emPOWER™

Empower Technologies

Annual Report 2007

OUR MISSION:

To be the leading developer and provider of embedded system technologies and solutions for the industries.

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mPOWER™

Empower Technologies

Empower Technologies Corporation is a developer and provider of embedded operating software, development platforms, system technologies and solutions for industries.

Dedicated to bringing its embedded solutions to the forefront of intelligent appliances, Empower has a history of excellence in research and development, building complete embedded solutions for developers in targeted industries as illustrated by its embedded platform technology - LEOs™ (LinuxDA Embedded Operating System), other operating software board support packages and accompanying development kits – LDK (LEOs Development Kits) and its latest EDK (Empower Development Kit).

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 Kits. LEOs combines the power of Empower's platforms to deliver complete solutions for the embedded-system market.

Empower positioned itself as a dominant industry provider in embedded operating software and system technologies and solutions for manufacturers, developers, value-added resellers, and system integrators. The Company provides the customers a proprietary cost effective "Rapid Productization" methodology to fast track their product development and time to market.

The Company operates through its wholly-owned Washington State subsidiary, Empower Technologies, Inc. "Empower US", and indirectly as 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.

MESSAGE FROM MANAGEMENT

TO OUR VALUED SHAREHOLDERS,

2007 was the year Empower broke new ground with its technologies and products. By renewing our focus on our core competency as well as introducing new products and establishing new strategic developments and distribution partnerships, we gained entry and recognition in the rapidly growing embedded computing markets.

The Company started the year by announcing a focus on re-engergizing our core competence in embedded system technologies and solutions. The core of this thrust, a new engineering methodology called “Rapid Productization” formalized by the Empower product team, enables developers to rapidly prototype, develop and bring-to-market their innovations at reduced costs and cycle times. Instead of only providing a development kit with the associated development software to our customers, our Single Board Computers (SBCs) now provide a simplified development solution. Once application development using Empower’s SBC is complete, the developers, value-added integrators and manufacturers will be able to buy our SBCs with the operating software and applications preloaded. This simplifies customers’ integration into any of their newly developed products which may include portable/mobile devices or audio/video systems such as mobile media players, handheld data terminals, industrial tablets as well as head-end or terminal units for machineries, in-car or in-flight infoprocessing and infotainment systems.

During the year, the Company introduced a new embedded navigation platform – “Euler”, signed a software development agreement with Navigon, Inc., one of the world’s leading providers of navigation products and software solutions and the world’s fourth largest personal navigation device (PND) brand. The Company also received its first patent, granted by the US Patent Office, for a pen-based (or stylus-based) handwriting recognition method for computing devices. Through our renewed focus and technical advances, we continue to offer our customers embedded solutions that address their needs in a demanding and rapidly changing market.

Aside from renewing our focus in technology and establishing a firm foothold in new markets, Empower also reorganized our sales and marketing team to expand our market reach. In 2007, we successfully implemented a new sales and marketing strategy and created a strong embedded system technologies and solutions distribution network. As a result, Arrow Electronics has become our world-wide distributor and we have gained international market reach through five new distribution partners in Greater China (Mainland and Taiwan), Korea, India and Israel. Furthermore, to cover the US and Canadian markets, we now have eight manufacturers representative agencies and one reseller. Overall, with the implementation of the new marketing and sales structure, we have seen positive results in 2007 and will continue to build on this momentum to extend our marketing and sales reach as we expand our customer base and product offerings.

PAUL LEUNG
Chairman,
President & CEO
(Founder)

PETER BALLACHEY
Chief Financial Officer

KENNETH HO
VP of Research
& Development

AMY CHAN
VP of Operations &
General Manager
(Co-founder)

P2800

Personal Navigation Device

mPOWER™

Empower Technologies

Year Ended December 31, 2007

The following discussion and analysis, prepared as of April 18, 2008 should be read together with the audited consolidated financial statements for the year ended December 31, 2007 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.

References in this document to "we", "the Company" and "Empower" refer to Empower Technologies Corporation and its wholly owned subsidiaries. Empower operates through our wholly-owned Washington State subsidiary Empower Technologies, Inc. ("Empower US"), and indirectly through 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.

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

DESCRIPTION OF BUSINESS

Empower Technologies Corporation is an 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 to dominant technology platforms, Empower created LinuxDA from the open-source Linux kernel, developing an operating system that is functional, versatile and easy to use. Drawing on a broad base of knowledge and experience to create cutting-edge technology in LEOs, Empower has 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 consumer electronic manufacturers and developers.

Our target customers are product developers and manufacturers in the automotive and transportation, RFID (radio frequency identification), healthcare, industrial control and consumer electronics sectors. In order for us to get market penetration of our core technology, we have developed several models of the LEOs development kit ("Development Kit") that provide all of the software development tools for developers to create the software and the embedded hardware for their products. We market and sell the Development Kits to prospective interested product developers and manufacturers. It is our goal to sell as many Development Kits as possible to achieve product adoption. However, there are limitations to the number that can be sold.

Once product developers decide to use the Development Kit to create the software for their new product, Empower has achieved a 'design win' and the product developer must obtain a LEOs license to go into production. Significant revenue for us can occur if the licensee's product has high volume production. There are three ways for product developers to obtain LEOs licenses from Empower:

1. Buy the LEOs custom chip (the "Custom Chip") from us and embed it into their respective product hardware;
2. Buy embedded computer system boards (the "Computer Boards") that already have the LEOs Custom Chip onboard and plug the Computer Board directly into their embedded system; or
3. Manufacture their own products utilizing the reference designs offered by Empower. A reference design is a production ready product solution created by our company. The customer can either buy the reference design and manufacture the products on their own, utilizing the Custom Chip purchased from us, or they can have us modify the reference design and manufacture the products for them with the Custom Chip onboard.

The Custom Chip and the Computer Board with the Custom Chip on board are currently manufactured by third party contract manufacturers in Canada and Asia. However, we may contract with other manufacturers, subject to the economics. The pricing for the Custom Chip and Computer Board will depend on the features and the volume being purchased.

Principal Products or Services:

We are currently selling Development Kits through our distributors and are selling Computer Boards to one customer. To date, we have not sold any Custom Chips. We have generated total sales revenue in 2007 of $194,786, compared with sales in 2006 of $85,138 from the following products and services that form the base of our business activities:

1. Licensing

We signed a licensing agreement in June 2006 with our first customer, located in the United States, for the sale of Custom Chips and Computer Boards. The customer is currently only buying Computer Boards.

