



UGE INTERNATIONAL LTD.

Management's Discussion and Analysis

Three and six months ended June 30, 2016

The following Management's Discussion and Analysis ("MD&A") is prepared as of August 26, 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 and six months ended June 30, 2016 which are prepared in accordance with IAS 34, *Interim Financial Reporting*, and the audited consolidated financial statements for the year ended December 31, 2015 which are 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 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 therefrom. 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 a proprietary line of wind turbines that has since been installed in over 100 countries, including on the Eiffel Tower. We have since grown expertise in solar, as well as battery storage and the financing of renewable energy projects, which we leverage to deploy energy systems for our clients with the goal to immediately lower their electricity costs. On February 22, 2016, we acquired Endura Energy Project Corp. ("Endura"), which added Canada to our list of geographic markets as well as significant additional solar experience.

Endura has an established track-record in executing on the full development cycle of solar photovoltaic projects, particularly in the 250kW to 500kW market within Ontario. Since 2009, Endura has been responsible for advising on or implementing over 250MW of solar photovoltaic systems.

Today, UGE provides complete turnkey services to clients across its key markets: the Northeast US, Canada, Panama, the Philippines and China. Across the organization we have approximately 330 MW of experience. Our focus is to leverage the low cost of distributed energy to provide our clients - businesses from around the world - more affordable energy.

Proposed Disposition of Wind-focused Subsidiaries

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. On August 3, 2016, we announced our intentions to sell the wind-focused subsidiaries to better focus the business around our solar offerings; the transaction is subject to customary regulatory approvals and a vote of disinterested shareholders at our Annual General Meeting on August 30, 2016.

If the vote is in favor of the transaction, we expect it to close before September 30, 2016. We have executed a binding term sheet to sell all of the issued and outstanding equity shares of our wholly-owned subsidiary, UGE Holdings Inc. ("**Holdings**"), to Zhenyu Li (the "**Purchaser**"). The sale of Holdings to the Purchaser (the "**Transaction**") provides for the disposition of all of our wind-related assets and operations, allowing us to focus on solar, while allowing for Holdings (which includes a manufacturing facility overseas) to focus its operations around advancing distributed wind technology. The Purchaser has been a Senior Manager of the Company's manufacturing facility in China for the past six years, making the Transaction a related party transaction. Holdings is the sole shareholder of the following additional UGE subsidiaries (the "**Holdings Group**" and collectively with Holdings, the "**Sale Group**"): Urban Green Energy Hong Kong Ltd., Chengde Urban Green Energy Ltd., Beijing Urban Green Energy Co., Ltd. ("**UGE Beijing**"), PingQuan UGE Co., Ltd. ("**UGE PingQuan**"), and Urban Green Energy Inc. ("**Urban Inc.**"). With the acquisition of Holdings, the Purchaser will also be acquiring all of the Holdings Group.

In consideration for the assumption of the \$7.5 million net liabilities of the Sale Group, we intend to pay the Purchaser \$2.6 million pursuant to a promissory note issued by UGE USA Inc. ("**UGE USA**"), a UGE subsidiary, 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 Urban Inc. in the amount of \$1.0 million for the transfer of solar-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.

We are looking forward to closing the Transaction in September of this year. The vast majority of our revenues relate to solar projects, a trend we expect to further accelerate going forward. After the Transaction, our balance sheet will be stronger, and management will be even more focused on continuing to grow our market share in the fast growing commercial solar market.

Overall Performance

The three months ending June 30, 2016 saw us substantially complete the integration of Endura, which we acquired on February 22, 2016, into UGE, as well as our continued focusing of the business on our solar offering. Our goals are to continue to increase revenue, reach average gross margins of 20% or more, and to maintain an expense level that sees us reach positive cash flow from operations in the coming quarters.

For the three months ended June 30, 2016, revenue increased 19% to \$1,690,252, and for the first six months of the year revenues increased 28%, reaching \$2,655,655. Meanwhile, in the most recent quarter our Gross Margin strengthened to 17%, versus 11% for the same period of the prior year.

