UGE INTERNATIONAL LTD.

Unaudited Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2016 and 2015

(Expressed in United States dollars)

UGE INTERNATIONAL LTD.

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

Assets	June 30, 2016	December 31, 2015
Current assets		
Cash	$ 944,911	$ 179,544
Restricted cash	-	9,508
Trade and other receivables (Note 9)	1,974,446	1,353,023
Inventory (Note 5)	541,027	353,262
Prepaid expenses and deposits	915,015	437,827
	4,375,399	2,333,164
Non-current assets		
Property, plant and equipment	2,644,466	2,620,088
Lease prepayments	2,117,598	2,190,831
Deferred tax assets	484,702	503,008
Goodwill (Note 4)	3,896,045	-
Total assets	$ 13,518,210	$ 7,647,091
Liabilities		
Current liabilities		
Trade and other payables (Note 9)	$ 5,376,204	$ 3,629,023
Loans payable (Note 6)	2,232,388	2,098,000
Deferred revenue	494,886	-
Income taxes payable	691,612	706,728
Warranty provision	204,285	195,163
	8,999,375	6,628,914
Non-current liabilities		
Loans payable (Note 6)	3,520,067	2,614,884
Deferred income tax liabilities	19,435	-
Other payables	5,935	5,935
Deferred government grants	4,479,000	4,647,500
	17,023,812	13,897,233
Shareholders' deficiency		
Share capital (Note 7)	16,165,038	11,435,220
Contributed surplus	2,694,669	1,772,351
Accumulated other comprehensive income	422,715	184,082
Accumulated deficit	(22,788,024)	(19,641,795)
	(3,505,602)	(6,250,142)
Total liabilities and shareholders' deficiency	$ 13,518,210	$ 7,647,091

Reporting entity and going concern (Note 1)
Commitments and contingencies (Note 10)
Subsequent events (Note 12)

The accompanying notes form an integral part of these 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
(Unaudited) (Expressed in United States dollars)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenue (Note 9)	$ 1,690,252	$ 1,418,643	$ 2,655,655	$ 2,076,170
Cost of sales	(1,405,836)	(1,261,029)	(2,230,855)	(1,703,190)
Gross profit	284,416	157,614	424,800	372,980
Operating expenses				
Selling, general and administrative	1,620,033	1,460,956	2,901,448	3,024,876
Net loss from operating activities	(1,335,617)	(1,303,342)	(2,476,648)	(2,651,896)
Finance expense	(133,220)	(59,449)	(257,702)	(113,012)
Finance expense - non-cash related party loan modifications (Note 6)	-	-	(430,796)	-
Finance income	85,802	6,772	86,588	14,233
Net loss before income taxes	(1,383,035)	(1,356,019)	(3,078,558)	(2,750,675)
Income tax expense	74,347	3,328	67,671	6,000
Net loss for the period	(1,457,382)	(1,359,347)	(3,146,229)	(2,756,675)
Other comprehensive income (loss)				
Items that are or may be reclassified to profit or loss				
Foreign currency translation differences	12,794	(1,698)	238,633	(42,701)
Comprehensive net loss for the period	$ (1,444,588)	$ (1,361,045)	$ (2,907,596)	$ (2,799,376)
Weighted average number of shares				
Basic and diluted	25,932,583	11,061,565	23,903,731	10,977,957
Net loss per share attributable to the shareholders of the Company				
Basic and diluted	$ (0.06)	$ (0.12)	$ (0.13)	$ (0.25)

The accompanying notes form an integral part of these 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 (loss)	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 (Notes 6 and 7)	624,983	-	-	-	624,983
Amount issued on conversion of restricted share units (Note 7)	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 (Note 6)	-	204,791	-	-	204,791
Related party forgiveness of of interest free debt (Note 6)	-	249,623	-	-	249,623
Share-based compensation (Note 7)	311,969	177,630	-	-	489,599
Public equity offering, net of share issue costs (Note 7)	1,057,906	352,914	-	-	1,410,820
Net loss for the period	-	-	-	(3,146,229)	(3,146,229)
Foreign currency translation differences	-	-	238,633	-	238,633
Balance - June 30, 2016	$ 16,165,038	$ 2,694,669	$ 422,715	$ (22,788,024)	$ (3,505,602)

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

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

UGE INTERNATIONAL LTD.

