



UGE INTERNATIONAL LTD.

Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2016 and 2015

(Expressed in United States dollars)

Notice of No Auditors Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the unaudited condensed consolidated interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these unaudited interim condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

UGE INTERNATIONAL LTD.

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

	September 30, 2016	December 31, 2015
Assets		
Current assets		
Cash	\$ 233,055	\$ 179,544
Restricted cash (Note 5)	1,569,358	9,508
Trade and other receivables	917,192	1,353,023
Prepaid expenses and deposits	277,965	437,827
Inventory	-	353,262
	2,997,570	2,333,164
Non-current assets		
Property, plant and equipment	65,284	2,620,088
Goodwill (Note 4)	3,896,045	-
Lease prepayments	-	2,190,831
Deferred tax assets	-	503,008
Total assets	\$ 6,958,899	\$ 7,647,091
Liabilities		
Current liabilities		
Trade and other payables	\$ 1,407,385	\$ 3,133,171
Loans payable (Note 6)	452,976	2,098,000
Deferred revenue	2,506,387	501,787
Income taxes payable	-	706,728
Warranty provision	-	195,163
	4,366,748	6,634,849
Non-current liabilities		
Loans payable (Note 6)	2,548,633	2,614,884
Deferred government grants	-	4,647,500
	6,915,381	13,897,233
Shareholders' equity (deficiency)		
Share capital (Note 7)	15,504,234	11,435,220
Contributed surplus	2,751,163	1,772,351
Accumulated other comprehensive income	289,588	184,082
Accumulated deficit	(18,501,467)	(19,641,795)
	43,518	(6,250,142)
Total liabilities and shareholders' equity (deficiency)	\$ 6,958,899	\$ 7,647,091

Reporting entity and going concern (Note 1)

Subsequent event (Note 11)

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 Income (Loss)
(Unaudited) (Expressed in United States dollars)

	Three months ended Sep 30, 2015		Nine months ended Sep 30, 2015	
	2016	Restated*	2016	Restated*
Revenue (Note 9)	\$ 735,903	\$ 1,266,113	\$ 2,444,531	\$ 2,093,419
Cost of sales	(601,514)	(1,289,859)	(2,123,649)	(2,108,311)
Gross profit (losses)	134,389	(23,746)	320,882	(14,892)
Operating expenses				
Selling, general and administrative	833,191	445,902	2,617,448	1,709,993
Loss from operating activities	(698,802)	(469,648)	(2,296,566)	(1,724,885)
Finance expense	(41,023)	-	(59,806)	-
Finance income	147	2	149	4
Non-cash loss on settlement agreement (Note 4)	(406,026)	-	(406,026)	-
Loss from continuing operations before income taxes	(1,145,704)	(469,646)	(2,762,249)	(1,724,881)
Income tax recovery	(207,902)	-	(139,855)	-
Net loss from continuing operations	(937,802)	(469,646)	(2,622,394)	(1,724,881)
Discontinued operations (Note 10)	5,224,359	(731,914)	3,762,722	(2,233,355)
Net income (loss) for the period	4,286,557	(1,201,560)	1,140,328	(3,958,236)
Other comprehensive income (loss)				
Items that are or may be reclassified to profit or loss				
Foreign currency translation differences	53,262	24,147	291,895	(18,554)
Comprehensive net income (loss) for the period	\$ 4,339,819	\$ (1,177,413)	\$ 1,432,223	\$ (3,976,790)
Net income (loss) per share attributable to the shareholders of the Company				
Continuing operations -				
basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.08)	\$ (0.05)
Discontinued operations -				
basic	\$ 0.16	\$ (0.02)	\$ 0.14	\$ (0.07)
diluted	\$ 0.14	\$ (0.02)	\$ 0.11	\$ (0.07)

*The 2015 comparative amounts have been restated to reflect the discontinued operations on the sale of UGE Holdings Ltd. (Note 10)

