UGE INTERNATIONAL LTD.

Consolidated Financial Statements

Years ended December 31, 2018 and 2017

(Expressed in United States dollars)

Independent Auditor's Report

To the Shareholders of UGE International Ltd.:

Opinion

We have audited the consolidated financial statements of UGE International Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $6,143,427 during the year ended December 31, 2018 and, as of that date, the Company's current liabilities exceeded its current assets by $3,102,999. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Isabella Lee.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

April 30, 2019 — Licensed Public Accountants

MNP

UGE INTERNATIONAL LTD.

Consolidated Statements of Financial Position as at December 31,
(Expressed in United States dollars)

Assets	2018	2017
Current assets		
Cash	$ 121,735	$ 1,390,427
Restricted cash (Note 4)	1,025,667	586,963
Trade and other receivables (Note 5)	3,795,150	7,611,000
Prepaid expenses and deposits	241,742	390,195
Inventory	-	164,405
	5,184,294	10,142,990
Non-current assets		
Plant and equipment (Note 6)	35,192	225,145
Goodwill (Note 7)	-	3,182,153
Deferred tax assets (Note 15)	1,035	1,123
Total assets	$ 5,220,521	$ 13,551,411
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	$ 5,929,619	$ 5,922,790
Loans payable (Note 10)	1,735,528	3,145,631
Deferred revenue	622,146	2,859,209
	8,287,293	11,927,630
Non-current liabilities		
Loans payable (Note 10)	1,579,470	3,600,000
	9,866,763	15,527,630
Shareholders' deficiency		
Share capital (Note 11)	19,592,790	16,575,247
Contributed surplus	4,464,701	3,969,150
Accumulated other comprehensive income	147,674	187,364
Accumulated deficit	(28,851,407)	(22,707,980)
	(4,646,242)	(1,976,219)
Total liabilities and shareholders' deficiency	$ 5,220,521	$ 13,551,411

Reporting entity and going concern (Note 1)
Contingencies (Note 13)
Subsequent events (Note 18)

Approved on behalf of the Board:

"Nicolas Blitterswyk"
Director, President & Chief Executive Officer

"Michael Doolan"
Director

The accompanying notes are an integral part of the consolidated financial statements.

UGE INTERNATIONAL LTD.

Consolidated Statements of Operations and Comprehensive Loss
for the years ended December 31,
(Expressed in United States dollars)

	2018	2017
Revenue	$ 17,192,220	$ 20,934,836
Cost of Sales	(15,543,859)	(16,854,590)
Gross profit	1,648,361	4,080,246
Operating expenses		
Selling, general, and administrative (Note 16)	(5,396,840)	(5,578,606)
Project-related loss (Note 13)	(1,013,006)	-
Loss from operating activities	(4,761,485)	(1,498,360)
Impairment loss (note 7)	(2,859,383)	-
Loss on disposition	(121,815)	
Gain on conversion of debt to equity (Note 10)	2,535,410	-
Finance expense	(839,227)	(489,528)
Finance income	10,681	3,965
Accretion expense	(13,862)	-
Net Loss before income taxes	(6,049,681)	(1,983,923)
Income tax recovery (expense) (Note 15)	(93,746)	8,561
Loss for the year	(6,143,427)	(1,975,362)
Other comprehensive (loss) income items that are or may be reclassified to profit or loss		
Foreign currency translation differences	(39,690)	118,085
Comprehensive loss for the year	$ (6,183,117)	$ (1,857,277)
Loss per share attributable to the shareholders of the Company		
Loss for the year - basic and diluted	$ (0.13)	$ (0.05)
Weighted average number of shares		
Basic and diluted	46,720,410	38,694,354

The accompanying notes are an integral part of the consolidated financial statements.

UGE INTERNATIONAL LTD.

Consolidated Statements of Changes in Shareholders' Deficiency
For the years ended December 31, 2017 and 2018
(Expressed in United States dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Accumulated deficit	Total
Balance - January 1, 2017	$ 15,111,782	$ 3,504,908	$ 69,279	$ (20,730,081)	$ (2,044,112)
Net loss for the Year	-	-	-	(1,975,362)	(1,975,362)
Offering of share units, net of issue costs	1,002,976	362,561	-	-	1,365,537
Issued for conversion of restricted share units	94,753	(97,929)	-	-	(3,176)
Amount issued for exercise of options and warrants	111,729	-	-	-	111,729
Shares issued in relation to loan from MBF	94,973	-	-	-	94,973
Acquisition of UGE RE	159,034	-	-	(2,537)	156,497
Share-based compensation	-	199,610	-	-	199,610
Foreign currency translation differences	-	-	118,085	-	118,085
Balance - December 31, 2017	$ 16,575,247	$ 3,969,150	$ 187,364	$ (22,707,980)	$ (1,976,219)

	Share capital	Contributed surplus	Accumulated other comprehensive (loss) income	Accumulated deficit	Total
Balance - January 1, 2018	$ 16,575,247	$ 3,969,150	$ 187,364	$ (22,707,980)	$ (1,976,219)
Net loss for the Year	-	-	-	(6,143,427)	(6,143,427)
Amount issued on the conversion of restricted share units (Note 11)	2,510	(2,510)	-	-	-
Offering of share units, net of share costs	190,428	144,960	-	-	335,388
Shares for services	112,853	-	-	-	112,853
Shares for debt, net of transaction costs (Notes 10 and 11)	2,711,752	-	-	-	2,711,752
Conversion feature	-	75,455	-	-	75,455
Share-based compensation	-	277,646	-	-	277,646
Foreign currency translation differences	-	-	(39,690)	-	(39,690)
Balance - December 31, 2018	$ 19,592,790	$ 4,464,701	$ 147,674	$ (28,851,407)	$ (4,646,242)

The accompanying notes are an integral part of the consolidated financial statements.

UGE INTERNATIONAL LTD.

