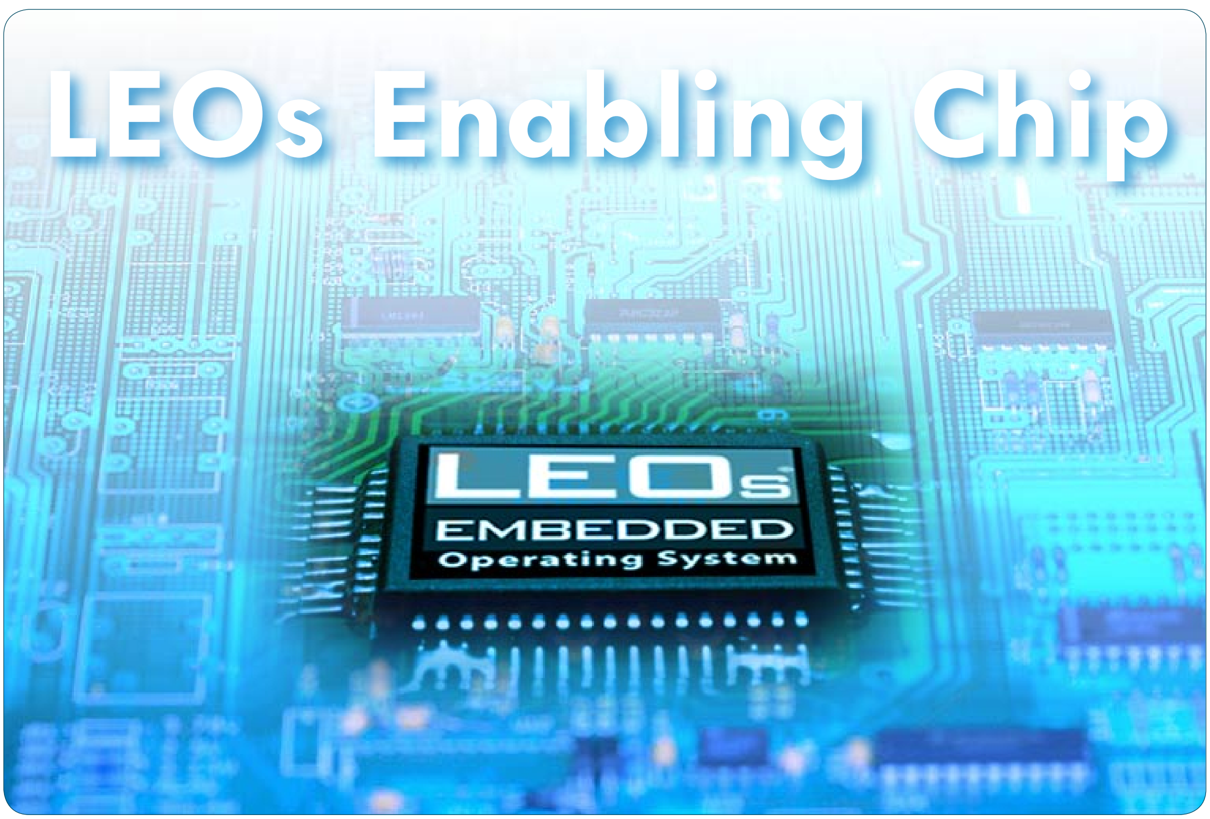
Empower Technologies Corporation

Annual Report 2006



OUR MISSION:

To be the leading developer and provider of Linux-based embedded operating software, development platforms and system technologies for the embedded computing industry.

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Empower Technologies Corporation is a developer and provider of Linux-based embedded operating software, development platforms and system technologies for embedded computing industry.

Dedicated to bringing its Linux-based solutions to the forefront of the intelligent 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 core technology - LEOs™ ("LinuxDA Embedded O/S") and its accompany development kit – LDKxxxx ("LEOs Development Kits").

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 Empower's platforms to deliver complete solutions for the embedded-system market.

Recognizing the opportunity to provide an alternative option to dominant embedded technology platforms, Empower created LEOs 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 and its accompany LDKxxxx development kits for various embedded CPU platform, Empower positioned itself as an industry leader in Linux-based embedded operating software and system technologies and solutions for manufacturers, developers, value-added resellers and system integrators.

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
Operating System

BY

mPOWER
Empower Technologies

TO OUR VALUED SHAREHOLDERS,

In 2006, Empower Technologies made a transition from R&D to commercialization. The Company kicked off its new sales and marketing campaign in January at the Consumer Electronics Show (CES) 2006 in Las Vegas. This marked the first time in Empower's history that the Company focused solely on marketing its own embedded software and system technology: the LinuxDA Embedded Operating Software (LEOs) and its accompanying development platform tool kit, the LDK591x.

In the process of transition from R&D to commercialization, the Company has also perfected its business model. The licensing of Empower's embedded software and system technologies requires that the licensee purchase custom System on Chip (SoC) called LEOs Enabling Chip (LEC) from Empower. The LEC enables the licensee's application program developed using the LEOs and its runtime library (SDK – Software Development Kit) to be operable within their product. Developers running LEOs will be required to design their own embedded hardware with LEC onboard. They must also purchase the LEC from Empower when they are ready to go into production. This simplifies the LEOs licensing process and it also removes the monitoring process that would have been required afterward.