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' Equity (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)	126,875	(128,262)	-	-	(1,387)
Amounts issued for acquisition of Endura (Note 4)	2,266,293	406,026	-	-	2,672,319
Contribution through favourable interest rate debt (Note 6)	-	1,287,185	-	-	1,287,185
Related party forgiveness of interest free debt (Note 6)	-	249,623	-	-	249,623
Share-based compensation (Note 7)	-	404,898	-	-	404,898
Public equity offering, net of share issue costs (Note 7)	1,050,863	350,737	-	-	1,401,600
Net loss for the period	-	-	-	1,140,328	1,140,328
Sale of UGE Holdings (Note 10)	-	(1,591,395)	(204,527)	-	(1,795,922)
Foreign currency translation differences	-	-	310,033	-	310,033
Balance - September 30, 2016	\$ 15,504,234	\$ 2,751,163	\$ 289,588	\$ (18,501,467)	\$ 43,518
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	426,135	(457,907)	-	-	(31,772)
Shares issued on exercise of stock options	24,830	-	-	-	24,830
Related party contribution through interest free debt	-	564,922	-	-	564,922
Share-based compensation	-	666,868	-	-	666,868
Net loss for the period	-	-	-	(3,958,236)	(3,958,236)
Foreign currency translation differences	-	-	(18,554)	-	(18,554)
Balance - September 30, 2015	\$ 11,148,111	\$ 1,721,843	\$ 116,566	\$ (17,993,944)	\$ (5,007,424)

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 nine months ended
(Unaudited) (Expressed in United States dollars)

	September 30, 2016	September 30, 2015 Restated*
Cash flow from (used in) operating activities		
Net income (loss) for the period	\$ 1,140,328	\$ (1,724,881)
Adjustment for:		
Depreciation and amortization	12,064	-
Deferred income tax recovery	(25,978)	-
Share-based compensation (Note 7)	404,868	313,501
Non-cash loss on settlement agreement (Note 4)	406,026	-
Gain on sale of UGE Holdings	(3,177,847)	-
Accretion expense on loans payable (Note 6)	31,027	-
Unrealized foreign currency exchange gains	-	(143,574)
	(1,209,512)	(1,554,954)
Changes in non-cash working capital	2,252,670	132,776
	1,043,158	(1,422,178)
Income taxes paid	(78,002)	-
Cash from (used in) continuing operating activities	965,156	(1,422,178)
Cash used in discontinued operating activities	(1,865,863)	(491,002)
Cash used in operating activities	(900,707)	(1,913,180)
Cash flow from (used in) investing activities		
Additions to property plant and equipment	(694)	-
Addition to restricted cash	(1,569,358)	-
Cash used in continuing operations	(1,570,052)	-
Cash used in discontinued operating activities	(69,448)	(90,755)
Cash used in investing activities	(1,639,500)	(90,755)
Cash flow from financing activities		
Proceeds on issue of share capital and warrants, net of issuance costs	1,423,175	1,423,470
Cash consideration paid for Endura, net of bank overdraft assumed (Note 4)	(608,597)	-
Net proceeds of loans payables	88,700	-
Cash from continuing operations	903,278	1,423,470
Cash from discontinued operating activities	1,905,596	205,183
Cash from financing activities	2,808,874	1,628,653
Increase (decrease) in cash for the period	268,667	(375,282)
Effect of exchange rate fluctuations on cash	(134,824)	(8,705)
Cash at beginning of period from continued operations	(17,372)	5,820
Cash at beginning of period from discontinued operations	188,696	427,959
Cash at end of period from continued operations	\$ 233,055	\$ 4,757
Cash at end of period from discontinued operations	\$ -	\$ 45,035

*The 2015 comparative amounts have been restated to reflect the discontinued operations on the sale of UGE Holdings (Note 10)

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

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

UGE INTERNATIONAL LTD.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2016 and 2015

(Unaudited)

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

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 from operations. During the nine months ended September 30, 2016, the Company had a net loss of \$2,622,394 and positive cash flow from continuing operations of \$965,156. As at September 30, 2016, the Company has a working capital deficiency of \$1,369,178 and shareholders' equity of \$43,518. During the nine months ended September 30, 2016, the Company has completed a key acquisition, divested its wind energy operations that were no longer part of its strategic plan, completed an equity financing, and lowered expense levels, in an effort to strengthen its financial position towards self-sustainable operations.

