

UGE INTERNATIONAL LTD.

(formerly Way Ventures Inc.)

Management's Discussion and Analysis

Year ended December 31, 2014

The following Management Discussion and Analysis ("MD&A") is prepared as of April 29, 2015 and is intended to assist in understanding the results of operations and financial condition of UGE International Ltd. (formerly Way Ventures Inc.) ("UGE" or the "Company"). Throughout the MD&A reference to the Company or UGE is on a consolidated basis. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2014, which are expressed in United States dollars ad prepared in accordance with International Financial Reporting Standards ("IFRS").

Forward-Looking Information

This MD&A may contain forward-looking information that involves material assumptions and known and unknown risks and uncertainties, certain of which are beyond the Company's control. Such assumptions, risks and uncertainties include, without limitation, those associated with, loss of markets, expected sales, future revenue recognition, currency fluctuations, the effect of global and regional economic conditions, industry conditions, changes in laws and regulations, and changes in how they are interpreted and enforced, the lack of qualified personnel or management, fluctuations in foreign exchange or interest rates. The Company's performance could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if they do so, what benefits the Company will derive there from. The forward-looking information is made as of the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Additional Background: Corporate Reorganization

On July 28, 2014, UGE International Ltd. completed the acquisition (the "Transaction") of UGE Holdings Limited ("UGE Holdings"). The Transaction constitutes a reverse-takeover and is accounted for with UGE Holdings being identified as the accounting acquirer and the net assets of UGE International Ltd. being recorded at fair value at the date of the transaction.

While the decision to complete this transaction was central to our long term strategic and capital plans, this resulted in $1,805 thousand in listing expenses for the year ended December 31, 2014. Of this amount, a one-time non-cash expense of $1,568 thousand was due to an excess of fair value of the consideration paid over the fair value of net assets of UGE International, in accordance with IFRS accounting for reverse take-over transactions. Further, due to our operations in the PRC, the Transaction was subject to the Emerging Market Policy which necessitated extensive additional costs beyond what was initially expected in respect of due diligence, legal and accounting to complete the transaction. Management believes that our strategic plan will deliver significant value going forward that will justify these one-time costs.

Corporate Profile

We are a renewable energy solutions company, focused on delivering distributed solar and wind-powered energy solutions to commercial and industrial customers on a global scale. We do not focus on the residential or utility scale markets. We earn revenue by selling both turn-key projects and components. Turn-key projects can include services such as system engineering, installation and construction, operations and maintenance ("O&M"), and arrangement of financing, together with procurement and delivery of the components that make up the energy system and are typically below 1MW in size. The components of an energy solution include some or all of solar panels, solar racking, wind turbines, wind turbine towers, power electronics, batteries, and remote monitoring, among other items.

Revenue by Sales Category

$ In thousands	2014	2013
Partner network sales	2,328	2,643
Direct sales	1,014	2,330
Strategic partners	391	-
Other	105	59
Total	3,838	5,032

We utilize three main distribution channels to reach our customers. We typically sell completed projects direct to customers or in concert with Strategic Partners. Strategic Partners are partners in key growth markets with whom UGE has formed strategic relationships utilizing our engineering, procurement and operational experience with our Strategic Partners' understanding of the local market to quickly and efficiently capture market share. Direct sales are most often made to large companies (examples include Whole Foods Market, Inc., General Electric Company, and BMW AG) and are often referred to in this MD&A as "direct" sales. Due to the significant revenue of each of these projects, revenue in this category can at times fluctuate greatly from quarter to quarter. Our third channel to market is the UGE Partner Network (the "Partner Network"), which purchases components from UGE and packages them, along with installation, to local customers, primarily in the small commercial sector.

UGE was formed in 2008 as an energy solutions company, looking to package together renewable energy technologies to solve the needs of commercial and industrial clients. We first reached commercial success through designing and manufacturing our proprietary line of vertical axis wind turbines ("VAWT"), which we brought to market in 2010. Utilizing the Partner Network we believe we became the world's top seller of VAWTs, with installations in over 90 countries, including on the Eiffel Tower in early 2015 and for several other noteworthy clients. We have also grown expertise in solar and microgrid system design, remote energy monitoring, energy storage, and project financing, which we leverage to deploy optimized energy systems for our clients. By the end of 2014 we have grown to become a well-known supplier of energy solutions for commercial and industrial customers around the world.