As a result of the transition and our new business model, the Company has opened a number of sales channels. The four newly enlisted resellers helped launch the Company's core technologies at the early stage of commercialization. LEOs and its LDK591x development kits have been awarded three Design Wins. One of the development kits has already generated a sales opportunity and a licensing agreement in the RFID area using the new LEC business model described above. Encouraged by these initial successes, the Company has set out on a mission to solicit further customer designs that would result in new LEC sales.

Here are the new sales and marketing strategies Empower has devised during the course of transition:

- We are going to create an efficient sales network that will consist of manufacturer's representatives and major electronics and technologies distributors to market and sell LEOs and LDKxxxx platform development kits among developers, manufacturers, value-added resellers, and system integrators.

- We are going to widen the focus of the Company's sales and marketing efforts from the consumer electronics market to the broader embedded-system market, which includes the automotive, RFID, industrial control, and medical devices sectors.
- We are going to accelerate the process of turning Empower customer Design Wins into engineered products and purchase LEC when they are ready to go into production.

We firmly believe that these new strategies will bolster the adoption of our core embedded software and system technologies among Empower's target customers, which will ultimately translate into revenue once the products are engineered and ready to go into production with LEC onboard.

Our marketing efforts in 2006 are beginning to pay off. The living proof of this was on November 8, 2006, when the Company announced the news of its winning the International CES Innovation 2007 Design and Engineering Awards Honoree for "iMedia Chair" in New York. Products entered in this prestigious competition are judged by a preeminent panel of independent industrial designers, engineers, and members of the trade press. The awards honour outstanding design and engineering in cutting-edge consumer electronics products. Winning this most prestigious award is a validation and recognition of Empower's core embedded software technology (LEOs) and our embedded system development platform kit (LDK591x), which can be put to task to produce a truly innovative consumer technology product - the iMedia Chair. Just imagine how LEOs can enhance the capabilities of other conventional products!

We have worked during the year to streamline our operations and production activities. With our new sales and marketing strategies, Empower is progressing steadily into what looks to be a promising year ahead.

AMY CHAN
Chief Financial Officer
(Co-Founder)

PAUL LEUNG
Chairman,
President & CEO
(Founder)

KEN HO
Vice President,
R&D

Year Ended December 31, 2006 (Amended on July 25, 2007)

The following discussion and analysis, prepared as of April 18, 2007, should be read together with the audited consolidated financial statements for the twelve month period ended December 31, 2006 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

For the year ended December 31, 2006, the Company has incurred a loss of $4,174,927 or $0.12 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, 2006, the following events took place:

- On February 20, the Company's product, LEOs-based development platform LDK5910 software development kit has listed on the Texas Instruments ("TI") online eStore. Empower also comes up first when a keyword search is made on TI.com for OMAP5910, Linux or Empower and marked as a TI recommended 'Best Bet'.
- On February 27, the LDK5912 was officially unveiled to the world at the TI Developers Conference with many of the top DSP programmers and TI executives in attendance. The conference which ran from February 28th to March 2nd, 2006 in Dallas, Texas is widely regarded as one of the most, high powered gatherings of DSP programmers and developers in the world.
- On March 29, the Company launched LDK5912 at the Embedded Systems Conference (ESC) in San Jose, California, from April 3rd to April 7th 2006 in the Texas Instruments Third Party Pavilion at the San Jose McEnery Conference Center. The LDK5912 Development Kit completed the LEOs for TI's OMAP591x dual-core embedded processor family.
- On June 26, the Company announced it has begun a joint international sales effort with Texas Instrument (TI) to promote its LDK591x family of LEOs Development Kits to over 2,000 of the top universities and technical colleges worldwide.
- On June 28, the Company has signed the first LEOs operating software licensing agreement, a supply agreement and a software development agreement with an undisclosed customer on the US west coast. Due to the extremely competitive nature of their fast growing industry, the Customer requested Empower to keep their identity and business in strict confidence.
- On July 12, Empower Technologies (Empower) and Texas Instruments Incorporated (TI) jointly announced the release of Empower's latest LinuxDA Embedded Operating System (LEOs 2.3) running Linux Kernel 2.6.12 along with TI's DSP/BIOS Link for TI's OMAP5912 dual-core digital signal processor (DSP) and ARM general purpose processor (GPP). For the first time the Linux Kernel 2.6.12 is available with the OMAP5912 and TI's latest software tools, such as DSP/BIOS Link, Code Composer Studio Integrated Development Environment and Reference Framework 6 (RF6) so developers can create consumer electronics products at reduced cost, risk and time-to-market.
- On October 19, the Company announced the launch of Empower's Asia sales and marketing initiative with its core technology LEOs ("LinuxDA Embedded Operating System") for Texas Instruments ("TI") OMAP591x dual core embedded processor family and the accompanying development tool platform LDK5910 and LDK5912 Development Kits. Empower exhibited at the Texas Instruments developers Conference (TIDC) Asia 2006 that was held in three

Asian cities, the epi-center of Consumer Electronics development and manufacturing in one week from October 23 to 27, 2006.

