



**UGE INTERNATIONAL LTD.**

Management's Discussion and Analysis

Year ended December 31, 2019

The following Management's Discussion and Analysis ("MD&A") is prepared as of May 5, 2020 and is intended to assist in understanding the results of operations and financial condition of UGE International Ltd. (the "Company" or "UGE"). Throughout the MD&A, reference to the Company or UGE is on a consolidated basis. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 and the audited consolidated financial statements for the year ended December 30, 2018, both of which are expressed in United States dollars ("USD") and prepared in accordance with International Financial Reporting Standards ("IFRS"). The functional currency of the Company is Canadian dollars ("CAD"). All amounts in this MD&A are expressed in USD, unless otherwise indicated.

### **Forward-Looking Information**

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

### **Corporate Profile**

UGE is a solar and renewable energy solutions company, focused on providing commercial and community solar energy solutions that deliver cheaper, cleaner, and more reliable electricity. We develop, engineer, deploy, and finance commercial and community solar projects in our target markets (currently the US and Philippines), and provide engineering and consulting services, worldwide.

UGE began as an energy solutions company, designing and supplying clean technology solutions to solve the needs of commercial and industrial clients. Over our history, we have developed expertise in solar, battery storage, and the financing of renewable energy projects, which we leverage to develop and deploy solar energy projects for our clients, designed to provide them immediate economic benefit, such as through cheaper electricity costs or a long-term lease for their roof space.

On February 22, 2016, we acquired UGE Canada Ltd. ("UGE Canada", formerly Endura Energy Project Corp Ltd.), which strengthened our market position in Canada and added additional engineering and deployment experience. On September 6, 2016, we divested our former wind energy operations, UGE Holdings Ltd. ("UGE Holdings") and its subsidiaries, which we had identified as non-core to our strategic plan. On April 3, 2017, we purchased substantially all the assets of Carmanah Solar Power Corp. ("CSPC"), further strengthening our project deployment capabilities. On January 17, 2020, we filed a Part III Division 1 of BIA Proposal (the "Proposal") to creditors of UGE Canada RE Ltd. ("UGE Canada RE"), to effectively wind down UGE Canada RE, which represented a business unit predominantly focused on providing project deployment services in the Canadian market.

Today, UGE primarily develops, builds, and finances complete turnkey solutions within the Northeast US and the Philippines, and provides engineering and consulting services worldwide. Our focus is on leveraging the low cost of distributed solar energy to provide energy users more affordable energy.

## Non-GAAP Measures

This MD&A presents certain non-GAAP (“GAAP” refers to Generally Accepted Accounting Principles) financial measures to assist readers in understanding the Company’s performance. These non-GAAP measures do not have any standardized meaning and therefore are unlikely to be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Management uses these non-GAAP measures to supplement the analysis and evaluation of operating performance.

Throughout this MD&A, the following terms are used, which are not found in the Chartered Professional Accountants of Canada Handbook and do not have a standardized meaning under GAAP.

### *EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization)*

- “EBITDA” represents net income or loss from continuing operations excluding net finance income or expense, income tax or recovery, depreciation, and amortization.
- “Adjusted EBITDA” represents EBITDA adjusted to exclude stock-based compensation, costs associated with one-time transactions or write-downs, impairment losses recognized on long-live assets such as goodwill and plant and equipment, and the gain (loss) on sale of assets and investments.
- “Adjusted EBITDA margin” represents Adjusted EBITDA as a percentage of revenue.

## Confirmed Project Backlog

The Company believes it is important to provide an analysis of project backlog in our financial statements as a measure of our potential to earn future revenues. Our backlog is made up of two components:

1. Committed: in the normal course of securing projects, we often reach a stage where the client makes a form of commitment to UGE, such as through a Letter of Intent or an award letter in response to a Request for Proposal. We identify such projects as “Committed” until they are fully contracted and management believes that proceeding with the project is reasonably assured.
2. Contracted: projects eventually reach the stage of being fully contracted, at which point there is a binding contract(s) with the client and a deployment schedule has been identified.

As at December 31, 2019, our confirmed project backlog was \$30.3 million, including \$6.3 million of Contracted Projects and \$24 million of Committed Projects. A breakdown of our backlog, divided by business unit, stage, and financing type, is as follows:

Contracted:			<u>No.</u>	<u>Total Value</u>	<u>Remaining Value</u>
USA	Client Financed	In Deployment	3	3,229,937	2,762,393
		Pre Deployment	2	954,259	131,814
	UGE Financed	In Deployment	3	1,235,300	635,863
		Pre Deployment	0	-	-
Philippines	Client Financed	In Deployment	6	2,290,867	692,782
		Pre Deployment	2	717,546	718,289
	UGE Financed	In Deployment	3	260,395	32,487
		Pre Deployment	3	1,312,789	1,293,210
Engineering and Consulting			5		92,419
			<b>Total Contracted Backlog:</b>		<b>6,359,257</b>

Committed				<u>Project Value</u>
USA	Client Financed		2	5,321,627
	UGE Financed		6	8,371,050
Philippines	Client Financed		6	2,768,247
	UGE Financed		15	6,582,942
Other	Client Financed		1	962,000
	UGE Financed		0	-
Engineering and Consulting			0	-
			<b>Total Committed Backlog:</b>	<b>24,005,866</b>

**Total Backlog: 30,365,123**

Since December 31, 2019, the Company has secured several additional projects and announced on April 8, 2020 that its backlog had exceeded \$45 million.

