



UGE INTERNATIONAL LTD.
(formerly Way Ventures Inc.)

Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 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)

	September 30, 2015	December 31, 2014
Assets		
Current assets		
Cash	\$ 49,792	\$ 433,779
Restricted cash (Note 5)	17,592	150,825
Trade and other receivables	1,925,513	1,654,551
Inventory (Note 6)	779,584	855,033
Prepaid expenses and deposits	466,637	540,329
	3,239,118	3,634,517
Non-current assets		
Property, plant and equipment	2,726,797	2,706,436
Lease prepayments	2,250,761	2,345,032
Deferred tax assets	562,603	528,321
Total assets	\$ 8,779,279	\$ 9,214,306
Liabilities		
Current liabilities		
Trade and other payables	\$ 3,437,673	\$ 1,948,695
Income taxes payable	718,809	736,174
Warranty provision	214,131	262,972
Current portion of loans payable (Note 7)	1,883,029	3,135,331
	6,253,642	6,083,172
Non-current liabilities		
Loans payable (Note 7)	2,620,236	1,841,140
Share subscriptions payable (Note 14a)	131,673	-
Other payables	5,935	5,128
Deferred government grants	4,775,217	4,938,987
	13,786,703	12,868,427
Shareholders' deficiency		
Share capital (Note 8)	11,148,111	9,538,132
Contributed surplus (Note 9)	1,721,843	708,335
Accumulated other comprehensive income	116,566	135,120
Accumulated deficit	(17,993,944)	(14,035,708)
	(5,007,424)	(3,654,121)
Total liabilities and shareholders' deficiency	\$ 8,779,279	\$ 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

"Michael Doolan"

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 September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 2,704,451	\$ 987,957	\$ 4,780,621	\$ 2,522,239
Cost of sales	2,564,828	627,152	4,268,018	1,585,469
Gross profit	139,623	360,805	512,603	936,770
Operating expenses				
Selling, general and administrative	1,307,712	1,401,723	4,332,588	3,848,370
Listing costs	-	1,715,719	-	1,805,039
Loss from operating activities	(1,168,089)	(2,756,637)	(3,819,985)	(4,716,639)
Finance expense	(94,556)	(102,160)	(207,568)	(210,794)
Finance income	6,784	3,035	21,017	9,421
Loss before income taxes	(1,255,861)	(2,855,762)	(4,006,536)	(4,918,012)
Income tax expense (recovery)	(54,300)	209,106	(48,300)	135,060
Loss for the period	(1,201,561)	(3,064,868)	(3,958,236)	(5,053,072)
Other comprehensive income (loss)				
Items that are or may be reclassified to profit or loss				
Foreign currency translation differences	24,147	13,391	(18,554)	(17,687)
Comprehensive loss for the period	\$ (1,177,414)	\$ (3,051,477)	\$ (3,976,790)	\$ (5,070,759)
Weighted average number of shares				
Basic and diluted	12,806,061	9,673,519	11,587,325	7,112,950
Net loss per share attributable to the shareholders of the Company				
Basic and diluted	\$ (0.09)	\$ (0.32)	\$ (0.34)	\$ (0.71)

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	426,135	(457,907)	-	-	(31,772)
Shares issued on the exercise of stock options	24,830	-	-	-	24,830
Related party contribution through interest free debt	-	564,922	-	-	564,922
Share-based compensation	-	666,868	-	-	666,868
Loss for the period	-	-	-	(3,958,236)	(3,958,236)
Other comprehensive loss	-	-	(18,554)	-	(18,554)
Balance - September 30, 2015	\$ 11,148,111	\$ 1,721,843	\$ 116,566	\$ (17,993,944)	\$ (5,007,424)

	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
Shares issued on the acquisition of UGE Holdings Limited (Note 4)	1,085,229	-	-	-	1,085,229
Shares issued on the exercise of stock options	3,034	-	-	-	3,034
Share issue costs	-	(12,500)	-	-	(12,500)
Share-based compensation	-	115,288	-	-	115,288
Related party contribution through interest free debt	-	66,148	-	-	66,148
Loss for the period	-	-	-	(5,053,072)	(5,053,072)
Other comprehensive loss	-	-	(17,687)	-	(17,687)
Balance - September 30, 2014	\$ 9,456,011	\$ 705,443	\$ 89,841	\$ (12,056,880)	\$ (1,805,585)

