EMPOWER TECHNOLOGIES CORPORATION

ANNUAL REPORT 2005

OUR MISSION:

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

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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 LEOs™ ("LinuxDA™ Embedded 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 LEOs, Empower positioned itself as an industry leader in Linux-based embedded system technologies and solutions.

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 the consumer electronic manufacturers and developers.

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.

LEOs® EMBEDDED

BY

mPOWER

Empower Technologies

LDK5912

LEOs Development Kit

BASED ON LINUX 2.6 KERNEL

And

LDK5910

LEOs Development Kit

MESSAGE FROM MANAGEMENT

TO OUR VALUED SHAREHOLDERS,

2005 was a significant year for Empower. We completed a major financing in June 2005 which has set the Company on its path to complete the Research & Development of its core Linux-based embedded operating software technology - LEOs (LinuxDA Embedded O/S). The financing has also allowed us to begin the commercialization phase of the Company's growth plan.

It is also the year the Company embedded its core technology LEOs into Texas Instruments' (TI) OMAP5910, the first dual-core embedded CPU for TI's OMAP591x processor family. In August of 2005, TI and Empower successfully launched the LDK5910. LDK5910 is Empower's first LEOs software development kit optimized for TI's OMAP5910 embedded dual core CPU. At this time, the LDK5910 development kit is working its way through the sales and marketing channels. We are working closely with the developers to complete their product development cycle and start production. The expected time line for this is between eight and eighteen months. Once this has happened, Empower will then be in a position to collect licensing fees. To facilitate faster adoption of Empower's embedded software technology in the marketplace, the Company had developed reference designs using LEOs and the LDK5910 to target consumer electronics product categories such as audio/video equipment, PDA, and wireless communication devices.

The Company has also expanded and strengthened its management team with the addition of Dr. K.T. Ma as the Chief Operating Officer and Senior Vice President of Business Development. Dr. Ma is a seasoned senior executive having worked in some of the world's biggest telecom companies in America and China. Empower has also added Mr. Alex Romanov as the Vice President of Sales and Marketing. Mr. Romanov has many years of executive sales and marketing experience in the consumer electronics and technology industries.

We would also like to welcome two new additions to our Board of Directors, Mr. Chuck Walker and Mr. Steve (Suresh) Gupta. They are both well known and successful in their respective industries. Their business experience, guidance and their contacts in the business and financial communities are important assets to Empower.

The Company now has a strong foundation and is ready to make an impact in the fastest growing embedded system market in the world – China, namely the Pearl Delta area, the factory of the world. With its core embedded operating software technology, LEOs, and its first development tool, LDK5910, launched, Empower is looking forward to winning many customers as the tools and the reference designs work their way through the product development cycle. Our presence in the marketplace is increasing and we are already starting to gain traction, technology recognition and building momentum as we get adopted by major OEM (Original Equipment Manufacturing) and ODM (Original Design Manufacturer) consumer electronics manufacturers and developers in Asia and around the world.

PAUL LEUNG	DR. K.T. MA	AMY CHAN	KEN HO	ALEX ROMANOV
Chairman, President & CEO (Founder)	COO & Senior Vice President of Business Development	Chief Financial Officer (Co-Founder)	Vice President, R&D	Vice President, Sales & Marketing

Year Ended December 31, 2005

The following discussion and analysis, prepared as of April 20, 2006, should be read together with the audited consolidated financial statements for the twelve month period ended December 31, 2005 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 successfully completed its Prospectus Offering. The Offering is of Units with each Unit consisting of one common share and one-half of one non-transferable warrant. Each whole Warrant will entitle the holder to purchase one additional Common Share, for a period of 12 months from the date of completion of the Offering at the price of $2.50 per share. The Company issued 3,186,370 Units at $2.25 per unit. Net proceeds to the Company, after deducting agent's commission, were $6,169,256. The Company will use these proceeds to accelerate its efforts to develop new products, and to market and promote its products.

For the year ended December 31, 2005, the Company has incurred a loss of $4,127,314 or $0.13 per share. This loss represents expenditures relating to the ongoing development and marketing of the Company's products. This is consistent with the Company's business plan.

Furthermore, during the year ended December 31, 2005, the following events took place:

- As of the end of the eligible period of March 31, 2005 – all of the 501,200 warrants issued and all of the 200,000 Agent's Warrants issued in the Short Form Offering of March 31, 2004 were exercised. This resulted in the issuance of 701,200 common shares and proceeds of $701,200 to the Company.

- The Company officially released its latest LEOs™ (LinuxDA Embedded O/S) development platform - LDK5910 optimized for Texas Instruments™ OMAP5910 dual core CPU. Based on the one-stop shopping concept, LDK5910 encompasses a hardware development board with TI OMAP5910 onboard, LEOs operating software and Software Development Kit.

- The Company appointed Mr. Alex Romanov to Vice President, Sales and Marketing of its Canadian subsidiary.

- Delivered a one-stop Linux-based development platform to consumer electronics designers. The Company and Texas Instruments Incorporated ("TI") announced the availability of the LEOs for OMAP5910 Development Kit (LDK5910), running LinuxDA Embedded O/S (LEOs™) by the Company. Optimized for TI's OMAP5910 dual-core DSP and ARM CPU, the LDK5910 leverages the versatility of LEOs and the performance of TI's OMAP™ processor to serve as a powerful reference design that significantly reduces product development time, cost and risk.

- The Company has met the requirements and became a TSX Venture Exchange Tier 1 company on September 12, 2005.

- Effective October 21, 2005, the Company moved to a new office that has a warehouse facility and also doubled the office space. This ambitious move is representative of our Company's rapid move to commercial LEOs and products using LEOs, and the increasing expansion of sales and marketing and research and development capabilities, and will enable our team to continue to keep business growing in the right direction, bringing us closer to our goal of being a leader in our industry.