The Company has financed its operations from the issuance of share capital and loans. 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 ability to raise additional debt or equity financing and, ultimately, on achieving sustainable profitable operations. 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 offerings, 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, as needed, through one or more of bank loans and equity investments from existing or potential shareholders. 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 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.

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Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2016 and 2015

(Unaudited)

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

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 November 29, 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.

Effective June 14, 2016, the Company incorporated a wholly-owned subsidiary UGE USA Inc. ("UGE USA"). This entity was created for the Company's solar operations in the United States.

Effective August 11, 2016, the Company incorporated a wholly-owned subsidiary UGE Philippines, Inc. ("UGE Philippines"). This entity was formed for the Company's operations in the Philippines.

Effective September 6, 2016, the Company divested 100% of the issued and outstanding shares of UGE Holdings Ltd. ("UGE Holdings") (Note 10). The operations of UGE Holdings up to September 6, 2016 have been included as discontinued operations.

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 UGE USA is the US dollar, and the functional currency of UGE Philippines is the Filipino peso ("Php").

In the calculation of the discontinued operations, the functional currency of UGE Holdings, Urban Green Energy Inc. ("Urban Inc.") and Urban Green Energy Hong Kong Ltd. ("Urban HK"), is the US dollar and the functional currency of the UGE Holdings' wholly owned subsidiaries Beijing Urban Green Energy Co., Ltd. ("Urban BJ"), Pingquan UGE Co. Ltd. ("Urban Pingquan") and Chengde Urban Green Energy Ltd., is the Chinese Renminbi ("RMB").

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For the three and nine month periods ended September 30, 2016 and 2015

(Unaudited)

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

2. Basis of preparation (continued)

(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.

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; current and deferred income taxes; 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 loans; determination of the classification of financial instruments; 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 nine months period ended September 30, 2016.

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Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2016 and 2015

(Unaudited)

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

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

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.

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.

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Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2016 and 2015

(Unaudited)

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

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 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. Of the shares in escrow 2,666,666 could be forfeited if Cameron Steinman, one of the vendors, resigned from employment with the Company during the escrow period ending February 8, 2019. Accordingly, the value of these shares had been attributed to post combination employment services to be provided and were not included in the consideration paid for the business combination. In addition, the release of 2,222,222 shares on the first anniversary date was subject to meeting certain cumulative revenue targets. If these targets were not met on the first anniversary date, the number of shares released would be prorated based on the actual amounts achieved relative to the targets with the remaining shares held in escrow until the targets were met. The value of these shares had been accounted for as contingent share consideration. The business combination had been accounted for using the acquisition method with the results of operations consolidated with those of the Company effective February 22, 2016.

During the three months ended September 30, 2016, the Company entered into a settlement agreement related to the acquisition of Endura whereby Cameron Steinman resigned as an officer of the Company; however, he remains as a director of the Company. As part of the settlement 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 were cancelled, and returned to treasury. The 2,666,666 shares attributed to post combination employment services which were recognized as an expense in prior quarters of \$311,969 have been reversed in the three months ended September 30, 2016. The fair value of the 888,889 shares attributed to contingent consideration relating to attaining certain operational targets in the amount of \$406,026 was accounted for in contributed surplus. A further 888,889 shares were cancelled and returned to treasury and the fair value of \$406,026 was accounted for as a loss on the statement of operations.

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Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2016 and 2015

(Unaudited)

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

4. Acquisition of Endura (continued)

The total costs incurred related to this acquisition was \$72,083, of which \$29,391 was incurred and expensed in the year ended December 31, 2015 and \$42,692 is included in selling, general and administrative expenses for the nine months ended September 30, 2016.

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

	<u>\$USD</u>
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 tax receivable	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 tax 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 nine months ended September 30, 2016 includes revenue and net loss of Endura of \$1,820,853 and \$565,329, respectively. If the acquisition had occurred on January 1, 2016, estimated consolidated revenue and net loss for the nine months ended September 30, 2016 would have been \$2,842,857 and \$516,450, 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.