We entered into a distribution agreement dated July 26, 2007 with Arrow Electronics ("Arrow"), which specializes in distributing development tools, electronic components and design services. We appointed Arrow as the distributor of LEOs Development Kits. Empower has four other distributors distributing Development Kits: Intelligent Control Technology (territory Taiwan), Realtime Technology Co., LTD. (territory Mainland China), Crane Software (territory India) and Ultimate Solutions (territory Continental America).

2. Reference Designs

We have to date developed the following reference designs:

(a) PowerPlay 5.1 Pro Media Chair which is currently available for sale;

(b) PowerPlay iH, an industrial handheld reference design (no product sold yet);

(c) the Osaka Technology, a multimedia player reference design (no product sold yet);

(d) Automotive Aftermarket Personal Navigation and Infotainment Reference Design (no product sold yet); and

(e) the PowerPlay Vs reference design, a personal digital assistant with MP3 player included, which was sold through FutureShop in 2004;

Electronics manufacturers can make use of our product solutions to shorten the costly and time-consuming product development process.

Our reference design strategy is to develop LEOs based solutions for selective industries to facilitate the adaptation of our Linux-based LEOs embedded system technologies and solutions.

3. Engineering and System Development Services

We provide our prospective customers with engineering and system development services including maintenance and support for the LEOs and its reference designs, custom developments and consultation. To date, the provision of these services has not become significant. However, we intend to increase such services in conjunction with licensing our software technology and selling our reference designs to electronic manufacturers.

SIGNIFICANT PROJECTS

LEOs III (LinuxDA Embedded O/S III)

The next version of LEOs for Texas Instruments' (TI) latest DaVinciTM dual-core microprocessor – DM6441 is completed and available to the market.

EDK6446 Development Kit

EDK (Empower Development Kit) replaces the successful LDK (LEOs Development Kit) series. The first in the EDK series is the EDK6446 development kit for Texas Instruments' (TI) dual-core TMS320DM6446, DM6443, and DM6441 DaVinci™ technology processors. The EDK6446 will help designers accelerate the development of digital video applications such as portable media players, set top-boxes, industrial handheld/tablets, video security and surveillance, automotive infotainment systems and video telephony.

PowerPlay iH

This mobile data terminal model is near the end of development. It was previously named "PowerPlay 1x". The letters "iH" stands for "industrial Handheld". 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. The "PowerPlay iH" is targeted toward the industrial control market.

Portable Navigation Device

This is the Portable Navigation Device ("PND") reference design we have developed using map engine technology licensed from our partner Navigon Inc. ("Navigon"). The first prototype was exhibited at the SEMA2007 trade show in Las Vegas in Q4 of 2007. Three products are being offered, all featuring a large 4.3" widescreen LCD touch panels: P2000 (the basic model which features navigation, bluetooth hands-free and traffic advisory data), P2200 (the photo unit that includes our basic unit's features plus a built-in camera) and P2800 (the executive unit which includes our basic unit's features, plus a wireless back up camera and iPodTM remote connectivity).

PERFORMANCE SUMMARY

For the year ended December 31, 2007, the Company has incurred a loss of $3,872,960 or $0.11 per share, compared with a loss of $4,153,874 or $0.12 per share in 2006. This loss represents expenditures related 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, 2007, Empower:

- Announced a new Digital Media Tablet reference design platform using our LEOs Digital Media Edition software development suite and Texas Instruments Incorporated's (TI) latest DaVinci™ processor for portable video and audio applications;
- Embarked on a major expansion of the strategy of marketing and selling our core technology LEOs and the associated platform development kit "LDKxxxx." This strategy expands our sales and marketing focus from the consumer electronics market to the broader embedded-system market, which includes the automotive, RFID, industrial control and medical devices sectors. To further this strategy, we appointed Lee Faulk as Director of Sales and Marketing for embedded system technologies. Mr. Faulk is very knowledgeable and well versed in the embedded-system market;
- Signed two companies as exclusive manufacturer's representatives of Empower Technologies' products and services, signifying the start of our new sales & marketing initiative targeting embedded-systems solutions providers in North America. Combined geographically, these two manufacturers' representative firms' sales territories cover 12 and a half states in some of the most populous regions and industrial/technology centres in the United States;
- Retained the services of Exponent Communications Inc. which provides investor relations services. This is part of our ongoing effort to consistently make upgrades in all areas of the Company to improve the costs, the quality of the service and the results of the operation;

- Signed a software development license agreement and a strategic partnership agreement with Navigon. With the software development license agreement, Navigon ports its automotive grade navigation and map application development toolkit to Empower's LEOs embedded operating system automotive edition development platform. As a result, we can offer best-in-class navigation and mapping functionality in the embedded computing industry. With the signing of the strategic partnership agreement, Empower and Navigon can collaborate to explore, research, develop, license and jointly market new applications, products or systems;
- Exhibited for the first time at the SEMA 2007 in Las Vegas, Nevada, a show devoted to equipment for the automotive aftermarket. Empower and its partners launched our new state of the art automotive navigation infotainment products. We also showcased the latest LEOs (LinuxDA Embedded O/S) Automotive Edition and the associated development kit. The new automotive navigation infotainment devices using LEOs Automotive Edition were available for sale to the automotive aftermarket OEM manufacturers and private labels in the fourth quarter of 2007 and to consumers through our partners in the first quarter of 2008.
- Appointed three new sales representative agencies, bringing the total number of manufacturer's representatives to five and the sales territories that cover most of the major technology markets in the United States of America. Each is a well established sales agency, with a long and time proven track record of success selling into the embedded computer OEM market;
- Launched the latest LEOs Development Kit for Texas Instruments' (TI) DM6446 "DaVinci™ Technology" dual-core embedded CPU - LDK6446. DM6446 is a DaVinci™ Processor which forms part of TI's DaVinci™ Technology ecosystem. This is the first time Empower has launched a new embedded CPU platform for LEOs operating software since August 2005 when it first announced the introduction of its LDK591x – LEOs Development Kit for TI's OMAP591x embedded CPU platform;
- Signed of a Letter of Agreement and a Letter of Intent with Global Upholstery (Global). Under the Letter of Agreement, Empower licenses Global to manufacture, market and sell Empower's PowerPlay branded 5.1 Pro Media Chair through Global's own sales and distribution channels. With the Letter of Intent, Empower and Global will work together to develop and to create new digital furniture that appeals to the professional, office, and healthcare markets;
- Signed a distribution agreement with Arrow Electronics, Inc. of Melville, New York to distribute Empower's LEOs® (Linux Embedded Operating System) development kit – the LDK591x, which is an embedded hardware/software development kit for Texas Instruments (TI) OMAP591x dual-core processors. Arrow is a global provider of products, services and solutions to industrial and commercial users of electronic components and computer products, with 2006 sales of $13.6 billion. It has a long and well established relationship within the embedded computer OEM market;
- Received a patent from the US Patent Office for a pen-based (or stylus-based) handwriting recognition method for computing devices. The patent is for an improved system and method for pen-based handwritten and keystroke data input into a computer system (such as a smart phone or a tablet computer with pen/stylus-based handwriting input capability). The system and method receives pen-based data entry from multiple related input boxes within a handwriting area on a digitizer pad; and
- Appointed Peter Ballachey as its Chief Financial Officer, replacing Amy Chan. A Chartered Accountant, Mr. Ballachey has been a financial executive and advisor to many organizations across varying industries. Ms. Chan took on the duties of Vice-President Operations and General Manager.

