

EMPIRE HYDROGEN ENERGY SYSTEMS INC.



Offering Memorandum

Date: August 18, 2017

The Issuer:

Name: Empire Hydrogen Energy Systems Inc.
(the "Issuer" or "Empire")
Head office: Address: #7 – 10189 McDonald Park Road
Sidney, British Columbia V8L 5X5
Phone #: (778) 426-0911
E-mail address: info@empirehydrogen.com
Fax #: (778) 426-0456

Currently listed or quoted?

These securities do not trade on any exchange or market.

Reporting issuer?
SEDAR filer?

No
No

The Offering:

Securities offered: Class A common shares at \$0.75 and
Class D Preferred Shares at \$1.50 per share (to a combined
maximum of \$2,500,000).

Minimum/Maximum offering:

There is no minimum.
**You may be the only purchaser. Funds available
under the offering may not be sufficient to
accomplish our proposed objectives.**

Minimum subscription amount:

The minimum subscription amount is \$1,000.

Payment terms:

Cheque, bank draft or wire transfer

Proposed closing date(s):

December 31, 2017

Selling agent?

Yes – see Item 7

Resale Restrictions:

You will be restricted from selling your securities for an indefinite period. See Item 10.

Purchaser's Rights:

You have two business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this offering memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 11.

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this offering memorandum. Any representation to the contrary is an offence. This is a risky investment. See Item 8.

Forward Looking Statements

Certain statements contained in this offering memorandum, including the financial statements included herein, that are not historical may be considered “forward looking statements” and are prospective. These forward looking statements sometimes include words to the effect that we or our management believe or expect a stated condition or result. All estimates and all statements that describe our objectives, goals or future plans are forward looking statements. Since forward looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated in such statements due to any number of factors, including, but not limited to, fluctuations in interest rates, political and economic conditions, industry competition and our ability to attract and retain key personnel. We do not undertake to review or update these forward looking statements.

Small Business Venture Capital Act

The Issuer is registered as an eligible business corporation (“EBC”) in accordance with the provisions of the Small Business Venture Capital Act (“SBVC Act”) of British Columbia and has been authorized by the Administrator to issue shares up to a maximum aggregate value of \$2,500,000 under the Clean Tech Venture Capital Program. This authorization is current, and expires December 31, 2017, however, it may be withdrawn by the Provincial Government prior to December 31, 2017, with short notice. The Issuer may seek a renewed equity allocation approval upon expiry of the current allocation, should this Offering not have been fully subscribed prior to December 31, 2017. Such approval is at the discretion of the Administrator and is in no way guaranteed.

Provincial Government Disclaimers

In registering the Issuer under the SBVC Act, the Province of British Columbia makes no representations with respect to any tax considerations discussed in the Offering Memorandum other than with respect to those dealing with the British Columbia Tax Credit available in respect of the purchase of Shares of the Issuer.

The Province of British Columbia in no way guarantees the value of any shares issued by an EBC registered under the SBVC Act. Nor does it in any way express an opinion as to the financial condition of the EBC or the merits of an investment in shares of the EBC.

The review of this Offering Memorandum by the Equity Capital Program’s staff was limited specifically to the requirements of the SBVC act only and any other matters that concern investors should be reviewed with their own personal professional advisors.

All references to currency in this offering memorandum are to Canadian dollars unless otherwise stated.

Item 1: Use of Available Funds**1.1 Funds**

		Assuming minimum offering	Assuming maximum offering
A.	Amount to be raised by this offering	\$0	\$2,500,000
B.	Selling commissions and fees	\$0	\$375,000 (1)
C.	Estimated offering costs (e.g. legal, accounting, audit)	\$50,000	\$50,000
D.	Available funds: $D = A - (B + C)$	(\$50,000)	\$2,075,000
E.	Additional sources of funding required	\$0	\$0
F.	Working capital	\$63,149	\$63,149 (2)
G.	Total: $G = (D + E) - F$	\$13,149	\$2,138,149

- (1) Selling commissions and fees may include up to 15% of the offering proceeds, payable in cash and/or common shares payable to third parties (not directors of the Issuer)
- (2) As of March 31, 2018. Does not include the \$395,836 loan from Mr. Tjelta to Empire because proceeds of this offering will not be used to repay any portion of the loan (refer to Item 3.4) until March 31, 2018.

1.2 Use of Available Funds

Description of intended use of available funds listed in order of priority	Assuming minimum offering	Assuming maximum offering
Complete Beta Phase Technology Development Program	\$0	\$534,537
Develop technologies and processes suitable for scalable manufacturing	\$0	\$855,260
Prepare for Technology Commercialization Launch	\$0	\$641,445
Cover Administration and IP Protection Costs	\$0	\$106,907
Total		\$2,138,149

No amount will be paid to Mr. Tjelta or his related companies by Empire on or before March 31, 2018 either for services or repayment of loans.

1.3 Reallocation

We intend to spend the available funds as stated. We will reallocate funds only for sound business reasons.

Item 2: Our Business

2.1 Structure

The Issuer is a privately held company that was incorporated under the Canada *Business Corporations Act* on October 23, 2009. Our executive office is located at #7 – 10189 McDonald Park Road, Sidney, British Columbia V8L 5X5. Our telephone number is (778) 426-0911. Our fiscal year end is September 30. The Administrator of the Equity Capital Program approved Empire Hydrogen Energy Systems Inc. as an eligible business corporation on November 20, 2012 #30-872.

2.2 Our Business

Empire is an innovator that is primarily concerned with systems and components integration. We are focused on providing owners of internal combustion engines (ICE) with means to significantly increase fuel efficiency and dramatically reduce carbon emissions. Through their wide-scale adoption of our technologies it is anticipated that ICE owners will dramatically reduce their collective reliance on fossil fuels, reduce carbon emissions and consequently protect the quality of life enjoyed by this generation for all future generations.

2.2.1 Our Business Facility

Empire has a 3,000 square foot research and development facility in Sidney, British Columbia. In that facility, we carried out the ‘laboratory tasks’ component of the scientific research and experimental development (“SRED”) activities required by our Alpha Phase Technology Development Program (“APTDP”). Those laboratory tasks included the assembly of Empire’s early version, i.e., Alpha Phase, prototype Accelerant Generators (“A/Gs”). As a consequence of completing our APTDP (September 30, 2015) and beginning our Beta Phase Technology Development Program (“BPTDP”) (October 1, 2015), we have begun using that facility to assemble Beta Phase A/Gs (incorporating the knowledge we acquired during the APTDP) and will continue Beta Phase A/G assembly (incorporating the new knowledge we gained while conducting the BPTDP) in preparation for our technology commercialization. Within our facility, we will set up an experimental production line (for toll manufacturing). That experimental production line will be used to develop, design and perfect A/G assembly equipment and to develop and perfect the efficient and cost effective processes and procedures that will be incorporated into an industrial-scale assembly line. In our 3000 square foot footprint we can manufacture 3000 units per year. Presently in addition to Mr. Tjelta, Empire has an office assistant, part-time bookkeeper, two full time production workers, one-part time production worker and part time third party contractors as needed. The A/G system is assembled using components from third party suppliers combined with components manufactured in-house.

The retail cost for a single cell is approximately \$5,000; a double cell \$7,000 and the Beta Test unit (see section 5 – Terms of Securities) is \$10,000 (all installed).

2.2.2 Manufacturing or Assembly Facilities

When Empire transitions from to commercial production of our A/G in excess of 3,000 units per year, at some point we may be required to make arrangements for manufacturing and assembly elsewhere. We plan to licence manufacturing companies to handle parts and components production and final assembly – and possibly packaging and shipping. We are a company of innovators and systems and component integrators. Our core competency does not extend to manufacturing and assembly. However, we can, and intend to, create plans for a production process that is scalable, so our licensed manufacturers will be able to increase output as needed or desired. We have also spoken to our existing land lord who has spoken to our immediate neighbor who is interested in leasing his space for production if needed in the interim until other arrangements are made.

2.2.3 Marketing Facility

Empire Hydrogen has a dynamic team of marketers with our Vice President of Corporate Development and the team of sales people through the various Sales & Installation Centres. Empire provides sales and technical training through Empire's in-house training staff. A significant amount of the funds raised through this offering will be used to establish Sales & Installation Centres throughout North America, Europe and Asia.

2.2.4 Our Technology

As innovators and systems integrators, Empire has taken existing technologies, modified them as required for our purposes and are using them in new and novel ways. In order to obtain a patent, intellectual property ("IP") must be both new and novel and the concept development must have required ingenuity. Empire has protected some of its IP by patent and is protecting some of it by maintaining trade secrets confidential. Although it would not be prudent to provide technology specific details in this Offering Memorandum, we will highlight some of problems Empire faced and provide insight into how we have attempted to solve these problems.

ICEs combust fuel to create kinetic energy. Combustion in ICEs is a chemical reaction between fuel and oxygen (atmospheric air is ~21% oxygen). Efficient combustion requires precise fuel-air ratios.

The amount of oxygen in an ICE cylinder is the limiting factor in respect to combustion efficiency, that is, in respect to the amount of fuel that can be burned. If the fuel to oxygen ratio is too high not all fuel will be burned and the unburned fuel will be exhausted, resulting in emissions of greenhouse gasses ("GHG") and other critical air contaminants ("CAC").

To achieve maximum fuel-efficiency, it is vital that a specific fuel to oxygen ratio is achieved. It is the ratio at which all the available oxygen in the air is used. It is also the ratio that results in the maximum amount of fuel being burned (this will rarely be all of the fuel). The fuel to oxygen ratio varies from fuel type to fuel type and from fuel blend to fuel blend. It also changes with humidity, atmospheric pressure, altitude and required engine power.

A mixture of fuel and air that consists of exactly the required ratio of components for a particular chemical reaction is said to be *stoichiometric*. In respect to a *stoichiometric* reaction between fuel and oxygen the precise ratio required is called the *stoichiometric air-fuel ratio*. Cylinder pressure and temperature are also critical to efficiency because the combustion process takes place under highly pressurized and very hot conditions. Notwithstanding the very hot conditions, significant variations in temperature occur within individual cylinders. Cylinder walls are cooled as coolant is circulated through the engine block. As a result, the temperature of the cylinder walls can be too low for flame sustainment. For that reason, the fuel mixture in direct contact with cylinder walls does not burn efficiently (it is often extinguished). The areas within cylinders that have the lowest temperatures are subject to carbon deposit build up and the unburned fuel from those areas contribute to GHG in the form of carbon emissions, specifically hydrocarbon particulates ("HC"), carbon monoxide ("CO") and carbon dioxide ("CO₂").

Because every combustion cycle is very short lived, in normal ICE use, it is almost impossible to achieve a *stoichiometric* air-fuel ratio. However, air-fuel ratios closer to *stoichiometric* than can be achieved with air-fuel ratios suitable for a wide range of ICEs and applications can be achieved by making modifications to the molecular composition of air-fuel mixtures injected into a

combustion chamber (i.e., a cylinder) for a particular engine, operating in a particular environment. In addition, cylinder temperatures can be controlled through varying the rate and timing of combustion. Furthermore, maximizing fuel efficiency requires combustion to occur precisely when peak pressure is exerted on the piston that is when the piston is at top dead center (“TDC”).

Empire integrates its proprietary systems and equipment technologies into the fuel system of ICEs by means of its A/Gs. Its A/Gs employ computerized analyses to determine the fuel-air ratio required to optimize fuel efficiency under various climatic and geographic conditions. Patented technology owned by Empire is employed to safely increase the internal cylinder temperatures immediately before the injected fuel mixture combusts. Accelerant injection insures fast, short duration, efficient combustion when the pistons are at and very close to TDC. As a consequence, more carbon is burned than would otherwise be the case. As a result of efficient combustion the quantum of kinetic energy available to drive pistons is increased. And, because the fuel burn is accelerated and made more efficient there are fewer carbon deposits, resulting in reduced maintenance costs, and in lower HC, CO and CO₂ emissions.

The installation of Empire’s A/G system does not require any modification to the engine, its components or monitoring system and therefore would not negatively impact a vehicle’s ability to pass government emissions requirements.

Vehicle manufacturers generally state that any add-ons will void warranties. Empire believes that one reason for this is that some vehicles are designed with planned obsolescence in mind and add-ons such as those provided by Empire can extend vehicle life and hence defer new purchases. Empire has a \$2,000,000 insurance policy to protect against any damage done to a vehicle on account of the installation of its system. Empire believes that a vehicle owner would need to provide proof that the Empire A/G caused damage or malfunction to the vehicle in order to seek damages from Empire.

2.2.4 Technology Benefits

Empire’s technology was designed to benefit ICE owners primarily by:

- reducing fuel consumption
- reducing HC emissions in engine exhaust
- reducing CO emissions in engine exhaust
- reducing CO₂ emissions in engine exhaust

Empire has found there are other benefits for transport truck owners. Emission controls on ¾ ton and heavier trucks have become more and more complex. Since 2008 full size trucks have been equipped with emission controls devices, including Diesel Particulate Filters (“DPF”). Those emission control devices require fuel to be burned during their operation. During our APTDP, we learned that while the newer trucks are more fuel efficient than older trucks during most operations, they are less fuel efficient at times because of DPF deployment. Our A/Gs will significantly reduce the frequency of operation of the DPF (because of reduced HC emissions) thus reducing fuel consumption during DPF operation as well providing for normal operations efficiency improvements.

2.2.5 Technology Development Program (“TPD”)

Approximately 50 units were manufactured and installed as test units by Empire from 2013 to September 30, 2015 which concluded the first TPD phase. To further commercialize its technology Empire commenced the beta test TDP (“BPTDP”) on October 1, 2015. The completion of the BPTDP will put Empire into a position of being able to commercialize its technologies by means of production and sales of beta test units as of October 2016.

As a result of undertaking the APDTP, Empire produced and integrated more than 30 fully functional prototype A/Gs into transport truck ICEs. Prototype AG were tested on small vehicles (passenger cars and pickup trucks) before larger systems were prepared for testing on transport trucks. As part of the APTDP several of the integrated A/G were removed for testing and analyses by Empire.

2.2.7 APTDP Small Vehicle Test Results

It should be noted that ICEs that were not, at the time of testing, still covered by manufacturer's warranties powered the test vehicles used. It may be that results for ICEs of a different vintage will differ from the results shown below. Although Empire does not have any reason to believe this might be the case, it cannot completely discount the possibility that the above-noted benefits would not be realized on different vehicles and that test results from other ICEs might be lesser or even insignificant. It is for the reason, among others that the BPTDP will include testing on 200 A/Gs integrated into ICEs powering vehicles and 100 A/Gs integrated into ICEs powering stationary power plants or other stationary equipment that is operated continuously for very long periods, preferably 24/7.

Vehicle	Average Fuel Consumption		Improvement
	Baseline (mpg)	With EHFES*	
2004 Mazda RX8 (Rotary)	15.12	18.48	22.17%
2008 Ford F350/6.4 L. Turbo Diesel	15.03	18.09	20.34%
2007 Dodge/5.9 L. Cummins Diesel	16.00	19.85	24.10%
2000 Lincoln Navigator/5.4 L. Gas	15.60	19.15	22.53%
2007 GMC W5500/5.4 L. Diesel	11.44	13.29	16.19%

*EHFES is an acronym previously used for the technology incorporated in Empire's A/Gs.

It should also be noted that Empire now has insurance that will cover damages, should any occur as a consequence of defect in materials or workmanship, during prototype testing or use of a commercial model A/G for up to \$2 Million dollars (with individual incident limits being \$200,000).



The mid-sized delivery vehicle pictured above was equipped with a prototype Empire Accelerant Generator for one year. The operator reported improved mileage and performance during the trial. Upon completion of that trial Empire began integrating A/Gs into the fuel systems of vehicles powered by larger ICEs.

2.2.7 APTDP Larger Vehicle Test Results

The above-referenced prototype test units were integrated into the ICE fuel systems of trucks from several BC companies including:

- JenCam Transport of Sidney BC
- Friesen Brothers Fuels of Burnaby BC
- Target Pacific Coast Transport of Delta BC.

The results of the five-truck fleet that was used to determine fuel efficiency are shown below.

Year, Make, Engine	Previous Fuel Use	Current Fuel Use	Fuel Savings	Efficiency Improvement
2003 Kenworth 15 Litre ISX Cummins	68.90 l/100km	55.38 l/100km	13.52 l/100km	24.41%
1997 Kenworth 14.6 Litre Cat	70.44 l/100km	58.61 l/100km	11.83 l/100km	20.18%
1997 Kenworth 12.6 Litre Detroit	62.77 l/100km	52.60 l/100km	10.17 l/100km	19.33%
2012 Kenworth 15 Litre SX Cummins	53.40 l/100km	46.23 l/100km	7.17 l/100km	15.51%
2011 Freightliner 15 Litre Detroit	62.77 l/100km	51.36 l/100km	11.41 l/100km	22.22%
AVERAGES			10.82 l/100km	20.33%

As with the small vehicle tests, the ICEs that powered the larger test vehicles were not covered by manufacturer's warranties. Again, it may be that results for ICEs of a different recent vintage would differ from the results shown above. (See Item 2.2.7 above)



Jencam and Freisen Bros. Trucks used in APTDP – Displaying Mounted A/Gs

2.2.8 APTDP Participants

Have Joined Empire None of our Prototype A/G units were expected to, or intended to, have a long service life. As improvements are made, prototype units are normally scrapped. In our case,

testers of some of the APTDP A/G units that were scheduled to be scrapped, offered to buy them. In order to recover more of its scientific research and experimental development (“SRED”) costs than would have been possible otherwise, Empire agreed to the proposed sales.

The owners of the companies named above became shareholders of Empire after having tested the prototype units. They also purchased some of the above referenced APTDP prototype A/Gs.

2.2.9 Independent Consultant Tests

Over the course of several months, from December 1, 2015 to March 30, Dr. Self at the request of Empire conducted a range of specific, scientific testing/analyses of the Empire system to provide independent verification including tests on a dynamometer that the Empire system had positive benefits. Dr. Self has a Ph.D. in Physics from the University of Sheffield and is the president of Artana Solutions Inc. based out of Nanaimo, British Columbia which was established in 2009 and provides *expertise in technology, SR&ED tax credits, defense system engineering, ISO 9001:2008 quality management system auditing and R&D management excellence*. Dr. Self has over 30 years of engineering, technology, and program management (PM) experience in the “high tech” and defense arenas, as well as in both smaller/start-up operations and in larger corporations. The following is a summary of the following key outcomes: -

Vehicle Dynamometer Tests

Tests were conducted using a 15L truck mounted on a vehicle dynamometer where engine RPM and Load were varied when fitted with and without Empire FES technology. Key conclusions were:

- There are both direct and observable increases to ICE: Fuel Efficiency; HP; and Torque upon adding the Empire FES unit.
- Improvements in HP, Torque and Fuel Efficiency were noted in 73 – 78% of results analyzed.
- Overall, these tests demonstrated some of the clear and positive impacts of the Empire FES technology in enhancing ICE performance and these constitute a solid baseline from which to move forward on this design and technology.

Engine Dynamometer Tests

Using a HI-EFF Taylor Dynamometer and Machine Co. Inc. Model DX33 dynamometer, Dr. Self conducted a range of tests on the Empire FES technology on a Detroit Diesel Series 60 12.7L ICE. Specific conclusions from this testing were:

- significant fuel savings are achievable and repeatable using Empire’s FES technology;
- Empire has proven the design integrity of its prototype FES Unit.
- Emissions: a maximum 13.1 percent (average 10%) decrease in fuel consumption whilst maintaining the same RPM and power output which would indicate that emissions were also reduced by this percent amount.

Speed Trials

This performance measurement focused on speed testing through a road test when operated with and without the Empire FES technology, where we used a Ford F-350 truck. An incline of approximately 2.5Km in length was chosen with an elevation increasing from 149m ASL (Start) up to 273m ASL (End). The tests concerned stopping the vehicle and then pressing the accelerator to the *floor* as fast as possible and noting (with a stopwatch) the time to reach 90KM/h – this being indicative of likely truck highway speeds of 55 mph. Truck vehicle parameters were maintained the same for each test, namely:

4WD Traction Control OFF; and,
Hill Descent Control OFF.

The key Measure of Effectiveness (MOE) for ICE performance relates to % time reduction to reach 90Kmh when the Empire FES is attached compared to the time achieved when it is not attached. Specific conclusions from this testing were:

- The F-350 takes approximately 10 secs to reach 90 Km/h from a stop position.
- With the Empire FES unit attached, there was a consistent and shorter time to 90Km/h. Based on average run times, there is a 0.3 – 3% reduction in time to 90 Km/h using the Empire FES unit when supplying a gas flow of 3L/min.
- Based on best (fastest) run times, there is a 2.6 – 6.2% reduction in time to 90 Km/h using the Empire FES unit when supplying a gas flow of 3L/min.
- These speed tests confirm the Empire Fes technology as enabling increased ICE power consequent upon the injection of a hydrogen and oxygen gas flow.

Dr. Self has concluded that based on its performance together with the specific system architecture of the Empire FES system makes this a unique solution to increased fuel efficiency, power and reduced emissions from high capacity (12-16L) ICE. Anyone wishing complete copies of Dr. Self's reports can contact Empire.

2.3 Development of Business

Empire is currently making the transition from its APTDP to the BPTDP. The APTDP proved the technology concept and provided proof of the design integrity of the A/G. The APTDP included trials conducted by Empire and independent testing conducted by Best Environmental Technologies Inc., of Edmonton, Alberta with the results being better than Empire had anticipated and with those results preparing Empire for the BPTDP.