During the same period, we achieved significant cost synergies from the Endura acquisition. Despite adding significant revenue scale to the organization, selling, general and administrative ("SG&A") expenses increased a comparatively small 11% in the quarter ended June 30, 2016. Further cost synergies were achieved throughout the quarter, and will be achieved through the proposed Transaction, further improving our ability to reach positive cash flow from operations in the coming quarters.

Selected unaudited financial information for the three and six months ended June 30, 2016 is included below.

Selected Quarterly Financial Information

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 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 margin %	17%	11%	16%	18%
Gross profit	284,416	157,614	424,800	372,980
Expenses (income):				
Selling, general and administrative	1,620,033	1,460,956	2,901,448	3,024,876
Finance expense	133,220	59,449	257,702	113,012
Finance expense - non-cash related party loans modifications	-	-	430,796	-
Finance income	(85,802)	(6,772)	(86,588)	(14,233)
Income tax expense	74,347	3,328	67,671	6,000
	1,741,798	1,516,961	3,571,029	3,129,655
Loss for the period	\$ (1,457,382)	\$ (1,359,347)	\$ (3,146,229)	\$ (2,756,675)
Loss per share - Basic and diluted	\$ (0.06)	\$ (0.12)	\$ (0.13)	\$ (0.25)

Assets and Non-Current Financial Liabilities

	June 30, 2016	December 31, 2015
Total assets	\$ 13,518,210	\$ 7,647,091
Total non-current financial liabilities ⁽¹⁾	\$ 3,526,002	\$ 2,620,819

⁽¹⁾ Excludes deferred income tax liabilities and deferred government grants.

Total assets increased from December 31, 2015 to June 30, 2016, largely as a result of the acquisition of Endura which includes approximately \$970,000 accounts receivable and resulted in the recognition of approximately \$3.9 million of goodwill. Total non-current financial liabilities increased due to an increase in long term loans received in the period. The above table will change significantly if the proposed disposition of the wind focused subsidiaries is completed as proposed.

Results of Operations for the three months ended June 30, 2016 compared with 2015

The three months ended June 30, 2016 saw increased revenues and strengthened gross margins compared with the same period of 2015, while limiting increases in SG&A expenses, despite the acquisition of Endura.

Revenue for the three months ended June 30, 2016 increased 19% to \$1,690,252, from \$1,418,643 in the prior period, as we continue to exhibit strong growth by focusing on the commercial solar sector.

The gross profit margin for the three months ended June 30, 2016 was 17%, compared with 11% in the same period of the prior year. Higher margins were a result of both project mix and revenue recognition policy. Regarding project mix, the comparable period included a significant portion of revenue from a strategic project in Panama that returned lower margins than initially expected, whereas delivery of this project was nearly complete as of the most recent quarter. Regarding revenue recognition, prior to the Endura acquisition we recognized revenue in an amount equal to the cost of sales for that project as deployment was underway, recognizing the project profit margin upon project completion. This had the effect of depressing margins during periods where a larger number of projects were under construction, causing larger fluctuations in margins. After the Endura acquisition and due to this subsidiary's management of our project deployment function, we now recognize revenue on a percent completion method for all new projects (and existing projects underway for Endura), which we expect will make gross profit margins more consistent on a quarterly basis going forward.

In the three months ended June 30, 2016, our SG&A expenses increased 11% to \$1,620,033, from \$1,460,956 in the same period of the prior year. This was largely attributable to an increase in share based compensation of \$169,293. When excluding non-cash share based compensation expenses, there was a decrease in SG&A expenses which is the result of cost synergies from the Endura acquisition and continued focusing of our operations on our growing solar business. The proposed Transaction would further decrease SG&A expenses from the date of the Transaction onward.

We recorded a loss from operations for the three months ended June 30, 2016 of \$1,457,382, compared with a loss of \$1,359,347 in the same period of the prior year. The primary reason for the increase in 2016 was the increase in share based compensation of \$169,293 compensation expense; excluding this non-cash share based compensation expense, there was a reduction in loss from operations for the three months ended June 30, 2016 as compared with the same period in the prior year.