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 nine months ended September 30,
(Unaudited)

(Expressed in United States dollars)

	2015	2014
Cash provided by (used in) operating activities		
Loss for the period	\$ (3,958,236)	\$ (5,053,072)
Adjustment for:		
Depreciation and amortization	34,604	72,064
Deferred income tax expense (recovery)	(48,300)	135,060
Share-based compensation (Note 8)	666,868	115,288
Accretion expense on loans payable (Note 7)	87,751	79,420
Listing costs (Note 4)	-	1,568,643
Unrealized foreign currency exchange gains	(143,574)	-
Interest expense	120,117	131,374
	(3,240,770)	(2,951,223)
Changes in non-cash operating working capital		
Trade and other receivables	(297,020)	448,619
Inventory	61,054	(315,006)
Prepaid expenses and deposits	63,243	(491,591)
Trade and other payables	1,660,270	(602,617)
Income taxes	-	978
Warranty provision	(47,518)	45,129
	(1,800,741)	(3,865,711)
Interest paid	(112,139)	(131,374)
Cash used in operations	(1,912,880)	(3,997,085)
Cash provided by (used in) investing activities		
Additions to property plant and equipment	(222,986)	(495,048)
Decrease in restricted cash	132,231	372,358
	(90,755)	(122,690)
Cash provided by financing activities		
Proceeds on issue of share capital and warrants, net of costs	1,423,470	5,373,034
Net proceeds of loans payables	111,140	878,080
Proceeds from government grants	94,043	-
	1,628,653	6,251,114
(Decrease) increase in cash for the period	(374,982)	2,131,339
Effect of exchange rate fluctuations on cash	(9,005)	(56,695)
Cash at beginning of period	433,779	24,888
Cash at end of period	\$ 49,792	\$ 2,099,532

See accompanying Notes to condensed consolidated interim financial statements.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

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 38th Street, 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 nine months ended September 30, 2015, the Company incurred a net loss of \$3,958,236 and negative cash flow from operations of \$1,912,880. As at September 30, 2015, the Company has a working capital deficiency of \$3,014,524 and a shareholders' deficiency of assets of \$5,007,424.

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

The directors are of the opinion that it is appropriate to prepare the condensed consolidated interim financial statements for the three and nine months ended September 30, 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.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

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 November 19, 2015.

(b) Basis of presentation and accounting

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

<u>Subsidiary</u>	<u>Jurisdiction</u>	<u>Status</u>
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.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

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.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

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.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

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.

	Canadian dollars	Exchange rate at July 28, 2014	US dollars
Net assets (liabilities) acquired			
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 September 30, 2015, the Company has restricted cash of \$17,592 (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.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

6. Inventory

	September 30, 2015	December 31, 2014
Raw materials and consumables	\$ 225,926	\$ 287,493
Work-in-progress	315,067	255,481
Finished goods	238,591	312,059
	<u>\$ 779,584</u>	<u>\$ 855,033</u>

For the three and nine months ended September 30, 2015, changes in raw materials and consumables, work-in-progress and finished goods recognized as cost of sales amounted to \$1,832,807 (2014- \$477,742) and \$3,256,298 (2014 - \$1,179,668), respectively. For the three and nine months ended September 30, 2015, the write-down of inventories to net realizable value were \$Nil (2014 – \$3,736) and \$11,720 (2014 - \$14,432), respectively.

7. Loans payable

	September 30, 2015	December 31, 2014
Loan 1	\$ 1,303,599	\$ 1,452,250
Loan 2	392,120	488,095
Loan 3	786,500	805,500
Loan 4	1,096,529	1,127,700
Loan 5	924,517	1,102,926
	<u>4,503,265</u>	<u>4,976,471</u>
Current portion	<u>1,883,029</u>	<u>3,135,331</u>
	<u>\$ 2,620,236</u>	<u>\$ 1,841,140</u>

