

UGE INTERNATIONAL LTD.

Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

(Expressed in United States dollars)

UGE INTERNATIONAL LTD.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in United States dollars)

	March 31, 2016	December 31, 2015
Assets		
Current assets		
Cash	$ 61,207	$ 179,544
Restricted cash (Note 5)	741,129	9,508
Trade and other receivables	1,770,315	1,353,023
Inventory (Note 6)	451,999	353,262
Income taxes recoverable	61,489	-
Prepaid expenses and deposits	659,510	437,827
	3,745,649	2,333,164
Non-current assets		
Property, plant and equipment	2,689,455	2,620,088
Deferred finance costs	128,005	-
Lease prepayments	2,188,019	2,190,831
Goodwill (Note 4)	3,887,806	-
Deferred tax assets	502,305	503,008
Total assets	$ 13,141,239	$ 7,647,091
Liabilities		
Current liabilities		
Trade and other payables	$ 4,643,139	$ 3,629,023
Income taxes payable	706,928	706,728
Warranty provision	195,569	195,163
Loans payable (Note 7)	3,238,780	2,098,000
	8,784,416	6,628,914
Non-current liabilities		
Loans payable (Note 7)	3,542,432	2,614,884
Deferred income tax liabilities	4,687	-
Other payables	5,935	5,935
Deferred government grants	4,633,371	4,647,500
	16,970,841	13,897,233
Shareholders' deficiency		
Share capital (Note 8)	14,882,348	11,435,220
Contributed surplus	2,208,771	1,772,351
Accumulated other comprehensive income	409,921	184,082
Accumulated deficit	(21,330,642)	(19,641,795)
	(3,829,602)	(6,250,142)
Total liabilities and shareholders' deficiency	$ 13,141,239	$ 7,647,091

Reporting entity and going concern (Note 1)
Commitments and contingencies (Note 11)
Subsequent events (Notes 4, 5, 7 and 13)

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.

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

	2016	2015
Revenue	$ 965,403	$ 657,527
Cost of products sold	825,019	442,161
Gross profit	140,384	215,366
Operating expenses		
Selling, general and administrative	1,281,415	1,563,920
Loss from operating activities	(1,141,031)	(1,348,554)
Interest expense	(124,482)	(53,563)
Finance expense - non-cash related party loan modifications	(430,796)	-
Interest income	786	7,461
Loss before income taxes	(1,695,523)	(1,394,656)
Income tax (recovery) expense	(6,676)	2,672
Loss for the period	(1,688,847)	(1,397,328)
Other comprehensive income (loss)		
Items that are or may be reclassified to profit or loss		
Foreign currency translation differences	225,839	(41,003)
Comprehensive loss for the period	$ (1,463,008)	$ (1,438,331)
Weighted average number of shares		
Basic and diluted	21,908,610	11,147,571
Net loss per share attributable to the shareholders of the Company		
Basic and diluted	$ (0.08)	$ (0.13)

See accompanying Notes to condensed consolidated interim financial statements.

UGE INTERNATIONAL LTD.

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

	Share capital	Contributed surplus	Accumulated other comprehensive income	Accumulated deficit	Total
Balance - January 1, 2016	$ 11,435,220	$ 1,772,351	$ 184,082	$ (19,641,795)	$ (6,250,142)
Related party conversion of debt to equity	624,983	-	-	-	624,983
Amount issued on the conversion of restricted share units	62,640	(62,640)	-	-	-
Amounts issued for acquisition of Endura (Note 4)	2,672,320	-	-	-	2,672,320
Related party contribution through interest free debt	-	201,346	-	-	201,346
Related party forgiveness of of interest free debt	-	249,623	-	-	249,623
Share-based compensation	87,185	48,091	-	-	135,276
Loss for the period	-	-	-	(1,688,847)	(1,688,847)
Other comprehensive income	-	-	225,839	-	225,839
Balance - March 31, 2016	$ 14,882,348	$ 2,208,771	$ 409,921	$ (21,330,642)	$ (3,829,602)

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

See accompanying Notes to condensed consolidated interim financial statements.

