

UGE INTERNATIONAL LTD.

(formerly Way Ventures Inc.)

Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in United States dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of UGE International Ltd.

We have audited the accompanying consolidated financial statements of UGE International Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of UGE International Ltd. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 1 in the consolidated financial statements which indicates that UGE International Ltd. has a working capital deficiency, shareholders' deficiency and has incurred losses and negative cash flow from operations. These conditions, along with other matters as set forth in note 1 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast substantial doubt about UGE International Ltd.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants

April 29, 2015
Vancouver, Canada

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)
Consolidated Statements of Financial Position as at December 31,
(Expressed in United States dollars)

Assets	2014	2013
Current assets		
Cash	$ 433,779	$ 24,888
Restricted cash (Note 6)	150,825	626,330
Trade and other receivables (Note 7)	1,654,551	1,607,062
Inventory (Note 8)	855,033	649,880
Prepaid expenses and deposits	540,329	623,198
	3,634,517	3,531,358
Non-current assets		
Property, plant and equipment (Note 9)	2,706,436	2,343,445
Lease prepayments (Note 10)	2,345,032	2,459,087
Deferred tax assets (Note 20)	528,321	739,492
Total assets	$ 9,214,306	$ 9,073,382
Liabilities		
Current liabilities		
Trade and other payables (Note 11)	$ 1,948,695	$ 2,303,883
Income taxes payable	736,174	755,961
Warranty provision (Note 12)	262,972	222,307
Current portion of loans payable (Note 13)	3,135,331	855,434
	6,083,172	4,137,585
Non-current liabilities		
Loans payable (Note 13)	1,841,140	3,111,224
Other payables	5,128	15,561
Deferred government grants (Note 14)	4,938,987	5,183,537
	12,868,427	12,447,907
Shareholders' deficiency		
Share capital (Note 15)	9,538,132	2,985,248
Contributed surplus (Note 16)	708,335	536,507
Accumulated other comprehensive income	135,120	107,528
Accumulated deficit (Note 17)	(14,035,708)	(7,003,808)
	(3,654,121)	(3,374,525)
Total liabilities and shareholders' deficiency	$ 9,214,306	$ 9,073,382

Reporting entity and going concern (Note 1)
Commitments and contingencies (Note 22)
Subsequent events (Note 27)

See accompanying Notes to consolidated 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.)
Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31,
(Expressed in United States dollars)

	2014	2013
Revenue (Note 19)	$ 3,837,801	$ 5,031,957
Cost of products sold	3,077,274	3,322,771
Gross profit	760,527	1,709,186
Operating expenses		
Selling, general and administrative (Note 21)	5,541,857	4,129,735
Listing costs (Note 5)	1,805,039	97,864
	7,346,896	4,227,599
Loss from operating activities	(6,586,369)	(2,518,413)
Finance expense	(289,453)	(91,575)
Finance income	38,551	7,044
Loss before income taxes	(6,837,271)	(2,602,944)
Income tax expense (recovery) (Note 20)	194,629	(35,483)
Loss for the year	(7,031,900)	(2,567,461)
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Foreign operations - Foreign currency translation differences	27,592	57,695
Comprehensive loss for the year	$ (7,004,308)	$ (2,509,766)
Weighted average number of shares		
Basic and diluted	7,851,892	2,643,715
Net loss per share attributable to the shareholders of the Company		
Basic and diluted	$ (0.90)	$ (0.97)

See accompanying Notes to consolidated financial statements.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)
Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in United States dollars

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
Balance - January 1, 2014	$ 2,985,248	$ 536,507	$ 107,528	$ (7,003,808)	$ (3,374,525)
Share capital issued for cash, net of costs	5,370,000	-	-	-	5,370,000
Share capital issued for services	12,500	-	-	-	12,500
Shares issued on acquisition of UGE Holdings Limited (Note 5)	1,085,229	-	-	-	1,085,229
Shares issued on the exercise of of stock options	3,034	-	-	-	3,034
Shares issued on vesting of restricted share units	82,121	(169,493)	-	-	(87,372)
Share issuance costs	-	(12,500)	-	-	(12,500)
Share-based compensation	-	287,673	-	-	287,673
Related party contribution through interest free debt	-	66,148	-	-	66,148
Loss for the year	-	-	-	(7,031,900)	(7,031,900)
Other comprehensive loss	-	-	27,592	-	27,592
Balance - December 31, 2014	$ 9,538,132	$ 708,335	$ 135,120	$ (14,035,708)	$ (3,654,121)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Accumulated deficit	Total
Balance - January 1, 2013	$ 1	$ -	$ 49,833	$ (4,436,347)	$ (4,386,513)
Shares of UGE Holdings Limited issued on formation	1,720,556	471,909	-	-	2,192,465
Shares of UGE Holdings Limited issued on conversion of debt	648,351	-	-	-	648,351
Stock based compensation		81,251			81,251
Shares issued for services	12,790	-	-	-	12,790
Shares issued for cash	603,550	-	-	-	603,550
Share issue costs	-	(12,701)	-	-	(12,701)
Other	-	(3,952)	-	-	(3,952)
Loss for the year	-	-	-	(2,567,461)	(2,567,461)
Other comprehensive income	-	-	57,695	-	57,695
Balance - December 31, 2013	$ 2,985,248	$ 536,507	$ 107,528	$ (7,003,808)	$ (3,374,525)

See accompanying Notes to consolidated financial statements.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)
Consolidated Statements of Cash Flows for the years ended December 31,
(Expressed in United States dollars)

