

UGE INTERNATIONAL LTD.

(formerly Way Ventures Inc.)

Condensed Consolidated Interim Financial Statements
(Expressed in United States dollars)

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in United States dollars)

		September 30, 2014		December 31, 2013
Assets				
Current assets				
Cash		2,099,532	$	24,888
Restricted cash (note 6)		244,982		626,330
Trade receivables		917,857		1,533,289
Inventories (note 7)		975,340		649,880
Other current assets		1,351,059		696,971
		5,588,770		3,531,358
Non-current assets				
Property, plant and equipment		2,692,884		2,343,445
Lease prepayments		2,384,967		2,459,087
Deferred tax assets		596,152		739,492
Total assets	$	11,262,773	$	9,073,382
Liabilities				
Current liabilities				
Trade and other payables	$	2,164,324	$	2,271,429
Income taxes payable		745,616		755,961
Warranty provision		266,335		222,307
Current portion of due to related parties (note 13)		1,163,357		29,493
Current portion of long-term loans (note 8)		1,802,579		825,941
Current portion of other payables		23,088		32,454
		6,165,299		4,137,585
Non-current liabilities				
Long-term loans (note 8)		1,867,293		1,917,744
Due to related parties (note 13)		-		1,193,480
Other payables		5,128		15,561
Deferred government grants (note 9)		5,030,638		5,183,537
		13,068,358		12,447,907
Shareholders' deficiency				
Share capital		9,456,011		2,985,248
Contributed surplus		705,443		536,507
Accumulated other comprehensive income		89,841		107,528
Accumulated deficit		(12,056,880)		(7,003,808)
		(1,805,585)		(3,374,525)
Total liabilities and shareholders' deficiency	$	11,262,773	$	9,073,382

Reporting entity and going concern (note 1)
Commitments and contingencies (note 12)
Subsequent event (note 15)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board:

"Nicolas Blitterswyk"
Director, President & Chief Executive Officer

"Matthew Watson"
Director

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
(Unaudited)
(Expressed in United States dollars)

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenue	$ 987,957	$ 2,120,113	$ 2,522,239	$ 3,802,461
Cost of products sold	627,152	1,460,736	1,585,469	2,600,782
Gross profit	360,805	659,377	936,770	1,201,679
Operating expenses				
Selling, general and administrative	1,401,723	958,048	3,848,370	2,688,620
Listing costs (note 5)	1,715,719	-	1,805,039	-
	3,117,442	958,048	5,653,409	2,688,620
Loss from operating activities	(2,756,637)	(298,671)	(4,716,639)	(1,486,941)
Finance expense, net	(99,125)	(36,477)	(201,373)	(74,745)
Loss before income taxes	(2,855,762)	(335,148)	(4,918,012)	(1,561,686)
Income tax expense	(209,106)	(3,704)	(135,060)	(10,142)
Loss for the period	(3,064,868)	(338,852)	(5,053,072)	(1,571,828)
Other comprehensive income (loss)				
Items that are or may be reclassified to profit or loss				
Foreign currency translation differences	13,391	(145)	(17,687)	48,006
Comprehensive loss for the period	$ (3,051,477)	$ (338,997)	$ (5,070,759)	$ (1,523,822)
Weighted average number of shares				
Basic and diluted	9,673,519	2,634,239	7,112,950	2,445,884
Net loss per share attributable to the shareholders of the company				
Basic and diluted	$ (0.32)	$ (0.13)	$ (0.71)	$ (0.64)

See accompanying notes to condensed consolidated interim financial statements.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)
Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited)
(Expressed in United States dollars)