- During the year, the Company attended the following tradeshows:
    - Consumer Electronics Show, Las Vegas, NV, USA, January 6-9, 2005
    - TI Developer Conference, Huston, TX, USA, February 28 – March 2, 2005
    - Electronic Entertainment Expo, Los Angeles, CA, USA, May 18-20, 2005
    - Brazil TI Show, Sao Paulo, Brazil, August 15-17, 2005
    - Embedded World 2005, Humberg, German, August 21-24, 2005
    - Mexico Embedded Development Show, Guadalajara, Mexico, September 4-7, 2005
    - Embedded Systems Conference, Boston, NY, USA, September 15-18, 2005

RESULTS OF OPERATIONS

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Sales			
Canada	$ (32,669)	$ 124,115	$ 127,276
People's Republic of China	-	-	-
United States of America	36,415	46,254	7,452
	3,746	170,369	134,728
Cost of Sales	103,082	175,204	358,214
Gross Margin	(99,336)	(4,835)	(223,486)
Total expenses	4,097,078	3,116,256	1,473,449
Total expenses without stock-based compensation	3,963,141	2,255,159	667,584
Total expenses without stock-based compensation, R&D Costs, and amortization of research and development costs	2,633,562	1,485,117	667,584
Loss for the period			
Canada	(3,675,968)	(2,941,390)	(1,388,358)
People's Republic of China	(236,751)	(527,094)	(35,351)
United States of America	(214,596)	(1,382,346)	(273,891)
	$ (4,127,314)	$ (4,850,830)	$ (1,697,600)

REVENUE

Presently the Company's activities continue to be primarily the development of the Company's LEOs operating software for Texas Instruments OMAP591x dual core processor family, engineering consumer electronics using LEOs and LDK5910 Development Kit, and filing patents for embedded systems and technologies. Revenues generated for the year ended December 31, 2005 were $3,746 compared with $170,369 for fiscal 2004 and $134,728 for fiscal 2003. This decrease is attributed to the Company's decision to clear out and drop all distributed products and end of life product to make way for the new products developed in-house using the Company's embedded system technologies including LEOs (LinuxDA Embedded O/S).

The Company anticipates revenue to be improved through its plans to: introduce new products using LEOs; move aggressively to set up a strong marketing and sales base in North America for LEOs, the new LDK5910 Development Kit, and the consumer products such as the PowerPlay Media Chair and handheld unit using LEOs and LDK5910 technology.

GENEREAL & ADMINISTRATIVE

General and administrative expenses for the year ended December 31, 2005 increased to $2,734,997 (2004 – $2,346,214 and 2003 - $1,473,449). Wages and benefits increased to $1,019,785 (2004 - $446,493 and 2003 - $142,528), reflecting staff additions in the Company. Advertising and promotion increased to $329,481 (2004 - $236,839 and 2003 - $24,939) due to the Company's effort to commercialize its technologies by attending tradeshows and expanding investor relations. Travelling expenses increased to $187,169 (2004 - $104,063 and 2003 – 26,464) due to spending efforts to promote our products and attend tradeshows. Office expenses increased to $118,229 (2004 - $59,391 and 2003 - $37,054), rent increased to $34,568 (2004 - $28,923 and 2003 - $24,000) for our new move to a larger premise. Legal fees increased to $229,679 (2004 - $126,856 and 2003 - $156,001) due to corporate matters such as regulatory and exchange filing and reporting, new contracts, new patents and trademarks application and filing.

RESEARCH & DEVELOPMENT

Research and Development costs ("R&D costs") relating to the development of LEOs, the LDK591x Development Kit, and new products using LEOs are expensed as incurred. R&D costs for the year ended December 31, 2005 were $1,329,579 compared to $770,042 for 2004.

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

<u>LEOs II (LinuxDA Embedded O/S II)</u>

Empower US has commenced work on the next version of LEOs. Once the new LEOs II is tested and released then it will be optimized for the Texas Instruments ("TI") OMAP processors.

<u>LDK5910 Development Kit</u>

Empower US has launched LEOs for TI OMAP5910 Development Kit (LDK5910) on August 9, 2005 with a Texas Instruments joint press announcement. 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 using, TI OMAP5910 and a CD with LEOs and the SDK (Software Development Kit). The manufacturer's suggested retail price is $900 USD. LEOs for TI OMAP5910 initiates a new level of performance expectations for intelligent devices with increased headroom for applications and expansion capabilities for other functions.

SIGNIFICANT PROJECTS (cont'd...)

LDK5912 Development Kit

Empower US has commenced work on LEOs for TI OMAP5912 Development Kit (LDK5912). This kit has the same features as the LDK5910. This product completes the LEOs for TI OMAP591x (LDK591x) Development Platform offering. LDK5912 is backward compatible with LDK5910 for both the hardware and the software.

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 LEOs for the TI OMAP5910 dual core processor, the Osaka Project uses Empower's Totally Digital Audio Path ("T-DAP") technology. The Osaka Project fulfils the needs and demands of the cutting edge consumer.

PowerPlay 1x

This new mobile data terminal model is still under development. Besides the regular PDA functions, this new model will have wireless communication capability.

USE OF PROCEEDS OF PROSPECTUS OFFERING FROM LAST FINANCING

During the year, the Company successfully completed its Prospectus Offering. The Offering is of Units with each Unit consisting of one common share and one-half of one non-transferable warrant. Each whole Warrant will entitle the holder to purchase one additional Common Share, for a period of 12 months from the date of completion of the Offering at the price of $2.50 per share. The Company issued 3,186,370 Units at $2.25 per unit. Net proceeds to the Company, after deducting agent's commission, were $6,169,256. The proceeds of the Offering will be used primarily to build and expand the business by achieving milestones in product development, sales and marketing, new management positions, and the remaining balance for working capital.

A brief description of milestones was included as follows:

Milestone 1: Complete the development of LEOs based Texas Instruments (OMAP5910 dual core processor and hardware to be used in audio video products and Mobile Data Terminal (MDT) devices.

Milestone 2: Expand the marketing and sales force for LinuxDA and PowerPlay Brands.

Milestone 3: Launch LDK5910, the LEOs for Texas Instruments OMAP5910 Development Kit reference design May 1, 2005.

Milestone 4: Solicit third party developers to port DSP software to LEOs to build a LEOs DSP software library. Develop a LEOs DSP developers' community within LinuxDA website within three months. Develop an online marketplace for developers to market and to showcase their products within four months.