	2014	2013
Cash provided by (used in) operating activities		
Loss for the year	$ (7,031,900)	$ (2,567,461)
Adjustments for:		
Depreciation and amortization	161,053	130,125
Deferred income tax expense (recovery)	194,417	(65,469)
Accretion expense on loans payable	125,168	-
Share-based compensation (Note 15)	287,673	81,251
Listing costs (Note 5)	1,568,643	-
Interest expense	164,285	-
Non-monetary revenue from related party	-	(91,968)
	(4,530,661)	(2,513,522)
Changes in non-cash operating working capital		
Trade and other receivables	(82,408)	(1,086,019)
Inventory	(209,930)	537,495
Prepaid expenses and deposits	82,868	(323,609)
Trade and other payables	(790,915)	762,799
Income taxes payable	(1,086)	79,417
Warranty provision	42,614	(49,919)
	(5,489,518)	(2,593,358)
Interest paid	(161,258)	-
Cash used in operations	(5,650,776)	(2,593,358)
Cash provided by (used in) investing activities		
Additions to property, plant and equipment	(595,495)	(907,436)
Restricted cash	463,696	(616,643)
Government grants received	-	1,126,265
	(131,799)	(397,814)
Cash provided by (used in) financing activities		
Proceeds received on the issue of share capital	5,373,034	603,550
Net proceeds of loans payables	1,004,141	3,155,448
Repayment of bank loans	-	(2,098,327)
	6,377,175	1,660,671
Increase (decrease) in cash for the year	594,600	(1,330,501)
Effect of exchange rate fluctuations on cash	(185,709)	131,043
Cash at beginning of year	24,888	1,224,346
Cash at end of year	$ 433,779	$ 24,888

See accompanying Notes to consolidated financial statements.

1. Reporting entity and going concern

(a) Reporting entity

UGE International Ltd. (the "Company") (formerly Way Ventures Inc.) is incorporated under the laws of the Province of Ontario and its common shares are listed on the TSX Venture Exchange under the symbol "UG". The head office of the Company is located at 330 West 38thStreet, 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, Canada.

The principal business activity of the Company is to provide renewable energy solutions to its customers. Specifically it 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.

(b) Going concern

These consolidated 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 year ended December 31, 2014, the Company incurred a net loss of $7,031,900, which included listing costs of $1,805,039, of which $1,568,643 was a non-cash item, and had negative cash flows from operations of $5,650,776. As at December 31, 2014, the Company has a working capital deficiency of $2,448,655 and a shareholders' deficiency of $3,654,121.

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 consolidated financial statements for the year ended December 31, 2014 on a going concern basis. These consolidated 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 consolidated financial statements.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved for issuance by the Board of Directors on April 29, 2015.

(b) Basis of presentation and accounting

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

Subsidiary	Jurisdiction	Status
UGE Holdings Limited	Cayman Islands	Holding company
Urban Green Energy, Inc.	USA	Operating company
Urban Green Energy Hong Kong Ltd.	Hong Kong	Holding company
Chengde Urban Green Energy Ltd.	PRC	Holding company
Beijing Urban Green Energy Co., Ltd.	PRC	Operating company
Pingquan UGE Co., Ltd.	PRC	Operating company

Effective July 28, 2014, the Company acquired 100% of the issued and outstanding shares of UGE Holdings Limited ("UGE Holdings") whereby the former shareholders of UGE Holdings acquired control of the Company upon completion of the transaction. The transaction constitutes a reverse take-over and UGE Holdings is deemed to be the parent/acquirer for accounting purposes. The consolidated financial statements of operations and comprehensive loss and cash flows for the year ended December 31, 2014 include the accounts of the Company for the period from July 29, 2014 to December 31, 2014 (Note 5).

As at December 31, 2012, Urban Green Energy, Inc.("UGE Inc.") and Beijing Urban Green Energy Co., Ltd ("UGE Beijing"), whose operations include its wholly-owned subsidiary Pingquan UGE Co., Ltd ("UGE Pingquan"), were entities under common control of a shareholder group. In March 2013, a capital reorganization involving UGE Inc. and UGE Beijing was undertaken, pursuant to which all of the outstanding equity of UGE Beijing was assumed by or acquired by UGE Holdings or a wholly-owned subsidiary of UGE Holdings. In November 2013, all of the issued shares of UGE Inc. were acquired by UGE Holdings. At the time UGE Holdings was controlled before and after the reorganization by the same shareholder group, which also maintained control of UGE Beijing and UGE Inc. before and after the reorganization.

(c) Basis of accounting

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

(d) Functional and presentation currency

These consolidated 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, UGE Inc., and Urban Green Energy Hong Kong Ltd. ("UGE HK"), is the U.S. dollar and the functional currency of UGE Beijing, UGE Pingquan and Chengde Urban Green Energy Ltd.("Chengde"), is the Chinese Renminbi (“RMB”).

2. Basis of preparation (continued)

(e) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis.

(f) Accounting assumptions, estimates and judgments

The preparation of the consolidated 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 consolidated 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 areas having estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

(i) Useful lives of property, plant and equipment

Property, plant and equipment are amortized based on the estimated useful life less their estimated residual value. Actual useful life and residual values may vary depending on a number of factors including internal technical evaluation, physical condition of the assets and experience with similar assets.

(ii) Allowances for doubtful accounts and sales returns

The Company makes estimates for allowances for potential losses in respect of trade and other receivables. An allowance for doubtful accounts is estimated based on management's assessment of the credit history with the customer and current relationships with them.

(iii) Provision for future warranty claims

Warranties are provided on certain products supplied to customers. Management applies estimates in establishing warranty provisions on the basis of warranty terms in the sales contract and historical experience.

(iv) Current and deferred tax assets

Estimations of the tax asset or liability require assessments to be made based on the potential tax treatment of certain items that will only be resolved once finally agreed with the relevant tax authorities. Due to the number of variables associated with the differing tax laws and regulations across multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future financial performance and the timing of reversal of temporary differences as well as the tax rates and laws in each respective jurisdiction at the time of the expected reversal.

2. Basis of preparation (continued)

(f) Accounting assumptions, estimates and judgments (continued)

(v) Valuation of inventory

The Company makes estimates of the provision required to reflect obsolescence of inventory. These provisions are determined on a specific item basis, and on the basis of age and redundancy.

(vi) Government grant recognition

The Company makes estimates of when the Company has met the terms and conditions of the agreements under which the assistance is provided to Company.