- On November 8, the Consumer Electronics Association (CEA) announced Empower Technologies Corporation ("Empower") the recipient of an International CES Innovations 2007 Design and Engineering Awards Honoree for "iMedia Chair" at the International CES New York Press Preview. Products entered in this prestigious program are judged by a preeminent panel of independent industrial designers, engineers and members of the trade press to honor outstanding design and engineering in cutting edge consumer electronics products.
- During the year , the Company attended the following tradeshows:
  - Consumer Electronics Show, Las Vegas, NV, USA, January 5-8, 2006
  - TI Developer Conference, Dallas, TX, USA, February 28 – March 2, 2006
  - Game Developers Conference, San Jose, CA, USA, March 22-24, 2006
  - Embedded System Conference, San Jose, CA, USA, April 3-7, 2006
  - Electronic Entertainment Expo, Los Angeles, CA, USA, May 10-12, 2006
  - TI Developer Conference Asia, Shenzhen, Taipei, Singapore, Oct 23-27, 2006
  - TI Developer Conference, Bangalore, India, Nov 30-Dec 01, 2006

RESULTS OF OPERATIONS

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Sales			
Canada	$ 83,356	$ (32,669)	$ 124,115
People's Republic of China	-	-	-
United States of America	1,782	36,415	46,254
	85,138	3,746	170,369
Cost of Sales	128,101	103,082	175,204
Gross Margin	(42,963)	(99,336)	(4,835)
Total expenses	4,102,673	4,097,078	3,116,256
Total expenses without stock-based compensation	3,823,308	3,963,141	2,255,159
Total expenses without stock-based compensation, R&D Costs, and amortization of research and development costs	2,485,656	2,633,562	1,485,117
Loss for the period			
Canada	(3,825,696)	(3,675,968)	(2,941,390)
People's Republic of China	(163,566)	(236,751)	(527,094)
United States of America	(164,612)	(214,596)	(1,382,346)
	$ (4,153,874)	$ (4,127,314)	$ (4,850,830)

REVENUE

Presently the Company's activities has shifted from primarily the development of the Company's LEOs operating software for Texas Instruments embedded processors, the engineering of reference designs using LEOs, LDK5910 and LDK5912 Development Kit, and filing patents for embedded systems and technologies, to commercialize the sales and marketing of LEOs, LDKxxxx development platform and the reference designs using LEOs. Revenues generated for the year ended December 31, 2006 were $85,138 compared with $3,746 for fiscal 2005 and $170,369 for fiscal 2004. This increase is attributed to the successful execution of the Company's decision to change the sales focus from distributed products and end of life products to sales and market the Company's core enabling embedded technology LEOs (LinuxDA Embedded O/S) and LDK591x.

The Company anticipates revenue to continue to improve through its plans to: release new and improved version of LEOs operating software, LDKxxxx platform development products and reference designs using LEOs; move aggressively to set up a strong marketing and sales channel using Manufacturer's Representative sales network and major electronic distributors in North America for LEOs, the LDKxxxx Development Kit, and the reference designs such as the Osaka Project, PowerPlay Media Chair and PowerPlay 1x.

GENEREAL & ADMINISTRATIVE

General and administrative expenses for the year ended December 31, 2006 increased to $2,765,021 (2005 – $2,734,997 and 2004 - $2,346,214). Wages and benefits decreased to $576,969 (2005 - $1,019,785 and 2004 - $446,493). Advertising and promotion increased to $368,562 (2005 - $329,481 and 2004 - $236,839) due to the Company's effort to commercialize its technologies by attending tradeshows and to expand investor relations. Travelling expenses was at $171,266 (2005 - $187,169 and 2004 – $104,063) due to increase efforts to promote our products and to attend tradeshows. Office expenses decreased to $83,907 (2005 - $118,229 and 2004 - $63,628), rent increased to $79,089 (2005 - $34,568 and 2004 - $28,923) due to the move to a new and larger premise. Legal fees decreased to $178,589 (2005 - $229,679 and 2004 - $126,856).

RESEARCH & DEVELOPMENT

Research and Development costs ("R&D costs") relating to the development of LEOs, the LDK591x Development Kit, and new reference designs using LEOs are expensed as incurred. R&D costs for the year ended December 31, 2006 were $1,337,652 compared to $1,329,579 for 2005.

The R&D cost stabilized is due to the Company's successful completion of developing its core technology - LEOs operating software, the development platform products - LDK591x, and reference designs – Osaka Project, PowerPlay Media Chair and PowerPlay 1x unit.

SIGNIFICANT PROJECTS

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

Empower US completed work on the next version of LEOs. It was tested and released for the Texas Instruments ("TI") OMAP5912 dual-core processors.

<u>LDK5912 Development Kit</u>

Empower US has completed work on LEOs II 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.

