



UGE INTERNATIONAL LTD.

Management's Discussion and Analysis

Three months ended March 31, 2016

The following Management Discussion and Analysis ("MD&A") is prepared as of May 30, 2016 and is intended to assist in understanding the results of operations and financial condition of UGE International Ltd. (the "Company" or "UGE"). Throughout the MD&A, reference to the Company or UGE is on a consolidated basis. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2016 and the audited consolidated financial statements for the year ended December 31, 2015, both of which are expressed in United States dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are expressed in United States Dollars unless otherwise indicated.

Forward-Looking Information

This MD&A contains forward-looking information that involves material assumptions and known and unknown risks and uncertainties, certain of which are beyond the Company's control. Such assumptions, risks and uncertainties include, without limitation, those associated with, loss of markets, expected sales, future revenue recognition, currency fluctuations, the effect of global and regional economic conditions, industry conditions, changes in laws and regulations, and changes in how they are interpreted and enforced, the lack of qualified personnel or management, fluctuations in foreign exchange or interest rates, demand for the Company's products, and availability of funding. The Company's performance could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if they do so, what benefits the Company will derive there from. The forward-looking information is made as of the date of this press release or the MD&A, as applicable, and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. Actual events or results could differ materially from the Company's expectations and projections.

Corporate Profile

UGE is a global renewable energy company, focused on serving commercial and industrial clients with energy solutions that provide cheaper, more reliable, and more sustainable electricity. We design and deploy energy systems around the world, to companies large and small (recent examples of clients include Bayer, Microsoft, and Dropbox).

UGE was formed in 2008 as an energy solutions company, packaging together renewable energy technologies to solve the needs of commercial and industrial clients. We first reached commercial success through our proprietary line of wind turbines with installations in over 100 countries, including on the Eiffel Tower. We have since grown expertise in solar, battery storage, and project financing, which we leverage to deploy advanced energy systems for our clients, designed to immediately lower their electricity costs. In 2014 we set in place a strategic plan that saw us refine our focus towards commercial and industrial clients, with a greater emphasis on solar energy and key geographic markets (the United States, Panama, the Philippines and China), which was coupled with our public listing in August of 2014. On February 22, 2016, we acquired Endura Energy Project Corp ("Endura"), which added Canada to our list of key geographic markets.

Endura has an established track-record and expertise in executing on the full development cycle of solar PV projects, particularly in the 250kW to 500 kW ground mount and rooftop market within Ontario. Since 2009, Endura has been responsible for advising on or implementing over 250MW of solar photovoltaic systems. This complements the UGE business model in a number of ways: a) ability to perform more detailed upfront analysis and design to assist in the sale process; b) stronger project management capabilities to ensure value maximization and risk minimization; and c) greater turnkey capabilities to provide our clients with end to end service throughout the project development cycle.

UGE is focused on providing the optimal energy solution to our clients. As we have gained prominence in the fast growing solar sector, and as the economics of solar have continued to improve, our sales have become predominately driven by solar, while at times including other technologies, such as our proprietary wind technology and battery storage.

Overall Performance

For the three months ended March 31, 2016, revenue grew by 47%, reaching \$965,403, versus \$657,527 in the same period of the prior year. We continued to strengthen our focus on commercial solar and gained cost synergies through the Endura acquisition, which allowed us to significantly decrease selling, general and administrative (“SG&A”) expenses, even with the addition of Endura since February 22, 2016.

Selected Quarterly Financial Information

	Three months ended March 31,	
	2016	2015
Revenue	\$ 965,403	\$ 657,527
Cost of sales	825,019	442,161
Gross profit	140,384	215,366
Expenses		
Selling, general and administrative	1,281,415	1,563,920
Net interest expense	123,696	46,102
Net finance costs - non-cash related party loan modifications	430,796	-
Income tax (recovery) expense	(6,676)	2,672
	1,829,231	1,612,694
Net loss	\$ (1,688,847)	\$ (1,397,328)
Loss per share - Basic and diluted	\$ (0.08)	\$ (0.13)
	March 31,	December 31,
	2016	2015
Total assets	\$ 13,141,239	\$ 7,647,091
Total non-current financial liabilities	\$ 8,186,425	\$ 7,268,319

Results of Operations for the three months ended March 31, 2016

Revenue for the three months ended March 31, 2016 was \$965,403, compared with \$657,527 in the same period of the prior year, an increase of 47% as we continue to exhibit strong growth by focusing on the commercial solar sector.