Consolidated Statements of Cash Flows for the years ended December 31,
(Expressed in United States dollars)

	2018	2017
Cash flow used in operating activities		
Net loss	$ (6,143,427)	$ (1,975,362)
Adjustment for:		
Depreciation and amortization	31,446	431,481
Impairment loss (Note 7)	2,859,383	-
Income tax expense	93,746	(8,561)
Share-based compensation	277,646	201,150
Gain on conversion of debt to equity	(2,535,410)	-
Net finance expense	828,546	485,563
Accretion expense	13,862	-
Shares issued for finders fee from acquisition	-	253,260
Loss from write-off of leasehold improvements	121,815	63,053
	(4,452,393)	(549,416)
Change in trade and other receivables	3,436,879	(2,296,711)
Change in inventory	152,703	469,503
Change in prepaid expenses and deposits	129,381	112,932
Change in accounts payable and accrued liabilities	817,171	3,943,878
Change in deferred revenue	(2,084,472)	(1,824,106)
	(2,000,731)	(143,920)
Income taxes recovered (paid)	11,276	(52,626)
Net finance expenses paid	(444,826)	(194,521)
Cash used in operating activities	(2,434,281)	(391,067)
Cash flow used in investing activities		
(Addition) decrease to restricted cash	(500,668)	723,114
(Addition) decrease to plant and equipment	23,079	(135,296)
Acquisition of Carmanah business	-	(1,991,869)
Cash used in investing activitiies	(477,589)	(1,404,051)
Cash flow from financing activities		
Proceeds on issue of share capital and warrants, net of issuance costs	267,564	1,514,290
Net proceeds (repayments) of loans payable	1,434,506	1,595,636
Cash from financing activities	1,702,070	3,109,926
(Decrease) increase in cash for the period	(1,209,800)	1,314,808
Effect of exchange rate fluctuations on cash	(58,892)	15,706
Cash, at beginning of Year	1,390,427	59,913
Cash, at end of Year	$ 121,735	$ 1,390,427

The accompanying notes are an integral part of the consolidated 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 Company's registered office is located at 330 West 38th Street, Suite 1103, New York, New York, United States. The principal business activity of the Company is to provide renewable energy solutions to its customers. Primarily, it provides development, engineering, and project management work in the commercial solar sector.

(b) Going concern

These consolidated financial statements have been prepared assuming the Company will continue as a going concern, notwithstanding that the Company has a working capital deficiency, has incurred losses from operations, and is in discussions with its bank regarding its revolving credit facility (Note 9) as of the approval date of these consolidated financial statements. During the year ended December 31, 2018, the Company had a consolidated net loss of $6,143,427 which included goodwill impairment charges totaling $2,859,383 (primarily due to management's view of changes in the Ontario solar market) and negative cash flow from operations of $2,434,281. As at December 31, 2018, the Company had restricted cash of $1,025,667, unrestricted cash of $121,735, a working capital deficiency of $3,102,999 and shareholders' deficiency of $4,646,242.

The Company's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent upon achieving sustained profitability and the ability to raise additional debt or equity financing to fund its current and any future working capital deficits. 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 changes thereof, the public policy environment for renewable energy solutions, the Company's ability to raise sufficient equity and/or debt financing, the ability of the Company to work with its bank to resolve any defaults of its loan agreement as they may arise, 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 loans and equity investments. There are no guarantees that the funds raised will be 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 or the ability for the Company to raise sufficient funds 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 consolidated 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 consolidated financial statements.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved for issuance by the Board of Directors on April 30, 2019.

(b) Basis of presentation and accounting

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

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

(c) Functional and presentation currency

These consolidated financial statements are presented in United States dollars ("USD"). The functional currency of the Company, UGE Canada Ltd. ("UGE Canada") and UGE RE Inc. ("UGE RE") is the Canadian dollar ("CAD"); the functional currency of UGE USA Inc. ("UGE USA") is USD; and the functional currency of UGE Philippines Inc. ("UGE Philippines") is Filipino pesos ("PhP").

(d) Basis of measurement

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

(e) Accounting assumptions, estimates and judgments

The preparation of the consolidated 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 these amounts.

Significant areas having estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include share-based compensation; and intangible assets, bad debts, and percentage of completion calculations.

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 consolidated financial statements include: assessment of the Company's ability to continue as a going concern (Note 1(b)); and determination of the functional currency of the principal operations of the Company (Note 2(c)).

Significant areas having estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

2. Basis of preparation (continued)

(i) Allowances for expected credit losses
An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in the statement of loss and comprehensive loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through the consolidated statement of loss and comprehensive loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(ii) Stock-based compensation

The Company uses the Black-Scholes options pricing model to determine the amount of stock-based compensation. Such models require assumptions related to share price volatility, expected life of options and discount rate. Changes in these assumptions affects the fair value of the options and the amount of stock-based compensation to be recognized in profit or loss over the vesting period.

(iii) Impairment of goodwill

The Company estimates the recoverable amount of goodwill arising from the acquisition of UGE Canada for the purposes of testing impairment. Key assumptions underlying the recoverable amount are summarized in Note 7. Changes in these assumptions could result in an impairment charge recognized in profit or loss.

(iv) Percentage completion calculation

The Company measures the stage of completion based on the costs incurred to date compared to the total estimated costs for the project. The total estimated costs requires professional judgement and changes to these estimates may affect revenue, unbilled revenue and deferred revenue.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and all subsidiary entities which are controlled by the Company. Subsidiaries (Note 2(b)) are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity. All intercompany balances and transactions are eliminated on consolidation.

3. Significant accounting policies (continued)

(b) Plant and equipment

Plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is calculated to write off the cost of items of plant and equipment less the estimated residual value over the estimated useful lives of the assets on a straight-line basis and is recognized in profit or loss. The estimated useful lives of plant and equipment:

Office equipment	3 to 5 years
Vehicles	4 to 5 years
Leasehold Improvements	5 years

Depreciation methods and useful lives are reviewed at each financial period and adjusted if appropriate.

Gains and losses on disposal of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognized net within other income in profit or loss.

(c) Goodwill

Goodwill arising from acquisition of subsidiaries is measured at cost less accumulated impairment losses.

(d) Inventory

When applicable, inventory is recorded at the lower of cost and net realizable value. The cost of inventory is based on the weighted average cost principle, and includes expenditures incurred in acquiring the inventory, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In establishing any impairment of inventory, management estimates the likelihood that inventory carrying values will be affected by changes in market demand, technology and design, which would impair the value of inventory on hand.

(e) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognized as a finance cost.

3. Significant accounting policies (continued)

(f) Share-based compensation

The Company records share-based compensation related to its Restricted Share Units (“RSUs") and stock options granted. Share-based compensation for RSU’s is measured at fair value based on the share price of the Company’s shares on the date of grant. Share-based compensation for stock options is measured at fair value using a Black-Scholes option pricing formula. Compensation cost is recognized as employee benefits expense over the vesting period in which employees unconditionally become entitled to the award. The amount recognized as an expense is adjusted to reflect only the number of awards for which related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service conditions at the vesting date.

For equity-settled share-based payments to non-employees, the Company measures the value of the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received. If the fair value cannot be estimated reliably, then the Company would use the Black-Scholes option pricing model. The Company has no cash-settled share-based payment transactions.

(g) Revenue recognition

The Company generates revenues from development, engineering and consulting services, and the deployment (procurement of equipment and project management) of renewable energy projects.

Effective January 1, 2018 the Company has adopted IFRS 15 Revenue from Contracts with Customers effective January 1, 2018 and applied it on a modified retrospective basis, replacing existing standards and interpretations including IAS 18 and IAS 11 Construction Contracts. The application of IFRS 15 has not resulted in any differences between the previous carrying amounts and the carrying amounts at the date of initial application of IFRS 15. The adoption of IFRS 15 resulted in changes in accounting policies which are described below.

Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

3. Significant accounting policies (continued)

Revenue from Contracts with Customers (Continued)

Under IFRS 15, an entity recognizes revenue as a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

Change orders and claims

Change orders and claims, referred to as contract modifications were previously recognized as per guidance provided in IAS 11, Construction Contracts ("IAS 11"). Under such guidance, revenue can be recognized on contract modifications only when certain conditions are met, including the fact that it is probable the customer will approve the modification and the amount of revenue arising from such contract modifications. IFRS 15 also provides guidance on the recognition of revenue from contract modifications. Such guidance is based, among other factors, on the fact that the contract modification is approved, and it is highly probable that a significant reversal in the amount of cumulative revenue recognized on such contract modifications will not occur when the uncertainty is subsequently resolved. Given that under IAS 11, the Company had only recognized contract modifications that have been approved by customers the new higher level of probability to be applied under IFRS 15 will had no impact on revenue recognition by the Company.

Measure of anticipated revenues and determination of progress

For revenue recognized based on the stage of completion method using cost input method, the Company reviewed its project costs on contracts to determine if each of these costs is contributing to the transfer of control of goods or services to the customer. The exclusion of certain project costs from the determination of progress will either increase or decrease revenue being recognized over the life of the project.

Engineering and Consulting Services

Revenue from engineering and consulting engagements are recognized when the services have been performed and collection of the receivable is reasonably assured.

3. Significant accounting policies (continued)

(h) Financial instruments

IFRS 9 - Financial Instruments was issued by the IASB to establish principles for the financial reporting of financial assets and financial liabilities, including requirements for classification and measurement, impairment, and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The Company has elected not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. There were no differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9. Accordingly, the information presented for December 31, 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

The adoption of IFRS 9 resulted in changes in accounting policies which are described below.

Financial Assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

(i) Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of operations and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of operations and comprehensive loss in the period in which they arise.

(ii) Financial assets at FVTOCI

Financial assets at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

(iii) Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred.

3. Significant accounting policies (continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination. The Company's loans payable, accounts payable and accrued liabilities do not fall into any of the exemptions and are therefore classified as measured at amortized cost

The following table shows the original classification under IAS 39 and the new classification under IFRS 9.

	Original classification under IAS 39	New classification under IFRS 9
Cash	FVTPL	FVTPL
Trade and Other Receivables excluding HST and VAT receivable	Loans and receivables - amortized cost	Amortized cost
Restricted cash	Loans and receivables - amortized cost	Amortized cost
Accounts payables and accrued liabilities	Other financial liabilities - amortized cost	Amortized cost
Loans payable	Other financial liabilities - amortized cost	Amortized cost

(iv) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

3. Significant accounting policies (continued)

(v) Impairment – Non-financial assets

Non-financial assets, such as plant and equipment and goodwill, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested at least annually for impairment.

For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets (a "CGU"). Goodwill arising from a business combination is allocated to CGU's that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value less costs to sell is defined as the estimated price that would be received on the sale of the asset in an orderly transaction between market participants at the measurement date.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or CGU exceeds its recoverable amount. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(j) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiaries at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the functional currency is translated at the exchange rates in effect at the reporting date. Non-monetary items that are measured in terms of historical cost in other than the functional currency is translated using the exchange rate at the date of the transaction. The resulting exchange gains and losses are recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations with functional currencies other than the USD presentation currency are translated into the presentation currency at exchange rates prevailing at the reporting date. Their income and expense items are translated into the presentation currency at average exchange rates for the period. Exchange differences arising on the translation are recognized in accumulated other comprehensive income in shareholders' deficiency.

3. Significant accounting policies (continued)

(k) Income taxes

Income tax expense comprises of current tax expense and deferred tax expense. Current and deferred taxes are recognized as an expense or recovery and included in profit or loss for the period, except to the extent that the tax arises from a transaction which is recognized in other comprehensive income or directly in shareholders' deficiency.

Current tax expense is the amount of income taxes payable (recoverable) in respect of the taxable income (tax loss) for a period. Current liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for temporary differences which are differences between the carrying amount of an asset or liability in the consolidated statements of financial position and its tax base, the carry-forward of unused tax loses and unused tax credits. Deferred tax assets and liabilities are measured at the tax rate that are expected to apply when the asset or liability is expected to be realized or settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable income will be available to allow the benefit of part or all of these deferred tax assets to be utilized. Such reduction is reversed to the extent that it becomes probable that sufficient taxable income will be available.

(l) Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(m) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets, head office expenses, and income tax assets and liabilities. The Company's sales geographic areas have been organized based on its principal operations in the US, Canada and the Philippines (Note 12).

3. Significant accounting policies (continued)

(n) Business combinations

The acquisition of a business is accounted for using the acquisition method. The consideration for an acquisition is measured at the aggregate of the fair values, at the date of exchange, of the assets transferred, the liabilities incurred to former owners of the acquired business, and equity instruments issued by the acquirer in exchange for control of the acquired business. The acquired business' identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for income taxes which are measured in accordance with IAS 12, Income Taxes. To the extent that the aggregate of the fair value of consideration paid, the amount of any noncontrolling interest and the fair value of any previously held interest in the acquiree exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent that this excess is negative, the excess is recognized as a gain in income.

(o) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding using the treasury method and assume conversion of all dilutive potential common shares.

(p) *Compound instruments*

The component parts of compound instruments (e.g., debt issued with a conversion feature along with convertible securities) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option and warrants that will be settled by the exchange of a fixed number of the Company's own equity instruments is an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar debt without conversion features and warrants. This amount is recorded as a liability on the amortized cost basis using the effective interest method until extinguished or at the instrument's maturity date. The conversion features and convertible securities classified as equity are determined by deducting the amount of the liability component from the fair value of the instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, conversion features and convertible securities classified as equity will remain in equity until the conversion option or warrants are exercised, in which case the balance recognized in equity will be transferred to common shares within equity. When the conversion feature and warrants remain unexercised at their maturity date, the balance recognized in equity will be transferred to retained earnings or deficit. No gain or loss is recognized in profit or loss upon conversion or expiration of the convertible securities. Transaction costs that relate to the issue of the instruments are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the debt using the effective interest method.

3. Significant accounting policies (continued)

(q) New standards, amendments, and interpretations

IFRS 16 – Leases - In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting under IFRS 16 is substantially unchanged, lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between an operating or finance lease. This standard will be effective for annual periods beginning on or after January 1, 2019.