<u>Osaka Project</u>

With CD, DVD, MP3, user programming and PC connectivity capabilities, the Osaka Project is a compact, all-digital intelligent audio/video reference design system. Supporting a wide range of sound functions, it integrates all the elements of personal computer and home audio/video, in addition to a PDA with QVGA display. Powered by LEOs for the TI OMAP591x dual core processor, the Osaka Project

SIGNIFICANT PROJECTS (cont'd...)

uses Empower's Totally Digital Audio Path ("T-DAP") technology. The Osaka Project was completed and renamed "Osaka Technology" for marketing purpose. The Company targeted the audio video developers, designers and manufacturers to use the "Osaka Technology" to fast track their AV product development.

PowerPlay 1x

This mobile data terminal model is near the end of development. The Company is working on the industrial design of the housing of the unit. Besides the regular PDA functions, this new model will have wireless communication capability. It now has renamed "PowerPlay iH" and "iH" stands for "industrial Handheld". The "PowerPlay iH" is targeted toward the industrial control market.

USE OF PROCEEDS OF PROSPECTUS OFFERING FROM LAST FINANCING

On June 24, 2005, the Company completed its Prospectus Offering ("Offering"), resulting in the sale of 3,186,370 Units at $2.25 per Unit, for gross proceeds of $7,169,332. 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. Canaccord Capital Corporation acted as agent for the Offering and received a commission of 7.5% of gross proceeds, of which the Agent elected to be partially paid in Units under the same terms as the Offering.

The following is the detail of the relevant estimated milestones and actual usage of funds to December 31, 2006.

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	$ 300,000	$ -
Milestone 5	800,000	800,000	-
Sales and Marketing			
Milestone 2	306,000	306,000	-
Milestone 3	1,100,000	1,100,000	-
Milestone 4	50,000	50,000	-
Management			
Milestone 6 (originally $500,000) Remaining balance reallocated to general working capital	204,020	204,020	-
Proposed Acquisition			
Milestone 7 (originally $1,000,000) Remaining balance re-allocated to general working capital	44,714	44,714	-
Re-allocate Funds			
General working capital	1,251,266	1,251,266	-
Administration and operating expenses	1,773,000	1,773,000	-

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

The amount of "Product Development" has been expensed on developing the products since the Offering was completed. The amount of "Sales and Marketing" is completed. 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; Milestone 6 was initially allocated to hire additional management, but the Company has decided it is not necessary to go the full extent; therefore, the Company has amended Milestone 6 for $295,980 and Milestone 7 for $955,286 and re-allocated the amended balances to general working capital and expensed the full amount in the Company's operation in 2006.

Management had fully expensed the use of proceeds.

SUMMARY OF QUARTERLY RESULTS

	Three Months Ended December 31, 2006	Three Months Ended September 30, 2006	Three Months Ended June 30, 2006	Three Months Ended March 31, 2006
Total assets	$ 1,024,654	$ 1,628,819	$ 2,668,439	$ 3,655,735
Stock Based Compensation	50,980	58,275	98,821	71,289
Write-off of deferred costs	-	-	-	-
Working capital	535,222	1,384,272	2,206,395	3,259,123
Shareholders' equity	681,875	1,559,571	2,386,199	3,447,144
Revenues	28,461	19,971	22,697	14,009
Net Loss	(1,036,656)	(954,903)	(1,158,363)	(1,003,952)
Loss per share	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.03)

	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	133,937	-	-	-
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)

Significant changes in key financial data in 2006 can be attributed to the implementation of stock-based compensation, and the Company accelerating its efforts to develop new products.

FOURTH QUARTER RESULT

Revenue for the fourth quarter ended December 31, 2006 was $28,461 compared to $(59,849) for the fourth quarter ended December 31, 2005. This increase is attributed to the Company's decision to develop and market new products using the Company's embedded system technologies - LEOs (LinuxDA Embedded O/S), LDKxxxx development platform, and reference designs. The same reason applies to the

FOURTH QUARTER RESULTS (cont'd...)

increase in revenue in the fourth quarter ended December 31, 2006 than that of the third quarter ended September 31, 2006 which is $19,971.

The general and administrative cost for the fourth quarter ended December 31, 2006 was $680,195 compared to $886,605 for the fourth quarter of 2005 and $618,369 for the third quarter ended September 30, 2006. This amount 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 figure is also attributable to legal fees which reflect the Company's efforts to apply for patents and trademarks to create Intellectual Property Rights ("IPR") and IPR value.

R&D costs for the fourth quarter ended December 31, 2006 were $246,261 compared to $354,836 for the fourth quarter of 2005 and $353,667 for the third quarter ended September 31, 2006.

After conducting its annual review, the Company recorded a write-off of inventories of $43,111 due to obsolescence.

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.

	2006	2005
Deficit	$ (16,461,157)	$ (12,307,283)
Working capital	$ 535,222	$ 4,032,774

Net cash used in operating activities for the year ended December 31, 2006 was $3,796,498 compared to net cash used of $4,323,577 for the year ended December 31, 2005. The cash used in operating activities for the year consisted primarily of the operating expenses, office, marketing and sales activities, advertising and promotion, tradeshows, travel and accommodation, and investor relations.

