	$ 2,299,123	$ 2,801,870
Stock based compensation	861,097	805,865	–
Amortization of deferred development costs	–	158,344	–
Write-off of deferred costs	–	–	–
Working capital	694,898	279,828	688,658
Shareholders' equity	1,459,425	954,681	1,452,645
Revenues	43,074	133,465	414
Net Loss	$(1,300,067)	$(1,408,604)	$ (29,326)
Earnings (loss) per share	(0.06)	(0.09)	(0.01)

Significant changes in key financial data in 2004 can be attributed to the implementation of stock-based compensation, the write-off of the deferred costs, the amortization of deferred development costs, and revenues generated from sales of the PDA to Best Buy Canada and the sales of Spherex X-Box® 5.1 Surround Sound Systems. As at December 31, 2004, there is a write-off of $1,741,778 for the deferred development costs.

FOURTH QUARTER RESULTS

Revenue for the fourth quarter ended December 31, 2004 was $31,241 compared to $133,465 for the fourth quarter ended December 31, 2003. The decrease in revenue is due to the company phasing out PowerPlay Vs with plans to introduce the new model when available.

Revenue for the third quarter ended September 31, 2004 was $82,185; the revenue decreased in the fourth quarter ended December 31, 2004. The fourth quarter Cost of Sales increased due to writing off some of the PowerPlay Vs inventory.

The general and administrative costs for the fourth quarter ended December 31, 2004 were $646,848 compared to $378,550 for the fourth quarter of 2003 and $361,136 for the third quarter ended September 31, 2004. This increase is mainly attributable to the company's efforts to commercialize its technologies.

R&D costs for the fourth quarter ended December 31, 2004 were $273,532 compared to $113,969 for the fourth quarter of 2003 and $234,085 for the third quarter ended September 31, 2004. This increase is mainly attributable to the company's efforts to accelerate the development of its new products.

After conducting its annual review, the company recorded a write-off of inventories of $45,068 due to damaged inventories.

After conducting its annual review, management decided that as of December 31, 2004, recovery of the unamortized balance of deferred development costs, through related future revenues less relevant costs, cannot be reasonably assured. Therefore, the entire unamortized balance of $1,741,778 has been written off to operations.

LIQUIDITY

The company has financed its operations to date primarily through the issuance of common shares and the exercising of warrants. The company continues to seek capital through various means including the issuance of equity and / or debt.

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.

	2004	2003
Deficit	$(8,179,969)	$(3,329,139)
Working capital	$ 1,134,756	$ 279,828

Net cash used in operating activities for the year ended December 31, 2004 was $2,302,763 compared to net cash used of $1,455,184 for the year ended December 31, 2003. The cash used in operating activities for the period consisted primarily of the operating loss and a change in non-cash working capital.

Net cash used for investing activities for the year ended December 31, 2004 was $129,582 compared to net cash used by investing activities of $65,513 during the year ended December 31, 2003. The cash used during the current period consisted primarily of expenditures for the purchase of property and equipment.

Net cash provided by financing activities for the year ended December 31, 2004 was $3,477,780 compared to net cash provided by financing activities of $1,707,117 for the year ended December 31, 2003. The cash provided during the current period consisted primarily of proceeds from the exercise of the warrants and a Short Form Offering.

As of December 31, 2004, the company's cash was $1,243,042 with net working capital of $1,134,756 compared to $197,607 and $279,828 respectively as at December 31, 2003. The company has been incurring operating losses at the average rate of $187,930 per month over the last twelve months. With the cash on hand, the management believes the working capital should meet the planned cash flow and should enable the company to accelerate its efforts to develop new products and to commercialize its technologies.

CAPITAL RESOURCES

The authorized capital of the company consists of 100,000,000 common shares without par value. As at December 31, 2004, there are 29,008,620 common shares issued and outstanding.

The company has 701,200 warrants from a Short Form Offering ("SFO") outstanding. Each SFO warrant entitles the holder to purchase an Empower Technologies common share at a price of $1.00 at any time on or before March 31, 2005.