At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right-of-use to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense or fair value gain (loss) on the right-of-use asset, depending on the balance sheet classification of the asset. The standard includes two recognition exemptions for leases; leases of 'low-value' assets and short-term leases. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Company will be adopting IFRS 16 on January 1, 2019 using the modified retrospective approach. The Company has one lease which falls within the scope of IFRS 16. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative figures are not restated to reflect the adoption of IFRS 16. The Company expects the adoption of this standard to increase total assets by approximately $92,000 by recording a right-of-use asset on adoption. There will also be an increase in liabilities as a corresponding liability will be recorded in the financial statements. Additionally, the Company expects an impact from the reclassification of lease expense from operating expenses to depreciation expense. There will be an impact on the statement of cash flows as a portion of cash flows from operating activities will be reclassified to investing activities.

4. Restricted cash

As at December 31, 2018, the Company has restricted cash of $1,025,667 (December 31, 2017 - $586,963) related to cash security for a construction financing facility (Note 9), a deposit related to a surety bond (Note 9), and funds reserved for financing solar projects.

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

5. Trade and other receivables

	2018	2017
Trade receivables, net of allowance for expected credit loss	$ 2,421,469	$ 5,104,762
Unbilled revenue	1,318,079	2,447,422
Corporate income taxes receivable	55,602	58,816
	$ 3,795,150	$ 7,611,000

Trade receivables are reviewed for impairment on a case by case basis and are provided for based on the deterioration of credit risk since initial recognition, at which time a provision is recognized in the consolidated statements of operations and comprehensive loss within selling, general, and administrative expenses. If the credit risk has not increased significantly, allowances are based on 12 month expected losses. If the credit risk has increased significantly and if the loan is impaired, the allowances will be based on lifetime expected losses. Subsequent recoveries of amounts previously provided for are credited against selling, general, and administrative expenses in the consolidated statements of operations. For the year ended December 31, 2018, there was an allowance for expected credit losses of $256,693 (2017 – 52,266).

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

6. Plant and equipment

	Office equipment	Leasehold improvements	Vehicles	**Total**
Cost				
Balance as at January 1, 2018	$ 181,922	$ 120,440	$ 19,017	**$ 321,379**
Additions	-	-	-	**-**
Disposals	(117,964)	(116,313)	(18,365)	**(252,642)**
Foreign exchange difference	-	-	-	**-**
Balance as at December 31, 2018	63,958	4,127	652	**68,737**
Foreign exchange difference	(8,913)	(4,127)	(652)	**(13,692)**
Balance as at December 31, 2018	$ 55,045	$ -	$ -	**$ 55,045**
Accumulated depreciation				
Balance as at January 1, 2018	$ 72,821	$ 12,045	$ 11,368	**$ 96,234**
Depreciation expense	18,892	11,536	1,018	**31,446**
Disposals	(68,400)	(23,167)	(11,994)	**(103,561)**
Foreign exchange difference	-	-	-	**-**
Balance as at December 31, 2018	23,313	414	392	**24,119**
Foreign exchange difference	(3,460)	(414)	(392)	**(4,266)**
Balance as at December 31, 2018	$ 19,853	$ -	$ -	**$ 19,853**
Carrying amounts				
December 31, 2018	$ 35,192	$ -	$ -	**$ 35,192**

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

6. Plant and equipment (continued)

	Office equipment	Leasehold improvements	Vehicles	**Total**
Cost				
Balance as at January 1, 2017	75,126	31,718	17,780	**124,624**
Additions	98,990	161,071	-	**260,061**
Disposals	-	(77,238)	-	**(77,238)**
Exchange rate effect	7,806	4,889	1,237	**13,932**
Balance as at December 31, 2017	$ 181,922	$ 120,440	$ 19,017	**$ 321,379**
Accumulated depreciation				
Balance as at January 1, 2017	47,153	10,515	7,561	**65,228**
Depreciation expense	21,774	14,958	3,177	**39,910**
Disposals	-	(14,185)	-	**(14,185)**
Exchange rate effect	3,894	757	630	**5,281**
Balance as at December 31, 2017	$ 72,821	$ 12,045	$ 11,368	**$ 96,234**
Carrying amounts				
December 31, 2017	$ 109,101	$ 108,395	$ 7,649	**$ 225,145**

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

7. Goodwill and acquisitions

	Goodwill
Carrying Amount	
Balance as at	
January 1, 2017	$ 2,975,228
Foreign exchange difference	206,925
Balance as at	
December 31, 2017	3,182,153
Impairment loss	(2,859,383)
Foreign exchange difference	(322,770)
Balance as at	
December 31, 2018	**$ -**

Goodwill – Impairment Test

Goodwill was recognized on the 2016 acquisition of UGE Canada (formerly known as Endura Energy Project Corp.). During the three months ended June 30, 2018 and immediately thereafter, various factors affecting the Company's Canadian operations, the cash-generating unit (CGU) to which goodwill had been allocated, were identified as potential indicators for impairment. As a result, the recoverable amount of the CGU to which goodwill had been allocated was determined based on value in use calculations using a discounted cash flow analysis. These calculations used pre-tax cash flow projections based on a financial budget covering the remainder of fiscal 2018 plus a four-year forecast period that reflect management's best estimate. Cash-flows beyond the five-year period were extrapolated using an estimated growth rate of 2.0%. A pre-tax discount rate of 15.0% was applied.

In validating the value in use determined for the CGU, the Company performed a sensitivity analysis of key assumptions used in the discounted cash-flow model (such as discount rates, gross margin percentage, SG&A expense, and terminal growth rate). The Company believes that all reasonably possible ranges of key assumptions causes an impairment loss to be recognized in respect of the entire carrying value of the Canadian CGU. Based on this analysis, the carrying amount of goodwill was reduced to its recoverable amount nil through recognition of an impairment charge of $2,859,383 against the goodwill.

8. Acquisition

Purchase of Assets of Carmanah Solar Power Corp.

On April 3, 2017, the Company acquired, for nominal consideration, a 60% interest in UGE RE, a shell entity, which then purchased substantially all the assets and certain liabilities of Carmanah Solar Power Corp. ("CSPC"), a wholly owned subsidiary of Carmanah Technologies Inc. ("CMH"). On June 8, 2017, the remaining 40% of UGE RE was acquired by the Company for the repayment of the cash provided towards the acquisition by its prior owners, thereby making UGE RE a wholly owned subsidiary of the Company.