For self-developed projects that UGE plans to finance, the backlog numbers shown above are the Company's calculated value for project net present value, based on its expectations for the projects' current market value.

The timing of the conversion of backlog to revenue can vary significantly on a project by project basis. A Contracted Project will typically start to convert to revenue in either the quarter the contract was signed or the quarter thereafter, with final completion typically occurring within six to 18 months. A Committed Project can often delay one to six quarters, pending completion of contract negotiations and scheduling of work. A Committed Project may potentially fail to secure final contracting for various reasons and therefore may not convert to revenue in the future.

## Selected Quarterly Financial Information

	Three months ended Dec 31,		Year ended Dec 31,	
	2019	2018	2019	2018
<b>Revenue</b>	\$ 1,555,932	\$ 3,537,354	\$ 5,061,859	\$ 17,192,220
<b>Cost of sales</b>	(1,213,570)	(3,724,910)	(3,714,489)	(15,543,859)
<b>Gross profit</b>	342,362	(187,556)	1,347,370	1,648,361
<b>Gross profit margin</b>	22%	-5%	27%	10%
<b>Expenses</b>				
Selling, general, and administrative	(765,204)	(1,416,182)	(3,136,649)	(5,119,194)
Project-related gain (loss)	-	(203,713)	-	(1,013,006)
Share based compensation	(30,729)	(371,169)	(172,854)	(277,646)
<b>Loss from operating activities</b>	\$ (453,571)	\$ (2,178,620)	\$ (1,962,133)	\$ (4,761,485)
Bad Debts	(75,066)	-	(245,904)	-
Other Income	(26,581)	-	187,653	-
Impairment loss	-	-	-	(2,981,198)
Gain on conversion of debt to equity	(22,437)	1,595,876	2,687	2,535,410
Net finance costs	(224,037)	(193,494)	(477,056)	(842,408)
<b>Income (loss) before income taxes</b>	\$ (801,692)	\$ (776,238)	\$ (2,494,753)	\$ (6,049,681)
Income tax recovery (expense)	(8,089)	(45,094)	(12,898)	(93,746)
<b>Net income (loss) for the period</b>	\$ (809,781)	\$ (821,332)	\$ (2,507,651)	\$ (6,143,427)
Gain (loss) on translation	(53,000)	249,705	(173,926)	(39,690)
<b>Comprehensive gain/(loss)</b>	\$ (862,781)	\$ (571,627)	\$ (2,681,577)	\$ (6,183,117)
<b>Adjusted EBITDA</b>	\$ (460,888)	\$ (1,671,935)	\$ (1,740,737)	\$ (3,340,013)
<b>Adjusted EBITDA margin</b>	-30%	-47%	-34%	-19%
<b>Loss per share - basic and diluted</b>	\$ (0.04)	\$ (0.04)	\$ (0.13)	\$ (0.53)

## Results of Operations for the year ended December 31, 2019

2019 was an important year for UGE, as we worked through the hard, but necessary, step of winding down our business unit that had been focused on engineering, procurement, and construction (“EPC”) revenue (UGE Canada RE) and concentrated our focus on our develop/build/finance model. We expect the enhanced focus will drive improving results for the foreseeable future.

UGE’s project development businesses are in the US and Philippines, and both enjoyed significant success in growing project backlog throughout 2019. As of December 31, 2018, contracted backlog in the US and

Philippines was just \$1.5 million; by comparison, on December 31, 2019, contracted backlog in the US and Philippines had grown to \$11.3 million. This significant growth in our key markets shows near term potential revenue more than double total Company revenue from 2019. As shown throughout 2019, on average, UGE's self-developed revenue provides far higher gross margins than EPC revenue, which helped drive vastly improved gross margins in 2019 (27% versus 10% in 2018).

Meanwhile, an important focus of 2019 was completing the wind down of UGE Canada RE, which characterized our predominantly Canadian business unit focused on EPC services for other project developers. Throughout 2019, all project contracts were completed by this business unit, leading to the Company filing a Notice of Intent to File a Proposal for UGE Canada RE on December 18, 2019. The Proposal was filed on January 17, 2020, amended on January 21, 2020, and creditors voted to accept the Proposal on February 14, 2020. The Company had expected the Ontario Court of Justice to approve the Proposal on March 23, 2020; however, due to COVID-19 this date was pushed back and is currently unknown.

The Proposal offered UGE Canada RE's creditors a reduced payout over eight quarterly payments, which the Company expects will commence in the second half of 2020, after approval by the Ontario Superior Court of Justice. The results of the Proposal are not reflected in the Company's December 31, 2019 financial statements; however, the Company expects approval of the Proposal to materially improve its balance sheet, primarily through a reduction in current liabilities. On average, the Proposal reduces amounts due to creditors of UGE Canada RE by 54%. The Company does not expect to record any material write-downs of assets with respect to the Proposal.