	Number of common shares	Number of special warrants	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
Balance - January 1, 2014	3,253,808	17,000,000	$ 2,985,248	$ 536,507	$ 107,528	$ (7,003,808)	$ (3,374,525)
Share capital issued for cash, net of costs	5,652,498	-	5,370,000	-	-	-	5,370,000
Share capital issued for services	18,346	-	12,500	-	-	-	12,500
Shares issued on acquisition of UGE Holdings Limited (note 5)	1,120,000	-	1,085,229	-	-	-	1,085,229
Shares issued on the exercise of of stock options	6,600	-	3,034	-	-	-	3,034
Share issuance costs	-	-	-	(12,500)	-	-	(12,500)
Share-based compensation	-	-	-	115,288	-	-	115,288
Related party contribution through interest free debt	-	-	-	66,148	-	-	66,148
Loss for the period	-	-	-	-	-	(5,053,072)	(5,053,072)
Other comprehensive loss	-	-	-	-	(17,687)	-	(17,687)
Balance - September 30, 2014	10,051,252	17,000,000	$ 9,456,011	$ 705,443	$ 89,841	$ (12,056,880)	$ (1,805,585)

	Number of common shares	Number of special warrants	Share capital	Contributed surplus	Accumulated other comprehensive income	Accumulated deficit	Total
Balance - January 1, 2013	-	-	$ -	$ 973,897	$ 49,833	$ (4,436,347)	$ (3,412,617)
Shares of UGE Holdings Limited issued at inception	242,459	12,600,000	35,000	-	-	-	35,000
Shares of UGE Holdings Limited issued on conversion of debt	1,002,961	-	648,351	-	-	-	648,351
Conversion of debt to equity in predessor	-	-	-	1,183,468	-	-	1,183,468
Shares issued for services	14,677	-	11,451	-	-	-	11,451
Shares issued for cash	832,925	-	566,050	-	-	-	566,050
Loss for the period	-	-	-	-	-	(1,571,828)	(1,571,828)
Other comprehensive income	-	-	-	-	48,006	-	48,006
Balance - September 30, 2013	2,093,022	12,600,000	$ 1,260,852	$ 2,157,365	$ 97,839	$ (6,008,175)	$ (2,492,119)

See accompanying notes to condensed consolidated interim financial statements.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
(Expressed in United States dollars)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash provided by (used in) operating activities		
Loss for the period	$ (5,053,072)	$ (1,571,828)
Adjustment for:		
Depreciation and amortization	72,064	120,540
Deferred income tax expense	135,060	10,142
Accretion expense on long-term loans	79,420	-
Share based compensation (Note 11)	115,288	-
Listing costs (Note 5)	1,568,643	-
Interest expense	131,374	-
	(2,951,223)	(1,441,146)
Changes in non-cash operating working capital		
Trade receivables	594,852	(611,303)
Inventories	(315,006)	414,489
Other current assets	(637,824)	(282,431)
Trade and other payables	(602,617)	(1,619)
Income taxes	978	20,020
Warranty provision	45,129	(89,122)
	(3,865,711)	(1,991,112)
Interest paid	(131,374)	-
Cash used in operations	(3,997,085)	(1,991,112)
Cash provided by (used in) investing activities		
Additions to property plant and equipment	(495,048)	(579,760)
Decrease in restricted cash	372,358	-
Government grants	-	1,019,060
	(122,690)	439,300
Cash provided by (used in) financing activities		
Amounts advanced from related parties	878,080	3,063,076
Proceeds received from share issuances	5,373,034	566,050
Repayment of bank loans	-	(2,090,763)
Repayment of long-term loans and other payables	-	(203,937)
	6,251,114	1,334,426
Increase (decrease) in cash for the period	2,131,339	(217,386)
Effect of exchange rate fluctuations on cash	(56,695)	24,576
Cash at beginning of period	24,888	1,224,346
Cash at end of period	$ 2,099,532	$ 1,031,536

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity and going concern

(a) Reporting entity

The principal business of UGE International Ltd. (the "Company") (formerly Way Ventures Inc.) is to provide renewable energy solutions to its customers. The Company is engaged in designing and manufacturing durable and versatile wind turbines to couple with solar panels and providing services such as remote site design, installation and monitoring.

The head office of the Company is located at 330 West 38th Street, Suite 1103 New York, New York, United States of America and the registered office is located at is 320 Bay Street, Suite 1600, Toronto, Ontario, M5H 4A6, Canada.