The BPTDP will include extensive testing of 200 prototype A/G integrated into transport trucks that will be operated in all weather conditions, including some of the harshest conditions (extremes of hot and cold, extremes of humidity, extremes of atmospheric pressure, high altitudes) in which similar trucks might be operated anywhere in the world.

In addition, the BPTDP will include the integration of 100 prototype A/G into the fuel systems of stationary plants, which plants will run 24/7 or as close to 24/7 as possible. Those prototypes will most often be run at constant power settings and will provide significant data that will not be attainable from prototypes integrated into truck fuel systems.

The BPTDP is designed, among other things, to: determine the most appropriate materials and material qualities for parts and components; redesign the electronic control board; develop wireless systems for data recording and transmissions; finalize the design of the A/G, for appearance, ease of installation and serviceability; and, determine cost effective, efficient techniques for parts and components production and unit assembly in order to facilitate commercial-scale manufacturing.

2.3.1 BPTDP Research Team

Holders of Class D Preferred Shares, typically independent truck owners or operators (“Owner”) will have the opportunity to enter into a Beta Test Agreement (“Research Agreement”). Under the terms of the Research Agreement the Owner will have an A/G integrated into the fuel system of the ICE on his vehicle. As a further benefit from his participation as a member of the research team (“Beta Tester”) will obtain a license to use Empire’s technology on preferred terms. (See Schedule “111”).

2.3.2 APTDP Prototypes are Suboptimal

Empire conducted minimal bench testing during the APTDP. Scientists and engineers have very often found the process of scaling up from bench model prototypes to industrial scale size units was very costly, sometimes so costly they ran out of funding before the full size units were built. We decided against following a more typical procedure and from the outset were determined to assemble industrial scale but suboptimal prototypes and to operate those prototypes in order to have certainty that modifications and improvements made would function on full sized units and not just on laboratory or bench models.

As a result, the APTDP prototype AGs are suboptimal. During the BPTDP those units will be optimized as we acquire more knowledge. For that reason, the units integrated into Beta Testers’ ICEs may from time to time be modified and / or replaced completely.

As modifications and replacements are required, Beta Testers’ A/G will be used to refine installation processes and for training of technicians wishing to become Empire Certified Technicians.

2.3.4 Additional Technology Development and Commercialization Plans

Contemporaneously with the commercialization referred to above Empire will continue its endeavour in the prosecution of SRED with the intention of developing technology for use in minimizing fuel consumption by ICEs used to power very large land based equipment (including railway locomotives) and marine vessels (including ocean going cargo ships such as Maersk’s container ship Emma – powered by the Wärtsilä 14 cylinder, 25,480 liter displacement ICE pictured below. (Note the size of the workers relative to the size of the ICE.)



Empire does not intend to compete in the market place as a provider of a single technology for use

only by owners of operational ICEs. As a consequence, it will consider prospects for collaboration with teams made up of several technology providers that are collectively focused on giving one particular original equipment manufacturer (“OEM”) of tractors, such as Peterbilt, a competitive advantage over other tractor OEMs such as Kenworth. Until the BPTDP has been completed, it will be impossible to make reasonable estimates of costs that might be incurred in gaining acceptance by one of the existing consortia. Empire will attempt to gain acceptance without incurring significant costs.

Empire will also consider collaborating with other companies that are focused on reducing ICE fuel consumption by modifying, or introducing new: methods of diesel injection; means for varying the volume of fuel injected; means for changing the air to fuel ratios; and, other disruptive technologies. It is too early to project costs that might be required to secure an advantageous agreement.

Empire is not adverse to acquiring or licensing complementary technology developed by other entities if such procurement would move Empire toward realization of its vision. Projecting costs for acquisitions of unknown technologies is impossible.

2.3.5 Current Target Segment

Our target market consists of ICE owners, most particularly those whose engines burn diesel. The Highway Transport Truck Owner segment of the industry currently has the greatest needs – consequent upon Government intervention (see Paragraph 4.3 below). As a result, we will aggressively market within that segment.

2.3.6. Future Target Segments

It is believed that all ICE owners can benefit from Empire’s technology. As indicated above, our initial focus will be on large Highway Transport Truck Owners. However, it should be noted that within Canada there are approximately 800,000 pieces of equipment that reportedly burn more than 40 liters of diesel per hour. Fewer than 40% of them are Class A (tractor-trailer) trucks. It should also be noted that within Nunavut alone, 369 communities are wholly dependent upon diesel engines for electrical power. At this time those market segments don’t have a need that is a consequence of government intervention. Over time, the size of our target segment is anticipated to increase to include owners of off-highway trucks, heavy construction equipment, heavy exploration and development equipment, railway locomotives, electrical power generators and large marine vessels. (See Paragraph 2.2.9 above.)

2.3.7 Impact of Government Intervention

Government intervention creates market opportunities that might not otherwise exist. In the early 1950s, scientists began warning people and their governments of the risks associated with increases in atmospheric carbon dioxide (“CO₂”). Neither scientists nor other individuals can do more than pressure government. However, in response to increased group pressures, in the 1990s, multi-national organizations and the governments of those organization’s members began making treaties and passing laws with the intention of minimizing GHG and CAC emissions consequent upon human activities.

Legislation passed in the USA and the EU has dictated machinery and equipment modifications. Government requirements for increased fuel efficiency and consequent reductions in GHG and CAC emissions are the strongest driver in our EU and US market segments.

Intervention in the form of legislation that mandates changes in technology and in the form of incentives for companies and/ or investors is giving our Company very significant opportunities.

By way of illustration as to how intervention creates market opportunities, we can consider the fuel related changes affected in our target segment’s *status quo* pursuant to legislation enacted by the Obama Administration. We can also give attention to Canadian government incentives and how those incentives, in particular, will benefit Empire and its new shareholders.

Regardless of fuel costs there is an ongoing incentive for users and operators to achieve efficiency gains including improved fuel efficiency and reduced emissions. Engine manufacturers have delivered improvements through engineering advances and sophisticated controls. The Empire system is not targeted at owners or operators of modern passenger cars or light trucks, where efficiency gains from use of the Empire system are likely to be negligible.

Challenges relating to cold climate usage may have retarded development and implementation of HHO systems. There have been competitors in this field that have ignored the need for all-temperature usage and the resulting heaters and package design and attempted installation of unprotected components in engine compartments resulted in freezing or failure of those components.

The use of hydrogen technology for vehicles has been of concern for two reasons, firstly the storage of hydrogen in tanks on vehicles has been considered to be very dangerous, particularly if the vehicle is involved in an accident. Secondly because hydrogen re-filling stations do not yet exist and are unlikely to as concern also exists regarding the safety of those stations, hydrogen as a fuel remains impractical.

The Empire Hydrogen System produces its own supply of hydrogen, none of which is stored. Hydrogen is produced on demand only when the vehicle engine is running at a high enough RPM to consume all of the hydrogen produced. A very small amount of hydrogen may exist in the system when the engine is turned off, not enough to cause any damage, and is prevented from igniting in the Empire system by a safety blow back device that is presently in the process of being patented.

2.3.8 US Government Intervention

In 2011, US Government agencies imposed regulations requiring reductions in highway transport truck fuel consumption equal to 20% of 2009 fuel use (based on tons of cargo moved) by the end of 2017. They have since added more onerous regulations. In accordance with the most recent regulations, fuel consumption must be reduced by a further 24% during the period 2021 to 2027, for a total of 39.5% over a 16-year period.

2.3.9 Environment Canada and EPA Testing Background

Environment Canada have published, in 2004, a report ERMD Report No. 2004-32v2 which studies the exhaust emissions and fuel consumption of a vehicle equipped with an HHO generator broadly similar to the Empire Hydrogen system. The reported outcome of the study was that there was no improvement in engine efficiency or fuel economy.

Empire has been in contact with the author and now has the full report from Environment Canada. It was learned that the equipment used for the test was similar to, but different to that being built by Empire today. Most significantly, the method of injecting the HHO into the engine was very different entailing a pressurized hydrogen injector to force the HHO into the air intake after the turbo charger. Empire, on the other hand, introduces the HHO before the turbo which distributes the hydrogen and oxygen more uniformly and does not interfere with the turbo pressure. Such interference cannot be discounted as a possible cause of different results with the tested setup. The Environment Canada tests were conducted with a vehicle on a chassis dynamometer, emissions measured and efficiency numbers calculated. The vehicle was not road tested.

The same HHO equipment was tested in 2008 to test procedures SAEJ1321 by an independent consulting practice, Emissstar LLC, "a company focused on the scientific, business, policy and public health issues surrounding public health issues".

Two vehicles were tested and the results were an improvement in fuel economy and a reduction of emissions.

It should also be noted that the Environment Canada study was carried out in 2004, at that time emission systems on heavy duty vehicles were different than today. In particular Diesel Particulate Filters were not in use. These filters collect soot and other particulates and periodically, when sensors detect an increase in pressure, fuel is directed into the filter and the particulates incinerated. The use of fuel for the operation of the DPF is reduced with the Empire HHO system.

In the United States the EPA has also issued a Consumer Information sheet.¹ The document provides information on a number of aftermarket devices including fuel additives and other alternate fuel conversions as well as the addition of hydrogen. The document advises caution in all cases including the use of hydrogen.

The EPA to date has not been requested to test any hydrogen systems through the Voluntary Aftermarket Retrofit Device Evaluation Program which after successful completion would get the product added to their Test Reports list. The EPA does not certify, approve or endorse any of the listed products. No previous requests have been made. This may be explained by the fact that the program is voluntary and because no other hydrogen systems have been fully commercialized for market to date.

The process to enter the Voluntary Aftermarket Retrofit Device Evaluation Program with the EPA is as follows:

1. Develop and test product in house.
2. When ready make application to EPA.
3. Repeat tests with EPA approved test lab.
4. Upon successful completion documentation to be provided to EPA
5. two vehicles tested at EPA lab in Ann Arbor, Michigan.

2.3.10 Canadian Government Intervention

In harmony with other countries Canada has taken steps to affect change. Rather than legislating change, Canadian governments have provided incentives for change. One incentive is an investment tax credit (“ITC”) for corporations that conduct scientific research and experimental development (“SRED”) in respect to technologies relevant to reductions in fuel consumption and emissions of GHG and CAC. A Canadian Controlled Private Corporation (“CCPC”) can, under certain circumstances, receive a cash refund equal to approximately 62% of its qualifying SRED expenditures.

The difference in out-of-pocket cost that would be required absent the ITC incentive and the out-of-pocket cost that is required for a CCPC from British Columbia to prosecute SRED is illustrated in the adjacent table. The assumption used in the table in respect to the applicable BC combined federal and provincial CCPC tax rate is 13.5% (the rate that was effective for 2014 and is effective for 2015). As illustrated, if the ITC incentive were not available, a CCPC would have an out-of-pocket cost of 86.5% of its SRED expenditures made whereas a CCPC that

CCPC qualifying for the 35% federal ITC and 10% BC credit	Regular expenditure - Salary	SR&ED expenditure - Salary (using proxy method)
Expenditure	\$ 10,000	\$ 10,000
Add proxy @ 65%	n/a	6,500
Qualified expenditure for BC credit	0	16,500
BC credit @ 10%	0	(1,650)
Qualified expenditure for federal ITC	0	14,850
Federal ITC @ 35%	0	(5,198)
Net expenditure	\$ 10,000	\$ 3,152
Value of tax deduction @ 13.5%	(1,350)	(426)
After-tax cost of expenditure	\$ 8,650	\$ 2,726

Illustration of ITC Benefits to BC based CCPC

benefits from the incentive has an out-of-pocket cost of only 27.26%. Governments have and are covering 62.74% of qualifying SRED costs for BC’s CCPC.

The province of British Columbia provides incentives to its residents through a cash refundable tax credit program for investors in Cleantech Ventures. Investors who acquire securities issued by an Eligible Business Corporation (“EBC”) through their Self-Directed Registered Retirement Savings

¹ EPA-420-f-11-036, Devices and Additives to Improve Fuel Economy and Reduce Pollution- Do They Really Work?

Plans (“SDRRSP”) may obtain combined provincial and federal tax concessions equal to 75% of the total they investment (to a maximum \$1,400,000 per individual). (See Item 6 Income Tax Consequences and RRSP Eligibility.)

2.4 Long-Term Objectives

Empire plans to commercialize the technologies incorporated into its A/Gs for use with ICEs of up to 16 liters total displacement, beginning in October 2016. To do that it intends to develop a network of regional and district agents. Such agents will integrate A/Gs into the fuel systems of end users ICEs and service the installed units. End user customers will lease A/Gs and license technology use from Empire. Empire believes the revenue generated by fees charged to the regional and district licensees combined with the A/G lease fees and technology licenses will fund all costs incurred in respect to global expansion.

Until Empire has completed its BPTDP it will not have enough data to make reasonable estimates for SRED costs required to develop and perfect the technology for use by much larger ICEs than those for which the technology will first be commercialized.

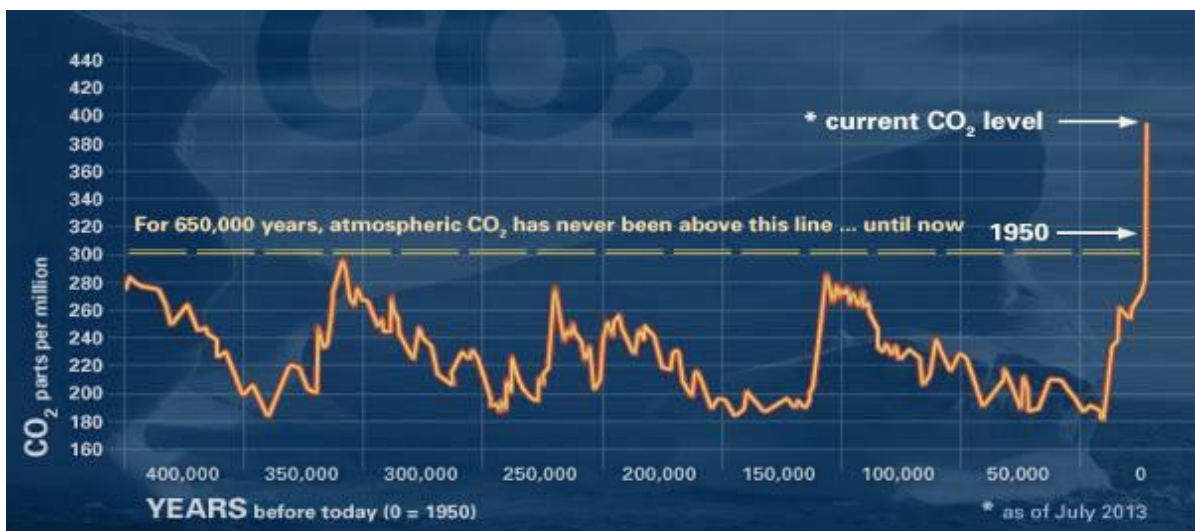
2.4.1 The Canadian Target Market

Canada’s newly elected Prime Minister, Justin Trudeau, has often stated that the Liberal Government will be very proactive in initiating changes to minimize global warming and climate change. If the Liberal majority government follows through on Trudeau’s promises, Canadian truckers, and possibly other ICE owners could have their businesses impacted upon by legislation comparable to that now in existence in the EU and in the USA.

As a result of their use of our technologies, BC’s truckers could gain a very significant advantage over truckers from other parts of Canada, firstly by taking advantage of the investment opportunity offered herein and secondly through reduced fuel consumption. The chart shown below evidences four facts of considerable importance. First, it shows the number of Canadian truckers over whom our Beta Testers could gain a competitive advantage through lower fuel and maintenance costs. Second, it indicates the number of truckers who form part of the Canadian market segment targeted by our Company. Third, it points out the fact that BC truckers constitute a significant portion of the Canadian market segment we will target. Four, it reveals the number of truckers who, if they contract to use our technology, will increase our prospects for high annual income and for gains in share value for all investors.

2.4.2 The US Target Market

Although the 2008 global economic catastrophe temporarily slowed the rate of increase in GHG (because, among other things, industrial operations were suspended), as illustrated in the NOAA chart duplicated below CO₂ emissions have increased since 2006.



The chart below reveals fuel consumption details, provided by the USA's Environmental Protection Agency ("EPA"), in respect to the sectors most relevant to our target markets (current and future). 59.3 billion gallons of diesel were burned in 2014 in the USA.

	Volume (Billion Gallons)	Energy (Tbtu)	CO ₂ (Tg)
Transportation⁸			
Light-Duty Vehicles	1.7	234.3	17.3
Passenger Cars	0.4	56.2	4.2
Light-Duty Trucks	1.3	178.1	13.2
Buses	1.6	219.9	16.3
Medium- and Heavy-Duty Trucks	34.1	4,734.9	350.2
Recreational Boats	0.4	50.1	3.7
Ships and Boats	0.7	103.5	7.7
Rail	3.9	544.0	40.2
Non-Transportation⁹			
Agricultural Equipment	4.2	584.1	43.2
Construction Equipment	6.8	948.5	70.1
Other Non-Transportation Mobile	2.8	387.9	28.7
Ships and Boats	1.4	211.1	15.8

USA.'s E.P.A. Report Prepared for the United Nations Framework Convention on Climate Change (UNFCCC)

Note: 1 CO₂ (Tg) = 1 Megatonne or 1,000,000 metric tonnes = 1 Mt CO₂e

88.5% of the USA's 2014 total, being 52.5 billion gallons, was consumed by the Bus, Truck, Ship, Rail, Construction and Other Non-transportation sectors. 34.1 billion gallons were used by transport trucks of the type for which we will manufacture Series A Accelerant Generators. There are currently more than 3,000,000 Class 8 (heavy tractor-trailer) rigs operating on US Highways.

The size of the US tractor-trailer market and its significance to us should be noted. It is almost twice as large as the European market (27 EU members, 4 non-EU members, and 3 EU applicant countries), which collectively have just over 1.7 Million registered highway tractors. And it is 10 times larger than the markets in Canada and Australia, each with approximately 300,000 highway tractor-trailer rigs.

2.5 Short-Term Objectives Funding

Objectives	Number of months to complete	Cost to complete
Complete Beta Phase Technology Development Program <ul style="list-style-type: none"> 1. Production of 25 preproduction units 2. In field Real-Life testing on trucks 3. Retrieval of Data from Trucks 4. Testing of wireless data system through cell links 5. Testing of onboard communication with vehicle computer talking with the Empire equipment computer 	12 months	\$534,537
Develop technologies and processes suitable for scalable manufacturing	12 months	\$855,260
Prepare for Technology Commercialization Launch	12 months	\$641,445
Cover Administration and IP Protection Costs	12 months	\$106,907

Empire contemplates obtaining all of the Funding (i.e., \$2,138,149) needed for the realization of the Short-Term objectives set out above through full subscription for the shares being made available through this Offering Memorandum. However, it plans to make a proposal for assistance through the Western Innovation (WINN) Initiative program, SRED and NCR-IRAP plus other Government incentive Green technology grants, when the next call for applications is made. Given that all of the contemplated expenditures should be deemed to qualify, an application will be made for 50% of the costs not incurred at the time close of the date applications must be submitted. Empire has for the last 3 years received substantial SRED grants.

WINN assistance is available for companies that are:

- Introducing a new product, process or service to new or existing markets;
- Improving products, processes or services;
- Developing technology;
- Seeking product certifications;
- Undertaking pilot projects (first user) and technology demonstration projects;
- Validating market potential and end-user acceptance; and
- Needing support for marketing, human resources development, productivity, and process or quality improvement directly related to the commercialization of new opportunities.

Companies that may apply for the assistance must:

- Be for-profit companies, incorporated to conduct business in Canada;
- Be employers of fewer than 500 full-time equivalent (FTE) employees;
- Be in their second or subsequent year of operation;
- Have operating facilities located in Western Canada;
- Have a viable plan to commercialize (i.e., generate revenues from sales) an innovative, technology-driven, new or improved product, service or process within three years of project commencement;
- Have sufficient intellectual property rights to carry out the proposed project and to exploit commercially the results of the project; and,
- Have confirmed, at the time of application, funding from all other sources, including government and non-government (non-government funding must represent at least 50 percent of the proposed project costs);

WINN assistance may equal up to 50% of total eligible costs for each project, to a maximum of \$3.5 million per project. Recipients are eligible to submit applications for additional projects, but total support to any one organization cannot exceed \$7.5 million over the life of the WINN Initiative (2013-2019).

Assistance may be used to fund:

- Quantifiable design, engineering and other professional services;
- Costs of prototype development materials consumed;
- Costs of transportation of prototype to location of demonstration site;
- Costs of third party certification, testing, quality assurance, etc.;
- Costs of specialized insurance while item is onsite for demonstration;
- Material and supplies costs consumed in the product development and production stages;
- Capital costs for machinery and equipment;
- Labour costs; and
- Procurement of project-related innovation services (independent of the applicant), including, for example, patenting costs.

IP Protection costs include the costs of ongoing patent applications pertaining to the design and interfacing of electronic systems and ongoing patent maintenance fees for existing patents; Empire currently has a Canadian and US patent on the blow-back protection device.

2.6 *Insufficient Funds*

Funds available under this offering may not be sufficient to accomplish Empire's proposed objectives.

2.7 *Material Agreements*

The following list summarizes the material agreements to which Empire is a party to:

1. Engagement with KPMG LLP Chartered Accountants for audit services.
2. Engagement with Jawl Bundon LLP for legal services.
3. Engagement with Beadle Raven LLP for legal services.
4. Beta Technology Test Agreement – Holders of Class D Shares and Beneficiaries of Trusts holding Class D Shares (each "Beneficial Owners") are all offered an opportunity to participate as a research team member in Empire's BPTDP. In consideration for a Beneficial Owner agreeing to provide field test data to Empire, Empire will integrate one prototype A/G into the fuel system of a mutually agreed upon ICE without cost to the Beneficial Owner. As part of the Agreement, Empire will license its technology to the Beneficial Owner and consequently benefit by participating in the fuel savings realized by the Beneficial Owner. (See Schedule "D" Subscription Agreement annexed hereto).
5. Management Agreement with S.O. Tjelta & Associates Inc. (wholly owned by Sven Tjelta) will be entered into containing customary terms and conditions (other than payment) and subject to independent board approval. See section 1.2 (Use of Proceeds).