The Company attended the following tradeshows during 2007:

Consumer Electronics Show, Las Vegas 2007	January
TI Developer Conference - Worldwide Conference 2007	March
Embedded Systems Conference Silicon Valley	April
TI Developer Conference Asia 2007– Beijing	June
TI Developer Conference Asia 2007 – Shanghai	June
TI Developer Conference Asia – Shenzhen	June

- TI Developer Conference Asia – Taipei — June
- Linux World Conference — August
- Embedded Systems Conference - Boston — September
- Portable Design Conference — October
- SEMA 2007 (Specialty Equipment Market Association) — October

RESULTS OF OPERATIONS

	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
Sales			
United States of America	$ 148,825	$ 71,912	$ (27,821)
Asia	43,579	5,390	2,407
Europe	1,534	-	13,890
Canada	848	7,836	15,270
	194,786	85,138	3,746
Cost of Sales			
Cost of material sold	208,503	128,101	103,082
Write-off of inventory	385,277	43,111	-
	593,780	171,212	103,082
	(398,994)	(86,074)	(99,336)
Total expenses	3,482,917	4,102,673	4,097,078
Other items	8,951	34,873	69,100
Loss for the period			
Canada	(3,744,902)	(3,825,696)	(3,675,968)
People’s Republic of China	(84,162)	(163,566)	(236,751)
United States of America	(43,896)	(164,612)	(214,595)
	$(3,872,960)	$(4,153,874)	$(4,127,314)
Loss per share	$ (0.11)	$ (0.12)	$ (0.13)
Total assets	$ 1,129,338	$ 1,024,654	$ 4,613,921

REVENUE

In 2007, the Company's activities 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 commercializing the sales and marketing of LEOs, LDKxxxx development platform and the reference designs using LEOs. Revenues generated for the year ended December 31, 2007 were $194,786 compared with $85,138 for fiscal 2006. This increase is attributed to the change in the sales focus from distributed products and end of life products to the Company's core enabling embedded technology.

COST OF SALES

Cost of sales for the year ended December 31, 2007 increased to $593,780 (2006 - $171,212). Recognizing that a large portion of its materials inventory has been on hand for two years, the Company made a provision against the carrying value of this inventory of $385,277 in the fourth quarter of 2007 (2006 - $43,111). This inventory remains in the company's possession and much of it can be utilized in sales of Empower products, should those sales be realized. As certain of these items are still in use in the marketplace, the option exists for the company to sell them to distributors for resale. Management is investigating how best to realize the value of this inventory. Excluding the write off of inventory, cost of sales represented 107% of revenue for the year ended 2007 (2006 – 150%). Many of the sales in the past three years have been of developmental products. As such, the cost to develop and construct the products exceeded the price available in the marketplace. Once higher volume production is underway, unit cost of products is expected to drop dramatically, resulting in positive gross margins.

GENERAL & ADMINISTRATIVE

General and administrative expenses for the year ended December 31, 2007 decreased to $2,293,832 (2006 - $2,765,021). Wages and benefits decreased to $401,106 (2006 - $576,969). Advertising and promotion decreased to $226,731 (2006 - $368,562). Travelling expenses decreased to $115,051 (2006 - $171,266). Office expenses decreased to $46,893 (2006 - $83,907). Rent decreased to $57,435 (2006 - $79,089). Legal fees increased to $218,979 (2006 - $178,589). A concerted effort to contain expenses was successful in reducing administrative costs during 2007.

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, 2007 were $1,189,085 compared to $1,337,652 for 2006.

The R&D cost decrease 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.

2007 EQUITY FINANCINGS

BROKERED PRIVATE PLACEMENT

On February 20, 2007, the Company completed a brokered private placement for 1,700,000 Units at a price of $0.90 per Unit for gross proceeds of $1,530,000. Each Unit consisted of one common share and one-half a common share purchase warrant. Each whole warrant had an exercise price of $1.25 with an expiry date of February 20, 2008. In November 2007, we reduced the exercise price on these warrants to $0.90. Subsequent to December 31, 2007, the expiry date on these warrants was extended to November 30, 2008. Under an over-allotment option, the agent purchased an additional 90,000 Units for proceeds of $81,000. The agent's compensation included a commission of 8% of the gross subscription amount and the over-allotment option. In addition, the agent received compensation options equal to 10% of all Units sold pursuant to the offering and the over-allotment option. Each agent's compensation option entitled the Agent to purchase one Unit of the Company at $0.90 per Unit at any time prior to February 20, 2008. 179,000 of these options were issued (valued at $49,035). The options expired unexercised.

SHORT FORM OFFERING

We completed the first tranche of a Short Form Offering on December 19, 2007. The offering was approved by the TSX Venture Exchange on November 7, 2007. The offering was for up to 2,666,667 units (the "Units") at $0.75 per Unit, with each Unit consisting of one share and one half warrant. Each whole warrant is exercisable into one common share for a period of two years at an exercise price of $0.90 per share. The warrants are non-transferable. The first tranche of the Offering resulted in the sale of 1,881,300 Units for gross proceeds of $1,410,975. The Offering continued to remain open for a second tranche, which closed on January 7, 2008, resulting in the sale of an additional 561,300 units for an additional $420,975.