More broadly, we are focused on reaching positive cash flows from operations in the near future. We foresee continued revenue growth going forward, and if the proposed Transaction is completed we see our SG&A expenses decreasing as well. We are looking forward to showing significant progress towards our goal in the coming quarters.

Results of Operations for the six months ended June 30, 2016 compared with 2015

Revenue for the six months ended June 30, 2016 increased \$579,485 or 28% to \$2,655,655, from \$2,076,170 in the same period of the prior year. Similarly, the increase is due to the successful execution of the Company's growth plan as we continue to convert confirmed orders into revenue.

The gross profit margin for the six months ended June 30, 2016 was 16% as compared with 18% in the same period of the prior year; however, our gross profits increased by 14% to \$424,800 from \$372,980 in the same period of the prior year. The decrease is a result of project timing as it relates to our revenue recognition policy (as discussed above) which causes fluctuations in gross profit margin.

SG&A expenses for the six months ended June 30, 2016 decreased \$123,428 or 4% to \$2,901,448, from \$3,024,876 in the same period of the prior year. The decrease was primarily due to a decrease in non-cash share based compensation of \$123,042. The decrease was despite the acquisition of Endura, the additional expenses of which were offset by efforts to identify cost synergies from the acquisition and continued focusing of our operations around our growing solar offering.

The Company realized a loss from operations of \$3,146,229 in the six months ended June 30, 2016 as compared with \$2,756,675 in the same period of the prior year. The primary reason for the increased loss was due to \$430,796 of non-cash finance expenses related to transactions that reduced certain related party loan balances, through debt to equity conversions and a debt forgiveness transaction, during the three month period ended March 31, 2016. Excluding this one-time non-cash finance expense, there was a reduction in net loss for the six months ended June 30, 2016 as compared with the same period in the prior year.

Summary of Quarterly Results (unaudited)

All amounts in 000's, except per share figures

	Sep 30 2014 Q3	Dec 31 2014 Q4	Mar 31 2015 Q1	Jun 30 2015 Q2	Trailing four quarters	Sep 30 2015 Q3	Dec31 2015 Q4	Mar 31 2016 Q1	Jun 30 2016 Q2	Trailing four quarters
Revenue	\$ 988	\$ 1,316	\$ 658	\$ 1,419	\$ 4,381	\$ 2,704	\$ 1,359	\$ 965	\$ 1,690	\$ 6,718
Net loss	\$ (3,065)	\$ (1,979)	\$ (1,397)	\$ (1,359)	\$ (7,800)	\$ (1,202)	\$ (1,648)	\$ (1,689)	\$ (1,457)	\$ (5,996)
Basic and diluted loss per share	\$ (0.32)	\$ (0.20)	\$ (0.13)	\$ (0.12)	\$ (0.77)	\$ (0.09)	\$ (0.08)	\$ (0.08)	\$ (0.06)	\$ (0.31)

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 incurred 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 source of cash flows for UGE includes operations, private placements, public offerings, and third party and related party loans. The primary uses of cash are operating expenses, including cost of sales and working capital.

During the six months ended June 30, 2016, we incurred negative cash flow from operations of \$1,371,760 and a net loss of \$3,146,229. As at June 30, 2016, UGE has a working capital deficiency of \$4,623,976, which includes: deferred revenue liability of \$494,886, which will be settled through the performance of services; the Bank of China Loan of \$1,807,200 (RMB 12,000,000) and \$691,612 relating to an income tax provision for a government grant received in China, both of which are held by a subsidiary of UGE that is planned to be sold in the proposed Transaction. The remaining balance of \$1,630,278, a portion of which is attributable to the Sale Group, is expected to be settled through the course of operations and additional capital raised, either through equity or debt.