The condensed consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2014 and the condensed consolidated statement of financial position as at December 31, 2013 comprise the operations of the Company and its wholly-owned subsidiaries (see below). The condensed combined interim statements of operations and comprehensive loss, changes in equity and cash flows for the comparative three and nine months ended September 30, 2013 comprise the operations of UGE Holdings Limited, Urban Green Energy, Inc. and the consolidated operations of Beijing Urban Green Energy Co., Ltd., which include the operations of its wholly-owned subsidiary Pingquan UGE Co., Ltd.

As at December 31, 2012, Urban Green Energy, Inc. and Beijing Urban Green Energy Co., Ltd., whose operations include its wholly-owned subsidiary Pingquan UGE Co., Ltd., were entities under common control of a shareholder group.

In March 2013, a capital reorganization involving Urban Green Energy, Inc. and Beijing Urban Green Energy Co., Ltd was undertaken. Under this reorganization, all of the outstanding equity of Beijing Urban Green Energy Co., Ltd. was assumed by or acquired by UGE Holdings Limited ("UGE Holdings"), or a wholly-owned subsidiary of UGE Holdings. In November 2013, all of the issued shares of Urban Green Energy, Inc. were acquired for the issuance of 1,500,000 shares of UGE Holdings. At the time UGE Holdings was controlled before and after the reorganization by the same shareholder group, which also maintained control of Beijing Urban Green Energy Co., Ltd. and Urban Green Energy, Inc. before and after the reorganization.

Effective July 28, 2014, the Company acquired 100% of the issued and outstanding shares of UGE Holdings whereby the former shareholders of UGE Holdings acquired control of the Company upon completion of the transaction (see note 5 for further details).

Since the business operations of Urban Green Energy, Inc. and Beijing Urban Green Energy Co., Ltd. were under the control of the same shareholder group before and after the above-mentioned capital reorganization and, as described in note 5, the Company's acquisition of UGE Holdings constitute a reverse take-over and UGE Holdings is deemed to be the parent/acquirer for accounting purposes, these unaudited condensed consolidated interim financial statements of UGE International Ltd. as at and for the three and nine months ended September 30, 2014, which include the condensed combined interim statements of operations and comprehensive loss, changes in equity and cash flows for the comparative three and nine months ended September 30, 2013 and the statement of financial position as at December 31, 2013,

1. Reporting entity and going concern (continued)

present the consolidated financial position, consolidated financial performance and consolidated cash flows of the consolidated business operations of Urban Green Energy, Inc. and Beijing Urban Green Energy Co., Ltd. before the reorganization and the consolidated financial position, consolidated financial performance and consolidated cash flows of the consolidated operations after the reorganization of UGE Holdings. The unaudited condensed consolidated interim statements of operations and comprehensive loss and cash flows for the three and nine months ended September 30, 2014 include the consolidated financial performances and consolidated cash flows of UGE Holdings for the three and nine months ended September 30, 2014 and those of the Company for the period from July 29, 2014 to September 30, 2014.

(b) Going concern

These unaudited condensed consolidated interim financial statements have been prepared assuming the Company will continue as a going concern, notwithstanding that the Company and its predecessors have a working capital deficiency, and incurred losses and negative cash flows from operations since inception. During the nine months ended September 30, 2014, the Company incurred a net loss from operations of $5,053,072, which included listing costs of $1,568,643 and negative cash flow from operations of $3,997,085. As at September 30, 2014 the Company has a working capital deficiency of $576,529. The Company is required to assess its ability to continue as a going concern to determine whether substantial doubt exists as to the Company's ability to continue as a going concern into the foreseeable future. While the Company believes that it has adequate liquidity in cash and working capital to finance its operations, there exist material risks and uncertainties that cast substantial doubt as to the Company's ability to continue as a going concern. The Company's ability to continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business is dependent upon the Company having adequate liquidity and achieving profitable operations that are sustainable. There are various risks and uncertainties affecting the Company including, but not limited to, the market acceptance and rate of commercialization of the Company's products, the ability of the Company to successfully execute its business plan, and general global economic conditions, certain of which are beyond the Company's control. The Company's strategy to mitigate these risks and uncertainties is to execute a business plan aimed at continued focus on renewable energy solutions, revenue growth, improving overall gross profit, managing operating expenses and working capital requirements, and securing additional financing, including bank loans, shareholders' loans and equity investments from existing or potential shareholders, to fund its operations as needed. Failure to implement this plan could have a material adverse effect on the Company's financial condition and/or financial performance.