Canaccord Capital Corporation, as agent for the offering, received an 8% cash commission and agent's warrants equal to 15% of the SFO Units sold (282,195 agent's warrants valued at $95,946), with each agent's warrant exercisable for a period of two years at $0.75. The agent also received a corporate finance fee of 150,000 Units (valued at $112,500), having the same terms as the Units offered, and an administration fee of $5,000.

The following is the detail of the relevant estimated milestones and actual usage of funds to December 31, 2007.

DESCRIPTION OF USE OF PROCEEDS	Use of Proceeds Indicated in Short Form Offering Document	Pro-rated Use of Proceeds for portion of SFO Closed in 2007	Use of Proceeds as of December 31, 2007	Remaining Proceeds
Outstanding accounts payable	$ 260,000	$ 184,000	$ 184,000	$ -
Continuing marketing and sales expenses to March, 2008	200,000	142,000	-	142,000
Product development expenses to March, 2008	700,000	497,000	45,000	452,000
Unallocated general working capital	620,000	440,000	259,000	181,000
Total	$ 1,780,000	$ 1,263,000	$ 488,000	$ 775,000

SUMMARY OF QUARTERLY RESULTS

	Three Months Ended December 31, 2007	Three Months Ended September 30, 2007	Three Months Ended June 30, 2007	Three Months Ended March 31, 2007
Total assets	$ 1,129,338	$ 884,822	$ 944,625	$ 1,878,671
Stock-based compensation	91,272	80,230	16,521	92,397
Working capital	229,449	22,965	550,662	1,441,477
Shareholders' equity	245,497	147,223	683,131	1,582,156
Revenues	45,582	17,834	114,434	16,936
Net loss	(1,326,095)	(756,138)	(915,546)	(875,181)
Loss per share	$ (0.04)	$ (0.02)	$ (0.03)	$ (0.02)

	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
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)

FOURTH QUARTER RESULTS

Revenue for the fourth quarter ended December 31, 2007 was $45,582 compared to $28,461 for the fourth quarter ended December 31, 2006. 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 increase in revenue in the fourth quarter ended December 31, 2007 compared to that of the third quarter ended September 30, 2007 which is $17,834.

The general and administrative cost for the fourth quarter ended December 31, 2007 was $610,874 compared to $680,195 for the fourth quarter of 2006 and $494,814 for the third quarter ended September 30, 2007. This amount is mainly attributable to the Company's efforts to commercialize its technologies by attending tradeshows, expanding investor relations work, consulting fees and salaries. 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, 2007 were $335,184 compared to $246,261 for the fourth quarter of 2006 and $270,810 for the third quarter ended September 30, 2007.

In the fourth quarter, we recognized that a large portion of our materials inventory had been on hand for two years and made a provision against the carrying value of this inventory of $385,277. This inventory remains in our possession and much of it can be utilized in sales of Empower products, should those sales be realized. As certain of these items are still in use in the marketplace, the option exists for the company to sell them to distributors for resale. Management is investigating how best to realize the value of this inventory.

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. At December 31, 2007, there were 2,192,845 share purchase warrants outstanding. These warrants represent a source of equity capital for Empower, should they be exercised.

The 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.

	2007	2006
Deficit	$ (20,334,117)	$ (16,461,157)
Working capital	$ 229,449	$ 535,222

Net cash used in operating activities for the year ended December 31, 2007 was $2,957,236 compared to net cash used of $3,796,498 for the year ended December 31, 2006. 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 used for investing activities for the year ended December 31, 2007 was $2,216 compared to net cash received from investing activities of $17,564 during the year ended December 31, 2006. The cash used during the year was due to the purchase of equipment. Investing activities constituted a source of funds in 2006 due to the repayment of a promissory note to the company by an employee.

Net cash provided by financing activities for the year ended December 31, 2007 was $3,638,752 compared to net cash provided by financing activities of $434,340 for the year ended December 31, 2006. The cash provided during the year was due to the proceeds from loans, a private placement and a short form offering.

As of December 31, 2007, the Company's cash was $774,830 with net working capital of $229,449 compared to $95,530 and $535,222 respectively as at December 31, 2006. The Company has been incurring cash operating losses at the average rate of $264,169 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, 2007, there are 39,176,954 common shares issued and outstanding.

Empower has 2,192,845 share purchase warrants outstanding as of December 31, 2007. Should these warrants be exercised by the warrant holders, then the equity contributed to the Company would be $1,931,231.

As at December 31, 2007	Shares	Exercise Price	Expiry Date	Amount
Warrants outstanding	895,000	$0.90	November 30, 2008	$805,500
Warrants outstanding	940,650	0.90	December 19, 2009	846,585
Warrants outstanding-Agent's	75,000	0.90	December 19, 2009	67,500
Warrants outstanding-Agent's	282,195	0.75	December 19, 2009	211,646
	2,192,845			$1,931,231

Empower has not committed to any material future capital expenditure.

OUTSTANDING SHARES

As at December 31, 2007, the Company has 39,176,954 common shares outstanding. Changes since December 31, 2005 are as follows:

	Shares
Balance, December 31, 2005	33,330,654
Exercise of options	725,000
Balance, December 31, 2006	34,055,654
Exercise of options	1,300,000
Brokered private placement	1,700,000
Agent shares issued pursuant to the brokered private placement	90,000
Short form offering	1,881,300
Agent shares issued pursuant to the short form offering	150,000
Balance, December 31, 2007	39,176,954

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

The Company has entered into the following transactions with related parties:

a) Paid or accrued directors' fees of $120,000 (2006 - $105,000) for services provided by directors.

b) Recorded stock-based compensation of $198,432 (2006 - $185,563) for services provided by directors and officers.

c) Paid or accrued consulting fees of $537,396 (2006 - $507,815) for services provided by directors and officers of the Company.

d) Paid or accrued salaries and benefits of $120,000 (2006 - $136,686) to an officer that have been included in research and development costs.

Included in current accounts payable is $51,132 (2006 - $127,555) due to directors and officers of the Company.

At December 31, 2007, the current and non-current portions of the loans are due to a director of the Company. Both loans bear interest at 8.5%, and are unsecured. The current portion of the loans is repayable on demand.

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 Empower 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

The 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 no allowance for doubtful accounts of as at December 31, 2007 and had $17,663 as at December 31, 2006.