Net cash received from investing activities for the year ended December 31, 2006 was $17,564 compared to net cash used for investing activities of $123,488 during the year ended December 31, 2005. The cash received during the year was due to the receipt of a promissory note which was given to the Company's vice president.

Net cash provided by financing activities for the year ended December 31, 2006 was $434,340 compared to net cash provided by financing activities of $6,644,147 for the year ended December 31, 2005. The cash provided during the year was due to the exercise of the options.

As of December 31, 2006, the Company's cash was $95,530 with net working capital of $535,222 compared to $3,440,124 and 4,032,774 respectively as at December 31, 2005. The Company has been incurring operating losses at the average rate of $318,459 per month over the last twelve months.

CAPITAL RESOURCES

The authorized capital of the Company consists of unlimited common shares without par value. As at December 31, 2006, there are 34,055,654 common shares issued and outstanding.

The Company has 1,593,185 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 20, 2007. 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, 2006	Shares	Exercise Price	Expiry Date	Amount
Warrants outstanding	1,593,185	$2.50	June 20, 2007	$3,982,963
	1,593,185			$3,982,963

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, 2006, the Company has shares outstanding as follows:

	Shares
Authorized	
Unlimited common shares without par value	
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
Exercise of options	725,000
Balance, December 31, 2006	34,055,654

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 compensation of $158,771 (2005 - $415,000, 2004 - $141,750) to directors of the Company.

b) Paid or accrued directors' fees of $105,000 (2005 - $117,000, 2004 - $90,000) for services provided by directors.

c) Recorded stock-based compensation of $185,563 (2005 - $17,740, 2004 - $861,097) for services provided by directors and officers.

d) Paid or accrued consulting fees of $507,815 (2005 - $204,000, 2004 - $71,000) for services provided by directors and officers of the Company.

Included in research and development costs are salaries and benefits of $136,686 (2005 - $114,500, 2004 - $72,000) paid or accrued to directors and officers and to companies with common directors.

Included in current accounts payable is $127,555 (2005 - $144,000, 2004 - $89,052) due to directors and officers of the Company.

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 $17,663 as at December 31, 2006 and $18,970 as at December 31, 2005.

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.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures for the year ending December 31, 2006 and concluded that our disclosure controls and procedures provided reasonable assurance that material information relating to the company was made known to them and reported as required.

Our Chief Executive Officer and Chief Financial Officer are also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. They have evaluated the design of our internal controls and procedures over financial reporting as of the end of the period covered by the annual filings, and believe the design to be sufficient to provide such reasonable assurance. To the date of this interim discussion, there have not been any changes that materially affect, or are likely to affect, our internal controls over financial reporting.

SUBSEQUENT EVENTS

a) 700,000 options were exercised by two directors of the Company in January 2007, at $0.35 each for total proceeds $245,000.

b) The Company announced a brokered private placement with Union Securities Ltd in Toronto ("the Agent"). The private placement was for 1,700,000 Units (the "Offering") at a price of $0.90 per Unit for total proceeds of $1,530,000. Each Unit consists of one common share and one-half common share purchase warrant. Each whole warrant has an exercise price of $1.25with an expiry date of February 20, 2008. The Company granted the Agent an over-allotment option ("Over-Allotment Option"), exercisable to February 27, 2007 to purchase an additional 170,000 Units on the same terms as the Units. The Agent's compensation includes a commission of 8% of the gross subscription amount and the Over-Allotment Option. In addition, the Agent is to receive compensation options (the "Agent's Compensation Options") equal to 10% of all Units sold pursuant to the Offering and the Over-Allotment Option. Each Agent's Compensation Option entitles the Agent to purchase one Unit of the Company at $0.90 per Unit at any time prior to February 20, 2008.

EMPOWER TECHNOLOGIES CORPORATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

DECEMBER 31, 2006

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, 2006 and 2005 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 2006, 2005 and 2004. 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, 2006 and 2005 and the results of its operations and its cash flows for the years ended December 31, 2006, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"
Chartered Accountants

Vancouver, Canada
February 14, 2007

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 14, 2007 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
February 14, 2007

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

CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian Dollars)
AS AT DECEMBER 31

		2006		2005
ASSETS				
Current				
Cash	$	95,530	$	3,440,124
Receivables, net of allowance of $17,663 (2005 - $18,970)		46,686		66,686
Promissory note (Note 6)		-		45,000
Inventory (Note 3)		662,973		803,343
Prepaid expenses		64,727		66,413
Total current assets		869,916		4,421,566
Property and equipment (Note 4)		154,738		192,355
Total assets	$	1,024,654	$	4,613,921
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	$	235,284	$	384,382
Loan Payable (Note 7)		95,000		-
Current portion of obligations under capital lease (Note 8)		4,410		4,410
Total Current Liabilities		334,694		388,792
Obligations under capital lease (Note 8)		8,085		12,495
Total Current Liabilities		342,779		401,287
Shareholders' equity				
Capital stock (Note 9)				
Authorized, Unlimited common shares without par value				
Issued and outstanding 34,055,654 shares (2005 – 33,330,654)		15,354,833		14,722,328
Contributed surplus (Note 9)		1,788,199		1,797,589
Deficit		(16,461,157)		(12,307,283)
Total shareholders' equity		681,875		4,212,634
Total liabilities and shareholders' equity	$	1,024,654	$	4,613,921