To date we have funded losses with cash from operations, private placements, public equity offerings, and third party and related party debt. To the extent that we do 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 our ability 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 and six months ended June 30, 2016 on a going concern basis, which does 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 condensed consolidated interim 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.

We have financed the Company in part through related party loans on favorable terms. As of June 30, 2016, the Company had loans with related parties as follows. Note that every one of the loans below, with the exception of the loans from the independent directors, is held by a subsidiary of the Sale Group and will no longer be held by a UGE subsidiary if the proposed Transaction is approved.

- A loan of \$1,062,739 (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 Chief Executive Officer ("CEO") and 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 \$753,000 (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 \$1,054,200 (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 People's Republic of China ("PRC");
- A loan of \$901,000 from Yun Liu, a shareholder and family member of the CEO. The loan is non-interest bearing, due on January 1, 2018 and is unsecured;
- 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; and
- A loan 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, \$35,400 of these loans were repaid.

In addition, during the six months ended June 30, 2016, we received a loan of \$1,807,200 (RMB 12,000,000) from the Bank of China. The loan has a one-year term and bears interest of 5.22% per annum, which is subject to change based on industry rates set by the Bank of China. This loan is held by UGE Pingquan, a subsidiary included in the Sale Group.

We also have a \$250,000 loan from a third party lender, which contains a covenant stating that an adjusted fixed charge coverage ratio must not be less than 1.25. This coverage ratio was violated as at June 30, 2016; however, management is in discussions with the lender to repay the loan on its maturity date on September 9, 2016.

During the six months ended June 30, 2016, we 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 was due on July 8, 2016. We expect to pay the loan from the receipt of accounts receivables owed from OTEPI.

On June 24, 2016, we completed a short-form prospectus equity financing of 6,133,600 units where each unit consists of one common share and one half share purchase warrant at a subscription price of CAD\$0.38 for gross proceeds of \$1,803,315 (CAD\$2,330,768). Each full warrant may be exercised for one common share at an exercise price of CAD\$0.48 per share for a period of 24 months from the date of issuance. The gross proceeds were \$1,803,315 (CAD\$2,330,768) and total share issue 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. Commissions paid and other transaction costs are recognized as a reduction in share capital.

As of June 30, 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	\$ 5,382,139	\$ 5,382,139	\$ 5,376,204	\$ 5,935	\$ -	\$ -
Loans payable	5,752,455	6,954,756	2,426,767	2,997,644	510,115	1,020,230
Contractual commitments	-	25,000	25,000	-	-	-
Lease commitments	-	762,206	225,049	191,457	345,700	-
	\$ 11,134,594	\$ 13,124,101	\$ 8,053,020	\$ 3,195,036	\$ 855,815	\$ 1,020,230

Note that the above table will change significantly if the proposed Transaction is approved. Management expects the Transaction to be approved and completed prior to September 30, 2016.

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 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

The Company has obtained related party loans to sustain the Company through its period of growth and maturation which has seen us incur losses. A summary of related party transactions for the three and six months ended June 30, 2016 are as follows.

Our subsidiary UGE Beijing 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 were expensed and classified as SG&A expense. The lease expires on December 31, 2016 and is with a subsidiary of the Sale Group.

We are 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 UGE is also a director of EEDI, resulting in UGE 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.

During the three and six months ended June 30, 2016, as a result of loans payable to related parties (all of which are with subsidiaries of the Sale Group), the Company:

- Incurred accretion expense on related party loans of \$14,675 and \$32,530, respectively, (2015 - \$10,748 and \$21,267) 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 on related party loans of \$796 and \$5,794, respectively, (2015 - \$5,952 and \$11,905), with Qi Liu, a family member of the CEO and 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 on related party loans of \$10,605 and \$21,155, respectively, (2015 - \$14,686 and \$29,105) with Yun Liu, a shareholder and family member of the CEO;
- Incurred interest expense on related party loans of \$24,069 and \$42,864, respectively, (2015 - \$16,899 and \$38,140) with Beijing Zhongjihaotai Investment Ltd., a company controlled by Xiangrong Xie, a director of the Company;
- Incurred accretion expense on related party loans of \$Nil and \$4,833, respectively, (2015 - \$Nil and \$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 on related party loans of \$26,169 and \$41,456, respectively, (2015 - \$Nil and \$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 and disclosed in Note 6 of the condensed consolidated interim financial statements for the three and six month periods ended June 30, 2016 and 2015.