These warrants represent a source of new equity capital for the company in the event that market conditions lead to their being exercised.

As at December 31, 2004	**Shares**	**Exercise Price**	**Expiry Date**	**Amount**
Warrants outstanding for SFO	701,200	$1.00	March 31, 2005	$ 701,200
	701,200			$ 701,200

It is expected that the Short Form Offering warrants will be a valuable source of new equity capital and currently the company is not committed to any material future capital expenditure.

OUTSTANDING SHARES

As at December 31, 2004, the company has shares outstanding as follows:

	Shares
Authorized	
100,000,000 common shares without par value	
Balance, December 31, 2002	14,614,665
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
Initial public offering	4,874,252
Exercise of warrants	274,714
Agent shares issued pursuant to the initial public offering	200,000
Balance, December 31, 2003	21,163,949
Short form offering (net of issuing costs)	1,049,000
Exercise of warrants	6,794,005
Exercise of options	1,666
Balance, December 31, 2004	29,008,620

OFF-BALANCE SHEET ARRANGEMENTS

The company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

The company entered into the following transactions with related parties:

a) Paid or accrued management fees of $9,000 (2003 - $18,000) to a company with common directors.

b) Paid or accrued wages and benefits of $141,750 (2003 - $86,500) to directors, officers and former officers of the company.

c) Paid or accrued interest of $95,366 (2003 - $74,792) to a director of the company.

d) Paid or accrued directors' fees of $90,000 (2003 - $Nil) for services provided by directors and officers.

e) Recorded stock-based compensation of $861,097 (2003 - $805,865) for services provided by directors and officers.

Included in research and development costs are technical consulting fees of $120,000 (2003 - $120,000); and salaries and benefits of $72,000 (2003 - $72,000) paid or accrued to directors and officers and to companies with common directors.

Included in current accounts payable is $89,052 (2003 - $2,236) 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.

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.

RELATED PARTY TRANSACTIONS (cont'd...)

The amount due to related party, $804,928, is payable to a director of the company, bears interest at the rate of 9.5%, is secured by the assets of Empower US, and is payable in quarterly instalments of US$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 March 31, 2002, security, in the form of Empower US's assets, was granted by Empower US in favour of a director of the company, for all funds loaned pursuant to a Loan Agreement between Empower US and the director.

CRITICAL ACCOUNTING POLICIES AND 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 incurred prior to January 1, 2004 that meet Canadian Generally Accepted Accounting Principles for deferral and amortization have been recorded at cost and are amortized on a straight line basis over a period not exceeding three years. The company reassesses whether there is any impairment in value at each reporting date.

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

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

Revenue recognition
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
The Company uses the fair-value method of accounting for all stock-based compensation.

FINANCIAL INSTRUMENTS

The company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, loan payable 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. 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.

SUBSEQUENT EVENT

Subsequent to December 31, 2004, the company issued 187,725 common shares pursuant to the exercise of warrants with an exercise price of $1.00 per common share for gross proceeds of $187,725.

EMPOWER TECHNOLOGIES CORPORATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2004

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, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY"
Chartered Accountants

Vancouver, Canada

February 28, 2005

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

		2004	2003
ASSETS	**Current**		
	Cash	$ 1,243,042	$ 197,607
	Receivables	179,524	230,474
	Inventory	398,616	59,112
	Prepaid expenses	55,403	27,143
	Total current assets	1,876,585	514,336
	Property and equipment (Note 4)	165,547	43,009
	Deferred development costs (Note 5)	–	1,741,778
	Total assets	$ 2,042,132	$ 2,299,123
LIABILITIES AND SHAREHOLDERS' EQUITY	**Current**		
	Accounts payable and accrued liabilities	$ 463,363	$ 230,902
	Due to Related Party (Note 8)	240,720	–
	Current portion of loan payable (Note 7)	33,336	–
	Current portion of obligations under capital lease (Note 6)	4,410	3,606
	Total current liabilities	741,829	234,508
	Long term loan payable (Note 7)	38,884	–
	Obligations under capital lease (Note 6)	16,538	–
	Due to related party (Note 8)	564,208	1,109,934
	Total liabilities	1,361,459	1,344,442
	Shareholders' equity		
	Capital stock (Note 9)	7,136,029	2,995,375
	Contributed surplus (Note 9)	1,724,613	1,288,445
	Deficit	(8,179,969)	(3,329,139)
	Total shareholders' equity	680,673	954,681
	Total liabilities and shareholders' equity	$ 2,042,132	$ 2,299,123