Milestone 5: Complete the development of LEOs based wireless centric PDA using Texas Instruments OMAP5910 dual core processor capable of wireless technologies including Bluetooth cell phone technology.

Milestone 6: Expand management in all areas of the organization. New management proposed to include a Chief Operating Officer and a Chief Marketing Officer.

Milestone 7: Purchase the assets of a Vancouver based software developer.

The following is the detail of the relevant estimated milestones and actual usage of funds to December 31, 2005.

DESCRIPTION OF USE OF PROCEEDS	Use of Proceeds as of the offering	Use of Proceeds as of December 31, 2005	Remaining Proceeds
Product Development			
Milestone 1	$ 300,000	$ 154,220	$ 145,780
Milestone 5	800,000	323,589	476,411
Sales and Marketing			
Milestone 2	306,000	76,000	230,000
Milestone 3	1,100,000	211,039	888,961
Milestone 4	50,000	-	50,000
Management			
Milestone 6	500,000	51,000	449,000
Proposed Acquisition			
Milestone 7	1,000,000	-	1,000,000
Administration and operating expenses	$ 1,773,000	$ 1,030,696	$ 465,268

For details of the "Milestones" please refer to "Business of the Issuer – Milestones" of the Final Prospectus dated May 12, 2005.

The amount of "Product Development" is less than that identified in the offering as the Company was already in the process of developing the products by the time the Offering was completed; the amount of "Sales and Marketing" is less than that identified in the Offering for the following reasons: the Company has decided to have a lower inventory for the LDK5910; the marketing professionals contemplated in the Offering were not required as Texas Instruments and other channels made up the efforts and the Company can use existing sales and marketing resources to support the program.

The amount of "Proposed Acquisition" is $Nil as the Company cancelled the proposed acquisition. Milestone 7 as set out above, for which $1,000,000 was allocated, was initially with respect to the proposed acquisition of a Vancouver based software developer, which acquisition is not proceeding at this time; however, the Company has amended Milestone 7 and allocated the fund of $1,000,000 to any future acquisition of another business.

The use of "Administration and operating expenses" is faster than estimated is mainly attributable to the Company's efforts to commercialize its technologies by attending tradeshows, expanding investor relations work, and moving to the new premises. It is also attributable to an increase in legal fees. Legal fees increased due to corporate matters such as regulatory and exchange filing and reporting, new contracts, new patents and trademarks application and filing.

Management will continue to make adjustment with the use of proceeds according to the changes in its business operating environment and requirements.

SUMMARY OF QUARTERLY RESULTS

	Three Months Ended December 31, 2005	Three Months Ended September 30, 2005	Three Months Ended June 30, 2005	Three Months Ended March 31, 2005
Total assets	$ 4,613,921	$ 5,808,234	$ 7,296,482	$ 1,689,982
Stock Based Compensation	(9,768)	-	-	-
Write-off of deferred costs	-	-	-	-
Working capital	4,032,774	5,329,032	6,692,250	1,041,987
Shareholders' equity	4,212,634	5,462,054	6,377,742	594,560
Revenues	(59,849)	30,454	468	32,673
Net Loss	(1,307,884)	(1,072,759)	(847,201)	(899,470)
Loss per share	$ (0.04)	$ (0.03)	$ (0.03)	$ (0.03)

	Three Months Ended December 31, 2004	Three Months Ended September 30, 2004	Three Months Ended June 30, 2004	Three Months Ended March 31, 2004
Total assets	$ 2,042,132	$ 4,184,716	$ 2,359,470	$ 2,821,999
Stock Based Compensation	-	-	-	861,097
Write-off of deferred costs	1,741,778	-	-	-
Working capital	1,134,756	2,361,674	266,393	694,898
Shareholders' equity	680,673	2,881,332	920,923	1,459,425
Revenues	31,241	82,185	13,869	43,074
Net Loss	(2,218,543)	(731,363)	(600,857)	(1,300,067)
Loss per share	$ (0.08)	$ (0.03)	$ (0.03)	(0.06)

Significant changes in key financial data in 2005 can be attributed to the implementation of stock-based compensation, and the Company accelerating its efforts to develop new products.

FOURTH QUARTER RESULTS

Revenue for the fourth quarter ended December 31, 2005 was $(59,849) compared to $31,241 for the fourth quarter ended December 31, 2004. The decrease in revenue is due to the Company phasing out the distributed products and end of life products with plans to introduce the new LEOs operating software and development platform and PowerPlay devices using LEOs when available. The same reason applies to the less revenue of the fourth quarter ended December 31, 2005 than that of the third quarter ended September 31, 2005 which is $30,454.

The general and administrative costs for the fourth quarter ended December 31, 2005 were $886,605 compared to $646,848 for the fourth quarter of 2004 and $757,616 for the third quarter ended September 30, 2005. This increase is mainly attributable to the Company's efforts to commercialize its technologies by attending tradeshows, expanding investor relations work, and moving to the new premise. This increase is also attributable to legal fee increases which reflects the Company's efforts to apply for patents and trademarks to create Intellectual Property Right ("IPR") and IPR value.

R&D costs for the fourth quarter ended December 31, 2005 were $354,836 compared to $273,532 for the fourth quarter of 2004 and $346,378 for the third quarter ended September 31, 2005.

This increase is mainly attributable to the Company's efforts to accelerate the development of its new LEOs operating software and development platform products and the new PowerPlay consumer devices using LEOs.

After conducting its annual review, the Company recorded a write-off of inventories of $80,749 due to obsolete inventories.

LIQUIDITY

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

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.

	2005	2004
Deficit	$ (12,307,283)	$ (8,179,969)
Working capital	$ 4,032,774	$ 1,134,756

Net cash used in operating activities for the year ended December 31, 2005 was $4,323,577 compared to net cash used of $2,302,763 for the year ended December 31, 2004. The cash used in operating activities for the year consisted primarily of the operating expenses, office move, marketing and sales activities, advertising and promotion, tradeshows, travel and accommodation, and investor relations.