Information about critical judgments that management has made in applying the Company's accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

(i) Going concern

The directors have applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its financial statements for the year ended December 31, 2014. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considered a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing. As a result of the assessment, management concluded the going concern basis of accounting is appropriate based on its profit and cash flow forecast and access to replacement financing for the future twelve months. However, management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast substantial doubt upon the Company's ability to continue as a going concern.

(ii) Recognition of deferred tax assets

Management made 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. Factors considered included uncertainties in future profitability to utilize existing losses. Significant judgments have been applied in making the assessments.

(iii) Other judgments

In addition to the significant judgments described above, management has also made judgments with regard to the determination of the classification of financial instruments, determination of cash generating units for purposes of impairment testing and the determination of the functional currency of the principal operations of the Company.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and all subsidiary entities which are controlled by the Company. Subsidiaries (Note 2(b)) are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity. All intercompany balances and transactions are eliminated on consolidation.

(b) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components).

Depreciation is calculated to write off the cost of items of property, plant and equipment less the estimated residual value using the straight-line method over the estimated useful lives of the assets and is generally recognized in profit or loss. The estimated useful lives of property, plant and equipment are as follows:

Buildings	30 years
Office equipment	3 to 5 years
Vehicles	4 to 5 years
Machinery and equipment	3 to 10 years

No depreciation is charged on construction in progress.

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

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

(c) Lease prepayments

Lease prepayments represent expenditures for land use rights paid to the relevant People's Republic of China (“PRC”) government authorities for acquiring land held under operating leases. Lease prepayments are carried at cost less accumulated amortization. Amortization of lease prepayments is charged to profit or loss on a straight-line basis over the term of relevant rights of 50 years from the date of acquisition.

3. Significant accounting policies (continued)

(d) Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes expenditures 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 materials, labour and appropriate share of production overhead 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. In establishing any impairment of inventory, management estimates the likelihood that inventory carrying values will be affected by changes in market demand, technology and design, which would impair the value of inventory on hand.

(e) Leases

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and not recognized in the statement of financial position. Payments made under operating leases are recognized in income on a straight-line basis over the term of the lease. Lease incentives received are recognized as a reduction to the lease expense over the term of the lease.

(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 risk specific to the liability. The unwinding of the discount is recognized as a finance cost.

(g) Warranty provision

A provision for warranty costs is recorded on product sales at the time the sale is recognized. In establishing the warranty provision, management estimates the likelihood that products sold will experience warranty claims and the estimated cost to resolve claims received, taking into account the nature of the contract and past and projected experience with the products. The Company provides a warranty, with terms ranging from one to three years, on all of its products. Estimated future warranty costs are accrued and charged to cost of products sold in the period that the related revenue is recognized. These estimates are derived from historical data and trends of product reliability and costs of repairing and replacing defective products.

3. Significant accounting policies (continued)

(h) Share-based compensation

The Company records share-based compensation related to common shares gifted and granted using a fair value based on share price and Company valuation. Under this method, compensation cost is measured at fair value at the date of grant and expensed, as employee benefits, over the vesting period in which employees unconditionally become entitled to the award. The amount recognized as an expense is adjusted to reflect the number of awards for which related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service conditions at the vesting date.

(i) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is determined by adjusting the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise restricted shares granted to employees, options, and warrants. There are 17,935,636 potential dilutive common shares for the year ended December 31, 2014; however, they are anti-dilutive for the years ended December 31, 2014 and 2013 due to the loss incurred.

(j) Revenue recognition

The Company generates revenues from product and services sales. Product revenues are derived primarily from standard equipment and material sales contracts.

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is reasonably assured, persuasive evidence of an agreement exists and the sales price is fixed or determinable. Shipping and other transportation costs charged to buyers are recorded in both sales and cost of products sold.

The Company recognizes service revenue when the service has been performed and completed. The Company recognizes revenue from services as the services are provided. When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately.

(k) Research and development

Research costs are expensed as they are incurred. Product development costs are expensed as incurred except when they meet specific criteria for capitalization. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are capitalized only if 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 to use or sell the asset. Capitalized development costs are measured at cost less accumulated amortization and accumulated impairment losses. Capitalized development costs, if any, are amortized when commercial production begins, using the straight-line method over a period of 5 years. To date, no development costs have been capitalized.

3. Significant accounting policies (continued)

(l) Financial instruments

(i) Financial assets

The Company initially recognizes receivables on the date that they are originated and all other financial assets on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers substantially all the risks and rewards of ownership of the financial asset.

Loans and receivables

Loans and 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 and subsequently at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of the Company's cash, restricted cash, and trade and other receivables.

Determination of fair value

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets are determined by reference to their quoted closing bid price at the reporting date if they are traded in an active market. The fair value of receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(ii) Financial liabilities

Financial liabilities comprise the Company's trade and other payables and loans payable. The financial liabilities are initially recognized on the date they are originated and are derecognized when the contractual obligations are discharged or cancelled or expire. These financial liabilities are recognized initially at fair value and subsequently are measured at amortized costs using the effective interest method, when materially different from the initial amount. Fair value is determined based on the present value of future cash flows, discounted at the market rate of interest.

(iii) Share capital

Share capital is classified as equity. Incremental costs directly attributable to increases in share capital is recognized as a deduction from equity. When share capital is reduced, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity (refer to Note 15).

3. Significant accounting policies (continued)

(m) Impairment

(i) Non-financial assets

Non-financial assets, such as property, plant, and equipment and lease prepayments, 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.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is defined as the estimated price that would be received on the sale of the asset in an orderly transaction between market participants at the measurement date. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets. A cash-generating unit to which goodwill has been allocated reflects the lowest level at which goodwill is monitored for internal reporting purposes.

(ii) Financial assets

Financial assets not carried at fair value through profit or loss are assessed for impairment at each reporting date by determining whether there is objective evidence that 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.