Nature and continuance of operations (Note 1)
Contingencies (Note 16)
Commitments (Note 17)
Subsequent events (Note 18)

On behalf of the Board:

"Paul Leung" Director "Edward Bagg" Director

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Expressed in Canadian Dollars)

		2004	2003
SALES		$ 170,369	$ 134,728
COST OF SALES		130,136	358,214
		40,233	(223,486)
EXPENSES	Accounting and audit	64,461	59,574
	Advertising and promotion	236,839	24,939
	Amortization of property and equipment	23,005	8,919
	Amortization of assets under capital lease	6,540	5,640
	Bank charges and interest	7,880	11,286
	Consulting fees	80,000	23,097
	Translation (gain) loss	6,944	(21,215)
	Insurance	37,329	7,504
	R&D Expenses	770,042	–
	Interest on capital lease obligations	–	3,386
	Interest on long term debt	96,563	116,774
	Directors' Fees	90,000	–
	Legal fees	126,856	156,001
	Office expense	59,391	37,054
	Rent	28,923	24,000
	Stock-based compensation	861,097	805,865
	Telephone and utilities	34,647	24,626
	Transfer agent and filing fees	30,946	14,053
	Travel	104,063	26,464
	Wages and benefits	446,493	142,528
	Warranty	4,237	2,954
		(3,116,256)	(1,473,449)
	Loss before other items	(3,076,023)	(1,696,935)
OTHER ITEMS	Interest and other income	12,039	2,303
	Write-off of property and equipment	–	(2,968)
	Write-off of obsolete inventories (Note 5)	(45,068)	–
	Write-off of deferred costs (Note 5)	(1,741,778)	–
		(1,774,807)	(665)
	Loss for the period	(4,850,830)	(1,697,600)
	Deficit, beginning of period	(3,329,139)	(1,631,539)
	Deficit, end of period	$ (8,179,969)	$ (3,329,139)
	Basic and diluted loss per common share	$ (0.20)	$ (0.11)
	Weighted average number of common shares outstanding	23,989,741	16,062,417

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

		2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES	Loss for the year	$ (4,850,830)	$ (1,697,600)
	Items not affecting cash:		
	Amortization of deferred development costs	–	158,344
	Amortization of property and equipment	23,005	8,919
	Amortization of assets under capital lease	6,540	5,640
	Stock-based compensation	861,097	805,865
	Write-off of property and equipment	–	2,968
	Write-off of obsolete inventories	45,068	–
	Write-off of deferred development costs (Note 5)	1,741,778	–
	Changes in non-cash working capital items:		
	Decrease (Increase) in receivables	50,950	(212,676)
	Increase in inventory	(384,572)	(22,204)
	Decrease (Increase) in prepaid expenses	(28,260)	(20,828)
	Increase (Decrease) in accounts payable and accrued liabilities	232,461	(483,612)
	Net cash used in operating activities	(2,302,763)	(1,455,184)
CASH FLOWS FROM INVESTING ACTIVITIES	Cash acquired on purchase of subsidiary	–	283,830
	Purchase of property and equipment	(129,582)	–
	Development costs	–	(349,343)
	Net cash used in investing activities	(129,582)	(65,513)
CASH FLOWS FROM FINANCING ACTIVITIES	Repayment of capital lease obligations	(5,159)	(14,417)
	Advances from related party	–	105,316
	Proceeds from loan payable (net of repayments)	72,220	–
	Repayment of advances from related party	(305,006)	(45,310)
	Proceeds from issuance of common shares, net of issuance cost	3,715,725	1,661,528
	Net cash provided by financing activities	3,477,780	1,707,117
	Change in cash during the year	1,045,435	186,420)
	Cash, beginning of year	197,607	11,187
	Cash, end of year	$ 1,243,042	$ 197,607