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Notes to Condensed Consolidated Interim Financial Statements

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(Unaudited)

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

5. Restricted cash

As at September 30, 2016, the Company has restricted cash of \$1,569,358 (December 31, 2015 - \$9,508). The cash was restricted as security for a letter of credit for the procurement of project related equipment.

6. Loans payable

	September 30, 2016	December 31, 2015
Loan 1	\$ 2,548,633	\$ -
Loan 2	182,976	-
Loan 3	20,000	-
Loan 4	250,000	250,000
UGE Holdings loans	-	4,462,884
	3,001,609	4,712,884
Current portion	452,976	2,098,000
Non-current portion	\$ 2,548,633	\$ 2,614,884

Loan 1 – Upon the sale of UGE Holdings, the Company signed two promissory notes with the same terms; one for \$1,000,000 to Urban Inc. and one for \$2,600,000 to Urban HK pursuant to the divestment discussed in Note 10. These unsecured loans bear a fixed annual interest rate of 6.5% and are due on August 31, 2021. The loans are carried at amortized cost which is lower than the original principal value due to the impact of the below market interest rate causing a difference of \$1,082,394 which was recognized in the statement of changes in shareholders' equity. For the three and nine months ended September 30, 2016, interest accretion expense of \$31,027 (2015 - \$Nil) and \$31,027 (2015 - \$Nil), respectively, has been recognized as finance expense in net loss from continuing operations for the periods.

Loan 2 - As at September 30, 2016, the Company has a revolving demand credit facility of \$182,976 (CAD\$240,000) (December 31, 2015 - \$Nil) with the Toronto-Dominion Bank ("TD Bank"). The credit facility has a maximum limit of CAD\$750,000 and bears interest at a rate equal to the TD Bank's prime rate plus 1.450% per annum. The loan is secured by a general security agreement covering all assets of Endura. For the three and nine months ended September 30, 2016, interest expense of \$1,803 (2015 - \$Nil) and \$7,217 (2015 - \$Nil), respectively, has been recognized as finance expense in net loss from continuing operations for the periods.

Loan 3 – As at September 30, 2016, the Company has a loan of \$20,000 (December 31, 2015 - \$Nil) from a former director of the Company. The loan is unsecured, non-interest bearing and was due on May 26, 2016, with a 5% processing fee due upon repayment which has been accrued and is included in trade and others payables. The repayment terms of the loan are being renegotiated between the Company and the lender.

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Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2016 and 2015

(Unaudited)

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

6. Loans payable (continued)

Loan 4 - As at September 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, and was assumed by UGE USA as part of the sale of UGE Holdings. It is secured by first charge of all the assets of UGE USA. The loan was initially due on September 9, 2016; however, the Company received an extension on the loan which is now due on February 10, 2017. This loan contains a covenant stating that an adjusted fixed charge coverage ratio must not be less than 1.25 and that the loan value shall not exceed a borrowing base determined from accounts receivables, inventory and pre-approved purchase orders. As at September 30, 2016, the Company exceeded these covenants; however, a waiver from the lender for not demanding repayment of the amount was obtained. For the three and nine months ended September 30, 2016, interest expense of \$10,222 (2015 - \$Nil) and \$30,556 (2015 - \$Nil), respectively, has been recognized in finance expense in net loss from continuing operations for the periods.

UGE Holdings loans – Six loans were held by subsidiaries of UGE Holdings with related party and third-party lenders with a face value of approximately \$6,200,000. Some loans were carried at amortized cost which was lower than the original principal value due to the impact of the below market interest rate caused a difference of \$204,7901 which was recognized in the statement of changes in shareholders' deficiency and subsequently removed with the sale of UGE Holdings as discussed in Note 10. Pursuant to the divestment discussed in Note 10, all assets and liabilities remained with UGE Holdings, including the referenced loans. The expenses related to these loans for all periods have been included in discontinued operations.