(n) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiaries at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the functional currency are translated at the exchange rates in effect at the reporting date. Non-monetary assets and liabilities denominated in other than the functional currency that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in other than the functional currency are translated using the exchange rate at the date of the transaction. The resulting exchange gains and losses are recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into the presentation currency at exchange rates prevailing at the reporting date and their income and expense items are translated into the presentation currency at average exchange rates for the period. Exchange differences arising on the translation are recognized in other comprehensive income.

3. Significant accounting policies (continued)

(o) Income taxes

Income tax expense comprises current tax expense and deferred tax expense. Current and deferred taxes are recognized as an expense and included in income or loss for the period, except to the extent that the tax arises from a transaction which is recognized in other comprehensive income or directly in equity.

Current tax expense is the amount of income taxes payable (recoverable) in respect of the taxable income (tax loss) for a period. Current liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for temporary differences which are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base, the carry-forward of unused tax loses and unused tax credits. Deferred tax assets and liabilities are measured at the tax rate that are expected to apply when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable income will be available to allow the benefit of part or all of these deferred tax assets to be utilized. Such reduction is reversed to the extent that it becomes probable that sufficient taxable income will be available.

(p) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities. The Company has principal operations in US and People's Republic of China ("PRC") and is organized into sales geographic areas consisting of US and PRC.

(q) Government grants

Government grants are recognized when there is reasonable assurance that the Company will comply with the relevant conditions and that the government assistance will be received. Government grants that compensate the Company for expenses incurred are recognized as a reduction of the related expenses. Other government grants related to property, plant and equipment and lease prepayments are deferred and amortized on a systematic basis over the useful life of the assets as a reduction of the amortization expense of the related assets. Funds received in respect of government grants in advance of achieving the relevant terms and conditions are recorded as a liability.

(r) Comparative information

Certain comparative information has been reclassified to conform with the presentation adopted in the current fiscal year.

4. New standards and interpretations

During the year ended December 31, 2014, the Company adopted the new accounting standards issued by the International Accounting Standards Board ("IASB") as follows:

- *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 amendments to accounting standards did not have a significant impact on the Company's consolidated financial statements.

As at December 31, 2014, new standards and interpretations not yet adopted are as follows:

IFRS 9 - Financial Instruments

In July 2014, the 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 credit 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 and must be applied retrospectively with some exemptions. Earlier adoption is permitted. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers*, which supersedes IAS 18 - *Revenue*, IAS 11 - *Construction Contracts* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers to determine how and when an entity should recognize revenue. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2017 with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 15 on its financial statements.

Amendments to IAS 1 - Presentation of Financial Statements

In December 2014, the IASB issued Amendments to IAS 1 - *Presentation of Financial Statements*. The objective of the amendments was to facilitate improved financial statement disclosures and should not require any significant change to current practices. The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2016. The Company is currently evaluating the impact of Amendments to IAS 1 on its 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 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 Ltd. 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 that 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 is included in the consolidated statement of operations and comprehensive loss as a listing cost for the year ended December 31, 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 December 31, 2014 the Company has restricted cash of $150,825 (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 14).

7. Trade and other receivables

	2014	2013
Trade receivables	$ 1,242,944	$ 1,533,289
Other receivables	411,607	73,773
	$ 1,654,551	$ 1,607,062

8. Inventory

	2014	2013
Raw materials and consumables	$ 287,493	$ 260,629
Work-in-progress	255,481	140,589
Finished goods	312,059	248,662
	$ 855,033	$ 649,880

For the year ended December 31, 2014, changes in raw materials and consumables, work-in-progress and finished goods recognized as cost of products sold amounted to $2,337,175 (2013- $2,770,814). For the year ended December 31, 2014, the write-down of inventories to net realizable value amounted to $63,026 (2013 – $68,350). There were no reversals of previously recorded write-downs and in years ended December 31, 2014 and 2013.

9. Property, plant and equipment

	Machinery & equipment	Buildings	Office Equipment	Vehicles	Construction in progress	Total
Cost						
Balance as at January 1, 2013	$ 293,689	$ 532,142	$ 87,433	$ 288,345	$ 660,952	$ 1,862,561
Additions	194,830	64,782	-		647,824	907,436
Exchange rate effect	15,393	23,415	3,645	12,141	37,895	92,489
Balance as at December 31, 2013	503,912	620,339	91,078	300,486	1,346,671	2,862,486
Additions	215,788	1,327,996	-	-	(948,289)	595,495
Exchange rate effect	(17,812)	(48,219)	(979)	(8,691)	(9,859)	(85,560)
Balance as at December 31, 2014	$ 701,888	$ 1,900,116	$ 90,099	$ 291,795	$ 388,523	$ 3,372,421
Accumulated depreciation						
Balance as at January 1, 2013	$ 51,393	$ 45,034	$ 19,935	$ 254,935	$ -	$ 371,297
Depreciation expense	70,078	24,885	26,416	8,746	-	130,125
Exchange rate effect	3,253	2,282	1,215	10,869	-	17,619
Balance as at December 31, 2013	124,724	72,201	47,566	274,550	-	519,041
Depreciation expense	93,212	36,514	25,527	5,800	-	161,053
Exchange rate effect	(3,830)	(2,078)	(1,360)	(6,841)	-	(14,109)
Balance as at December 31, 2014	$ 214,106	$ 106,637	$ 71,733	$ 273,509	$ -	$ 665,985
Carrying amounts						
December 31, 2013	$ 379,188	$ 548,138	$ 43,512	$ 25,936	$ 1,346,671	$ 2,343,445
December 31, 2014	$ 487,782	$ 1,793,479	$ 18,366	$ 18,286	$ 388,523	$ 2,706,436

10. Lease prepayments

	Cost	Accumulated depreciation	Net carrying amount
Balance as at January 1, 2013	$ 2,599,626	$ 187,557	$ 2,412,069
Amortization	-	54,545	(54,545)
Exchange rate effect	109,461	7,898	101,563
Balance as at December 31, 2013	2,709,087	250,000	2,459,087
Amortization	-	53,628	(53,628)
Exchange rate effect	(67,047)	(6,620)	(60,427)
Balance as at December 31, 2014	$ 2,642,040	$ 297,008	$ 2,345,032