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

On behalf of the Board:

"Paul Leung" Director   "Steve Gupta" 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

	2006	2005	2004
SALES	$ 85,138	$ 3,746	$ 170,369
COST OF SALES	128,101	103,082	175,204
	(42,963)	(99,336)	(4,835)
EXPENSES			
Accounting and audit	73,009	70,340	64,461
Advertising and promotion	368,562	329,481	236,839
Amortization of property and equipment	41,584	47,711	23,005
Amortization of assets under capital lease	3,175	3,969	6,540
Bad debt	17,663	18,970	-
Bank charges and interest	7,018	8,977	7,880
Consulting fees	615,878	207,645	80,000
Foreign exchange (gain) loss	2,571	41,002	6,944
Insurance	46,383	53,755	37,329
Research and development	1,337,652	1,329,579	770,042
Interest on long term debt	-	51,860	96,563
Directors' fee	105,000	117,000	90,000
Legal fees	178,589	229,679	126,856
Office expenses	83,907	118,229	63,628
Rent	79,089	34,568	28,923
Stock-based compensation	279,365	133,937	861,097
Telephone and utilities	84,002	57,801	34,647
Transfer agent and filing fees	30,991	35,621	30,946
Travel	171,266	187,169	104,063
Wages and benefits	576,969	1,019,785	446,493
	(4,102,673)	(4,097,078)	(3,116,256)
Loss before other items	(4,145,636)	(4,196,414)	(3,121,091)
OTHER ITEMS			
Interest and other income	55,167	69,100	12,039
Write-off of inventory	(43,111)	-	-
Write-off of property and equipment	(20,294)	-	-
Write-off of deferred costs (Note 5)	-	-	(1,741,778)
	(8,238)	69,100	(1,729,739)
Loss for the year	$ (4,153,874)	$ (4,127,314)	$ (4,850,830)
Basic and diluted loss per common share	$ (0.12)	$ (0.13)	$ (0.20)
Weighted average number of common shares outstanding	33,592,846	31,438,973	23,989,741

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, 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
Prostectus 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 warrants 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
Exercise of options	725,000	0.47	632,505	(288,755)	-	343,750
Stock-based compensation	-	-	-	279,365	-	279,365
Loss for the year	-	-	-	-	(4,153,874)	(4,153,874)
BALANCE, DECEMBER 31, 2006	34,055,654		$ 15,354,833	$ 1,788,199	$ (16,461,157)	$ 681,875

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

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year	$ (4,153,874)	$ (4,127,314)	$ (4,850,830)
Items not affecting cash:			
Amortization of property and equipment	41,584	47,711	23,005
Amortization of property and equipment under capital lease	3,175	3,969	6,540
Stock-based compensation	279,365	133,937	861,097
Bad debt	17,663	18,970	-
Write-off of obsolete inventories	43,111	80,749	45,068
Write-off of property and equipment	20,294	-	-
Write-off of deferred costs	-	-	1,741,778
Other write-off	1,926	-	-
Changes in non-cash working capital items:			
Decrease in receivables	2,337	93,868	50,950
Decrease (increase) in inventory	97,259	(485,476)	(384,572)
Increase in prepaid expenses	(240)	(11,010)	(28,260)
Increase (decrease) in accounts payable and accrued liabilities	(149,098)	(78,981)	232,461
Net cash used in operating activities	(3,796,498)	(4,323,577)	(2,302,763)
CASH FLOWS FROM INVESTING ACTIVITIES			
Repayment (proceeds) of promissory note	45,000	(45,000)	-
Purchase of property and equipment	(27,436)	(78,488)	(129,582)
Net cash (used in) provided by investing activities	17,564	(123,488)	(129,582)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of capital lease obligations	(4,410)	(4,043)	(5,159)
Proceeds (repayment) of loan payable	-	(72,220)	72,220
Increase (decrease) of due to related party	95,000	(804,928)	(305,006)
Proceeds from issuance of common shares, net of issuance costs	343,750	7,525,338	3,715,725
Net cash provided by financing activities	434,340	6,644,147	3,477,780
Change in cash during the year	(3,344,594)	2,197,082	1,045,435
Cash, beginning of year	3,440,124	1,243,042	197,607
Cash, end of year	$ 95,530	$ 3,440,124	$ 1,243,042

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)
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.

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.

		2006		2005
Deficit	$	(16,461,157)	$	(12,307,283)
Working capital		535,222		4,032,774

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 $17,663 as at December 31, 2006 and $18,970 as at December 31, 2005.

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 POLOCOES (cont'd...)

Comparative figures

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

3. INVENTORY

	2006	2005
Material inventories	$ 618,285	$ 558,799
Work in process	36,817	215,773
Finished goods	7,871	28,771
	$ 662,973	$ 803,343

During the year, material inventory was written down to its estimated realizable value and results of operations includes a corresponding charge of $43,111 (2005 - $80,749, 2004 - $45,068).