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

8. Acquisitions (continued)

CSPC operated a business similar to UGE Canada, providing solutions to clients during the solar project design-build lifecycle. All Toronto-based employees of CSPC were included in the purchase. Cash consideration of $1,991,869 (CAD$2,665,778) was paid by UGE RE to CMH, which was funded primarily by a loan of $1,793,280 (CAD$2,400,000) from The M.H. Brigham Foundation ("MBF"), an arm's length third party to the transaction (Note 10). The total costs incurred related to this acquisition was $188,659 for the year ended December 31, 2017 and is included in selling, general, and administration expenses. This includes $159,034 for the issuance of 363,636 shares of the Company as a finder's fee for the transaction, which were valued at fair value (Note 11). The business combination has been accounted for using the acquisition method with the results of operations consolidated with those of the Company effective April 3, 2017. The consideration paid and the final allocation of the consideration to the fair values of the assets acquired and liabilities assumed in the acquisition as at April 3, 2017 are as follows:

Consideration		
Purchase price paid	$	1,991,869
Total Consideration	**$**	**1,991,869**
Net Assets acquired		
Trade and other receivables	$	1,507,971
Inventory		22,204
Property, plant and equipment		120,010
Prepaid expenses and deposits		113,298
Intangible asset		376,650
Income taxes payble		(1,055)
Accounts payable and accrued liabilities		(147,209)
Total	**$**	**1,991,869**

The intangible asset identified as shown above is related primarily to the backlog from the projects that were acquired from CSPC. Management determined that within approximately nine months of the acquisition the cashflows from these specific projects would be realized, therefore, the Company has amortized the intangible assets over nine months and there was no value for the intangible as at December 31, 2017.

Consolidated revenue and net loss for the year ended December 31, 2017 includes revenue and net income from the acquisition of assets from CSPC of $6,809,372 and $114,639, respectively. The net income was reduced by the aforementioned non-cash depreciation of intangible asset of $391,571 for the year ended December 31, 2017. The difference in the amount recognized is due to foreign exchange as the intangible asset is held in CAD. The revenue and profit or loss of the combined entity from January 1, 2017 is not available as not all assets and liabilities were purchased from CSPC.

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

9. Accounts Payable and Accrued Liabilities

	2018	2017
Trade Payables	$ 3,302,821	$ 3,856,272
Accrued & Other Payables	2,135,623	1,743,019
Warranty Provision	64,557	70,101
Income Taxes Payable	426,618	253,398
	$ 5,929,619	$ 5,922,790

10. Loans payable

	2018	2017
Divestment Loan (i)	$ -	$ 3,600,000
Acquisition Loan (CAD$750,000)(ii)	550,200	1,911,840
Construction Financing Facility (iii)	1,200,000	273,888
Revolving Credit Facility (CAD$750,000)(iv)	535,528	561,603
Project Loan for Surety Bond	-	398,300
Convertible Debenture(v)	367,668	-
Debt to UGE HK(i)	350,000	-
Green Bonds(vi)	311,602	-
Total debt	$ 3,314,998	6,745,631
Current portion	$ 1,735,528	3,145,631

(i) Divestment Loan – Upon the sale of UGE Holdings Ltd. ("UGE Holdings") in 2016, the Company issued promissory notes for a total of $3,600,000 to a former subsidiary of UGE Holdings. On September 28, 2018, the Company converted $1,000,000 plus accrued interest ($169,173) to common shares at rate of CAD $0.25 per common share, which was greater than the market price of the shares on the date of the transaction. As a result, 6,042,235 shares were issued for share consideration of $748,270 with the balance being recorded as a non-cash gain on conversion of debt to equity in the statement of operations and comprehensive loss. Further, a $350,000 long-term loan was issued to UGE HK bearing interest at 8.0% per annum due September 23, 2023. This remaining debt conversion resulted in a decrease of $2,689,848 in exchange for 13,901,026 shares in UGE at a deemed conversion price of CAD$0.25 per share on December 7, 2018. The total gain on conversion on this loan plus accrued interest was $1,920,366 (CAD $2,619,872). See Note 11.

(ii) Acquisition Loan – In fiscal 2017, the Company issued a promissory note for a total of CAD$2,400,000 to the MH Brigham Foundation ("MBF") that had been used to acquire Carmanah Solar Power Corp. This promissory note bears interest at a rate of 10% per annum and was payable on demand. On December 28, 2018, the Company converted CAD$1,650,000 plus accrued interest (total of CAD $1,741,123; $1,347,629) to common shares at a rate of CAD$0.25 per common share, which was greater than the market price of the shares on the date of the transaction. As a result, 6,964,492 shares were issued for share consideration of $862,483 with the balance being recorded as a non-cash gain on conversion of debt to equity in the statement of operations and comprehensive loss. Further, the remaining balance of the original loan, CAD$750,000 ($581,025), was converted to a long-term loan bearing interest at 8.0% per annum (plus quarterly service charge of $3,750) due September 24, 2021. The total gain on conversion was $510,497 (CAD$626,804).

10. Loans payable (continued)

(iii) Construction Financing Facility – As at December 31, 2018, the Company has a construction financing facility with a maximum limit of $1,200,000, guaranteed by Export Development Canada. The facility bears interest at a rate equal to prime + 1.45% (6.95%) and is due on demand. As at December 31, 2018, the Company made draws from the facility of $1,200,000 (December 30, 2017 – $273,888) to fund the construction of a project in Massachusetts. The Company has provided a deposit on all draws totalled to $300,000, which is recorded as restricted cash (note 4).

(iv) Revolving Credit Facility - As at December 31, 2018, the Company has a revolving demand credit facility with a maximum limit of CAD$750,000, which was fully drawn (December 30, 2017 - $561,603, CAD$705,000). The credit facility bears interest at prime + 1.45% (5.4%) per annum and is secured by a general security agreement covering all assets of UGE Canada Ltd. and UGE RE Inc. As at December 31, 2018, the facility was fully drawn. As of the date these consolidated financial statements were approved, the Company was in discussions with its bank to address its allowable advances under this facility, which is based on a customary borrowing base calculation.

(v) Convertible Debenture – On October 23, 2018, the Company closed an offering of 8% convertible debentures in the aggregate principal amount of CAD$720,000 ($557,784), which accrue interest at a rate of 8% per annum and are convertible into common shares of the Company (the "Debenture Shares") at the option of the holder at a conversion price of $0.24 per Debenture Share for a period of three years from the date of issuance. Interest accrued under the Debentures will be payable in cash or in Debenture Shares at the option of the holder, and if payable in Debenture Shares, such Debenture Shares shall be issued at a conversion price per Debenture Share equal to the greater of: (i) $0.24 or (ii) the market price of the Company's common shares, being the last closing price of the common shares on the TSX Venture Exchange, immediately preceding the date of a notice of conversion by the holder of the Debenture. The Debentures are secured against the Company pursuant to a subordinated general security agreement. In additional, the Company issued 240,000 broker warrants at an exercise price of $0.35 expiring October 23, 2020.

The Debentures net proceeds of CAD$619,439 ($474,457) received were separated into the liability component of $CAD 486,210 ($366,624), equity component of $CAD 100,067($75,455) and broker warrants value of $CAD 26,162 ($19,727) using the effective interest rate method with an effective interest rate of 18.12% per annum. During the year ended December 31, 2018, the Company recorded accrued interest of $8,925 and accretion expense of $11,519 which were recorded as finance expense and accretion expense in the consolidated statement of operations and comprehensive loss. Transaction costs of $CAD 107,561 ($81,106) were paid in relation with the Debentures. The fair value of the 240,000 broker warrants issued with the Debentures was valued using the Black-Scholes option pricing model based on the following assumptions: volatility of 113% using the historical prices of the Company, risk-free interest rate of 2.350%, expected life of 2 years and share price of $0.145.