The directors are of the opinion that it is appropriate to prepare the condensed consolidated interim financial statements for the three and nine months ended September 30, 2014 on a going concern basis. These condensed consolidated interim financial statements do not include any adjustments or disclosures that would be required if assets are not realized and liabilities and commitments are not settled in the normal course of operations. If the Company is unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation to a liquidation basis, which could differ materially from the values presented in the unaudited condensed consolidated interim financial statements and such adjustments could be material.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those in the consolidated financial statements of UGE Holdings for the year ended December 31, 2013, except as described in note 3, which are filed on www.sedar.com. These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting.* Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards have been omitted or condensed.

These unaudited condensed consolidated interim financial statements were approved for issuance by the Board of Directors on November 27, 2014.

(b) Basis of accounting

The consolidated operations of the Company include the operations of its wholly-owned subsidiaries, which include UGE Holdings, Urban Green Energy, Inc., Urban Green Energy Hong Kong Ltd., Chengde Urban Green Energy Ltd., Beijing Urban Green Energy Co., Ltd. ("UGE Beijing"), and Pingquan UGE Co., Ltd. ("UGE Pingquan"), which were established by UGE Holdings or acquired from the shareholder group in the year ended December 31, 2013, and have been under common control throughout the period (see note 1(a)). All significant intercompany balances and transactions have been eliminated on consolidation.

(c) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis.

(d) Functional and presentation currency

These condensed consolidated interim financial statements are presented in United States ("US") dollars. The functional currency of the Company is the US dollar, the functional currency of UGE Holdings, Urban Green Energy, Inc., and Urban Green Energy Hong Kong Ltd., is the U.S. dollar and the functional currency of UGE Beijing, UGE Pingquan and Chengde Urban Green Energy Ltd., is the Renminbi ("RMB").

(e) Seasonality of operating results

The Company's operations may be subject to seasonal fluctuations due to national holidays in the People's Republic of China ("PRC") in the first quarter, which may result in lower production and shipment levels.

2. Basis of preparation (continued)

(f) Accounting judgments, estimates and assumptions

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and reported amounts of revenue and expenses during the reporting period.

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. Actual results may differ from these estimates. Significant judgments made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include the assessment of the Company's ability to continue as a going concern and assessments on whether deferred tax assets should be recognized for non-capital losses carried forward and certain temporary differences that will result in future tax benefits.

3. Changes in accounting policies

On January 1, 2014, the Company adopted the following amendments to accounting standards issued by the International Accounting Standards Board ("IASB"):

- *Offsetting Financial Assets and Liabilities*, an amendment to IAS 32 -*Financial Instruments: Presentation*
- Amendments to IAS 36 - *Recoverable Amount Disclosures For Non-Financial Assets*
- *IFRIC 21 - Levies*

The adoption of these accounting standards did not have a significant impact on the Company's condensed consolidated interim financial statements.

4. New standards and interpretations not yet adopted

(a) IFRS 9 - *Financial Instruments*

In July 2014, the International Accounting Standards Board ("IASB") issued IFRS 9 -*Financial Instruments*, which replaces the earlier versions of IFRS 9 (2009, 2010, and 2013) and completes the IASB's project to replace IAS 39 -*Financial Instruments: Recognition and Measurement*. IFRS 9 includes a logical model for classification and measurement of financial assets; a single, forward looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

The Company does not intend to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015.

4. New standards and interpretations not yet adopted (continued)

(b) Annual Improvements to IFRS (2010 - 2012), (2011 - 2013) and (2012 – 2014) cycles

In December 2013, the IASB issued narrow - scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

The Company intends to adopt these amendments in its financial statements for the annual periods beginning on January 1, 2015 and 2016, respectively. The extent of the impact of adoption of the amendments has not yet been determined.

(c) IFRS 15 -*Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 -*Revenue from Contracts with Customers*, which replaces IAS 18 -*Revenue*, IAS 11 -*Construction Contracts* and other interpretive guidance associated with revenue recognition. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual period beginning on January 1, 2017 and is available for early adoption.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

(d) Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

On May 12, 2014 the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets.