Net cash used for investing activities for the year ended December 31, 2005 was $123,488 compared to net cash used for investing activities of $129,582 during the year ended December 31, 2004. The cash used during the year consisted primarily of expenditures for the purchase of equipment, leasehold improvement and promissory note to one of our vice president.

Net cash provided by financing activities for the year ended December 31, 2005 was $6,644,147 compared to net cash provided by financing activities of $3,477,780 for the year ended December 31, 2004. The cash provided during the year consisted primarily of proceeds from the exercise of the warrants and a Prospectus Offering.

As of December 31, 2005, the Company's cash was $3,440,124 with net working capital of $4,032,774 compared to $1,243,042 and $1,134,756 respectively as at December 31, 2004. The Company has been incurring operating losses at the average rate of $343,943 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 enable the Company to accelerate its efforts to develop new software, development tools and consumer products and to commercialize its technologies.

CAPITAL RESOURCES

The authorized capital of the Company consists of unlimited common shares without par value. As at December 31, 2005, there are 33,330,654 common shares issued and outstanding.

The Company has 2,021,114 warrants from a Prospectus Offering ("Offering") outstanding. Each Offering warrant entitles the holder to purchase a common share of the Company at a price of $2.50 at any time on or before June 23, 2006. 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, 2005	Shares	Exercise Price	Expiry Date	Amount
Warrants outstanding	2,021,114	$2.50	June 20, 2006	$5,052,785
	2,021,114			$5,052,785

It is expected that the Prospectus 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, 2005, the Company has shares outstanding as follows:

	Shares
Authorized	
Unlimited 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	14,614,665
Exercise of warrants	274,714
Initial public offering	4,874,252
Agent shares issued pursuant to the Initial Public Offering	200,000
Balance, December 31, 2003	21,163,949
Exercise of warrants	6,794,005
Exercise of options	1,666
Short form offering	1,000,000
Agent shares issued pursuant to the Short Form Offering	49,000
Balance, December 31, 2004	29,008,620
Exercise of warrants	701,200
Exercise of options	343,334
Prospectus offering	3,186,370
Agent shares issued pursuant to the Prospectus Offering	91,130
Balance, December 31, 2005	33,330,654

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 wages and benefits of $415,000 (2004 - $141,750, 2003 - $86,500) to directors, officers and former officers of the Company.
b) Paid or accrued interest of $51,860 (2004 - $95,366, 2003 - $74,792) to a director of the Company.
c) Paid or accrued directors' fees of $117,000 (2004 - $90,000, 2003 - $Nil) for services provided by directors.
d) Recorded stock-based compensation of $17,740 (2004 - $861,097, 2003 - $805,865) for services provided by directors and officers.
e) Paid or accrued consulting fees of $204,000 (2004 - $71,000, 2003 - $Nil) for services provided by an officer of the Company.

Included in research and development costs are salaries and benefits of $114,500 (2004 - $72,000, 2003 - $72,000) paid or accrued to directors and officers and to companies with common directors.

Included in current accounts payable is $144,000 (2004 - $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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Allowance for receivables

The Company establishes an allowance for receivables on a specific account basis. The Company had an allowance for doubtful accounts of $18,970. No allowance for receivables was recorded by the Company as at December 31, 2004.

Inventories

Inventories are carried at the lower of cost using the first-in, first-out method and net realizable value.
Inventories consist of material inventories, work in process and finished goods. The material inventory balances include electronic parts for research and development use. The work in process and finished goods balances include electronic consumer products.

Research and development expenses

Costs related to research, design and development of software products are charged to research and development expense as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established, which generally occurs upon completion of a working model, and ending when a product is available for general release to customers. All subsequent costs are expensed as incurred. The Company reassesses whether it has met the relevant criteria for deferral and amortization and whether there is any impairment in value at each reporting date.

Property and equipment

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

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

Revenue recognition

i) Software

The Company recognizes revenue as described below which is consistent with Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2") issued by the American Institute of Certified Public Accountants.
The Company recognizes revenue from packaged software and license fees when the software is delivered, title has passed and customer acceptance has occurred, there is persuasive evidence that an arrangement exists, the fee is fixed and determinable, and collection is probable.

ii) Products

The Company generates revenue through the sale of electronic products. Revenue is recognized only when persuasive evidence for a sales arrangement exists i.e., delivery of the product has occurred; the product fee is fixed or determinable; and collection of the sale is reasonably assured.

Income taxes

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

Foreign currency translation

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

Stock-based compensation

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

Loss per share

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

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

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, promissory note, accounts payable and accrued liabilities, obligations under capital leases, 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 considered rations 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.

EMPOWER TECHNOLOGIES CORPORATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

DECEMBER 31, 2005

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Empower Technologies Corporation

We have audited the consolidated balance sheets of Empower Technologies Corporation as at December 31, 2005 and 2004 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 2005, 2004 and 2003. 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 and with the standards of the Public Company Accounting Oversight Board (United States). 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, 2005 and 2004 and the results of its operations and cash flows for the years ended December 31, 2005, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"
Chartered Accountants

Vancouver, Canada
February 7, 2006

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA – U.S. REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Our report to the shareholders dated February 7, 2006 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

"DAVIDSON & COMPANY LLP"
Chartered Accountants

Vancouver, Canada

A Member of SC INTERNATIONAL

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, BC, Canada, V7Y 1G6
Telephone (604) 687-0947 Fax (604) 687-6172

February 7, 2006

CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian Dollars)
AS AT DECEMBER 31

