UGE INTERNATIONAL LTD.

Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2018 and 2017

(Expressed in United States dollars)

Notice of No Auditors Review of Interim Financial Statements

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

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

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

UGE INTERNATIONAL LTD.

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

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash	$ 674,773	$ 1,390,427
Restricted cash (Note 4)	728,137	586,963
Trade and other receivables (Note 5)	5,825,710	7,611,000
Prepaid expenses and deposits	420,538	390,195
Inventory	-	164,405
	7,649,158	10,142,990
Non-current assets		
Plant and equipment (Note 6)	64,018	225,145
Goodwill (Note 7)	-	3,182,153
Deferred tax assets	31,486	1,123
Total assets	$ 7,744,662	$ 13,551,411
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 7,404,678	$ 5,922,790
Loans payable (Note 8)	1,277,470	3,145,631
Deferred revenue	1,485,939	2,859,209
	10,168,087	11,927,630
Non-current liabilities		
Loans payable (Note 8)	3,181,025	3,600,000
	13,349,112	15,527,630
Shareholders' deficiency		
Share capital (Note 9)	18,531,827	16,575,247
Contributed surplus	3,995,829	3,969,150
Accumulated other comprehensive income	(102,031)	187,364
Accumulated deficit	(28,030,075)	(22,707,980)
	(5,604,450)	(1,976,219)
Total liabilities and shareholders' deficiency	$ 7,744,662	$ 13,551,411

Reporting entity and going concern (Note 1)
Contingencies (Note 11)
Subsequent events (Note 13)

Approved on behalf of the Board:

"Nicolas Blitterswyk"
Director, President & Chief Executive Officer

"Michael Doolan"
Director

UGE INTERNATIONAL LTD.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2018
(Unaudited) (Expressed in United States dollars)

	Three months ended Sep 30, 2018	Three months ended Sep 30, 2017	Nine months ended Sep 30, 2018	Nine months ended Sep 30, 2017
Revenue	$ 4,166,708	$ 4,966,395	$ 13,654,866	$ 16,776,761
Cost of Sales	(3,629,087)	(4,173,324)	(11,818,949)	(14,189,191)
Gross profit	537,621	793,071	1,835,917	2,587,570
Operating expenses				
Selling, general, and administrative	(1,145,585)	(1,628,357)	(3,609,489)	(4,152,244)
Project-related gain (loss) (Note 11)	(159,115)	-	(809,293)	-
Loss from operating activities	(767,079)	(835,286)	(2,582,865)	(1,564,674)
Impairment loss (Notes 6 and 7)	-	-	(2,981,198)	-
Gain on conversion of debt to equity (Note 8 and 9)	939,534	-	939,534	
Finance expense	(136,634)	(129,255)	(659,593)	(326,631)
Finance income	10,113	204	10,679	3,497
Income (loss) before income taxes	45,934	(964,337)	(5,273,443)	(1,887,808)
Income tax recovery (expense)	66,880	106,444	(48,652)	9,391
Net income (loss) for the period	112,814	(857,893)	(5,322,095)	(1,878,417)
Other comprehensive income items that are or may be reclassified to profit or loss				
Foreign currency translation differences	(245,957)	(77,129)	(289,395)	(119,302)
Comprehensive loss for the period	$ (133,143)	$ (935,022)	$ (5,611,490)	$ (1,997,719)
Net income (loss) per share attributable to the shareholders of the Company				
Net income (loss) for the period - basic and diluted	$ 0.00	$ (0.02)	$ (0.13)	$ (0.05)
Weighted average number of shares				
Basic and diluted	43,379,878	40,660,167	41,652,319	38,006,506

UGE INTERNATIONAL LTD.

Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency
(Unaudited) (Expressed in United States dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive income	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 period	-	-	-	(1,878,417)	(1,878,417)
Public offering of share units, net of issue costs	1,002,976	362,561	-	-	1,365,537
Issued for conversion of restricted share units	54,190	(54,190)	-	-	-
Amount issued for exercise of options and warrants	97,794	-	-	-	97,794
Finders fee related to acquisition of CSPC	158,287	-	-	-	158,287
Shares issued in relation to loan from MBF	94,973	-	-	-	94,973
Acquisition of UGE RE	747	-	-	(2,537)	(1,790)
Share-based compensation	-	134,728	-	-	134,728
Foreign currency translation differences	-	-	119,302	-	119,302
Balance - September 30, 2017	$ 16,520,749	$ 3,948,007	$ 188,581	$ (22,611,035)	$ (1,953,698)

	Share capital	Contributed surplus	Accumulated other comprehensive 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 period	-	-	-	(5,322,095)	(5,322,095)
Amount issued on the conversion of restricted share units (Note 9)	2,510	(2,510)	-	-	-
Public offering of share units, net of share costs	185,109	123,344	-	-	308,453
Shares for services	112,853	-	-	-	112,853
Shares for debt, net of transaction costs (Note 8 and 9)	1,656,108	-	-	-	1,656,108
Share-based compensation	-	(94,155)	-	-	(94,155)
Foreign currency translation differences	-	-	(289,395)	-	(289,395)
Balance - September 30, 2018	$ 18,531,827	$ 3,995,829	$ (102,031)	$ (28,030,075)	$ (5,604,450)

UGE INTERNATIONAL LTD.

Condensed Consolidated Interim Statements of Cash Flows for the nine months ended September 30,
(Unaudited) (Expressed in United States dollars)

	2018	2017
Cash flow used in operating activities		
Net loss	$ (5,322,095)	$ (1,020,524)
Adjustment for:		
Depreciation and amortization	29,518	187,392
Impairment loss	2,981,198	-
Income tax expense	48,652	97,053
Share-based compensation	(93,523)	61,465
Gain on conversion of debt to equity	(939,534)	-
Net finance expense	648,914	194,083
Shares issued for finders fee from acquisition	-	253,260
	(2,646,870)	(227,271)
Change in trade and other receivables	1,535,412	(1,202,648)
Change in inventory	158,879	(162,615)
Change in prepaid expenses and deposits	(46,673)	354,606
Change in accounts payable and accrued liabilities	1,655,891	3,158,819
Change in deferred revenue	(1,252,690)	(2,509,130)
	(596,051)	(588,239)
Income taxes recovered (paid)	11,426	(2,565)
Net finance expenses paid	(270,096)	(64,703)
Cash used in operating activities	(854,721)	(655,507)
Cash flow used in investing activities		
(Addition) decrease to restricted cash	(157,311)	1,136,341
Acquisition of Carmanah business	-	(1,991,869)
Cash used in investing activitiies	(157,311)	(855,528)
Cash flow from financing activities		
Proceeds on issue of share capital and warrants, net of issuance costs	274,857	1,365,537
Cash received from exercise of options and warrants	-	97,253
Net proceeds (repayments) of loans payable	77,739	1,412,592
Cash from financing activities	352,596	2,875,382
(Decrease) increase in cash for the period	(659,436)	1,364,347
Effect of exchange rate fluctuations on cash	(56,218)	(23,390)
Cash at beginning of period	1,390,427	59,913
Cash at end of period	$ 674,773	$ 1,400,870

Supplemental cash flow information on non-cash transactions (Note 12)

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, procurement and construction work in the commercial solar sector.

(b) Going concern

These condensed consolidated interim financial statements have been prepared assuming the Company will continue as a going concern, notwithstanding that the Company has a working capital deficiency, has incurred losses from operations, and is in discussions with its bank regarding its revolving credit facility (Note 8) as of the approval date of these financial statements. During the nine months ended September 30, 2018, the Company had a net loss of $5,322,095, which included goodwill and plant and equipment impairment charges totaling $2,981,198 (primarily due to management's view of changes in the Ontario solar market) and negative cash flow from operations of $854,721. As at September 30, 2018, the Company had cash of $674,773, unrestricted cash of $728,137, a working capital deficiency of $2,518,929, and shareholders' deficiency of $5,604,450. On October 23, 2018, the Company raised additional financing by way of a convertible debenture in the amount of CAD$720,000 and green bonds in the amount of CAD$500,000 (Note 13).

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 condensed consolidated interim financial statements do not include any adjustments or disclosures that would be required if assets are not realized and liabilities and commitments are not settled in the normal course of operations. If the Company is unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation to a liquidation basis, which could differ materially from the values presented in the condensed consolidated interim financial statements.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. These condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the consolidated financial statements of the Company for the year ended December 31, 2017 and should be read in conjunction with those financial statements.