4. PROPERTY AND EQUIPMENT

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer Equipment	$144,343	$93,982	$50,361	$152,504	$79,078	$73,426
Furniture and equipment	113,964	50,135	63,829	113,083	38,232	74,851
Leasehold Improvement	28,724	8,212	20,512	24,933	5,899	19,034
Tools	34,784	14,748	20,036	34,784	9,740	25,044
	$321,815	$167,077	$154,738	$325,304	$132,949	$192,355

Included in property and equipment is $22,051 (December 31, 2005 - $22,051) of computer equipment and furniture and equipment under capital lease with related accumulated amortization of $9,349. (December 31, 2005 - $6,174). During 2006 the company has written off its assets in its Shanghai office.

5. DEFERRED DEVELOPMENT COSTS

	2006	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.

6. PROMISSORY NOTE

During fiscal 2005, the Company loaned $45,000 to an officer of the Company for home relocation. The principal amount of $45,000 together with interest at the rate of 4.0% per annum was repaid in full in February 2006.

7. LOAN PAYABLE

The loan payable is due to a director of the Company, bearing interest at the rate of 8%. In year 2006, the Company accrued $688 of interest expense. The principal of $95,000 was repaid subsequent to year end in January 2007.

8. OBLIGATIONS UNDER CAPITAL LEASE

	2006	2005
Payments of $367 per month, non-interest bearing, due over lease terms expiring through September 2009	$ 12,495	$ 16,905
Less: current portion	(4,410)	(4,410)
	$ 8,085	$ 12,495
Estimated remaining lease payments are as follows:		
2006	$ -	$ 4,410
2007	4,410	4,410
2008	4,410	4,410
2009	3,675	3,675
Balance of obligation	$ 12,495	$ 16,905

9. 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.

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 20, 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 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 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, with the same terms as the short form offering.

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

On June 28, 2005, the Company amended the vesting period of the options to officers and directors 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, 2006, the following incentive stock options and warrants are outstanding:

	NUMBER OF SHARES	EXERCISE PRICE	EXPIRY DATE
STOCK OPTIONS	1,925,000	$ 0.35	September 19, 2008
	375,000	0.80	March 16, 2009
	25,000	2.12	June 28, 2010
	100,000	2.10	August 1, 2010
	25,000	1.76	August 10, 2010
	305,000	1.24	February 20, 2011
	300,000	2.50	April 20, 2011
	50,000	1.33	May 26, 2011
	550,000	1.00	September 1, 2011
WARRANTS	1,593,185	$ 2.50	June 20, 2007

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

On June 8, 2006 the Company extended the expiry date of the 1,593,185 common share purchase warrants issued on June 20, 2005 (the "Warrants") which were scheduled to expire on June 20, 2006, for one year to the close of business on June 20, 2007.

Stock option transactions are summarized as follows:

	2006		2005		2004	
	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	3,365,000	$ 0.59	3,903,334	$ 0.51	2,495,000	$ 0.35
OPTIONS GRANTED	1,410,000	1.41	340,000	2.01	1,425,000	0.80
OPTIONS EXERCISED	(725,000)	0.47	(343,334)	0.77	(1,666)	0.35
OPTIONS EXPIRED OR CANCELLED	(395,000)	1.58	(535,000)	0.80	(15,000)	0.35
OUTSTANDING, END OF YEAR	3,655,000	$ 0.83	3,365,000	$ 0.59	3,903,334	$ 0.51
NUMBER OF OPTIONS EXERCISABLE, END OF YEAR	2,350,000	$ 0.46	3,100,830	$ 0.59	3,903,334	$ 0.51

The weighted average fair value of options granted during the year was $0.91 (2005 - $1.10, 2004 - $0.60).

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

	2006		2005		2004	
	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	2,021,114	$ 2.50	701,200	$ 1.00	6,774,705	$ 0.43
WARRANTS GRANTED	-	-	2,021,114	2.50	724,500	1.00
WARRANTS EXERCISED	-	-	(701,200)	1.00	(6,794,005)	0.44
WARRANTS EXPIRED	(427,929)	2.50	-		(4,000)	0.45
OUTSTANDING, END OF YEAR	1,593,185	$ 2.50	2,021,114	$ 2.50	701,200	$ 1.00
NUMBER OF WARRANTS CURRENTLY EXERCISABLE	1,593,185	$ 2.50	2,021,114	$ 2.50	701,200	$ 1.00

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

Stock-based compensation

The Company granted 1,410,000 (2005 – 340,000, 2004 – 1,425,000) stock options during the year to directors, consultants and employees, resulting in compensation costs of $279,365 (2005 - $133,937, 2004 - $861,097) which were recorded as contributed surplus on the balance sheet.

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:

	2006	2005	2004
Risk-free interest rate	4.21%	3.03%	2.95%
Expected life of options / warrants	5 years	2.25 years	5 years
Annualized volatility	94.45%	66.46%	100%
Dividend	-	-	-

11. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Paid or accrued compensation of $158,771 (2005 - $415,000, 2004 - $141,750) to directors of the Company.

b) Paid or accrued directors' fees of $105,000 (2005 - $117,000, 2004 - $90,000) for services provided by directors.

c) Recorded stock-based compensation of $185,563 (2005 - $17,740, 2004 - $861,097) for services provided by directors and officers.

d) Paid or accrued consulting fees of $507,815 (2005 - $204,000, 2004 - $71,000) for services provided by officers and directors of the Company.