Inventories

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

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 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, accounts receivable, accounts payable and accrued liabilities, obligations under capital leases and loans payable. 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.

SUBSEQUENT EVENTS

a) We launched a new line of development kits with the EDK (Empower Development Kit), which will replace the successful LDK (LEOs Development Kit) series. The existing LDK591x series will continue to be available. The first in the EDK series is the EDK6446 development kit for Texas Instruments' (TI) dual-core TMS320DM6446, DM6443, and DM6441 DaVinci™ technology processors. The EDK6446 helps designers to accelerate the development of digital video applications such as portable media players, set top-boxes, industrial handheld/tablets, video security and surveillance, automotive infotainment systems and video telephony.

b) Empower completed the Short Form Offering (the "Offering") described above on January 7, 2008 by closing the second tranche. The Offering was approved by the TSX Venture Exchange on November 7, 2007. The Offering was for up to 2,666,667 units (the "Units") at $0.75 per Unit, with each Unit consisting of one share and one half warrant. Each whole warrant is exercisable into one common share for a period of two years at an exercise price of $0.90 per share. The warrants are non-transferable. The second tranche of the Offering resulted in the sale of 561,300 Units for total gross proceeds of $420,975. In this Short Form Offering, a total of 2,442,600 units were sold for gross proceeds of $1,831,950. The proceeds of the Offering will be used primarily to finance continued product development and marketing and sales expenses and for general working capital. Canaccord Capital Corporation as agent for the Offering (the "Agent"), received an 8% cash commission and Agent's warrants equal to 15% of the Offering sold, with each Agent's warrant exercisable for a period of two years at $0.75. The Agent also received a corporate finance fee of 150,000 Units, having the same terms as the Units offered, and an administration fee of $5,000.

c) We launched three new portable navigation devices to meet the demands of the dynamic GPS market in North America. The technology was first shown at SEMA automotive aftermarket tradeshow in November of last year. All three new models feature a large 4.3" widescreen LCD touch panel:

P2000 - the basic model which features navigation, bluetooth hands-free and traffic advisory data.

P2200 - the photo unit that includes our basic unit's features, with a built-in camera to take pictures.

P2800 - the executive unit which includes our basic unit's features, plus a wireless back up camera and iPodTM remote connectivity to enhance driving safety.

All three models are available to OEM/ODM or private-label customers. Empower will also sell the three models under its own "PowerPlay" brand through its consumer sales channels. OEM manufacturers and retailers have already expressed interest in these products. The P2000 will be available for delivery in May. The P2200 and P2800 are slated for delivery later in the second quarter of this year.

d) The Company issued 895,000 share purchase warrants pursuant to a brokered private placement in February 2007 (see Note 8 to the Consolidated Financial Statements). The Company announced its intention in February 2008 to extend the expiry date of these 895,000 share purchase warrants from February 20 & 27, 2008 to November 30, 2008. That extension was later approved by the TSX Venture Exchange.

e) Empower issued agent's compensation options pursuant to the brokered private placement that was completed with Union Securities Ltd. ("the Agent") on February 20, 2007. As part of its compensation, the Agent received 179,000 compensation options (the "Agent's Compensation Options") equal to 10% of all Units sold pursuant to the offering and the over-allotment option that was part of the offering. Each agent's compensation option entitled the Agent to purchase one Unit of the Company, identical to the Units issued through the brokered private placement, at $0.90 per Unit at any time prior to February 20, 2008. These Agent's Compensation Options expired without being exercised.

f) In March, we signed a Volume Software Licensing Agreement with Navigon, the fastest growing brand in GPS navigation. The Agreement enables Empower's new P2xxx line of PNDs (Portable Navigation Devices), announced in January, to ship with Navigon navigation software loaded in each unit. This agreement integrates Navigon's leading edge navigation software with Empower's latest automotive grade navigation software platform – "Euler". Euler integrates a wide range of features besides navigation, such as a media player for MP3 and video, digital camera, photo viewer, iPodTM remote access connectivity and rearview wireless camera. Navigon's navigation software delivers an intelligent, premium navigation experience with features like intuitive menus, 2D or 3D maps, spoken turn-by-turn directions and street names via advanced text to speech, Lane Assistant and Automatic Speed Warnings as well as millions of pre-loaded points of interest.

EMPOWER TECHNOLOGIES CORPORATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

DECEMBER 31, 2007

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

AUDITORS' REPORT

To the Shareholders of
Empower Technologies Corporation

We have audited the consolidated balance sheets of Empower Technologies Corporation as at December 31, 2007 and 2006 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"
Chartered Accountants

Vancouver, Canada
April 18, 2008

NEXIA 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

	2007	2006
ASSETS		
Current		
Cash and cash equivalents	$ 774,830	$ 95,530
Accounts receivable, net of allowance of $nil (2006 - $17,663)	56,073	46,686
Inventory (Note 4)	133,754	662,973
Prepaid expenses	44,958	64,727
	1,009,615	869,916
Property and equipment (Note 5)	119,723	154,738
Total assets	$ 1,129,338	$ 1,024,654
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 291,799	$ 235,284
Loans payable (Note 6)	482,000	95,000
Current portion of obligations under capital lease (Note 7)	4,410	4,410
Customer deposit	1,957	-
	780,166	334,694
Loan payable (Note 6)	100,000	-
Obligations under capital lease (Note 7)	3,675	8,085
Total liabilities	883,841	342,779
Shareholders' equity		
Capital stock (Note 8)		
Authorized: unlimited common shares without par value		
Issued and outstanding: 39,176,954 shares (2006 – 34,055,654)	18,781,755	15,354,833
Contributed surplus (Note 8)	1,797,859	1,788,199
Deficit	(20,334,117)	(16,461,157)
Total shareholders' equity	245,497	681,875
Total liabilities and shareholders' equity	$ 1,129,338	$ 1,024,654

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

On behalf of the Board:

"Paul Leung" Director "Steve Gupta" Director

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)
YEAR ENDED DECEMBER 31

	2007	2006
SALES	$ 194,786	$ 85,138
COST OF SALES		
Cost of material sold	208,503	128,101
Write-off of inventory (Note 4)	385,277	43,111
	593,780	171,212
	(398,994)	(86,074)
EXPENSES		
Accounting and audit	114,100	73,009
Advertising and promotion	226,731	368,562
Amortization of property and equipment	34,691	41,584
Amortization of assets under capital lease	2,540	3,175
Bad debt	-	17,663
Bank charges and interest	27,245	7,018
Consulting fees	517,143	615,878
Directors' fees	120,000	105,000
Foreign exchange loss (gain)	(6,355)	2,571
Insurance	41,259	46,383
Interest on long term debt	1,490	-
Legal fees	218,979	178,589
Office expenses	46,893	83,907
Rent	57,435	79,089
Research and development	1,189,085	1,337,652
Stock-based compensation	280,420	279,365
Telephone and utilities	62,190	84,002
Transfer agent and filing fees	32,914	30,991
Travel	115,051	171,266
Wages and benefits	401,106	576,969
	(3,482,917)	(4,102,673)
Loss before other items	(3,881,911)	(4,188,747)
OTHER ITEMS		
Interest and other income	8,951	55,167
Write-off of property and equipment	-	(20,294)
	8,951	34,873
Loss and comprehensive loss for the year	$ (3,872,960)	$ (4,153,874)
Basic and diluted loss per common share	$ (0.11)	$ (0.12)
Weighted average number of common shares outstanding	36,586,769	33,592,846

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	Capital Stock	Contributed Surplus	Deficit	Total
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
Brokered private placement (net of issuance costs)	1,700,000	0.90	1,357,066	-	-	1,357,066
Agent's shares issued pursuant to the brokered private placement	90,000	0.90	81,000	-	-	81,000
Agent's compensation options pursuant to the brokered private placement	-	-	(49,035)	49,035	-	-
Short form offering (net of issuance costs)	1,881,300	0.75	1,263,097	-	-	1,263,097
Agent's warrants issued pursuant to the short form offering	-	-	(95,946)	95,946	-	-
Agent's shares issued pursuant to the short form offering	150,000	0.75	112,500	-	-	112,500
Issuance costs on agent's shares issued	-	-	(112,500)	-	-	(112,500)
Exercise of options	1,300,000	0.35	870,740	(415,741)	-	454,999
Stock-based compensation	-	-	-	280,420	-	280,420
Loss for the year	-	-	-	-	(3,872,960)	(3,872,960)
BALANCE, DECEMBER 31, 2007	39,176,954		$ 18,781,755	$ 1,797,859	$ (20,334,117)	$ 245,497

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

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (3,872,960)	$ (4,153,874)
Items not affecting cash:		
Amortization of property and equipment	34,691	41,584
Amortization of assets under capital lease	2,540	3,175
Stock-based compensation	280,420	279,365
Bad debt	-	17,663
Write-off of inventory	385,277	43,111
Write-off of property and equipment	-	20,294
Other write-off	-	1,926
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	(9,387)	2,337
Decrease in inventory	143,942	97,259
Decrease (increase) in prepaid expenses	19,769	(240)
Increase (decrease) in accounts payable and accrued liabilities	56,515	(149,098)
Increase in customer deposit	1,957	-
Net cash used in operating activities	(2,957,236)	(3,796,498)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from repayment of promissory note	-	45,000
Purchase of property and equipment	(2,216)	(27,436)
Net cash (used in) provided by investing activities	(2,216)	17,564
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital lease obligations	(4,410)	(4,410)
Proceeds of loans payable	1,000,000	95,000
Repayments of loans payable	(513,000)	-
Proceeds from issuance of common shares, net of issuance costs	3,156,162	343,750
Net cash provided by financing activities	3,638,752	434,340
Change in cash during the year	679,300	(3,344,594)
Cash and cash equivalents, beginning of year	95,530	3,440,124
Cash and cash equivalents, end of year	$ 774,830	$ 95,530

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, 2007

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 controlling interest in 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.

		2007		2006
Deficit	$	(20,334,117)	$	(16,461,157)
Working capital		229,449		535,222

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 no allowance for doubtful accounts as at December 31, 2007 and had $17,663 as at December 31, 2006.

Inventories

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

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%
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Tools	20%

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

Revenue recognition

i) Software

The Company recognizes revenue from packaged software and license fees when the software is delivered, title has passed and customer acceptance has occurred, 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. CHANGES IN ACCOUNTING POLICIES

Newly Adopted During the Year

Inventories: The Company has changed its accounting policy with regards to inventory valuation from the first-in first-out ("FIFO") method to the weighted average method beginning January 1, 2007. The reasons for applying the weighted average method are i) cost-saving effect and ii) simplicity in calculating the cost of items used in projects.
The effect of the change of method in inventory valuation had a minor impact on inventory and no impact on cost of goods sold.

Accounting Changes: In July 2006, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1506 of its authoritative Handbook ("HB") to prescribe the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section is intended to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with the financial statements of other entities. The adoption of this standard had no impact on the Company's financial statements.

Comprehensive Income: In April 2005, the CICA issued HB Section 1530 to establish standards for reporting and display of comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Adoption of this standard had no impact on the quantitative results for the Company's operations, but did result in changes to the titling of the Statement of Operations through the incorporation of these new definitions.

Financial Instruments – Recognition and Measurement: In April 2005, the CICA issued HB Section 3855, which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, obligations under capital leases and loans payable. In accordance with this new standard, the Company has classified its financial instruments as follows: cash and cash equivalents are classified as held-for-trading; accounts receivable are classified as loans and receivables; accounts payable and accrued liabilities are classified as other liabilities; obligations under capital leases are classified as other liabilities; and loans payable are classified as other liabilities. All are measured at fair value and changes in fair values are included in net earnings in the period in which they arise. Cash and cash equivalents are exposed to credit risk and these amounts are placed with major banks. The Company is not exposed to interest rate risk due to the short-term maturity of the financial instruments. Adoption of this standard had no impact on the Company's financial statements.

Hedges: In April 2005, the CICA issued HB Section 3865, which establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. Hedging is an activity designed to modify an entity's exposure to one or more risks by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging item (or changes resulting from a particular risk exposure relating to those items). Adoption of this policy had no impact on the Company's financial statements as there have been no hedges implemented during the time that this policy has been in effect.

3. CHANGES IN ACCOUNTING POLICIES (cont'd...)

Future Accounting Changes

Inventories: In June 2007, the CICA issued HB Section 3031, which is effective for financial years beginning on or after January 1, 2008, to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The Company is currently assessing the impact of this pronouncement on its financial position and results of operations.

Capital Disclosures: In December 2006, the CICA issued HB Section 1535 which establishes standards for disclosing information about an entity's capital and how it is managed. This new standard is effective for fiscal years beginning on or after October 1, 2007. The Company is assessing how this standard will affect its future financial disclosures.