2.8: *Industry Risks and Competition*

2.8.1 *Changes in Legislation*

Within the USA, tractor-trailer rigs are limited in length and load weight. Maximum cargo weight is 80,000 pounds. In Europe, single tractor loads of up to 120,000 pounds are permitted. In Australia, where road trains (several trailers pulled by one tractor) are permitted total cargo weight may be 250,000 pounds) A change in US legislation that would allow truckers to: pull longer trailers, pull more trailers, carry larger loads, and form platoons (with several trucks being separated by as little as 25 feet) would, without any changes to ICEs, tractors or trailers, result in very significant fuel use reductions. Even though the USA is currently focused on requiring improved performance without amending the legislation governing the size of transportation vehicles, we must be cognizant of the potential for legislative changes.

2.8.2 *Improvement in ICE Performance*

In spite of a widely held belief that further research into ICE performance is not justified, we believe the low cost associated with installation and use of our A/Gs will appeal to the market seeking better engine performance at a low cost. For that reason, we aren't and won't be the only company that thinks there is room for improvement in ICE performance. Consequently, we expect to have both direct (comparable technologies) and indirect competition (alternative technologies).

Blutip Engineering should be considered a direct competitor. It is based in Ontario and is focused on optimizing engine controls for very large diesel engines (its technology is incorporated into an Advanced Universal Controller – AUC). It promises better fuel delivery and safe, reliable and optimum combustion to maximize fuel efficiency and emissions reduction. Blutip claims its customers include some of the world's largest mining and petroleum companies with its AUCs being used in a number of different high horsepower applications, including haul trucks, excavators, dozers and power generation sets.

2.8.3 *Changes in Vehicle Design*

There is an almost universal industry consensus that the most cost effective means for improving fuel efficiency is to make transport-trucks more aerodynamic. On the highway a lot of fuel is burned simply in overcoming aerodynamic drag (wind resistance).

Today's vehicles are far more aerodynamic than were those of the past. Notwithstanding that fact, there remain many relatively inexpensive ways to improve aerodynamics.

Gaps between tractor and trailer can be shortened. Lower tractors, smaller bumpers, smaller mirrors, fewer running lights, rounder trailer edges and corners, trailer side skirts, boat tail trailer extensions, wheel covers, fewer but wider tires and so on would all combine to very significantly improve aerodynamics and reduce fuel burn.



In late 2014, the Cummins Consortium announced that its Super Truck demonstrated a 10.7 mile per gallon ("mpg") fuel efficiency (21.5 liters/ 100 kilometers) over a 500 mile (825 kilometer), round trip, performed under real world conditions. When the 2011 requirements were introduced, the norm was 4.5 to 6.5 mpg with the average being about 5.5 mpg. At 10.7 mpg the Cummins Consortium demonstrated an increase in fuel efficiency of 64.6% relative to the previous best in range, 237.8% relative to the previous worst in range and 194.55%

relative to the average. It has therefore evidenced its ability to meet and exceed the 2011 and P2R combined target of a 64.47% fuel efficiency increase.

2.8.4 Modifications to Vehicle Components

Tractor and trailer components manufacturers, other than those that collaborated in the Cummins Consortium are well aware of things they can change to improve fuel economy.

Weight reduction is an advantage of single wheel-tire assemblies. North American 18-wheel truckers can save 1,400 pounds in wheel and tire weight by using Alcoa's single wide wheels rather than dual narrow wheels.



22.5" x 14" Wide Base Wheels
The lightest wheels in their class.

Wheel Description	Part Number	Max Load (lbs)	Approx. Weight (lbs)	18-wheeler Max Weight Savings
22.5 x 14	84360x	12,800	54 lbs	1,400 lbs
	84362x			

Michelin claims that replacing the narrow dual wheels and tires now used on North American tractor-trailer rigs with a single, wider (but lighter) wheel and tire would reduce fuel consumption by 10%. European tractor-trailer rigs have, for decades, used single wheel-tire assemblies rather than two wheel, dual tire assemblies, as evidenced below.



Note: large single wheel-tire assemblies; short distance between the cab and trailer and skirts between the front tires and drive tires (vehicle on the right); and, low to the ground, streamlined bumpers.

Both tractor cab and trailer manufacturers also know how to improve efficiency. Lighter weight cab and trailer parts and entire units can be built from aluminum, fiberglass and/ or carbon fiber components. Peterbilt, Freightliner, Mack, International, Kenworth, Volvo and other original equipment manufacturers (“OEM”) plus aftermarket component suppliers such as ConMet, Dana, Meritor, Fointaine Fifth Wheel, Accuride, Jost and so on offer customers light weight components in the form of day cabs and sleeper cabs, composite springs and the proprietary suspension systems, drive shaft components, brakes, battery disconnect systems and other items.

Rear axle drive shafts, differentials and axles are also subject to discussion by North American truckers. Typically, US truckers have used four drive wheels (6X4) in six wheel tractors. European, South American and Asian truckers have typically used two drive wheels (6X2) and typically have the ability to transfer tire air and to raise the non-powered back wheels so that among other things they have better traction in snow and can drive with fewer tires on the road when traveling with no loads or light loads. Tests recently conducted in North America evidence fuel savings of up to 3% when 6X2 rather than 6X4 configurations are used.

2.8.5 Failure to Become a Consortium Member

It is sometimes important for companies to be members of a consortium that is dealing with an OEM. Consortia now exist for the purpose of manufacturing aerodynamically efficient tractors and trailers. If Empire is to be successful in having it's A/Gs incorporated into new production vehicles it may have to become a member of a consortium. It will strive to be included in a consortium of the type organized by Walmart.

Walmart collaborated with Peterbilt Trucks, Roush Engineering, Great Dane Trailers, Capstone Turbine, Qualnetics Corporation, Allison Transmission, Transpower, New Eagle, Fiber-Tech Industries, Grote Industries, Inc., Laydon Composites Ltd., Isringhauser Seats, Graykon, LLC, Dometic Corp, RealWheels Corp, Corvus Energy, Parker Hannifin, Accuride, Milliken Chemical, SAF-HOLLAND USA, Inc. and Whiting to build a proof of concept vehicle that was debuted in mid-2014. Almost every component on Walmart's rig is industry *status quo* disruptive and showcases innovations of the type that will drive increased fuel efficiencies and lower GHG emissions in the near term future. The prototype vehicle is pictured below.



2.8.6 Changes in Preferred Energy Source

ICEs that burn diesel have been the standard means for powering highway transportation trucks for generations. But, there are other means for generating the power required to move large loads of cargo on highways.

Hybrid power plants (most noticeably micro turbines and battery packs) would enable tractors to be operated within cities almost exclusively on battery power. Turbines run on virtually any liquid fuel meaning a single engine could burn diesel, propane, natural gas, methanol and other fuels.

Natural gas has the highest energy/carbon ratio of any fossil fuel and thus produces less carbon dioxide per unit of energy. Compressed natural gas (“CNG”) and liquid natural gas (“LNG”) are viable fuels for reducing GHG. Natural gas emissions contain only trace amounts of nitrous oxide (“NOx”) emissions and approximately 76% of the carbon dioxide (“CO2”) emissions of diesel fuel.

Worldwide, there were 22.7 million natural gas vehicles (“NGV”) at the beginning of 2015, led by [China](#) (4.44 million) and followed by [Iran](#) (4.00 million), [Pakistan](#) (3.70 million), [Argentina](#) (2.48 million), [India](#) (1.80 million) and [Brazil](#) (1.78 million). The [Asia-Pacific](#) region leads the world with 6.8 million NGVs, followed by [LatinAmerica](#) with 4.2 million vehicles.

LNG is in the early stages of becoming a mainstream fuel for US transportation. It is being used for on-highway trucking, off-road transportation and construction equipment, marine vessels and railroad locomotive applications. Public LNG fueling facilities are in place. The 2013 National Trucker's Directory listed approximately 7,000 truck stops, being approximately 1% of all US truck stops, as having LNG available. In February 2015, UPS had over 1200 LNG fueled tractor- trailer trucks on the roads.

LNG boils at approximately -160C. Therefore, by using a simple heat exchanger a small amount of LNG can be converted to its gaseous form at extremely high pressure with the use of little or no mechanical energy. A properly designed high-horsepower engine can leverage this extremely high-pressure energy dense gaseous fuel source to create a higher energy density air-fuel mixture than can be efficiently created with a CNG powered engine. LNG engines when compared to CNG engines show more overall efficiency in high-horsepower engine applications when high- pressure direct injection technology is used.

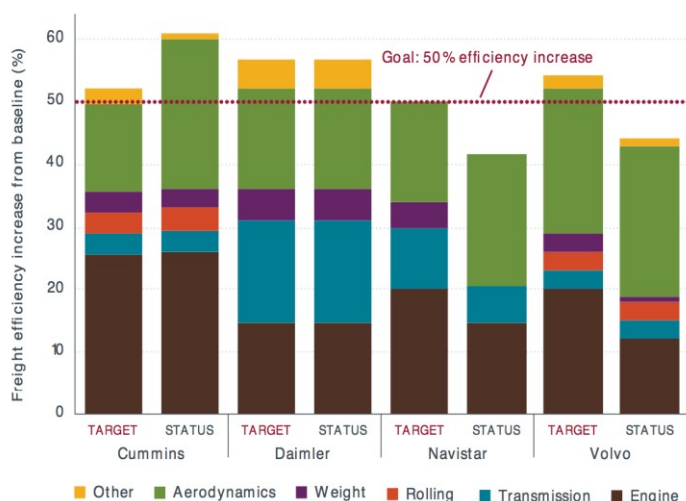
The Westport HDMI2 fuel system is an example of a high-pressure direct injection technology that does not require a turbocharger if teamed with appropriate LNG heat exchanger technology. The Volvo Trucks 13-liter LNG engine is another example of a LNG engine leveraging advanced high-pressure technology.

Westport recommends CNG for engines of 7 liters or less displacement and LNG with direct injection for engines of between 20 and 150 liters. For engines between 7 and 20 liters either CNG or LNG is said to be appropriate.

2.8.7 Governments Funding Competitors

Governments want to see industry succeed in developing technologies that will be effective in reducing fossil fuel use and in reducing GHG emissions. As a consequence, they will fund the organizations they think have the ability to achieve their goals. We will therefore have to compete with other organizations that receive government funding, subsidies and other incentives, both within and outside Canada. One competitor is Cummins Westport.

Vancouver BC based Cummins Westport (“CW”), qualifies for lower percentage government funding than we do but it is able to procure significant funding as a consequence of being based in BC and it is taking advantage of its BC situs. On May 6, 2015, CW announced it will begin field tests of a spark ignited natural gas engine capable of producing Near Zero NOX emissions – well before the 2023 California Near Zero NOX schedule for Low NOX vehicles takes effect. CW believes its Stoichiometric EGR Spark Ignited (**SESI**) natural gas engine is ideally suited to provide an economic and efficient solution to California’s air quality improvement initiatives. Development and testing are being funded, in part, by South Coast Air Quality Management District (**SCAQMD**), SoCal Gas and California Energy Commission (**CEC**).



The US Government provided four consortia with USD 80 Million each (total USD 320 Million) to undertake SRED for the purpose of discovering means by which to reduce 2009 fuel consumption figures (based on tons of cargo transported) by 50%.

The consortia were headed by Cummins, Daimler, Navistar and Volvo. The adjacent graph shows progress made to the end of 2011. All groups achieved the 50% efficiency increase target by 2014 – demonstrating their ability to satisfy the Obama Administration’s pre-2018 requirements.

2.8.8 Summary

Each of the above-mentioned competitors has developed technology and products that will have a very high capital cost. As mentioned earlier, the Obama administration believes transport truck drivers will pay \$25 Million in capital costs to achieve fuel savings of \$235 Million over 16 years. We must therefore expect to see a lot of money invested in SRED relating to the technologies and fuels referred to above. Empire is aware of the competition and the risks it faces; however, we believe the low cost associated with installation and use of our A/Gs will appeal to the market seeking better engine performance at a low cost and that the returns on capital/ investment costs associated with our A/Gs will be considered very competitive. In a free economy there is never one organization that captures the entire market. It is probable that two or three groups will capture large shares of the markets in which we will compete. We intend to be included.

Item 3: Directors, Management, Promoters and Principal Holders

3.1 Compensation and Securities Held

Name and municipality of principal residence	Positions held and the date of obtaining that position	Compensation paid in the most recently completed financial year and anticipated to be paid in the current financial year (\$)		Number, type and percentage of securities held after completion of minimum offering (1)		Number, type and percentage of securities held after completion of maximum offering (2)(3)	
		Oct 1, 2015 To Sept 30, 2016	Oct 1, 2016 To Sept 30, 2017	(#)	(%)	(#)	(%)
Sven (Roy) Tjelta North Saanich, British Columbia	President, Secretary/ Treasurer, Director (October 23, 2009 to present)	-	-	5,000,000	31.56	5,000,000	26.07
Dale Bellavance Saanichton, British Columbia	Director (July 11, 2012 to present)	n/a	-	-	-	-	-
Inger Tjelta North Saanich, British Columbia	10% shareholder	-	-	4,515,000	28.5	4,515,000	23.54

- (1) If the minimum offering is completed, we will have 15,842,836 issued and outstanding common shares.
- (2) If the maximum offering is completed, we will have 19,176,169 issued and outstanding common shares
- (3) Assumes that no preferred shares will be purchased by these individuals during the offering.

3.2 Management Experience

Sven (Roy) Tjelta – Chair and CEO Sven is an entrepreneur and business consultant with expertise in electronics and with over five decades of business direction and senior management experience in diverse fields. Most relevant to his position as Chair and CEO of the Company is his experience as the founder, chair and chief executive of several successful hi-tech start-ups, including the three focused on electronics and discussed in detail below.

Microdyne Modular Electronic Systems Inc. (electronics manufacturing). Microdyne conducted research and development and manufactured industrial electronics equipment for the plywood and lumber industry. Sven raised over \$1 million in seed capital and grew company sales to over \$2 million prior to negotiating a deal for the company's sale through a takeover.

Capital Electronic Services Limited (marine telecommunications). Capital was primarily active in designing, manufacturing and servicing marine radio equipment. It also designed, manufactured and serviced VHF equipment for municipal governments. When the company's annual sales exceeded \$1 million, its employees acquired outright ownership.

Lotus Technology Corp. (electronics research and development). Lotus was a research and development company, involved in the development of electronics equipment for "smart buildings". It obtained \$4.5 million in research grants, under the federal government's scientific research and experimental development program. The project was sold to, and taken over by, Leader Resources Ltd.

Sven was also one of the founders of Hyperstealth Biotechnology Corp. (hyperstealthbiotech.com). That company has revenues in the \$ Millions, earned as a supplier of digital patterns for military and sports camouflage uniforms. The company has received several takeover offers but the founders are not ready to sell yet.

In addition to his involvement with the above-referenced companies Sven has been provided founder's capital and/ or been responsible for raising seed capital for many other start up and early growth stage companies.

Sven is the Company's leader. It is because of his previous businesses successes, his investment in the Company, and his vision and mission statements that he attracts competent people and inspires them to excel, believing that success is the only result that will be acceptable to them.

Dale Bellavance – Director Dale got his business start in the early 1970s in the field of real property development. From residential construction he moved on to building roads, bridges, log dumps and large work-crew camps, primarily for the forest industry, and gaining significant experience in directing and managing organizations. He subsequently expanded his business reach into the development of commercial properties and the construction of light industrial and small commercial facilities. In 1988 he was invited to become a support member for a conglomerate of 28 companies building hotels throughout Mexico. Working under the umbrella of Grupo Troya in a direct partnership with the Federal Government of Mexico's tourism department, Fonature (Nacional de Formento al Turismo), he served as the conglomerate's marketing director and also conducted overall project management, eventually overseeing the completion of three major hotels. After completing his Mexican engagement, he undertook additional commercial and residential developments in Canada and became involved in manufacturing lighting specifically designed for the industrial sector. His broad range of experience in company direction and management will contribute significantly to the effectiveness of the Company's board.

Jacob Wall – Technology Specialist Jacob holds a Bachelor of Applied Science degree in Mechanical Engineering (Walla Walla University) and a Master of Science degree in BioEnergy/BioFuels from the University of Idaho. He has published several research and industry articles, and appeared as an expert witness in a Federal Trade Commission hearing, in respect to fuels as alternatives to those that are hydrocarbon based. He is passionate about reducing fossil fuel reliance and use and has done extensive research within both academic and corporate settings in this area.

Dr. Arthur G. Self, P.Eng. – Research Expert and Project Leader Specialist Arthur has 30 years of experience as research scientist/ engineer and author. He is internationally recognized in the defense sector as an expert in electronics warfare. He is a proven leader in the achievement and maintenance of ISO 9001:2000 and TL9000 Certifications. He was: Director, R&D, with JDS Uniphase (annual revenue ~ \$1 Billion); Director, R&D, with Nortel Networks (Annual revenue several \$ Billion); and Leader and Site Leader with Bookham Technologies (annual revenue >\$300 Million). After he relocated from Ottawa to Nanaimo, Arthur began providing consulting services as an expert in: defense systems engineering; technology development; the prosecution of scientific research and experimental development (“SRED”); and, the preparation of reports concerning research projects funded in part by government. Arthur’s wide ranging technology background enables him to bring to the Company unique capabilities in problem solving, in strong organizational and interpersonal skills developed; and in SRED team leadership.

Peter Jensen – Securities Law Specialist Peter earned his Bachelors degrees in Science and Law at McGill University. (He has a dual degree in common law and civil law). His science degree is in Biology (marine biology and ecology). While earning his science degree, Peter conducted diabetes research at the Royal Victoria Hospital (Montreal). In 1981, he began specializing in corporate and securities law, in British Columbia. He has since gained significant experience in trans-border transactions. He has a special understanding of the challenges that face corporate directors and managers. He has been, and is, a director on the boards of a number of privately held and publicly traded companies (capitalization into the hundreds of millions) and he has assisted in raising of capital, with the quantum ranging up to one hundred million dollars, in Canada, the United States, Europe and the Orient. Peter is currently a director of Deer Horn Metals, is Board Chair of Replifel Life Sciences and is practicing law with Beadle Raven LLP, Business and Securities Lawyers, based in Vancouver BC.

Kim E. Johnson – General Counsel and Government Incentives Kim was called to the Saskatchewan Bar in 1982 and to the British Columbia Bar in 1984. His preferred areas of practice include business, tax, securities, estates and trusts. His client base includes: start-up entities, individuals, partnerships, limited partnerships, trusts and private and public companies that own established businesses of various sizes. He has gained significant experience in business organization business planning and coordination of projects involving several parties with diverse interests. Kim is a former partner in MacPherson Leslie & Tyerman LLP during which time he was involved in the \$5 Billion Hibernia Project and the privatization of Potash Corporation. He is now practicing law with Jawl Bundon LLP, based in Victoria BC and he is currently a director for several private companies and one public company.

Victor Leginsky – International Private Law Specialist Mr. Leginsky is a Canadian with over 25 years of experience as a lawyer. He formerly practiced with Miller Thomson LLP, one of Canada’s large national firms. He also served as CEO of QualitE-Learning Assurance Inc., a Canadian high technology company. He has practiced law in both the public and private sectors. He is currently a legal consultant and commercial arbitrator based in Dubai where he provides strategic counsel to transportation, petroleum services, high technology, goods distribution, information and consulting companies doing business in the United Arab Emirates.

3.3 Penalties, Sanctions and Bankruptcy

No penalties or sanctions have been in effect during the last 10 years against any of Empire's directors, officers or control persons, or a company in which any such director, officer or control person was a director, officer or control person at the time.

None of the directors, officers or control persons, or a company in which any such director, officer or control person was a director, officer or control person at the time, has declared bankruptcy, been involved in a voluntary assignment in bankruptcy or a proposal under any bankruptcy or insolvency legislation, been involved in any proceeding, arrangement or compromise with creditors, or been involved with the appointment of a receiver, receiver manager or trustee to hold assets during the last 10 years.

3.4 Loans

Between the date of incorporation and March 31, 2017 Sven (Roy) Tjelta loaned Empire the sum of \$395,836, both directly and indirectly through a company he controls. This loan is unsecured, non-interest bearing and has no specified terms of repayment. Mr. Tjelta has agreed in writing that there will be no repayment of the loan until March 31, 2018. Other than as detailed above, there are not any outstanding debentures or loans due to or from directors, managers or principal shareholders.

Item 4: Capital Structure

4.1 Share Capital

Description of security	Number authorized to be issued	Price per security	Number outstanding as at March 31, 2017	Number outstanding after minimum offering	Number outstanding after maximum offering
Class A Common shares par	No maximum	\$0.75	15,842,836	15,842,836	19,176,169
Class D Preferred	No maximum	\$1.50	106,674	106,674	106,674 ⁽¹⁾

(1) Assumes that only common shares are purchased.