Winding down the Canadian EPC business unit, as well as other proactive measures to minimize spending, saw UGE decrease SG&A expenses 39% in 2019. Though revenue fell significantly, as the EPC business stopped producing revenue, management is focused on converting its large and growing backlog into revenue throughout 2020 and beyond to see the Company consistently achieve profitable results. The last three months of 2019 saw revenue grow from \$0.5 million in the third quarter to \$1.6 million in the fourth quarter as self-developed projects in the US and Philippines began to convert to revenue, and management expects significant revenue growth to continue in 2020 based on its large and growing backlog.

The Company also started to finance a portion of its projects in 2019, with six self-financed projects under construction as of December 31, 2019. The Company expects several self-financed projects to become operational throughout 2020, which will generate recurring revenue for the business, as well.

Self-financed projects do not create revenue on the income statement until projects are operational. As of December 31, 2019, the Company recorded Construction-in-Progress of \$428,030 and Unbilled Revenue of \$246,753 related to self-financed projects that were under construction but not yet operational at year-end.

Adjusted EBITDA for the year ended December 31, 2019 was negative \$1,740,737 compared to negative \$3,340,013 in the prior year. The decrease in revenue, due to the Canadian EPC business being wound down, was more than offset by the significant increase in gross margin percentage as the Company focused on self-developed projects. The Company is focused on returning to positive Adjusted EBITDA by scaling revenue, through conversion of its backlog into revenue while securing additional projects, and by maintaining gross profit margin percentage and overhead expenditures at or near their current levels.

Lastly, as of the date of this MD&A, the globe is facing the COVID-19 pandemic. UGE has shifted to a remote workforce model with a focus on preparations for an accelerated deployment of projects as regionally enforced restrictions are lifted. The Company has implemented expense control measures, including the shift to a four day work week. Finally, UGE is pursuing all government assistance programs available to it to help with expenses during the pandemic.

The Company recorded a net loss for the year ended December 31, 2019 of \$2.5 million, or \$0.13 per share, compared to a loss of \$6.1 million, or \$0.53 per post-consolidation share, in the prior year, which

was primarily a result of the improved gross margins and lower operating expenditures in 2019, the decrease in revenue in 2019, as well as goodwill and plant and equipment impairment losses taken in 2018.

## Summary of Quarterly Results

All amounts in 000's, except per share figures

	Mar 31 2018 Q1	Jun 30 2018 Q2	Sep 30 2018 Q3	Dec 31 2018 Q4	Trailing four quarters	Mar 31 2019 Q1	Jun 30 2019 Q2	Sep 30 2019 Q3	Dec 31 2019 Q4	Trailing four quarters
<b>Operations:</b>										
Revenue	\$ 6,060	\$ 3,428	\$ 4,167	\$ 3,537	17,192	\$ 2,066	\$ 944	\$ 496	\$ 1,555	5,061
Net loss										
from operations	(455)	(1,361)	(767)	(2,178)	(4,761)	(441)	(449)	(619)	(453)	(1,962)
Net income (loss)	(801)	(4,634)	113	(821)	(6,143)	(511)	(366)	(816)	(802)	(2,495)
<b>Net loss from operations per share</b>										
basic and diluted	(0.04)	(0.13)	(0.07)	(0.14)	(0.39)	(0.02)	(0.02)	(0.03)	(0.02)	(0.10)
<b>Net income (loss) per share</b>										
basic	(0.08)	(0.45)	0.01	(0.05)	(0.57)	(0.03)	(0.02)	(0.04)	(0.04)	(0.13)
diluted	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

*Quarter to quarter comparisons in the financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. The quarterly information is unaudited, but reflects all adjustments of a normal recurring nature, which are, in the opinion of management, necessary to present a fair statement of results of operations for the periods presented. Revenues and earnings may fluctuate from quarter to quarter. A number of factors could cause such fluctuations, including the timing of substantial orders. Because operating expenses are incurred based on anticipated sales, and are incurred throughout each fiscal quarter, any of the factors listed above could cause significant variations in revenues and earnings in any given quarter. The financial data has been presented in accordance with International Financial Reporting Standards in the presentation currency of US dollars, as opposed to the functional currency for the Company, which is the Canadian dollar.*

See below for the calculation of Adjusted EBITDA for the most recent eight quarters:

Figures in 000's	Mar 31 2018 Q1	June 30 2018 Q2	Sept 30 2018 Q3	Dec 31 2018 Q4	Mar 31 2019 Q1	June 30 2019 Q2	Sept 30 2019 Q3	Dec 31 2019 Q4
Net income (loss)								
from continuing operations	(\$801)	(\$4,634)	\$113	(\$821)	(\$511)	(\$365)	(\$815)	(\$802)
Add/(deduct):								
Net finance expense	242	281	127	179	53	46	102	206
Accretion expense					18	17	18	18
Income tax expense (recovery)	104	11	(67)	45	36	41	(72)	8
Depreciation	14	12	4	2	13	12	12	11
Share-based compensation	(13)	67	(148)	371	102	23	16	31
Goodwill impairment		2,981						
Other one-time or non-recurring items	385	354	(700)	(1,448)	-	(28)	-	67
Adjusted EBITDA	(\$69)	(\$928)	(\$671)	(\$1,672)	(\$289)	(\$254)	(\$739)	(\$461)

## Liquidity and Capital Resources

### *Cash flow from operations*

The source of cash flows for the Company includes operations and debt and equity financings. The primary uses of cash are operating expenses, including cost of sales and working capital, and to fund acquisitions.