Completed Acquisition of Endura Energy Project Corp.

As mentioned above, a major development for the Company in the six months ended June 30, 2016 was the acquisition of Endura. We 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 our overall scale and efficiency.

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, 2,222,222 were issued to the vendor on February 22, 2016 and the remaining 6,666,666 shares issued were 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. 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 22, 2016.

Subsequent to June 30, 2016, the Company entered into an amended agreement with Cameron Steinman whereby he resigned as an officer of the Company; however, he is expected to 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.

We did not enter into any other acquisition or divestiture transactions during fiscal 2016 as of the date of this MD&A, except as disclosed in the section "Corporate Profile".

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 a counterparty's inability to fulfill its payment obligations. We manage credit risk by requiring payment from customers prior to shipment, where possible. However, we do have trade receivables outstanding with several customers.

Liquidity risk

Our objective in managing liquidity risk is to ensure sufficient liquidity to meet financial obligations when due by maintaining sufficient cash and cash equivalents to settle current liabilities and meet anticipated working capital requirements. As of June 30, 2016, we had cash of \$944,911 to settle current liabilities of \$8,999,375. Discussion regarding our ability to manage our liabilities, including with respect to the proposed Transaction which will significantly lower current liabilities, is discussed in the Liquidity and Capital Resources section. We plan to realize our assets and raise further capital, either through debt or equity, 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

We have cash balances and the majority of debt has 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, Renminbi, and Philippine Pesos, for which the related expenses and accounts payable balances are subject to exchange rate fluctuations. As of this time, we do 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 for the three and six months ended June 30, 2016 and 2015 were prepared using the same accounting policies and methods as those used in the consolidated annual 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 on or after December 31, 2015, as outlined below.

Accounting standards adopted:

a) Change in accounting policy

There were no new standards effective January 1, 2016 that had a material impact on the Company's condensed consolidated interim financial statements.

b) 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 a material impact on the Company's condensed consolidated interim 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 the following pronouncements issued during the six month 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 the consolidated financial statements.

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, retrospective, 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.

Business Risks

Going concern risk

The condensed consolidated interim financial statements for the three and six months ended June 30, 2016 and 2015 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 six months ended June 30, 2016, we incurred negative cash flow from operations of \$1,371,760 and a net loss of \$3,146,229. We have incurred significant losses as we develop and expand our operations. Revenues have not been sufficient to cover all costs and may not be sufficient for several quarters, if at all.

To date we have funded losses with private placements, a short form prospectus offering and loans from related parties. To the extent that we do 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 we 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 we are 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 condensed consolidated interim 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. We balance 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 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 period ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our 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 36,082,244 common shares issued and outstanding. In addition, there are 5,100,000 special warrants held by the founders of UGE, which may be converted to common shares for no additional consideration, 3,690,215 share purchase warrants which may be exercised for one common share each at a fixed exercise price, and stock options to purchase an additional 1,914,161 common shares. The Company also has restricted share units which allow employees and directors to acquire a total of 146,843 common shares over the next three years for no additional consideration.

We filed our annual information form on SEDAR on May 19, 2016.

We filed a short form prospectus offering dated May 24, 2016 wherein certain forward looking information regarding the Estimated Future Cash Flows for the period April 2016 to March 2017 of CAD\$7,983,000 was disclosed. Based on information as of the date of the MD&A we estimate that number to now be approximately CAD\$8,900,000.

The Estimated Future Cash Flows for the period April 2016 to March 2017 of CAD\$7,983,000 included an estimate of CAD\$1,302,398 to be received for the three months ended June 30, 2016 and the actual amount received was approximately CAD\$1,200,000.

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.