The gross profit margin for the three months ended March 31, 2016 was 15%, compared with 33% in the same period of the prior year. As mentioned in prior quarters, UGE's gross margins vary greatly on a quarterly basis depending on project mix, especially as it relates to stage of project completion and project composition. Each individual quarter may not be an accurate representation of average project margin, as projects are typically deployed over several quarters. For the three months ended March 31, 2016, and its comparable period, reasons for the decrease primarily result from project composition, where the prior year's results included a larger portion of wind projects, which tend to have a higher margin than solar projects, whereas this year's results included one strategic project where we chose to accept a lower margin to gain market share.

With the acquisition of Endura, the Company was able to achieve operational and cost synergies that resulted in our SG&A expenses for the three months ended March 31, 2016 decreasing 18% to \$1,281,415, from \$1,563,920 in the prior period. This was primarily due to a decrease of employee compensation of \$72,125, a decrease in stock based compensation of \$269,872, partly offset by an increase in professional fees of approximately \$40,000 due to the acquisition of Endura. We expect further cost synergies to be realized in the second quarter of 2016 as we work toward profitability through increased revenue and streamlined operations.

The Company recorded a loss for the three months ended March 31, 2016 of \$1,688,847, compared with a loss of \$1,397,328 in the same period of the prior year. The primary reason for the increase in 2016 was due to approximately \$430,796 of non-cash finance expenses, from transactions that reduced our outstanding related party loan balances. Excluding this non-cash finance expense, there was a reduction in loss for the three months ended March 31, 2016 as compared with the same period in the prior year as a result of increased revenue and decreased expenses.

Summary of Quarterly Results

All amounts in 000's, except per share figures

	Jun 30 2014 Q2	Sep 30 2014 Q3	Dec 31 2014 Q4	Mar 31 2015 Q1	Trailing four quarters	Jun 30 2015 Q2	Sep 30 2015 Q3	Dec31 2015 Q4	Mar 31 2016 Q1	Trailing four quarters
Revenue	\$ 686	\$ 988	\$ 1,316	\$ 658	\$ 3,648	\$ 1,419	\$ 2,704	\$ 1,359	\$ 965	\$ 6,447
Net loss	\$ (1,174)	\$ (3,065)	\$ (1,979)	\$ (1,397)	\$ (7,615)	\$ (1,359)	\$ (1,202)	\$ (1,648)	\$ (1,689)	\$ (5,898)
Basic and diluted loss per share	\$ (0.15)	\$ (0.32)	\$ (0.20)	\$ (0.13)	\$ (0.80)	\$ (0.12)	\$ (0.09)	\$ (0.08)	\$ (0.08)	\$ (0.37)

Quarter to quarter comparisons in the financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. The quarterly information is unaudited, but reflects all adjustments of a normal recurring nature, which are, in the opinion of management, necessary to present a fair statement of results of operations for the periods presented. Revenues and earnings may fluctuate from quarter to quarter. A number of factors could cause such fluctuations, including the timing of substantial orders. Because operating expenses are determined based on anticipated sales, are generally fixed, and are incurred throughout each fiscal quarter, any of the factors listed above could cause significant variations in revenues and earnings in any given quarter.

Liquidity and Capital Resources

Cash flow from operations

The principal source of cash is from operations; however, in this period of expansion and market development, cash from operations has not been sufficient to meet all of the Company's obligations. The Company has also generated cash through private placements and loans from related parties. The primary uses of cash are operating expenses, including cost of sales.