During the year ended December 31, 2019, the Company generated negative cash flow from operating activities of \$1,490,180 and a net loss of \$2,507,651. In addition, as at December 31, 2019, the Company had a working capital deficiency of \$5,234,553, which is expected to be settled through the course of operations and raising additional capital, as well as anticipated approval of the Proposal to Creditors for the UGE Canada RE business unit, which offers creditors a reduced payout and was approved by creditors on February 14, 2020. Management expects the Ontario Court of Justice to approve the Proposal in mid-2020.

During 2019, the Company decreased expense levels, improved gross margins, and focused on closing new projects with higher margins, with the goal of strengthening our financial position. However, to the extent that the Company does not generate positive cash flows from operations in the future, or financing is not available on reasonable terms, reductions in expenditures may be required or the Company may not be able to continue as a going concern. Certain conditions discussed above and in the Business Risks section of the MD&A raise significant doubt about our ability to continue as a going concern.

### *Financing activities*

On February 8, 2019, the Company completed a non-brokered private placement of 1,013,333 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 \$CAD 0.60 per Unit for aggregate gross proceeds of \$CAD 608,000 (the "Offering"). Each Unit Warrant entitles the holder to purchase one Common Share at an exercise price of \$CAD 0.80 per share for a period of 24 months from the date of issuance. Certain finders of purchasers in the Offering were entitled to receive a cash commission equal to 6% of the gross proceeds from subscribers sourced by such finders as well finder's warrants (the "Finder's Warrants") equal to 6% the number of Units sourced



by such finders, resulting in the payment by the Company of \$6,480 and the issuance of 10,800 Finder's Warrants. Each Finder's Warrant entitles the holder thereof to purchase one Common Share of the Company at an exercise price of \$0.80 per share for a period of 24 months from the date of issuance. The Company completed a four-for-one share consolidation on December 23, 2019; the figures herein reflect post-consolidation values.

On June 14, 2018, the Company completed a private placement equity financing of 312,500 units of the Company at a price of CAD\$1.40 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\$1.60 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%. The Company completed a four-for-one share consolidation on December 23, 2019; the figures herein reflect post-consolidation values.

### *Contractual commitments*

As of December 31, 2019, the Company has contractual commitments as follows:

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 1 year</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>5+ years</b>
Accounts payable and accrued liabilities	\$ 4,857,467	\$ 4,857,467	\$ 4,857,467	\$ -	\$ -	\$ -
Loans payable	4,322,814	4,803,523	2,814,012	746,779	1,242,732	-
Lease liability	58,841	65,557	55,736	9,821	-	-
	<b>\$ 9,239,122</b>	<b>\$ 9,726,547</b>	<b>\$ 7,727,215</b>	<b>\$ 756,600</b>	<b>\$ 1,242,732</b>	<b>\$ -</b>

The figures above do not reflect changes expected at the time of the Ontario Superior Court of Justice's approval of the Proposal filed on the UGE Canada RE business unit.

### *Capital management*

The objective in managing capital is to safeguard our ability to continue as a going concern and to sustain future development of the business. In the management of capital, the Company include shareholders' equity, excluding accumulated other comprehensive income and to maintain or adjust our capital structure, management may issue shares. The Board of Directors does not establish quantitative return on capital criteria for management. UGE is not subject to any externally imposed capital requirements.

## **Financial Instruments and other instruments**

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

### *Credit risk*

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

### *Liquidity risk*

Our objective in managing liquidity risk is to ensure sufficient liquidity to meet financial obligations when due by maintaining sufficient cash and cash equivalents to settle current liabilities and meet anticipated working capital requirements. As at December 31, 2019, the Company had cash of \$206,433, restricted

cash of \$299,369, a working capital deficiency of \$5,234,553 and shareholders' deficiency of \$6,549,321. Discussion regarding our ability to manage our liabilities is outlined in the Liquidity and Capital Resources section. The Company plans to realize our assets, increase revenues and gross profit margins, and raise further capital as necessary, to maintain sufficient liquidity. If the Company is unable to achieve some or all of these plans within a reasonable timeframe, the Company may not be able to continue as a going concern.

#### *Market risk*

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

##### *(a) Interest rate risk*

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

##### *(b) Foreign currency risk*

The Company enters into transactions denominated in USD, CAD and Filipino Pesos, for which the related revenue, expenses, trade receivables and accounts payable balances are subject to exchange rate fluctuations. As of this time, the Company does not hedge our exposure to foreign currency risk using financial instruments.

## **Changes in Accounting Policies**

### **IFRS 16, Leases (“IFRS 16”)**

IFRS 16 was issued in January 2016 and it replaces IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC-15 “Operating Leases-Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease.

The Company adopted 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 adoption of this standard increased total assets by approximately \$92,000 by recording a ROU asset on adoption. There was an increase in liabilities as a corresponding liability being recorded in the consolidated financial statements using an incremental borrowing rate of 13.5% and an expiry of February 2021. The Company also elected to apply the practical expedient to not reassess whether a contract is, or contains, a lease under IAS 17, Leases or IFRIC 4, Determining Whether an Arrangement Contains a Lease.