The amendments made to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset.

The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue.

The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a significant impact on the financial statements.

5. Reverse take-over

On July 28, 2014, the Company completed the acquisition (the "Transaction") of UGE Holdings, a private company providing renewable energy solutions to its customers. Under the terms of the Transaction, shareholders of UGE Holdings exchanged 100% of the issued and outstanding shares (7,065,336 ordinary shares) in UGE Holdings in exchange for 8,924,651 common shares and 17,000,000 special warrants of the Company. The special warrants are non-voting and convertible into 17,000,000 common shares of the Company at any time for no consideration provided that following the conversion at least 20% of the common shares of the Company are held by public shareholders, which in the case of an individual excludes directors, officers, a promoter, insider or control person owning 10% of the common shares or in the case of a corporation a director, officers, insider or control person of that corporation. In addition immediately prior to the Transaction the Company consolidated its shares on a 5 for 1 basis from 5,600,000 common shares to 1,120,000 common shares and changed its name from Way Ventures Inc. to UGE International Inc. Following the completion of the Transaction, the former shareholders of UGE Holdings acquired control of the Company as they own a majority of the outstanding shares of the Company upon completion of the Transaction. Therefore, the Transaction constitutes a reverse take-over and UGE Holdings is deemed to be the parent company/ acquirer for accounting purposes with the net assets of the Company being recorded at fair value at the date of the Transaction.

The historical consolidated financial performance prior to the Transaction is those of UGE Holdings.

Net assets (liabilities) acquired	Canadian dollars	Exchange rate at July 28, 2014	US dollars
Cash	$ 3,068	0.9259	$ 2,841
Other receivables	1,825	0.9259	1,690
Prepaid expenses	13,750	0.9259	12,731
Trade payables	(500,733)	0.9259	(463,629)
	$ (482,090)		$ (446,367)
Consideration paid			
Share capital	$ 1,211,856		$ 1,085,229
Settlement of intercompany balance	-		37,047
Listing Cost	(1,693,946)		(1,568,643)
	$ (482,090)		$ (446,367)

As the Transaction was not considered a business combination the excess of fair value of the consideration over the net assets of the Company in the amount of $1,568,643 are included in the condensed consolidated interim statement of operations and comprehensive loss for the three and nine months ended September 30, 2014. The Company incurred fees of $334,260 in completing the Transaction, of which $236,396 were incurred in 2014 and $97,864 were incurred in 2013 and included in listing costs.

6. Restricted cash

As at September 30, 2014 the Company has restricted cash of $244,982 (December 31, 2013 - $626,330) held in a separate bank account. The cash is restricted for use on the expansion of the manufacturing capacity and acquisition of equipment related to the research and manufacture of high technology products at UGE Pingquan (note 9).

7. Inventories

	September 30, 2014	December 31, 2013
Raw materials and consumables	$ 406,944	$ 260,629
Work-in-progress	229,162	140,589
Finished goods	339,234	248,662
	$ 975,340	$ 649,880

For the three and nine months ended September 30, 2014, changes in raw materials and consumables, finished goods and work-in-progress recognized as cost of products sold amounted to $477,742 and $1,179,668, respectively (2013- $974,670, $1,751,420, respectively).

For the three and nine months ended September 30, 2014, the write-down of inventories to net realizable value amounted to $3,736 and $14,432, respectively (2013–nil, $30,529). There were no reversals of previously recorded write-downs and in the three and nine months ended September 30, 2014 and 2013.