We demonstrated a successful beginning of the strategic shift in our focus on commercial and industrial clients in key markets and our transition to becoming a public company in 2014. Our strategy began to come to fruition through the formation of relationships with Strategic Partners who have allowed UGE to take a leading position in key growth markets. As a result, this channel accounted for 10% of total revenue for the year, all of which was realized in the fourth quarter. Our overall confirmed orders (firm contracts with customers) for 2014 exceeded that of 2013, and saw momentum building in the third and fourth quarters, each setting new milestones for the Company. As we expected, our movement away from the government sector led to a decrease in revenue in 2014 from 2013, though we believe our strategic shift has been validated through our growing momentum in the third and fourth quarters and will result in significant revenue growth in 2015.

Overall Performance

We generally recognize revenue at the time of shipment (for orders from the "Partner Network") or upon installation (for direct projects). Based on the time taken to fulfill an order, revenue follows the date an order is confirmed by an average of approximately three months for component sales and six months for complete projects. Due to this time lag, management tracks confirmed orders, defined as orders where we have an executed agreement with a customer as this metric is an early indication of future revenue.

In the year ended December 31, 2014, the Company secured $4,918 thousand in new confirmed orders as compared to $4,808 thousand in 2013, the highest total in Company history, as we accelerated execution of our strategic plan. Total recognized revenue for the year ended December 31, 2014

decreased to $3,838 thousand from $5,032 thousand as we moved away from direct sales to the government sector. Revenue in 2014 of $360 thousand has not yet been recognized related to two orders for which we have recognized cost of goods sold ("COGS"). We expect to recognize this revenue in 2015. However, confirmed orders and revenue growth finished 2014 at an accelerating rate. Revenue in the fourth quarter was $1,316 thousand, compared with $1,229 thousand in the fourth quarter of 2013. Confirmed orders in the fourth quarter of 2014 were $1,906 thousand as compared to $672 thousand in the fourth quarter of 2013. Management is confident this is the beginning of a strong growth trend for the Company.

Although we are focused on providing the optimal energy solution to the customer, historically a significant portion of the Company's revenues have come from the sale of our VAWTs, due to our market position. However, as we have gained prominence in the faster growing solar sector, our overall mix of sales has shifted towards solar. Margins in commercial solar are lower, but invested capital per dollar sales is also much lower, because we do not manufacture solar components, such as solar panels. This shift will be beneficial for the Company, as we believe that the solar industry will continue to experience rapid growth, and that we will benefit through increased revenues and net income that we could not expect solely focusing on our wind product. As a result of our shifting product mix and aforementioned projects (which accounted for a 6% decrease), our gross margin decreased by 14% to 20% of total revenues for the year ended December 31, 2014 from 34% in the prior year. Maintaining a strong gross margin continues to be one of our objectives, through supply chain optimization, product improvements, and a greater emphasis on providing services as part of our project sales.

Our selling, general and administrative ("SG&A") expenses for the year ended December 31, 2014 increased to $5,542 thousand from $4,130 thousand in the prior year as a direct result of expenses associated with our updated strategic plan. The decrease in our margins and increased SG&A expense results in a loss of $7,032 thousand for the year ended December 31, 2014, including $1,805 thousand of one-time expenses related to the Transaction, as compared to $2,567 thousand in the prior year.

Selected Annual Financial Information

In thousands, except loss per share	2014	2013	2012
Revenue	$ 3,838	$ 5,032	$ 4,974
Cost of sales	3,077	3,323	3,642
	20%	34%	27%
Gross profit	761	1,709	1,332
Expenses			
Selling, general and administrative	5,542	4,130	3,472
Listing costs	1,805	98	-
Net finance costs	251	84	79
Income tax expense (recovery)	195	(35)	(41)
	7,793	4,277	3,510
Net loss	$ (7,032)	$ (2,568)	$ (2,178)
Loss per share - Basic and diluted	$ (0.90)	$ (0.97)	$ (0.41)

$ In thousands	2014	2013
Total assets	$ 9,214	$ 9,073
Total non-current liabilities	$ 6,785	$ 8,310