4.2 Long Term Debt

Description of long term debt (including whether secured)	Interest rate	Repayment terms	Amount outstanding at March 31, 2017
\$ 5,000 secured	6%	September 3, 2018	N/A

4.3 Prior Sales

Date of Issuance	Type of Security Issued	Number of Securities issued	Price per Security	Total Funds Received
November 14, 2016	Class A Common	26,667	\$0.75	\$20,000.00
November 18, 2016	Class D Preferred*	40,007	\$1.50	\$60,000.00
November 18, 2016	Class A Common	20,000	\$0.50	\$10,000.00
November 18, 2016	Class A Common	70,001	\$0.75	\$52,500.00
November 21, 2016	Class A Common	55,000	\$0.75	\$41,250.00
December 12, 2016	Class A Common	53,500	\$0.75	\$40,125.00
January 11, 2017	Class A Common	13,334	\$0.75	\$10,000.50
January 11, 2017	Class D Preferred*	46,667	\$1.50	\$70,000.00
February 22, 2017	Class A Common	13,333	\$0.75	\$10,000.00
February 28, 2017	Class D Preferred*	13,333	\$1.50	\$20,000.00
April 11, 2017	Class A Common	207,357	\$0.75	\$155,517.75
May 3, 2017	Class A Common	25,000	\$0.75	\$18,750.00
May 10, 2017	Class A Common	25,000	\$0.75	\$18,750.00
May 24, 2017	Class A Common	64,000	\$0.75	\$48,000.00

*No Class D shares issued before February 2016.

The Issuer presently has 109 shareholders (including all Class A & Class D shareholders).

Item 5: Securities Offered

We are offering for sale Class A common shares and Class D shares to a combined maximum of \$2,500,000. Both the Class A common and Class D shares are issuable for cash but in addition subscription for the Class D shares provides the subscriber with an Empire system which is subject to a Beta Test Technology Agreement (see Class D share subscription form). Only truck owners or operators wishing to install the Empire system should purchase Class D shares; all others should purchase Class A shares. There is not a minimum offering.

5.1 Terms of Securities

Class A common no par value voting shares

Meeting Attendance and Voting Rights The holders of common shares are entitled to receive notice of, attend and vote at all meeting of shareholders. Each common share entitles the holder thereof to one vote.

Redemption and Retraction Rights There are no redemption or retraction rights attached to common shares.

Dividends The Board of Directors may declare dividends on common shares in such amounts, at such times and in such a manner as the directors may determine in their absolute discretion, subject to the provisions of the *Canada Business Corporations Act*.

Remaining property The Class A shares are entitled to receive the remaining property of the Corporation pro rata based on the number of shares held subject to the prior right of the Class D shares to receive the subscribed value on winding up.

Class D preferred no par value non-voting

Dividends The holders of the Class "D" Shares shall not be entitled to receive a dividend except as defined by subscription documents approved by the Board and when, as, and if declared by the Board of Directors.

Winding-up The holders of the Class “D” Shares shall rank in priority to all other classes of shares on a wind-up or liquidation for the amount equal to their subscribed value and shall not participate thereafter.

Redemption by Company The Company may, by resolution of the Board of Directors and upon giving notice as hereinafter provided, from time to time redeem or purchase the whole or any part of the Class “D” Shares of any one or more holders without redeeming or purchasing the whole or any part of the shares of any other holder or holders of such class or any other class, by paying for each share to be redeemed or purchased the redemption price thereof which shall be not less than the subscription price but otherwise the fair market value thereof. Not less than ten (10) clear days' notice in writing of such redemption or purchase shall be given by personal delivery or by mailing such notice to the registered holder at the last address as it appears in the records of the Company or its transfer agent. In the case of each notice so mailed, delivery thereof shall be deemed to have been made to the registered holder as soon as the letter containing the same has been mailed.

Such notice shall specify the date and place of redemption or purchase which may be a Canadian Chartered Bank or a trust company. Surrender of the certificate or certificates for such shares to be redeemed or purchased is sufficient only if such certificate or certificates are duly and properly endorsed in blank for transfer or accompanied by a form of transfer acceptable to the Company and duly executed in blank.

The redemption shall be voluntary and the holder of the Class D Shares shall not be obliged to accept the offer of the Company.

Conversion to Common Shares The holders of the Class “D” Shares shall have the right to convert to common shares on a one-to-one basis at such time as stipulated in the holder's subscription documents with the Beta Test Agreement attached. If no time is stipulated in the subscription agreement, then the conversion right shall be exercisable by the holder at any time.

Registration under the SBVC Act Registration as an EBC under the SBVC Act subjects the EBC to a number of obligations as set forth in the SBVC Act and the regulations there under.

The SBVC Act requires that the EBC carry on qualifying activities primarily within British Columbia.

The SBVC Act provides that an EBC may not return capital to its shareholders, without being liable to repay the Tax Credits to the Province of British Columbia, until a five-year statutory period has elapsed from the date that the investment was made. However, an EBC may pay dividends to its shareholders out of its retained earnings.

Consequences of Non-Compliance There are a variety of situations, which can cause an EBC not to be in compliance with the SBVC Act. The result of a failure to comply with the legislation varies depending upon the particular nature of the non-compliance but essentially the Administrator can require any non-complying EBC either to rectify the circumstances of non-compliance or to pay back the Tax Credits previously issued to the shareholders of the EBC.

At any time after five years has elapsed from the date on which an investment is made in the EBC, the EBC may ask the Administrator of the SBVC Act to issue a Forgiveness Order forgiving the contingent liability to repay the Tax Credits. The Forgiveness Order may be issued provided the EBC has complied with the provisions of the SBVC Act during the five-year period.

The foregoing summary is very general and any prospective Subscribers who require further information on the provisions of the SBVC Act or the Regulations pursuant thereto are advised to consult their legal advisors.

5.2 Subscription Procedure

- (a) To subscribe for the Class A Common Shares or Class D Preferred Shares offered under this offering memorandum, you must make arrangements with the Issuer to satisfy the payment of the purchase price, and complete and deliver to the Issuer of:
 - (i) a signed and completed subscription agreement in the form attached hereto as Exhibit “A” for Class A Common Shares;
 - (ii) a signed and completed risk acknowledgement form in the form attached hereto as Exhibit “B”; and
 - (iii) a signed and completed Share Purchase Report attached hereto as Exhibit “C” if you are a resident of British Columbia;
 - (iv) a signed and completed subscription agreement in the form attached hereto as Exhibit “D” and a Beta Test Technology Agreement for Class D Preferred shares
 - (v) a signed and completed Risk Acknowledgement under blanket order 31-505 attached hereto as Exhibit “E”, if applicable.
- (b) Funds delivered to the Issuer for the purchase of its Class A Common shares or Class D Preferred shares will be held in trust for a period of two days from the date of receipt of the subscription agreement and payment from you.
- (c) Subscriptions for Class A Common shares and Class D Preferred shares will be received, subject to rejection and allotment, in whole or in part, and subject to the Issuer’s right to close the subscription books at any time without notice. The Issuer reserves the right to reject any subscription for Common Shares in whole or in part. If the Issuer decides not to accept a subscription, it will promptly return all subscription proceeds to the purchaser without interest.
- (d) Wiring Instructions:

How To Pay For Shares By Wire Transfer

Routing Instructions

Canadian Dollar (CAD) International Incoming Wire Transfers

INSTRUCTIONS

Complete this form if a member requests the routing information for a CAD International Incoming Wire Transfer. The member can provide the routing information to the customer (Sender).

The sending financial institution, or its intermediary, must send the wire transfer to its Canadian correspondent bank.

The transfer details must be completed EXACTLY as follows.

PAY DIRECT TO (FIELD 57)

SWIFT BIC: CUCXCATTVAN

Central 1 Credit Union

1441 Creekside Drive, Vancouver, BC, Canada V6J 4S7

BENEFICIARY CUSTOMER - SWIFT FIELD 59

Route No., Transit No., and Account No. (e.g. 0809120101234567)

080915040300282756

Member Name:

Empire Hydrogen Energy Systems Inc.

Member Address:

7-10189 McDonald Park Road

Sidney, BC V8L 5X5 Canada

PAYMENT DETAILS - SWIFT FIELD 70

Credit Union Name:

Envision Financial division of First West Credit Union

Credit Union Address:

6481 120 Street

Delta, BC V4E 3G3 Canada

Closings may occur periodically as determined by the Board of Directors.

The offering is being conducted in all provinces and territories of Canada except Ontario pursuant to an exemption from the prospectus requirements under s. 2.9 of National Instrument 45-106 *Prospectus and Registration Exemption* (“NI 45-106”). This exemption is available for distributions to investors in all such provinces and territories purchasing as principals, who receive this offering memorandum prior to signing a subscription agreement and who sign a risk acknowledgment form. Purchasers in Alberta, Manitoba, Northwest Territories, Nunavut, Prince Edward Island, Québec, Saskatchewan and Yukon who are investing \$10,000 or more must also qualify as “eligible investors”, as that term is defined in NI 45-106.

The foregoing exemption relieves us from the obligation under applicable securities legislation to file and obtain a receipt for a prospectus. Accordingly, prospective investors in Class A Common Shares and Class D preferred shares will not receive the benefits associated with a subscription for securities issued pursuant to a filed prospectus, including the review of material by securities regulatory authorities.

Item 6: Income Tax Consequences and RRSP Eligibility

6.1 Nature of Commentary

Provided You should consult your own professional advisers to obtain advice on the tax consequences that apply to you.

6.2 Summary

This commentary is of a general nature only and does not constitute a legal opinion or tax advice to any particular person. Nor is it intended to constitute a complete analysis of all possible income tax consequences.

The Board of the Issuer has prepared the following general summary of the principal income tax consequences to subscribers acquiring Shares in the Issuer, based upon the facts and assumptions set forth herein. This summary is based on the Board’s understanding of the Income Tax Act (R.S.C., 1985, c. 1 (5th Supp.)) (“Tax Act”) and the Regulations thereunder as they currently exist, certain proposed amendments released by the Federal Minister of Finance and the prevailing published administrative practices of Canada Revenue Agency (“CRA”) and those provisions of the British Columbia *Income Tax Act* (“B.C. Tax Act”), dealing with the Tax Credit available in respect of the purchase of shares of a corporation registered under the SBVC Act.

This summary does not take into account or anticipate changes in the law, whether by judicial, regulatory, governmental or legislative action other than the proposed amendments noted above. No application has been made for an advance income tax ruling on any aspect of the transaction proposed nor is it intended that such application be made. No assurance can be given that the Tax Act or the British Columbia Tax Act will not be amended in a manner, which will fundamentally alter the income tax consequences to a Subscriber owning or disposing of a Share.

This summary has been prepared on certain assumptions and applies only to subscribers who are individuals resident in British Columbia (not including estates or trusts) at the date the individuals subscribe for Shares in the Issuer, or corporations which maintain a permanent establishment in British Columbia who are not exempt from British Columbia income tax, who deal at arm’s length with the Issuer, who acquired the Shares from treasury for cash, and who hold their Shares as capital property for the purpose of earning income therefrom. In addition, it has been assumed for the purposes of this commentary that at all relevant times, all expenditures of the Issuer are reasonable in the circumstances.

6.2.1 Taxation of the Issuer

Taxable Income The taxable income of the Issuer will be subject to tax at varying rates depending on its status as a Canadian Controlled Private Corporation (“CCPC”) or a public corporation, as these terms are defined in the Tax Act, and the nature and level of its income.

Goods and Services Tax/ Provincial Sales Tax The Issuer will be charged Goods and Services Taxes (“GST”) and Provincial Sales Taxes (“PST”) at applicable rates on all taxable purchases and will be entitled to claim input tax credits or exemptions from tax in accordance with current legislation. The Issuer will be required to charge GST and PST to its customers and licensees pursuant to applicable, current legislation. Issuance of the Shares is exempt from GST and PST.

6.2.2 Taxation of Shareholders

British Columbia provincial tax otherwise payable by an individual is calculated as a percentage of tax payable under the Tax Act. Deductions and most tax credits claimed by an individual in respect of a taxation year pursuant to the Tax Act will reduce the British Columbia provincial tax otherwise payable by the individual for that taxation year and, therefore, may reduce the amount of the Tax Credit, which must be applied against British Columbia provincial tax otherwise payable for the year. This will not prejudice an individual’s ability to claim a refund for the taxation year or to carry forward any unutilized Tax Credit to subsequent taxation years.

Individuals who do not owe tax may claim cash refunds in respect to British Columbia provincial tax in amounts up to \$60,000 for each taxation year in which they are entitled to a refund.

6.2.3 Interest Expense

A taxpayer is currently permitted to deduct interest paid or payable (depending on the method regularly used to calculate his income) pursuant to a legal obligation to pay interest on money borrowed for the purpose of earning income from an investment, and interest paid or payable on the unpaid balance of the cost of acquiring an investment, including an investment in Shares. Reasonable interest expense incurred to purchase Shares should therefore be deductible by a Subscriber who acquires the Shares with a reasonable expectation of earning income from the Shares. Interest on money borrowed to acquire shares may no longer be deductible after the disposition (including a contribution to a RRSP, DPSP or RRIF) or deemed disposition of the Shares.

6.2.4 Dividends

A taxable dividend paid by the Issuer will be included in computing the taxable income of a subscriber who is an individual under the Tax Act as a dividend from a taxable Canadian corporation, subject to the normal gross-up and dividend tax credit provisions. While taxable dividends received from the Issuer by a corporation will be included in computing its income, the recipient corporation will generally be entitled to deduct an equivalent amount. However, a private corporation, or other corporation controlled by or for the benefit of an individual or related group of individuals, receiving portfolio dividends may be liable for a 33.33% refundable tax under Part IV of the Federal Tax Act on these dividends. This tax is refundable upon the payment of sufficient taxable dividends by the private corporation.

Subscribers will be deemed to have received a dividend on the repurchase or redemption of their Shares of the Issuer equal to the excess of the amount paid by the Issuer over the paid-up capital of such Shares.

6.2.5 Gains and Losses

The portion of the amount paid by the Issuer to a Subscriber that is not deemed to be a dividend will be considered proceeds of disposition of the Share. The subscriber may realize a capital gain or loss to the extent that the proceeds of disposition exceed or are exceeded by the adjusted cost base of a Share.

6.2.6 Individual Income Tax Installments

An individual investor who is an employee and is required to have income tax withheld by his employer may apply to CRA for a reduction in withholdings on account of the Tax Credit to be earned during the year of his subscription. An investor who is required to pay income tax on an installment basis may, in determining his installment remittances, take into account his Tax Credit to be earned in the year of his subscription. Should the actual tax savings available to an investor be less than those projected, installment remittances may be less than required under the Tax Act. In this case, interest based on CRA's prescribed rate of interest plus penalties will be payable on the installment shortfall.

6.2.7 Alternative Minimum

Tax The Tax Act provides for a minimum personal income tax on individuals resident in Canada equal to 17% of the amount by which their adjusted taxable income exceeds \$40,000 per annum. In addition to any other federal tax payable, provincial tax will be payable in the normal fashion based on the amount of federal tax payable. In computing adjusted taxable income, the full amount of any capital gains are included with a deduction allowed for the amount of capital gains exemption claimed and certain other deductions, such as the annual contributions to an RRSP, are denied. Minimum tax payable is equal to the excess, if any, of the minimum tax over the income tax calculated in the regular manner and is recoverable to the extent that tax otherwise payable exceeds cumulative minimum taxes payable in any of the seven following taxation years. A claim for a Tax Credit will not result in Alternative Minimum Tax.

6.2.8 Overview

A disposition by a subscriber of Shares may occur, or be deemed to occur, in a number of circumstances including a sale or gift of such Shares, a sale or contribution to an RRSP, or upon the death of a subscriber.

6.2.9 Capital Property

The Shares of the Issuer will generally be treated as the capital property of a Subscriber unless he is considered to be a trader or dealer in securities or he acquired the Shares as an adventure in the nature of trade. Thus, on any actual or deemed disposition of the Shares, a Subscriber will realize a capital gain or loss to the extent that the proceeds of disposition in respect of the Shares exceed, or are exceeded by, as the case may be, the total cost base of the Shares and reasonable costs of disposition. Fifty percent of any capital gain will be included in computing income.

6.2.10 Allowable Business Investment Losses

Net allowable capital losses after deducting taxable capital gains may be deducted from net taxable capital gains realized in any of the three preceding taxation years or in any subsequent taxation year. The Tax Credit received by a Subscriber will not reduce the adjusted cost base of his Shares.

If a corporation realized a capital, or fully deductible loss, upon disposition of a Share, the loss may, in certain circumstances, be reduced by the amount of the dividends received on the Share.

6.2.11 \$800,000 Lifetime Capital Gains Deduction

The Tax Act provides individuals resident in Canada with a cumulative deduction for net capital gains realized (to the extent that they exceed the aggregate of the cumulative net allowable capital losses claimed, cumulative allowable business investment losses realized and cumulative capital gains exemption previously granted) to a lifetime limit of \$800,000, less the portion of the \$100,000 lifetime capital gains deduction claimed prior to February 22, 1994, for shares of "qualified small business corporations" as defined under the Tax Act. Whether the Issuer will be a "qualified

small business corporation” will be dependent upon the nature of its assets, the business and investment activities, which it carries on, and its status as a private corporation whose controlling shareholders are resident in Canada. In addition, the Subscriber must have held the Shares for at least two years in order to claim the “qualified small business corporation” capital gains deduction.

The provisions of the Tax Act relating to the capital gains deductions are complex and subscribers should consult their own tax advisors with respect to the availability of the capital gains deduction in their particular circumstances.

6.2.12 Cumulative Net Investment Losses

The amount of the capital gains exemption available in any particular year is reduced by the amount of a taxpayer’s cumulative net investment losses. This is defined as the excess of an individual’s investment expenses for all years after 1987 over investment income for all such years. A taxpayer’s investment expenses, for this purpose, will include interest charges on money borrowed to acquire Shares. A taxpayer’s investment income will include any dividends received on Shares.

6.3 Deferred Income Plans

The regulations to the Tax Act provide that a share of the capital stock of a prescribed venture capital corporation is a qualifying investment for an RRSP, DPSP or RRIF. Being registered under the SBVC Act the Issuer is a prescribed venture capital corporation and accordingly, the Shares should be a qualifying investment for an RRSP, DPSP and RRIF subject to certain restrictions in respect of percentage share ownership in Empire by the individual or parties related to the individual. For example, the Shares will not be a qualifying investment if an individual, together with his immediate family members, directly or indirectly, owns 10% or more of the issued shares and their aggregate investment is \$25,000 or more.

An individual is entitled to a maximum tax deduction from income of \$24,930 in respect to 2015 income tax filings, with respect to an amount contributed to an RRSP. Generally, the amount of allowable deduction is limited by several factors, including the amount of the individual’s earned income for the immediately preceding year and the amount of the individual’s aggregate pension benefits accruing within his registered pension plans or deferred profit sharing plans, if any, in the immediately preceding year. Accordingly, an individual seeking to make an RRSP contribution for 2015 will be entitled to a tax deduction of up to \$24,930 plus unused contribution room carried forward from prior years, minus any pension adjustment.

The transfer of a Share to an RRSP will result in the disposition for income tax purposes at an amount equal to the fair market value at the time of the transfer. The disposition will result in a capital gain equal to the excess of the fair market value of the Share over its adjusted cost base. Should the fair market value of the Shares be less than its adjusted cost base upon contribution to the RRSP, no capital loss will be allowed.

6.3.1 Investment Example

	Without RRSP	With RRSP
Subscription Amount	\$25,000	\$25,000
Less: Tax Credit	(7,500)	(7,500)
Net cost before RRSP	17,500	17,500
Less: RRSP tax savings at 45.0%	0	(11,250)

NOTE: The RRSP deduction is limited to 18% of earned income of the previous taxation year, up to \$25,370 (for 2016) plus unused contribution room carried forward from prior years, minus any pension adjustment.

Any self-administered registered plan can hold shares of the Issuer. For shareholders who do not have a registered plan or whose plan does not hold shares of private companies, the issuer is approved by Olympia Trust, as an administer of registered plans, to hold Shares.

Item 7: Compensation Paid to Sellers and Finders

Compensation by way of cash and/or common shares up to a maximum of 15% may be payable in connection with this offering.

Item 8: Risk Factors

An investment in the Issuer's shares (Class A common and/ or Class D preferred) is speculative due to the nature of the Issuer's business and its present stage of development. Consequently, investment should be undertaken only by investors who have sufficient financial resources to enable them to assume such risks. The Issuer's shares (Class A common and/ or Class D preferred) should only be purchased by persons who can afford to lose their entire investment. Specific business risk factors include, but are not limited to, the following:

(a) Investment Risk

The Issuer will require additional financing to continue its scientific research and experimental development and complete the work that will be required to prepare itself for technology commercialization. There cannot be assurance that such financing will be made available on acceptable terms, or at all. If the Issuer is unable to obtain financing, its ability to complete the Beta Phase of its Technology Development Program and consequently to begin its Commercialization Phase will be inhibited, and its planned operations will be significantly and adversely affected.

The Issuer is subject to risks associated with start-up companies, including start-up losses, uncertainty of revenues, markets and profitability and the need for additional funding. The Issuer's future operating results will depend on a variety of factors, including the other risk factors discussed in this offering memorandum. The Issuer currently operates at a loss, and there cannot be assurance that it will operate profitably in the future.

The Issuer is not a reporting issuer as defined in the Securities Act, and its shares cannot be freely traded. Any resale of the Issuer's shares, at any time when it is not a Reporting Issuer, will be deemed to be a distribution under the *Securities Act*, so that, in order to sell or transfer the shares a shareholder must either;

- (i) file preliminary prospectus and a prospectus with the British Columbia Securities Commission and obtain receipts therefore;
- (ii) obtain an order for a further special exemption under Section 76 of the *Securities Act* from the requirements of Sections 34 and 61 of the *Securities Act*, or
- (iii) sell the shares under an existing exemption from the regulation and prospectus requirements of the *Securities Act* or the Securities Rules.

