

UGE INTERNATIONAL LTD.

Consolidated Financial Statements

Years ended December 31, 2015 and 2014

(Expressed in United States dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of UGE International Ltd.

We have audited the accompanying consolidated financial statements of UGE International Ltd., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of UGE International Ltd. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

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

KPMG LLP

Chartered Professional Accountants
April 29, 2016
Vancouver, Canada

UGE INTERNATIONAL LTD.

Consolidated Statements of Financial Position as at December 31,
(Expressed in United States dollars)

Assets		2015		2014
Current assets				
Cash	$	179,544	$	433,779
Restricted cash (Note 6)		9,508		150,825
Trade and other receivables (Note 7)		1,353,023		1,654,551
Inventory (Note 8)		353,262		855,033
Prepaid expenses and deposits		437,827		540,329
		2,333,164		3,634,517
Non-current assets				
Property, plant and equipment (Note 9)		2,620,088		2,706,436
Lease prepayments (Note 10)		2,190,831		2,345,032
Deferred tax assets (Note 20)		503,008		528,321
Total assets	$	7,647,091	$	9,214,306
Liabilities and shareholders' deficiency				
Current liabilities				
Trade and other payables (Note 11)	$	3,629,023	$	1,948,695
Income taxes payable		706,728		736,174
Warranty provision (Note 12)		195,163		262,972
Current portion of loans payable (Note 13)		2,098,000		3,135,331
		6,628,914		6,083,172
Non-current liabilities				
Loans payable (Note 13)		2,614,884		1,841,140
Other payables		5,935		5,128
Deferred government grants (Note 14)		4,647,500		4,938,987
		13,897,233		12,868,427
Shareholders' deficiency				
Share capital (Note 15)		11,435,220		9,538,132
Contributed surplus (Note 16)		1,772,351		708,335
Accumulated other comprehensive income		184,082		135,120
Accumulated deficit (Note 17)		(19,641,795)		(14,035,708)
		(6,250,142)		(3,654,121)
Total liabilities and shareholders' deficiency	$	7,647,091	$	9,214,306

Going concern (Note 1(b))
Commitments and contingencies (Note 22)
Subsequent events (Note 27 and 13)

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Board:

"Nicolas Blitterswyk"
Director, President & Chief Executive Officer

"Michael Doolan"
Director

UGE INTERNATIONAL LTD.

Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31,
(Expressed in United States dollars)

	2015	2014
Revenue (Note 19)	$ 6,140,100	$ 3,837,801
Cost of sales	5,655,583	3,077,274
Gross profit	484,517	760,527
Operating expenses		
Selling, general and administrative (Note 21)	5,953,918	5,541,857
Listing costs (Note 5)	-	1,805,039
	5,953,918	7,346,896
Loss from operating activities	(5,469,401)	(6,586,369)
Finance expense	(272,472)	(289,453)
Finance income	135,635	38,551
Loss before income taxes	(5,606,238)	(6,837,271)
Income tax expense (recovery) (Note 20)	(151)	194,629
Loss for the year	(5,606,087)	(7,031,900)
Other comprehensive income		
Items that are or may be reclassified to profit or loss:		
Foreign operations - Foreign currency translation differences	48,962	27,592
Comprehensive loss for the year	$ (5,557,125)	$ (7,004,308)
Weighted average number of shares		
Basic and diluted	13,332,798	7,851,892
Net loss per share attributable to the shareholders of the Company		
Basic and diluted	$ (0.42)	$ (0.90)

The accompanying notes form an integral part of these consolidated financial statements.

UGE INTERNATIONAL LTD.

Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in United States dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
Balance - January 1, 2015	$ 9,538,132	$ 708,335	$ 135,120	$ (14,035,708)	$ (3,654,121)
Share capital issued for cash, net of share issue costs	1,529,938	-	-	-	1,529,938
Fair value of warrants issued on private placement	(278,194)	278,194	-	-	-
Shares issued on vesting of restricted share units	604,175	(663,491)	-	-	(59,316)
Shares issued on the exercise of stock options	41,169	-	-	-	41,169
Related party contribution through low or no interest debt	-	611,690	-	-	611,690
Share-based compensation	-	837,623	-	-	837,623
Loss for the year	-	-	-	(5,606,087)	(5,606,087)
Other comprehensive loss	-	-	48,962	-	48,962
Balance - December 31, 2015	$ 11,435,220	$ 1,772,351	$ 184,082	$ (19,641,795)	$ (6,250,142)

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
Balance - January 1, 2014	$ 2,985,248	$ 536,507	$ 107,528	$ (7,003,808)	$ (3,374,525)
Share capital issued for cash, net of costs	5,370,000	-	-	-	5,370,000
Share capital issued for services	12,500	-	-	-	12,500
Shares issued on acquisition of UGE Holdings Limited (Note 5)	1,085,229	-	-	-	1,085,229
Shares issued on the exercise of stock options	3,034	-	-	-	3,034
Shares issued on vesting of restricted share units	82,121	(169,493)	-	-	(87,372)
Share issuance costs	-	(12,500)	-	-	(12,500)
Share-based compensation	-	287,673	-	-	287,673
Related party contribution through low or no interest debt	-	66,148	-	-	66,148
Loss for the year	-	-	-	(7,031,900)	(7,031,900)
Other comprehensive loss	-	-	27,592	-	27,592
Balance - December 31, 2014	$ 9,538,132	$ 708,335	$ 135,120	$ (14,035,708)	$ (3,654,121)

The accompanying notes form an integral part of these consolidated financial statements.

UGE INTERNATIONAL LTD.

