

# UGE INTERNATIONAL LTD.

**(formerly Way Ventures Inc.)**

Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2015 and 2014

(Expressed in United States dollars)

# UGE INTERNATIONAL LTD.

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | $ 917,275 | $ 433,779 |
| Restricted cash (Note 5) | 110,547 | 150,825 |
| Trade and other receivables | 1,441,373 | 1,654,551 |
| Inventory (Note 6) | 929,152 | 855,033 |
| Prepaid expenses and deposits | 594,888 | 540,329 |
| | 3,993,235 | 3,634,517 |
| **Non-current assets** | | |
| Property, plant and equipment | 2,712,828 | 2,706,436 |
| Lease prepayments | 2,335,429 | 2,345,032 |
| Deferred tax assets | 525,829 | 528,321 |
| **Total assets** | $ 9,567,321 | $ 9,214,306 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables | $ 1,996,140 | $ 1,948,695 |
| Income taxes payable | 737,341 | 736,174 |
| Warranty provision | 227,370 | 262,972 |
| Current portion of loans payable (Note 7) | 3,181,775 | 3,135,331 |
| | 6,142,626 | 6,083,172 |
| **Non-current liabilities** | | |
| Loans Payable (Note 7) | 1,809,216 | 1,841,140 |
| Other payables | 5,128 | 5,128 |
| Deferred government grants | 4,909,603 | 4,938,987 |
| | 12,866,573 | 12,868,427 |
| **Shareholders' deficiency** | | |
| Share capital (Note 8) | 10,697,146 | 9,538,132 |
| Contributed surplus (Note 9) | 1,342,521 | 708,335 |
| Accumulated other comprehensive income | 94,117 | 135,120 |
| Accumulated deficit | (15,433,036) | (14,035,708) |
| | (3,299,252) | (3,654,121) |
| **Total liabilities and shareholders' deficiency** | $ 9,567,321 | $ 9,214,306 |

Reporting entity and going concern (Note 1)
Commitments and contingencies (Note 13)
Subsequent event (Note 14)

See accompanying Notes to condensed consolidated interim financial statements.

Approved on behalf of the Board:

***"Nicolas Blitterswyk"***
Director, President & Chief Executive Officer

***"Matthew Watson"***
Director

# UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss for the three months ended March 31,
(Unaudited)
(Expressed in United States dollars)

| | 2015 | 2014 |
|---|---|---|
| **Revenue** | $ 657,527 | $ 848,488 |
| **Cost of products sold** | 442,161 | 558,302 |
| **Gross profit** | 215,366 | 290,186 |
| **Operating expenses** | | |
| Selling, general and administrative | 1,563,920 | 1,085,696 |
| **Loss from operating activities** | (1,348,554) | (795,510) |
| Finance expense | (53,563) | (47,648) |
| Finance income | 7,461 | 2,746 |
| **Loss before income taxes** | (1,394,656) | (840,412) |
| **Income tax expense (recovery)** | 2,672 | (26,066) |
| **Loss for the period** | (1,397,328) | (814,346) |
| **Other comprehensive loss** | | |
| **Items that are or may be reclassified to profit or loss** | | |
| Foreign currency translation differences | (41,003) | (32,389) |
| **Comprehensive loss for the period** | $ (1,438,331) | $ (846,735) |
| **Weighted average number of shares** | | |
| Basic and diluted | 11,147,571 | 3,639,081 |
| **Net loss per share attributable to the shareholders of the company** | | |
| Basic and diluted | $ (0.13) | $ (0.22) |

See accompanying Notes to condensed consolidated interim financial statements.

# UGE INTERNATIONAL LTD.

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

| | Share capital | Contributed surplus | Accumulated other comprehensive income (loss) | Accumulated deficit | Total |
|---|---|---|---|---|---|
| Balance - January 1, 2015 | $ 9,538,132 | $ 708,335 | $ 135,120 | $ (14,035,708) | $ (3,654,121) |
| Share capital issued for cash, net of share issue costs | 1,398,639 | - | - | - | 1,398,639 |
| Fair value of warrants issued on private placement | (239,625) | 239,625 | - | - | - |
| Share-based compensation | - | 394,561 | - | - | 394,561 |
| Loss for the period | - | - | - | (1,397,328) | (1,397,328) |
| Other comprehensive loss | - | - | (41,003) | - | (41,003) |
| Balance - March 31, 2015 | $ 10,697,146 | $ 1,342,521 | $ 94,117 | $ (15,433,036) | $ (3,299,252) |

| | Share capital | Contributed surplus | Accumulated other comprehensive income | 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 | 250,000 | - | - | - | 250,000 |
| Shares issued for services | 12,500 | - | - | - | 12,500 |
| Share issue costs | - | (12,500) | - | - | (12,500) |
| Share-based compensation | - | 60,220 | - | - | 60,220 |
| Loss for the period | - | - | - | (814,346) | (814,346) |
| Other comprehensive loss | - | - | (32,389) | - | (32,389) |
| Balance - March 31, 2014 | $ 3,247,748 | $ 584,227 | $ 75,139 | $ (7,818,154) | $ (3,911,040) |

See accompanying Notes to condensed consolidated interim financial statements.

# UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)
Condensed Consolidated Interim Statements of Cash Flows for the three months ended March 31,
(Unaudited)
(Expressed in United States dollars)

| | 2015 | 2014 |
|---|---|---|
| **Cash provided by (used in) operating activities** | | |
| Loss for the period | $ (1,397,328) | $ (814,346) |
| Adjustment for: | | |
| Depreciation and amortization | 61,273 | 34,850 |
| Deferred income tax expense (recovery) | 3,306 | (26,066) |
| Share-based compensation (Note 8) | 394,561 | 60,220 |
| Accretion expense on loans payable | 16,472 | 23,116 |
| Interest expense | 37,091 | 24,532 |
| Other non-monetary adjustment | - | (10,383) |
| | (884,625) | (708,077) |
| Changes in non-cash operating working capital | | |
| Trade and other receivables | 213,429 | 168,954 |
| Inventory | (59,699) | 66,817 |
| Prepaid expenses and deposits | (53,387) | 11,306 |
| Trade and other payables | 35,423 | (49,712) |
| Warranty provision | (35,720) | 22,810 |
| | (784,579) | (487,902) |
| Interest paid | (35,251) | (19,852) |
| Cash used in operations | (819,830) | (507,754) |
| **Cash provided by (used in) investing activities** | | |
| Additions to property plant and equipment | (50,178) | (205,619) |
| Decrease in restricted cash | 40,230 | 172,945 |
| | (9,948) | (32,674) |
| **Cash provided by financing activities** | | |
| Proceeds on issue of share capital and warrants, net of costs | 1,398,639 | 250,000 |
| Net proceeds of loans payables | - | 461,591 |
| | 1,398,639 | 711,591 |
| **Increase in cash for the period** | 568,861 | 171,163 |
| **Effect of exchange rate fluctuations on cash** | (85,365) | (84,430) |
| **Cash at beginning of period** | 433,779 | 24,888 |
| **Cash at end of period** | $ 917,275 | $ 111,621 |

See accompanying Notes to condensed consolidated interim 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 38$^{th}$Street, Suite 1103 New York, New York, United States of America and the registered office is located at is 320 Bay Street, Suite 1600, Toronto, Ontario, 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 condensed consolidated interim financial statements have been prepared assuming the Company will continue as a going concern, notwithstanding that the Company and its predecessors have a working capital deficiency, and incurred losses and negative cash flows from operations since inception. During the three months ended March 31, 2015, the Company incurred a net loss of $1,397,328 and negative cash flow from operations of $819,830. As at March 31, 2015, the Company has a working capital deficiency of $2,149,391 and a shareholders' deficiency of assets of $3,299,252.

The Company is required to assess its ability to continue as a going concern to determine whether substantial doubt exists as to the Company's ability to continue as a going concern into the foreseeable future. While the Company believes that it has adequate liquidity in cash and working capital to finance its operations, there exist material risks and uncertainties that cast substantial doubt as to the Company's ability to continue as a going concern. The Company's ability to continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business is dependent upon the Company having adequate liquidity and achieving profitable operations that are sustainable. There are various risks and uncertainties affecting the Company including, but not limited to, the market acceptance and rate of commercialization of the Company's products, the ability of the Company to successfully execute its business plan, and general global economic conditions, certain of which are beyond the Company's control. The Company's strategy to mitigate these risks and uncertainties is to execute a business plan aimed at continued focus on renewable energy solutions, revenue growth, improving overall gross profit, managing operating expenses and working capital requirements, and securing additional financing, including bank loans, shareholders' loans and equity investments from existing or potential shareholders, to fund its operations as needed. Failure to implement this plan could have a material adverse effect on the Company's financial condition and/or financial performance.

The directors are of the opinion that it is appropriate to prepare the condensed consolidated interim financial statements for the three months ended March 31, 2015 on a going concern basis. These condensed consolidated interim financial statements do not include any adjustments or disclosures that would be required if assets are not realized and liabilities and commitments are not settled in the normal course of operations. If the Company is unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation to a liquidation basis, which could differ materially from the values presented in the condensed consolidated interim financial statements.

## 2. Basis of preparation

*(a) Statement of compliance*

These condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the consolidated financial statements of the Company for the year ended December 31, 2014 and should be read in conjunction with those financial statements. These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards have been omitted or condensed.

These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on May 28, 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. | People's Republic of China ("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 (Note 4).