UGE INTERNATIONAL LTD.

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

	2016	2015
Cash provided by (used in) operating activities		
Loss for the period	$ (1,688,847)	$ (1,397,328)
Adjustments for:		
Depreciation and amortization	(190)	61,273
Deferred income tax (recovery) expense	(6,676)	3,306
Interest expense	124,482	53,563
Finance expense - non-cash related party loan modifications	430,796	-
Share-based compensation (Note 8)	135,270	394,561
	(1,005,165)	(884,625)
Changes in non-cash operating working capital:		
Trade and other receivables	(111,303)	213,429
Inventory	(32,132)	(59,699)
Prepaid expenses and deposits	(290,660)	(53,387)
Trade and other payables	336,632	35,423
Warranty provision	212	(35,720)
	(1,102,416)	(784,579)
Taxes paid	(2,978)	-
Interest paid	(72,592)	(35,251)
	(1,177,986)	(819,830)
Cash provided by (used in) investing activities		
Additions to property, plant and equipment	(2,327)	(50,178)
Cash consideration paid for Endura (Note 4)	(88,313)	-
Bank overdraft assumed on acquisition of Endura (Note 4)	(17,728)	-
(Increase) decrease in restricted cash	(678,232)	40,230
	(786,600)	(9,948)
Cash provided by (used in) financing activities		
Net proceeds of loans payables	1,843,510	-
Proceeds on issue of share capital and warrants, net of costs	-	1,398,639
	1,843,510	1,398,639
(Decrease) increase in cash for the period	(121,076)	568,861
Effect of exchange rate fluctuations on cash	2,739	(85,365)
Cash at beginning of period	179,544	433,779
Cash at end of period	$ 61,207	$ 917,275

See accompanying Notes to condensed consolidated interim financial statements.

1. Reporting entity and going concern

(a) Reporting entity

UGE International Ltd. (the "Company" or "UGE") is incorporated under the laws of the Province of Ontario and its common shares are listed on the TSX Venture Exchange under the symbol "UGE". 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, selling solar panels and related products 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 has a working capital deficiency, and incurred losses and negative cash flows from operations. During the three months ended March 31, 2016, the Company incurred a loss of $1,688,847 and negative cash flow from operations of $1,177,986. As at March 31, 2016, the Company has a working capital deficiency of $5,038,767 and a shareholders' deficiency of $3,829,602.

The Company has financed its operations primarily from the issuance of share capital and loans, primarily 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. Subsequent to March 31, 2016, the Company filed a final prospectus for the issuance of common shares for proceeds of a minimum of Canadian dollars ("CAD") $1,500,000 and a maximum of CAD$2,500,000 (Note 13(b)). There are no guarantees that the funds raised, if any, are sufficient to sustain the Company's ongoing operations beyond twelve months or that additional debt or equity financing will be available to the Company or available at acceptable terms. Failure to implement the Company's business 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.

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

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements 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 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, 2015 and should be read in conjunction with those financial statements.

These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on May 30, 2016.

(b) Basis of presentation and accounting

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries.

Effective February 22, 2016, the Company acquired 100% of the issued and outstanding shares of Endura Energy Project Corp. ("Endura") (Note 4). The operations of Endura and its financial results have been included in these financial statements from February 23, 2016.

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

(c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in United States ("US") dollars. The functional currency of the Company and Endura is the CAD, the functional currency of the Company's wholly owned subsidiaries UGE Holdings Limited ("UGE Holdings"), Urban Green Energy Inc. ("UGE Inc.") and Urban Green Energy Hong Kong Ltd., is the US dollar and the functional currency of the Company's wholly owned subsidiaries Beijing Urban Green Energy Co., Ltd., Pingquan UGE Co., Ltd. and Chengde Urban Green Energy Ltd., is the Chinese Renminbi ("RMB").

(d) Basis of measurement

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

(e) 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. Actual results could may differ from these amounts.

2. Basis of preparation (continued)

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; government grant recognition; and the determination of contingent consideration and valuation of assets and liabilities acquired in the Endura acquisition including goodwill.

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; carrying value of related party loans; 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.