### **IFRS 9, Financial Instruments (“IFRS 9”)**

On January 1, 2018 the Company adopted IFRS 9, Financial Instruments, which sets out the accounting standards for the classification and measurement of financial instruments. IFRS 9 became effective for the

annual periods beginning on or after January 1, 2018, and replaces IAS 39, Financial Instruments: Recognition and measurement. The new standard provides a model for the classification and measurement of financial instruments, a single forward-looking “expected loss” impairment model, and a reformed approach for hedge accounting. As most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward into IFRS 9, the Company’s accounting policy with respect to financial liabilities is unchanged.

## **IFRS 15, Financial Instruments (“IFRS 15”)**

On January 1, 2018 the Company adopted IFRS 15, Revenue from Contract sand Customers, which sets out the accounting standards for the classification and measurement of revenue. IFRS 15 became effective for the annual periods beginning on or after January 1, 2018. The new standard provides a revenue model that has five steps: (i) Identify the contract with a customer; (ii) Identify all the individual performance obligations within the contract; (iii) Determine the transaction price; (iv) Allocate the price to the performance obligations; & (v) Recognize revenue as the performance obligations are fulfilled.

## **Business Risks**

### *Going concern risk*

These 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, has incurred losses from operations, and is in discussions with its bank regarding its revolving credit facility as of the date of this MD&A. During the year ended December 31, 2019, the Company had a net loss of \$2,507,651 and negative cash flow from operations of \$1,490,180. As at December 31, 2019, the Company had cash of \$206,433, restricted cash of \$299,369, a working capital deficiency of \$5,234,553, and shareholders' deficiency of \$6,549,321. The Company has incurred losses as the Company develops its operations and gross profits have not been sufficient to cover all costs and may not be sufficient in future quarters.

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 and maintaining profitability and the ability to raise additional debt or equity financing to fund its current and any future working capital needs. 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 bank partners on 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.

To date the Company has funded losses with private placements, a short form prospectus offering, and debt. To the extent that the Company is unable to complete any additional financing, the Company may need to seek strategic alternatives. Management is confident that adequate funding will be obtained for the Company to carry on as a going concern, but there can be no guarantees that such financing will be obtained.

The directors are of the opinion that it is appropriate to prepare the consolidated interim financial statements for the year ended December 31, 2019 on a going concern basis, which do not include any adjustments or disclosures that would be required if assets are not realized and liabilities and commitments are not settled in the normal course of operations. If 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 interim financial statements.

### *Customer concentration risk*

The Company derives a significant portion of revenue from sales to a relatively limited number of customers. If any of our more significant prospective customers fail to purchase our solutions, or our existing customers discontinue their relationship with us for any reason, our revenue may be substantially reduced. To mitigate this risk, the Company has implemented quality control measures and aim to provide superior customer service. Our sales programs also address a large base of potential customers and at any given time the Company is pursuing a significant number of sales opportunities.

### *Sales risk*

Our sales efforts target medium and large organizations and the Company spends significant time and resources educating prospective customers about the features and benefits of our solutions. Our sales cycle usually ranges from 6 to 12 months and sales delays could cause our operating results to vary. The Company balances this risk by continuously assessing the condition of our backlog and pipeline and making the appropriate adjustments as far in advance as possible. Our strategy also includes a comprehensive program to build and improve relationships with our customers to better understand their needs and proactively manage incoming business levels effectively.

### *Controlling Shareholders*

The following entities and individuals each have significant shareholdings of the Company:

Junfei Liu holds 4,988,066, representing 24.6%, of the issued and outstanding Common Shares on a non-diluted basis; Xiangrong Xie holds 3,172,984 Common Shares representing 14.6% of the issued and outstanding Common Shares on a non-diluted basis; Castel Qihua Hi-Tech Investments Limited ("Castel") holds 1,289,942 representing 6.4% of the issued and outstanding Common Shares on a non-diluted basis.; and Nicolas Blitterswyk holds 1,171,169 Common Shares, representing 5% of the issued and outstanding Common Shares on a non-diluted basis. The Major Shareholders collectively own more than 25% of the Company and will have significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of the Company's assets, election of directors and other significant corporate actions. Major Shareholders may also have the power to prevent or cause a change in control. In addition, without the consent of one or more of the Major Shareholders, the Company could be prevented from entering into transactions that may otherwise be beneficial to the Company.

### *Dependence on Management and Ability to Hire and Retain Key Personnel*

The Company depends on the business and technical expertise of its management. The contributions of the existing management team to the immediate and near-term operations of the Company are likely to be of central importance. In addition, the competition for qualified personnel in the industry is competitive and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Company.

The Company's success will also depend in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on the Company's business, financial condition, financial performance, and prospects. To support growth, the Company must hire, train, deploy, manage and retain a number of skilled employees. In particular, the Company must continue to expand and optimize its sales infrastructure to grow its customer base and the Company plans to expand its sales force. Identifying and recruiting qualified personnel and training them requires significant time, expense and attention. It can take several months before a new salesperson is fully trained and productive. If the Company is unable to hire, develop and retain talented sales personnel or if new sales personnel are unable to achieve desired productivity levels in a reasonable period of time, the Company may not be able to realize the expected benefits of this investment or grow its business.