Results of Operations for the year ended December 31, 2014 compared with 2013

Revenue for the year ended December 31, 2014 decreased by $1,194 thousand or 24% to $3,838 thousand compared with $5,032 thousand in the prior year. Revenue in 2013 included one order to a government customer in the People's Republic of China (the "PRC") that accounted for revenue of $1,220 thousand, whereas there was no similar contract in 2014. The change in revenue was a direct result of our strategic plan, which is described above. Factoring for this project, revenue for the year ended December 31, 2014 was relatively flat as compared to the prior year. In addition revenue in 2014 does not include two projects with Partners of $360 thousand for which we have delivered products and recognized COGS but have not yet recognized revenue until we receive payment. We expect to receive payment and recognize revenue in 2015.

Direct sales accounted for $2,330 thousand, 46% of total revenue in 2013, where a small number of large government projects accounted for the majority of revenue. Revenue in direct sales for the year ended December 31, 2014 was $1,014 thousand. As discussed, while the shift in strategy has meant our government-focused direct sale revenue fell in 2014, we believe we have laid a strong foundation to increase sales in the future by focusing on the commercial and industrial sector.

The Partner Network sales accounted for $2,328 thousand or 61% of total revenue for the year ended December 31, 2014 as compared with $2,643 thousand, or 53% of total revenue in 2013. The decrease in sales was primarily due to the conversion of several Partners to Strategic Partners (and a resulting conversion from component to turn-key project sales) as part of our strategy. We expect the Network to

remain a valuable source of revenue in the foreseeable future and a key differentiator between UGE and our competitors. Therefore, we continue to develop and expand the Partner Network and execute internal initiatives of continuous improvement in the suite of tools, education, and support available to the Partner Network.

In 2014, we formed relationships with Strategic Partners in key markets which UGE is targeting as areas of focus to drive growth. UGE and our Strategic Partners typically offer fully integrated energy solutions to commercial and industrial customers including site design, renewable energy products, installation, ongoing maintenance, and financing. Our goal is to be the leading provider of distributed energy solutions to commercial and industrial clients in these markets and quickly capture market share. Revenues in this sector accounted for $391 thousand or 10% of total revenue for the year ended December 31, 2014, all of which occurred in the fourth quarter. Management fully expects this sector to be a major growth driver moving forward.

As solar modules comprise a significant portion of our renewable energy solutions and total sales as compared with wind turbines, where we realize a higher margin, overall gross margin has decreased. In addition, the projects described above for which we recognized COGS but not revenue negatively impacted our gross margin by 6%. UGE's gross margin for the year ended December 31, 2014 decreased to 20% as compared with 34% in the prior year as a result. The decrease in gross margin and revenue resulted in a gross profit of $761 thousand for the year ended December 31, 2014, a decrease of $948 thousand from $1,709 thousand in the previous year.

We had SG&A expenses of $5,542 thousand for the year ended December 31, 2014, as compared to $4,130 thousand in the prior year. In addition one-time public listing expenses, which included a one-time non-cash $1,568 thousand expense resulting from the excess of fair value of the consideration paid over the net assets of the acquired company, in accordance with IFRS accounting for reverse take-over transactions. Further, due to our operations in the PRC, we were subject to the Emerging Markets Issuer Policy which necessitated extensive additional costs in respect of due diligence, legal and accounting to complete the transaction. As a result, total professional fees increased by $613 thousand in 2013 to $1,001 thousand for the year ended December 31, 2014 as compared to $388 thousand in 2013. Employee compensation was $2,770 thousand for the year ended December 31, 2014, as compared with $1,798 thousand in the prior year, an increase of $972 thousand as we increased employee compensation and brought on new employees with the skillsets and experience to fit our strategic directive and capacity to support significant growth in 2015. Of the increase in employee compensation, $207 thousand was non-cash share-based compensation.

In addition, a non-cash income tax expense of $195 thousand, relating to a reduction of deferred tax assets, was recorded in the year ended December 31, 2014. Net finance expense increased to $251 thousand for the year ended December 31, 2014 from $84 thousand in the prior year as the Company received additional loans from related parties.

As a result of decreased revenues and increased SG&A, we had a net loss of $7,032 thousand in the year ended December 31, 2014 as compared with $2,567 thousand in 2013.