Supplemental disclosure with respect to cash flows (Note 15)

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

(Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is a provider of Linux-based embedded system technologies and solutions for the consumer electronics industry and the intelligent appliance market.

On September 19, 2003, the Company completed a share exchange with Empower Technologies, Inc. ("Empower US"). Sufficient common shares of the Company were issued so that 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 consolidated statement of operations for the year ended December 31, 2003 includes 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.

	2004	2003
Deficit	$ (8,179,969)	$ (3,329,139)
Working capital	$ 1,134,756	$ 279,828

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 year. 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. Inventory is comprised of electronic equipment parts and electronic consumer products.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Property and equipment

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

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

Revenue recognition

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 year that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Foreign currency translation

The Company's 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

The Company uses the fair-value method of accounting for all stock-based compensation.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

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

Comparative figures

Certain comparative figures have been reclassified to conform with the current year'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 totalled $119,467 at the date of acquisition.

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 is the Company's (Note 9).

4. PROPERTY AND EQUIPMENT

	2004			2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$124,553	$51,911	$72,642	$56,361	$35,391	$20,970
Furniture and equipment	78,219	23,891	54,328	36,785	15,488	21,297
Leasehold improvements	9,424	2,153	7,271	1,750	1,008	742
Tools	34,784	3,478	31,306	–	–	–
	$246,980	$81,433	$165,547	$94,896	$51,887	$43,009

Included in property and equipment is $22,501 (December 31, 2003 - $34,252) of computer equipment and furniture and equipment under capital lease with related accumulated amortization of $2,205 (December 31, 2003 - $14,641).

5. DEFERRED DEVELOPMENT COSTS

	2004	2003
Balance, beginning of year	$1,741,778	$1,550,779
Equipment and supplies	–	17,308
Rent	–	28,588
Salaries and benefits	–	179,947
Technical consulting fees	–	123,500
	–	349,343
Amortization for the year	–	(158,344)
Write-off of deferred costs	(1,741,778)	–
Balance, end of year	$ –	$1,741,778

After conducting its annual review, management has decided that as of December 31, 2004, recovery of the unamortized balance of deferred development costs, through related future revenues less relevant costs, cannot be reasonably assured. Therefore, the entire unamortized balance of $1,741,778 has been written off to operations.

6. OBLIGATIONS UNDER CAPITAL LEASE

	2004	2003
Payments of $1,380 per month including interest, due over lease terms expiring through May 2004	$ –	$ 3,606
Payments of $367 per month, non-interest bearing, due over lease term expiring through September 2009	20,948	–
Less: current portion	(4,410)	(3,606)
	$ 16,538	$ –

Estimated minimum lease payments are as follows:

2005	$ 4,410
2006	4,410
2007	4,410
2008	4,410
2009	3,308
Balance of obligation	$ 20,948

7. LOAN PAYABLE

The non-revolving term loan of up to $100,000 available to the Company bears interest at the Bank of Nova Scotia's prime lending rate plus 1.00% per annum, payable in 35 equal monthly instalments of principal and interest of $2,778, matures in February, 2007 and is secured by the assets of the Company.

	2004
Principal amount	$ 72,220
Less: current portion	(33,336)
Balance, end of year	$ 38,884

Estimated minimum principal payments are as follows:

2005	$ 33,336
2006	33,336
2007	5,548
Balance of obligation	$ 72,220

8. 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 16), and is payable in quarterly instalments of US$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.