These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on October 31, 2018.

(b) Basis of presentation and accounting

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

(e) Accounting assumptions, estimates and judgments

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results may differ from these amounts.

Significant areas having estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include: share-based compensation; valuation of goodwill; and intangible assets.

Critical judgments that management has made in applying the Company's accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include: assessment of the Company's ability to continue as a going concern (Note 1(b)); and determination of the functional currency of the principal operations of the Company (Note 2(c)).

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

3. New standards and interpretations not yet adopted

The following new standards have been issued but are not yet effective as at December 31, 2018.

(a) 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.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

The Company is currently evaluating the impact of adopting the standard noted above and does not expect to adopt it prior to the mandatory effective date.

4. Restricted cash

As at September 30, 2018, the Company has restricted cash of $728,137 (December 31, 2017 - $586,963) related to cash security for a construction financing facility (Note 8) and a deposit related to a surety bond (Note 8).

5. Trade and other receivables

	September 30, 2018	December 31, 2017
Trade and other receivables, net of allowance for doubtful accounts of $212,037 (2017 - $Nil)	$ 4,038,080	$ 5,104,762
Unbilled revenue	1,582,512	2,447,422
Corporate income taxes receivable	205,118	58,816
	$ 5,825,710	$ 7,611,000

As at September 30, 2018, $534,434 of trade receivables were considered overdue (Dec 31, 2017 – $445,592).

(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, 2017	$ 75,126	$ 31,718	$ 17,780	**$ 124,624**
Additions	98,990	161,071	-	**260,061**
Disposals	-	(77,238)	-	**(77,238)**
Foreign exchange difference	7,806	4,889	1,237	**13,932**
Balance as at December 31, 2017	181,922	120,440	19,017	**321,379**
Foreign exchange difference	(5,001)	(3,311)	(523)	**(8,835)**
Balance as at September 30, 2018	$ 176,921	$ 117,129	$ 18,494	**$ 312,544**
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)**
Foreign exchange difference	3,894	757	630	**5,281**
Balance as at December 31, 2017	72,821	12,045	11,368	**96,234**
Depreciation expense	16,853	11,638	1,027	**29,518**
Impairment loss	24,523	91,063	6,229	**121,815**
Foreign exchange difference	(1,294)	2,383	(130)	**959**
Balance as at September 30, 2018	$ 112,903	$ 117,129	$ 18,494	**$ 248,526**
Carrying amounts				
December 31, 2017	$ 109,101	$ 108,395	$ 7,649	**$ 225,145**
September 30, 2018	$ 64,018	$ -	$ -	**$ 64,018**

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

7. Goodwill

	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	
September 30, 2018	**$ -**

Goodwill – Impairment Test

Goodwill was recognized on the 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, during the three months ended June 30, 2018 the carrying amount of goodwill was reduced to its recoverable amount of nil through recognition of an impairment charge of $2,859,383 against the goodwill.

As a result of the Company's goodwill impairment analysis, it was also determined that the CGU's plant and equipment was also impaired, which has been reflected in Note 6.

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

8. Loans payable

	September 30, 2018	December 31, 2017
Divestment Loan	$ 2,600,000	$ 3,600,000
Acquisition Loan (CAD$750,000)	581,025	1,911,840
Construction Financing Facility	1,200,000	273,888
Revolving Credit Facility (CAD$Nil)	-	561,603
Project Loan for Surety Bond (CAD$100,000)	77,470	398,300
Total debt	4,458,495	6,745,631
Current portion	1,277,470	3,145,631
Non-current portion	$ 3,181,025	$ 3,600,000

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. The remaining unsecured loan for $2,600,000 bears a fixed annual interest rate of 6.5% and is due on August 30, 2021. The Company is in the process of having $2,250,000 of this balance plus accrued interest (approximately $440,000) converted to common shares as well, pending regulatory approval. Once completed, the outstanding balance on the Divestment Loan will be $350,000, due September 24, 2021.

Acquisition Loan – In fiscal 2017, the Company had 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 September 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. 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.