8. Long-term loans

	September 30, 2014	December 31, 2013
Loan 1	$ 1,434,715	$ 1,417,744
Loan 2	482,143	500,000
Loan 3	814,598	825,941
Loan 4	938,416	-
	3,669,872	2,743,685
Current portion	1,802,579	825,941
	$ 1,867,293	$ 1,917,744

The Company has a loan of $1,490,200 (RMB 9,146,850) (“Loan 1”) (December 31, 2013 – $1,510,952, RMB 9,146,850) from Xiangrong Xie, a director, with a fixed annual interest rate of 6% beginning in July 2015. The loan is unsecured and is to be repaid evenly over 10 years with monthly repayments commencing July 2015. In 2013, the Company earned revenues of $91,968 for the installation and maintenance of turbines for Xiangrong Xie in exchange for the deferment of the loan to January 2015. The loan is carried at amortized cost and $32,503 has been recorded against the value of the loan due to the interest-free period from January 2015 to July 2015 and $42,338 has been recognized as a contribution from a related party in the statement of changes in equity. During the three and nine months ended September 30, 2014, interest expense in the amount of $27,989 and $73,467, respectively (2013 - nil, nil) has been recorded in the statement of operations and comprehensive loss.

8. Long-term loans (continued)

The Company has a loan of $500,000 ("Loan 2") (December 31, 2013 - $500,000) with Qi Liu, a family member of the Chief Executive Officer ("CEO"), with a fixed annual interest rate of 5%, beginning in July 2015. The loan is unsecured and is to be repaid evenly over 5 years with monthly repayments commencing in July 2015. The loan is carried at amortized cost and $17,857 has been recorded against the value of the loan due to the interest-free period from July 2014 to July 2015 and $23,810 has been recognized as a contribution from a related party in the statement of changes in equity. During the three and nine months ended September 30, 2014, interest expense in the amount of $5,953 and $5,953, respectively (2013 - nil, nil) has been recorded in the statement of operations and comprehensive loss.

The Company has a loan of $814,598 (RMB 5,000,000) ("Loan 3") (December 31, 2013 - $825,941, RMB 5,000,000) from Yun Liu, a shareholder and family member of the CEO, with a fixed annual interest rate of 7.4% per annum. Interest is payable monthly until the principal due date. The loan is unsecured and is due on September 19, 2015. During the three and nine months ended September 30, 2014, interest expense of $16,253 and $42,329, respectively (2013 – nil, nil) has been recorded in the statement of operations and comprehensive loss. The loan was extended in September, 2014 by one year at the same terms to be due on September 19, 2015.

The Company has a loan facility of $1,140,436 (RMB 7,000,000) ("Loan 4") (December 31, 2013 – nil) from Qi Liu, a family member of the CEO, by way of Beijing Zhongjihaotai Investment Ltd., a company controlled by Xiangrong Xie, a director of the Company, of which $938,416 (RMB 5,760,000) was received by September 30, 2014. The remaining $202,020 (RMB 1,240,000) is to be disbursed by December 31, 2014. The loan bears a fixed annual interest rate of 7.995%. Interest is payable monthly until the principal is due on March 31, 2015. The loan is secured by the Company's manufacturing assets in China. During the three and nine months ended September 30, 2014, interest expense in the amount of $19,008 and $32,151, respectively (2013 - nil, nil) has been recorded in the statement of operations and comprehensive loss. Concurrently, UGE Pingquan entered into a pledge agreement with a bank and Qi Liu under which UGE Pingquan pledged a portion of its land use rights and buildings as security for a bank loan extended to the related party.

9. Deferred government grants

	September 30, 2014	December 31, 2013
Government grants received, net of amortization for:		
Lease prepayments	$ 2,384,967	$ 2,459,087
Property, plant and equipment	2,645,671	2,724,450
	$ 5,030,638	$ 5,183,537

As at September 30, 2014, government grants in the aggregate amount of $2,572,499 (RMB 15,790,000) (December 31, 2013 - $2,608,000, RMB 15,790,000) were received by the Company for the construction and equipping of the manufacturing plant. Cash received but not used is held in a restricted bank account (Note 6). Construction and equipping of the manufacturing plant has not been completed as at September 30, 2014.

10. Shareholders' equity

Share capital

The authorized share capital of the Company consists of an unlimited number of common shares with no par value.

Stock options

The Company has a stock option plan that provides for the granting of stock options to directors, officers, employees and consultants up to an aggregate of 10% of the Company's issued and outstanding shares. The exercise price of each option is equal to the greater of $0.10 or the quoted market price of the Company's common shares on the trading day immediately preceding the date of grant and the maximum term is ten years.