Financial Instruments – Disclosures: In December 2006, the CICA issued HB Section 3862 which requires entities to provide disclosures in their financial statements that enable users to evaluate:
(a) the significance of financial instruments for the entity's financial position and performance; and
(b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.
This standard is effective for fiscal years beginning on or after October 1, 2007. The Company is assessing how this standard will affect its future financial disclosures.

Financial Instruments – Presentation: In December 2006, the CICA issued HB Section 3863 which establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains and the circumstances in which financial assets and financial liabilities are offset. This standard is effective for fiscal years beginning on or after October 1, 2007. The Company is assessing how this standard will affect the future presentation of its financial instruments.

Goodwill and Intangible Assets: In February 2008, the CICA issued HB Section 3064 which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. This standard is effective for fiscal years beginning on or after October 1, 2008. The Company is assessing how this standard will affect its future financial disclosures.

General Standards of Financial Statement Presentation: In June 2007, the CICA amended HB Section 1400 governing the overall standards to be applied to financial statement presentation, including requirements to assess and disclose an entity's ability to continue as a going concern. The new provisions are effective for fiscal years beginning on or after January 1, 2008. The company is assessing how the changes to this standard will affect its future financial disclosures.

International Financial Reporting Standards ("IFRS"): On February 13, 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own Generally Accepted Accounting Principles. Interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 will need to conform with IFRS. The Company is monitoring these developments and is preparing to assess the impact on its financial statements of conversion to the new accounting standards.

4. INVENTORY

	2007	2006
Material inventories	$ 132,156	$ 618,285
Work in process	-	36,817
Finished goods	1,598	7,871
	$ 133,754	$ 662,973

During the year, the inventory was written down to its estimated net realizable value and a corresponding charge of $385,277 (2006 - $43,111) is included in cost of sales for the year. The inventory written down remains in stock.

5. PROPERTY AND EQUIPMENT

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 144,343	$ 109,090	$ 35,253	$ 144,343	$ 93,982	$ 50,361
Furniture and equipment	113,964	62,901	51,063	113,964	50,135	63,829
Leasehold improvements	28,724	13,340	15,384	28,724	8,212	20,512
Tools	37,000	18,977	18,023	34,784	14,748	20,036
	$ 324,031	$ 204,308	$ 119,723	$ 321,815	$ 167,077	$ 154,738

Included in property and equipment is $22,051 (2006 - $22,051) of computer equipment and furniture and equipment under capital lease with related accumulated amortization of $11,889 (2006 - $9,349).

6. LOANS PAYABLE

The current portions of the loans are due to a director of the Company, are unsecured, bear interest at the rate of 8.5% per annum and are due on demand. The non-current portion of the loans is also due to a director of the Company, is unsecured, bears interest at the rate of 8.5% per annum and is due on January 31, 2009. The total interest on the loans for the year ended December 31, 2007 was $17,091 (2006 - $688).

7. OBLIGATIONS UNDER CAPITAL LEASE

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

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

a) On December 19, 2007, the Company completed the first tranche of a Short Form Offering ("SFO"). The SFO was approved by the TSX Venture Exchange on November 7, 2007. The SFO was for up to 2,666,667 units (the "Units") at $0.75 per Unit, with each Unit consisting of one share and one half warrant. Each whole warrant is exercisable into one common share for a period of two years at an exercise price of $0.90 per share. The warrants are non-transferable. The first tranche of the SFO resulted in the sale of 1,881,300 Units for a total of $1,410,975, before expenses of the SFO. Canaccord Capital Corporation as agent for the SFO received an 8% cash commission and agent's warrants equal to 15% of the SFO Units sold (282,195 agent's warrants valued at $95,946), with each agent's warrant exercisable for a period of two years at $0.75. The agent also received a corporate finance fee of 150,000 Units (valued at $112,500), having the same terms as the Units offered, and an administration fee of $5,000.

b) On February 20, 2007, the Company completed a brokered private placement with Union Securities Ltd. (the "Agent"). The private placement was for 1,700,000 Units (the "Offering") at a price of $0.90 per Unit for gross proceeds of $1,530,000. Each Unit consisted of one common share and one-half common share purchase warrant. Each whole warrant had an original 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 170,000 Units on the same terms as the Units in the Offering. 90,000 of the Over-Allotment Options were exercised by the Agent immediately for proceeds of $81,000 and the balance expired. The Agent's compensation included a commission of 8% of the gross subscription amount and the Over-Allotment Option. In addition, the Agent received 179,000 compensation options (the "Agent's Compensation Options" valued at $49,035) 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. Subsequent to the year end, these Agent's Compensation Options expired without being exercised. The exercise price of the 895,000 warrants outstanding from the brokered private placement described above was reduced to $0.90 in November 2007. Subsequent to the year end, the Company changed the expiry date on these warrants to November 30, 2008.

9. STOCK OPTIONS

On September 19, 2003, the Company adopted a stock option plan under which it is authorized to grant options to directors and employees to acquire common shares, up to an amount equivalent to 20% of the outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant, less applicable discounts. The options can be granted for a maximum term of 5 years.

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

As at December 31, 2007, the following incentive stock options are outstanding:

	Number of Shares	Exercise Price ($)	Expiry Date
Stock options	625,000	0.35	September 19, 2008
	375,000	0.80	March 16, 2009
	25,000	2.12	June 28, 2010
	25,000	1.76	August 10, 2010
	240,000	1.24	February 20, 2011
	300,000	2.50	April 20, 2011
	550,000	1.00	September 1, 2011
	179,000	0.90	February 20, 2008
	30,000	0.90	June 1, 2008
	290,000	0.62	August 24, 2012
	100,000	0.80	October 16, 2012
Total outstanding options	**2,739,000**		

Stock option transactions are summarized as follows:

	2007		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	3,655,000	$ 0.83	3,365,000	$ 0.59
Options granted	659,000	0.74	1,410,000	1.41
Options exercised	(1,300,000)	0.35	(725,000)	0.47
Options expired or cancelled	(275,000)	1.43	(395,000)	1.58
Outstanding, end of year	2,739,000	$ 0.97	3,655,000	$ 0.83
Number of options exercisable, end of year	1,570,667	$ 0.81	2,350,000	$ 0.46

The weighted average fair value of options granted during the year was $0.84 (2006 - $0.91).