Summary of Quarterly Results

All amounts in 000's, except per share figures

	Mar 31 2013 Q1	Jun 30 2013 Q2	Sep 30 2013 Q3	Dec 31 2013 Q4	Mar 31 2014 Q1	Jun 30 2014 Q2	Sep 30 2014 Q3	Dec 31 2014 Q4
Revenue	$ 785	$ 897	$ 2,120	$ 1,230	$ 848	$ 686	$ 988	$ 1,316
Net loss	$ (575)	$ (658)	$ (339)	$ (995)	$ (814)	$ (1,174)	$ (3,065)	$ (1,979)
Basic and diluted loss per share	$ (0.24)	$ (0.29)	$ (0.13)	$ (0.31)	$ (0.22)	$ (0.16)	$ (0.32)	$ (0.20)

Quarter to quarter comparisons in the financial results is not necessarily meaningful and should not be relied upon as an indication of future performance. The quarterly information is unaudited, but reflects all adjustments of a normal recurring nature, which are, in the opinion of management, necessary to present a fair statement of results of operations for the periods presented. Our revenues and earnings may fluctuate from quarter to quarter. A number of factors could cause such fluctuations, including the timing of substantial orders. Because our operating expenses are determined based on anticipated sales, are generally fixed, and are incurred throughout each fiscal quarter, any of the factors listed above could cause significant variations in our revenues and earnings in any given quarter.

Selected Fourth Quarter Information

Below is selected unaudited fourth quarter information.

In thousands of dollars, except loss per share	2014	2013
Revenue	$ 1,316	$ 1,230
Cost of sales	1,492	722
	-13%	41%
Gross Profit	(176)	508
Operating Expenss		
Selling, general and administration	1,694	1,539
Net finance costs	49	10
Income tax (recovery)	60	(46)
	1,803	1,503
Net loss for the period	(1,979)	(995)
Loss per share - basic and diluted	$ (0.20)	$ (0.31)

Results of operations for the fourth quarter

Revenue for the three months ended December 31, 2014 was $1,316 thousand as compared with $1,230 thousand in the same period of the prior year. An increase of over 7% in revenue was a direct result of our strategy to establish a foundation for corporate sales from which to expand rapidly. As such, we decided to include a one-time sale of additional components the customer was not originally purchasing from us at cost, in order to establish the basis of a relationship. The successful execution of our strategic plan reflected in higher confirmed orders in the third quarter of 2014 and resulted in revenue increase in the three months ended December 31, 2014. Confirmed orders for the three months ended December 31, 2014 were $1,906 thousand as compared to $672 thousand in the same period of the prior year. As described previously, project revenues of $360 thousand has not yet been recognized.

The Partner Network was the main channel of revenue for UGE in the three months ended December 31, 2014 and 2013. UGE Partner Network revenue accounted for $662 thousand, or 50% of total revenue for the three months ended December 31, 2014, as compared to $464 thousand, or 38% in the same period of the prior year. The increase was primarily due to the continued improvement of both the Network itself and tools and resources available to it.

Revenue from Direct sales for the three months ended December 31, 2014 was $145 thousand as compared to $754 thousand in the same period of the prior year. As previously discussed, due to a strategic shift from government to the commercial and industrial sector, a short term, but temporary, decrease in revenue was expected.

Revenue from our Strategic Partners in the three months ended December 31, 2014 was $391 thousand, as compared to nil in the same period of the prior year as we began to sell through this channel. Management expects this segment to continue contributing significant growth moving forward.

Our gross profit was -13% for the three months ended December 31, 2014 as compared with 41% in the same period of the prior year. The aforementioned change in product mix, projects described above for which we recognized COGS but not revenue, and sale of some products in a small number of strategic projects at no margin accounted for the decrease. Adjusting for the latter two factors, our gross margin would have been 18%.

The Company had SG&A expenses of $1,694 thousand in the three months ended December 31, 2014 as compared with $1,539 thousand in same period of the previous year. SG&A expenses increased due to additional payroll expenses of approximately $200 thousand, of which $63 thousand was share-based compensation as we built out and adjusted our team to match our strategic plan of targeting large enterprise customers. An increase of approximately $24 thousand in shipping expenses due to the higher volume of sales also contributed to increased SG&A.