Condensed Consolidated Interim Statements of Cash Flows for the six months ended
(Unaudited) (Expressed in United States dollars)

	June 30, 2016	June 30, 2015
Cash flow from operating activities		
Loss for the period	$ (3,146,229)	$ (2,756,675)
Adjustment for:		
Depreciation and amortization	56,741	109,823
Deferred income tax expense	67,671	6,637
Share-based compensation (Note 7)	489,599	612,641
Finance expense - non-cash related party loan modfications (Note 6)	430,796	-
Accretion expense on loans payable (Note 6)	84,426	33,172
Finance income	(86,588)	(14,233)
Finance expense	173,276	79,840
	(1,930,308)	(1,928,795)
Changes in non-cash working capital:		
Trade and other receivables	(272,503)	(155,669)
Inventory	(189,930)	(56,321)
Prepaid expenses and deposits	(432,237)	(112,818)
Trade and other payables	1,612,565	810,573
Warranty provision	10,221	(64,626)
	(1,202,192)	(1,507,656)
Interest paid	(166,590)	(81,063)
Income taxes paid	(2,978)	-
Cash used in operating activities	(1,371,760)	(1,588,719)
Cash flow from (used in) investing activities		
Additions to property plant and equipment	(103,486)	(202,275)
Restricted cash	9,461	106,836
Cash consideration paid for Endura, net of bank overdraft assumed (Note 4)	(698,072)	-
Cash used in investing activities	(792,097)	(95,439)
Cash flow from financing activities		
Proceeds on issue of share capital and warrants, net of issuance costs	1,401,141	1,398,639
Net proceeds of loans payables	1,561,522	-
Cash provided by financing activities	2,962,663	1,398,639
Increase (decrease) in cash for the period	798,806	(285,519)
Effect of exchange rate fluctuations on cash	(33,439)	(61,654)
Cash at beginning of period	179,544	433,779
Cash at end of period	$ 944,911	$ 86,606

Non-cash transactions (Note 5, 6 and 7)

The accompanying notes form an integral part of these 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 provides development engineering procurement and construction work in the commercial solar sector.

(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 six months ended June 30, 2016, the Company incurred a net loss of $3,146,229 and negative cash flow from operations of $1,371,760. As at June 30, 2016, the Company has a working capital deficiency of $4,623,976 and a shareholders' deficiency of $3,505,602.

The Company has financed its operations 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. There are no guarantees that the funds raised 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 August 26, 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 22, 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 Canadian dollar ("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. ("UGE HK") is the US dollar, and the functional currency of the Company's wholly owned subsidiaries 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 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 may differ from the estimates applied in the preparation of these interim financial statements.

2. Basis of preparation (continued)

(e) Accounting assumptions, estimates and judgments (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: useful lives of property, plant and equipment; allowances for doubtful accounts and sales returns; provision for future warranty claims; current and deferred income taxes; 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: 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.

(f) Comparative figures:

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.

3. New standards and interpretations not yet adopted

The significant accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in the Company's annual audited consolidated financial statements for the year ended December 31, 2015. There were no new standards effective January 1, 2016 that had an impact on the Company's financial statements. In addition to the new standards and interpretations not yet adopted discussed in the Company's December 31, 2015 annual consolidated financial statements, the Company notes below the additional pronouncements during the six months period ended June 30, 2016.

IAS 12, Income Taxes (Amendments)

On January 19, 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses as an amendment to IAS 12. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017 with early adoption permitted.

The Company intends to adopt the amendments to IAS 12 in its consolidated financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on its consolidated financial statements.

3. New standards and interpretations not yet adopted (continued)

IFRS 2, Share-Based Payment (Amendments)

On June 20, 2016, the IASB issued amendments to IFRS 2 clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively, retrospectively, or early application is permitted if information is available without the use of hindsight. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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. Subsequent to June 30, 2016, the Company entered into an amending agreement in connection with its acquisition of Endura (Note 12(b)).

The total cost incurred related to this acquisition were $72,083, of which $29,391 were incurred and expensed in the year ended December 31, 2015 and $42,692 are included in selling, general and administrative expenses for the six months ended June 30, 2016.