Loan 1 – As at September 30, 2015, the Company has a loan of \$1,493,855 (RMB 9,496,850) (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, 2018. The loan is unsecured and is to be repaid evenly over 10 years with monthly repayments commencing January 1, 2018. During the three months ended September 30, 2015 the Company received additional loan proceeds of \$55,055 (RMB 350,000) and the repayment terms of the loan were amended so that principal and interest repayments are commencing January 1, 2018 rather than January 1, 2016. The loan is carried at amortized cost and \$210,965 has been recorded against the value of the loan due to the interest free period from July 2015 to January 2018 and recognized as a contribution from a related party in the statement of changes in equity. During the three and nine months ended September 30, 2015, interest accretion expense of \$20,709 (2014 - \$27,989) and \$41,976 (2014 - \$73,467), respectively, has been recorded in the condensed consolidated interim statement of operations and comprehensive loss.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

7. Loans payable (continued)

Loan 2 - As at September 30, 2015, the Company has a loan of \$555,000 (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, 2018. The loan is unsecured and is to be repaid evenly over 5 years with monthly repayments commencing on January 1, 2018. During the three months ended September 30, 2015 the Company received additional loan proceeds of \$55,000 and the repayment terms of the loan were amended so that principal and interest repayments are commencing January 1, 2018 rather than January 1, 2016. The loan is carried at amortized cost and \$179,184 has been recorded against the value of the loan due to the interest free period from July 2015 to January 2018 and recognized as a contribution from a related party in the statement of changes in equity. During the three and nine months ended September 30, 2015, interest accretion expense of \$16,304 (2014 - \$5,953) and \$28,209 (2014 - \$5,953), respectively, has been recorded in the condensed consolidated interim statement of operations and comprehensive loss.

Loan 3 - As at September 30, 2015, the Company has a loan of \$786,500 (RMB 5,000,000) (December 31, 2014 - \$805,500, RMB 5,000,000) from Yun Liu, a shareholder and family member of the CEO. The loan bears a fixed annual interest rate of 5.52% and is carried at amortized cost. Interest is payable monthly until the principal is due on September 18, 2016. During the three months ended September 30, 2015 the loan due date was extended by one year and the interest rate was reduced from 7.49% to 5.52% per annum. During the three and nine months ended September 30, 2015, interest expense of \$13,192 (2014 - \$16,253) and \$42,297 (2014 - \$42,329), respectively, has been recorded in the condensed consolidated interim statement of operations and comprehensive loss. As at September 30, 2015, accounts payable includes \$3,256 (December 31, 2014 - \$4,994) of accrued interest payable.

Loan 4 - As at September 30, 2015, the Company has a loan of \$1,101,100 (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 bears a fixed annual interest rate of 7.49% and 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 nine months ended September 30, 2015, interest expense in the amount of \$35,094 (2014 - \$19,009) and \$73,234 (2014 - \$32,151), respectively, has been recorded in the condensed consolidated interim statement of operations and comprehensive loss.

Loan 5 - As at September 30, 2015, the Company has a loan of \$1,076,910 (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 on or after January 1, 2018. During the three months ended September 30, 2015, the date on which the loan could be demanded was extended from July 1, 2015 to January 1, 2018. The loan is carried at amortized cost and \$174,773 has been recorded against the value of the loan due to the interest free period from July 2015 to January 2018 and recognized as a contribution from a related party in the statement of changes in equity. During the three and nine months ended September 30, 2015, interest accretion expense of \$17,566 (2014 - \$Nil) and \$17,566 (2014 - \$Nil), respectively, has been recorded in the condensed consolidated interim statement of operations and comprehensive loss.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

8. Share capital

The authorized share capital of the Company consists of an unlimited number of common shares with no par value. The issued and outstanding share capital is as follows:

	Nine months ended September 30, 2015			Nine months ended September 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 acquisition of UGE Holdings (Note 4)	-	-	-	1,120,000	-	1,085,229
Shares issued on the exercise of stock options	61,720	-	24,830	6,600	-	3,034
Shares issued on the vesting of restricted share units	291,794	-	426,135	-	-	-
Shares issued on conversion of special warrants	6,800,000	(6,800,000)	-	-	-	-
Balance at end of period	18,499,391	10,200,000	\$ 11,148,111	10,051,252	17,000,000	\$ 9,456,011

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 September 30, 2015, the Company has 323,250 restricted share units under the plan which may be granted in future periods. As at September 30, 2015, the number of restricted share units granted and outstanding was 330,750, of which 137,377 vest in 2015, 94,877 vest in 2016, 94,877 vest in 2017 and 3,619 vest in 2018. Subsequent to September 30, 2015 an additional 29,000 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 82,022 remain outstanding of which, 49,348 vest in 2015 and 32,674 vest in 2016. Subsequent to September 30, 2015, 7,310 restricted share units vested and the related shares were issued, with 3,090 shares withheld for payment of withholding tax obligations of the recipients (Note 14).