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

**2. Basis of preparation (continued)**

*(d) Functional and presentation currency*

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

*(e) Basis of measurement*

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

*(f) Accounting assumptions, estimates and judgments*

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the 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 condensed consolidated interim financial statements include the: Useful lives of property, plant and equipment; Allowances for doubtful accounts and sales returns; Provision for future warranty claims; Current and deferred tax assets; Valuation of inventory; and Government grant recognition.

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 condensed consolidated interim financial statements include the: Assessment of the Company's ability to continue as a going concern; Recognition of deferred tax assets; Determination of the classification of financial instruments; Determination of cash generating units for purposes of impairment testing; and Determination of the functional currency of the principal operations of the Company.

*(g) Seasonality*

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

## 3. New standards and interpretations 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.

## 4. 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 are included in the consolidated statement of operations and comprehensive loss as a listing cost for the year ended December 31, 2014. In addition, 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.

## 5. Restricted cash

As at March 31, 2015, the Company has restricted cash of $110,547 (December 31, 2014 - $150,825) 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.

## 6. Inventory

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Raw materials and consumables | $ 269,441 | $ 287,493 |
| Work-in-progress | 277,050 | 255,481 |
| Finished goods | 382,661 | 312,059 |
| | $ 929,152 | $ 855,033 |

For the three months ended March 31, 2015, changes in raw materials and consumables, work-in-progress and finished goods recognized as cost of products sold amounted to $438,751 (2014-$440,562). For the three months ended March 31, 2015, the write-down of inventories to net realizable value amounted to $Nil (2014 – $9,680). There were no reversals of previously recorded write-downs in the three months ended March 31, 2015 and 2014.

## 7. Loans payable

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Loan 1 | $ 1,465,147 | $ 1,452,250 |
| Loan 2 | 494,048 | 488,095 |
| Loan 3 | 806,777 | 805,500 |
| Loan 4 | 1,120,346 | 1,127,700 |
| Loan 5 | 1,104,673 | 1,102,926 |
| | 4,990,991 | 4,976,471 |
| Current portion | 3,181,775 | 3,135,331 |
| | $ 1,809,216 | $ 1,841,140 |

Loan 1 – As at March 31, 2015, the Company has a loan of $1,475,894 (RMB 9,146,850) (December 31, 2014 – $1,473,848, 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. The loan is carried at amortized cost. During the three months ended March 31, 2015, interest accretion expense of $10,519 (2014 - $23,116) has been recorded in the condensed consolidated interim statement of operations and comprehensive loss.

Loan 2 - As at March 31, 2015, the Company has a loan of $500,000 (December 31, 2014 - $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. During the three months ended March 31, 2015, interest accretion expense of $5,953 (2014 - $Nil) has been recorded in the condensed consolidated interim statement of operations and comprehensive loss.

## 7. Loans payable (continued)

Loan 3 - As at March 31, 2015, the Company has a loan of $806,777 (RMB 5,000,000) (December 31, 2014 - $805,500, RMB 5,000,000) from Yun Liu, a shareholder and family member of the CEO, with a fixed annual interest rate of 7.4% per annum. Interest is payable monthly until the principal due date. The loan is unsecured and is due on September 19, 2015. During the three months ended March 31, 2015, interest expense of $14,419 (2014 – $11,471) has been recorded in the condensed consolidated interim statement of operations and comprehensive loss.

Loan 4 - As at March 31, 2015, the Company has a loan of $1,129,488 (RMB 7,000,000) (December 31, 2014 – $1,127,000, RMB 7,000,000) from Beijing Zhongjihaotai Investment Ltd., a company controlled by Xiangrong Xie, a director of the Company. The loan bore a fixed annual interest rate of 7.995% and was due on March 31, 2015. On March 13, 2015 the Company refinanced the loan. Upon completion of the refinancing, the loan bears a fixed annual interest rate of 7.49%. The loan is carried at amortized cost, net of refinancing fees. Interest is payable monthly until the principal is due on March 2, 2016. The loan is secured by the Company's manufacturing assets in China. During the three months ended March 31, 2015, interest expense in the amount of $21,241 (2014 - $179) has been recorded in the condensed consolidated interim statement of operations and comprehensive loss.

Loan 5 - As at March 31, 2015, the Company has a loan of $1,104,673 (RMB 6,849,216) (December 31, 214 - $1,102,926, RMB 6,849,216) from Xiangrong Xie, a director of the Company. The loan is unsecured, non-interest bearing and is due on demand after July 1, 2015.