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, which includes: the Bank of China Loan of \$1,856,400 (RMB 12,000,000), which management expects to extend at the end of its one year term; deferred revenue liability of \$542,454, which will be settled through the performance of services; and \$706,928 relating to an income tax provision for a government grant received in China for which the Company is in discussions with relevant government authorities with respect to waiving this income tax liability. The Company has assessed, based on past experiences with the relevant local government authority, that this tax liability will not be payable in the next twelve months. The operating line of credit, which contributes approximately \$455,539 to the working capital deficiency, is a revolving credit facility and is not expected to be paid back in the following 12 months; instead, it will be repaid and drawn upon throughout the course of the year. The remaining balance of approximately \$1,477,446 is expected to be settled through the course of operations and additional capital raised.

To date we have funded the losses with cash from operations, private placements, and debt, which has been provided from related parties and third party institutions. To the extent that the Company does not achieve positive cash flows from operations in the future, or financing is not available on reasonable terms, reductions in expenditures will be required or the Company may not be able to continue as a going concern. Certain conditions discussed above raise substantial doubt about the ability of the Company to continue as a going concern.

The directors are of the opinion that it is appropriate to prepare the condensed consolidated interim financial statements for the three months ended March 31, 2016 on a going concern basis, which 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 we are unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation on a liquidation basis, which could differ materially from the values presented in the consolidated financial statements. Management believes that there will be significant growth in revenues as we expand upon existing projects and grow in key markets. However, we will require additional funding to continue to develop the Company.

The acquisition of Endura further allows the Company to better rely on cash flows from operations, as Endura has been operating as a profitable company and is expected to continue as a profitable entity for the foreseeable future.

As at March 31, 2016 we had cash and restricted cash of \$61,207 and \$741,129, respectively. 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 \$688,426 was paid from restricted cash and \$40,849 was released to the general cash account.

As mentioned above, we have financed the Company in part through related party loans on favorable terms. As of March 31, 2016, the Company had loans with related parties as follows:

- A loan of \$1,091,672 (RMB 7,056,702) from Xiangrong Xie, a director, with a fixed annual interest rate of 6% beginning in January 1, 2018. The loan is unsecured and is to be repaid evenly over 10 years with monthly repayments commencing January 1, 2018;

- A loan of \$55,000 with Qi Liu, a family member of the chairman of the board of directors, with a fixed annual interest rate of 5%, beginning in January 1, 2018. The loan is unsecured and is to be repaid evenly over 5 years, with monthly repayments commencing January 1, 2018;
- A loan of \$773,500 (RMB 5,000,000) from Yun Liu, a shareholder and family member of the CEO, with a fixed annual interest rate of 5.52%. Interest is payable monthly until the principal due date. The loan is unsecured and due September 18, 2017;
- A loan of \$1,082,900 (RMB 7,000,000) from Beijing Zhongjihaotai Investment Ltd., a company controlled by Xiangrong Xie, a director, with a fixed annual interest rate of 7.49%. Interest is payable monthly until the principal due date of March 2, 2018. The loan is secured by the Company's manufacturing assets in the PRC;
- A loan of \$886,000 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. Subsequent to March 31, 2016, the Company received additional proceeds of \$15,000 from Yun Liu on the same terms as this loan.
- A promissory note of \$676,841 which was issued to the vendors of Endura for the acquisition of Endura. 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. Subsequent to March 31, 2016, the promissory note was paid in full from the restricted cash.

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 held with our subsidiary Piquan UGE Co., Ltd and is secured by a land lease held by that entity, with guarantees from Beijing Urban Green Energy Co., Ltd, Xiangrong Xie, a director, and Qi Liu, a family member of the chairman of the board of directors. The Bank of China Loan is guaranteed further by an agreement from Xiangrong Xie to the Company to pay the balance of the Bank of China Loan at maturity, if necessary, to allow for extensions or refinancing.

The Company has a \$250,000 loan which contains a covenant stating that an adjusted fixed charge coverage ratio must not be less than 1.25. This coverage ratio was breached during the three months ended March 31, 2016; however, a waiver was obtained in May, 2016 for this covenant.

The Company has a revolving demand credit facility of \$455,539 (CAD\$590,000) 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.

Subsequent to March 31, 2016, the Company 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. These loans are currently in the process of being extended.

The Company filed a final short form prospectus on May 25, 2016, with an anticipated closing date in June, 2016. The minimum to be raised through the offering is CAD\$1,500,000 and the maximum is CAD\$2,500,000, plus an over-allotment option that could provide up to an additional CAD\$375,000 above the maximum offering.