Consolidated Statements of Cash Flows for the years ended December 31,
(Expressed in United States dollars)

	2015	2014
Cash provided by (used in) operating activities		
Loss for the year	$ (5,606,087)	$ (7,031,900)
Adjustments for:		
Depreciation and amortization	176,921	161,053
Deferred income tax (recovery) expense	(151)	194,417
Interest expense on loans payable (Note 13)	272,472	289,453
Share-based compensation (Note 15)	837,623	287,673
Listing costs (Note 5)	-	1,568,643
Unrealized foreign exchange gain	(133,786)	-
	(4,453,008)	(4,530,661)
Changes in non-cash operating working capital:		
Trade and other receivables	284,946	(82,408)
Inventory	497,225	(209,930)
Prepaid expenses and deposits	85,000	82,868
Trade and other payables	1,572,138	(790,915)
Income taxes payable	3,109	(1,086)
Warranty provision	(65,576)	42,614
	(2,076,166)	(5,489,518)
Interest paid	(140,268)	(161,258)
	(2,216,434)	(5,650,776)
Cash provided by (used in) investing activities		
Additions to property, plant and equipment	(158,326)	(595,495)
Decrease in restricted cash	139,567	463,696
	(18,759)	(131,799)
Cash provided by financing activities		
Proceeds on issue of share capital and warrants, net of costs	1,558,093	5,373,034
Net proceeds of loans payables	428,860	1,004,141
	1,986,953	6,377,175
(Decrease) Increase in cash for the year	(248,240)	594,600
Effect of exchange rate fluctuations on cash	(5,995)	(185,709)
Cash at beginning of year	433,779	24,888
Cash at end of year	$ 179,544	$ 433,779

The accompanying notes form an integral part of these consolidated financial statements.

1. Reporting entity and going concern

(a) Reporting entity

UGE International Ltd. (the "Company") (formerly Way Ventures Inc.) is incorporated under the laws of the Province of Ontario and its common shares are listed on the TSX Venture Exchange under the symbol "UG". The head office of the Company is located at 330 West 38thStreet, Suite 1103 New York, New York, United States of America ("US") and the registered office is located at is 320 Bay Street, Suite 1600, Toronto, Ontario, Canada.

The principal business activity of the Company is to provide renewable energy solutions to its customers. Specifically, it is engaged in designing and manufacturing durable and versatile wind turbines to couple with solar panels and providing services such as remote site design, installation and monitoring.

(b) Going concern

These consolidated financial statements have been prepared assuming the Company will continue as a going concern, notwithstanding that the Company has a working capital deficiency, and incurred losses and negative cash flows from operations since inception. During the year ended December 31, 2015, the Company incurred a net loss of $5,606,087, had negative cash flows from operations of $2,216,434 and was in violation of certain debt covenants (see note 13). As at December 31, 2015, the Company has a working capital deficiency of $4,295,750 and a shareholders' deficiency of $6,250,142.

The Company has financed its operations primarily from the issuance of share capital and loans from related parties. 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 continued financial support from related parties, raising additional debt or equity financing and, ultimately, on achieving profitable operations that are sustainable. There are various risks and uncertainties affecting the Company's operations 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. There are no guarantees that debt or equity financing will be available to the Company or available at acceptable terms. Failure to implement this plan could have a material adverse effect on the Company's financial condition and/or financial performance. Accordingly, there are material risks and uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

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

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved for issuance by the Board of Directors on April 29, 2016.

(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.	US	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

All significant intercompany balances and transactions have been eliminated on consolidation.

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 constituted a reverse take-over and UGE Holdings was deemed to be the parent/acquirer for accounting purposes. The consolidated financial statements of operations and comprehensive loss and cash flows for the year ended December 31, 2014 include the accounts of the Company for the period from July 29, 2014 to December 31, 2014 (Note 5).

(c) Functional and presentation currency

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

(d) Basis of measurement

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

2. Basis of preparation (continued)

(e) Accounting assumptions, estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

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

(i) Useful lives of property, plant and equipment

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

(ii) Allowances for doubtful accounts and sales returns

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

(iii) Provision for future warranty claims

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

(iv) Current and deferred tax assets

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

2. Basis of preparation (continued)

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

(v) Valuation of inventory

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

(vi) Government grant recognition

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

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

(i) Going concern

The directors have applied judgments in the assessment of the Company's ability to continue as a going concern (note 1(b)) when preparing its financial statements for the year ended December 31, 2015. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considered a wide range of factors relating to current and expected profitability based on forecasts, debt repayment schedules and potential sources of replacement financing.

(ii) Recognition of deferred tax assets

Management made assessments on whether deferred tax assets should be recognized for non-capital losses carried forward and certain temporary differences that will result in future tax benefits. Factors considered included uncertainties in future profitability to utilize existing losses. Significant judgments have been applied in making the assessments.

(iii) Other judgments

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

3. Significant accounting policies

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

(a) Basis of consolidation

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

(b) Property, plant and equipment

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

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

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

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

No depreciation is charged on construction in progress.

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

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

(c) Lease prepayments

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

3. Significant accounting policies (continued)

(d) Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes materials, labour and appropriate share of production overhead based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In establishing any impairment of inventory, management estimates the likelihood that inventory carrying values will be affected by changes in market demand, technology and design, which would impair the value of inventory on hand.

(e) Leases

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

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

(f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognized as a finance cost.

(g) Warranty provision

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

3. Significant accounting policies (continued)

(h) Share-based compensation

The Company records share-based compensation related to its Restricted Share Unites ("RSU's") and stock options granted. Stock-based compensation for RSU's is measured at fair value based on the share price of the Company's shares on the date of grant. Stock-based compensation for stock options is measured at fair value using a Black-Scholes option pricing formula. Compensation cost is recognized as employee benefits expense over the vesting period in which employees unconditionally become entitled to the award. The amount recognized as an expense is adjusted to reflect only the number of awards for which related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service conditions at the vesting date.