11. Trade and other payables

	2014	2013
Trade payables	$ 788,855	$ 776,432
Compensation payable to employees	118,876	195,633
Other liabilities	496,568	561,866
Financial liabilities measured at amortized cost	1,404,299	1,533,931
Customer deposits	201,563	520,809
Sales and other taxes payable	342,833	249,143
	$ 1,948,695	$ 2,303,883

12. Warranty provision

	2014	2013
Balance at beginning of year	$ 222,307	$ 271,000
Provisions recorded in the year	253,728	307,205
Warranty expenditures	(205,429)	(357,125)
Exchange rate effect	(7,634)	1,227
Balance at end of year	$ 262,972	$ 222,307

The Company provides warranty ranging from one to three years on its products. Although the Company expects to settle the liability over the next three years, the Company does not have a sufficient claims history to determine the timing of when claims will be settled within the three year period. Consequently, the entire warranty provision has been presented as a current liability.

13. Loans payable

	2014	2013
Loan 1	$ 1,452,250	$ 1,417,744
Loan 2	488,095	500,000
Loan 3	805,500	825,941
Loan 4	1,127,700	-
Loan 5	1,102,926	1,168,908
Loan 6	-	49,572
Loan 7	-	4,493
	4,976,471	3,966,658
Current portion	3,135,331	855,434
	$ 1,841,140	$ 3,111,224

Loan 1 – As at December 31, 2014, the Company has a loan of $1,473,293 (RMB 9,146,850) (December 31, 2013 – $1,417,744, 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 initial loan installment to January 2015. The loan is carried at amortized cost and $42,338 has been recorded against the value of the loan due to the interest-free period from January 2015 to July 2015 and been recognized as a contribution from a related party in the statement of changes in equity. During the year ended December 31, 2014, interest accretion expense of $113,263 (2013 - $Nil) has been recorded in the statement of operations and comprehensive loss.

Loan 2 - As at December 31, 2014, the Company has a loan of $500,000 (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 $23,810 has been recorded against the value of the loan due to the interest-free period from July 2014 to July 2015 and recognized as a contribution from a related party in the statement of changes in equity. During the year ended December 31, 2014, interest accretion expense of $11,905 (2013 - $Nil) has been recorded in the statement of operations and comprehensive loss.

Loan 3 - As at December 31, 2014, the Company has a loan of $805,500 (RMB 5,000,000) (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 year ended December 31, 2014, interest expense of $60,092 (2013 – $17,404) has been recorded in the statement of operations and comprehensive loss.

Loan 4 - As at December 31, 2014, the Company has a loan of $1,127,700 (RMB 7,000,000) (December 31, 2013 – $Nil) from Beijing Zhongjihaotai Investment Ltd., a company controlled by Xiangrong Xie, a director of the Company. 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 has subsequently been extended to March 13, 2016 (Note 27). The loan is secured by the Company’s manufacturing assets in China. During the year ended December 31, 2014, interest expense in the amount of $50,672 (2013 - $Nil) has been recorded in the statement of operations and comprehensive loss.

13. Loans payable (continued)

Loan 5 - As at December 31, 2014, the Company has a loan of $1,102,926 (RMB 6,849,216) (2013 - $1,168,908, 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 1, 2015.

Loan 6 - As at December 31, 2014, the Company has a loan of $Nil (2013 - $49,572) from Nick Blitterswyk, the CEO and a director, and his spouse. The loan was unsecured, non-interest bearing and repaid in full during the year ended December 31, 2014.

Loan 7 - As at December 31, 2014, the Company has a loan of $Nil (2013 - $4,493, Hong Kong Dollars 34,835) from Xiangrong Xie, a director of the Company. The loan was unsecured, non-interest bearing and repaid in full during the year ended December 31, 2014.

14. Deferred government grants

	2014	2013
Government grants received, net of amortization for:		
Property, plant and equipment	$ 2,593,955	$ 2,724,450
Lease prepayments	2,345,032	2,459,087
	$ 4,938,987	$ 5,183,537

As at December 31, 2014, government grants in the aggregate amount of $2,593,955 (RMB 16,098,345) (2013 - $2,724,450, RMB 16,493,003) had been 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 December 31, 2014.

As at December 31, 2014, a government grant of $2,345,032 (RMB 14,556,376) (2013 - $2,459,087, RMB 14,886,577), net of amortization of $297,008 (RMB 1,843,624) (2013 – $250,017, RMB 1,513,423), was received for the prepayment of a land lease where the Company's manufacturing plant is located. The grant and the lease prepayment are amortized over 50 years through 2059 at $53,206 (RMB 330,201) per year.

15. Share capital

Authorized capital

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

Issued and outstanding

	2014			2013		
	Number of shares	Number of warrants (note 5)	Amount	Number of shares	Number of warrants (note 5)	Amount
Balance at beginning of year	3,253,808	17,000,000	$ 2,985,248	1	-	$ 1
Shares issued on formation of UGE Holdings	-	-	-	1,346,370	17,000,000	1,720,556
Shares issued for cash	5,652,498	-	5,370,000	887,964	-	603,550
Shares issued for services	18,346	-	12,500	16,512	-	12,790
Shares issued on acquisition of UGE Holdings (Note 5)	1,120,000	-	1,085,229	-	-	-
Shares issued on exercise of stock options	6,600	-	3,034	-	-	-
Shares issued for restricted share units	104,791	-	82,121	-	-	-
Shares issued on conversion of debt	-	-	-	1,002,961	-	648,351
Balance at end of year	10,156,043	17,000,000	$ 9,538,132	3,253,808	17,000,000	$ 2,985,248

Refer to Note 16 for reclassification of amounts from contributed surplus to share capital.