As of March 31, 2016, the Company has contractual commitments as follows:

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5+ years
Trade and other payables	\$ 4,649,074	\$ 4,649,074	\$ 4,643,139	\$ 5,935	\$ -	\$ -
Loans payable	6,781,212	8,107,998	3,466,849	2,881,766	580,377	1,179,006
Contractual commitments	-	70,000	70,000	-	-	-
Lease commitments	-	593,864	158,652	104,651	330,561	-
	<u>\$ 11,430,286</u>	<u>\$ 13,420,936</u>	<u>\$ 8,338,640</u>	<u>\$ 2,992,352</u>	<u>\$ 910,938</u>	<u>\$ 1,179,006</u>

The objective in managing capital is to safeguard our ability to continue as a going concern and to sustain future development of the business. In the management of capital, we include shareholders' equity, excluding accumulated other comprehensive income. Our objective is met by retaining adequate cash reserves 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 our capital structure, we may issue shares, such as through the final short form prospectus offering described above. The Board of Directors does not establish quantitative return on capital criteria for management. UGE is not subject to any externally imposed capital requirements and our overall strategy with respect to capital management remains unchanged from the year ended December 31, 2015.

Transactions with Related Parties

As mentioned above, the Company has leveraged related party loans to sustain the Company through its period of growth and maturation which has seen us sustain losses. A summary of related party transactions for the three months ended March 31, 2016 are as follows.

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

During the three months ended March 31, 2016, as a result of loans payable to related parties, the Company:

- Incurred accretion expense of \$17,647 (2015 - \$10,519), with Xiangrong Xie, a director. The Company recorded interest accretion expense due to an extension in the interest free period by Xiangrong Xie;
- Incurred accretion expense of \$4,998 (2015 - \$5,953), with Qi Liu, a family member of the chairman of the board of directors. The Company recorded interest accretion expense due to an extension in the interest free period by Qi Liu;
- Incurred interest expense of \$10,550 (2015 - \$14,419), with Yun Liu, a shareholder and family member of the CEO;
- Incurred interest expense of \$20,041 (2015 - \$21,241), with Beijing Zhongjihaotai Investment Ltd, a company controlled by Xiangrong Xie, a director of the Company;
- Incurred accretion expense of \$4,833 (2015 - \$Nil), with Xiangrong Xie. The Company recorded interest accretion expense due to an extension in the interest free period by Xiangrong Xie; and
- Incurred accretion expense of \$15,287 (2015 - \$Nil), with Yun Liu. The Company recorded interest accretion expense due to the interest free period given by Yun Liu.

All existing loans with related parties are discussed in the Liquidity and Capital Resources section.

Completed Acquisition of Endura Energy Project Corp.

As mentioned above, a major development for the Company in the three months ended March 31, 2016 was the 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 increase overall scale and efficiency of the Company.

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 repaid in full on April 12, 2016. 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 has been accounted for using the acquisition method with the results of operations consolidated with those of the Company effective February 23, 2016.

Financial Instruments and other instruments

The Company's risk exposures and the impact on our financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill our payment obligations. The Company manages credit risk by requiring payment from customers prior to shipment, where possible. However, the Company does have trade receivables outstanding with several customers.

Liquidity risk

The Company's objective in managing liquidity risk is to ensure that we will have sufficient liquidity to meet our financial obligations when due by maintaining sufficient cash and cash equivalents to settle current liabilities and meet our anticipated working capital requirements. As of March 31, 2016, the Company had restricted cash of \$741,129 used as security for a letter of credit used to secure a promissory note issued on acquisition of Endura and \$61,207 of cash to settle current liabilities of \$8,784,416. Endura has historically been a profitable company and is expected to provide additional liquidity to the Company. In addition, the Company filed a final short form prospectus on May 25, 2016, with an anticipated closing date in June, 2016. The minimum to be raised through the offering is CAD\$1,500,000 and the maximum is CAD\$2,500,000 plus an over-allotment option that could provide up to an additional CAD\$375,000 above the maximum offering. The Company plans to realize its assets and raise further capital to maintain sufficient liquidity.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

The Company has cash balances and the majority of debt with fixed interest rates and therefore is not significantly exposed to fluctuating interest rates. Our current policy is to invest excess cash in a savings account at our banking institution.