During the three and nine months ended September 30, 2015, the Company recognized a total of \$24,433 (2014 – \$26,145) and \$630,437 (2014 - \$115,288), 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 sales and selling, general, and administrative expenses on the same basis as the allocation of cash compensation.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

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:

	Nine months ended September 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	-	
Forfeited	(30,000)	1.15	-	
Exercised	(61,720)	0.50	(6,600)	0.50
Balance at end of period	188,480	\$ 1.00	105,400	\$ 0.50
Balance exercisable at end of period	43,680	\$ 0.50	105,400	\$ 0.50

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

Exercise price	Number of options outstanding at September 30, 2015	Weighted average remaining life (months)	Weighted average exercise price (CAD)	Number of options exercisable at September 30, 2015	Weighted average exercise price (CAD)
\$0.50	43,680	2.0	\$ 0.50	43,680	\$ 0.50
\$1.15	144,800	57.0	\$ 1.15	-	\$ -
	188,480	46.0	\$ 0.97	43,680	\$ 0.50

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

8. Share capital (continued)

During the three and nine months ended September 30, 2015, the Company recorded stock-based compensation expense of \$29,794 (2014 - \$Nil) and \$36,431 (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

Special warrants

As at September 30, 2015, the Company had 10,200,000 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 nine months ended September 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 nine months ended September 30, 2015 a total of \$Nil (2014 - \$8,297,095) was reclassified from contributed surplus to share capital.

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

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 September 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 nine months ended September 30, 2015 \$19,152 (RMB 120,000) (2014 - \$19,344; RMB 120,000) and \$57,744 (RMB 360,000) (2014 - \$38,726; RMB 240,000), 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 September 30, 2015, accounts payable includes \$56,628 (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 nine months ended September 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 former 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 September 30, 2015, the Company has a receivable of \$Nil (December 31, 2014 - \$25,409) due from an officer of the Company.

As at September 30, 2015, the Company has a payable of \$43,338 (December 31, 2014 - \$Nil) due to China Energine (HK) Ltd., an investor in the Company.

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

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

12. Commitments and contingencies

Capital commitments

As at September 30, 2015 the Company has outstanding capital commitments of \$83,500 (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 September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
United States	\$2,311,965	\$ 978,179	\$ 4,338,306	\$ 2,394,879
PRC	392,486	9,778	442,315	127,360
	<u>\$2,704,451</u>	<u>\$ 987,957</u>	<u>\$ 4,780,621</u>	<u>\$ 2,522,239</u>

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

UGE INTERNATIONAL LTD.

(Formerly Way Ventures Inc.)

Notes to Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2015 and 2014

(Unaudited)

(Amounts expressed in United States dollars, unless otherwise indicated)

14. Subsequent events

Subsequent to September 30, 2015, the Company:

(a) issued 160,454 shares for net proceeds of \$131,300 (CAD \$175,935), net of share issue costs of \$8,258 (CAD \$11,065) pursuant to private placements. In addition investors received warrants allowing the holders to purchase an additional 132,727 shares until October 5, 2016 at an exercise price of CAD \$1.50 per share. The fair value of the warrants has been calculated at the date of issue using the Black-Scholes model at \$38,569, which has been recorded in contributed surplus with a corresponding reduction of the value of share capital issued;

(b) issued 33,220 shares on the vesting of restricted share units, with an additional 3,090 shares being withheld for the payment of withholding tax obligations of the recipients; and

(c) received a term loan of \$250,000. The loan has a "set up" fee of \$7,500, bears interest of 16% per annum, is due on April 7, 2016 and is secured by a first charge of all the assets of UGE Inc.