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

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 are 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
Income taxes recoverable	67,948
Prepaid expenses and deposits	41,488
Work in progress	79,341
Property and equipment	71,846
Accounts payable	(670,093)
Bank indebtedness	(89,475)
Deferred income taxes liabilities	(24,407)
Goodwill	3,686,188
Total	**3,388,120**

The consideration paid and 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.

Consolidated revenue and net loss for the six months ended June 30, 2016 includes revenue and net loss of Endura of $1,366,121 and $405,232, respectively. If the acquisition had occurred on January 1, 2016, estimated consolidated revenue and net loss for the six months ended June 30, 2016 would have been $3,017,853 and $3,181,184, respectively.

Since acquisition, the amount of goodwill increased by $209,857 as a result of the strengthening of the CAD relative to the US dollar.

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

5. Inventory

	June 30, 2016	December 31, 2015
Raw materials and consumables	$ 256,417	$ 32,856
Work-in-progress	166,442	46,841
Finished goods	118,168	273,565
	$ 541,027	$ 353,262

For the three and six months ended June 30, 2016, changes in raw materials and consumables, work-in-progress and finished goods recognized as cost of sales amounted to $40,073 (2015 - $984,740) and $271,168 (2015 - $1,423,491), respectively. For the three and six months ended June 30, 2016, the write-down of inventories to net realizable value amounted to $Nil (2015 – $11,720) and $Nil (2015 - $11,720), respectively. There were no reversals of previously recorded write-downs in the three and six months ended June 30, 2016 and 2015.

6. Loans payable

	June 30, 2016	December 31, 2015
Loan 1	$ 971,766	$ 1,291,825
Loan 2	21,589	346,274
Loan 3	753,000	770,000
Loan 4	1,054,200	1,078,000
Loan 5	-	926,939
Loan 6	250,000	250,000
Loan 7	719,512	49,846
Loan 8	55,400	-
Loan 9	1,807,200	-
Loan 10	78,312	-
Loan 11	41,476	-
	5,752,455	4,712,884
Current portion	2,232,388	2,098,000
	$ 3,520,067	$ 2,614,884

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 period from July 1, 2015 to January 1, 2018 causing a difference of $207,277 which was recognized as a related party contribution in the statement of changes in shareholders' deficiency. During the six months ended June 30, 2016, the Company entered into an agreement with Xiangrong Xie whereby she forgave $281,834 (RMB 1,830,148) of the loan and the Company 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.

6. Loans payable (continued)

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 net loss for the six months ended June 30, 2016 as finance expense - non-cash related to loan modifications. As at June 30, 2016, the remaining principal value of the loan was $1,062,739 (RMB 7,056,702) (December 31, 2015 – $1,462,515, RMB 9,496,850). For the three and six months ended June 30, 2016, interest accretion expense of $14,675 (2015 - $10,748) and $32,330 (2015 - $21,267), respectively, has been recognized in net loss for the period as finance expense.

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 period from July 1, 2015 to January 1, 2018 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 six months ended June 30, 2016, the Company settled $500,000 of this loan by the issuance of 1,240,907 common shares of the Company. 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 common shares issued was recognized in finance expense - non-cash related to loan modifications. As at June 30, 2016, the remaining principal amount of the loan was $55,000 (December 31, 2015 - $555,000). For the three and six months ended June 30, 2016, interest accretion expense of $796 (2015 - $5,952) and $5,794 (2015 - $11,905), respectively, has been recognized in net loss for the period as finance expense.

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 six months ended June 30, 2016, the loan due date was extended from September 19, 2016 to September 18, 2017. As at June 30, 2016, the remaining principal amount of the loan was $753,000 (RMB 5,000,000) (December 31, 2015 - $770,000, RMB 5,000,000). During the three and six months ended June 30, 2016, finance expense of $10,605 (2015 – $14,686) and $21,155 (2015 – $29,105), respectively, has been recognized in net loss for the period as finance expense.

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 six months ended June 30, 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 June 30, 2016, the remaining principal amount of the loan was $1,054,200 (RMB 7,000,000) (December 31, 2015 – $1,078,000, RMB 7,000,000). During the three and six months ended June 30, 2016, finance expense in the amount of $24,069 (2015 - $16,899) and $42,864 (2015 - $38,140), respectively, has been recognized in net loss for the period as finance expense.