### *Enforcing Judgments Internationally*

Certain directors and officers, including the Chief Executive Officer, reside outside of Canada and substantially all of the assets of these persons are located outside of Canada. It may not be possible for shareholders to effect service of process against the Company's directors and officers who are not resident in Canada. In the event a judgment is obtained in a Canadian court against one or more of the Company's directors or officers for violations of Canadian securities laws or otherwise, it may not be possible to enforce such judgment against those directors and officers not resident in Canada. Additionally, it may be difficult for an investor, or any other person or entity, to assert Canadian securities law claims or otherwise in original actions instituted in the USA. Courts in these jurisdictions may refuse to hear a claim based on a violation of Canadian securities laws or otherwise on the grounds that such jurisdiction is not the most appropriate forum to bring such a claim. Even if a foreign court agrees to hear a claim, it may determine that the local law, and not Canadian law, is applicable to the claim. If Canadian law is found to be applicable, the content of applicable Canadian law must be proven as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by foreign law.

### *Limited Business History*

The Company has not paid any dividends and it is unlikely the Company will pay any dividends in the immediate or foreseeable future. The success of the Company will depend entirely on the expertise, ability, judgment, discretion, integrity and good faith of its management.

The Company has limited financial resources and there is no assurance that additional funding will be available to the Company for further operations or to fulfil its obligations under applicable debt and supplier agreements. There is no assurance that the Company can operate profitably, or provide a return on investment, or that it will successfully implement its plans.

Additionally, the Company cannot assure that it will be successful in generating substantial revenue from new products or services or from any additional energy-related products and services it may introduce in the future. In addition, the Company only has limited insight into emerging trends that may adversely impact its business, prospects and operating results. As a result, the Company's limited operating history may impair the Company's ability to accurately forecast future performance.

### *Additional Financing*

To date, the Company has funded losses by issuing additional equity and loans. To the extent that the Company does not achieve or maintain positive cash flows from operations in the future, or financing is not available or not available on reasonable terms, reductions in expenditures will be required or the Company may not be able to continue as a going concern. These conditions raise significant doubt about the ability of the Company to continue as a going concern. If the Company is unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation to a liquidation basis, which could differ materially from the values presented in the Company's financial statements.

In order to achieve profitability, make further investments, or take advantage of future opportunities, the Company will require additional financing. The ability of the Company to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as upon the business success of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares or other forms of convertible securities from treasury, control of the Company may change, and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

### *Negative Cash Flows and Profitability*

During the year ended December 31, 2019, the Company had negative cash flow and since its inception has not been profitable. There is no assurance that the Company will earn profits in the future, or that profitability will be sustained. There is no assurance that future revenues will be sufficient to generate the funds required to continue the Company's business development and marketing activities. If the Company does not have sufficient capital to fund its operations, it may be required to reduce its sales and marketing efforts or forego certain business opportunities.

### *Significant Competition*

There are companies in competition with us in each of the markets that the Company or its subsidiaries operate in. Some of these companies may be better financed or have larger sales teams and marketing budgets than the Company. There can be no guarantee that the Company will be able to effectively compete in the marketplace with such competition.

The renewable energy industry is competitive and continually evolving as participants strive to distinguish themselves within their markets. The Company's competitors can be expected to continue to develop competitive advantages and could cause a decline in market acceptance of the Company's services. In addition, the Company's competitors could cause a reduction in the prices for some services as a result of intensified price competition.

Also, the Company may be unable to effectively anticipate and react to new entrants in the marketplace competing with the Company's services.

### *Third Party Suppliers*

The Company's product suppliers and subcontractors including, without limitation, installers and solar panel, inverter, and racking manufacturers, may run into funding, supply chain, technical, and/or other difficulties. As a result, they could be unable to deliver essential services or components in time and could cause significant delays in the delivery of the Company's projects. Any significant delivery delays could negatively impact the Company's future revenue and may have a material adverse effect on the business, financial position or results of operations of the Company. In addition, it is possible that certain vendors may face high demand for their services or products and not be able to supply the Company with what it needs, and/or when it needs it. Trade barriers, such as tariffs imposed by governments on import, also have the potential to disrupt the Company's supply chain, necessitating the Company to find other suppliers, sometimes on short notice. Such tariffs could also impose additional costs on the Company, negatively impacting its profitability.

The declining cost of solar panels has been a driver in the pricing of the Company's projects and customer adoption of this form of renewable energy. If solar panel prices increase or do not continue to decline, the Company's growth could slow, and the Company's financial results could suffer. Such events could harm the Company's financial results by requiring it to pay higher prices.

### *Warranty*

The Company's business exposes it to potential liability risks. The Company sometimes provides warranty for its services, often for one year or more after the service is completed. If the Company experiences a greater number of warranty claims than budgeted in the normal course, the Company's gross margins could be negatively affected.

### *Bonding*

Our ability or inability to obtain bonding may limit or restrict the nature and size of contracts the Company may be awarded and hence have an impact on our plans to achieve positive cash flow and profitability.

### *Commercial and Industrial Customers*

Projects with commercial and industrial customers may create concentrated operating and financial risks. The effect of recognizing revenue or other financial measures on the sale of a larger project, or the failure to recognize revenue or other financial measures as anticipated in a given reporting period because a project is not yet completed under applicable accounting rules by period end, may materially impact the Company's quarterly or annual financial results. In addition, if operational issues arise on a larger project, or if the timing of such projects unexpectedly shifts for other reasons, such issues could have a material impact on the Company's financial results. If the Company is unable to successfully manage these significant projects in multiple markets, including related internal processes and external construction management, or if the Company is unable to continue to attract such significant customers and projects in the future, the Company's financial results would be harmed.