Special warrants

As at December 31, 2014, the Company had 17,000,000 special warrants outstanding held by related parties. The special warrants are convertible into shares of the Company on a one for one basis for no additional consideration provided that at the time of 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.

15. Share capital (continued)

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 years ended December 31, 2014 and 2013 the stock option activity is as follows:

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	112,000	$ 0.50	112,000	$ 0.50
Exercised	(6,600)	0.50	-	-
Balance at end of year	105,400	$ 0.50	112,000	$ 0.50
Balance exercisable at end of year	105,400	$ 0.50	112,000	$ 0.50

As at December 31, 2014 the details of the stock options are as follows:

Exercise price	Number of options outstanding at December 31, 2014	Weighted average remaining life (months)	Weighted average exercise price	Number of options exercisable at December 31, 2014	Weighted average exercise price
$0.50	105,400	19.0	$ 0.50	105,400	$ 0.50

Restricted share units

The Company has a restricted share unit plan that provides for the granting of restricted share units to directors, officers, employees and consultants of up to 1,005,125 shares of the Company, of which the Company has granted rights for 757,000 shares. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration.

Of the 757,000 rights granted, 27,500 vested in 2014, 506,500 vest in 2015, 109,125 vest in 2016, 109,125 vest in 2017 and 4,750 vest in 2018. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration. In December 2014, the Company issued 16,412 shares for the rights that vested, with 11,088 shares being withheld for the payment of withholding tax obligations of the recipients.

15. Share capital (continued)

Restricted share units (continued)

Prior to completing the Transaction (Note 5) the Company had granted employees the right to receive 231,326 shares upon completion of vesting periods. Of these rights granted 130,590 vested in 2014, 57,623 vest in 2015 and 43,113 vest in 2016. In December 2014, the Company issued 88,379 shares for the rights that vested in 2014, with 42,211 shares being withheld for the payment of withholding tax obligations of the recipients.

During the year ended December 31, 2014, the Company recognized a total of $287,673 (2013 – $8,756) in compensation expense pursuant to restricted share units. 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. Of the compensation expense recorded $59,154 was for directors, $49,564 was for senior management and $14,635 was for a director and senior officer and his spouse.

Other share-based compensation

During the year ended December 31, 2013, Xiangrong Xie, a director and significant shareholder, gifted 30,980 shares to employees and 75,422 shares to a director and officer. The Company recognized $72,495 in compensation expense in selling, general and administrative expenses in the consolidated statement of operations and comprehensive loss.

16. Contributed surplus

In connection with the 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 year ended December 31, 2014 a total of $8,297,095 (2013 - $2,930,050) was reclassified from contributed surplus to share capital.

During the year ended December 31, 2014, share-based compensation of $287,673 (2013 - $81,251) was recorded in contributed surplus (Note 15).

17. 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 years ended December 31, 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 December 31, 2014 was $Nil (2013- $Nil).

18. Related party transactions and key management personnel

Related party transactions

The Company leased its office in Beijing from Xiangrong Xie, a director of the Company, for $6,496 (RMB 40,000) per month beginning in April, 2014. For the year ended December 31, 2014 $58,468 (RMB 360,000) (2013 – $Nil) has been recorded for this transaction in selling, general and administrative expenses in the consolidated statement of operations and comprehensive loss. The lease expires on December 31, 2015.

During the year ended December 31, 2013, the Company agreed to lease a portion of our land use rights in China to Xiangrong Xie, a director, 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 building 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 incurred or recorded for this transaction in the consolidated financial statements.

During the year ended December 31, 2013, UGE Pingquan entered into a pledge agreement with a bank and Qi Liu, a family member of a director and officer of the Company, 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.

During the year ended December 31, 2014, the Company paid interest expense of $37,500 (2013 - $Nil) to Nathun Venture Advisors Inc, a company controlled by Matthew Watson, a director of the Company, pursuant to a bridge loan of $300,000, at 12.5% interest per annum, which was received and repaid in the year.

As at December 31, 2014 the Company has a receivable of $25,409 (2013 - $Nil) due from an officer of the Company.

Additional related party disclosure is in Loans Payable (Note 13) and Share Capital - *Restricted share units* (Note 15).

Key management personnel compensation

Key management personnel include those individuals that have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and is comprised of the members of the executive management team and Board of Directors. The amount for compensation expense recognized in the net earnings for key management personnel for the years ended December 31, were as follows:

	2014	2013
Short term employee benefits	$ 154,008	$ 78,333
Share based compensation	123,353	1,451
Consulting fees	38,216	-
	$ 315,577	$ 79,784

19. Segmented information

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

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

Total revenue for the year ended December 31, 2014 was as follows:

	2014	2013
PRC	$ 192,769	$ 2,060,776
US	3,645,032	2,971,181
	$ 3,837,801	$ 5,031,957

Revenue by sales category for the years ended December 31, was as follows:

	2014	2013
Partner network sales	$ 2,327,569	$ 2,643,449
Direct sales	1,014,274	2,330,080
Strategic partners	390,669	-
Other	105,289	58,428
	$ 3,837,801	$ 5,031,957

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

During the year ended December 31, 2014, no customer accounted for more than 10% of the Company's consolidated revenue. During the year ended December 31, 2013, the Company had a single customer that accounted for 24% of revenue.

Non-current assets as at December 31, are as follows:

	Property, plant and equipment		Lease prepayments	
	2014	2013	2014	2013
PRC	$ 2,706,436	$ 2,343,445	$ 2,345,032	$ 2,459,087
US	-	-	-	-
	$ 2,706,436	$ 2,343,445	$ 2,345,032	$ 2,459,087

20. Income taxes

Income tax expense for the years ended December 31, is as follows:

	2014	2013
Current tax expense:		
Current tax expense	$ 212	$ 29,986
Deferred tax expense (recovery):		
Deferred government grants	13,407	8,182
Other	56,199	-
Tax losses carried forward	124,811	(73,651)
Total income tax expense (recovery)	$ 194,629	$ (35,483)

The Company is subject to Canadian income tax rate of 26%. UGE Inc. is subject to US corporate income tax rate of 34% (2013 - 34%). UGE Pingquan and UGE Beijing are subject to PRC income tax rate of 25% (2013 - 25%). UGE Beijing has received a High-Tech Enterprise Certificate which entitles it to a preferential tax rate of 15% for fiscal 2014 through 2016.