9. STOCK OPTIONS (cont'd…)

Stock-based compensation

The Company granted 659,000 (2006 – 1,410,000) stock options during the year to directors, officers, consultants and employees, resulting in compensation costs of $280,420 (2006 - $279,365) which were recorded as contributed surplus on the balance sheet.

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

	2007	2006
Risk-free interest rate	4.34%	4.21%
Expected life of options	3 years	5 years
Annualized volatility	91.47%	94.45%
Dividend	-	-

10. WARRANTS

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. In February 2007, the Company reduced the exercise price on these warrants to $1.25. These warrants expired unexercised in June 2007.

On February 20, 2007 the Company issued 850,000 warrants as the result of the brokered private placement. Each warrant has an exercise price of $1.25 with an expiry date of February 20, 2008. Further, upon the exercise of the Over-Allotment Options to purchase 90,000 Units, the Company issued 45,000 warrants to its Agent with the exercise price of $1.25 expiring on February 27, 2008. In November 2007, the Company reduced the exercise price on these 895,000 warrants to $0.90. Subsequent to December 31, 2007, the Company extended the expiry dates on these warrants to November 30, 2008.

On December 19, 2007 the Company completed its first tranche of a short form offering, which resulted in the sale of 1,881,300 Units. Each Unit consists of one share and one half warrant. As a result, 940,650 non-transferable warrants were issued, exercisable at a price of $0.90 for a period of 24 months from closing. For this offering, the agents received 75,000 non-transferable corporate finance warrants, exercisable at a price of $0.90 for a period of 24 months from closing. The Agents also received 282,195 non-transferable agent's warrants valued at $95,946, exercisable at a price of $0.75 for a period of 24 months from closing.

10. WARRANTS (cont'd...)

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

	2007		2006	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	1,593,185	$ 2.50	2,021,114	$ 2.50
Warrants granted	2,192,845	1.02	-	-
Warrants repriced	(2,488,185)	2.05	-	-
Warrants repriced	2,488,185	1.12	-	-
Warrants exercised	-	-	-	-
Warrants expired	(1,593,185)	1.25	(427,929)	2.50
Outstanding, end of year	2,192,845	$ 0.88	1,593,185	$ 2.50
Number of warrants currently exercisable	2,192,845	$ 0.88	1,593,185	$ 2.50

The warrants outstanding at December 31, 2007 have a weighted average exercise price of $0.88, after giving effect to the reduction in the exercise price in November 2007 for warrants issued in February 2007.

11. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Paid or accrued directors' fees of $120,000 (2006 - $105,000) for services provided by directors.

b) Recorded stock-based compensation of $198,432 (2006 - $185,563) for services provided by directors and officers.

c) Paid or accrued consulting fees of $537,396 (2006 - $507,815) for services provided by officers and directors of the Company.

d) Paid or accrued salaries and benefits of $120,000 (2006 - $136,686) to an officer of the Company included in research and development costs.

Included in current accounts payable is $51,132 (2006 - $127,555) due to directors and officers of the Company.

At December 31, 2007, the current and non-current portions of the loans are due to a director of the Company. Both loans bear interest at 8.5%, and are unsecured. The current portion of the loans is repayable on demand.

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:

		2007		2006
Loss before income taxes	$	(3,872,960)	$	(4,153,874)
Expected income tax recovery	$	(1,321,454)	$	(1,500,379)
Differences in foreign tax rates		3,520		53,943
Share issuance costs deductible		(112,634)		(96,060)
Non-deductible expenses		242,289		137,390
Unrecognized tax benefit of non-capital operating losses		1,188,279		1,405,106
Total income tax recovery	$	-	$	-

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

		2007		2006
Future income tax assets:				
Net operating losses available for future years	$	4,429,790	$	4,556,075
Property and equipment		55,163		51,794
Deferred start-up costs		29,687		34,085
Share issuance costs and other		174,445		192,144
		4,689,085		4,834,098
Valuation allowance		(4,689,085)		(4,834,098)
Net future income tax assets	$	-	$	-

The Company has available for deduction against future taxable income non-capital losses in Canada of approximately $14,700,000. These losses, if not utilized, will expire through to 2027. 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:

		2007		2006
Property and equipment :				
Canada	$	119,723	$	154,738

		2007		2006
Revenue:				
United States of America	$	148,825	$	71,912
Asia		43,579		5,390
Europe		1,534		-
Canada		848		7,836
	$	194,786	$	85,138

14. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, obligations under capital leases and loans 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

		2007		2006
Cash paid during the year for interest	$	10,163	$	-
Cash paid during the year for income taxes		-		-

During the year ended December 31, 2007, the Company:

a) Issued 150,000 common shares and 357,195 share purchase warrants with a total value of $208,446 as agent service fees pursuant to the short form offering (Note 8a).

b) Issued 179,000 Agent's compensation options valued at $49,035, as agent fees pursuant to the brokered private placement (Note 8b).

c) Reclassified $415,741 from contributed surplus to capital stock upon exercise of 1,300,000 stock options.

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

16. COMMITMENTS

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

2008	$	129,324
2009		131,198
2010		98,398

17. SUBSEQUENT EVENTS

a) The Company completed the Short Form Offering ("SFO") as of January 7, 2008 by closing the second tranche. The SFO was for up to 2,666,667 units (the "Units") at $0.75 per Unit, with each Unit consisting of one share and one half warrant. Each whole warrant is exercisable into one common share for a period of two years at an exercise price of $0.90 per share. The warrants are non-transferable. The second tranche of the SFO resulted in the sale of 561,300 Units for gross proceeds of $420,975. In this SFO, a total of 2,442,600 units were sold for gross proceeds of $1,831,950, before expenses of the SFO (see Note 8a).

b) The Company issued 895,000 share purchase warrants pursuant to a brokered private placement in February 2007 (see Note 8b). The Company announced its intention in February 2008 to extend the expiry dates of these 895,000 share purchase warrants from February 20 and 27, 2008 to November 30, 2008.

BOARD OF DIRECTORS:

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

MANAGEMENT:

- **Paul Leung,**
  Chairman, President & CEO (Founder)
- **Peter Ballachey,**
  Chief Financial Officer
- **Kenneth Ho,**
  VP of Research & Development
- **Amy Chan,**
  VP of Operations & General Manager
  (Co-founder)
- **Steve Mathiesen,**
  Corporate Secretary

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