(i) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is determined by adjusting the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise restricted shares granted to employees, options, and warrants. There are 11,597,400 (2014 - 17,935,636) potential dilutive common shares consisting of special warrants, RSU's and stock options for the year ended December 31, 2015; however, they are anti-dilutive for the years ended December 31, 2015 and 2014 due to the loss incurred.

(j) Revenue recognition

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

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

The Company recognizes revenue from projects that include a service component as the services and products are provided until the project is substantially completed, at which point the gross profit is recognized.

(k) Research and development

Research costs are expensed as they are incurred. Product development costs are expensed as incurred except when they meet specific criteria for capitalization. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are capitalized only if costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development to use or sell the asset. Capitalized development costs are measured at cost less accumulated amortization and accumulated impairment losses. Capitalized development costs, if any, are amortized when commercial production begins, using the straight-line method over a period of 5 years. To date, no development costs have been capitalized.

3. Significant accounting policies (continued)

(l) Financial instruments

(i) Financial assets

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value and subsequently at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of the Company's cash, restricted cash, and trade and other receivables.

(ii) Financial liabilities

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

(iii) Share capital

Share capital is classified as equity. Incremental costs directly attributable to increases in share capital is recognized as a deduction from equity.

3. Significant accounting policies (continued)

(m) Impairment

(i) Non-financial assets

Non-financial assets, such as property, plant, and equipment and lease prepayments, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

(ii) Financial assets

Financial assets not carried at fair value through profit or loss are assessed for impairment at each reporting date by determining whether there is objective evidence that indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

(n) Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

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

3. Significant accounting policies (continued)

(o) Income taxes

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

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

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

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

(p) Segment reporting

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

(q) Government grants

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

4. New standards and interpretations

(i) Change in accounting policy

There were no new standards effective January 1, 2015 that had a significant impact on the Company's consolidated financial statements.

(ii) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the consolidated financial statements in future periods.

IFRS 9, *Financial Instruments ("IFRS 9")*

IFRS 9 will replace the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. The new standard also requires a single impairment method to be used, provides additional guidance on the classification and measurement of financial liabilities, and provides a new general hedge accounting standard.

The mandatory effective date has been set for January 1, 2018, however early adoption of the new standard is permitted. The Company does not intend to early adopt IFRS 9. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15 is effective for fiscal years commencing on or after January 1, 2018 and will replace IAS 18, *Revenue* and a number of revenue related standards and interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced, which may affect the amount and/or timing of revenue recognized.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

IFRS 16, *Leases ("IFRS 16")*

On January 13, 2016, the IASB published a new standard, IFRS 16, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

5. Reverse take-over

On July 28, 2014, the Company completed the acquisition (the "Transaction") of UGE Holdings, a private company providing renewable energy solutions to its customers. Under the terms of the Transaction, shareholders of UGE Holdings exchanged 100% of the issued and outstanding shares in UGE Holdings in exchange for 8,924,651 common shares and 17,000,000 special warrants of the Company. The special warrants are non-voting and convertible into 17,000,000 common shares of the Company at any time for no consideration provided that following the conversion at least 20% of the common shares of the Company are held by public shareholders, which in the case of an individual excludes directors, officers, a promoter, insider or control person owning 10% of the common shares or in the case of a corporation a director, officers, insider or control person of that corporation. Following the completion of the Transaction, the former shareholders of UGE Holdings acquired control of the Company as they owned a majority of the outstanding shares of the Company upon completion of the Transaction. Therefore, the Transaction constituted a reverse take-over and UGE Holdings was deemed to be the parent company/ acquirer for accounting purposes with the net assets of the Company recorded at fair value at the date of the Transaction.

The historical consolidated financial performance prior to the completion of the Transaction is that of UGE Holdings.

Net assets (liabilities) acquired	Canadian dollars ("CAD")	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 paid over fair value of the net assets of the Company acquired in the amount of $1,568,643 is included in the consolidated statement of operations and comprehensive loss as a listing cost for the year ended December 31, 2014. The Company incurred fees of $334,260 in completing the Transaction, of which $236,396 were incurred in 2014 and $97,864 were incurred in 2013 and included in listing costs.

6. Restricted cash

As at December 31, 2015 the Company has restricted cash of $9,508 (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 (Note 14).

7. Trade and other receivables

	2015	2014
Trade receivables	$ 933,787	$ 1,242,944
Other receivables	419,236	411,607
	$ 1,353,023	$ 1,654,551

8. Inventory

	2015	2014
Raw materials and consumables	$ 32,856	$ 287,493
Work-in-progress	46,841	255,481
Finished goods	273,565	312,059
	$ 353,262	$ 855,033

For the year ended December 31, 2015, changes in raw materials and consumables, work-in-progress and finished goods recognized as cost of products sold amounted to $1,079,869 (2014-$2,337,175). For the year ended December 31, 2015, the write-down of inventories to net realizable value amounted to $272,141 (2014 – $63,026). There were no reversals of previously recorded write-downs and in years ended December 31, 2015 and 2014.