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. During the six months ended June 30, 2016, the loan was repaid in full resulting in a loss of $121,635 (RMB 795,518) which has been recognized in finance expense - non-cash related party loan modifications. For the three and six months ended June 30, 2016, interest accretion expense of $Nil (2015 - $Nil) and $4,846 (2015 - $Nil), respectively, has been recognized in net loss for the period as finance expense.

6. Loans payable (continued)

Loan 6 - As at June 30, 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 June 30, 2016; however, management is in discussions to pay the loan on its maturity date. For the three and six months ended June 30, 2016, finance expense of $10,222 (2015 - $Nil) and $20,333 (2015 - $Nil), respectively, has been recognized in net loss for the period as finance expense.

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 six months ended June 30, 2016, the Company received additional proceeds of $833,000 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 period from July 1, 2015 to January 1, 2018 causing a difference of $222,945 which was recognized as a related party contribution in the statement of changes in shareholders' deficiency. As at June 30, 2016, the remaining principal amount of the loan was $901,000 (December 31, 2015 - $68,000). For the three and six months ended June 30, 2016, interest accretion expense of $26,169 (2015 - $Nil) and $41,456 (2015 - $Nil), respectively, has been recognized in net loss for the period as finance expense.

Loan 8 – During the six months ended June 30, 2016, the Company received loans of $55,400 from three independent directors. The loans are unsecured, non-interest bearing and were due on May 26, 2016, with a 5% processing fee due upon repayment. Subsequent to June 30, 2016, the Company repaid $40,000 of the loans for two of the three independent directors and an extension of the remaining loan is currently in progress.

Loan 9 – During the six months ended June 30, 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 due in equal parts on December 15, 2016 and January 20, 2017 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 owned by UGE Pingquan and guaranteed by Xiangrong Xie, a director of the Company, and Qi Liu, a family member of the CEO. For the three and six months ended June 30, 2016, finance expense in the amount of $24,069 (2015 - $Nil) and $42,864 (2015 - $Nil), respectively, has been recognized in net loss for the period as finance expense.

Loan 10 – During the six months ended June 30, 2016, the Company received a loan of $78,312 (RMB 520,000) from Xiangrong Xie, a director of the Company. The loan is unsecured, non-interest bearing, due on October 31, 2016, with a 5% processing fee due upon repayment. As at June 30, 2016, the principal value of the loan was $78,312 (December 31, 2015 – $Nil).

Loan 11 – During the six months ended June 30, 2016, the Company signed a loan agreement for $41,476 with OTEPI Panama S.A. ("OTEPI") for the procurement of equipment for a portfolio of projects in Panama. The loan is unsecured, bears interest of 6% per annum from June 8, 2016 to July 7, 2016 and 12% per annum thereafter and is due on July 8, 2016. The Company expects to pay the loan from the receipt of accounts receivables owed from OTEPI. For the three and six months ended June 30, 2016, interest expense in the amount of $150 (2015 - $Nil) and $150 (2015 - $Nil), respectively, has been recognized in net loss for the period as finance expense.

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

7. 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:

	Six months ended June 30, 2016			Six months ended June 30, 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
Public equity offering, net of issuance costs	6,238,863	-	1,057,906	-	-	-
Shares issued for conversion of restricted share units	108,000	-	62,640	229,858	-	337,891
Shares issued to settle debt	1,240,907	-	624,983	-	-	-
Shares issued on the acquisition of Endura	5,333,333	-	2,290,560	-	-	-
Shares issued for cash, less value attributed to warrants	-	-	-	1,189,834	-	1,159,014
Shares issued on the exercise of stock options	-	-	-	37,080	-	14,889
	31,760,093	10,200,000	15,471,309	11,612,815	17,000,000	11,049,926
Contingently returnable shares	3,555,555	-	381,760	-	-	-
Share based compensation	-	-	311,969	-	-	-
Balance at end of period	35,315,648	10,200,000	16,165,038	11,612,815	17,000,000	11,049,926

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. Refer to Note 12(b) for subsequent event.

