

UGE INTERNATIONAL LTD.

(formerly Way Ventures Inc.)

Unaudited Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 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)

	June 30, 2015	December 31, 2014
Assets		
Current assets		
Cash	$ 86,606	$ 433,779
Restricted cash (Note 5)	43,845	150,825
Trade and other receivables	1,810,642	1,654,551
Inventory (Note 6)	936,254	855,033
Prepaid expenses and deposits	653,695	540,329
	3,531,042	3,634,517
Non-current assets		
Property, plant and equipment	2,720,719	2,706,436
Lease prepayments	2,321,313	2,345,032
Deferred tax assets	522,320	528,321
Total assets	$ 9,095,394	$ 9,214,306
Liabilities		
Current liabilities		
Trade and other payables	$ 2,752,327	$ 1,948,695
Income taxes payable	737,088	736,174
Warranty provision	198,346	262,972
Current portion of loans payable (Note 7)	3,227,516	3,135,331
	6,915,277	6,083,172
Non-current liabilities		
Loans payable (Note 7)	1,780,910	1,841,140
Other payables	5,935	5,128
Deferred government grants	4,849,757	4,938,987
	13,551,879	12,868,427
Shareholders' deficiency		
Share capital (Note 8)	11,049,926	9,538,132
Contributed surplus (Note 9)	1,193,553	708,335
Accumulated other comprehensive income	92,419	135,120
Accumulated deficit	(16,792,383)	(14,035,708)
	(4,456,485)	(3,654,121)
Total liabilities and shareholders' deficiency	$ 9,095,394	$ 9,214,306

Reporting entity and going concern (Note 1)
Commitments and contingencies (Note 12)
Subsequent events (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
(Unaudited)
(Expressed in United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenue	$ 1,418,643	$ 685,794	$ 2,076,170	$ 1,534,282
Cost of sales	1,261,029	400,015	1,703,190	958,317
Gross profit	157,614	285,779	372,980	575,965
Operating expenses				
Selling, general and administrative	1,460,956	1,450,272	3,024,876	2,535,967
Loss from operating activities	(1,303,342)	(1,164,493)	(2,651,896)	(1,960,002)
Finance expense	(59,449)	(60,986)	(113,012)	(108,634)
Finance income	6,772	3,640	14,233	6,386
Loss before income taxes	(1,356,019)	(1,221,839)	(2,750,675)	(2,062,250)
Income tax expense (recovery)	3,328	(47,980)	6,000	(74,046)
Loss for the period	(1,359,347)	(1,173,859)	(2,756,675)	(1,988,204)
Other comprehensive loss				
Items that are or may be reclassified to profit or loss				
Foreign currency translation differences	(1,698)	1,311	(42,701)	(31,078)
Comprehensive loss for the period	$ (1,361,045)	$ (1,172,548)	$ (2,799,376)	$ (2,019,282)
Weighted average number of shares				
Basic and diluted	11,061,565	8,026,251	10,977,957	5,832,666
Net loss per share attributable to the shareholders of the Company				
Basic and diluted	$ (0.12)	$ (0.15)	$ (0.25)	$ (0.34)

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	-	-	-
Shares issued on vesting of restricted share units	337,891	(367,048)	-	-	(29,157)
Shares issued on the exercise of stock options	14,889	-	-	-	14,889
Share-based compensation	-	612,641	-	-	612,641
Loss for the period	-	-	-	(2,756,675)	(2,756,675)
Other comprehensive loss	-	-	(42,701)	-	(42,701)
Balance - June 30, 2015	$ 11,049,926	$ 1,193,553	$ 92,419	$ (16,792,383)	$ (4,456,485)

	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	5,370,000	-	-	-	5,370,000
Shares issued for services	12,500	-	-	-	12,500
Share issue costs	-	(12,500)	-	-	(12,500)
Share-based compensation	-	89,143	-	-	89,143
Related party contribution through interest free debt	-	66,148	-	-	66,148
Loss for the period	-	-	-	(1,988,204)	(1,988,204)
Other comprehensive loss	-	-	(31,078)	-	(31,078)
Balance - June 30, 2014	$ 8,367,748	$ 679,298	$ 76,450	$ (8,992,012)	$ 131,484

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 six months ended June 30,
(Unaudited)
(Expressed in United States dollars)