A reconciliation of income taxes at statutory rates to actual income taxes for the fiscal years ended December 31, is as follows:

	2014	2013
Loss before income taxes	$ (6,837,271)	$ (2,602,944)
Statutory rate	26.0%	34.0%
	(1,777,690)	(885,001)
Reconciliation of effective rate		
Non-deductble expenses	593,033	11,993
Foreign tax rate differences	(188,624)	(19,114)
Change in unrecognized deductible temporary differences	1,567,910	856,639
Income tax expense (recovery)	$ 194,629	$ (35,483)

Recognized deferred tax assets and liabilities

	Deferred government grants	Operating losses carried forward	Total
Balance at December 31, 2012	$ 597,696	$ 48,971	$ 646,667
Credited (debited) to profit or loss	(8,182)	73,651	65,469
Exchange rate effect	25,167	2,189	27,356
Balance December 31, 2013	614,681	124,811	739,492
Credited (debited) to profit or loss	(13,407)	(124,811)	(138,218)
Exchange rate effect	(72,953)	-	(72,953)
Balance at December 31, 2014	$ 528,321	$ -	$ 528,321

20. Income taxes (continued)

Unrecognized deferred tax assets

As at December 31, 2014, the Company has non-capital losses from operations in the United States of approximately $10,803,000 (2013 – $6,921,000) that may be used to offset future taxable income in the United States. The losses are set to start expiring in 2028 and beyond.

As at December 31, 2014, the Company has non-capital losses from operations in Canada of approximately $92,000 that may be used to offset future taxable income in Canada. The losses are set to start expiring in 2032 and beyond.

As at December 31, 2014, the Company has losses from operations in China of approximately $1,132,000 (2013 – $666,000) that may be used to offset future taxable income in China for corporate tax and trade purposes. The losses are set to start expiring in 2016 and beyond.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable income will be available for the respective entity to realize the benefits.

21. Selling, general and administrative expense

	2014	2013
Employee compensation	$ 2,769,554	$ 1,798,247
Professional fees	1,000,531	387,921
Corporate	683,049	952,547
Shipping	284,122	259,939
Travel and entertainment	244,522	163,236
Office related	228,795	140,229
Research and development	210,260	313,262
Advertising and marketing	77,164	75,460
Insurance	43,860	38,894
	$ 5,541,857	$ 4,129,735

22. Commitments and contingencies

Operating lease commitments

The Company is committed to various operating leases for office premises with remaining terms up to 2016. In 2015, the Company renewed a lease for the Beijing office with Xiangrong Xie for $6,496 (RMB 40,000) per month until December 31, 2015 (Note 18 and 27). Future minimum lease payments under these operating leases are as follows:

2015	$ 145,000
2016	11,000
	$ 156,000

Capital commitments

As at December 31, 2014 the Company has outstanding capital commitments of $83,000 (2013 - $304,000) which have not been provided for in the consolidated financial statements.

Contingencies

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 financial performance.

23. Financial instruments

Fair value

The Company's financial instruments consist of cash, restricted cash, accounts receivables, accounts payable and accrued liabilities, loans payable and other payables. The fair values of cash, restricted cash, accounts receivables, accounts payable and accrued liabilities, and other payables approximate carrying value because of the short-term nature of these instruments. The interest rates applicable to the long-term loans are not considered to be materially different from market rates, thus the carrying value of long-term loans approximate fair value. It is not possible to determine the fair value of the amounts due to related parties as there is no comparable market value for such amounts.

Fair value measurements recognized in the statement of financial position, if any, must be categorized in accordance with the following levels:

(*i*) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(*ii*) Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and;

(*iii*) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial risk management

The Company is exposed it to a number of financial risks arising through the normal course of business as well as through its financial instruments. The Company's overall business strategies, tolerance of risk and general risk management philosophy are determined by the directors in accordance with prevailing economic and operating conditions.

(a) Interest rate risk

Interest rate risk is the risk that the fair value of deferred cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising primarily from fluctuations in interest rates on its cash and loans payable. Based on cash and restricted cash held as at December 31, 2014 and 2013, a 0.25% fluctuation in interest rates, with all other variables held constant, would result in a significant impact on interest income. Loans payable are at fixed interest rates.

23. Financial instruments (continued)

Financial risk management (continued)

(b) Foreign currency risk

The Company primarily operates in the United States and the PRC, which gives rise to significant foreign currency risks from fluctuations and volatility of the foreign exchange rate between the US dollar and the RMB. A significant change in the currency exchange rates between the RMB relative to the US dollar could have an effect on the Company's financial performance, financial position and cash flows. The Company does not use derivative instruments to reduce its exposure to exchange rate risk.

The Company's financial instruments subject to foreign currency risk are listed below.

	2014	2013
Financial assets		
Cash	$ 402,165	$ 24,888
Restricted cash	$ 150,825	$ 626,330
Trade receivables	$ 1,228,041	$ 1,498,455
Financial liabilities		
Accounts payable and accruals	$ 1,838,403	$ 658,003
Loans payable	$ 4,488,376	$ 3,466,658

Based on financial assets and liabilities held as at December 31, 2014, a 5% decrease in the RMB, Canadian dollar ("CAD"), and Hong Kong dollar ("HKD") against the US dollar, with all other variables held constant, would result in a foreign exchange loss of approximately $272,000 (2013 - $87,000) recorded in the consolidated statement of comprehensive loss.

If the RMB, CAD and HKD increased 5% against the U.S. dollar, there would be an equal, and opposite impact, in comprehensive loss. This sensitivity analysis includes foreign currency denominated monetary items, and adjusts their translation at year-end, for a 5% change in foreign currency rates.