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:

	Nine months ended September 30, 2016			Nine months ended September 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
Shares issued to settle debt	1,240,907	-	624,983	-	-	-
Shares issued on the acquisition of Endura	5,333,333	-	2,672,319	-	-	-
Forfeiture of shares related to Endura acquisition	(888,889)	-	(406,026)	-	-	-
Shares issued for cash, less issuance costs and warrants	6,238,863	-	1,050,863	1,189,834	-	1,159,014
Shares issued on the vesting of restricted share units	219,040	-	126,875	291,794	-	426,135
Shares issued on conversion of special warrants	5,100,000	(5,100,000)	-	6,800,000	(6,800,000)	-
Shares issued on the exercise of stock options	-	-	-	61,720	-	24,830
	36,082,244	5,100,000	15,504,234	18,499,391	10,200,000	11,148,111
Contingently returnable shares	3,555,555	-	381,760	-	-	-
Share based compensation	-	-	311,969	-	-	-
Forfeiture of shares related to Endura acquisition	(3,555,555)	-	(693,729)	-	-	-
Balance at end of period	36,082,244	5,100,000	\$ 15,504,234	18,499,391	10,200,000	\$ 11,148,111

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7. Share capital (continued)

Of the issued and outstanding shares, 6,666,666 shares issued on acquisition of Endura were held in escrow of which 3,555,555 were contingently returnable in certain circumstances including if certain income targets were not met or if Cameron Steinman resigned from employment with the Company during the escrow period; the remaining shares would be released in installments on each anniversary date of the Endura acquisition. As part of the amended agreement discussed in Note 4, the 3,555,555 of contingently returnable shares and the remaining 888,889 shares accounted for as a contingent consideration were cancelled and returned to treasury and their cost was written off.

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 expiring on June 23, 2018 which have a fair value of \$294,435 (CAD\$380,554), as estimated using the Black-Scholes model. The total share issue cash costs related to the financing were \$401,715 (CAD \$529,180) and 105,263 shares were 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 expiring June 23, 2018. 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 two 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.

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 271,504 common shares are available for grant as at September 30, 2016. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration.

As at September 30, 2016, rights to receive 85,563 shares have been granted of which 42,062 vest in 2016, 42,062 vest in 2017 and 1,439 vest in 2018. During the nine months ended September 30, 2016, the Company issued 216,000 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 September 30, 2016, rights to receive 14,343 shares remain outstanding and vest in 2016. During the nine months ended September 30, 2016, the Company issued 3,040 shares for these restricted share units.

During the three and nine months ended September 30, 2016, the Company recognized a total of \$4,533 (2015 – \$24,433) and \$60,853 (2015 - \$630,437), respectively, in compensation expense pursuant to restricted share units.

Special warrants

As at September 30, 2016, the Company had 5,100,000 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 of the conversion at least 20% of the issued and outstanding shares of the Company are held by public shareholders after the conversion of the special warrants. Public shareholders are those shareholders who are not directors, officers or other insiders of the Company as defined by the TSX Venture Exchange.

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7. Share capital (continued)

Warrants

As at September 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. Subsequent to September 30, 2016 these warrants expired unexercised.

As at September 30, 2016, the Company has warrants outstanding allowing the holders to purchase an additional 3,066,800 common shares at an exercise price of CAD \$0.48 per share and 490,688 common shares at an exercise price of CAD \$0.38 per share until June 23, 2018.

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. Following the acquisition of Endura, the Company granted options to employees of Endura to compensate such employees for the discontinuation of an incentive plan formerly held by Endura. This grant compensates for the majority of the options granted in the nine months ended September 30, 2016.

The stock option activity is as follow:

	Nine months ended September 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	2,787,061	0.44	312,800	0.99
Forfeited	(195,700)	0.73	(62,400)	1.15
Exercised	-	-	(105,400)	0.50
Balance at end of period	2,841,761	\$ 0.46	250,400	\$ 0.50
Balance exercisable at end of period	1,628,952	\$ 0.45	47,467	\$ 0.50

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7. Share capital (continued)

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

Exercise price	Number of options outstanding at September 30, 2016	Weighted average remaining life (months)	Weighted average exercise price (CAD)	Number of options exercisable at September 30, 2016	Weighted average exercise price (CAD)
\$1.15	51,100	-	\$ 1.15	21,900	\$ 1.15
\$0.78	102,000	50.0	\$ 0.78	82,000	\$ 0.78
\$0.48	190,000	59.0	\$ 0.48	190,000	\$ 0.48
\$0.45	1,618,661	57.0	\$ 0.45	455,052	\$ 0.45
\$0.40	880,000	59.0	\$ 0.40	880,000	\$ 0.40
	2,841,761	56.0	\$ 0.46	1,628,952	\$ 0.45