As a result of decreased gross profit and increased SG&A, we had a net loss of $1,979 thousand in the three months ended December 31, 2014 as compared with $995 thousand in the previous year.

Liquidity and Capital Resources

Cash flow from operations

The principal source of cash is from operations; however, in this period of expansion and product development, cash from operations has not been sufficient to meet all our obligations. The Company has also generated a significant amount of cash through private placements and loans from related parties.

Our primary uses of cash are operating expenses, including cost of sales.

During the year ended December 31, 2014, the Company incurred a net loss of $7,032 thousand and negative cash flow from operations of $5,651 thousand. In addition as at December 31, 2014 the Company has a working capital deficiency of $2,448 thousand. We are incurring losses as we expand our operations and revenues have not been sufficient to cover all costs, and may not be sufficient for several quarters. We anticipate that we will incur further losses in the development of the business.

To date we have funded the losses with the cash from the operations, private placements and debt, which has been primarily advanced from related parties. To the extent that the Company does not achieve positive cash flows from operations in the future or financing is not available or not available on reasonable terms, reductions in expenditures will be required or the Company may not be able to continue as a going concern. Certain conditions discussed above raise substantial doubt about the ability of the Company to continue as a going concern.

Subsequent to December 31, 2014, the Company has completed a non-brokered private placement of 1,189,834 units (the "Units") for proceeds of $1,391 thousand, net of issuance costs of $28 thousand. Each unit consisted of one common share and one half of one common share purchase warrant. The Company is also pursuing additional financing options.

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, which 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 we are 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, and such adjustments could be material.

Management believes that there will be significant growth in revenues as we expand upon existing projects and grow in key markets, in particular with Strategic Partners. However, we will require additional funding to continue to develop the Company.

As at December 31, 2014 and 2013 we had cash and restricted cash of $585 thousand and $651 thousand, respectively. The restricted cash relates to a government grant for the continued investment in property, plant and equipment in the PRC.

As at December 31, 2014 the Company had a working capital deficit of $2,448 thousand (2013 - $606 thousand). An increase in short term loans payable of $2,280 thousand contributed to the majority of the decrease in working capital. In 2014, UGE raised $5,373 thousand in private placement offerings and a net increase of $1,004 thousand in loans to address the working capital deficiency.

As of December 31, 2014, the Company had loans with related parties as follows:

- A loan of $1,474 thousand (RMB 9,147 thousand) 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 1, 2015.

- A loan of $500 thousand 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 July 1, 2015.

- A loan of $806 thousand (RMB 5,000 thousand) from Yun Liu, a shareholder and family member of the CEO, with a fixed annual interest rate of 7.4%. Interest is payable monthly until the principal due date. The loan is unsecured and due September 19, 2015.

- A loan of $1,128 thousand (RMB 7,000 thousand) from Beijing Zhongjihaotai Investment Ltd., a company controlled by Xiangrong Xie, a director, with a fixed annual interest rate of 7.995%. Interest is payable monthly until the principal due date of March 31, 2015. The loan is secured by the Company's manufacturing assets in the PRC. The loan has subsequently been extended after period end to March 13, 2016.

- A loan of $1,103 thousand (RMB 6,846 thousand) from Xiangrong Xie, a director. The loan is unsecured, non-interest bearing and is due on demand after July 1, 2015.

As of December 31, 2014, UGE has contractual commitments 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

Our objective in managing capital is to safeguard our ability to continue as a going concern and to sustain future development of the business. In the management of capital, we include shareholders' equity, excluding accumulated other comprehensive income. Our 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 our capital structure, we may issue shares. The Board of Directors does not establish quantitative return on capital criteria for management. UGE is not subject to any externally imposed capital requirements and our overall strategy with respect to capital management remains unchanged from the year ended December 31, 2013.

Transactions with Related Parties

In April 2014, the Company entered into a lease for its office in Beijing from Xiangrong Xie, a director of the Company, for approximately $6.5 thousand (RMB 40 thousand) per month. For the year ended December 31, 2014 $58 thousand (RMB 360 thousand) has been recorded for this transaction in selling, general and administrative expenses in the consolidated financial statements. The lease base has been renewed subsequent to year end to expire on December 31, 2015.

During the year ended December 31, 2014, the Company received and repaid a bridge loan of $300 thousand from Nathun Venture Advisors Inc, a company controlled by Matthew Watson, a director of the Company.