(b) Issuer Risk

The Issuer is in the process of undertaking a two-phase technology development program. The Alpha Phase was completed on September 30, 2015. The Beta Phase commenced on October 1, 2015. During the Beta Phase, the technologies, and the products into which they will be incorporated will undergo pre-production modification (consequent upon Alpha Phase final testing results) in order to prepare the Issuer for the commercialization of its technology. Before the Issuer can begin wide-scale commercialization: it will have to secure satisfactory agreements with marketing, manufacturing, distribution, installation and servicing licensees; it will have to train licensee personnel; and, it will have to oversee the setup of manufacturing and assembly lines, all as contemplated in its business plan.

There can be no assurance that: the Issuers' competitors (direct – through ICE modification and indirect – through substitute offerings) or prospective competitors will not exert significant pressures the Issuer; that the market will consider the Issuer's products to be superior or equivalent to existing or future offerings, or that the Issuer will be able to adapt to evolving market needs and/ or demands.

If for any reason the Issuer cannot consistently replicate the test results (many of which were anecdotal) achieved during its Alpha Phase of technology development) through the wide-scale, carefully monitored testing to be conducted during the Beta Phase there could be a significantly negative impact on the marketability of the Issuer's technology. Also, because engine technology and fuel and emissions control systems continually evolve, such evolution could affect the perceived utility of the Issuer's Accelerant Generator, unless the Issuer is able to adapt and improve its systems and components to keep pace with industry change, or successfully achieve its business development goals by targeting and exploiting market sectors less affected by such factors.

Failure of an Accelerant Generator during the Beta Phase or in the Commercialization Phase with resultant damages could have a negative impact on the Issuer's reputation and business. Although the Issuer has third-party equipment liability insurance for up to \$2,000,000 in total claims over the course of one year, such insurance may prove to be inadequate.

The Issuer is engaged in a start-up business with a core management, advisory board and development team, and the unexpected loss of any of these individuals could have a serious impact on its business.

The Issuer plans to operate internationally. As a consequence, it will be vulnerable to currency fluctuations. Although it intends to match costs and receivables to limit exposure and to purchase guarantees on its receivables (through Canada's Export Development Bank), significant losses could result as a consequence exchange fluctuations, global or domestic changes from a currency based system of trading to a money based system and the potential for the United States Dollar losing its position as the world's reserve currency.

(c) Industry Risk

The technology the Issuer is developing and incorporating into its A/G does not currently have broad market acceptance, or an established end-user market. There can be no assurance that the market and demand for its technology will develop in a timely fashion. There may also be delays in receiving approvals, which would facilitate market acceptance.

New technological or product developments may render the Issuer's technologies obsolete or reduce the asset value of its technologies and equipment incorporating them, including its A/G.

In order for the Issuer to reach its planned revenue targets, it will need to expand its operations by licensing other entities to market its technology and to manufacture, distribute and install its A/Gs if and when its technology is commercialized. Such expansion may result in new and increased responsibilities for management personnel and place significant strain upon our other resources. To accommodate any such growth and to compete effectively, among other things, it may be required to participate in co-operative promotional activities implemented by its marketing licensee and it will have to: implement and/or improve its information systems, procedures and controls; assist in the expansion efforts, personnel training and motivation of its distribution, installation and services licensees' work forces; and oversee the establishment of manufacturing and assembly lines. Any failure to do so could have a material adverse effect on its business, financial condition and results of operations.

The Issuer's commercial success may depend upon its technologies not infringing any intellectual property rights of others and upon no claims of infringement being made. Even if such claims are found to be invalid, the dispute process could have a materially adverse effect on the Issuer's business, results of operations and prospects.

In addition to patent protection, the Issuer intends to rely on trade secrets, proprietary know-how and technological advances which it will seek to protect, in part, through confidentiality agreements

with its licensees, collaborative partners, employees and consultants. There can be no assurance that these agreements will not be breached, that the Issuer will have adequate remedies for any breach, or that its trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others.

Item 9: Reporting Obligations

Since the Issuer's common shares are not quoted on any exchange and it is not considered a reporting issuer in any jurisdiction. You will receive audited annual financial statements of the Issuer upon request, in accordance with the Canada Business Corporation Act.

Item 10: Resale Restrictions

10.1 Trade Restriction

These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation.

10.2 Restricted Period

Unless permitted under securities legislation, you cannot trade the securities before the date that is four months and a day after the date we become a reporting issuer in any province or territory of Canada.

Item 11: Purchasers' Rights

If you purchase these securities you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

11.1 Two Day Cancellation Right

You can cancel your agreement to purchase these securities. To do so, you must send a notice to us by midnight on the 2nd business day after you sign the agreement to buy the securities.

11.2 Statutory Rights of Action in the Event of a Misrepresentation

If there is a misrepresentation in this offering memorandum, you have a statutory right to sue the Issuer or any of the following individuals: Sven (Roy) Tjelta (President, Secretary/Treasurer, Director); Dale Bellavance (Director)

- (a) to cancel your agreement to buy these securities, or
- (b) for damages.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after you purchase our common shares. You must commence your action for damages within the earlier of 180 days after you have knowledge of the facts giving rise to cause of action and three years after you purchase our common shares.

Item 12: Financial Statements

The audited Financial Statements for the year ended September 30, 2016 and unaudited statement for the interim period ending March 31, 2017.

Financial Statements of

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Year ended September 30, 2016



KPMG LLP
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7
Canada
Telephone (250) 480-3500
Fax (250) 480-3539

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Empire Hydrogen Energy Systems Inc.

We have audited the accompanying financial statements of Empire Hydrogen Energy Systems Inc., which comprise the statement of financial position as at September 30, 2016, the statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Empire Hydrogen Energy Systems Inc. as at September 30, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to note 1 in the financial statements which indicates that Empire Hydrogen Energy Systems Inc. has experienced losses and has a deficit and the ability to continue as a going concern is dependent on the continued support from its shareholders and on its ability to complete research and development and market its products successfully. These conditions, along with other matters as set forth in Note 1 in the financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Empire Hydrogen Energy Systems Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

April 5, 2017
Victoria, Canada

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Statement of Financial Position

September 30, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,390	\$ 302,409
Receivables (note 4)	21,442	25,156
Prepaid expenses	4,007	5,011
Inventories (note 5)	54,584	26,528
	92,423	359,104
Non-current assets:		
Property, plant and equipment (note 6)	6,082	-
Patents (note 7)	11,761	12,415
Total assets	\$ 110,266	\$ 371,519
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities (note 18)	\$ 144,637	\$ 149,164
Cash received for shares not yet issued	137,500	6,000
	282,137	155,164
Non-current liabilities:		
Due to related parties (note 8)	377,265	367,435
Debentures (note 9)	3,756	3,255
Total liabilities	663,158	525,854
Shareholders' Deficit		
Common shares (note 12)	1,704,713	1,626,929
Preferred shares (note 12)	10,000	-
Other paid in capital (note 9 and note 13)	58,179	2,555
Deficit	(2,325,784)	(1,783,819)
	(552,892)	(154,335)
Total liabilities and shareholders' deficit	\$ 110,266	\$ 371,519

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

Approved on behalf of the Board of Directors

"Sven (Roy) Tjelta" Director

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Statement of Comprehensive Loss

Year ended September 30, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Sale of prototype units	\$ 19,150	\$ 18,379
Other revenue	845	478
	<u>19,995</u>	<u>18,857</u>
Expenses:		
Research and development - labour	330,448	166,259
Research and development - materials and supplies	58,219	46,029
Professional fees	105,380	71,107
Share based compensation for consultants	52,903	-
Rent	50,165	49,918
Office supplies and maintenance	31,302	27,327
Travel	23,679	13,378
Advertising and promotion	17,169	15,582
Bad debt expense	8,976	-
Amortization expense	2,175	653
Operating line of credit interest and bank charges	1,546	3,785
Debenture interest, accretion and issuance costs	501	434
	<u>682,463</u>	<u>394,472</u>
Loss before taxes and recoveries	(662,468)	(375,615)
Scientific research and experimental development investment tax credit refund	120,503	13,832
Net loss and comprehensive loss	<u>\$ (541,965)</u>	<u>\$ (361,783)</u>
Loss per share (note 11)		
Basic and diluted loss per share	\$ (0.03)	\$ (0.03)

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

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Statement of Changes in Equity

Year ended September 30, 2016, with comparative information for 2015

	2016	2015
Share capital		
Balance, beginning of year	\$ 1,626,929	\$ 988,171
Issuance of shares	116,550	644,911
Cost to issue shares	(38,766)	(6,153)
Balance, end of year	1,704,713	1,626,929
Preferred shares		
Balance, beginning of year	-	-
Issuance of shares	10,000	-
Balance, end of year	10,000	-
Other paid in capital		
Balance, beginning and end of year	2,555	2,555
Stock options issued in the year	55,624	-
Balance, end of year	58,179	2,555
Deficit		
Balance, beginning of year	(1,783,819)	(1,422,036)
Net loss	(541,965)	(361,783)
Balance, end of year	(2,325,784)	(1,783,819)
Total shareholders' deficit	\$ (552,892)	\$ (154,335)
Shares issued and outstanding (note 12)	15,591,001	15,300,001

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

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Statement of Cash Flows

Year ended September 30, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (541,965)	\$ (361,783)
Items not involving cash:		
Share based compensation	55,624	18,178
Debenture accretion expense	501	434
Amortization expense	2,175	653
Net change in non-cash operating working capital:		
Decrease in receivables	3,714	40,596
Decrease (increase) in prepaid expenses	1,004	(925)
Increase in inventories	(28,056)	(14,002)
Decrease in accounts payable and accrued liabilities	(29,527)	(4,245)
	(536,530)	(321,094)
Investing activities:		
Cash expended to secure patents	-	(4,165)
Cash expended to purchase fixed assets	(7,603)	-
	(7,603)	(4,165)
Financing activities:		
Proceeds from common share issuance	110,550	606,733
Proceeds from preferred share issuance	10,000	-
Cash received for shares not yet issued	137,500	6,000
Cash expended to issue shares	(38,766)	(6,153)
Repayment of operating line of credit	-	(25,000)
Change in due to related parties	34,830	51,207
Change in cheques issued in excess of funds on hand	-	(5,119)
	254,114	627,668
Increase (decrease) in cash	(290,019)	302,409
Cash and cash equivalents, beginning of year	302,409	-
Cash and cash equivalents, end of year	\$ 12,390	\$ 302,409

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

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

Empire Hydrogen Energy Systems Inc. (the "Company") was incorporated under the *Canada Business Corporations Act* on October 23, 2009. The address of the Company's registered office is Suite 600, 1090 West Georgia Street, Vancouver, BC. The Company's primary business activity is the supply of hydrogen fuel enhancement systems for combustion engines. The Company is currently in the development stage of its business life cycle.

1. Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern. However, there is significant doubt about the appropriateness of the use of the going concern assumption because the Company has experienced losses and negative cash flows in prior years and has a shareholders' deficiency. The Company is still actively involved in the process of developing and marketing its hydrogen fuel enhancement systems for combustion engines.

The ability of the Company to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent upon the continued support from its shareholders and on its ability to complete research and development and market these products successfully. The Company is implementing steps to begin manufacturing its products while improving their functionality. In addition, it is increasing marketing and business activities in order to generate additional sales opportunities.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets, the reported revenues and expenses, and the balance sheet classifications used to reflect these on a liquidation basis which could materially differ from amounts presented under the going concern basis.

2. Basis of preparation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were approved and authorized for issue by the Board of Directors on April 5, 2017.

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis and are presented in Canadian dollars, which is the functional currency of the Company.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

2. Basis of preparation:

(c) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in note 10, with regard to the valuation of tax assets resulting from tax losses, tax credit carryovers and unclaimed expenditures, and in note 4, with regard to the impairment allowance for receivables.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments:

(i) Financial assets:

The Company initially recognizes receivables on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Receivables:

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Cash and cash equivalents:

Cash and cash equivalents include cash on hand, deposits held with banks and operating lines of credit. Cash equivalents are readily converted into known amounts of cash, and are subject to an insignificant risk of changes in value.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(ii) Financial liabilities:

The Company initially recognizes debt securities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Payables and amounts due to related parties:

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital:

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(b) Property, plant and equipment:

Capital assets are recorded at cost less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of the asset. The assets are evaluated at each reporting date to determine whether there is an indication of impairment. Where evidence of impairment exists, the asset's recoverable amount, being the greater of its value in use and its fair value less costs to sell, is estimated. An impairment loss is recognized in net income if the carrying amount of the asset is greater than its estimated recoverable amount. Impairment losses recognized in prior periods may be reversed if there has been a change in the estimates used to determine the recoverable amount.

Amortization is calculated using the straight-line method over the estimated useful life of the asset as indicated below:

Asset	Useful life
Furniture and equipment	5 years
Demonstration units	5 years

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

3. Significant accounting policies (continued):

(c) Intangible assets:

(i) Research and development:

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The Company has not capitalized any development expenditures to date.

(ii) Other intangible assets:

Other intangible assets, including patent costs, that are acquired by the Company and have finite useful lives are amortized over their estimated useful lives and are carried at cost less accumulated amortization and accumulated impairment losses.

(d) Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

3. Significant accounting policies (continued):

(e) Impairment:

(i) Financial assets:

Financial assets, including receivables, are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, and indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, including patents, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated and the asset is written down to its estimated recoverable amount.

(f) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Warranties:

The Company may provide a warranty on the hydrogen fuel enhancement system units. A provision for warranties is recognized when the underlying products are sold if a warranty has been provided on those products.

The carrying amount of the warranty provision, if any, is reviewed at each reporting date and increased or decreased to the extent it is required to reflect management's best estimate of future warranty costs on unit sales recognized to date.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

3. Significant accounting policies (continued):

(g) Revenue recognition:

Revenue from the sale of hydrogen fuel enhancement system units is recognized upon delivery of the units when collection is reasonably assured.

Revenue received in advance of delivery or otherwise prior to the above revenue recognition criteria is recorded as deferred revenue.

(h) Share-based payment transactions:

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

(i) Government grants:

Grants that compensate the Company for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

(j) Taxation:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

3. Significant accounting policies (continued):

(j) Taxation (continued):

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred tax assets, if any, are reviewed at each reporting date and reduced to the extent it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

(k) New standards and interpretations not yet adopted:

Certain International Financial Reporting Standard ("IFRS") pronouncements have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that will become effective in future accounting periods. The following is a summary of significant standards that may have an impact on the Company's future financial statements.

- IFRS 9, *Financial Instruments* ("IFRS 9") – replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 simplifies the classification and measurement requirements for financial instruments, which replaces the multiple classification and measurement models in IAS 39. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.
- IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.
- IFRS 16, *Leases* ("IFRS 16"). IFRS 16 replaces IAS 17. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the Statement of Financial Position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

The Company is assessing the impact that these standards will have on the Company's financial statements.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

4. Receivables:

	2016	2015
Trade receivables	\$ 8,976	\$ 9,984
Sales tax refund receivable	21,442	13,172
Other receivables	-	2,000
Allowance for uncollectible trade receivables	(8,976)	-
	<u>\$ 21,442</u>	<u>\$ 25,156</u>

Aging of trade receivables at the reporting date:	2016	2015
Not past due	\$ -	\$ -
Past due 0-30 days	-	9,984
Past due 31-120 days	-	-
Past due greater than 120 days	8,976	-
	<u>\$ 8,976</u>	<u>\$ 9,984</u>

5. Inventories:

	2016	2015
Raw materials	\$ 25,107	\$ 9,591
Completed components	19,427	14,217
Completed prototype units	10,050	2,720
	<u>\$ 54,584</u>	<u>\$ 26,528</u>

Inventories expensed during the year were \$38,445 (2015 - \$31,060).

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

6. Property, plant and equipment

	Furniture and equipment	Demonstration units	Total
Cost			
Balance, September 30, 2015	-	-	-
Additions	4,883	2,720	7,603
Balance, September 30, 2016	4,883	2,720	7,603
Accumulated amortization			
Balance, September 30, 2015	-	-	-
Amortization	977	544	1,521
Balance, September 30, 2016	977	544	1,521
Carrying amount			
Balance, September 30, 2015	-	-	-
Balance, September 30, 2016	3,906	2,176	6,082

7. Patents:

	2016	2015
Patent costs	\$ 13,068	\$ 13,068
Accumulated amortization	(1,307)	(653)
	\$ 11,761	\$ 12,415

8. Due to related parties:

Amounts due to related parties are unsecured, non-interest bearing and have no specified terms of repayment:

	2016	2015
Due to shareholder	\$ 224,265	\$ 214,435
Due to related company	153,000	153,000
	\$ 377,265	\$ 367,435

The related company is related due to common ownership interests. The shareholder and the related company have agreed not to call their loans before September 30, 2017.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

9. Debenture:

In fiscal 2014, the Company issued an Offering Memorandum offering 500,000 Series A Debentures at \$1.00 per security, with a minimum offering of \$1,000, a maximum offering of \$500,000 and a proposed closing date of March 1, 2014.

The debentures bear interest at a rate of 6%, paid immediately for the first three years of interest after acceptance of subscription. After the three year pre-paid interest period, interest will be payable each calendar quarterly in arrears, commencing the quarter following the third year anniversary of the advancement of funds.

The debentures are due and payable September 1, 2018 and are secured by a subordinate floating charge on the assets of the Company.

The debentures are convertible to common shares at any time on or prior to September 1, 2018. The conversion price is \$0.50 per security until December 31, 2013, \$0.60 per security in 2014, \$0.70 per security in 2015, \$0.80 per security in 2016, \$0.90 per security in 2017 and \$1.00 per security in 2018.

Under IFRS, the issuer of a financial instrument containing both a liability and an equity element must measure and report the instrument's components parts separately on the statement of financial position. The Company recorded a \$2,445 liability and a \$2,555 equity portion. The Company determined the carrying amount of the financial liability by discounting the stream of future payments of interest and principal at the Company's best estimate of the prevailing market rate for a similar liability that does not have a conversion feature. The carrying amount of the equity instrument represented by the holder's option to convert the instrument into common shares has been determined by deducting the carrying amount of the financial liability from the amount of the compound instrument as a whole. This amount has been included in other paid-in capital. The carrying amount of the financial liability will be accreted to its maturity value over the term of the convertible debenture with a corresponding charge to profit or loss. The Company recorded \$501 accretion in fiscal 2016 (2015 - \$434).

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

10. Income tax recovery:

Income tax expense differs from the amounts computed by applying the combined federal and provincial tax rate of 26.00% for 2016 (2015 – 26.00%) to pre-tax income from continuing operations as a result of the following:

	2016	2015
Net loss before income taxes	\$ 541,965	\$ 361,783
Computed expected tax recovery	\$ 140,911	\$ 94,064
Non-deductible share based compensation	(14,462)	(4,726)
Other non-deductible expenses	(733)	(1,338)
Change in valuation allowance	(125,716)	(88,000)
Total income tax recovery	\$ -	\$ -

As at September 30, 2016, the Company has non-capital losses of \$1,807,741 (2015 - \$1,322,220) available to be carried forward to offset taxable income. Non-capital losses will begin to expire in 2030.

Also, as at September 30, 2016, the Company has Scientific Research and Experimental Development ("SR&ED") investment tax credit carryovers of nil (2015 - \$1,862), and unclaimed SR&ED expenditures of \$286,656 (2015 - \$181,443) available for indefinite carry forward to offset taxable income in future years.

Significant components of the Company's deferred tax assets are as follows:

	2016	2015
Deferred income tax assets:		
Non-capital loss carry forwards	\$ 469,493	\$ 335,000
Research and experimental development expenditures	74,531	47,175
Total deferred tax assets	544,024	382,178
Valuation allowance on deferred tax assets	(544,024)	(382,178)
Net deferred tax assets	\$ -	\$ -

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

11. Per share calculations:

The table below presents the net loss per weighted average shares outstanding calculations.

	2016	2015
Numerator:		
Net loss and comprehensive loss – basic and dilutive	\$ (541,965)	\$ (361,783)
Denominator:		
Weighted average shares outstanding – basic and dilutive	15,530,490	13,808,289
Loss per share – basic and dilutive	(0.03)	(0.03)

12. Share capital:

Authorized:

Unlimited	Class A common voting shares, without par value
Unlimited	Class B preferred voting shares, without par value
Unlimited	Class C preferred voting shares, without par value
Unlimited	Class D preferred non-voting shares, without par value
Unlimited	Class E preferred non-voting shares, without par value

Issued and outstanding:

Class A common	Number of shares	Amount
Share capital as of October 1, 2014	13,710,180	\$ 988,171
Shares issued for \$.50	153,465	76,733
Shares issued for \$.40	1,300,000	520,000
Shares issued for \$.30	100,000	30,000
Share based compensation	36,356	18,178
Less share issuance costs	-	(6,153)
Share capital as of September 30, 2015	15,300,001	1,626,929
Shares issued for \$.50	140,000	70,000
Shares issued for \$.40	12,500	5,000
Shares issued for \$.30	138,500	41,550
Less share issuance costs	-	(38,765)
Common share capital as of September 30, 2016	15,591,001	\$ 1,704,714

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

12. Share capital (continued):

As at September 30, 2016 the Company had received \$57,500 in cash (2015 - \$6,000 in cash) for which it will issue 78,038 (2015 - 20,000) common shares subsequent to year end.

In addition, subsequent to September 30, 2016, the Company received \$66,250 (2015 - \$61,500) for which it will issue 88,334 (2015 - 143,000) common shares.