Construction Financing Facility – As at September 30, 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% and is due on demand. As at September 30, 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, and has provided a deposit on all draws equal to $300,000 recorded as restricted cash.

Revolving Credit Facility - As at September 30, 2018, the Company has a revolving demand credit facility with a maximum limit of CAD$750,000, of which $Nil (CAD$Nil) (December 30, 2017 - $561,603, CAD$705,000) was drawn. The credit facility bears interest at prime + 1.45% per annum and is secured by a general security agreement covering all assets of UGE Canada Ltd. and UGE RE Inc. As at September 30, 2018, there was $nil drawn on the facility and the Company was in compliance with the terms of its loan agreement. As of the date these 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.

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

Project Loan for Surety Bond – As at September 30, 2018, the Company has an unsecured non-interest-bearing loan with Fritz Construction Services Inc. of $77,470 (CAD$100,000) (December 30, 2017 - $398,300, CAD$500,000) to assist in the funding of a deposit for a surety bond. The principal is due through monthly repayments of CAD$50,000 and is due in full by October 31, 2018. As of the date the financial statements were approved, the balance outstanding on the loan was CAD$50,000, which is expected to be paid during the Q4'2018.

9. Share capital

The authorized share capital of the Company consists of an unlimited number of common shares with no par value.

The issued and outstanding share capital is as follows:

	Nine months ended September 30, 2018			Nine months ended September 30, 2017		
	Number of shares	Number of special warrants	Amount	Number of shares	Number of special warrants	Amount
Balance at beginning of period	40,770,026	5,100,000	$ 16,575,247	36,118,927	5,100,000	$ 15,111,782
Private placement of share units, net of share costs	1,250,000	-	185,109	3,450,000	-	1,002,976
Shares issued for conversion of restricted share units	10,000	-	2,510	120,000	-	27,170
Shares for services	442,433	-	112,853	-	-	-
Finders fee related to acquisition of CSPC	-	-	-	363,636	-	158,287
Shares issued in relation to loan from MBF (Note 8)	-	-	-	218,181	-	94,973
Shares issued for conversion of debt to equity	13,578,200	-	1,656,108	-	-	-
Amount issued for exercise of options and warrants	2,000,000	(2,000,000)	-	300,188	-	97,253
Balance at end of period	58,050,659	3,100,000	$ 18,531,827	40,570,932	5,100,000	$ 16,492,441

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 $337,313 (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%.

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 September 30, 2018. Upon vesting, the Company will issue shares from treasury to the employees for no additional consideration.

As at September 30, 2018, rights to receive 1,439 shares have been granted to be vested in 2018. During the nine months ended September 30, 2018, the Company issued 10,000 shares for the rights that vested.

During the three and nine months ended September 30, 2018, the Company recognized a total of $151 (2017 – $8,911) and $2,331 (2017 - $49,090), respectively, as compensation expense pursuant to restricted share units in selling, general, and administration expenses.

Shares for services

During the nine months ended September 30, 2018, the Company issued shares for the performance of various services by third-party consultants required in the ordinary course of business.

Shares for conversion of debt to equity

On September 28, 2018, the Company entered into agreements with several parties to convert their existing current and long-term debts (including payables and accrued interest) into commons shares of the Company at a price of CAD$0.25 per share, which was higher than the market price of the Company's shares on the date of the transaction. As a result, 13,578,200 shares were issued for the settlement of approximately $2,630,000 of current and long-term liabilities for total share consideration of $1,656,108 based on the market price of the shares. This generated a non-cash gain on the conversion of debt to equity of $939,534, which has been reflected in the statement of operations. No other consideration was provided to these parties for the conversion of their debt to equity.

One additional conversion transaction remains outstanding, pending regulatory approval, as of the date of approval of these financial statements, which would result in the issuance of an additional 13,901,026 common shares of the Company and the settlement of long-term debt and current liabilities of approximately $2,250,000 and $440,000, respectively.

Special warrants

As at September 30, 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 nine months ended September 30, 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 September 30, 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.

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

As at September 30, 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.