3. New standards and interpretations not yet adopted

Other than disclosed in annual financial statements for the year ended December 31, 2015, there are no new standards and interpretations that have been issued and not yet adopted.

4. Acquisition of Endura

The Company acquired 100% of the issued and outstanding shares of 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), which was repaid in full on April 12, 2016. Of the 8,888,888 shares issued, 6,666,666 shares 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. Of the shares in escrow 2,666,666 may be forfeited if Cameron Steinman, one of the vendors, resigns from employment with the Company during the escrow period ending February 8, 2019. 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 share consideration. The business combination has been 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 related to this acquisition was approximately $72,000, of which approximately $29,000 was incurred and expensed in the year ended December 31, 2015 and approximately $43,000 is included in selling, general and administrative expenses for the three months ended March 31, 2016.

4. Acquisition of Endura (continued)

The consideration paid and the fair values of the assets acquired and liabilities assumed in the acquisition at February 22, 2016 is as follows:

	$USD
Consideration	
Shares issued	2,290,560
Cash paid	88,313
Promissory note	627,487
Contingent share consideration	381,760
Total consideration	**3,388,120**
Net assets acquired	
Bank overdraft	(17,728)
Accounts receivable	243,012
Income taxes receivable	67,948
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)
Deferred income taxes payable	(24,407)
Goodwill	3,686,188
Total	**3,388,120**

The determination of the purchase consideration and its allocation is based on preliminary estimates and has not been finalized. The Company is currently in the process of assessing the fair values of shares issued, 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 measurement of share consideration subject to escrow provisions, 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 shares issued and the assets acquired and liabilities assumed 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.

Consolidated revenue and loss for the three months ended March 31, 2016 includes revenue and net loss of Endura of $309,699 and $128,594, respectively. If the acquisition had occurred on January 1, 2016, estimated consolidated revenue and net loss for the three months ended March 31, 2016 would have been $1,314,631 and $1,654,088 respectively.

Since acquisition, the amount of goodwill increased by $201,618 as a result of the strengthening of the CAD relative to the US dollar.

5. Restricted cash

As at March 31, 2016, the Company has restricted cash of $741,129 (December 31, 2015 - $9,508) held in separate bank accounts. The cash was primarily restricted as security for a letter of credit used to secure the promissory note issued on acquisition of Endura. Subsequent to March 31, 2016, the promissory note plus accrued interest totaling $690,745 was paid from restricted cash and $40,849 was released to the general cash account.

6. Inventory

	March 31, 2016	December 31, 2015
Raw materials and consumables	$ 202,692	$ 32,856
Work-in-progress	49,793	46,841
Finished goods	199,514	273,565
	$ 451,999	$ 353,262

For the three months ended March 31, 2016, changes in raw materials and consumables, work-in-progress and finished goods recognized as cost of sales amounted to $231,095 (2015 - $438,751). There were no reversals of previously recorded write-downs in the three months ended March 31, 2016, and 2015.

7. Loans payable

	March 31, 2016	December 31, 2015
Loan 1	$ 983,453	$ 1,291,825
Loan 2	20,793	346,274
Loan 3	773,500	770,000
Loan 4	1,082,900	1,078,000
Loan 5	-	926,939
Loan 6	250,000	250,000
Loan 7	681,786	49,846
Loan 8	1,856,400	-
Loan 9	455,539	-
Loan 10	676,841	-
	6,781,212	4,712,884
Current portion	3,238,780	2,098,000
	$ 3,542,432	$ 2,614,884

7. Loans payable (continued)

Loan 1 –The Company has a loan from Xiangrong Xie, a director of the Company bearing 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. The loan is carried at amortized cost which is lower than the original principal value due to the impact of the interest free nature of this loan causing a difference of $207,277 at inception which was recognized as a related party contribution in the statement of changes in shareholders' deficiency. For the three months ended March 31, 2016, the Company entered into an agreement with Xiangrong Xie to forgive $281,834 (RMB 1,830,148) and made a partial principal repayment of $93,937 (RMB 610,000). The carrying value of the portion of the loan forgiven of $249,623 (RMB 1,632,589) was treated as a related party contribution recognized in contributed surplus. In addition, the cash repayment resulted in a change in the amortized cost of the remaining loan balances resulting in additional accretion of $14,657 (RMB 95,958) which has been recognized in the loss for the three months ended March 31, 2016. As at March 31, 2016, the remaining principal value of the loan was $1,091,672 (RMB 7,056,702) (December 31, 2015 – $1,462,515, RMB 9,496,850). For the three months ended March 31, 2016, interest accretion expense of $17,647 (2015 - $10,519) has been recognized in the loss for the period.