Included in research and development costs are salaries and benefits of $136,686 (2005 - $114,500, 2004 - $72,000) paid or accrued to an officer of the Company.

Included in current accounts payable is $127,555 (2005 - $144,000, 2004 - $89,052) due to directors and officers of the Company.

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:

	2006	2005	2004
Loss before income taxes	$ (4,153,874)	$ (4,127,314)	$ (4,850,830)
Expected income tax recovery	$ (1,500,379)	$ (1,439,194)	$ (1,726,895)
Differences in foreign tax rates	53,943	80,872	340,661
Share issuance costs deductible	(96,060)	(105,789)	(51,104)
Non-deductible expenses	137,390	64,148	576,761
Unrecognized tax benefit of non-capital operating losses	1,405,106	1,399,963	860,577
Total income tax recovery	$ -	$ -	$ -

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

	2006	2005	2004
Future income tax assets:			
Net operating losses available for future years	$ 4,556,075	$ 3,162,488	$ 1,750,230
Property and equipment	51,794	42,944	27,774
Deferred start-up costs	34,085	44,704	121,494
Share issuance costs and other	192,144	373,484	1,134
	4,834,098	3,623,620	1,900,632
Valuation allowance	(4,834,098)	(3,623,620)	(1,900,632)
Net future income tax assets	$ -	$ -	$ -

The Company has available for deduction against future taxable income non-capital losses in Canada of approximately $11,630,000. These losses, if not utilized, will expire through to 2026. 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.

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:

	2006	2005
PROPERTY AND EQUIPMENT		
Canada	$ 154,738	$ 171,776
People's Republic of China	-	20,579
	$ 154,738	$ 192,355

	2006	2005	2004
REVENUE			
Canada	$ 83,356	$ (32,669)	$ 124,115
United States of America	1,782	36,415	46,254
	$ 85,138	$ 3,746	$ 170,369

14. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, obligations under capital leases, and loan payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, 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, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Cash paid during the year for interest	-	$51,860	$59,590
Cash paid during the year for income taxes	-	-	-

During the year ended December 31, 2006, there were no significant non-cash transactions.

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

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 9)

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

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.

16. COMMITMENTS AND CONTINGENCIES

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

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

17. 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 statements of operations, consolidated statement of shareholders' equity, and the consolidated statements of cash flows.

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

Impact of recent United States accounting pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

In September 2006, the SEC issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB No. 108 is effective for fiscal years ending on or after November 15, 2006. The adoption of SAB No. 108 did not have a material impact on our financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. We are currently assessing the impact of SFAS No. 157 on our financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement benefit plans on their consolidated balance sheet and recognize as a component of other comprehensive income (loss), net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. The adoption of SFAS No. 158 did not have a material impact on our financial position or results of operations.

In February, 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS No. 159 on our financial position and results of operations.

18. SUBSEQUENT EVENTS

a) 700,000 options were exercised by two directors of the Company in January 2007, at $0.35 each for total proceeds of $245,000.

b) The Company announced a brokered private placement with Union Securities Ltd in Toronto ("the Agent"). The private placement was for 1,700,000 Units (the "Offering") at a price of $0.90 per Unit for total proceeds of $1,530,000. Each Unit consists of one common share and one-half common share purchase warrant. Each whole warrant has an exercise price of $1.25 with an expiry date of February 20, 2008. The Company granted the Agent an over-allotment option ("Over-Allotment Option"), exercisable to February 27, 2007 to purchase an additional 170,000 Units on the same terms as the Units. The Agent's compensation includes a commission of 8% of the gross subscription amount and the Over-Allotment Option. In addition, the Agent is to receive compensation options (the "Agent's Compensation Options") equal to 10% of all Units sold pursuant to the Offering and the Over-Allotment Option. Each Agent's Compensation Option entitles the Agent to purchase one Unit of the Company at $0.90 per Unit at any time prior to February 20, 2008.

c) Subsequent to year end, the TSX Venture Exchange has approved the repricing of its 1,593,185 share purchase warrants (the"Warrants") from an exercise price of $2.50 each to the reduced exercise price of $1.25 per share. Expiring date remains at June 20, 2007. TSX Venture Exchange requires that for the repriced Warrants, the exercise period must be amended to be shortened to a period of 30 days if, for 10 consecutive trading days, the closing price of the Company's shares exceeds $1.50 per share.

BOARD OF DIRECTORS:

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

MANAGEMENT:

- **Paul Leung,**
  Chairman, President & CEO (Founder)
- **Amy Chan,**
  Chief Financial Officer (Co-Founder)
- **Kenneth Ho,**
  Vice President, Research & Development
- **Steve Mathiesen,**
  Corporate Secretary

INVESTOR RELATIONS:

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  Chartered Accountants
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LEGAL:

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  Barrister and Solicitors
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  Intellectual Property Attorneys & Agents
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