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

10. Loans payable (continued)

(vi) Green Bonds – On October 23, 2018, The Company completed an offering of Secured Green Bonds in the aggregate principal amount of CAD$500,000 ($387,350), accruing interest at the rate of 7% per annum and maturing on September 1, 2023. The effective interest rate is 10.38%. For each $1,000 of principal issued in Bonds, the Company issued 100 bonus units (the "Bond Units") consisting of one common share of the Company (the "Bond Unit Shares") and half of one common share purchase warrant (each whole warrant, a "Bond Unit Warrant") resulting in the issuance of 50,000 Bond Unit Shares, and 25,000 Bond Unit Warrants. Each Bond Unit Warrant may be exercised by the holder for one common share of the Company at an exercise price of $0.35 per share for period of 24 months from the date of issuance. The Bonds are secured against projects of the Company owned by the Company's wholly-owned subsidiary, UGE Project HoldCo Ltd. Total interest accretion expense was $2,343 while transactions costs were $50,912. In addition, 85,714 broker warrant purchase units were issued at an exercise price of $0.35 expiring October 23, 2020. Each warrant entitles the holder thereof to acquire a unit of the Company consisting of one common share and ½ of one common share purchase warrant for a period of 24 months from the Closing Date, with each warrant being exercisable for one Common Share at an exercise price of $0.35 per share for a period of 24 months from the Closing Date.

11. 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:

	2018 Number of shares	2018 Amount	2017 Number of shares	2017 Amount
Balance at beginning of year	40,770,026	$ 16,575,247	36,118,927	$ 15,111,782
Private placement of share units, net of share costs	1,250,000	190,428	3,450,000	1,002,976
Shares issued for conversion of restricted share units	10,000	2,510	267,594	94,753
Shares for services	392,434	112,853	-	-
Acquisition of UGE RE	-	-	363,636	159,034
Shares issued in relation to Green Bonds	50,000	-	-	-
Shares issued in relation to loan from MBF (Note 8)	-	-	218,181	94,973
Shares issued for conversion of debt to equity	27,824,225	2,711,752	-	-
Amount issued for exercise of options and warrants	2,000,000	-	351,688	111,729
Balance at end of year	72,296,685	$ 19,592,790	40,770,026	$ 16,575,247

11. Share capital (continued)

Private placement equity financing

On June 14, 2018, the Company completed a private placement equity financing of 1,250,000 units of the Company at a price of CAD$0.35 per unit for gross proceeds of $335,388 (CAD$437,500). Each unit consisted of one full common share of the Company and one share purchase warrant. Each warrant is exercisable at an exercise price of CAD$0.40 for a period of 24 months from the date of issuance. The total share issue cash costs related to the financing were $29,544 (CAD$38,319) and commission paid, and other transaction costs are recognized as a reduction in both share capital and contributed surplus. Significant assumptions used in the Black-Scholes model to value the warrants included an expected life of 2 years, volatility of 137.6% and a risk-free rate of 1.77%.

On June 27, 2017, the Company completed a bought deal private placement equity financing of 3,450,000 units of the Company at a price of CAD$0.60 per unit for gross proceeds of $1,562,229 (CAD $2,070,000). 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$0.80 for a period of 24 months from the date of issuance. The fair value of these warrants of $352,003 (CAD$466,415) was recognized in contributed surplus with the difference between the gross proceeds of the offering and the fair value of the warrants allocated to share capital. The total share issue cash costs related to the financing were $196,692 (CAD $260,704), and commission paid, and other transaction costs are recognized as a reduction in both share capital and contributed surplus. The Company also issued 241,500 warrants exercisable at CAD$0.60 per share until June 26, 2019 to an agent as part of the equity offering. The fair value of these agent warrants, as estimated by the Black-Scholes model, was $70,856 (CAD$93,886). Significant assumptions used in the Black-Scholes model included an expected life of 2 years, volatility of 113.4% and a risk-free rate of 0.97%. The fair value of the warrants was recognized as a reduction in share capital as well as a portion of the share issue costs allocated to the warrants.

Restricted share units

The Company has a restricted share unit plan that provides for the granting of restricted share units to directors, officers, employees and consultants of up to 1,005,125 shares of the Company of which 5,286 are available for grant as at December 31, 2018. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration.

As at December 31, 2018, rights to receive 1,439 shares have been granted and vested. During the year ended December 31, 2018, the Company issued 10,000 (2017 – 267,594) shares for the rights that vested.

During the year ended December 31, 2018, the Company recognized a total of $3,200 (2017 – $54,268)), as compensation expense pursuant to restricted share units in selling, general, and administration expenses.

Shares for services

During the year ended December 31, 2018, the Company issued 392,433 at $112,853 for the performance of various services by third-party consultants required in the ordinary course of business. The shares were recorded at their fair value based on the market price of the shares when the shares are granted.

11. Share capital (continued)

Shares for conversion of debt to equity

On October 3, 2018, the Company announced a series of debt-to-equity transactions. The total amount converted was $5,250,144, which amounted to 27,824,255 shares issued and a non-cash gain on conversion of $2,535,410.

On October 23, 2018, the Company raised additional financing by way of a secured convertible debenture in the amount of CAD$720,000 ($557,784) and secured project green bonds in the amount of CAD$500,000 ($387,350). For each $1,000 of principal issued in Bonds, the Company has issued 100 bonus units consisting of one common share of the Company and half of one common share purchase warrant resulting in the issuance of 50,000 Bond Unit Shares, and 25,000 Bond Unit Warrants.

Each Bond Unit Warrant may be exercised by the holder for one common share of the Company at an exercise price of $0.35 per share for period of 24 months from the date of issuance. Net proceeds of the secured project green bonds will be used to finance eligible solar projects owned by UGE indirectly through a wholly-owned subsidiary of the Company.

Special warrants

As at December 31, 2018, the Company had 3,100,000 special warrants outstanding held by related parties and all are exercisable. On September 27, 2018, 2,000,000 special warrants were exercised by its holder for no additional consideration. The special warrants are convertible into shares of the Company on a one for one basis for no additional consideration provided that at the time on the conversion at least 20% of the issued and outstanding shares of the Company are held by Public Shareholders after the conversion of the special warrants. Public Shareholders are those shareholders who are not directors, officers or other insiders of the Company as defined by the TSX Venture Exchange.