On June 24, 2016, the Company completed a short-form prospectus equity financing of 6,133,600 units of the Company at a price of $0.38 per unit for gross proceeds of $1,803,315 (CAD $2,330,768). Each unit consisted of one full common share of the Company and one half share purchase warrant. Each warrant is exercisable at an exercise price of CAD$0.48 for a period of 24 months from the date of issuance. The total share issue cash costs related to the financing were $481,923 (CAD $632,576) including 105,263 shares issued as a corporate finance fee to the lead agent. Commission paid and other transaction costs are recognized as a reduction in share capital. The Company also issued 490,688 warrants to an agent as part of the equity offering. The fair value of these agent warrants, as estimated by the Black-Scholes model, was $56,302 (CAD$72,770). Significant assumptions used in the Black-Scholes model included an expected life of 2 years, volatility of 84.7% and a risk free rate of 0.56%. The fair value of the warrants were recognized as a reduction in share capital.

7. Share capital (continued)

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 common shares of the Company of which 235,939 common shares are available for grant as at June 30, 2016. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration.

As at June 30, 2016, rights to receive 234,814 shares have been granted of which 170,061 vest in 2016, 62,061 vest in 2017 and 2,692 vest in 2018. During the six months ended June 30, 2016, the Company issued 108,000 shares for restricted share units.

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 June 30, 2016, rights to receive 20,029 shares remain outstanding and vest in 2016.

During the three and six months ended June 30, 2016, the Company recognized a total of $29,188 (2015 – $211,443) and $62,867 (2015 - $606,004), respectively, in compensation expense pursuant to restricted share units.

Special warrants

As at June 30, 2016, the Company had 10,200,000 special warrants outstanding held by related parties. The special warrants are convertible into common 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. See Note 12(e) for subsequent event regarding conversion of special warrants.

Warrants

As at June 30, 2016, the Company has warrants outstanding, from private placements, allowing the holders to purchase an additional 132,727 common shares until October 5, 2016 at an exercise price of CAD $1.50 per share.

As at June 30, 2016, the Company also has warrants outstanding, from the June 24, 2016 public offering, allowing the holders to purchase an additional 3,066,800 common shares until June 23, 2018 at an exercise price of CAD $0.45 per share and 490,688 common share agent warrants until June 23, 2018 at an exercise price of CAD $0.38 per share.

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 and six months ended June 30, 2016, the Company recognized stock-based compensation expense of $224,784 (2015 - $Nil) and $311,969 (2015 - $Nil), respectively, relating to the post combination employment services. See Note 12(b) for subsequent event regarding Mr. Steinman’s employment with the Company.

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

7. 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 common shares to directors, officers, employees and consultants. The exercise price of each option is equal to the quoted market price of the Company's common shares on the trading day immediately preceding the date of grant and the maximum term is ten years. The stock option activity is as follow:

	Six months ended June 30, 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	1,717,061	0.45	312,800	0.99
Forfeited	(49,700)	1.07	(62,400)	1.15
Exercised	-	-	(105,400)	0.50
Balance at end of period	1,917,761	$ 0.50	250,400	$ 0.50
Balance exercisable at end of period	543,953	$ 0.52	47,467	$ 0.50

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

Exercise price	Number of options outstanding at June 30, 2016	Weighted average remaining life (months)	Weighted average exercise price (CAD)	Number of options exercisable at June 30, 2016	Weighted average exercise price (CAD)
$1.15	68,700	48.0	$ 1.15	24,900	$ 1.15
$0.78	138,000	53.0	$ 0.78	64,000	$ 0.78
$0.45	1,711,061	60.0	$ 0.45	455,053	$ 0.45
	1,917,761	59.0	$ 0.50	543,953	$ 0.52

During the three and six months ended June 30, 2016, the Company recognized stock-based compensation expense of $100,364 (2015 - $6,637) and $114,763 (2015 - $6,637), respectively relating to stock options. The compensation expense was based on the fair value of each stock option on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	5 years
Expected volatility in market price of shares	84.7%
Expected dividend rate	0%
Risk-free interest rate	0.56%
Weighted average fair value per option granted (CAD)	$ 0.50

7. Share capital (continued)

Loss per share

For the six months ended June 30, 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, warrants and restricted share units are not included in the determination of fully diluted loss per share for the three and six months ended June 30, 2016 and 2015 as these instruments are anti-dilutive.