9. Property, plant and equipment

	Machinery & equipment	Buildings	Office Equipment	Vehicles	Construction in progress	Total
Cost						
Balance as at January 1, 2014	$ 503,912	$ 620,339	$ 91,078	$ 300,486	$ 1,346,671	$ 2,862,486
Additions	215,788	1,327,996	-	-	(948,289)	595,495
Exchange rate effect	(17,812)	(48,219)	(979)	(8,691)	(9,859)	(85,560)
Balance as at December 31, 2014	701,888	1,900,116	90,099	291,795	388,523	3,372,421
Additions	5,968	141,088	-	-	74,817	221,873
Exchange rate effect	(31,143)	(88,692)	(1,701)	(15,093)	(19,748)	(156,377)
Balance as at December 31, 2015	$ 676,713	$ 1,952,512	$ 88,398	$ 276,702	$ 443,592	$ 3,437,917
Accumulated depreciation						
Balance as at January 1, 2014	$ 124,724	$ 72,201	$ 47,566	$ 274,550	$ -	$ 519,041
Depreciation expense	93,212	36,514	25,527	5,800	-	161,053
Exchange rate effect	(3,830)	(2,078)	(1,360)	(6,841)	-	(14,109)
Balance as at December 31, 2014	214,106	106,637	71,733	273,509	-	665,985
Depreciation expense	107,144	66,257	12,161	2,185	-	187,747
Exchange rate effect	(13,196)	(7,025)	(3,551)	(12,131)	-	(35,903)
Balance as at December 31, 2015	$ 308,054	$ 165,869	$ 80,343	$ 263,563	$ -	$ 817,829
Carrying amounts						
December 31, 2014	$ 487,782	$ 1,793,479	$ 18,366	$ 18,286	$ 388,523	$ 2,706,436
December 31, 2015	$ 368,659	$ 1,786,643	$ 8,055	$ 13,139	$ 443,592	$ 2,620,088

10. Lease prepayments

	Cost	Accumulated depreciation	Net carrying amount
Balance as at January 1, 2014	$ 2,709,087	$ 250,000	$ 2,459,087
Amortization	-	53,628	(53,628)
Exchange rate effect	(67,047)	(6,620)	(60,427)
Balance as at December 31, 2014	2,642,040	297,008	2,345,032
Amortization	-	52,700	(52,700)
Exchange rate effect	(116,440)	(14,939)	(101,501)
Balance as at December 31, 2015	$ 2,525,600	$ 334,769	$ 2,190,831

11. Trade and other payables

	2015	2014
Trade payables	$ 2,363,316	$ 788,855
Compensation payable to employees	135,221	118,876
Other liabilities	302,328	496,568
Financial liabilities measured at amortized cost	2,800,865	1,404,299
Customer deposits	483,899	201,563
Sales and other taxes payable	344,259	342,833
	$ 3,629,023	$ 1,948,695

12. Warranty provision

	2015	2014
Balance at beginning of year	$ 262,972	$ 222,307
Provisions recorded in the year	174,815	253,728
Warranty expenditures	(237,328)	(205,429)
Exchange rate effect	(5,296)	(7,634)
Balance at end of year	$ 195,163	$ 262,972

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

13. Loans payable

	2015	2014
Loan 1	$ 1,291,825	$ 1,452,250
Loan 2	346,274	488,095
Loan 3	770,000	805,500
Loan 4	1,078,000	1,127,700
Loan 5	926,939	1,102,926
Loan 6	250,000	-
Loan 7	49,846	-
	4,712,884	4,976,471
Current portion	2,098,000	3,135,331
	$ 2,614,884	$ 1,841,140

Loan 1 – As at December 31, 2015, the Company has a loan of $1,462,515 (RMB 9,496,850) (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 year ended December 31, 2015 the Company received additional loan proceeds of $53,900 (RMB 350,000) and the repayment terms of the loan were amended so that principal and interest repayments commence January 1, 2018 rather than July 1, 2015. The loan is carried at amortized cost and $207,277 has been recorded against the value of the loan due to the interest free period from July 1, 2015 to January 1, 2018 and recognized as a contribution from a related party in the statement of changes in shareholders' deficiency. During the year ended December 31, 2015, interest accretion expense of $75,387 (2014 - $113,263) has been recognized in net loss. Subsequent to December 31, 2015, the Company entered into an agreement with Xiangrong Xie to forgive $281,834 (RMB 1,830,148), and made a partial repayment of $93,937 (RMB 610,000) towards this loan.

Loan 2 - As at December 31, 2015, the Company has a loan of $555,000 (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 year ended December 31, 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 commence January 1, 2018 rather than July 1, 2015. The loan is carried at amortized cost and $229,814 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 shareholders' deficiency. During the year ended December 31, 2015, interest accretion expense of $32,993 (2014 - $11,905) has been recognized in net loss. Subsequent to December 31, 2015, the Company settled $500,000 of this loan by the issue of 1,240,907 shares .

13. Loans payable (continued)

Loan 3 - As at December 31, 2015, the Company has a loan of $770,000 (RMB 5,000,000) (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% (2014 - 7.4%) and is carried at amortized cost. Interest is payable monthly until the principal is due on September 18, 2016 During the year ended December 31, 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 year ended December 31, 2015, interest expense of $55,840 (2014 – $60,092) has been recognized in net loss. Subsequent to December 31, 2015, the due date was extended to September 18, 2017.

Loan 4 - As at December 31, 2015, the Company has a loan of $1,078,000 (RMB 7,000,000) (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% (2014 - 7.995%) 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 year ended December 31, 2015, interest expense in the amount of $85,089 (2014 - $50,672) has been recognized in net loss. Subsequent to December 31, 2015, the due date was extended to March 2, 2018.

Loan 5 - As at December 31, 2015, the Company has a loan of $1,054,317 (RMB 6,846,216) (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 year ended December 31, 2015, the date on which the repayment of the loan could be demanded was extended from July 1, 2015 to January 1, 2018. The loan is carried at amortized cost and $154,272 has been recorded against the value of the loan due to the interest free period from July 1, 2015 to January 1, 2018 and recognized as a contribution from a related party in contributed surplus. During the year ended December 31, 2015, interest accretion expense of $24,518 (2014 - $Nil) has been recognized in net loss. Subsequent to December 31, 2015, the loan was repaid in full.