During the year ended December 31, 2014, the Company loaned Jian Yang, the COO, $25 thousand to pay income tax associated with the issuance of vested shares. The loan is interest free.

During the year ended December 31, 2013, we agreed to lease a portion of our land use rights in the PRC 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 the 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 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.

As at December 31, 2014 the Company has a receivable of $25 thousand due from an officer of the Company.

During the year ended December 31, 2014 the Company:

- Incurred accrued interest expense of $113 thousand (2013 - $Nil), with a director, Xiangrong Xie, or companies controlled by the director. The Company accrued interest due to an extension in the interest free period by Xiangrong Xie; and
- Incurred accrued interest expense of $12 thousand (2013 - $Nil), with Qi Liu, a family member of the CEO. The Company accrued interest due to an extension in the interest free period by Qi Liu; and
- Incurred interest expense of $60 thousand (2013 - $17 thousand), with Yun Liu a shareholder and family member of the CEO; and
- Incurred interest expense of $51 thousand (2013 - $Nil), with Beijing Zhongjihaotai Investment Ltd, a company controlled by Xiangrong Xie, a director of the Company; and
- Incurred interest expense of $38 thousand (2013 - $Nil), with Nathun Venture Advisors Inc. a company controlled by Matthew Watson, a director of the Company.

All existing loans with related parties are discussed in the Liquidity and Capital Resources section.

Completed Reverse Take-Over Transaction

On July 28, 2014, UGE International Ltd. (formerly Way Ventures Inc.), a Capital Pool Company listed on the TSX Venture Exchange, completed a reverse take-over transaction with UGE Holdings Limited ("UGE Holdings"). UGE International Ltd. acquired 100% of the issued and outstanding shares of UGE Holdings (the "UGE Shares"), in exchange for the issuance to UGE Holdings Limited's shareholders of 8,924,651 common shares of UGE International Ltd. and 17,000,000 Special Warrants. The Special Warrants are non-voting and each Special Warrant may be converted into one common share of UGE International Ltd. for no additional consideration at any time so long as at least 20% of the common shares of UGE are held by public shareholders following such conversions. Immediately prior to closing the Transaction, UGE International Ltd. completed a 5 for 1 share consolidation. Following the Closing, UGE Holdings became a wholly owned subsidiary of UGE International Ltd.

Financial Instruments and other instruments

The Company's risk exposures and the impact on our financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill our payment obligations. The Company manages credit risk by generally requiring payment from customers prior to shipment. However, the Company does have trade receivables outstanding with several customers.

Liquidity risk

The Company's objective in managing liquidity risk is to ensure that we will have sufficient liquidity to meet its financial obligations when due by maintaining sufficient cash and cash equivalents to settle current liabilities and meet our anticipated working capital requirements. As of December 31, 2014, the Company had restricted cash of $151 thousand for use in the expansion and manufacturing capacity in the PRC and $434 thousand of cash to settle current liabilities of $6,083 thousand.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

The Company has cash balances and debt with fixed interest rates and therefore is not significantly exposed to fluctuating interest rates. Our current policy is to invest excess cash in a savings account at our banking institution.

(b) Foreign currency risk

The Company enters into transactions denominated in US dollars, Canadian dollars, and Renminbi for which the related expenses and accounts payable balances are subject to exchange rate fluctuations. The Company does not hedge our exposure to foreign currency risk using financial instruments.

Changes in Accounting Policies including Initial Adoption

The Company's audited consolidated financial statements for the years ended December 31, 2014 and 2013 were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (IASB). The audited consolidated financial statements were prepared using the accounting policies as outlined in note 3 of our consolidated financial statements for the period ended December 31, 2014. The IASB has published new standards and amendments or interpretations to existing standards which are mandatory for periods beginning after December 31, 2014, or later as outlined below.

Accounting standards adopted

During the year ended December 31, 2014, the Company adopted the new accounting standards issued by the 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.

New standards not yet adopted

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.

Business Risks

Going concern risk

These consolidated financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the year ended December 31, 2014, the Company incurred a net loss of $7,032 thousand and negative cash flow from operations of $5,651 thousand. The Company has incurred significant losses as it develops and expands its operations. Revenues have not been sufficient to cover all costs and may not be sufficient for several quarters, if at all. The Company anticipates that it will incur further losses in the development of its business.