Class D preferred	Number of shares	Amount
Preferred share capital as of October 1, 2015	-	\$ -
Shares issued for \$1.50	6,667	10,000
Preferred share capital as of September 30, 2016	6,667	\$ 10,000

As at September 30, 2016 the Company had received \$80,000 in cash (2015 - nil) for which it will issue 53,354 (2015 - nil) preferred shares subsequent to year end.

Offering memorandum:

The Company issued an offering memorandum dated October 6, 2016 offering 6,000,000 common shares at \$0.75 per share and 2,500,000 Class D preferred shares at \$1.50 per share, with no minimum offering and a closing date of March 1, 2017. These securities do not trade on any exchange or market.

The Company has been authorized by the Administrator of the *Small Business Venture Capital Act of British Columbia* to issue shares up to a maximum aggregate value of \$4,254,000 under the Clean Tech Venture Capital Program. This authorization is current and set to expire March 1, 2017, however it may be withdrawn with short notice, or may be extended, at the discretion of the Administrator.

13. Share based payments:

On March 26, 2014 the Company established a share-based payment plan (the "Plan"). The Plan allows up to a maximum of 15% of the aggregate issued and outstanding shares to be issued as options. Options granted under the Plan must be exercised within a period of 2-4 years from the grant date and vest at a rate of 33.33% per year on each anniversary.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

13. Share based payments (continued):

The fair value of the employee share options has been measured using the Black-Scholes formula. The inputs used in the measurement of the fair values at grant dates throughout the year are as follows:

Risk free interest rate	0.45% - 0.59%
Expected dividend yield	0.00%
Stock price volatility	61.88% - 73.74%
Expected life of options	1.7 to 2.3 years

Expected volatility was based on an evaluation of the historical volatility of publicly traded companies operating in a similar industry.

The number and weighed average exercise price of share options issued under the Plan are as follows:

	Number of options	Weighted average exercise price
Outstanding, October 1, 2015	-	\$ -
Granted during the year	800,000	0.30
Outstanding, September 30, 2016	800,000	\$ 0.30

The options outstanding at September 30, 2016 had a weighted average contractual life of 3.63 years.

For the year ended September 30, 2016, compensation expense related to stock options was \$55,624 (2015 - nil). Share based compensation is recorded as an increase to other paid in capital.

14. Operating line of credit:

The Company has an operating line of credit with a maximum available amount of \$25,000 (2015 - \$25,000). The effective interest rate is bank prime rate plus 3.25% (2016 - 5.95%; 2015 - 5.95%). The Company is required to make minimum payments of accrued interest monthly.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

15. Fair values:

Fair value is the amount that arm's length parties are willing to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. The fair values of the Company's financial instruments were determined as follows:

(a) Short-term assets and liabilities:

The carrying amounts for receivables and accounts payable approximate their fair values due to the short-term nature of these items.

(b) Due to related parties:

The fair value of amounts due to related parties is not practicable to determine due to the related party nature of the arrangement.

(c) Debentures:

The fair value of the debentures approximates their carrying amount.

16. Financial risk management:

Management has overall responsibility for the establishment and oversight of the Company's risk management framework. In the normal course of business, the Company is exposed to a number of risks that can materially affect its operating performance.

(a) Credit risk:

The Company's credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. It arises mainly from the Company's receivables.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company manages this risk by monitoring its expenditures and expansion plans and by ensuring that funding sources are in place prior to undertaking operational and investment activities.

(c) Interest rate risk:

The Company's interest rate risk pertains to its operating line of credit, which is subject to a variable interest rate and has a maximum value of \$25,000. A change of 100 basis points to the interest rate results in a maximum change to profit or loss of nil (2015 - nil).

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Financial Statements

Year ended September 30, 2016

16. Financial risk management (continued):

(d) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company strives to minimize operational risk by staying abreast of and compliant with regulatory and other legal requirements, monitoring competitor activities, utilizing key personnel, maintaining high ethical standards, and securing appropriate insurance coverage.

17. Capital management:

The Company's objectives when managing capital are to ensure sufficient liquidity for operations and adequate funding for growth and capital expenditures while maintaining an efficient balance between debt and equity. The capital structure of the Company consists of credit facilities, related party loans, debentures, and shareholders' equity.

The Company makes adjustments to its capital structure upon approval from its Board of Directors, in light of economic conditions and the Company's working capital requirements. There were no changes in the Company's approach to capital management during the period. The Company does not have any externally imposed capital requirements.

18. Related party transactions:

Transactions with key management personnel

Mr. S. O. Tjetla controlled 64% of the Company's outstanding shares at the end of 2016. During the year, Mr. Tjetla loaned a net amount of approximately \$35,000 (2015 - \$51,000) to the Company. To date, Mr. Tjetla has not drawn a salary or otherwise been compensated by the Company.

As of September 30, 2016, the Company has borrowed \$25,000 from the spouse of Mr. S. O. Tjetla. This amount is unsecured, non-interest bearing and has no specified terms of repayment.

Condensed Financial Statements of

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Interim period ended March 31, 2017

Unaudited

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Condensed Statements of Financial Position – Unaudited

As at	March 31 2017	September 30 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 98,315	\$ 12,390
Receivables (note 2)	148,968	21,442
Prepaid expenses	4,008	4,007
Inventories	28,454	54,584
	279,745	92,423
Non-current assets:		
Property, plant and equipment	32,212	6,082
Patent	11,761	11,761
Total assets	\$ 323,718	\$ 110,266
Liabilities		
Current liabilities:		
Operating line of credit (note 3)	\$ -	\$ -
Accounts payable and accrued liabilities	216,596	144,637
Cash received for shares not yet issued	130,768	137,500
	347,364	282,137
Non-current liabilities:		
Due to related parties (note 4)	395,836	377,265
Debenture	3,756	3,756
Total liabilities	746,956	663,158
Shareholders' Deficit		
Share capital:		
Common shares	1,865,882	1,704,713
Preferred shares	160,000	10,000
Other paid in capital	117,890	58,179
Deficit	(2,567,010)	(2,325,784)
	(423,238)	(552,892)
Total liabilities and shareholders' deficit	\$ 323,718	\$ 110,266

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

Approved on behalf of the Board of Directors

"Sven (Roy) Tjelta"

..... Director

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Condensed Statements of Comprehensive Loss – Unaudited

	Three months ended March 31		Six months ended March 31	
	2017	2016	2017	2016
Revenue:				
Unit sales	\$ 1,000	\$ (4,450)	\$ 1,000	\$ 3,450
Government of Canada - NRC IRAP program funding received (note 5)	21,767	-	29,145	-
Other revenue	57	28	58	185
	22,824	(4,422)	30,203	3,635
Expenses:				
Research and development – labour	93,979	50,967	168,470	102,353
Research and development – materials and supplies	7,861	16,944	29,911	31,547
Administration wages and salaries	11,507	24,700	23,053	36,606
Professional fees	25,197	18,379	53,804	35,770
Share based compensation for consultants	24,442	-	48,884	-
Rent	12,596	12,515	25,115	25,030
Office supplies and maintenance	10,754	8,609	17,094	16,729
Advertising and promotion	2,158	3,487	7,896	5,550
Travel	4,126	2,930	10,237	12,541
Operating line of credit interest and bank charges	1,704	119	3,011	450
	194,324	138,650	387,475	266,575
Net loss, before taxes and recoveries	(171,500)	(143,072)	(357,272)	(262,940)
Scientific research and experimental development investment tax credit refund	116,048	120,503	116,048	120,503
Net loss and comprehensive loss	\$ (55,452)	\$ (22,569)	\$ (241,224)	\$ (142,437)

Loss per share (note 6)

Basic and diluted loss per share	\$ (0.0)	\$ (0.01)	\$ (0.02)	\$ (0.01)
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The accompanying notes are an integral part of these financial statements.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Condensed Statements of Changes in Equity – Unaudited

For the six months ended March 31	2017	2016
Share capital (note 7)		
Balance, beginning of period	\$ 1,704,713	\$ 1,626,929
Issuance of shares	183,876	116,550
Cost to issue shares	(22,707)	(27,013)
Balance, end of period	1,865,882	1,716,466
Preferred shares		
Balance, beginning of period	10,000	-
Issuance of shares	150,000	-
Balance, end of period	160,000	-
Other paid in capital		
Balance, beginning of period	58,179	2,555
Stock options issued in the period	59,711	-
Balance, end of period	117,890	2,555
Deficit		
Balance, beginning of period	(2,325,786)	(1,783,819)
Net loss and comprehensive loss	(241,224)	(142,437)
Balance, end of period	(2,567,010)	(1,926,256)
Total shareholders' deficit	\$ (423,238)	\$ (207,235)
Shares issued and outstanding (note 7)	15,842,836	15,577,688

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

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Condensed Statements of Cash Flows – Unaudited

For the six months ended March 31	2017	2016
Cash provided by (used in):		
Operating activities:		
Net loss and comprehensive loss	\$ (241,224)	\$ (142,437)
Share based compensation, not involving cash	59,711	-
Amortization of deferred debenture costs	-	-
Debenture accretion expense	-	-
Net change in working capital:		
(Increase) decrease in receivables	(127,527)	(118,648)
(Increase) decrease in prepaid expenses	(1)	782
(Increase) decrease in inventory	26,130	-
Increase (decrease) in accounts payable and accrued liabilities	31,957	(64,193)
	(250,953)	(324,497)
Investing activities:		
Demonstration units acquired from inventory	(26,130)	-
Financing activities:		
Proceeds from common share issuance	183,875	116,550
Proceeds from preferred share issuance	150,000	-
Cash received for shares not yet issued	(6,732)	(6,000)
Cash expended to issue shares	(22,707)	(27,013)
(Repayment of) proceeds from operating line of credit	-	-
Increase (decrease) in short term loans	40,000	-
Change in borrowings from related parties	18,571	(3,317)
	363,007	80,220
Increase (decrease) in cash	85,924	(244,278)
Cash, beginning of period	12,390	302,409
Cash, end of period	\$ 98,315	\$ 58,132

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

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Condensed Financial Statements – Unaudited

March 31, 2017

Empire Hydrogen Energy Systems Inc. (the “Company”) was incorporated under the *Canada Business Corporations Act* on October 23, 2009. The address of the Company’s registered office is 4th Floor – 1007 Fort Street, Victoria, BC. The Company’s primary business activity is the supply of hydrogen fuel enhancement systems for combustion engines. The Company is currently in the development stage of its business life cycle.

1. Basis of preparation:

These condensed financial statements should be read in conjunction with the annual financial statements for the year ended September 30, 2016.

These condensed financial statements were approved and authorized for issue by the Board of Directors on June 5, 2017.

Basis of measurement:

The financial statements have been prepared on the historical cost basis and are presented in Canadian dollars, which is the functional currency of the Company.

2. Receivables:

As at	March 31 2017	September 30 2016
Trade receivables	\$ 6,247	\$ 8,976
Sales tax refund receivable	10,882	21,442
Allowance for uncollectible trade receivables	-	(8,976)
NRC IRAP contribution receivables	15,791	-
SR&ED investment tax credit refund receivable	116,048	-
	\$ 148,968	\$ 21,442

Aging of trade receivables at the reporting date:	March 31 2017	September 30 2016
Not past due	\$ -	\$ -
Past due 0 – 30 days	-	-
Past due 31 – 120 days	6,247	-
Past due greater than 120 days		8,976
	\$ 6,247	\$ 8,976

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Condensed Financial Statements – **Unaudited**

March 31, 2017

3. Operating line of credit:

The operating line of credit has a maximum available amount of \$25,000 (September 30, 2016 - \$25,000). The effective interest rate is 5.95% (September 30, 2016 – 5.95%). The company is required to make minimum payments of accrued interest monthly.

4. Due to related parties:

Amounts due to related parties are unsecured, non-interest bearing and have no specified terms of repayment:

As at	March 31 2017	September 30 2016
Due to shareholder	\$ 242,836	\$ 224,265
Due to related company	153,000	153,000
	<u>\$ 395,836</u>	<u>\$ 377,265</u>

The related company is related due to common ownership interests. The shareholder and the related company have agreed not to call their loans before September 30, 2017.

5. Government of Canada, NRC IRAP Program:

The Company has received support under the National Research Council Canada's IRAP Industrial Research Assistance Program for the project "Electrolysis Cell Development" commencing November 15, 2016 and to be concluded by July 31, 2017.

6. Per share calculations:

The table below presents the net loss per weighted average shares outstanding calculations

	Three months ended March 31		Six months ended March 31	
	2017	2017	2017	2017
<i>Numerator</i>				
Net loss and comprehensive loss				
– basic and dilutive	\$ (61,489)	\$ (22,569)	\$ (250,932)	\$ (142,437)
<i>Denominator</i>				
Weighted average shares outstanding				
– basic and dilutive	15,833,355	15,548,452	15,756,670	15,484,879
Loss per share – basic and dilutive	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Condensed Financial Statements – **Unaudited**

March 31, 2017

7. Share capital:

Authorized:

- unlimited Class A common voting shares, without par value
- unlimited Class B preferred voting shares, without par value
- unlimited Class C preferred voting shares, without par value
- unlimited Class D preferred non-voting shares, without par value
- unlimited Class E preferred non-voting shares, without par value

Issued and outstanding:

	March 31, 2017		March 31, 2016	
	Number of shares	Amount \$	Number of shares	Amount \$
Class A common				
Share capital, beginning of period	15,591,001	\$ 1,704,713	15,300,001	\$ 1,626,929
Shares issued for \$.75	251,835	183,876	-	-
Shares issued for \$.50	-	-	120,000	60,000
Shares issued for \$.40	-	-	12,500	5,000
Shares issued for \$.30	-	-	138,500	41,550
Share based compensation	-	-	-	-
Less share issuance costs	-	(22,707)	-	(27,013)
Common share capital, end of period	15,842,836	\$ 1,865,882	15,571,001	1,706,466
Class D preferred				
Share capital, beginning of period	6,667	\$ 10,000	-	\$ -
Shares issued for \$1.50	100,007	150,000	6,667	10,000
Preferred share capital, end of period	106,674	\$ 160,000	6,667	10,000

8. Related party transactions:

Transactions with key management personnel

Mr. S. O. Tjetla controls 60% of the Company's outstanding shares. During the six months ended March 31, 2017, Mr. Tjetla loaned a net amount of \$18,571 (six months ended March 31, 2016, the Company repaid Mr. Tjetla a net amount of \$3,317). To date, Mr. Tjetla has not drawn a salary or otherwise been compensated by the Company.

As of March 31, 2017, the Company has borrowed \$65,000 from the spouse of Mr. S. O. Tjetla. This amount is unsecured, non-interest bearing and has no specific terms of repayment.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Notes to the Condensed Financial Statements – **Unaudited**

March 31, 2017

9. Share based payments:

Share options issued under the share-based payment plan:

	Number of options	Weighted average exercise price
Outstanding, September 30, 2016	800,000	\$.30
Granted during the period	50,000	.30
	850,000	\$.30

For the six months ended March 31, 2017, compensation expense related to stock options was \$59,711 (Sep 20, 2016 \$55,624). Share based compensation is recorded as an increase to other paid in capital.

Item 13: Date and Certificate

Dated August 18, 2017

This offering memorandum does not contain a misrepresentation.

“Sven (Roy) Tjelta”

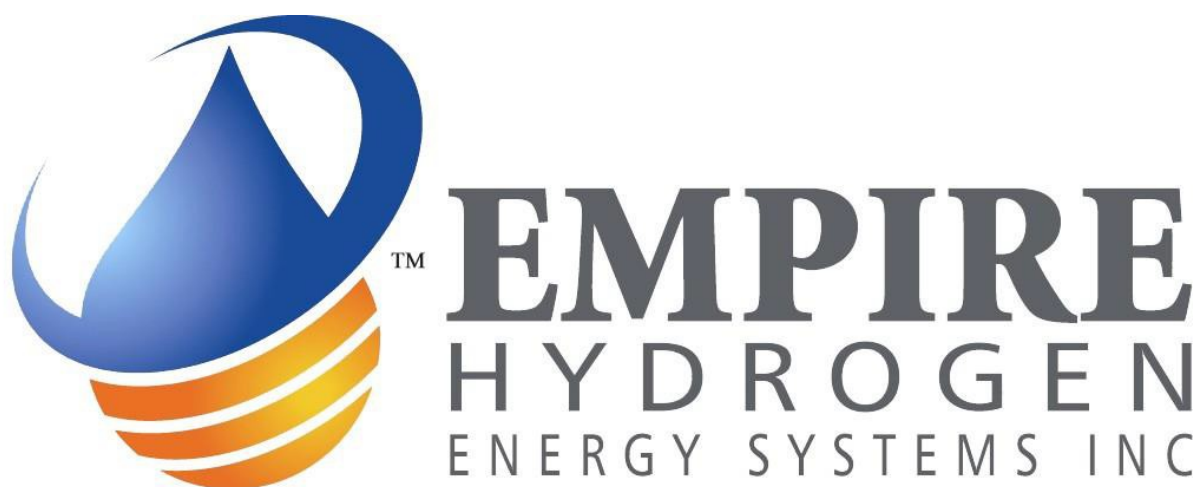
Sven (Roy) Tjelta

President, Secretary/Treasurer, Director

“Dale Bellavance”

Dale Bellavance, Director

EXHIBIT A



Offering Memorandum for British Columbia, New Brunswick, Nova Scotia, Newfoundland and Labrador:

SUBSCRIPTION AGREEMENT CLASS A COMMON SHARES

August 18, 2017

7 – 10189 McDonald Park Road, Sidney BC, Canada, V8L 5X5
Tel: (778) 426-0911 Fax: (778) 426-0456
Email: admin@empirehydrogen.ca
Website: www.empirehydrogen.com

EXHIBIT A
SUBSCRIPTION AGREEMENT (CLASS A COMMON)

TO: Empire Hydrogen Energy Systems Inc. (“the Issuer”)

The undersigned hereby subscribes for ____ Class A Common voting shares of the Issuer at a price of \$0.75 per Share for the total Subscription Price of \$_____ on the terms and conditions as described in the Issuer’s Offering Memorandum dated August 18, 2017 receipt of a copy of which is hereby acknowledged. All capitalized terms herein shall have the same meanings as in the Offering Memorandum.

In consideration of the Issuer’s acceptance of this subscription, the undersigned hereby irrevocably agrees and promises to pay the Subscription Price for the Shares to the Issuer in full by cheque, bank draft, wire transfer or money order at the time of subscription.

The undersigned agrees that participation in the Offering is subject to the acceptance of this subscription by the Issuer and to certain other conditions set forth in the Offering Memorandum. The undersigned acknowledges that this subscription is given for valuable consideration and is irrevocable.

The undersigned represents and declares that:

- (a) If an individual, he has attained the age of majority and has the legal capacity and competence to execute this subscription agreement and to take all actions required pursuant hereto;
- (b) If a corporation or body corporate, it has the legal capacity and competence to execute this subscription agreement and to take all actions required pursuant hereto and all necessary approvals by its directors, shareholders and members, or otherwise, have been given to authorize it to execute this subscription form and to take all actions required pursuant hereto;
- (c) He or it has received the Offering Memorandum before executing this subscription;
- (d) As an individual, corporation, or partnership (wherein each partner so represents and declares) he or it confirms to the Issuer that he or it:
 - i. is resident in the Province of British Columbia and has received, read, understood and executed Form 45-106F (Risk Acknowledgement) attached as a schedule to the Offering Memorandum and confirms the making and validity of all the statements, representations, and acknowledgements made by he or it therein;
 - ii. is resident in the Province of Alberta and has received, read, understood and executed Form 45-106F (Risk Acknowledgement) attached as a schedule to the Offering Memorandum and confirms the making and validity of all the statements, representations, and acknowledgements made by him or it therein and either the Subscriber is an “eligible investor” as defined under National Instrument 45-106 annexed hereto as Schedule “T”, or the aggregate acquisition cost of the securities being purchased does not exceed \$10,000; OR
 - iii. is a resident of the United States and acknowledges that the subscriber is an “accredited investor” as described in Schedule “II” hereto.

- (e) As an individual, corporation, or partnership (wherein each partner so represents and declares) he or it:
- i. Did not receive any advice from the Issuer or any of its agents, regarding the merits of an investment in the Shares of the Issuer;
 - ii. Is a purchaser who is an investor who, by virtue of his net worth and investment experience is able to evaluate the prospective investment wholly and exclusively on the basis of information contained in the Offering Memorandum respecting the investment presented by the Issuer plus other information obtained by him/it through independent research, and not on any additional information he may at any time have obtained directly or indirectly from the Issuer;
 - iii. Is purchasing as principal for investment purposes only and not with a view to resale;
- (f) He or it knows that the Shares have not been qualified under the *Securities Act* for distribution to the public and that he or it is purchasing Shares pursuant to exemptions under applicable securities laws, is restricted from using most of the civil rights available under such laws, may not receive information that would otherwise be available and acknowledges the Issuer is relieved from certain obligations under such laws;
- (g) He or it knows that the Shares will be distributed under an applicable exemption from the registration and prospectus requirements of the *Securities Act* and that the undersigned is not acquiring the Shares as a result of any information about the material affairs of the Issuer that is not generally known to the public, save knowledge of this particular transaction;
- (h) He or it knows that the Issuer is not presently a Reporting Issuer as defined in the *Securities Act*;
- (i) He or it knows that any resale by the undersigned of the Shares of the Issuer, at any time when the Issuer is not a Reporting Issuer, will be deemed to be a distribution under the *Securities Act*, so that, in order to sell or transfer the Shares the undersigned must either;
- (i) file a preliminary prospectus and a prospectus with the British Columbia Securities Commission and obtain receipts therefore;
 - (ii) obtain an order for a further special exemption under Section 76 of the *Securities Act* from the requirements of Sections 34 and 61 of the *Securities Act*, or
 - (iii) sell the Shares under an existing exemption from the regulation and prospectus requirements of the *Securities Act* or the Securities Rules.