		2005		2004
ASSETS				
Current				
Cash	$	3,440,124	$	1,243,042
Receivables, net of allowance of $18,970 (2004 - $Nil)		66,686		179,524
Promissory note (Note 7)		45,000		-
Inventory (Note 4)		803,343		398,616
Prepaid expenses		66,413		55,403
Total current assets		4,421,566		1,876,585
Property and equipment (Note 5)		192,355		165,547
Total assets	$	4,613,921	$	2,042,132
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	$	384,382	$	463,363
Due to related party (Note 10)		-		240,720
Current portion of loan payable (Note 9)		-		33,336
Current portion of obligations under capital lease (Note 8)		4,410		4,410
Total Current Liabilities		388,792		741,829
Loan payable (Note 9)		-		38,884
Obligations under capital lease (Note 8)		12,495		16,538
Due to related party (Note 10)		-		564,208
Total Liabilities		401,287		1,361,459
Shareholders' equity				
Capital stock (Note 11)				
Authorized				
Unlimited common shares without par value				
Issued and outstanding 33,330,654 shares (2004 – 29,008,620)		14,722,328		7,136,029
Contributed surplus (Note 11)		1,797,589		1,724,613
Deficit		(12,307,283)		(8,179,969)
Total shareholders' equity		4,212,634		680,673
Total liabilities and shareholders' equity	$	4,613,921	$	2,042,132

Nature and continuance of operations (Note 1)
Commitments and contingencies (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 STATEMENT OF OPERATIONS

(Expressed in Canadian Dollars)
YEAR ENDED DECEMBER 31

	2005	2004	2003
SALES	$ 3,746	$ 170,369	$ 134,728
COST OF SALES	103,082	175,204	358,214
	(99,336)	(4,835)	(223,486)
EXPENSES			
Accounting and audit	70,340	64,461	59,574
Advertising and promotion	329,481	236,839	24,939
Amortization of property and equipment	47,711	23,005	8,919
Amortization of assets under capital lease	3,969	6,540	5,640
Bad debt	18,970	-	-
Bank charges and interest	8,977	7,880	11,286
Consulting fees	207,645	80,000	23,097
Foreign exchange (gain) loss	41,002	6,944	(21,215)
Insurance	53,755	37,329	7,504
Research and development	1,329,579	770,042	-
Interest on long term debt	51,860	96,563	120,160
Directors' fee	117,000	90,000	-
Legal fees	229,679	126,856	156,001
Office expenses	118,229	63,628	40,008
Rent	34,568	28,923	24,000
Stock-based compensation	133,937	861,097	805,865
Telephone and utilities	57,801	34,647	24,626
Transfer agent and filing fees	35,621	30,946	14,053
Travel	187,169	104,063	26,464
Wages and benefits	1,019,785	446,493	142,528
	(4,097,078)	(3,116,256)	(1,473,449)
Loss before other items	(4,196,414)	(3,121,091)	(1,696,935)
OTHER ITEMS			
Interest and other income	69,100	12,039	2,303
Write-off of property and equipment	-	-	(2,968)
Write-off of deferred costs (Note 6)	-	(1,741,778)	-
	69,100	(1,729,739)	(665)
Loss for the year	$ (4,127,314)	$ (4,850,830)	$ (1,697,600)
Basic and diluted loss per common share	$ (0.13)	$ (0.20)	$ (0.11)
Weighted average number of common shares outstanding	31,438,973	23,989,741	16,062,417

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Expressed in Canadian Dollars)

	Number of Shares	Price	Amount	Contributed Surplus	Deficit	Total
BALANCE, DECEMBER 31, 2002	14,614,665	$ -	$ 1,696,960	$ -	$ (1,631,539)	$ 65,421
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	0.01	119,467	-	-	119,467
Initial public offering	4,874,252	0.35	1,248,929	457,059	-	1,705,988
Exercise of warrants	274,714	0.35	107,471	(5,016)	-	102,455
Agent's shares issued pursuant to the initial public offering	200,000	0.35	70,000	-	-	70,000
Agent's warrants issued pursuant to the initial public offering	-	-	-	91,412	-	91,412
Stock-based compensation	-	-	-	805,865	-	805,865
Share issuance costs	-	-	(247,452)	(60,875)	-	(308,327)
Loss for the year	-	-	-	-	(1,697,600)	(1,697,600)
BALANCE, DECEMBER 31, 2003	21,163,949	-	2,995,375	1,288,445	(3,329,139)	954,681
Short form offering (net of issuance costs)	1,000,000	0.80	695,640	-	-	695,640
Agent's shares issued pursuant to the short form offering	49,000	-	-	-	-	
Agent's warrants issued pursuant to the short form offering	-	-	-	48,250	-	48,250
Exercise of warrants	6,794,005	0.44	3,444,431	(473,179)	-	2,971,252
Exercise of options	1,666	0.35	583	-	-	583
Stock-based compensation	-	-	-	861,097	-	861,097
Loss for the year	-	-	-	-	(4,850,830)	(4,850,830)
BALANCE, DECEMBER 31, 2004	29,008,620	-	7,136,029	1,724,613	(8,179,969)	680,673
Prospectus offering (net of issuance costs)	3,186,370	2.25	6,169,256	-	-	6,169,256
Agent's warrants issued pursuant to the prospectus offering	-	-	-	187,172	-	187,172
Agent's shares issued pursuant to the prospectus offering	91,130	2.25	205,043	-	-	205,043
Exercise of warrants	701,200	1.00	749,450	(48,250)	-	701,200
Exercise of options	343,334	0.77	462,550	(199,883)	-	262,667
Stock-based compensation	-	-	-	133,937	-	133,937
Loss for the year	-	-	-	-	(4,127,314)	(4,127,314)
BALANCE, DECEMBER 31, 2005	33,330,654		$ 14,722,328	$ 1,797,589	$ (12,307,283)	$ 4,212,634

Capital stock and contributed surplus (Note 11)