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Shares	Capital Stock	Contributed Surplus
Authorized			
100,000,000 common shares without par value			
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
Short form offering (net of issuance costs)	1,000,000	695,640	–
Agent's shares	49,000	–	–
Exercise of warrants	6,794,005	3,444,431	(473,179)
Exercise of options	1,666	583	–
Agent warrants issued pursuant to the short form offering	–	–	48,250
Stock-based compensation	–	–	861,097
Balance, December 31, 2004	29,008,620	$7,136,029	$1,724,613

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Included in issued share capital are 6,120,000 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 March 31, 2004, the Company issued 1,000,000 units at $0.80 per unit pursuant to a short form offering. Each unit consisted of one common share and one half warrant, non-transferable, with each whole warrant exercisable into one common share for a period of one year at $1.00 per share until March 31, 2005. The Company issued 49,000 units (valued at $39,200) as an agent fee, paid $56,100 in cash and issued 200,000 share purchase warrants with the same terms as the short form offering with a value of $48,250.

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

	2004	2003
Risk-free interest rate	3.70%	3.66%
Expected life of warrants	1 year	1 year
Annualized volatility	74.91%	100%
Dividend rate	0.00%	0.00%

10. 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. 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, 2004, the following incentive stock options and warrants are outstanding and exercisable:

	Number of Shares	Exercise Price	Expiry Date
Stock options	2,478,334	$ 0.35	September 19, 2008
	1,425,000	0.80	March 12, 2009
Warrants	701,200	1.00	March 31, 2005

10. STOCK OPTIONS AND WARRANTS (cont'd...)

Stock option transactions are summarized as follows:

	2004		2003	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,495,000	$ 0.35	–	$ –
Options granted	1,425,000	0.80	2,520,000	0.35
Options exercised	(1,666)	0.35	–	–
Options expired	(15,000)	0.35	(25,000)	0.35
Outstanding, end of year	3,903,334	$ 0.51	2,495,000	$ 0.35
Number of options currently exercisable	3,903,334	$ 0.51	2,495,000	$ 0.35

The weighted average fair value of options granted during the year was $0.60 (2003 - $0.32).

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

	2004		2003	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	6,774,705	$ 0.43	–	$ –
Warrants granted	724,500	1.00	6,774,705	0.43
Warrants exercised	(6,794,005)	0.44	–	–
Warrants expired	(4,000)	0.45	–	0.43
Outstanding, end of year	701,200	$ 1.00	6,774,705	$ 0.43
Number of Warrants currently exercisable	701,200	$ 1.00	6,774,705	$ 0.43

Stock-based compensation

The Company granted 1,425,000 (2003 – 2,520,000) stock options during the year to directors, consultants and employees, resulting in compensation costs of $861,097 (2003 - $805,865) which were recorded as contributed surplus on the balance sheet.

10. STOCK OPTIONS AND WARRANTS (cont'd...)

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

	2004	2003
Risk-free interest rate	2.95%	3.82%
Expected life of options	5 years	5 years
Annualized volatility	100%	100%
Dividend rate	0.00%	0.00%

11. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Paid or accrued management fees of $9,000 (2003 - $18,000) to a company with common directors.

b) Paid or accrued wages and benefits of $141,750 (2003 - $86,500) to directors, officers and former officers of the Company.

c) Paid or accrued interest of $95,366 (2003 - $74,792) to a director of the Company.

d) Paid or accrued directors' fees of $90,000 (2003 - $Nil) for services provided by directors and officers.

e) Recorded stock-based compensation of $861,097 (2003 - $805,865) for services provided by directors and officers.

Included in research and development costs are technical consulting fees of $120,000 (2003 - $120,000); and salaries and benefits of $72,000 (2003 - $72,000) paid or accrued to directors and officers and to companies with common directors.

Included in current accounts payable is $89,052 (2003 - $2,236) 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.

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.