To date the Company has funded the losses with the private placements and loans from related parties. To the extent that the Company does not achieve positive cash flows from operations in the future or financing is not available or not available on reasonable terms, reductions in expenditures will be required or the Company may not be able to continue as a going concern. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. 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 these financial statements.

Operations in PRC

The Company has two operating subsidiaries located in the PRC, and as such the repatriation of cash to the United States and Canada may be restricted by government policies.

Customer concentration risk

We derive a significant portion of our revenue from sales to a relatively limited number of customers. If any of our more significant prospective customers fail to purchase our solutions or our existing customers discontinue their relationship with us for any reason, our revenue may be substantially reduced. To mitigate this risk, we have implemented customer retention programs to emphasize both quality of product and superior customer service. Our sales programs also address a large base of potential customers and at any given time, we are pursuing a significant number of sales opportunities.

Sales risk

Our sales efforts target medium sized and large corporations and we spend significant time and resources educating prospective customers about the features and benefits of our solutions. Our sales cycle usually ranges from 3 to 12 months and sales delays could cause our operating results to vary. The Company balances this risk by continuously assessing the condition of our sales “pipeline” and making the appropriate adjustments as far in advance as possible. Our strategy also includes a comprehensive program to build and improve relationships with our customers to better understand their needs and proactively manage incoming business levels effectively.

Product acceptance risk

Our revenue and profit potential depends substantially upon market acceptance of our products. To mitigate the risk of non-acceptance by the market, our strategy involves ongoing significant investments in product development to enhance our product line and to develop new applications and features to satisfy the increasingly sophisticated demands of our customers. We also ensure our investments in this area are based on a thorough understanding of the market and customer demands through a comprehensive program of market research and customer interaction. Our success depends on the ability of our products to interface with host computer systems and to respond to changes in these

systems. In many cases the needs of our customers require us to make significant custom modifications to our products. Our success will depend upon our ability to efficiently undertake and complete such customization, in most cases, under a fixed price arrangement.

Management's Report on Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure Controls & Procedures

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at December 31, 2014, an evaluation was carried out, under the supervision of the CEO and the CFO, of the effectiveness of the design and operation of the Company's DC&P as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Based on this evaluation, the CEO and CFO have concluded that, as at December 31, 2014, the Company's DC&P, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, were effective.

Throughout 2015, the Company will continue to evaluate its DC&P making modifications from time-to-time as deemed necessary. There were no changes in the Company's DC&P that occurred during the period ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's DC&P.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidation financial statements for external reporting purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate ICFR.

The Company's ICFR include, but are not limited to, policies and procedures addressing:

- the maintenance of records that provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with IFRS;
- receipts and expenditures are being made only in accordance with authorizations of management and directors;
- maintenance of records in reasonable detail to accurately and fairly reflect transactions and disposition of assets; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on annual and interim consolidated financial statements.

Because of inherent limitations, ICFR can only provide reasonable assurance and may not prevent or detect all misstatements. Additionally, projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. As at December 31, 2014, an evaluation was carried out, under the supervision of the CEO and the CFO, of the effectiveness of the Company's ICFR based on the framework and criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013.

Based on this evaluation, management concluded that the design and operating effectiveness of the Company's ICFR was effective as of December 31, 2014.

Throughout 2015, the Company will continue to evaluate its ICFR making modifications from time-to-time as deemed necessary. There were no changes in the Company's ICFR that occurred during the period ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's

ICFR.

Limitations on the Effectiveness of Disclosure Controls and Procedures and Internal Control over Financial Reporting

Because of their inherent limitations, DC&P and ICFR may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or implemented, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

Other

As of the date of this MD&A, the Company has 11,385,218 common shares issued and outstanding. In addition there are 17,000,000 special warrants which may converted to common shares for no additional consideration, 594,917 warrants which may be converted to one common share each for Canadian dollar $1.80 which expire on March 16, 2016 and stock options to purchase an additional 105,400 common shares. The Company also has restricted share units which allow employees and directors to acquire a total of 713,611 common shares over the next 4 years for no additional consideration.

Additional information and other publicly filed documents relating to the Company are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at www.sedar.com.