### *Management of Growth*

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

### *Dilution*

The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company which may be dilutive to the existing shareholders.

### *Damage to Reputation*

The Company depends significantly on its reputation for high-quality products, services, engineering abilities and exceptional customer service to attract new customers and grow its business. If the Company fails to continue to deliver its solutions within planned timelines, if products and services do not perform as anticipated, or if the Company damages any of its customers' properties or cancels projects, its brand and reputation could be significantly impaired. In addition, if the Company fails to deliver, or fails to continue to deliver, high-quality services to customers through long-term relationships, the Company's customers will be less likely to purchase future services from the Company, which is a key strategy to achieve desired growth. The Company also depends on referrals from existing customers for growth, in addition to other marketing efforts. Therefore, the Company's inability to meet or exceed current customers' expectations would harm the Company's reputation and growth through referrals.

### *Resale of Shares*

The continued operation of the Company will be dependent upon its ability to generate profitable operations and to procure additional financing. There can be no assurance that any such profits can be generated or that other financing can be obtained. If the Company is unable to generate such profits or obtain such additional financing, any investment in the Company may be lost. In such event, the probability of resale of the Company Shares would be diminished.

### *Fluctuating Results of Operations*

The Company's quarterly operating results are difficult to predict and may fluctuate significantly in the future. Given that the Company is an early-stage company operating in a rapidly growing industry, fluctuations may be masked by recent growth rates and thus may not be readily apparent from historical operating results. As such, past quarterly operating results of the Company may not be good indicators of future performance.

In addition to the other risks described in this “*Risk Factors*” section, the following factors could cause the Company’s operating results to fluctuate:

- significant fluctuations in customer demand for the Company’s offerings;
- market acceptance of the Company’s new or existing offerings;
- the Company’s ability to complete installations in a timely manner;
- the Company’s ability to continue to expand operations, and the amount and timing of expenditures related to this expansion;
- announcements by the Company or its competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;
- changes in the Company’s pricing policies or terms, or those of its competitors, including electric utilities; and
- actual or anticipated developments in the competitive landscape.

For these or other reasons, the results of any prior quarterly or annual periods of the Company should not be relied upon as indications of the Company’s future performance. In addition, actual revenue, key operating metrics and other operating results in future quarters may fall short of the expectations of investors and financial analysts, which could have a severe adverse effect on the trading price of the Company’s shares.

#### *International Operations*

The Company has a customer base internationally. Risks inherent to international operations include the following:

- inability to work successfully with third parties with local expertise to co-develop or build international projects;
- multiple, conflicting and changing laws and regulations, including export and import restrictions, tax laws and regulations, labour laws and other government requirements, approvals, permits and licenses;
- changes in general economic and political conditions in the countries where the Company operates, including changes in government incentives relating to power generation;
- political and economic instability, including wars, acts of terrorism, political unrest, boycotts, curtailments of trade and other business restrictions;
- difficulties and costs in recruiting and retaining individuals skilled in international business operations;
- financial risks, such as longer sales and payment cycles and greater difficulty collecting accounts receivable; and
- inability to obtain, maintain or enforce intellectual property rights, including inability to apply for or register material trademarks in foreign countries.



Doing business in foreign markets requires the Company to be able to respond to rapid changes in market, legal, and political conditions in these countries. The success of the Company's business depends, in part, on its ability to succeed in differing legal, regulatory, economic, social and political environments.

The Company will continually and selectively consider new international markets. In other instances, the Company may rely on the efforts and abilities of foreign business partners in such markets. Certain international markets may be slower than domestic markets in adopting the Company's products and services, and operations in international markets may not develop at a rate that supports the Company's level of investment

### *Industry Regulations*

Federal, state, provincial, and local government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity generation products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned and third party-owned electricity generation. Governments and utilities continuously modify these regulations and policies. These regulations and policies could impact our ability to offer economically competitive solar solutions. In addition, changes to government or internal utility regulations and policies that favour electric utilities over distributed generation could reduce the Company's competitiveness and cause a reduction in demand for its products and services.

### *Drop in Retail Price of Utility-Generated Electricity and Improved Infrastructure*

The Company believes that a customer's decision to implement a renewable energy solution is driven largely by its desire to reduce its cost of electricity. Decreases in the retail prices of electricity from the utilities or from other renewable energy sources or improved distribution of electricity would harm the Company's ability to offer competitive pricing and could harm its business. The price of electricity from utilities could decrease as a result of:

- the construction of a significant number of new power generation plants, particularly in emerging markets, including nuclear, coal, natural gas or renewable energy;
- the construction of additional electric transmission and distribution lines which improve access, reliability and/or cost of electricity;
- a reduction in the price of natural gas or other fossil fuels; and
- development of new renewable energy technologies that provide less expensive energy.

If the retail price of energy available from utilities were to decrease due to any of these reasons, or others, or the distribution of electricity is improved as a result of improved infrastructure, the Company may be at a competitive disadvantage, limiting growth.