	2015	2014
Cash provided by (used in) operating activities		
Loss for the period	$ (2,756,676)	$ (1,988,204)
Adjustment for:		
Depreciation and amortization	109,824	47,927
Deferred income tax expense (recovery)	6,637	(74,046)
Share-based compensation (Note 8)	612,641	89,143
Accretion expense on loans payable (Note 7)	33,172	45,478
Interest expense	79,840	63,156
	(1,914,562)	(1,816,546)
Changes in non-cash operating working capital		
Trade and other receivables	(155,669)	323,751
Inventory	(56,321)	(50,568)
Prepaid expenses and deposits	(112,818)	(118,758)
Trade and other payables	796,340	(270,078)
Warranty provision	(64,626)	32,233
	(1,507,656)	(1,899,966)
Interest paid	(81,063)	(51,456)
Cash used in operations	(1,588,719)	(1,951,422)
Cash provided by (used in) investing activities		
Additions to property plant and equipment	(202,275)	(437,140)
Decrease in restricted cash	106,836	218,605
	(95,439)	(218,535)
Cash provided by financing activities		
Proceeds on issue of share capital and warrants, net of costs	1,398,639	5,370,000
Net proceeds of loans payables	-	911,577
	1,398,639	6,281,577
(Decrease) increase in cash for the period	(285,519)	4,111,620
Effect of exchange rate fluctuations on cash	(61,654)	(80,524)
Cash at beginning of period	433,779	24,888
Cash at end of period	$ 86,606	$ 4,055,984

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 38thStreet, Suite 1103 New York, New York, United States of America and the registered office is located at 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 six months ended June 30, 2015, the Company incurred a net loss of $2,756,675 and negative cash flow from operations of $1,588,719. As at June 30, 2015, the Company has a working capital deficiency of $3,384,235 and a shareholders' deficiency of assets of $4,456,485.

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

The directors are of the opinion that it is appropriate to prepare the condensed consolidated interim financial statements for the three and six months ended June 30, 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 August 26, 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 ("CAD"), 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, 2018 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 June 30, 2015, the Company has restricted cash of $43,845 (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

	June 30, 2015	December 31, 2014
Raw materials and consumables	$ 255,513	$ 287,493
Work-in-progress	269,561	255,481
Finished goods	411,180	312,059
	$ 936,254	$ 855,033

For the three and six months ended June 30, 2015, changes in raw materials and consumables, work-in-progress and finished goods recognized as cost of sales amounted to $984,740 (2014- $261,364) and $1,423,491 (2014 - $701,926), respectively. For the three and six months ended June 30, 2015, the write-down of inventories to net realizable value amounted to $11,720 (2014 – $1,016) and $11,720 (2014 - $10,696), respectively. There were no reversals of previously recorded write-downs in the three and six months ended June 30, 2015 and 2014.

7. Loans payable

	June 30. 2015	December 31, 2014
Loan 1	$ 1,475,387	$ 1,452,250
Loan 2	500,000	488,095
Loan 3	806,500	805,500
Loan 4	1,122,244	1,127,700
Loan 5	1,104,295	1,102,926
	5,008,426	4,976,471
Current portion	3,227,516	3,135,331
	$ 1,780,910	$ 1,841,140

Loan 1 – As at June 30, 2015, the Company has a loan of $1,475,387 (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 on January 1, 2016 (Note 14(d). The loan is unsecured and is to be repaid evenly over 10 years with monthly repayments commencing January 1, 2016. The loan is carried at amortized cost. During the three and six months ended June 30, 2015, interest accretion expense of $10,748 (2014 - $22,362) and $21,267 (2014 - $45,478), respectively, has been recorded in the condensed consolidated interim statement of operations and comprehensive loss.

Loan 2 - As at June 30, 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 on January 1, 2016 (Note 14(e). The loan is unsecured and is to be repaid evenly over 5 years with monthly repayments commencing on January 1, 2016. The loan is carried at amortized cost. During the three and six months ended June 30, 2015, interest accretion expense of $5,952 (2014 - $Nil) and $11,905 (2014 - $Nil), respectively, has been recorded in the condensed consolidated interim statement of operations and comprehensive loss.

7. Loans payable (continued)

Loan 3 - As at June 30, 2015, the Company has a loan of $806,500 (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 and six months ended June 30, 2015, interest expense of $14,686 (2014 – $18,531) and $29,105 (2014 - $26,075), respectively, has been recorded in the condensed consolidated interim statement of operations and comprehensive loss. As at June 30, 2015, accounts payable includes $4,839 (December 31, 2014 - $4,994) of accrued interest payable.

Loan 4 - As at June 30, 2015, the Company has a loan of $1,129,100 (RMB 7,000,000) (December 31, 2014 – $1,127,700, 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 and six months ended June 30, 2015, interest expense in the amount of $16,899 (2014 - $12,964) and $38,140 (2014 - $13,143), respectively, has been recorded in the condensed consolidated interim statement of operations and comprehensive loss.