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

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year	$ (4,127,314)	$ (4,850,830)	$ (1,697,600)
Items not affecting cash:			
Amortization of research and development costs	-	-	158,344
Amortization of property and equipment	47,711	23,005	8,919
Amortization of property and equipment under capital lease	3,969	6,540	5,640
Stock-based compensation	133,937	861,097	805,865
Bad debt	18,970	-	-
Write-off of obsolete inventories	80,749	45,068	-
Write-off of property and equipment	-	-	2,968
Write-off of deferred costs	-	1,741,778	-
Changes in non-cash working capital items:			
Decrease (Increase) in receivables	93,868	50,950	(212,676)
Increase in inventory	(485,476)	(384,572)	(22,204)
Increase in prepaid expenses	(11,010)	(28,260)	(20,828)
Increase (Decrease) in accounts payable and accrued liabilities	(78,981)	232,461	(483,612)
Net cash used in operating activities	(4,323,577)	(2,302,763)	(1,455,184)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash acquired on purchase of subsidiary	-	-	283,830
Promissory note	(45,000)	-	-
Purchase of property and equipment	(78,488)	(129,582)	-
Development costs	-	-	(349,343)
Net cash used in investing activities	(123,488)	(129,582)	(65,513)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of capital lease obligations	(4,043)	(5,159)	(14,417)
Proceeds (repayment) of loan payable	(72,220)	72,220	-
Advances from related party	-	-	105,316
Repayment of amount due to related party	(804,928)	(305,006)	(45,310)
Proceeds from issuance of common shares, net of issuance costs	7,525,338	3,715,725	1,661,528
Net cash provided by financing activities	6,644,147	3,477,780	1,707,117
Change in cash during the year	2,197,082	1,045,435	186,420
Cash, beginning of year	1,243,042	197,607	11,187
Cash, end of year	$ 3,440,124	$ 1,243,042	$ 197,607

Supplemental disclosure with respect to cash flows (Note 17)

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

(Expressed in Canadian Dollars)
DECEMBER 31, 2005

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.

		2005		2004
Deficit				
Working capital	$	(12,307,283)	$	(8,179,969)
		4,032,774		1,134,756

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.

Cash and equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.
Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company places its cash and cash equivalents with high quality financial institutions, thereby minimizing exposure for deposits in excess of federally insured amounts. The Company believes that credit risk associated with cash is remote.

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

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Allowance for receivables

The Company establishes an allowance for receivables on a specific account basis. The Company had an allowance for doubtful accounts of $18,970. No allowance for receivables was recorded by the Company as at December 31, 2004.

Inventories

Inventories are carried at the lower of cost using the first-in, first-out method and net realizable value.
Inventories consist of material inventories, work in process and finished goods. The material inventory balances include electronic parts for research and development use. The work in process and finished goods balances include electronic consumer products.

Research and development expenses

Costs related to research, design and development of software products are charged to research and development expense as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established, which generally occurs upon completion of a working model, and ending when a product is available for general release to customers. All subsequent costs are expensed as incurred. The Company reassesses whether it has met the relevant criteria for deferral and amortization and whether there is any impairment in value at each reporting date.

Property and equipment

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

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

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

Revenue recognition

i) Software

The Company recognizes revenue as described below which is consistent with Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2") issued by the American Institute of Certified Public Accountants.

The Company recognizes revenue from packaged software and license fees when the software is delivered, title has passed and customer acceptance has occurred, there is persuasive evidence that an arrangement exists, the fee is fixed and determinable, and collection is probable.

ii) Products

The Company generates revenue through the sale of electronic products. Revenue is recognized only when persuasive evidence for a sales arrangement exists i.e., delivery of the product has occurred; the product fee is fixed or determinable; and collection of the sale is reasonably assured.

Income taxes

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

Foreign currency translation

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

Stock-based compensation

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

Loss per share

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

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

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

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.

4. INVENTORY

	2005	2004
Material inventories	$ 558,799	$ 392,861
Work in process	215,773	-
Finished goods	28,771	5,755
	$ 803,343	$ 398,616

During the year, finished goods inventory was written down to its estimated realizable value and results of operations includes a corresponding charge of $80,749 (2004 - $45,068, 2003 – $Nil).

5. PROPERTY AND EQUIPMENT

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer Equipment	$152,504	$79,078	$73,426	$124,553	$51,911	$72,642
Furniture and equipment	113,083	38,232	74,851	78,219	23,891	54,328
Leasehold Improvement	24,933	5,899	19,034	9,424	2,153	7,271
Tools	34,784	9,740	25,044	34,784	3,478	31,306
	$325,304	$132,949	$192,355	$246,980	$81,433	$165,547

Included in property and equipment is $22,051 (December 31, 2004 - $22,051) of computer equipment and furniture and equipment under capital lease with related accumulated amortization of $6,174 (December 31, 2004 - $2,205).

6. DEFERRED DEVELOPMENT COSTS

	2005	2004
Balance, beginning of year	$ -	$ 1,741,778
Write-off of deferred costs	-	(1,741,778)
Balance, end of year	$ -	$ -

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.

7. PROMISSORY NOTE

On October 3rd, 2005, the Company loaned $45,000 to an officer of the Company for home relocation to Vancouver. The principal amount of $45,000 together with interest at the rate of 4.0% per annum, calculated before and after maturity, is to be repaid in full on or before January 31, 2006.

In February 2006, the officer re-paid the loan and the interest.

8. OBLIGATIONS UNDER CAPITAL LEASE

	2005	2004
Payments of $367 per month, non-interest bearing, due over lease terms expiring through September 2009	$ 16,905	$ 20,948
Less: current portion	(4,410)	(4,410)
	$ 12,495	$ 16,538

Estimated remaining lease payments are as follows:		
2005	$ -	$ 4,410
2006	4,410	4,410
2007	4,410	4,410
2008	4,410	4,410
2009	3,675	3,308
Balance of obligation	$ 16,905	$ 20,948

9. LOAN PAYABLE

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

In October 2005, the Company paid off the loan.

10. DUE TO RELATED PARTY

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

Interest was to accrue until January 1, 2005, when all accrued interest was to be paid, and was thereafter payable monthly commencing February 1, 2005.
In September 2005, the board approved and the Company paid off the full amount due to the related party.

11. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Included in issued share capital are 2,835,000 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.

11. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

On June 24, 2005, the Company issued 3,186,370 Units at $2.25 per unit pursuant to a Prospectus Offering ("Offering"). Each unit consisted of one common share and one half warrant, non-transferable, with each whole warrant exercisable into one common share at $2.50 until June 24, 2006. The Company issued 41,130 units (valued at $92,543) as an agent's fee, 50,000 units (valued at $112,500) as a corporate finance fee, and paid $445,157 in cash and issued 382,364 share purchase warrants with the same terms as the Offering with a value of $187,172.