Loan 2 - The Company has a loan with Qi Liu, a family member of the Chief Executive Officer ("CEO"), bearing 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. The loan is carried at amortized cost which is lower than the original principal value due to the impact of the interest free nature of this loan causing a difference of $229,814 at inception which was recognized as a related party contribution in the statement of changes in shareholders' deficiency. During the three months ended March 31, 2016, the Company settled $500,000 of this loan by the issue of 1,240,907 shares. The shares issued were recognized at their fair value and the difference of $294,504 between the carrying value of the loan settled and the fair value of the shares issued was recognized in the loss for the three months ended March 31, 2016. As at March 31, 2016, the remaining principal amount of the loan was $55,000 (December 31, 2015 - $555,000). For the three months ended March 31, 2016, interest accretion expense of $4,998 (2015 - $5,953) has been recognized in the loss for the period.

Loan 3 - The Company has a loan from Yun Liu, a shareholder and family member of the CEO. The loan bears a fixed annual interest rate of 5.52% (December 31, 2015 – 5.52%) which is payable monthly until the principal is due on September 18, 2017. During the three months ended March 31, 2016, the loan due date was extended from September 19, 2016 to September 18. 2017. As at March 31, 2016, the remaining principal amount of the loan was $773,500 (RMB 5,000,000) (December 31, 2015 - $770,000, RMB 5,000,000). During the three months ended March 31, 2016, interest expense of $10,550 (2015 – $14,419) has been recognized in the loss for the period.

Loan 4 - The Company has a loan 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% (December 31, 2015 - 7.49%) which is payable monthly until the principal is due on March 2, 2018. During the three months ended March 31, 2016, the loan due date was extended from March 2, 2016 to March 2, 2018. The loan is secured by the Company's manufacturing assets in China. As at March 31, 2016, the remaining principal amount of the loan was $1,082,900 (RMB 7,000,000) (December 31, 2015 – $1,078,000, RMB 7,000,000). During the three months ended March 31, 2016, interest expense in the amount of $20,041 (2015 - $21,241) has been recognized in the loss for the period.

7. Loans payable (continued)

Loan 5 - The Company had a loan of $1,054,317 (RMB 6,846,216) from Xiangrong Xie, a director of the Company. The loan was unsecured, non-interest bearing and was originally due on January 1, 2018. The loan was carried at amortized cost which was lower than the principal value due to the impact of the interest free nature of this loan. During the three months ended March 31, 2016, the loan was repaid in full resulting in a loss of $121,635 (RMB 795,518) due to the difference between its carrying value and the amount repaid. For the three months ended March 31, 2016, interest accretion expense of $4,833 (2015 - $Nil) has been recognized in the loss for the period.

Loan 6 - As at March 31, 2016, the Company has a loan of $250,000 (December 31, 2015 - $250,000) from a third party lender. 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 which was breached as at March 31, 2016; however, a waiver was obtained in May, 2016 for this covenant. For the three months ended March 31, 2016, interest expense of $10,111 (2015 - $Nil) has been recognized in the loss for the period.

Loan 7 - The Company has a loan from Yun Liu, a family member of the CEO. The loan is non-interest bearing, due on January 1, 2018 and is unsecured. During the three months ended March 31, 2016, the Company received additional proceeds of $818,000 from Yun Liu. The loan is carried at amortized cost which is lower than the original principal value due to the impact of the interest free nature of this loan causing a difference of $219,346 at inception which was recognized as a related party contribution in the statement of changes in shareholders' deficiency. As at March 31, 2016, the remaining principal amount of the loan was $886,000 (December 31, 2015 - $68,000). Subsequent to March 31, 2016, the Company received additional proceeds of $15,000 from Yun Liu on the same terms. For the three months ended March 31, 2016, interest accretion expense of $15,287 (2015 - $Nil) has been recognized in the loss for the period.