### *Conflicts of Interest*

Certain directors of the Company are also directors of other companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions.

### *Dividends*

The Company has not paid any dividends on its outstanding shares. Any payments of dividends on the Company's shares will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the Company's board of directors may consider appropriate in the circumstance. It is unlikely that the Company will pay dividends in the

immediate or foreseeable future.

#### *Issuance of Debt*

From time to time, the Company may enter into transactions to acquire assets or the shares of other organizations or seek to obtain additional working capital. These transactions may be financed in whole or in part with debt, which may increase the Company's debt levels above industry standards for companies of similar size. Depending on future plans, the Company may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms to the Company. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. As a result, the level of the Company's indebtedness from time to time, could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

#### *Price Volatility of Publicly Traded Securities*

In recent years, the securities markets in the USA and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the Company's shares will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company's shares will be affected by such volatility. A public trading market in the Company Shares having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of Company Shares at any given time, which presence is dependent on the individual decisions of investors over which the Company has no control. There can be no assurance that an active trading market in securities of the Company will be established and sustained. The market price for the Company's securities could be subject to wide fluctuations, which could have an adverse effect on the market price of the Company. The stock market has, from time to time, experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance, net asset values or prospects of particular companies. If an active public market for the Company's shares does not develop, or does not continue to develop, the liquidity of a shareholder's investment may be limited, and the share price may decline.

#### *No Guarantee of Active Liquid Market*

There may not be an active, liquid market for the Common Shares. There is no guarantee that an active trading market for the Common Shares will be maintained on the TSX Venture Exchange ("TSXV"). Investors may not be able to sell their Common Shares quickly, on satisfactory terms or at the latest market price if trading in the Common Shares is not active.

#### *Issues Related to Acquisitions*

With acquisitions there is a risk that integration will result in challenges that were not anticipated, such as key staff departures, diversion of management time and resources, or projected revenues that do not materialize. Should the future projected revenue attributed to any acquisition not materialize, the Company's overall revenues will be negatively impacted, which may have a material adverse effect on the Company's revenues going forward. The Company may not be able to successfully overcome these risks and this may adversely affect the Company's financial condition, and ability to execute its business plan.

#### *Government Policies*

The Company is subject to policies, laws, and regulations established by various levels of government and government agencies. These are subject to change by the government or their agencies or the courts and are administered by agencies that may have discretion in their interpretation. Future legal and regulatory changes or interpretations may have a material adverse effect on the Company.

### *Currency Exchange Risk*

The Company currently operates in Canada, USA and the Philippines where the revenues and expenses at times are in different currencies making the margins on projects sensitive to exchange rate risk. Sudden increases in the value of the US dollar or reductions in the value of the Canadian dollar can have a negative impact on the cash-flow of the Company and the feasibility of certain projects.

### *Covid-19 Risk*

On March 11, 2020 the World Health Organization (WHO) declared COVID-19 (Coronavirus) outbreak as a “pandemic”, namely, the worldwide spread of a new disease. The Government of Ontario announced on March 17, 2020 that it made an order declaring a state of emergency in response to coronavirus (COVID-19) (the “Government Order”). All provinces in Canada have now declared a state of emergency and/or state of public health emergency. Further COVID-19 measures are expected to last until July 2020.

The outbreak and ensuing government restrictions raise corporate governance concerns and come with inherent commercial and operational risks due to potential disruptions to the Company’s supply chains, instances of high absenteeism, and/or travel risks. These effects are exacerbated now that the WHO raised its classification of the coronavirus to “pandemic” level.

Ever-expanding governmental restrictions on travel, movement, and large gatherings have resulted in significant business interruptions and widespread event and travel cancellations resulting in adverse effects to the performance of the Company’s stock liquidity and price, and ability to engage in services. Further, there is no assurance that the ripple effect of COVID-19 will not continue to affect the performance of the Company for a considerable period of time in the future.

## **Management’s Report on Disclosure Controls and Procedures and Internal Control over Financial Reporting**

Management is committed to delivering timely and accurate disclosure of all material information.

Disclosure controls and procedures ensure that reporting requirements are satisfied, and that material information is disclosed in a timely manner. Due to the limitation on the ability of the officers to design and implement cost-effective policies for disclosure controls and procedures and internal control over financial reporting, the officers are not making representations that such controls and procedures would identify and allow for reporting material information on a timely basis, nor are they representing that such procedures are in place that provide reasonable assurance regarding the reliability of financial reporting.

However, as permitted for TSX Venture issuers, the CEO and CFO individually have certified that after reviewing the consolidated financial statements for the year ended December 31, 2019 and this MD&A of the Company, there are no material misstatements or omissions, and the filing materially presents the consolidated financial position and consolidated results of operations and cash flows for the year ended December 31, 2019 and all material subsequent activity up to May 4, 2020.

## **Other**

As of the date of this MD&A, the Company has 24,115,231 common shares issued and outstanding. In addition, there are 2,560,145 share purchase warrants which may be exercised for one common share each at a fixed exercise price, and stock options that have been granted to purchase an additional 1,453,126 common shares. The Company also has restricted share units which allow employees and directors to acquire a total of 90 common shares over the next year for no additional consideration.

Additional information and other publicly filed documents relating to the Company are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at [www.sedar.com](http://www.sedar.com).