Loan 6 - As at December 31, 2015, the Company has a loan of $250,000 (2014 - $Nil). The loan bears interest of 16% per annum, is due on September 9, 2016 and is secured by a first change of all the assets of UGE Inc. This loan contains a covenant stating that an adjusted fixed charge coverage ratio must not be less than 1.25 and that the loan value shall not exceed a borrowing base determined from accounts receivables, inventory and pre-approved purchase orders (with an over advance of $53,254). As at December 31, 2015, the Company exceeded the borrowing base; however, a waiver from the lender for not demanding repayment of the amount borrowed in excess of the amount of the borrowing base in April 2016 was obtained.

Loan 7 - As at December 31, 2015, the Company has a loan of $68,000 (2014 - $Nil) from Yun Liu, a shareholder and family member of the CEO. Then loan is non-interest bearing, due on January 1, 2018 and is unsecured. The loan is carried at amortized cost and $18,154 has been recorded against the value of the loan due to the interest free period from December 31, 2015 to January 1, 2018 and recognized as a contribution from a related party in the statement of changes in shareholders' deficiency. Subsequent to December 31, 2015, the Company received additional proceeds of $833,000 from Yun Liu on the same terms as this loan.

14. Deferred government grants

	2015	2014
Government grants received, net of amortization for:		
Property, plant and equipment	$ 2,456,669	$ 2,593,955
Lease prepayments	2,190,831	2,345,032
	$ 4,647,500	$ 4,938,987

As at December 31, 2015, government grants in the aggregate amount of $2,456,669 (RMB 15,952,396) (2014 - $2,593,955, RMB 16,098,345) had been received by the Company for the construction and equipping of the manufacturing plant. Cash received but not used is held in a restricted bank account (Note 6). Components of the construction and equipping of the manufacturing plant have not been completed as at December 31, 2015.

As at December 31, 2015, a government grant of $2,190,831 (RMB 14,226,174) (2014 - $2,345,032, RMB 14,556,376), net of accumulated amortization of $334,769 (RMB 2,173,826) (2014 – $297,008, RMB 1,843,624), was received for the prepayment of a land lease where the Company's manufacturing plant is located. The grant and the lease prepayment are amortized over 50 years through 2059 at $52,700 (RMB 330,201) per year.

15. Share capital

Authorized capital

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

Issued and outstanding

	Year ended December 31, 2015			Year ended December 31, 2014		
	Number of shares	Number of special warrants (note 5)	Amount	Number of shares	Number of special warrants (note 5)	Amount
Balance at beginning of year	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 $36,527 (2014 - $Nil) and value attributed to warrants of $278,194 (2014 - $Nil)	1,350,288	-	1,251,744	5,652,498	-	5,370,000
Shares issued on the exercise of stock options	105,400	-	41,169	6,600	-	3,034
Shares issued on the vesting of restricted share units	427,259	-	604,175	104,791	-	82,121
Shares issued on conversion of special warrants	6,800,000	(6,800,000)	-	-	-	-
Shares issued for services	-	-	-	18,346	-	12,500
Shares issued on the acquisition of UGE Holdings (Note 5)	-	-	-	1,120,000	-	1,085,229
Balance at end of year	18,838,990	10,200,000	$ 11,435,220	10,156,043	17,000,000	$ 9,538,132

Special warrants

As at December 31, 2015, the Company had 10,200,000 special warrants (2014 - 17,000,000) outstanding held by related parties. The special warrants are convertible into shares of the Company on a one for one basis for no additional consideration provided that at the time of the conversion at least 20% of the issued and outstanding shares of the Company are held by Public Shareholders after the conversion of the special warrants. Public Shareholders are those shareholders who are not directors, officers or other insiders of the Company as defined by the TSX Venture Exchange.

15. Share capital (continued)

Stock options

The Company has a stock option plan that provides for the granting of stock options to directors, officers, employees and consultants up to an aggregate of 10% of the Company's issued and outstanding shares. The exercise price of each option is equal to the greater of $0.10 or the quoted market price of the Company's common shares on the trading day immediately preceding the date of grant and the maximum term is ten years. During the years ended December 31, 2015 and 2014 the stock option activity is as follows:

	2015		2014	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Balance at beginning of year	105,400	$ 0.50	112,000	$ 0.50
Granted	312,800	0.99	-	-
Forfeited	(62,400)	1.15	-	-
Exercised	(105,400)	0.50	(6,600)	0.50
Balance at end of year	250,400	$ 0.95	105,400	$ 0.50
Balance exercisable at end of year	47,467	$ 1.07	105,400	$ 0.50

As at December 31, 2015 the details of the stock options are as follows:

Exercise price (CAD)	Number of options outstanding at December 31, 2015	Weighted average remaining life (months)	Weighted average exercise price (CAD)	Number of options exercisable at December 31, 2015	Weighted average exercise price (CAD)
$1.15	112,400	54	$ 1.15	37,467	$ 1.15
$0.78	138,000	59	$ 0.78	10,000	$ 0.78
	250,400	57	$ 0.95	47,467	$ 1.07

Restricted share units

The Company has a restricted share unit plan that provides for the granting of restricted share units to directors, officers, employees and consultants of up to 1,005,125 shares of the Company of which 134,250 are available for grant as at December 31, 2015. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration.