Loan 8 – During the three months ended March 31, 2016, the Company received a loan of $1,856,400 (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 secured by the land use rights of a wholly owned Chinese subsidiary of the Company and guaranteed by Xiangrong Xie, a director of the Company, and Qi Liu, a family member of the CEO. For the three months ended March 31, 2016, interest expense in the amount of $18,795 (2015 - $Nil) has been recognized in the loss for the period.

Loan 9 - As at March 31, 2016, the Company has a revolving demand credit facility of $455,539 (CAD$590,000) (December 31, 2015 - $Nil) with the Toronto-Dominion Bank ("TD Bank"). The credit facility has a maximum limit of CAD$750,000 and bears interest at a rate equal to the TD Bank's prime rate plus 1.450% per annum. The loan is secured by a general security agreement with Endura. For the three months ended March 31, 2016, interest expense of $1,510 (CAD$2,085) (2015 - $Nil) has been recognized in the loss for the period.

Loan 10 – As at March 31, 2016, the Company has a promissory note of $676,841 (CAD$876,623) which was issued to the vendors of Endura (Note 4). The promissory note was secured by a general security agreement and personal guarantees from Nick Blitterswyk, the Company's CEO and Yun Liu, a family member of the CEO. The promissory note bore interest at 6% until March 31, 2016 and bore interest at 7% from April 1, 2016 until June 30, 2016. For the three months ended March 31, 2016, interest expense of $11,584 (2015 - $Nil) has been recognized in the loss for the period. Subsequent to March 31, 2016, the promissory note was paid in full.

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:

	Three months ended March 31, 2016			Three months ended March 31, 2015		
	Number of shares	Number of special warrants	Amount	Number of shares	Number of special warrants	Amount
Balance at beginning of period	18,838,990	10,200,000	$ 11,435,220	10,156,043	17,000,000	$ 9,538,132
Shares issued for conversion of restricted share units	108,000	-	62,640	-	-	-
Shares ussed for debt	1,240,907	-	624,983	-	-	-
Shares issued on the acquisition of Endura (Note 4)	5,333,333	-	2,290,560	-	-	-
Shares issued for cash, less value attributed to warrants	-	-	-	1,189,834	-	1,159,014
	25,521,230	10,200,000	14,413,403	11,345,877	17,000,000	10,697,146
Contingently returnable shares	3,555,555	-	381,760	-	-	-
Share based compensation	-	-	87,185	-	-	-
Balance at end of period	29,076,785	10,200,000	14,882,348	11,345,877	17,000,000	10,697,146

Of the issued and outstanding shares, 6,666,666 shares issued on acquisition of Endura are held in escrow of which 3,555,555 are contingently returnable in certain circumstances including if certain income targets are not met or if Cameron Steinman resigns from employment with the Company during the escrow period; the remaining shares will be released in installments on each anniversary date of the Endura acquisition.

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 154,250 are available for grant as at March 31, 2016. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration.

As at March 31, 2016, rights to receive 254,189 shares have been granted of which 179,436 vest in 2016, 71,436 vest in 2017 and 3,317 vest in 2018. During the three months ended March 31, 2016, the Company issued 108,000 shares for the rights that vested.

Prior to completing the acquisition of UGE Holdings in 2014, the Company had granted employees the right to receive certain shares upon completion of vesting periods. As at March 31, 2016, rights to receive 26,167 shares remain outstanding and vest in 2016.

During the three month ended March 31, 2016, the Company recognized a total of $33,679 (2015 – $55,613) as compensation expense pursuant to restricted share units in selling, general, and administrative expenses.