Loan 5 - As at June 30, 2015, the Company has a loan of $1,104,295 (RMB 6,846,216) (December 31, 2014 - $1,102,926, RMB 6,846,216) 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

	Six months ended June 30, 2015			Six months ended June 30, 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	5,652,498	-	5,370,000
Shares issued for services	-	-	-	18,346	-	12,500
Shares issued on the exercise of stock options	37,080	-	14,889	-	-	-
Shares issued on the vesting of restricted share units	229,858	-	337,891	-	-	-
Balance at end of period	11,612,815	17,000,000	$ 11,049,926	8,924,652	17,000,000	$ 8,367,748

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 June 30, 2015, the Company has 265,750 restricted share units under the plan which may be granted in future periods. As at June 30, 2015, the number of restricted share units granted and outstanding was 415,250, of which 204,373 vest in 2015, 103,623 vest in 2016, 103,623 vest in 2017 and 3,631 vest in 2018. Subsequent to June 30, 2015 an additional 46,750 restricted share units vested and the related shares were issued (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 and six months ended June 30, 2015, the Company recognized a total of $211,443 (2014 – $28,923) and $606,004 (2014 - $89,143), respectively, 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.

8. Share capital (continued)

Stock options

The Company offers an incentive stock option plan that provides for the granting of options up to 10% of its issued and outstanding shares to directors, officers, employees and consultants. The exercise price of each option is equal to 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. The stock option activity is as follow:

	Six months ended June 30, 2015		Year ended December 31, 2014	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Balance at beginning of period	105,400	$ 0.50	112,000	$ 0.50
Granted	174,800	1.15	-	
Exercised	(37,080)	-	(6,600)	0.50
Balance at end of period	243,120	$ 0.97	105,400	$ 0.50
Balance exercisable at end of period	68,320	$ 0.50	105,400	$ 0.50

Details of the outstanding stock options are as follows (in CAD):

Exercise price	Number of options outstanding at June 30, 2015	Weighted average remaining life (months)	Weighted average exercise price (CAD)	Number of options exercisable at June 30, 2015	Weighted average exercise price (CAD)
$0.50	68,320	11.0	$ 0.50	68,320	$ 0.50
$1.15	174,800	60.0	$ 1.15	-	$ -
	243,120	46.0	$ 0.97	68,320	$ 0.50

During the three and six months ended June 30, 2015, the Company recorded stock-based compensation expense of $6,637 (2014 - $Nil) and $6,637 (2014 - $Nil), respectively relating to stock options. The compensation expense was based on the fair value of each stock option on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	5 years
Expected volatility in market price of shares	141.4%
Expected dividend rate	0%
Risk-free interest rate	0.23%
Weighted average fair value per option granted (CAD)	$ 1.11

8. Share capital (continued)

Special warrants

As at June 30, 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.

Private placement and warrants

During the six months ended June 30, 2015, the Company completed a private placement of units which included 1,189,834 common shares and 594,915 warrants (the "Warrants"), for net proceeds of $1,398,639 (CAD $1,745,942), net of share issue costs of $28,268 (CAD $35,357). The Warrants allowing the holders of the Warrants 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 six months ended June 30, 2015 a total of $Nil (2014 - $5,367,045) 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 June 30, 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 on April 1, 2014. For the three and six months ended June 30, 2015 $19,104 (RMB 120,000) (2014 – $19,344; RMB 120,000) and $38,592 (RMB 240,000) (2014 - $19,344; RMB 120,000), respectively, 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 June 30, 2015, accounts payable includes $38,712 (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 and six months ended June 30, 2015, the Company incurred interest expense of $Nil (2014 - $7,020) and $Nil (2014 - $11,700), respectively, 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 June 30, 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. Commitments and contingencies

Capital commitments

As at June 30, 2015 the Company has outstanding capital commitments of $107,000 (December 31, 2014 - $83,000) which have not been provided for in the condensed consolidated interim 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.

13. 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 outlined below.

Total revenue was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
United States	$ 1,368,804	$ 583,261	$ 2,026,331	$ 1,416,700
PRC	49,839	102,533	49,839	117,582
	$ 1,418,643	$ 685,794	$ 2,076,170	$ 1,534,282

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 June 30, 2015 and December 31, 2014 were located in the PRC.

14. Subsequent events

Subsequent to June 30, 2015, the Company:

a. issued 24,640 common shares on the exercise of stock options;

b. issued 46,750 common shares on the vesting of restricted share units;

c. extended the loan from Xiangrong Xie in the amount of $1,475,387 (RMB 9,146,850) to begin repayment of principal and interest on January 1, 2016 (Note 7 - Loan 1); and

d. extended the loan from Qi Liu loan in the amount of $500,000 to begin repayment of principal and interest on January 1, 2016 (Note 7 - Loan 2).