8. 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 June 30, 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.

9. Related party transactions

The Company leases its office in Beijing from Xiangrong Xie, a director of the Company, for $6,024 (RMB 40,000) per month. For the three and six months ended June 30, 2016, $18,444 (RMB 120,000) (2015 – $19,104, RMB 120,000), and $36,792 (RMB 240,000) (2015 – $38,592, RMB 240,000), respectively, of lease payments are included in selling, general and administrative expenses respectively. The lease expires on December 31, 2016.

The Company is contracted to provide services to Endura Energy Development Inc. ("EEDI") where the terms and conditions of these services are no more favourable than those available on an arm's length basis. A director of the Company is also a director of EEDI, resulting in the Company and EEDI to be related party entities. During the three and six months ended June 30, 2016, the Company recorded revenue of $353,692 (2015 - $Nil) and $353,692 (2015 - $Nil), respectively, related to these services. As at June 30, 2016, included in the statements of financial position are accounts receivable for $665,900 (December 31, 2015 - $Nil) due from EEDI and accounts payable $541,136 (December 31, 2015 - $Nil) due to EEDI.

All other related party disclosures are in Loans Payable (Note 6).

10. Commitments and contingencies

Capital commitments

As at June 30, 2016 the Company has outstanding capital commitments of $25,000 (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 as at June 30, 2016.

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.

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

11. Segmented information

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

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 and six months ended June 30, was as follows:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
United States	$ 484,678	$ 1,368,804	$ 1,131,561	$ 2,026,331
Canada	1,056,422	-	1,366,121	-
PRC	149,152	49,839	157,973	49,839
	$ 1,690,252	$ 1,418,643	$ 2,655,655	$ 2,076,170

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 and six months ended June 30, 2016, the Company had five customers that accounted for more than 10% of consolidated revenue as listed below. No other customer accounted for more than 10% of the Company's consolidated revenue.

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Customer 1	27%	0%	18%	0%
Customer 2	27%	0%	17%	0%
Customer 3	17%	0%	18%	0%
Customer 4	14%	0%	21%	0%
Customer 5	6%	55%	13%	40%

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

	June 30, 2016	December 31, 2015
Canada	$3,967,112	$ -
PRC	4,690,997	4,810,919
	$8,658,109	$ 4,810,919

12. Subsequent events

Subsequent to June 30, 2016, the Company:

a) executed a binding term sheet for the sale of UGE Holdings to Zhenyu Li ("Purchaser"), a Senior Manager for UGE Pingquan. The reason for the sale was to allow the Company to focus operations on its solar operations in its key markets by selling UGE Holdings and its subsidiaries. In consideration for the assumption of net liabilities of UGE Holdings, the Company intends to pay the Purchaser $2.6 million pursuant to a promissory note issued by UGE USA Inc. ("UGE USA"), a subsidiary of the Company, which shall accrue interest at a rate of 6.5% annually, with interest payable quarterly, and a maturity date that is five years from the closing of the transaction. In addition, UGE USA will issue a promissory note to UGE Inc. in the amount of $1.0 million for the transfer of solar business focused employee contracts along with other solar-related assets, which shall accrue interest at a rate of 6.5% annually, with interest payable quarterly, and a maturity date that is five years from the closing of the transaction. The transaction is subject to a vote of disinterested shareholders at the Annual General Meeting to be held on August 30, 2016. The transaction is also subject to other customary regulatory approvals;

b) entered into an amended agreement with Cameron Steinman whereby he resigned as an officer of the Company; however, he will remain as a director of the Company and continue to work on a part time basis moving forward. As part of the amended agreement, 2,222,222 of the common shares related to the acquisition of Endura which were in escrow have been released and the remaining 4,444,444 common shares in escrow will be forfeited, and returned to treasury;

c) received a loan of $201,804 (RMB 1,340,000) from Xiangrong Xie, a director of the Company. The loan is unsecured, non-interest bearing and due on October 31, 2016, with a 5% processing fee payable upon maturity;

d) issued 108,000 common shares pursuant to the vesting of restricted shares;

e) converted 5,100,000 special warrants to 5,100,000 common shares, which were released from escrow; and

f) Incorporated an entity named UGE Philippines Inc., which was created to execute projects in the Philippines.