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:

	Three months ended March 31, 2016		Year ended December 31, 2015	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Balance at beginning of period	250,400	$ 0.50	105,400	$ 0.50
Granted	-	-	312,800	0.99
Forfeited	(18,833)	1.15	(62,400)	1.15
Exercised	-	-	(105,400)	0.50
Balance at end of period	231,567	$ 0.93	250,400	$ 0.95
Balance exercisable at end of period	100,767	$ 0.92	47,467	$ 1.07

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

Exercise price	Number of options outstanding at March 31, 2016	Weighted average remaining life (months)	Weighted average exercise price (CAD)	Number of options exercisable at March 31, 2016	Weighted average exercise price (CAD)
$1.15	93,567	51	$1.15	36,767	$1.15
$0.78	138,000	56	$0.78	64,000	$0.78
	231,567	54	$ 0.93	100,767	$ 0.92

During the three months ended March 31, 2016, the Company recorded stock-based compensation expense of $14,406 (2015 – $Nil) relating to stock options in selling, general, and administrative expenses.

8. Share capital (continued)

Stock based compensation related to acquisition of Endura

Pursuant to the acquisition of Endura (Note 4), 2,666,666 of the shares in escrow may be forfeited if Cameron Steinman 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 was not included in the consideration paid for the business combination. During the three months ended March 31, 2016, the Company recorded stock-based compensation expense of $87,185 (2015 - $Nil) relating to the post combination employment services.

Special warrants

As at March 31, 2016, 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.

Warrants

As at March 31, 2016, the Company has warrants outstanding from a prior private placement, allowing the holders to purchase an additional 132,727 shares until October 5, 2016 at an exercise price of CAD $1.50 per share.

Loss per share

For the three months ended March 31, 2016, 3,555,555 shares are not included in basic loss per share as these shares are contingently returnable if certain conditions are not met. In addition, stock options and restricted share units are not included in the determination of fully diluted loss per share for the three months ended March 31, 2016 and 2015 as these instruments are anti-dilutive.

9. Accumulated deficit

Pursuant to the People's Republic of China's ("PRC") regulations, the Company's wholly owned subsidiaries in the PRC are required to make appropriations to reserve funds based on after tax net income determined in accordance with generally accepted accounting principles of the PRC ("PRC GAAP"). The reserve funds are established for covering corporate obligations in the event of business liquidation. The reserve funds are recorded as part of retained earnings but are not available for distribution to shareholders other than in liquidation and may limit repatriation of invested capital. As at March 31, 2016, 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.

10. Related party transactions

The Company leases its office in Beijing from Xiangrong Xie, a director of the Company, for $6,116 (RMB 40,000) per month. For the three months ended March 31, 2016, $18,348 (RMB 120,000) (2015 – $19,488, RMB 120,000) of lease payments are included in selling, general and administrative expenses. The lease expires on December 31, 2016

All other related party disclosures are in Loans Payable (Note 7).

11. Commitments and contingencies

Capital commitments

As at March 31, 2016 the Company has outstanding capital commitments of $70,000 (December 31, 2015 - $70,000) which have not been provided for in the condensed consolidated interim financial statements.

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. 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.

12. Segmented information

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

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

	2016	2015
United States	646,883	$ 657,527
Canada	309,699	-
PRC	8,821	-
	$965,403	$ 657,527

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 three months ended March 31, 2016, the Company had two customers that accounted for more than 10% of consolidated revenue. One accounted for 37% (2015 – 7%) and the other for 31% (2015 – nil) of consolidated revenue. No other customer accounted for more than 10% of revenue.

Total non-current assets as at March 31, excluding deferred income tax, was as follows:

	March 31, 2016	December 31, 2015
Canada	$4,091,745	$ -
PRC	4,801,540	4,810,918
	$8,893,285	$ 4,810,918

13. Subsequent events

Subsequent to March 31, 2016, the Company:

a) 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. The extension of these loans are currently in process.

b) filed a final short form prospectus in connection with the Company's public offering of units, which consist of one common share and one half of a common share purchase warrant, for minimum gross proceeds of CAD$1,500,000 and a maximum of CAD$2,500,000. As of the date of these financial statements, no shares have been issued or proceeds received pursuant to this offering. The offering is expected to close in June, 2016.