(b) Foreign currency risk

The Company enters into transactions denominated in US dollars, Canadian dollars, and Renminbi for which the related expenses and accounts payable balances are subject to exchange rate fluctuations. The Company does not hedge our exposure to foreign currency risk using financial instruments.

Changes in Accounting Policies including Initial Adoption

The Company's unaudited 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. The unaudited 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. The International Accounting Standards Board (IASB) has published new standards and amendments or interpretations to existing standards which are mandatory for periods beginning after December 31, 2015, or later as outlined below.

Accounting standards adopted

(i) Change in accounting policy

There were no new standards effective January 1, 2016 that had an 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, and have not been applied in preparing the consolidated interim 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.

Business Risks

Going concern risk

These consolidated financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the three months ended March 31, 2016, the Company incurred a net loss of \$1,688,847 and negative cash flow from operations of \$1,177,986. The Company has incurred significant losses as it develops and expands its operations. Revenues have not been sufficient to cover all costs and may not be sufficient for several quarters, if at all. The Company anticipates that it will incur further losses in the development of its business.

To date the Company has funded the losses with the private placements and loans from related parties. To the extent that the Company does not achieve positive cash flows from operations in the future or financing is not available or not available on reasonable terms, reductions in expenditures will be required or the Company may not be able to continue as a going concern. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. 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 accompanying financial statements.

Customer concentration risk

We derive a significant portion of revenue from sales to a relatively limited number of customers. If any of our more significant prospective customers fail to purchase our solutions or our existing customers discontinue their relationship with us for any reason, our revenue may be substantially reduced. To mitigate this risk, we have implemented customer retention programs to emphasize both quality of product and superior customer service. Our sales programs also address a large base of potential customers and at any given time, we are pursuing a significant number of sales opportunities.

Sales risk

Our sales efforts target medium sized and large corporations and we spend significant time and resources educating prospective customers about the features and benefits of our solutions. Our sales cycle usually ranges from 3 to 12 months and sales delays could cause our operating results to vary. The Company balances this risk by continuously assessing the condition of our sales “pipeline” and making the appropriate adjustments as far in advance as possible. Our strategy also includes a comprehensive program to build and improve relationships with our customers to better understand their needs and proactively manage incoming business levels effectively.

Operations in PRC

The Company has two operating subsidiaries located in the PRC, and as such the repatriation of cash to the United States and Canada may be restricted by government policies.

Product acceptance risk

Our revenue and profit potential depends substantially upon market acceptance of our products. To mitigate the risk of non-acceptance by the market, our strategy involves ongoing significant investments in product development to enhance our product line and to develop new applications and features to satisfy the increasingly sophisticated demands of our customers. We also ensure our investments in this area are based on a thorough understanding of the market and customer demands through a comprehensive program of market research and customer interaction. Our success depends on the ability of our products to interface with host computer systems and to respond to changes in these systems. In many cases the needs of our customers require us to make significant custom modifications to our products. Our success will depend upon our ability to efficiently undertake and complete such customization, in most cases, under a fixed price arrangement.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with IFRS.

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Because of the inherent limitations in a cost-effective control system, any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements, due to error or fraud, from occurring in the consolidated financial statements.

Other

As of the date of this MD&A, the Company has 29,076,785 common shares issued and outstanding, of which 6,666,666 are held in escrow. In addition, there are 10,200,000 special warrants held by the founders of UGE, which may be converted to common shares for no additional consideration, 132,727 share purchase warrants which may be exercised for one common share each at the fixed exercise price, and stock options to purchase an additional 215,900 common shares. The Company also has restricted share units which allow employees and directors to acquire a total of 278,856 common shares over the next three years for no additional consideration.

Additional information and other publicly filed documents relating to the Company are available through the internet on the Canadian Securities Administrators’ System for Electronic Document Analysis and Retrieval (“SEDAR”), which can be accessed at www.sedar.com.