As at December 31, 2015 rights to receive 382,564 shares have been granted of which 297,561 vest in 2016, 81,561 vest in 2017 and 3,442 vest in 2018. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration. During the year ended December 2015, the Company issued 398,872 shares (2014 - 16,412 shares) for the rights that vested, with 61,939 shares (2014 - 11,088 shares) being withheld for the payment of withholding tax obligations of the recipients.

15. Share capital (continued)

Restricted share units (continued)

Prior to completing the Transaction (Note 5) the Company had granted employees the right to receive certain shares upon completion of vesting periods. As at December 31, 2015 rights to receive 32,674 shares remain outstanding and vest in 2016. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration. During the year ended December 31, 2015, the Company issued 28,387 shares (2014 - 88,379 shares) for the rights that vested, with 23,881 shares (2014 - 42,211 shares) being withheld for the payment of withholding tax obligations of the recipients.

During the year ended December 31, 2015, the Company recognized a total of $837,623 (2014 – $287,673) in share-based compensation expense including restricted share units. Share-based compensation expense is recorded in the statement of operations and comprehensive loss and is apportioned to selling, general, and administrative expenses on the same basis as the apportionment of cash compensation. Of the compensation expense recorded, $430,481 (2014 - $59,154) related to directors, $30,671 (2014 - $49,564) related to senior management and $91,444 (2014 - $14,635) related to a director and senior officer and his spouse.

Private placement and warrants

During the year ended December 31, 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 $1,398,638 (CAD $1,745,942), net of cash share issue costs of $28,268 (CAD $35,357). The Warrants allow 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 594,915 warrants expired unexercised on March 16, 2016 (Note 27). The fair value of the Warrants, determined at the date of issuance using the Black-Scholes model, was $236,865, which has been recognized in contributed surplus with a corresponding reduction in share capital. 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 4,120 warrants expired unexercised on March 16, 2016 (Note 27). The fair value of the Agent Warrants was $2,760 determined at the date of issue using the Black-Scholes model, which amount has been recorded in contributed surplus with a corresponding reduction of the value of share capital issued.

During the year ended December 31, 2015, the Company issued 160,454 shares for net proceeds of $131,300 (CAD $175,935), net of cash 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 was determined at the date of issue using the Black-Scholes at $38,569, which amount has been recorded in contributed surplus with a corresponding reduction of the value of share capital issued.

Key assumptions in the Black-Sholes model to determine the fair value of the warrants included an expected life of one year, a discount rate of 0.23% and an average volatility 137.15%.

16. Contributed surplus

In connection with the Transaction (Note 5), the Company has adjusted the balances for share capital and contributed surplus to reflect the fact that UGE International Ltd., the legal parent company, has issued common shares with no par value whereas UGE Holdings, the acquirer for accounting purposes, had ordinary shares with a par value of $0.01 with additional share value being allocated to contributed surplus. For the year ended December 31, 2014 $8,297,095 was reclassified from contributed surplus to share capital.

17. 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.

For the years ended December 31, 2015 and 2014, the Company was not required to appropriate an amount to the reserve funds because the threshold was not met. As at December 31, 2015, no amounts are included in retained earnings that are not available to shareholders.

18. Related party transactions and key management personnel

Related party transactions

The Company leased its office in Beijing from Xiangrong Xie, a director of the Company, for $6,384 (RMB 40,000) per month. For the year ended December 31, 2015, $73,920 (RMB 480,000) (2014 – $58,468, RMB 360,000) has been recorded for this transaction in selling, general and administrative expenses. The lease was set to expire on December 31, 2016.

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

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

Key management personnel compensation

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

	2015	2014
Short term employee benefits	$ 247,770	$ 154,008
Share based compensation	552,596	123,353
Consulting fees	108,707	38,216
	$ 909,073	$ 315,577

19. Segmented information

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

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

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

	2015	2014
US	5,643,054	3,645,032
PRC	497,046	192,769
	$ 6,140,100	$ 3,837,801

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

	2015	2014
Partner network sales	$ 1,106,226	$ 2,327,569
Direct sales	2,793,689	1,014,274
Strategic partners	2,240,185	390,669
Other	-	105,289
	$ 6,140,100	$ 3,837,801

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

During the year ended December 31, 2015, the Company had two customers that accounted for more than 10% of consolidated revenue. One accounted for 12% (2014 – 0%) and the other for 36% (2014 – 0%) of consolidated revenue. No other customer accounted for more than 10% of revenue.

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

	Property, plant and equipment		Lease prepayments	
	2015	2014	2015	2014
PRC	$ 2,620,088	$ 2,706,436	$ 2,190,831	$ 2,345,032
US	-	-	-	-
	$ 2,620,088	$ 2,706,436	$ 2,190,831	$ 2,345,032

20. Income taxes

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

	2015	2014
Current tax expense:		
Current tax expense	$ -	$ 212
Deferred tax expense (recovery):		
Deferred government grants	(151)	13,407
Other	-	56,199
Tax losses carried forward	-	124,811
Total income tax expense (recovery)	$ (151)	$ 194,629

The Company is subject to Canadian income tax rate of 26%. UGE Inc. is subject to US corporate income tax rate of 34% (2014 - 34%). UGE Pingquan and UGE Beijing are subject to PRC income tax rate of 25% (2014 - 25%).

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

	2015	2014
Loss before income taxes	$ (5,606,238)	$ (6,837,271)
Statutory tax rate	26.0%	26.0%
Expected tax expense:	(1,457,622)	(1,777,690)
Reconciliation of effective rate		
Non-deductible expenses and other	240,378	593,033
Foreign tax rate differences	(297,770)	(188,624)
Change in unrecognized deductible temporary differences	1,514,863	1,567,910
Income tax expense	$ (151)	$ 194,629

Recognized deferred tax assets

The following table presents a breakdown of recognized deferred tax assets at each reporting date.