Warrants

During the year ended December 31, 2018, the Company had 2,934,300 warrants with an exercise price of CAD$0.48 per share and 393,767 warrants at an exercise price of CAD$0.38 per share outstanding, which expired on June 23, 2018.

As at December 31, 2018, the Company has warrants outstanding allowing the holders to purchase an additional 1,725,000 common shares at an exercise price of CAD$0.80 per share and 241,500 common shares at an exercise price of CAD$0.60 per share until June 26, 2019.

As at December 31, 2018, the Company also has warrants outstanding allowing the holders to purchase an additional 1,250,000 common shares at an exercise price of CAD$0.40 per share until June 15, 2020.

As at December 31, 2018, the Company issued broker warrants related to the convertible debt which allows the holder to purchase 240,000 common shares. The Company also issued broker warrants for the issuance of Green Bonds allowing the holders to purchase 85,714 common shares. The Company also has bonus broker warrants outstanding allowing the holders to purchase an additional 25,000 common shares due in relation to the issuance of Green Bonds. All have an exercise price of CAD$0.35 per share until October 23, 2020.

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

11. 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 stock option activity is as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Balance at beginning of year	3,665,455	$ 0.47	2,972,461	$ 0.45
Granted	3,359,141	0.18	1,353,644	0.50
Forfeited	(2,587,911)	0.44	(538,383)	0.42
Canceled	(232,023)	0.32	-	-
Exercised	-	-	(122,267)	0.41
Balance at end of year	4,204,662	$ 0.27	3,665,455	$ 0.47
Balance exercisable at end of year	1,938,576	$ 0.33	1,873,938	$ 0.46

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

Exercise price (CAD)	Options outstanding at December 31, 2018	Weighted average remaining life (months)	Weighted average exercise price (CAD)	Options exercisable at December 31, 2018	Weighted average exercise price (CAD)
$ 1.15	36,300	18	$ 1.15	36,300	$ 1.15
0.78	72,000	23	0.78	72,000	0.78
0.61	350,823	42	0.61	116,941	0.61
0.45	471,436	30	0.45	471,436	0.45
0.36	506,000	47	0.36	502,000	0.36
0.33	40,000	53	0.33	40,000	0.33
0.29	259,701	53	0.29	86,567	0.29
0.28	80,000	35	0.28	80,000	0.28
0.23	50,000	51	0.23	50,000	0.23
0.13	2,138,402	59	0.13	483,332	0.13
0.09	200,000	60	0.09	-	0.09
	4,204,662	51	0.27	1,938,576	0.33

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

11. Share capital (continued)

During the year ended December 31, 2018, the Company recorded share-based compensation expense of $277,646 (2017 - $146,882) respectively, relating to stock options in selling, general, and administrative expenses. 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 below weighted average assumptions. For the year ended December 31, 2018 there were 3,359,141 stock options granted (2017 – 1,353,644) with an exercise price between $0.09 and $0.33 and expiry between April 12, 2023 and December 19, 2023.

	2018	2017
Expected life	5 years	5 years
Expected volatility in market price of shares	136.3%	115.4%
Expected dividend rate	0.0%	0.0%
Risk-free interest rate	2.32%	1.49%

12. Segmented information

The Company has determined that it operates in one operating segment, renewable energy solutions. During the years ended December 31, the Company had revenues in the United States, Canada and the Philippines, and is organized into geographic sales areas consisting of these countries.

Total revenue by geographic area for the years ended December 31, was as follows:

	2018	2017
Canada	$ 11,840,998	$ 15,804,549
United States	2,185,747	4,912,308
Philippines	3,165,475	217,979
	$ 17,192,220	$ 20,934,836

All non-current assets are related to the Company's Canadian operations.

During the year ended December 31, 2018 the Company had two (2017- three) 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.

	2018	2017
Customer 1	56%	0%
Customer 2	15%	0%
Customer 3	0%	55%
Customer 4	0%	17%
Customer 5	0%	14%

13. Contingencies and Commitment

Contingencies

UGE USA was contracted to complete a portfolio consisting of three projects with a US-based solar developer (the "Developer"). Due to a dispute between UGE USA and the Developer, in July 2018, UGE USA was named in a legal action by the Developer for breach of contract, with two related project contracts terminated. UGE USA disputed the basis for the two contract terminations, contending that substantial completion had been effectively reached for the two projects. In the three months ended December 31, 2018, UGE settled the disputes related to two of the three projects with the Developer and is working with its legal counsel and the Developer to reach a reasonable conclusion on the third project site in the coming months, which would fully resolve the dispute. As part of the settlement on the first two projects, the Company agreed to a penalty for damages of approximately $90,000 and has accrued an estimate for damages expected to be levied on the settlement of the third project, all of which has been included in project-related loss in the statement of operations and comprehensive loss. The total amount accrued on this project is $974,706, which does not include recoverable amounts from insurance which is yet to be determined.

UGE Canada is a party to a collaboration agreement with a Canadian solar developer, Soventix Canada Inc. ("Soventix"), which saw the two parties complete a portfolio of solar projects, mostly throughout 2017 with the final two sites being completed in early 2018. During the second quarter of 2018, UGE filed a Statement of Claim with the Ontario Superior Court of Justice for unpaid invoices and contractual damages totaling $376,369 (CAD$500,425), which consists of costs and accumulated interest. Until the action has been determined, the Company has taken a project loss of $213,000.

On April 3, 2017, UGE acquired the business of Carmanah Solar Power Corp ("CSPC") (Note 8). The seller of the assets made certain representations and warranties with respect to certain project contracts contained within the CSPC business. Certain of those project contracts later experienced project losses totaling approximately $520,000 in the twelve months ended December 31, 2018. The Company believes that a substantial portion of these losses are because of matters that occurred prior to the acquisition and as such the representations and warranties were breached. As a result, on July 12, 2018 the Company submitted a Demand Letter to CSPC's parent company in the amount of $302,869. On October 9, 2018, the Company settled with CSPC's parent company for $100,000 and considers the matter resolved and closed.

Commitment

The Company is subject to possible claims that arise in the ordinary course of business. The outcome of these claims, either individually or in the aggregate, are not expected to have a material impact on the Company's financial position or financial performance.

The Company has a lease commitment amount to $121,293, which relates to the US based office. The lease expires on February 28, 2021. Future minimum payments required under the lease premises are $55,736 in year 1, $ 58,927 in year 2 and $9,821 in year 3.

14. Financial Instruments

Fair value

Fair value measurements recognized in the consolidated statements of financial position, if any, must be categorized in accordance with the following levels:

(i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
(ii) Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and;
(iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments that are measured at fair value on a recurring basis on the consolidated statements of financial position is currently just cash.

The Company's financial instruments consist of cash, restricted cash, trade receivables and other receivables excluding HST and VAT, accounts payable and accrued liabilities and loans payable. The fair values of these financial instruments except for loans payable approximate carrying value because of the short-term nature of these instruments. The carrying value of the loans payable approximate their fair value based on market rates of interest.