In consideration of the Issuer's acceptance of this Subscription, and conditional thereon, the undersigned:

- (a) Acknowledges that no securities commission or similar authority has passed upon merits of the Offering Memorandum;
- (b) Acknowledges that he or it understands and is willing to accept the substantial risks inherent in any investment made pursuant of this Offering;
- (c) Acknowledges that there is no market for the Shares and that none will exist on completion of the Issuer's Offering and that their transfer or sale is subject to certain restrictions;

- (d) Acknowledges that he or it is aware that this investment is a long term proposition and that he or it do not require liquidity and are prepared to hold the Shares until maturity several years hence;
- (e) Grants to the President, or, failing him, the Secretary of the Issuer in office from time to time, the power of attorney to complete, amend, modify and file all forms to be filed with all regulatory authorities; and
- (f) Agrees to comply with the *Securities Act* and any other relevant securities legislation regulations, orders or policies concerning the purchasing, holding and resale of Shares.

The Issuer warrants and represents that:

- (a) It is a valid and subsisting corporation duly incorporated and in good standing under the laws of the jurisdiction in which it is incorporated, continued or amalgamated;
- (b) It is duly registered and licensed to carry on business in the jurisdictions in which it carries on business or owns property;
- (c) Except for Shares which have been sold since the date of the Offering Memorandum, the issued and outstanding capital of the Issuer is as disclosed in the Offering Memorandum;
- (d) The Issuer will apply the proceeds of this Subscription in the manner described in the Offering Memorandum;
- (e) The Offering Memorandum alone (i.e., exclusive of any and all other statements made by the Issuer) contains all written representations made by the Issuer to an investor or potential investor in connection with this Subscription and those representations will be accurate in all material respects and will omit no material fact, the omission of which will make such representation misleading.
- (f) The financial statements attached to the Offering Memorandum accurately reflect the financial position of the Issuer as at the dates thereof, and no adverse material changes in the financial position of the Issuer has taken place since the dates therefore, save in the ordinary course of business, and the Issuer has raised and invested funds under and in accordance with the Offering Memorandum;
- (g) The issue and sale of the Shares by the Issuer does not and will not conflict with, and does not and will not result in a breach of, any of the terms of the articles and bylaws of the Issuer or any agreement or instruments to which the Issuer is a party;
- (h) The Issuer is not a party to any actions, suits or proceedings which could materially affect its business or financial condition, and no such actions, suits or proceedings are contemplated or have been threatened;
- (i) This Agreement has been authorized by all necessary corporate actions on the part of the Issuer;
- (j) No order ceasing or suspending trading in securities of the Issuer nor prohibiting the sale of such securities has been issued to the Issuer or its directors, officers or promoters or to any other companies that have common directors, officers or promoters and no investigations or proceedings for such purposes are pending or threatened;

(k) The warranties and representations in this section are true and will remain so as of the conclusion of the Subscription; and

(l) In the event that this subscription is not accepted by the Issuer, this subscription and all accompanying materials will be returned to the undersigned within 10 days of such non- acceptance.

Purchaser's Rights:

The terms described in "Purchaser's Rights" of the Offering Memorandum are incorporated in this subscription agreement and such contractual rights of action are in addition to and not in derogation from any other right or remedy available to the Subscriber.

Dated at _____, British Columbia/Alberta this _____ day of _____, 2017.

(Name of Selling Agent)

(Signature of Subscriber and, if applicable, Office) (Address

of Agent)

(Please Print Name of Subscriber)

(Social Insurance Number of Subscriber) (Address

of Subscriber)

(Home phone/fax numbers) (Work

phone/fax numbers)

(E-mail address)

The Issuer hereby acknowledges receipt of the Subscription Price, and hereby accepts this subscription this _____ day of _____, 2017.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Per: _____

HOW TO PAY FOR SHARES BY WIRE TRANSFER

Routing Instructions

Canadian Dollar (CAD) International Incoming Wire Transfers

INSTRUCTIONS

Complete this form if a member requests the routing information for a CAD International Incoming Wire Transfer. The member can provide the routing information to the customer (Sender).

The sending financial institution, or its intermediary, must send the wire transfer to its Canadian correspondent bank.

The transfer details must be completed EXACTLY as follows.

PAY DIRECT TO (FIELD 57)

SWIFT BIC: CUCXCATTVAN

Central 1 Credit Union

1441 Creekside Drive, Vancouver, BC, Canada V6J 4S7

BENEFICIARY CUSTOMER - SWIFT FIELD 59

Route No., Transit No., and Account No. (e.g. 0809120101234567)

080915040300282756

Member Name:

Empire Hydrogen Energy Systems Inc.

Member Address:

**7-10189 MacDonald Park Road
Sidney, BC V8L 5X5**

PAYMENT DETAILS - SWIFT FIELD 70

Credit Union Name:

Envision Financial division of First West Credit Union

Credit Union Address:

**6481 120 Street
Delta, BC V4E 3G3**

EXHIBIT B

RISK ACKNOWLEDGEMENT

- I acknowledge that this is a risky investment.
- I am investing entirely at my own risk.
- No securities regulatory authority or regulator has evaluated or endorsed the merits of these securities or the disclosure in the offering memorandum.
- The person selling me these securities is not registered with a securities regulatory authority or regulator and has no duty to tell me whether this investment is suitable for me.
- I will not be able to sell these securities except in very limited circumstances. I may never be able to sell these securities.
- I could lose all the money I invest.

I am investing \$_____ in total; this includes any amount I am obliged to pay in the future. Empire Hydrogen Energy Systems, Inc. (the “**Issuer**”) will pay up to 15% of this amount in cash and/or common shares to _____ as a fee or commission.

I acknowledge that this is a risky investment and that I could lose all the money I invest.

Date

Signature of Purchaser

Name of Purchaser

Sign two copies of this document. Keep one copy for your records.

**W
A
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N
G**

You have two business days to cancel your purchase.

To do so, send a notice to the Issuer stating that you want to cancel your purchase. You must send the notice before midnight on the 2nd business day after you sign the agreement to purchase the securities. You can send the notice by fax or email or deliver it in person to the Issuer at its business address. Keep a copy of the notice for your records.

Issuer Name and Address: Empire Hydrogen Energy Systems. Inc.
#7 – 10189 McDonald Park Road
Sidney, British Columbia V8L 5X5

Phone #: (778) 426-0911

E-mail address: info@empirehydrogen.com

Fax #: (778) 426-0456

You are buying exempt market securities.

They are called *exempt market securities* because two parts of securities law do not apply to them. If an issuer wants to sell *exempt market securities* to you:

- the issuer does not have to give you a prospectus (a document that describes the investment in detail and gives you some legal protections), and
- the securities do not have to be sold by an investment dealer registered with a securities regulatory authority or regulator.

There are restrictions on your ability to resell *exempt market securities*. *Exempt market securities* are considered to have greater risk than other securities.

You will receive an offering memorandum.

Read the offering memorandum carefully because it has important information about the Issuer and its securities. Keep the offering memorandum because you have rights based on it. Talk to a lawyer for details about these rights.

You will not receive advice.

You will not get professional advice about whether the investment is suitable for you. But you can still seek that advice from a registered adviser or registered dealer. In Alberta, Manitoba, Northwest Territories, Nunavut, Prince Edward Island, Québec, Saskatchewan and Yukon to qualify as an eligible investor, you may be required to obtain that advice.

The securities you are buying are not listed.

The securities you are buying are not listed on any stock exchange, and they may never be listed. You may never be able to sell these securities.

The issuer of the securities is a non-reporting issuer.

A *non-reporting issuer* does not have to publish financial information or notify the public of changes in its business. You may not receive ongoing information about this issuer.

For more information on the exempt market, call your local securities regulatory authority or regulator.

Alberta Securities Commission

T: (403) 297-6454

www.albertsecurities.com

British Columbia Securities Commission

T: (604) 899-6500

www.bcsc.bc.ca

Manitoba Securities Commission

T: (204) 945-2548

www.msc.gov.mb.ca

New Brunswick Securities Commission

T (506) 658-3060

www.nbsc-cvmnb.ca

Newfoundland and Labrador

Financial Services Regulation Division

T: (709) 729-4189

www.gs.gov.nl.ca

Northwest Territories

Office of the Superintendent of Securities

T: (867) 920-8984

www.justice.gov.nt.ca

Nova Scotia Securities Commission

T: (902) 424-7768

www.gov.ns.ca/nssc/

Nunavut

Superintendent of Securities

T: (867) 975-6590

www.gov.nu.ca

Autorité des marchés financiers

T: (514) 395-0337

www.lautorite.qc.ca

Prince Edward Island Securities Office

T: (902) 368-4569

www.gov.pe.ca/securities

Saskatchewan Financial Services Commission

T: (306) 787-5879

www.sfsc.gov.sk.ca

Yukon

Superintendent of Securities

T: (867) 667-5314

www.gov.yk.ca

EXHIBIT C
SHARE PURCHASE REPORT
(AS FOLLOWS)



PROVINCE OF
BRITISH COLUMBIA

SHARE PURCHASE REPORT

Toll Free: 1-800-665-6597
Phone: (250) 952-0136
Fax: (250) 952-0371
Email: ecp@tbc.gov.bc.ca

Freedom of Information and Protection of Privacy Act (FIPPA) The information collected on this form is collected under the authority of the **Small Business Venture Capital Act, RSBC 1996 c. 429** (Act) and is subject to the provisions of the FIPPA. The personal information will be used for the administration of the Act and the issuance of tax credits. For more information regarding this form and the FIPPA please contact the **Investment Capital Branch, Box 9800 Stn Prov Govt, Victoria, B.C. V8W 9W1**

This report must be completed by the VCC or EBC investor. Please print clearly and legibly.

Name of Venture Capital Corporation (the "VCC") or Eligible Business Corporation (the "EBC")

Empire Hydrogen Energy Systems Inc.

SIN# or Business # (9-Digits) of the Individual or Corporate investor (in the VCC or EBC who will receive the tax credit).

- - Failure to complete this section with accurate information may prevent a tax credit certificate from being issued.

Legal Name of the Individual or Corporate Investor in the VCC or EBC (the "Investor")
(this name must appear on the share certificate)

Legal Last name (or Corporate Name)

Legal First Name

Legal Middle Name

Full Address of Investor (residential address for individual investor or place of business address for corporate investor)

Street Address

City

Postal Code

-

Province B.C.

Phone Number

-

-

Investment Amount Paid for the VCC or EBC Shares (the "Shares")

\$

Number of Shares Purchased

Share Certificate Class

Name on Share Certificate (if the shares are registered in the name of an RSP Trustee or in joint names)

Investment Date

CERTIFICATION

I, the undersigned, do hereby certify that:

As at the investment date noted above, I am an individual resident in British Columbia **OR** I am an authorized signing officer of a corporation which has a place of business or permanent establishment in British Columbia;

- no tax credit has been previously allowed or paid for the Shares;
- the Shares were acquired for cash consideration directly from the VCC, EBC or its agent, and the Shares have been fully paid for in cash;
- the Shares purchased do not carry rights or restrictions prohibited by the *Small Business Venture Capital Act and Regulations*;
- I have not received any financial assistance to purchase these shares from the EBC, the VCC or any business that the VCC has invested in or any affiliate of the EBC, VCC or business.;
- neither myself or my associates (i.e relatives) or my affiliates (ie. other companies controlled by myself or associates) have voting control over the EBC or in any manner control the EBC;
- I have not disposed of any class or type of EBC shares in the two years prior to the investment date;
- I am the beneficial and registered owner of the Shares (except as noted on the share certificate); and
- all information set out above is true and correct.

I am aware that the Province of British Columbia in no way guarantees the value of any shares issued by an EBC or VCC registered under the Small Business Venture Capital Act nor does it in any way express an opinion as to the financial condition of the issuing company or the merits of an investment in shares of the issuing company. **I am aware that the information provided in this form will be used to issue a tax credit certificate and may be shared with Canada Revenue Agency.**

Signature

Full Name

Date

EXHIBIT E

Risk acknowledgement under blanket order 31-505 registration exemption for Trades in connection with certain prospectus-exempt distribution

Name of Issuer: Empire Hydrogen Energy Systems Inc.

Name of Seller: Empire Hydrogen Energy Systems Inc.

I acknowledge that:

- the person selling me these securities is not registered with a securities regulatory authority and is prohibited from telling me that this investment is suitable for me;
- the person selling me these securities does not act for me;
- this is a risky investment and I could lose all my money; and
- I am investing entirely at my own risk.

Date

Signature of Purchaser

Print name of purchaser

Name of salesperson acting on behalf of seller

Sign two (2) copies of this document. Keep one (1) copy for your records.

National Instrument 45-106 *Prospectus and Registration Exemptions* may require you to sign an additional risk acknowledgement form.

If you want advice about the merits of this investment and whether these securities are a suitable investment for you, contact a registered adviser or dealer.

EXHIBIT D



SUBSCRIPTION AGREEMENT CLASS D PREFERRED SHARES

August 18, 2017

7 – 10189 McDonald Park Road, Sidney BC, Canada, V8L 5X5
Tel: (778) 426-0911 Fax: (778) 426-0456
Email: admin@empirehydrogen.ca
Website: www.empirehydrogen.com

EXHIBIT D
SUBSCRIPTION AGREEMENT (CLASS D PREFERRED)

TO: Empire Hydrogen Energy Systems Inc. (“the Issuer”)

The undersigned hereby subscribes for _____ Class D preferred non-voting shares of the Issuer at a price of \$1.50 per Share for the total Subscription Price of \$ _ _____ on the terms and conditions as described in the Issuer’s Offering Memorandum dated August 18, 2017 receipt of a copy of which is hereby acknowledged and as further set forth in the Beta Test Technology Agreement annexed hereto as Schedule III. All capitalized terms herein shall have the same meanings as in the Offering Memorandum.

In consideration of the Issuer’s acceptance of this subscription, the undersigned hereby irrevocably agrees and promises to pay the Subscription Price for the Shares to the Issuer in full by cheque, bank draft, wire transfer or money order at the time of subscription.

The undersigned agrees that participation in the Offering is subject to the acceptance of this subscription by the Issuer and to certain other conditions set forth in the Offering Memorandum. The undersigned acknowledges that this subscription is given for valuable consideration and is irrevocable.

The undersigned represents and declares that:

- (a) If an individual, he has attained the age of majority and has the legal capacity and competence to execute this subscription agreement and to take all actions required pursuant hereto;
- (b) If a corporation or body corporate, it has the legal capacity and competence to execute this subscription agreement and to take all actions required pursuant hereto and all necessary approvals by its directors, shareholders and members, or otherwise, have been given to authorize it to execute this subscription form and to take all actions required pursuant hereto;
- (c) He or it has received the Offering Memorandum before executing this subscription;
- (d) As an individual, corporation, or partnership (wherein each partner so represents and declares) he or it confirms to the Issuer that he or it:
 - i. is resident in the Province of British Columbia and has received, read, understood and executed Form 45-106F (Risk Acknowledgement) attached as a schedule to the Offering Memorandum and confirms the making and validity of all the statements, representations, and acknowledgements made by he or it therein;
 - ii. is resident in the Province of Alberta and has received, read, understood and executed Form 45-106F (Risk Acknowledgement) attached as a schedule to the Offering Memorandum and confirms the making and validity of all the statements, representations, and acknowledgements made by him or it therein and either the Subscriber is an “eligible investor” as defined under National Instrument 45-106 annexed hereto as Schedule “I”, or the aggregate acquisition cost of the securities being purchased does not exceed \$10,000; OR
 - iii. is a resident of the United States and acknowledges that the subscriber is an “accredited investor” as described in Schedule “II” hereto.

As an individual, corporation, or partnership (wherein each partner so represents and declares) he or it:

- i. Did not receive any advice from the Issuer or any of its agents, regarding the merits of an investment in the Shares of the Issuer;
 - ii. Is a purchaser who is an investor who, by virtue of his net worth and investment experience is able to evaluate the prospective investment wholly and exclusively on the basis of information contained in the Offering Memorandum respecting the investment presented by the Issuer plus other information obtained by him/it through independent research, and not on any additional information he may at any time have obtained directly or indirectly from the Issuer;
 - iii. Is purchasing as principal for investment purposes only and not with a view to resale;
- (f) He or it knows that the Shares have not been qualified under the *Securities Act* for distribution to the public and that he or it is purchasing Shares pursuant to exemptions under applicable securities laws, is restricted from using most of the civil rights available under such laws, may not receive information that would otherwise be available and acknowledges the Issuer is relieved from certain obligations under such laws;
- (g) He or it knows that the Shares will be distributed under an applicable exemption from the registration and prospectus requirements of the *Securities Act* and that the undersigned is not acquiring the Shares as a result of any information about the material affairs of the Issuer that is not generally known to the public, save knowledge of this particular transaction;
- (h) He or it knows that the Issuer is not presently a Reporting Issuer as defined in the *Securities Act*;
- (i) He or it knows that any resale by the undersigned of the Shares of the Issuer, at any time when the Issuer is not a Reporting Issuer, will be deemed to be a distribution under the *Securities Act*, so that, in order to sell or transfer the Shares the undersigned must either;
- (i) file a preliminary prospectus and a prospectus with the British Columbia Securities Commission and obtain receipts therefore;
 - (ii) obtain an order for a further special exemption under Section 76 of the *Securities Act* from the requirements of Sections 34 and 61 of the *Securities Act*, or
 - (iii) sell the Shares under an existing exemption from the regulation and prospectus requirements of the *Securities Act* or the Securities Rules.

In consideration of the Issuer's acceptance of this Subscription, and conditional thereon, the undersigned:

- (a) Acknowledges that no securities commission or similar authority has passed upon merits of the Offering Memorandum;
- (b) Acknowledges that he or it understands and is willing to accept the substantial risks inherent in any investment made pursuant of this Offering;
- (c) Acknowledges that there is no market for the Shares and that none will exist on completion of the Issuer's Offering and that their transfer or sale is subject to certain restrictions;

- (d) Acknowledges that he or it is aware that this investment is a long term proposition and that he or it do not require liquidity and are prepared to hold the Shares until maturity several years hence;
- (e) Grants to the President, or, failing him, the Secretary of the Issuer in office from time to time, the power of attorney to complete, amend, modify and file all forms to be filed with all regulatory authorities; and
- (f) Agrees to comply with the *Securities Act* and any other relevant securities legislation regulations, orders or policies concerning the purchasing, holding and resale of Shares.

The Issuer warrants and represents that:

- (a) It is a valid and subsisting corporation duly incorporated and in good standing under the laws of the jurisdiction in which it is incorporated, continued or amalgamated;
- (b) It is duly registered and licensed to carry on business in the jurisdictions in which it carries on business or owns property;
- (c) Except for Shares which have been sold since the date of the Offering Memorandum, the issued and outstanding capital of the Issuer is as disclosed in the Offering Memorandum;
- (d) The Issuer will apply the proceeds of this Subscription in the manner described in the Offering Memorandum;
- (e) The Offering Memorandum alone (i.e., exclusive of any and all other statements made by the Issuer) contains all written representations made by the Issuer to an investor or potential investor in connection with this Subscription and those representations will be accurate in all material respects and will omit no material fact, the omission of which will make such representation misleading.
- (f) The financial statements attached to the Offering Memorandum accurately reflect the financial position of the Issuer as at the dates thereof, and no adverse material changes in the financial position of the Issuer has taken place since the dates therefore, save in the ordinary course of business, and the Issuer has raised and invested funds under and in accordance with the Offering Memorandum;
- (g) The issue and sale of the Shares by the Issuer does not and will not conflict with, and does not and will not result in a breach of, any of the terms of the articles and bylaws of the Issuer or any agreement or instruments to which the Issuer is a party;
- (h) The Issuer is not a party to any actions, suits or proceedings which could materially affect its business or financial condition, and no such actions, suits or proceedings are contemplated or have been threatened;
- (i) This Agreement has been authorized by all necessary corporate actions on the part of the Issuer;
- (j) No order ceasing or suspending trading in securities of the Issuer nor prohibiting the sale of such securities has been issued to the Issuer or its directors, officers or promoters or to any other companies that have common directors, officers or promoters and no investigations or proceedings for such purposes are pending or threatened;

(k) The warranties and representations in this section are true and will remain so as of the conclusion of the Subscription; and

(l) In the event that this subscription is not accepted by the Issuer, this subscription and all accompanying materials will be returned to the undersigned within 10 days of such non-acceptance.

Purchaser's Rights:

The terms described in "Purchaser's Rights" of the Offering Memorandum are incorporated in this subscription agreement and such contractual rights of action are in addition to and not in derogation from any other right or remedy available to the Subscriber.

Dated at _____, British Columbia/Alberta this _____ day of _____, 2017.

(Name of Selling Agent)

(Signature of Subscriber and, if applicable, Office)

(Address of Agent)

(Please Print Name of Subscriber)

(Social Insurance Number of Subscriber)

(Address of Subscriber)

(Home phone/fax numbers)

(Work phone/fax numbers)

E-mail address

The Issuer hereby acknowledges receipt of the Subscription Price, and hereby accepts this subscription this _____ day of _____, 2017.

EMPIRE HYDROGEN ENERGY SYSTEMS INC.