During the nine months ended September 30, 2014 the stock option activity is as follow:

	Number of options	Exercise price
Balance granted at beginning and end of period	112,000	$ 0.50
Exercised during the period	(6,600)	$ 0.50
Balance exercisable as at September 30, 2014	105,400	$ 0.50

As at September 30, 2014 the details of the stock options are as follows:

Exercise price	Number of options outstanding at September 30, 2014	Weighted average remaining life (months)	Weighted average exercise price	Number of options exercisable at September 30, 2014	Weighted average exercise price
$0.50	105,400	25.0	$ 0.50	105,400	$ 0.50

Contributed surplus

In connection with the reverse-takeover transaction (note 5), the Company has adjusted the balances for share capital and contributed surplus to reflect the fact that UGE International Ltd., the legal parent company, has issued common shares with no par value whereas UGE Holdings, the acquirer for accounting purposes, had ordinary shares with a par value of $0.01 with additional share value being allocated to contributed surplus. For the nine months ended September 30, 2014 a total of $8,297,095 (December 31, 2013 - $2,930,050) was reclassified from contributed surplus to share capital.

During the nine months ended September 30, 2014, share-based compensation of $115,288 was recorded in contributed surplus (Note 11) (nine months ended September 30, 2013 - nil).

10. Share capital (continued)

Special warrants

As at September 30, 2014, the Company had 17,000,000 special warrants outstanding. The special warrant are convertible into shares of the Company on a one for one basis for no additional consideration provided that at the time on the conversion at least 20% of the issued and outstanding shares of the Company are held by Public Shareholders after the conversion of the special warrants. Public Shareholders are those shareholders who are not directors, officers or other insiders of the Company as defined by the TSX Venture Exchange.

Accumulated deficit

Pursuant to People's Republic of China ("PRC") regulations, the Company's wholly owned subsidiaries in the PRC are required to make appropriations to reserve funds based on after tax net income determined in accordance with generally accepted accounting principles of the PRC ("PRC GAAP"). The reserve funds are established for covering corporate obligations in the event of business liquidation. The reserve funds are recorded as part of retained earnings but are not available for distribution to shareholders other than in liquidation and may limit repatriation of invested capital.

For the nine months end September 30, 2014 and 2013, the Company did not appropriate an amount to the reserve funds because the threshold has not been met. The balance for reserve funds as at September 30, 2014 and 2013 was nil (December 31, 2013- nil).

11. Share-based compensation

The Company has granted certain employees the right to receive 231,326 common shares of the Company. Of these rights, 130,590, 57,623, and 43,113 will vest in 2014, 2015 and 2016 respectively. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration. During the three and nine months ended September 30, 2014 the Company recognized $26,145 and $115,288, respectively, (three and nine months ended September 30, 2013 – nil, nil) in compensation expense. The compensation expense is recorded in the statement of operations and comprehensive loss and is allocated to cost of products sold and selling, general, and administrative expenses on the same basis as the allocation of cash compensation.

12. Commitments and contingencies

As at September 30, 2014 the Company has outstanding capital commitments of $135,000 (December 31, 2013 - $304,000) which have not been provided for in the condensed consolidated interim financial statements.

The Company is subject to possible claims that arise in the ordinary course of business. The outcome of any of these claims, either individually or in the aggregate, is not expected to have a material impact on the Company's financial position or results of operations.

In June 2014, the Company was served with a complaint for patent infringement in the United States District Court of the Central District of California. The complaint alleges infringement of certain patents by the Company and requests damages in an unspecified amount. The Company is defending its position against this complaint to the fullest extent possible and management does not believe the complaint will have a material adverse effect on the financial position or results of operations of the Company. Consequently, the Company has not recorded a provision in respect of this complaint in these condensed consolidated interim financial statements.

13. Related party transactions and key management personnel

(a) Related party transactions

Related parties include shareholders with a significant ownership interest in the Company, together with its subsidiaries and affiliates and the Company's key management personnel.

	September 30, 2014	December 31, 2013
Amount due to related parties	$ 1,163,357	$ 1,222,973
Current portion	1,163,357	29,493
	$ -	$ 1,193,480

The Company also has long-term loans with related parties as disclosed in Note 8.