Financial risk management

The Company is exposed to a number of financial risks arising through the normal course of business as well as through its financial instruments. The Company's overall business strategies, tolerance of risk and general risk management philosophy are determined by the directors in accordance with prevailing economic and operating conditions.

(a) *Interest rate risk*

Interest rate risk is the risk that the fair value of cash flows of a financial instrument will fluctuate because of changes in market interest rates. Loans payable include both fixed and variable interest rates; however, the Company does not believe it is exposed to material interest rate risk.

(b) *Foreign currency risk*

The Company primarily operates in the United States, Canada, and the Philippines. Each entity may be exposed to foreign currency risks from fluctuations if they have exposure outside their respective functional currency. A significant change in the currency exchange rates between the aforementioned currencies for entities with foreign currency exposure could have an effect on the Company's financial performance, financial position and cash flows. The Company does not use derivative instruments to reduce its exposure to exchange rate risk.

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

14. Financial Instruments (continued)

The Company's financial instruments subject to foreign currency risk are listed below (in USD).

	2018	2017
Financial assets		
Cash	$ 19,687	$ 22,073
Restricted Cash	304,012	68,486
Trade Receivable	67,874	350,286
Financial liabilities		
Accounts payable	159,327	366,897
Loan payable	1,204,907	273,888

Based on financial assets and liabilities held as at December 31, 2018, a 5% increase or decrease in the financial instruments which have foreign currency exposure, with all other variables held constant, would result in a foreign exchange gain or loss of approximately $87,790 (2017 - $54,000).

(c) *Credit risk*

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and restricted cash, and trade receivables. The carrying amount of these financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk on cash and restricted cash by placing these financial instruments with high quality financial institutions. Credit risk relating to trade receivable from vendors are managed on a case by case basis.

(d) *Liquidity risk*

Liquidity risk is the risk that the Company will be unable to meet its financial obligations when due. The Company has a planning and budgeting process to help determine the funds required to support the Company's normal spending requirements on an ongoing basis and its expansionary plans. As at December 31, 2018 the contractual maturities of financial liabilities, including estimated interest payments are as follows:

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5+ years
Accounts payable and accrued liabilities	$ 5,929,619	$ 5,929,619	$ 5,929,619	$ -	$ -	$ -
Loans payable	3,530,720	3,977,235	1,875,475	1,937,947	1,961,813	-
Lease commitments	-	121,293	55,736	55,736	9,821	-
	$ 9,460,339	$ 10,028,147	$ 7,860,830	$ 1,993,683	$ 1,971,634	$ -

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

15. Income taxes

Income tax recovery from continuing operations for the years ended December 31, is as follows:

	2018	2017
Current tax recovery	$ 93,746	$ -
Deferred tax recovery	-	(8,561)
Total income tax recovery	$ 93,746	$ (8,561)

The Company and its Canadian subsidiaries are subject to Canadian income tax rate of 26.5% (2017 – 26.5%). UGE USA is subject to US federal and state combined corporate income tax rate of 33% (2017 – 44%). The main reason for the decrease is that US federal corporate income tax rate has decreased to 21% (2017 - 34%). UGE Philippines is subject to the Philippines income tax rate of 30% (2016 - 30%).

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2017-26.5%) to the effective tax rate is as follows:

	2018	2017
Net loss before recovery of income taxes	$ (6,049,681)	$ (1,983,923)
Canadian statutory tax rate	26.5%	26.5%
Expected tax recovery:	$ (1,603,165)	$ (525,740)
Difference in foreign tax rates	(183,731)	(354,429)
Tax rate changes and other adjustments	(3,517)	(99,615)
Share based compensation and non-deductible expenses	849,980	184,851
Change in tax benefits not recognized	1,034,180	786,372
Income tax recovery	$ 93,747	$ (8,561)

The following table summarizes the components of deferred tax asset:

	2018	2017
Deferred Tax Asset		
Share issuance cost	$ 68,489	
Non-capital losses carried forward	529,355	
Deferred Tax Liabilities		
Intercompany loans	(571,490)	
Other	(25,319)	
Net deferred tax asset	$ 1,035	$ -

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

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

15. Income taxes (continued)

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2018	2017
Reserves	$ 196,546	$ 165,693
Share issuance costs	-	273,446
Non-capital losses carried forward - Canada	806,221	1,250,745
Net operating loss - USA	4,327,527	2,080,383
Accrued liabilities	100,000	70,000
Stock based compensation	156,144	119,233
Interest expenses	631,286	-
Other	5,000	1,861

As at December 31, 2018, the Company has non-capital losses from operations in the United States of approximately $ 4,327,527, (2017 – $2,080,383) that may be used to offset future taxable income in the United States. The losses incurred in 2016 and 2017 will expire in 2037 and 2038 respectively. The losses incurred in 2018 and after can be carried forward indefinitely.

As at December 31, 2018, the Company has non-capital losses from operations in Canada of $810,126 (2017 - $1,256,125) that may be used to offset future taxable income in Canada that expire in 2038. The remaining deductible temporary differences may be carried forward indefinitely.

Deferred tax assets have not been recognized in respect of these items as future taxable income cannot be reliably measured at this time.

16. Selling, general, and administrative expense

	2018	2017
Employee compensation	$ 2,846,883	$ 2,923,128
Corporate and professional	1,714,965	1,303,273
Depreciation and amortization	31,446	431,481
Office related	189,895	279,530
Share-based compensation	277,646	201,150
Insurance	174,260	199,284
Travel and entertainment	137,945	197,030
Advertising and marketing	23,800	43,730
	$ 5,396,840	$ 5,578,606

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

17. Key management personnel

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and is comprised of the members of the executive management team and Board of Directors. The amount for compensation expense recognized for key management personnel for the years ended December 31, were as follows:

	2018	2017
Short term employee benefits	$ 183,411	$ 298,303
Share-based compensation	94,841	96,998
	$ 278,252	$ 395,301

18. Subsequent Events

On February 8, 2019, the Company completed a non-brokered private placement of 4,053,333 units ("Units"), with each such Unit consisting of one common share in the capital of the Company (the "Common Shares") and half of one common share purchase warrant (each whole warrant, a "Unit Warrant") at an issuance price of $0.15 per Unit for aggregate gross proceeds of $608,000 (the "Offering"). Each Unit Warrant entitles the holder to purchase one Common Share at an exercise price of $0.20 per share for a period of 24 months from the date of issuance.

On February 12, 2019, the Company had four accounts payable balances totalling $98,000 were converted at a price of CAD$0.15 per share resulting in the issuance of 871,112 common shares. In particular, two officers of the Company, including its Chief Executive Officer, elected to receive certain bonuses owed in the form of equity, which accounted for the majority of the conversion.