During the three and nine months ended September 30, 2016, the Company recognized stock-based compensation expense of \$228,990 (2015 - \$29,794) and \$344,015 (2015 - \$36,431), 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	85.8%
Expected dividend rate	0%
Risk-free interest rate	0.68%
Weighted average fair value per option granted (CAD)	\$ 0.44

Earnings and loss per share

Basic earnings per share amounts have been determined by dividing net income attributable to equity shareholders by the weighted average number of common shares outstanding during the period.

In calculating diluted per share amounts, the numerator remains unchanged from the basic per share calculation as the assumed exercise of the outstanding share based compensation and warrants does not result in an adjustment to income.

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7. Share capital (continued)

The reconciliation of the denominator in calculating diluted per share amounts is as follows:

All amounts in 000's

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2016	2015	2016	2015
Weighted average number of shares outstanding, basic	33,467	12,807	27,115	11,587
Effect of dilutive securities:				
warrants	-	-	173	-
special warrants	5,100	-	5,100	-
stock options	-	-	298	-
RSUs	100	-	100	-
Weighted average number of shares outstanding, diluted	38,667	12,807	32,786	11,587

For the three and nine months ending September 30, 2016, the outstanding share options totaling 2,974,488 and 284,827, respectively, have been excluded from the above calculation as they are anti-dilutive (September 30, 2015 – no effect was given to the potential exercise of warrants and share based compensation in the calculation of net loss per share as the effect would be anti-dilutive).

8. Related party transactions

The Company is contracted to provide services to Endura Energy Development Inc. ("EEDI") where the terms and conditions of these services are no more favorable than those available on an arm's length basis. As at September 30, 2016, 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 nine months ended September 30, 2016, the Company recorded revenue of \$332,186 (2015 - \$Nil) and \$604,988 (2015 - \$Nil), respectively, related to these services. As at September 30, 2016, accounts receivable includes \$369,106 (December 31, 2015 - \$Nil) due from EEDI and accounts payable includes \$2,404,234 (December 31, 2015 - \$Nil) due to EEDI.

UGE INTERNATIONAL LTD.

Notes to Condensed Consolidated Interim Financial Statements

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9. Segmented information

The Company has determined that it operates in one segment, renewable energy solutions. The Company has principal operations in the United States of America ("United States"), Canada, Panama and the Philippines and is organized into sales geographic areas consisting of these countries.

Information by geographic area based on external revenue recognized by, and non-current assets held by, the continuing operations in the United States, Canada, Panama and the Philippines is outlined below.

Total revenue from continuing operations for the three and nine months ended September 30, was as follows:

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2016	2015	2016	2015
United States	\$ 170,553	\$ -	\$ 170,553	\$ -
Panama	82,951	1,266,113	425,458	2,093,419
Canada	448,337	-	1,814,458	-
Philippines	34,062	-	34,062	-
	<u>\$ 735,903</u>	<u>\$ 1,266,113</u>	<u>\$ 2,444,531</u>	<u>\$ 2,093,419</u>

During the three and nine months ended September 30, 2016, the Company had six 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 Sep 30,		Nine months ended Sep 30,	
	2016	2015	2016	2015
Customer 1	36%	0%	25%	0%
Customer 2	2%	0%	18%	0%
Customer 3	2%	0%	15%	0%
Customer 4	10%	0%	9%	0%
Customer 5	22%	0%	7%	0%
Customer 6	11%	100%	17%	100%

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

	September 30, 2016	December 31, 2015
Canada	\$3,961,329	\$ -
	<u>\$3,961,329</u>	<u>\$ -</u>

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10. Discontinued operations

On September 6, 2016, the Company sold all the shares of UGE Holdings, the wind operations segment of the Company, to Zhenyu Li (the "Purchaser"). In consideration for the sale of UGE Holdings, which contained approximately net liabilities of \$9.4 million, UGE USA Inc. ("UGE USA"), a subsidiary of the Company, issued a promissory note to Urban HK in the amount of \$2.6 million, which shall accrue interest at a rate of 6.5% annually, with interest payable quarterly, and the principal due on August 31, 2021. In addition, UGE USA issued a promissory note to Urban Inc. in the amount of \$1.0 million for solar-related assets, which shall accrue interest at a rate of 6.5% annually, with interest payable quarterly, and the principal due on August 31, 2021. As part of the sale, the Company assumed solar related liabilities of approximately \$500,000 and the sale resulted in a gain from discontinued operations of approximately \$5.2 million for the three months ended September 30, 2016.