12. INCOME TAXES

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

	2004	2003
Loss before income taxes	$ (4,850,830)	$ (1,697,600)
Expected income tax recovery	$ (1,726,895)	$ (604,346)
Differences in foreign tax rates	340,661	(16,103)
Share issuance costs deductible	(51,104)	(33,176)
Non-deductible expenses and deferred start-up costs	576,761	206,068
Unrecognized tax benefit of non-capital operating losses	860,577	447,557
Total income tax recovery	$ –	$ –

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

	2004	2003
Future income tax assets:		
Net operating losses available for future years	$ 1,750,230	$ 1,094,474
Property and equipment	27,774	18,130
Deferred start-up costs	121,494	149,531
Share issuance costs and other	1,134	126,778
	1,900,632	1,388,913
Future income tax liabilities:		
Research and development costs	–	(192,207)
	1,900,632	1,196,706
Valuation allowance	(1,900,632)	(1,196,706)
Net future income tax assets	$ –	$ –

The Company has non-capital losses carried forward of approximately $5,100,000 which expire commencing 2007. 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. The following sets out the approximate expiry dates for the non-capital losses carried forward:

2007	$ 2,000
2008	300,000
2009	610,000
2010	1,390,000
2014	2,030,000
2023	400,000
2024	368,000
	$ 5,100,000

13. 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:

		2004		2003
Property and equipment				
Canada	$	141,648	$	43,009
People's Republic of China		23,899		–
United States of America		–		–
	$	165,547	$	43,009

		2004		2003
Revenue				
Canada	$	124,115	$	127,276
United States of America		46,254		7,452
	$	170,369	$	134,728

Major Customers

The Company has concentrations with respect to the volume of business conducted with several major customers in Canada. For the year ended December 31, 2004, the Company made sales of $105,840 and $19,457 to two customers which were in excess of 10% of total sales for 2004. For the year ended December 31, 2003, the Company made sales of $127,260 to one customer which was in excess of 10% of total sales for 2003.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company places its cash with high quality financial institutions and limits the amount of credit exposure with any one institution. The Company has concentrations of credit risk with respect to accounts receivable, as large amounts of its accounts receivable are concentrated geographically in Canada amongst a small number of customers. At December 31, 2004, two customers totalling $105,840 and $17,994 accounted for total accounts receivable greater than 10%. At December 31, 2003, one customer totalling $194,526 accounted for total accounts receivable greater than 10%. The Company's major receivables are with high quality, large corporations.

14. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, obligations under capital leases long term loan payable 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. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittances abroad, and rates and methods of taxation, among other things.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Year Ended December 31, 2004	Year Ended December 31, 2003
Cash paid during the year for interest	$ 59,590	$ 44,836
Cash paid during the year for income taxes	–	–

During the year ended December 31, 2004, the Company:

a) Issued 49,000 common share units and 200,000 share purchase warrants with a total value of $87,450 as agent service fees pursuant to the short form offering (Note 9).

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 with a value of $70,000 as finders' fees pursuant to the initial public offering.

16. 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 (Note 7).

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 favour of a director of the Company, for all funds loaned pursuant to a Loan Agreement between the Company and the director (Note 8).

17. COMMITMENTS

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

2005	$ 50,371

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2004 the Company issued 187,725 common shares pursuant to the exercise of warrants with an exercise price of $1.00 per common share for gross proceeds of $187,725.

Board of Directors:

Edward Bagg

Amy Chan

Chris Graham

Paul Leung

Dr. Ian Munro

Management:

Paul Leung,
chairman & CEO

Dr. Edward Dennis,
President

Amy Chan,
Chief Financial Officer

Kenneth Ho,
Vice President of R & D

Steve Mathiesen,
Corporate Secretary

Investor Relations:

investorline@empowertechnologies.com

Auditor:

Davidson & Company
Chartered Accountants

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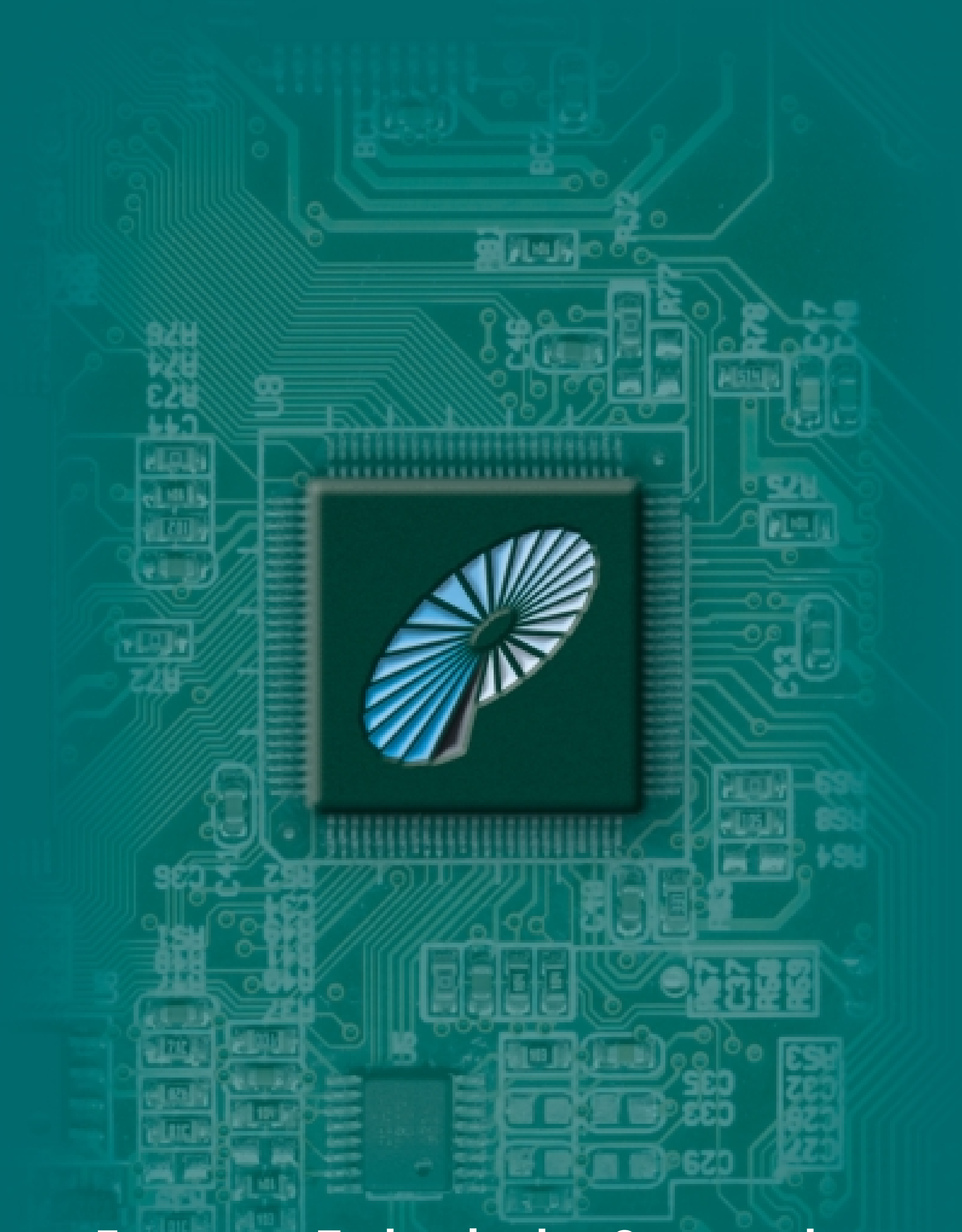
Seattle, Washington 98104

Transfer Agent:

Computershare
Trust Company of Canada

510 Burrard Street, 2nd Floor
Vancouver, BC V6C 3B9



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