Per: _____

SCHEDULE “T”

NATIONAL INSTRUMENT 45-106 CAPITAL RAISING EXEMPTION (ALBERTA RESIDENTS ONLY)

“eligible investor” means

- (a) a person or company whose
 - (i) net assets, alone or with a spouse, exceed \$400,000,
 - (ii) net income before taxes exceeded \$75,000 in each of the two most recent years and who reasonably expects to exceed that income level in the current year, or
 - (iii) net income before taxes combined with that of a spouse exceeded \$125,000 in each of the two most recent years and who reasonably expects to exceed that income level in the current year,
- (b) a person or company of which a majority of the voting securities are beneficially owned by eligible investors or a majority of the directors are eligible investors,
- (c) a general partnership in which all of the partners are eligible investors,
- (d) a limited partnership in which the majority of the general partners are eligible investors,
- (e) a trust or estate in which all of the beneficiaries or a majority of the trustees are eligible investors,
- (f) an accredited investor, or
- (g) a person or company that has obtained advice regarding the suitability of the investment and if the person or company is in a jurisdiction of Canada that advice has been obtained from an investment dealer, securities dealer or the equivalent, registered under the securities legislation of the jurisdiction.

SCHEDULE "II"

CERTIFICATE FOR U.S. INVESTORS

(Capitalized terms not specifically defined in this Certificate have the meanings ascribed to them in the Agreement to which this Certificate is attached.)

In addition to the terms in the Agreement to which this Certificate is attached, the Subscriber represents and warrants to the Corporation, and covenants with the Corporation that the Subscriber is a U.S. resident (or otherwise subject to U.S. jurisdiction) and the Subscriber is an "accredited investor", as that term is defined in Regulation D promulgated under the U.S. Act, by virtue of the Subscriber's qualification under one or more of the following categories (please check the appropriate category):

- () the Subscriber is a natural person whose individual net worth, or joint net worth with that person's spouse at the time of purchase exceeds \$1,000,000;
- () the Subscriber is a natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- () the Subscriber is a corporation, organization described in section 501(c)(3) of the United States Internal Revenue Code, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the Securities, with total assets in excess of \$5,000,000;
- () the Subscriber is a trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the Securities, whose purchase is directed by a sophisticated person;
- () the Subscriber is a director or executive officer of the Corporation;
- () the Subscriber is a private business development company as defined in section 202(a)(22) of the *Investment Advisers Act of 1940*;
- () the Subscriber is a bank as defined in section 3(a)(2) of the U.S. Act, or a savings and loan association or other institution as defined in section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to section 15 of the *Securities Exchange Act of 1934*; an insurance company as defined in section 2(13) of the U.S. Act; an investment company registered under the *Investment Company Act of 1940* or a business development company as defined in section 2(a)(48) of that Act; a small business investment company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the *Small Business Investment Act of 1958*; a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; an employee benefit plan within the meaning of the *Employee Retirement Income Security Act of 1974* if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a

self-directed plan, with investment decisions made solely by persons that are accredited investors: or

- () the Subscriber is an entity in which all of the equity owners are accredited investors under one or more of the categories set forth above.

The statements made in the Certificate are true.

DATED _____, 2017

Name of Subscriber

Signature of Subscriber or Authorized Signatory of Subscriber

Name and Office of Authorized Signatory of Subscriber

SCHEDULE "III"

BETA PHASE TECHNOLOGY TESTING AGREEMENT

THIS AGREEMENT is dated for reference effective (the "*Effective Date*") the execution date of Beta Tester on the execution page.

BETWEEN:

Empire Hydrogen Energy Systems Inc., having an address for delivery and service located at 7 – 10189 McDonald Road, Sidney, BC V8L 5X5

("Empire" or the "Company");

OF THE FIRST PART

AND:

_____ (Beta Tester name) having an address for delivery and service located at Beta Tester's address for communication as follows:

_____ (Address)

_____ (E-mail)

_____ (Phone)

("Beta Tester");

OF THE SECOND PART

(Empire and Beta Tester being hereinafter singularly also referred to as a "*Party*" and collectively referred to as the "*Parties*" as the context so requires).

WHEREAS:

- A. Empire is a technology innovator and a systems integrator involved in the prosecution of scientific research and experimental development and pursuant to this Agreement wishes to secure the services of Beta Tester as a research assistant, who will cooperate in the development of new and innovative technology to

improve exhaust emissions quality and to enhance energy efficiency of internal combustion engines ("ICE");

- B. Empire has recently completed an alpha phase technology development program ("APTDP") in respect to its accelerant generator, an after-market device (the "A/G"), (which could also be employed by original equipment manufacturers) for integration into fuel systems of ICE used to power vehicles, electricity generators, marine vessels and other heavy equipment. The APTDP tests have shown material reductions in emissions and fuel combustion. Empire desires ICE owners (truckers and others) to enter into this form of scientific research cooperation agreement and to report to Empire on a monitored scientific longitudinal testing basis (that is a part of the Beta Phase Technology Development Program-("BPTDP") in an attempt to improve the A/G's performance and architecture; and
- C. Beta Tester desires to enter into this Agreement as a member of the Research Team and therefore as a close business associate and to employ an A/G for improved performance of its ICE and to participate and cooperate with Empire in completion of its BPTDP;

**NOW THEREFORE THIS AGREEMENT WITNESSETH THAT
THE PARTIES HERETO AGREE AS FOLLOWS:**

Article I

TESTING OF EMPIRE HYDROGEN'S A/G

1.1 **Delivery of A/G.** Beta Tester agrees to take delivery of one of Empire's A/Gs on the following terms:

Beta Tester commits to participating as a research team member in the BPTDP as follows:

- (a) Empire shall, in cooperation with Beta Tester, install an A/G on a mutually selected ICE and install monitoring devices.
- (b) Beta Tester shall, at all times, hold Empire's A/G as bare trustee.
- (c) Beta Tester shall be trained, as required, to record and forward monitoring data to Empire on or before the tenth day of each month;
- (d) Empire shall have the right on two business days' notice to attend on the premises of the Beta Tester to inspect the A/G (which includes the monitoring devices), test the A/G, repair the A/G or replace or modify the A/G;
- (e) Beta Tester shall monitor the A/G on the terms of this Agreement and forward monthly reports (to be transmitted to Empire on or before the tenth day of each month) for 61 consecutive months (at the election of Empire Hydrogen the number of months may be reduced).
- (f) Beta Tester may, at any time after thirty-six (36) months, in its discretion, terminate its involvement as a Research Team Member. Termination shall immediately end the technology license granted hereunder and shall require the immediate return to Empire of the A/G being held for it, on trust, by Beta Tester;

- (g) At the end of the 61-month testing period, Empire shall have absolute discretion in respect destruction of the A/G then installed on Beta Tester's ICE.

1.2 **Class D Share Purchase.** On execution hereof Beta Tester shall purchase not less than ten thousand (10,000) Class D shares ("D Shares"), on agreement of Empire and on the following terms:

- (a) the Class D shares have the following terms:
 - (i) The D Shares are non-voting dividend bearing shares and rank in priority to the common shares for wind-up or other asset distribution for the amount of the D Shares subscription price and do not participate further in asset distribution;
 - (ii) The D Shares dividends shall be declared and issued pro rata with the common shares as if, for such purpose, the D Shares were common shares. Dividends to D Shares shall not be declared or paid for a period of sixty-one (61) months from the date of issuance;
 - (iii) The D Shares are not convertible, redeemable or retractable for a period of sixty-one (61) months from the date of issuance;
 - (iv) Empire shall affect reasonable best efforts to file the full D Shares investment amount for the British Columbia Venture Capital Tax Credit in the fiscal year of investment;
 - (v) After sixty-one (61) months the D Shares may be converted in whole or part to common shares at a conversion ratio of two common share for three D Shares;
 - (vi) The D Shares are non-transferable except as permitted by law, subject to board approval, which shall not be unreasonably withheld. Should Beta Tester become eligible to sell, convert or otherwise dispose of D Shares prior to 61 months from the date of issuance then Beta Tester shall assume all risk of issues, which may arise under the British Columbia Venture Capital Tax Credit program.
- (b) Beta Tester shall (subject to Empire continuing to have approval for issuance of D shares on essentially the terms and conditions set out in its November 2015 Memorandum) have a one-year option to purchase additional D Shares, equal in number to the D Shares subscribed for herein, at the stated price, all of which shall be issued pursuant to the subscription agreement form of Empire, and Empire shall affect reasonable best efforts to file the full D Shares investment amount for the British Columbia Venture Capital Tax Credit in the fiscal year of investment with Beta Tester acknowledging that it takes the risk of annual limitations under the program;
- (c) in the event Empire's shareholders receive an offer to purchase control of the Company or Empire receives an offer to purchase substantially all of the assets of the Company or the Company's shares become listed on a public exchange then Beta Tester shall have the right at any time upon closing of such event or anytime thereafter to convert the D Shares to common shares on a three for two basis provide that Beta Tester assumes all risk of issues which may arise under the British Columbia Venture Capital Tax Credit program.

1.3 **License for Technology.** Empire grants to Beta Tester a single use license for the technology incorporated into the A/G installed on Beta Tester's ICE on the following terms:

- (a) Provided that Beta Tester is monitoring one A/G and reporting the results of its operation on the terms of this Agreement, then Beta Tester shall pay, at the time of delivery and installation one hundred dollars (\$100) initial fee, \$100 on the first day of the month following and \$100 on the first of each month thereafter (without the requirement of monthly invoices) by automatic bank withdrawal or credit card automatic payment for a period of fifty-nine (59) months after the initial delivery payment (\$6000 in aggregate); or
- (b) Beta Tester may elect at any time after thirty-six (36) months to return the A/G in its possession (in reasonable condition), to terminate the technology license agreement granted herein and to cease all payment obligations the date of return of the A/G to Empire;
- (c) Beta Tester shall give Empire ready access to its ICE and the A/G for inspection, monitoring and, where considered useful by Empire, removal of the A/G to Empire's research facilities and contemporaneous replacement with a new A/G. Any such activity by Empire shall be effected so as not to materially disadvantage Beta Tester and with not less than two business days' notice subject to Beta Tester's ICE not being in active employment at such time. Beta Tester shall affect reasonable best efforts to arrange time for Empire's inspection and research work.

Article II

COOPERATION FOR BPTDP

2.1 **Terms of Cooperation for BPTDP.** The Parties agree to cooperate on the basis of cooperative close business associates with Beta Tester being a beta test participant (Research Team Member) throughout the BPTDP on the terms of the BPTDP and on the following terms:

- (a) upon payment of the D Shares and arrangement of automatic payment facilities for the technology license fees, Empire shall install one A/G (with testing equipment) on the selected ICE of Beta Tester at the cost of Empire;
- (b) Empire shall train Beta Tester to monitor and report but may elect to arrange its own monitoring (or an appointed third party). All such monitoring and training direct costs shall be for the account of Empire but Beta Tester or its employee's salaries shall not be for the account of Empire however should Beta Tester or its employees spend more than five hours per month assisting Empire or reporting on A/G performance then Empire shall pay the hourly wage in excess of such five hours for assisting Empire;

- (c) Beta Tester agrees to allow Empire to employ the monitoring data for its research and other objectives; and,
- (d) Beta Tester agrees to employ reasonable best efforts and good faith in the performance of this Agreement to assist Empire to achieve its research objectives and Empire agrees to employ reasonable best efforts and good faith in the performance of this Agreement and to minimize negative impact on the business of Beta Tester.

Article III

INFORMATION TO BE PROVIDED BY BETA TESTER

3.1 **Information to be made available.** Beta Tester agrees to make available to Empire all relevant Beta Tester information, its ICE and personnel, which are reasonably necessary or advisable to allow Empire to install the A/G and monitoring devices and to examine and retrieve data. Empire may provide such information and data to professionals and other necessary qualified persons, provided that such dissemination shall be affected with proper prudence and subject to such conditions and restrictions as are reasonable to protect Beta Tester's confidential data.

3.2 **Accuracy of the information.** Beta Tester covenants that it will provide accurate information for the performance of the research program herein provided. Beta Tester agrees to advise Empire promptly of any material change in any information.

Article IV

TERM

4.1 **Term.** The Term of this Agreement (the "*Term*") is for a period of sixty-five (65) months commencing on the Effective Date, unless earlier termination is affected after thirty-six (36) months as provided for herein.

Article V

CONFIDENTIALITY AND INFORMATION OWNERSHIP

5.1 **Data and Reports.** Beta Tester agrees that all data, research and the results thereof, written and oral opinions, reports, advice and technical and technology material, A/Gs, test and other devices and intellectual property developed hereunder are solely for Empire's benefit and use only and that any such are the exclusive property of Empire. Beta Tester agrees that Empire may utilize any such research, results, opinions, reports, advice and technical and technology material, A/Gs, test and other devices and intellectual property for any purpose whatsoever. Beta Tester agrees that all resources, opportunities, or other matters of value developed or pursued pursuant to this Agreement are the property of Empire and shall accrue to Empire solely. At Empire's request Beta Tester will execute any assignments, declarations or other confirmations or filings as Empire may desire to confirm its ownership, including but not limited to, patent, trade-

mark, copyright assignments (for one (\$1) dollar consideration) and further confidentiality and non-use and non-compete assurances. Beta Tester agrees not to contest, during or after the Term, the title to any of Empire's interests, in any way dispute or impugn the validity of Empire's interests or take any action to the detriment of Empire's interests. Beta Tester hereby further covenants and agrees to immediately notify Empire of any infringement of or challenge to any of Empire's interests as soon as Beta Tester becomes aware of the infringement or challenge.

5.2 **Confidentiality and Competition.** Beta Tester will not, except as authorized or required by its duties hereunder, reveal or divulge to any person or companies any Confidential Information (as defined below) concerning Empire or its business, or of any of its subsidiaries, which may come to Beta Tester's knowledge during the continuance of this Agreement, and Beta Tester will keep in complete secrecy all Confidential Information and will not use or attempt to use any such information in any manner which may injure or cause loss either directly or indirectly to Empire's business. This restriction will continue to apply after the termination of this Agreement without limit in point of time but will cease to apply to information or knowledge, which may come into the public domain through no act or fault of Beta Tester. During this Agreement and for a period of two years following the Term Beta Tester shall not enter into any activity which would cause restriction or competition to the business of Empire and, without restricting the generality, shall not enter into the service of any competitor, shall not accept any position or effect any investment with a party which competes with Empire or which intends to compete with Empire, nor take any steps which would negatively affect Empire including such acts as inducing shareholders, financiers, bankers, brokers, suppliers, customers or members of Empire to leave, or disassociate themselves from, Empire. Beta Tester will also refrain from effecting negative acts in respect to Empire both during this Agreement or thereafter including refraining from such acts as spreading false or malicious rumours, negative comment, or innuendo, initiating communications which bring the reputation of Empire into disfavour or under suspicion, or otherwise effecting negative acts or campaigns towards Empire.

5.3 **Definition of Confidential Information.** "*Confidential Information*" shall mean all Empire information which Empire considers confidential, proprietary, or useful in its business and not generally known in the public and includes all technical information such as data, know-how, research, designs, drawings, plans, specifications, models, quality controls, trade secrets, software, feedstock, additives, processes, equipment, electronic controllers, patents, devices, methods relevant to Empire's business, organizational charts, business plans, policies, corporate structure, financial information and resources, transactions, contracts and Company customers such as their names, requirements and necessities, and any collateral information which may be in the nature of a latent interest or expectation or corporate opportunity such as property opportunities, inventions, discoveries or improvements conceived, developed or made by employees, in whole or in part, or other persons associated with Empire and all other information which would reasonably be considered confidential in the industry or by employment of reasonable judgement and the burden shall be on Beta Tester to show that information alleged by Empire to be confidential is not.

Article VI FORCE

MAJEURE

6.1 **Events.** If either Party hereto is at any time during this Agreement prevented or delayed in complying with any provisions of this Agreement by reason of strikes, walk-outs, labour shortages, power shortages, fires, wars, acts of God, earthquakes, storms, floods, explosions, accidents, protests or demonstrations by environmental lobbyists or native rights groups, delays in transportation, breakdown of machinery, inability to obtain necessary materials in the open market, unavailability of equipment, governmental regulations restricting normal operations, shipping delays or any other reason or reasons beyond the control of that Party, then the time limited for the performance by that Party of its obligations hereunder shall be extended by a period of time equal in length to the period of each prevention or delay.

6.2 **Notice.** A Party shall within seven (7) calendar days give notice to the other Party of each event of *force majeure* under section 6.1 hereinabove, and upon cessation of such event shall furnish the other Party with notice of that event together with particulars of the number of days by which the obligations of that Party hereunder have been extended by virtue of such event of *force majeure* and all preceding events of *force majeure*.

Article VII

DEFAULT AND TERMINATION

7.1 **Default.** The Parties hereto agree that if a Party is in default with respect to any of the provisions of this Agreement (hereinafter referred to as the “*Defaulting Party*”), the non-defaulting Party (hereinafter referred to as the “*Non-Defaulting Party*”) shall give notice to the Defaulting Party designating such default, and within fifteen (15) business days after its receipt of such notice, the Defaulting Party shall either:

- (a) cure such default, or diligently commence proceedings to cure such default and prosecute the same to completion without undue delay, with notice to the Non-Defaulting Party of the procedures it has instigated to cure; or
- (b) give the Non-Defaulting Party notice that it denies that such default has occurred and that it is submitting the question to the appropriate tribunal.

If default is not addressed appropriately in the form required by (a) above, or cured within 15 days of a tribunal’s finding of default, then the Non-Defaulting Party may terminate this Agreement at any time, without prejudice to any claims it may have for an accounting or damages.

Article VIII

NOTICE

8.1 **Notice.** Each notice, demand or other communication required or permitted to be given under this Agreement shall be in writing and shall be delivered to the other Party, at the address for such Party specified above. The date of receipt of such notice, demand or other communication shall be the business day following the date of delivery thereof. Transmission by electronic means, with electronic confirmation, shall be considered delivery.

8.2 **Change of Address.** Either Party may at any time and from time to time notify the other Party in writing of a change of address and the new address to which notice shall be given to it thereafter until further change.

Article IX

GENERAL PROVISIONS

9.1 **Entire Agreement.** This Agreement, and any agreements specifically referred to in this Agreement, constitutes the entire agreement between the Parties hereto in respect to this subject matter and supersedes every previous agreement, expectation, negotiation, representation or understanding, whether oral or written, express or implied, statutory or otherwise, between the Parties with respect to the subject matter of this Agreement.

9.2 **Enurement and Assignment.** This Agreement will enure to the benefit of and will be binding upon the Parties, their respective heirs, executors, administrators and permitted assigns. This Agreement may not be assigned as to any part by any Party without the permission in writing of the other Party, such permission not to be unreasonably withheld.

9.3 **Time of the Essence.** Time will be of the essence of this Agreement.

9.4 **Applicable Law.** The situs of this Agreement is Vancouver, British Columbia, and for all purposes this Agreement will be governed exclusively by and construed and enforced in accordance with the laws of such Province. Beta Tester has been advised to seek his own counsel and has done so and does not rely on Empire counsel for any purpose.

9.5 **Warranty of Good Faith.** The Parties hereto warrant each to the other to conduct their duties and obligations hereof in good faith and with due diligence and to employ all reasonable endeavours to fully comply with and conduct the terms and conditions of this Agreement.

9.6 **Invalid Provisions.** If any provision of this Agreement is at any time unenforceable or invalid for any reason it will be severable from the remainder of this Agreement and, in its application at that time, this Agreement will be construed as though such provision was not contained herein and the remainder will continue in full force and effect and be construed as if this Agreement had been executed without the invalid or unenforceable provision.

9.7 **Currency.** Unless otherwise stated, all references in this Agreement to currency shall be Canadian currency.

9.8 **Counterparts.** This Agreement may be signed by the Parties hereto in as many counterparts as may be necessary, and by facsimile, e-mail or e-signature, each of which so signed shall be deemed to be an original, and such counterparts together shall constitute one and the same instrument.

9.9 **No Partnership, Employment or Agency.** The Parties have not created a partnership and nothing contained in this Agreement shall in any manner whatsoever constitute any Party the partner, agent or legal representative of the other Party, nor create any fiduciary relationship between them for any purpose whatsoever, except as specifically provided. This Agreement is not an employment agreement and the Parties agree that no rights of employment arise hereunder. No Party shall have any authority to act for, or to assume any obligations or responsibility on behalf of the other Party except as may be, from time to time, agreed upon in writing between the Parties or as otherwise expressly provided.

IN WITNESS WHEREOF the Parties hereto have hereunto set their hands and seals in the presence of their duly authorized signatories.

Executed on behalf of
Empire Hydrogen Energy Systems Inc.
in the presence of:

Authorized Signatory

Beta Tester agrees and acknowledges that Beta Tester has thoroughly read the above document and acknowledges and executes the same with full authority and full adoption of all the terms therein.

Beta Tester Authorized Signature

Beta Tester name – please print

Date of Signature

EXHIBIT E

Risk acknowledgement under blanket order 31-505 registration exemption for Trades in connection with certain prospectus-exempt distribution

Name of Issuer: Empire Hydrogen Energy Systems Inc.

Name of Seller: Empire Hydrogen Energy Systems Inc.

I acknowledge that:

- the person selling me these securities is not registered with a securities regulatory authority and is prohibited from telling me that this investment is suitable for me;
- the person selling me these securities does not act for me;
- this is a risky investment and I could lose all my money; and
- I am investing entirely at my own risk.

Date

Signature of Purchaser

Print name of purchaser

Name of salesperson acting on behalf of seller

Sign two (2) copies of this document. Keep one (1) copy for your records.

National Instrument 45-106 *Prospectus and Registration Exemptions* may require you to sign an additional risk acknowledgement form.

If you want advice about the merits of this investment and whether these securities are a suitable investment for you, contact a registered adviser or dealer.