Upon the closing of the sale, UGE Holdings has been presented as a discontinued operation in the consolidated statements of income, cash flows and all comparative figures have been restated to reflect this change. There was one material project contracted by Urban Inc. that was related to the solar operations of the company and was removed from the discontinued operations and added to the continuing operations. Additionally, a portion of the selling, general and administrative costs related to solar activities and employees from Urban Inc. were removed from discontinued operations and added to the continuing operations. The detailed results of discontinued operations are presented below:

Statement of operations from discontinued operations:

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2016	2015	2016	2015
Revenue	\$ 268,664	\$ 1,438,338	\$ 1,215,691	\$ 2,687,202
Cost of sales	(44,227)	(1,274,969)	(752,947)	(2,159,707)
Gross profit	224,437	163,369	462,744	527,495
Expenses				
Selling, general and administrative	200,798	861,810	1,317,989	2,622,595
Finance expense	70,923	94,556	309,842	207,568
Finance expense - non-cash related party loan modifications	-	-	430,796	-
Finance income	(2,778)	(6,782)	(89,364)	(21,013)
Gain on sale of UGE Holdings	(5,269,241)	-	(5,269,241)	-
Income before taxes from discontinued operations	5,224,735	(786,215)	3,762,722	(2,281,655)
Income taxes	376	(54,301)	-	(48,300)
Net income (loss) from discontinued operations	\$ 5,224,359	\$ (731,914)	\$ 3,762,722	\$ (2,233,355)
Net income (loss) per share attributable to the shareholders of the Company				
Basic	\$ 0.16	\$ (0.06)	\$ 0.14	\$ (0.19)
Diluted	\$ 0.13	\$ (0.06)	\$ 0.10	\$ (0.19)

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10. Discontinued operations (continued)

Statement of cash flows from discontinued operations:

	September 30, 2016	September 30, 2015
Cash flow from (used in) operating activities		
Loss for the period	\$ (1,506,519)	\$ (2,233,355)
Adjustment for:		
Depreciation and amortization	2,029	34,604
Deferred income tax expense (recovery)	-	(48,300)
Share-based compensation (Note 7)	(24,024)	353,367
Finance expense - non-cash related party loan modifications (Note 6)	430,796	-
Accretion expense on loans payable (Note 6)	66,302	87,451
Finance expense	243,540	120,117
	(787,876)	(1,686,116)
Changes in non-cash working capital	(1,025,366)	1,307,253
Cash used in operating activities	(1,813,242)	(378,863)
Interest paid	(52,621)	(112,139)
Cash used in operating activities	(1,865,863)	(491,002)
Cash flow from (used in) investing activities		
Additions to property plant and equipment	(69,448)	(222,986)
Restricted cash	-	132,131
Cash used in investing activities	(69,448)	(90,855)
Cash flow from (used in) financing activities		
Net proceeds of loans payables	1,905,596	111,140
Cash provided by financing activities	1,905,596	111,140
Decrease in cash for the period	(29,715)	(470,717)
Effect of exchange rate fluctuations on cash	(86,869)	87,793
Cash at beginning of period	188,696	427,959
Cash at end of period	\$ 72,112	\$ 45,035

11. Subsequent event

Subsequent to September 30, 2016, the Company closed a construction financing facility with the Toronto-Dominion Bank, backed by Export Development Canada ("EDC"). The facility is for \$550,000 at a rate of prime plus 1.45% for the purpose of constructing a project in Brooklyn, New York. The facility has a 25% cash deposit and a parental guarantee from UGE International Ltd.