	Deferred government grants	Operating losses carried forward	Total
Balance at December 31, 2013	$ 614,681	$ 124,811	$ 739,492
Credited (debited) to profit or loss	(13,407)	(124,811)	(138,218)
Exchange rate effect	(72,953)	-	(72,953)
Balance December 31, 2014	528,321	-	528,321
Credited (debited) to profit or loss	(2,103)	-	(2,103)
Exchange rate effect	(23,210)	-	(23,210)
Balance at December 31, 2015	$ 503,008	$ -	$ 503,008

20. Income taxes (continued)

Unrecognized deferred tax assets

As at December 31, 2015, the Company has non-capital losses from operations in the United States of approximately $14,777,000, (2014 – $10,803,000) that may be used to offset future taxable income in the United States. The losses' expiry start in 2028 through 2035.

As at December 31, 2015, the Company has non-capital losses from operations in Canada of approximately $1,076,000 (2014 - $827,000) that may be used to offset future taxable income in Canada. The losses' expiry start in 2032 through 2035.

As at December 31, 2015, the Company has losses from operations in PRC of approximately $1,789,000 (2014 – $1,132,000) that may be used to offset future taxable income in PRC for corporate tax and trade purposes. The losses' expiry start in 2016 through 2020.

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

21. Selling, general and administrative expense

	2015	2014
Employee compensation	$ 2,711,250	$ 2,481,881
Share based compensation	837,623	287,673
Professional fees	723,673	1,000,531
Corporate	625,647	683,049
Shipping	359,039	284,122
Travel and entertainment	231,312	244,522
Office related	238,926	228,795
Research and development	117,941	210,260
Advertising and marketing	47,207	77,164
Insurance	61,300	43,860
	$ 5,953,918	$ 5,541,857

22. Commitments and contingencies

Operating lease commitments

The Company is committed to various operating leases for office premises with remaining terms up to 2016. As at December 31, 2015, operating lease commitments for the 2016 fiscal year is $90,606.

Subsequent to December 31, 2015 the Company renewed a lease for the New York office lease for approximately $9,200 per month starting March 1, 2016 lasting five years.

Capital commitments

As at December 31, 2015 the Company has outstanding commitments for the purchase of property, plant and equipment of $70,000 (2014 - $83,000).

Contingencies

On July 9, 2015, UGE Inc. was named as a co-defendant in a legal action brought by the Town of Addison, Texas in the District Court of Dallas County in the United States for negligence, breach of contract and warranties in relation to the construction and design of a project which included wind turbines manufactured by the Company. The claim is for an amount described in the pleadings as being in excess of $1,000,000. The Company is defending the action and management believes that it will be successful; however, at this time the outcome cannot be determined. The replacement value of the wind turbines manufactured by the Company is estimated at $50,000 and a provision has been recorded for this amount.

The Company is subject to possible claims that arise in the ordinary course of business. Except for the claim mentioned above, the outcome of these claims, either individually or in the aggregate, are not expected to have a material impact on the Company's financial position or financial performance.

23. Financial instruments

Fair value

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

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

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

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

The Company does not have any financial instruments that are measured at fair value on a recurring basis on the statement of financial position.

The Company's financial instruments consist of cash, restricted cash, accounts receivables, trade payables, loans payable and other payables. The fair values of cash, restricted cash, accounts receivables, trade payables and other payables approximate carrying value because of the short-term nature of these instruments. The interest rates applicable for specific related party loans are considered to be materially different from market rates, thus the carrying value of loans are calculated at fair value. The interest rates that were deemed reasonable as market rate for the Company was 6% for loans in the PRC and 15% for loans in the US.

Financial risk management

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

(a) Interest rate risk

Interest rate risk is the risk that the fair value of deferred cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the loans payable are at fixed interest rates, the Company does not believe it is exposed to material interest rate risk.

23. Financial instruments (continued)

Financial risk management (continued)

(b) Foreign currency risk

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

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

	2015	2014
Financial assets		
Cash	$ 48,679	$ 402,165
Restricted cash	$ 9,508	$ 150,825
Trade receivables	$ 995,577	$ 1,228,041
Financial liabilities		
Trade and other payables	$ 1,242,073	$ 1,838,403
Loans payable	$ 4,240,554	$ 4,488,376

Based on financial assets and liabilities held as at December 31, 2015, a 5% decrease in the RMB, Canadian dollar ("CAD"), and Hong Kong dollar ("HKD") against the US dollar, with all other variables held constant, would result in a foreign exchange loss of approximately $222,000 (2014 - $272,000).

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

23. Financial instruments (continued)

Financial risk management (continued)

(c) Credit risk

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

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

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

The Company's credit risk exposure for trade receivables relates to a diverse group of customers in a number of geographic regions thereby mitigating risk through a lack of concentration of customers. During the year ended December 31, 2015, the Company had two customers that accounted for more than 10% of consolidated revenue. One accounted for 12% and the other for 36% of consolidated revenue. No other customer accounted for more than 10% of revenue.