On March 31, 2004, the Company issued 1,000,000 units at $0.80 per unit pursuant to the 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 at $1.00 per share until March 31, 2005. The Company issued 49,000 units (valued at $39,200) as an agent fees, paid $56,100 in cash and issued 200,000 share purchase warrants with a value of $48,250 and with the same terms as the short form offering.

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. 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.

12. 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 applicable discounts. The options can be granted for a maximum term of 5 years.

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

As at December 31, 2005, the following incentive stock options and warrants are outstanding and exercisable:

	NUMBER OF SHARES		EXERCISE PRICE	EXPIRY DATE
STOCK OPTIONS	2,450,000	$	0.35	September 19, 2008
	575,000		0.80	March 16, 2009
	60,000		2.11	April 7, 2006
	30,000		2.11	November 22, 2006
	100,000		1.85	January 26, 2010
	25,000		2.12	June 28, 2010
	100,000		2.10	August 1, 2010
	25,000		1.76	August 10, 2010
WARRANTS	2,021,114	$	2.50	June 20, 2006

12. STOCK OPTIONS AND WARRANTS (cont'd…)

Stock option transactions are summarized as follows:

	2005			2004			2003		
	Number of options	Weighted Average Exercise Price		Number of options	Weighted Average Exercise Price		Number of options	Weighted Average Exercise Price	
OUTSTANDING, BEGINNING OF YEAR	3,903,334	$	0.51	2,495,000	$	0.35	-	$	-
OPTIONS GRANTED	340,000		2.01	1,425,000		0.80	2,520,000		0.35
OPTIONS EXERCISED	(343,334)		0.77	(1,666)		0.35	-		0.35
OPTIONS EXPIRED	(535,000)		0.80	(15,000)		0.35	(25,000)		0.35
OUTSTANDING, END OF YEAR	3,365,000	$	0.59	3,903,334	$	0.51	2,495,000	$	0.35
NUMBER OF OPTIONS EXERCISABLE, END OF YEAR	3,100,830	$	0.59	3,903,334	$	0.51	2,495,000	$	0.35

The weighted average fair value of options granted during the year was $1.10 (2004 - $0.60, 2003 - $0.32).

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

	2005			2004			2003		
	Number of warrants	Weighted Average Exercise Price		Number of warrants	Weighted Average Exercise Price		Number of warrants	Weighted Average Exercise Price	
OUTSTANDING, BEGINNING OF YEAR	701,200	$	1.00	6,774,705	$	0.43	-	$	-
WARRANTS GRANTED	2,021,114		2.50	724,500		1.00	7,049,419		0.43
WARRANTS EXERCISED	(701,200)		1.00	(6,794,005)		0.44	(274,714)		0.37
WARRANTS EXPIRED	-			(4,000)		0.45	-		-
OUTSTANDING, END OF YEAR	2,021,114	$	2.50	701,200	$	1.00	6,774,705	$	0.43
NUMBER OF WARRANTS CURRENTLY EXERCISABLE	2,021,114	$	2.50	701,200	$	1.00	6,774,705	$	0.43

12. STOCK OPTIONS AND WARRANTS (cont'd…)

Stock-based compensation

The Company granted 340,000 (2004 - 1,425,000, 2003 - 2,520,000) stock options during the year to directors, consultants and employees, resulting in compensation costs of $133,937 (2004 - $861,097, 2003 - $805,865) which were recorded as contributed surplus on the balance sheet. The remaining $238,410 of compensation costs incurred in 2005 will be amortized over the option vesting period.

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

	2005	2004	2003
Risk-free interest rate	3.03%	2.95%	3.82%
Expected life of options / warrants	2.25 years	5 years	5 years
Annualized volatility	66.46%	100%	100%
Dividend rate	0.00%	0.00%	0.00%

13. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a. Paid or accrued wages and benefits of $415,000 (2004 - $141,750, 2003 - $86,500) to directors, officers and former officers of the Company.
b. Paid or accrued interest of $51,860 (2004 - $95,366, 2003 - $74,792) to a director of the Company.
c. Paid or accrued directors' fees of $117,000 (2004 - $90,000, 2003 - $Nil) for services provided by directors.
d. Recorded stock-based compensation of $17,740 (2004 - $861,097, 2003 - $805,865) for services provided by directors and officers.
e. Paid or accrued consulting fees of $204,000 (2004 - $71,000, 2003 - $Nil) for services provided by an officer of the Company.

Included in research and development costs are salaries and benefits of $114,500 (2004 - $72,000, 2003 - $72,000) paid or accrued to directors and officers and to companies with common directors.

Included in current accounts payable is $144,000 (2004 - $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.

14. INCOME TAXES

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

	2005	2004	2003
Loss before income taxes	$ (4,127,314)	$ (4,850,830)	$ (1,697,600)
Expected income tax recovery	$ (1,439,194)	$ (1,726,895)	$ (604,346)
Differences in foreign tax rates	80,872	340,661	(16,103)
Share issuance costs deductible	(105,789)	(51,104)	(33,176)
Non-deductible expenses	64,148	576,761	206,068
Unrecognized tax benefit of non-capital operating losses	1,399,964	860,577	447,557
Total income tax recovery	$ -	$ -	$ -

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

	2005	2004	2003
Future income tax assets:			
Net operating losses available for future years	$ 3,162,488	$ 1,750,230	$ 1,094,474
Property and equipment	42,944	27,774	18,130
Deferred start-up costs	44,704	121,494	149,531
Share issuance costs and other	373,484	1,134	126,778
	3,623,620	1,900,632	1,388,913
Future income tax liabilities:			
Research and development costs	-	-	(192,207)
	3,623,620	1,900,632	1,196,706
Valuation allowance	(3,623,620)	(1,900,632)	(1,196,706)
Net future income tax assets	$ -	$ -	$ -

The Company has available for deduction against future taxable income non-capital losses of approximately $8,700,000. These losses, if not utilized, will expire through to 2015. Future tax benefits which may arise as a result of these non-capital losses have not been recognized in these financial statements due to the uncertainty of their realization.

15. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in one business segment, being the development of Linux-based embedded systems technologies, in the following geographical areas:

		2005		2004
PROPERTY AND EQUIPMENT				
Canada	$	171,776	$	141,648
People's Republic of China		20,579		23,899
	$	192,355	$	165,547

		2005		2004		2003
REVENUE						
Canada	$	(32,669)	$	124,115	$	127,276
United States of America		36,415		46,254		7,452
	$	3,746	$	170,369	$	134,728

16. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, promissory note, accounts payable and accrued liabilities, obligations under capital leases, 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.

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Cash paid during the year for interest	$51,860	$59,590	$44,836
Cash paid during the year for income taxes	-	-	-

During the year ended December 31, 2005, the Company:

a. Issued 91,130 common share units and 382,364 share purchase warrants with a total value of $392,215 as agent service fees pursuant to a prospectus offering. (Note 11)

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.

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.
c. Issued 974,850 agent's warrants with a value of $91,412 pursuant to the initial public offering.

18. COMMITMENTS AND CONTINGENCIES

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

2006	$	125,483
2007		126,287
2008		129,324
2009		131,198
2010		98,398

b. A legal proceeding has been commenced against the Company by Infinite Media, the Company's previous brand development and service provider. The claim amount is $113,355 and certain copyright claims. On September 26, 2005, the Company has filed a Statement of Defence and Counterclaim. The outcome cannot be determined at this time.

19. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). There were no material variations in the accounting measurement principles, practices and methods used in preparing these financial statements from measurement principles, practices and methods accepted in the United States (“US GAAP”). Accordingly, there is no impact of the differences between Canadian GAAP and US GAAP on the consolidated balance sheets, the consolidated statement of operations, consolidated statement of shareholders’ equity, and the consolidated statement of cash flow.

Stock-based compensation

Effective January 1, 2003, 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.

Under US GAAP, Statement of Financial Accounting Standard No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”) encourages companies to establish a fair market value based method of accounting for stock-based compensation plans. Accounting Principles Board Opinion No. 25 (“APB 25”) permits the measurement of compensation cost for stock options as the excess, if any, of the quoted market price of the Company’s stock at the date of grant over the option price. The Company has chosen to account for stock-based compensation under SFAS 123.
Accordingly there is no difference between Canadian and US GAAP in the accounting for stock based compensation for the years ended December 31, 2005, 2004 and 2003.

Impact of recent United States accounting pronouncements

i) (During 2004, FASB issued revised Statement of Financial Accounting Standards No. 123R, “Share-Based Payment” (“SFAS123R”). This amended statement eliminates the alternative to use the intrinsic value method of accounting pursuant to APB 25 as was provided in the original issue of SFAS 123. Accordingly, public entities are required to use the fair value method of accounting for stock-based compensation and other share based payments. The Company currently applies a fair value based methodology to stock-based compensation. The adoption of this amended US standard is not expected to have a material effect on the Company’s consolidated financial statements.

ii) During 2004, FASB issued SFAS 153 “Exchanges of Non-monetary Assets”, which amends APB 29, “Accounting for Non-monetary Transactions”, to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges on non-monetary assets that do not have commercial substance. Adoption of this standard is not expected to have a material effect on the Company’s consolidated financial statements.

iii) In November 2004, the Financial Accounting Standards Board (“FASB”) issued Statement No. 151, “Inventory Costs”, to amend the guidance in Chapter 4, “Inventory Pricing”, of FASB Accounting Research Bulletin No. 43, “Restatement And Revision Of Accounting Research Bulletins”, which will become effective for the Company in fiscal year 2006. Statement 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The Statement requires that those items be recognized as current-period changes. Additionally, Statement 151 requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. Management believes that the adoption of SFAS 151 will not affect the Company’s financial position or results of operations.

19. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd …)

Impact of recent United States accounting pronouncements (Cont'd...)

iv) In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections (SFAS No. 154), a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 requires retrospective application to prior-period financial statements of changes in accounting principles, unless a new accounting pronouncement provides specific transition provisions to the contrary or it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also redefines "restatement" as the revising of previously issued financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

BOARD OF DIRECTORS:

- **Edward Bagg**
- **Amy Chan**
- **Steve Gupta**
- **Paul Leung**
- **Charles Walker**

MANAGEMENT:

- **Paul Leung,**
  Chairman, President & CEO (Founder)
- **Dr. Khe-Tai Ma,**
  Chief Operating Officer and
  Senior Vice President of Business Development
- **Amy Chan,**
  Chief Financial Officer (Co-Founder)
- **Kenneth Ho,**
  Vice President, Research & Development
- **Alex Romanov,**
  Vice President, Sales & Marketing
- **Steve Mathiesen,**
  Corporate Secretary

INVESTOR RELATIONS:

- **David Flynn**
  dflynn787@rogers.com
  Tel: 1-416-400-7725

AUDITOR:

- **Davidson & Company**
  Chartered Accountants
  1020 - 609 Granville Street
  P.O. Box 10372, Pacific Centre
  Vancouver, B.C. V7Y 1G6

LEGAL:

- **Lang Michener**
  Barrister and Solicitors
  1500 - 1055 West Georgia Street
  P.O. Box 11117
  Vancouver, B.C. V6E 4N7
- **Black Lowe & Graham**
  Intellectual Property Attorneys & Agents
  701 Fifth Avenue, Suite 4800
  Seattle, Washington 98104

TRANSFER AGENT:

- **Computershare**
  Trust Company of Canada
  510 Burrard Street, 2nd Floor
  Vancouver, B.C. V6C 3B9

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EMPOWER TECHNOLOGIES CORPORATION

TSX.V : EPT

Empower Technologies, Inc.

Unit 214 - 18300 NE Union Hill Road
Redmond WA 98052-3391
Tel: 425 881 0909
Fax: 425 881 0889

Empower Technologies (Canada) Inc.

Unit 405 - 5600 Parkwood Way,
Crestwood Commerce Centre
Richmond, BC V6V 2M2
Tel: 604 278-3100
Fax: 604 278-3102

WWW.EMPOWERTECHNOLOGIES.COM