## 8. 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*

| | Three months ended March 31, 2015 | | | Three months ended March 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Number of shares | Number of special warrants (note 4) | Amount | Number of shares | Number of special warrants (note 4) | Amount |
| Balance at beginning of period | 10,156,043 | 17,000,000 | $ 9,538,132 | 3,253,808 | 17,000,000 | $ 2,985,248 |
| Shares issued for cash, net of share issue costs of $28,269 (2014 - $Nil) and value attributed to warrants of $239,625 (2014 - $Nil) | 1,189,834 | - | 1,159,014 | 366,927 | - | 250,000 |
| Shares issued for services | - | - | - | 18,346 | - | 12,500 |
| Balance at end of period | 11,345,877 | 17,000,000 | $ 10,697,146 | 3,639,081 | 17,000,000 | $ 3,247,748 |

**8. Share capital (continued)**

*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. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration.

As at March 31, 2015, the Company has 250,125 restricted share units under the plan which may be granted in future periods. As at March 31, 2015, the number of restricted share units granted and outstanding was 618,125, of which 397,750 vest in 2015, 107,250 vest in 2016, 107,000 vest in 2017 and 3,875 vest in 2018. As at March 31, 2015 an additional 106,375 restricted share units had vested and the related shares were issued subsequent to March 31, 2015 (Note 14)

Prior to completing the Transaction (Note 4) the Company had granted employees the right to receive 231,326 shares upon completion of vesting periods, of which 100,736 remain outstanding of which, 57,623 vest in 2015 and 43,113 vest in 2016.

During the three months ended March 31, 2015, the Company recognized a total of $394,561 (2014 – $60,220) in compensation expense pursuant to restricted share units. The compensation expense is recorded in the condensed consolidated interim 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.

*Special warrants*

As at March 31, 2015, 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 on the conversion at least 20% of the issued and outstanding shares of the Company are held by Public Shareholders after the conversion of the special warrants. Public Shareholders are those shareholders who are not directors, officers or other insiders of the Company as defined by the TSX Venture Exchange.

*Warrants*

During the three months ended March 31, 2015, the Company completed a private placement of 1,189,834 units (the "Units"), for net proceeds of $1,398,639 (CAD $1,745,942), net of share issue costs of $28,268 (CAD $35,357). The Units included 594,915 warrants (the "Warrants") allowing the holders to purchase an additional 594,915 shares until March 16, 2016 at an exercise price of CAD $1.80 per share. The fair value of the Warrants has been calculated at the date of issue using the Black-Scholes model at $236,865, which has been recorded in contributed surplus with a corresponding reduction of the value of share capital issued.

In addition, the agents received 4,120 warrants (the "Agent Warrants") allowing the holders to purchase an additional 4,120 shares until March 16, 2016 at an exercise price of CAD $1.80 per share. The fair value of the Agent Warrants has been calculated at the date of issue using the Black-Scholes model at $2,760, which has been recorded in contributed surplus with a corresponding reduction of the value of share capital issued.

## 9. Contributed surplus

In connection with the Transaction (Note 4), 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 three months ended March 31, 2015 a total of $Nil (2014 - $2,930,050) was reclassified from contributed surplus to share capital.

## 10. Accumulated deficit

Pursuant to 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. As at March 31, 2015, the Company has not appropriated any amount to the reserve funds because the threshold has not been met and the balance for reserve funds was $Nil.

## 11. Related party transactions

The Company leases 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 three months ended March 31, 2015 $19,488 (RMB 120,000) (2014 – $Nil) has been recorded for this transaction in selling, general and administrative expenses in the condensed consolidated interim statement of operations and comprehensive loss. The lease expires on December 31, 2015. As at March 31, 2015, accounts payable includes $32,280 (December 31, 2014 - $12,888) related to this lease.

In 2013, the Company agreed to lease a portion of its 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 condensed consolidated interim financial statements.

In 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 three months ended March 31, 2015, the Company accrued interest expense of $Nil (2014 - $4,680) 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 ended December 31, 2014.

As at March 31, 2015, the Company has a receivable of $25,409 (December 31, 2014 - $25,409) due from an officer of the Company.

Additional related party disclosure is in Loans Payable (Note 7) and Share Capital (Note 8).

## 12. Segmented information

The Company has determined that they operate in one segment, renewable energy solutions. The Company has principal operations in United States of America ("United States") 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 United States and the PRC is as follows:

Total revenue for the three months ended March 31, was as follows:

| | 2015 | 2014 |
|---|---|---|
| United States | $ 657,527 | $ 833,439 |
| PRC | - | 15,049 |
| | $ 657,527 | $ 848,488 |

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

All property, plant, and equipment and lease prepayments as at March 31, 2015 and December 31, 2014 were located in the PRC.

## 13. Commitments and contingencies

*Capital commitments*

As at March 31, 2015 the Company has outstanding capital commitments of $83,000 (December 31, 2014 - $83,000) 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 results of operations.

## 14. Subsequent event

Subsequent to March 31, 2015, the Company 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.