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

	2015	2014
Trade receivables, net of allowance for doubtfull accounts of $Nil	$ 1,353,023	$ 1,654,551
Aging of trade receivables		
Current	$ 390,424	$ 361,491
Past due 31-60 days	-	26,330
Past due 61-90 days	5,522	5,183
Past due 90+ days	957,077	1,261,547
	$ 1,353,023	$ 1,654,551
Continuity of allowance for bad debts		
Balance at beginning of year	$ -	$ -
Provision	125,583	82,792
Write-off	(125,583)	(82,792)
Balance at end of year	$ -	$ -

23. Financial instruments (continued)

Financial risk management (continued)

(d) Liquidity risk

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

As at December 31, 2015 the contractual maturities of financial liabilities, including estimated interest payments is as follows:

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5+ years
Trade and other payables	$ 3,634,958	$ 3,634,958	$ 3,629,023	$ 5,935	$ -	$ -
Loans payable	4,712,884	6,354,623	2,175,909	-	2,269,893	1,908,821
Contractual commitments	-	70,000	70,000	-	-	-
Lease commitments	-	90,606	90,606	-	-	-
	$ 8,347,842	$ 10,150,187	$ 5,965,538	$ 5,935	$ 2,269,893	$ 1,908,821

24. Capital disclosures

The Company's objective in managing capital is to safeguard its ability to continue as a going concern and to sustain future development of the business. In the management of capital, the Company includes shareholders' equity, excluding accumulated other comprehensive income. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from operations will not be sufficient to meet future cash flow requirements. In order to maintain or adjust its capital structure, the Company may issue new shares. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements and the Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2014.

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

As at December 31, 2015, the Company's net debt and capital are as follows:

Loans payable	$ 4,712,884
Cash	(179,544)
Net debt	4,533,340
Shareholders' deficiency	(6,434,224)

The Company is not subject to externally imposed capital requirements.

25. Personnel expenses

	2015	2014
Wages and benefits	$ 2,824,355	$ 2,586,343
Stock based compensation	837,623	287,673
	$ 3,661,978	$ 2,874,016

26. Interests in subsidiaries

Details of the Company's subsidiaries as at December 31, 2015 are as follows:

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

27. Subsequent events

Subsequent to December 31, 2015, the Company:

(a) Received a loan of $1,848,000 (RMB 12,000,000) from the Bank of China. The loan has a one-year term and bears interest of 5.22% per annum which is subject to change based on industry rates set by the Bank of China. This loan is held by UGE Pingquan and is secured by UGE's land use rights in Pingquan with guarantees from UGE Beijing, Xiangrong Xie, a director, and Qi Liu, a family member of the CEO. The Bank of China loan is guaranteed further by an agreement from Ms. Xie to pay the balance of the Bank of China Loan at maturity to allow for extensions or refinancing;

(b) received loans from three independent directors for a total of $55,442. The loans are non-interest bearing, due on May 26, 2016, with a 5% processing fee due upon repayment; and

27. Subsequent events (continued)

(c) acquired 100% of the issued and outstanding shares of Endura Energy Project Corp. ("Endura"), a private renewable energy company located in Toronto, Ontario, Canada on February 22, 2016. Endura provides solutions to its clients in all aspects of the solar project design-build lifecycle including: development, consulting and project management, engineering and design, and turn-key construction. The primary purpose for this acquisition is to increase market presence in Canada, increase engineering and project management expertise and to improve cash flows.

Pursuant to the share purchase agreement, the Company paid cash of $88,313 (CAD$123,337), issued 8,888,888 shares of UGE valued at $3,817,600 (CAD$5,333,333) based on the market price of the Company's shares on February 22, 2016 of $0.43 (CAD$0.60) and issued a promissory note in the amount of $627,487 (CAD$876,623). The promissory note was subsequently repaid in full. Of the 8,888,888 shares issued, 2,222,222 were issued to the vendor on February 22, 2016 and the remaining 6,666,666 shares issued are subject to an escrow agreement providing for the release of 2,222,222 shares annually on the anniversary date of the transaction over the next three years. 2,666,666 of the shares in escrow may be forfeited if Cameron Steinman, one of the vendors, resigns from employment with the Company during the escrow period. Accordingly, the value of these shares has been attributed to post combination employment services to be provided and are not included in the consideration paid for the business combination. In addition, the release of 2,222,222 shares on the first anniversary date is subject to meeting certain cumulative revenue targets. If these targets are not met on the first anniversary date, the number of shares released will be prorated based on the actual amounts achieved relative to the targets with the remaining shares held in escrow until the targets are met. The value of these shares has been accounted for as contingent consideration. The acquisition will be accounted for using the acquisition method with the results of operations consolidated with those of the Company effective February 22, 2016. The total cost incurred during the year ended December 31, 2015 related to this acquisition was approximately $70,000, with the expenses included under the caption selling, general and administrative.

27. Subsequent events (continued)

The consideration paid and the fair values of the assets acquired and liabilities assumed in the acquisition at February 22, 2016 have been determined on a preliminary basis based on Management's current estimates of their fair value as follows:

	$USD
Consideration	
Shares issued	2,290,560
Cash paid	88,313
Promissory note	627,487
Contingent consideration	381,760
Total consideration	**3,388,120**
Net assets acquired	
Bank overdraft	(17,728)
Accounts receivable	243,012
Prepaid expenses and deposits	41,488
Work in progress	79,341
Property, plant and equipment	71,846
Accounts payable	(670,093)
Bank indebtedness	(89,475)
Income taxes receivable	67,948
Deferred income taxes payable	(24,407)
Goodwill	3,686,188
Total	**3,388,120**

The allocation of the purchase price is based on preliminary estimates and has not been finalized. The Company is currently in the process of assessing the fair values of identifiable assets acquired and liabilities assumed and measuring the potential goodwill. Amongst other areas, the significant areas where a valuation has not been completed are the identification and measurement of intangible assets, if any, the determination of deferred income taxes and the identification and measurement of contingent liabilities. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary purchase price allocation and are subject to change.

Amongst other things, the goodwill recognized reflects future cash flows and, growth in sales to existing and new customers through cross selling opportunities, and expected growth in the underlying markets in which Endura operates. The goodwill is not tax deductible.