As at September 30, 2014, the Company has a loan of $1,141,449 (RMB 7,006,216) (December 31, 2013 - $1,168,907, RMB 7,076,216) from Xiangrong Xie, a director of the Company. The loan is unsecured, non-interest bearing and is due on demand after July 2015.

As at September 30, 2014, the Company has a loan of $17,422 (December 31, 2013 - $49,572) from Nick Blitterswyk, the CEO and a director, and his wife, which is unsecured, non-interest bearing and is due on demand.

The Company has a loan of $4,486 (Hong Kong dollars (“HKD”) 34,835) (December 31, 2013 - $4,493, HKD 34,835) from Xiangrong Xie, a director of the Company. The loan is unsecured, non-interest bearing and is due on demand.

In 2013, the Company agreed to lease a portion of its land use rights to Xiangrong Xie, a director of the Company, where an office facility and hotel will be built by Xiangrong Xie. The Company will be entitled to approximately 3,300 square meters for use as product display, and 2,000 square meters for research and development and offices. Further, upon completion of construction, the Company is entitled to receive 100 free room nights per year free of charge at the hotel until 2059. There have been no amounts recorded for this transaction in the condensed consolidated interim financial statements.

The Company leases its office in Beijing from Xiangrong Xie, a director of the Company, for $6,517 (RMB 40,000) per month beginning in April, 2014. For the three and nine months ended September 30, 2014 $19,467 (RMB 120,000) and $38,726 (RMB 240,000) (three and nine months ended September 30, 2013 – nil, nil) has been recorded for this transaction in selling, general and administrative expenses in the condensed consolidated interim financial statements.

During 2014, the Company wrote off $33,879 (RMB 210,174) (nine months ended September 30, 2013 – nil) of due from Yun Liu, a shareholder and family member of the CEO, to offset expenses incurred by her as a result of the Company’s reorganization.

(b) Key management personnel:

The Chief Operating Officer of the Company has been granted the right to receive 37,658 common shares pursuant to a stock based compensation plan (note 11). In the three and nine months ended September 30, 2014, the Company has recognized nil and $25,658, respectively (Three and nine months ended September 30, 2013 –nil, nil) in compensation expense related to this transaction in the statement of operations and comprehensive loss.

14. Segment information

The Company has determined that they operate in one segment, renewable energy solutions. The Company has principal operations in United States of America and the PRC and is organized into sales geographic areas consisting of the PRC and United States of America ("United States").

Information by geographic area based on external revenue recognized by, and non-current assets held by, the operations in the United States of America and PRC is as follows:

	Revenue for the three months ended September 30,		Revenue for the nine months ended September 30,	
	2014	2013	2014	2013
PRC	$ 9,778	$ 1,250,686	$ 127,360	$ 1,416,677
United States	978,179	869,427	2,394,879	2,385,784
	$ 987,957	$ 2,120,113	$ 2,522,239	$ 3,802,461

	Property, plant and equipment		Lease prepayments	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
PRC	$ 2,692,884	$ 2,343,445	$ 2,384,967	$ 2,459,087
United States	-	-	-	-
	$ 2,692,884	$ 2,343,445	$ 2,384,967	$ 2,459,087

	Revenue by sales category for the three months ended September 30,		Revenue by sales category for the nine months ended September 30,	
	2014	2013	2014	2013
Commercial	$ 564,009	$ 739,585	$ 1,431,854	$ 1,779,446
Residential	114,544	112,996	361,199	399,949
Telecommunications and other	56,872	47,321	257,612	46,706
Large enterprise	252,532	1,220,211	471,574	1,576,360
	$ 987,957	$ 2,120,113	$ 2,522,239	$ 3,802,461

Geographical information on external revenue based on the location of the customers is not available as it is not regularly reviewed by the Company.

15. Subsequent event

Subsequent to September 30, 2014, UGE approved restricted share units (RSU's") to employees and directors allowing them to receive a total of 757,000 common shares for no consideration. The grants are effective December 1, 2014. The vesting of the RSU's will be 13,750 on December 1, 2014, 520,750 in 2015 and 111,250 in each of 2016 and 2017. In order to receive the shares the recipient must be either an employee or director on the vesting date.