23. Financial instruments (continued)

Financial risk management (continued)

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and restricted cash, and trade receivables. The carrying amount of the financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk on cash and restricted cash by placing these financial instruments with high quality financial institutions and only investing in liquid, investment grade securities.

Trade receivables are reviewed for impairment on a case by case basis and are provided for when objective evidence is received that a customer may default, at which time the loss is recognized in the statement of operations within selling, general and administrative expenses. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses in the statement of operations.

The Company's credit risk exposure for trade receivables relates to a diverse group of customers in a number of geographic regions thereby mitigating risk through a lack of concentration of customers. During the year ended December 31, 2014, no single customer accounted for more than 10% of revenue. In the year ended December 31, 2013 one customer in the PRC accounted for approximately 24% of the Company's revenue.

The following table sets forth details of the age of receivables that are not overdue as well as an analysis of overdue amounts and related allowance for the doubtful accounts.

	2014	2013
Trade receivables, net of allowance for doubtfull accounts of $Nil	$ 1,654,551	$ 1,607,062
Aging of trade receivables		
Current	$ 361,491	$ 167,743
Past due 31-60 days	26,330	16,934
Past due 61-90 days	5,183	347,169
Past due 90+ days	1,261,547	1,075,216
	$ 1,654,551	$ 1,607,062
Continuity of allowance for bad debts		
Balance at beginning of year	$ -	$ -
Provision	82,792	270,559
Write-off	(82,792)	(270,559)
Balance at end of year	$ -	$ -

23. Financial instruments (continued)

Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations when due. The Company has a planning and budgeting process to help determine the funds required to support the Company's normal spending requirements on an ongoing basis and its expansionary plans. The Company will primarily rely on loans from related parties, equity financing, and cash from operations to support these funding needs.

As at December 31, 2014 the contractual maturities of financial liabilities, including estimated interest payments is as follows:

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5 to 10 years
Trade and other payables	$ 1,953,823	$ 1,953,823	$ 1,948,695	$ 5,128	$ -	$ -
Loans payable	4,976,471	5,641,390	3,256,463	310,638	931,915	1,142,374
Contractual commitments	-	83,000	83,000	-	-	-
Lease commitments	-	156,000	145,000	11,000	-	-
	$ 6,930,294	$ 7,834,213	$ 5,433,158	$ 326,766	$ 931,915	$ 1,142,374

As at December 31, 2013 the contractual maturities of financial liabilities, including estimated interest payments is as follows:

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5 to 10 years
Trade and other payables	$ 2,319,444	2,319,444	$ 2,303,883	$ 15,561	$ -	$ -
Loans payable	3,966,658	4,671,883	899,306	1,508,004	943,569	1,321,004
Contractual commitments	-	304,000	304,000	-	-	-
Lease commitments	-	140,000	65,000	75,000	-	-
	$ 6,286,102	$ 7,435,327	$ 3,572,189	$ 1,598,565	$ 943,569	$ 1,321,004

24. Capital disclosures

The Company's objective in managing capital is to safeguard its ability to continue as a going concern and to sustain future development of the business. In the management of capital, the Company includes shareholders' equity, excluding accumulated other comprehensive income. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from operations will not be sufficient to meet future cash flow requirements. In order to maintain or adjust its capital structure, the Company may issue new shares. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements and the Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2013.

The Company's capital is composed of net debt and shareholders' equity. Net debt consists of interest bearing debt less cash. The Company's primary uses of capital are to finance working capital requirements and capital expenditures. The Company currently funds these requirements out of its internally-generated cash flows and the periodic issuance of debt and equity.

The Company's net debt and capital are as follows:

Loans payable	$ 4,976,471
Cash	(433,779)
Net debt	4,542,692
Total shareholders' deficiency	(3,789,241)

The Company is not subject to externally imposed capital requirements.

25. Personnel expenses

	2014	2013
Wages and benefits	$ 2,586,343	$ 1,926,300
Stock based compensation	287,673	81,251
	$ 2,874,016	$ 2,007,551

26. Interests in subsidiaries

Details of the Company's subsidiaries as at December 31, 2014 are as follows:

Name of Company	Place and date of formation	Issued and fully paid/ registered capital	Company's effective interest	Percentage held by Company	Percentage held by a Subsidiary	Principal activity
UGE Holdings	Cayman Islands March 18, 2013	7,065,336 shares	100%	100%	-	Holding Company
UGE Inc	Delaware, US January 14, 2008	999,999 shares	100%	-	100%	Sales and marketing
UGE HK	Hong Kong March 24, 2011	Hong Kong $1	100%	-	100%	Holding Company
Chengde	PRC March 5, 2013	10 million RMB	100%	-	100%	Holding Company
UGE Beijing	PRC November 7, 2017	10 million RMB	100%	-	100%	Sales in PRC
UGE Pingquan	PRC March 13, 2008	20 million RMB	100%	-	100%	Manufacturing

27. Subsequent events

Subsequent to December 31, the Company:

(a) completed a non-brokered private placement (the “Offering”) of 1,189,834 units (the “Units”), for proceeds of $1,391,021 (CAD $1,749,394), net of share issue costs of $28,213 (CAD $35,357). Each unit consisted of one common share (the “Common Shares”) and one half of one common share purchase warrant (each whole warrant, a “Warrant”). Each Warrant may be exercised for one additional Common Share at an exercise price of CAD $1.80 per share and they expire on March 16, 2016. The proceeds will be used for working capital purposes;

(b) issued 72,858 shares for the restricted share units that vested on March 31, 2015, with 33,517 shares being withheld for the payment of withholding tax obligations of the recipients;

(c) extended the due date of a related party loan agreement with Beijing Zhongjihaotai Investment Ltd. for RMB 7,000,000 to be due on March 13, 2016 (Note 13 - Loan 4); and

(d) extended a lease agreement with Xiangrong Xie to December 31, 2015 for the Beijing office for $6,445 (RMB 40,000) per month (Note 22).