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:

	Nine months ended September 30, 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 period	3,665,455	$ 0.47	2,972,461	$ 0.45
Granted	1,020,739	0.30	1,353,644	0.50
Forfeited	(2,225,375)	0.44	(538,383)	0.42
Exercised	-	-	(122,267)	0.41
Balance at end of period	2,460,819	$ 0.43	3,665,455	$ 0.47
Balance exercisable at end of period	1,690,340	$ 0.43	1,873,938	$ 0.46

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

Exercise price (CAD)	Number of options outstanding at September 30, 2018	Weighted average remaining life (months)	Weighted average exercise price (CAD)	Number of options exercisable at September 30, 2018	Weighted average exercise price (CAD)
$ 1.15	36,300	21	$ 1.15	36,300	$ 1.15
0.78	72,000	26	0.78	72,000	0.78
0.61	413,433	45	0.61	137,811	0.61
0.45	626,852	33	0.45	570,151	0.45
0.36	530,000	50	0.36	500,000	0.36
0.33	40,000	56	0.33	40,000	0.33
0.32	352,533	56	0.32	117,511	0.32
0.29	259,701	56	0.29	86,567	0.29
0.28	80,000	39	0.28	80,000	0.28
0.23	50,000	54	0.23	50,000	0.23
	2,460,819	45	$ 0.43	1,690,340	$ 0.43

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

During the three and nine months ended September 30, 2018, the Company recorded share-based compensation recovery of $148,357 (2017 – expense of $28,633) and recovery $93,545 (2017 – expense of $21,286), 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 three months ended September 30, 2018 there were 1,020,739 stock options granted (2017 – 814,644).

	September 30, 2018	December 31, 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%

10. Segmented information

The Company has determined that it operates in one operating segment, renewable energy solutions. During the three and nine months ended September 30, 2018, 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 three and nine months ended September 30, was as follows:

	Three months ended September 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Canada	$ 3,696,738	$ 2,922,391	$ 8,167,482	$ 12,834,049
United States	213,706	1,963,312	2,571,382	3,805,337
Philippines	256,264	80,692	2,916,002	137,375
	$ 4,166,708	$ 4,966,395	$ 13,654,866	$ 16,776,761

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

During the nine months ended September 30, 2018 and 2017, the Company had five customers that accounted for more than 10% of consolidated revenue as listed below. No other customer accounted for more than 10% of the Company's consolidated revenue.

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

	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Customer 1	69%	0%	46%	0%
Customer 2	0%	33%	2%	63%
Customer 3	0%	17%	3%	17%
Customer 4	1%	0%	12%	0%
Customer 5	3%	0%	18%	0%
	73%	50%	81%	80%

11. 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. As of and subsequent to September 30, 2018, UGE has settled the disputes related to these two projects with the Developer, and is working with the Developer to complete the third project site in the coming months, which would fully resolve the dispute. The Company has agreed to a penalty for damages of approximately $90,000 across these first two sites and has accrued an estimate for damages expected to be levied on the settlement of the third site, all of which has been included in project-related gain (loss) in the statement of operations.

UGE Canada is a party to a collaboration agreement with a Canadian solar developer, Soventix Canada Inc. (“Soventix”), which saw the two parties complete the construction of a portfolio of solar projects, mostly throughout 2017. 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 the amount of $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 in the three months ended June 30, 2018.

On April 3, 2017, UGE acquired the business of Carmanah Solar Power Corp (“CSPC”). 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 nine months ended September 30, 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.

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.

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

12. Supplemental cash flow information on non-cash transactions

The following non-cash transactions have been excluded from the statement of cash flows, as they did not provide or use any cash:

	2018	2017
Operating activities		
Settlement of payables and accrued interest with shares	(195,364)	-
Non-cash operating activities	(195,364)	-
Financing activities		
Settlement of current and long-term debt with shares	(2,549,139)	-
Issuance of common shares for settlement of payables & debt	1,804,969	-
Non-cash financing activities	(744,170)	-

13. Subsequent events

Secured convertible debentures

On October 23, 2018, the Company closed an offering (the "Debenture Offering") of 8% secured convertible debentures (the "Debentures") for an aggregate principal amount of CAD$720,000 ($557,784 based on the September 30, 2018 exchange rate), which accrue interest at a rate of 8% per annum and mature on October 23, 2021. The Debentures are convertible into common shares of the Company (the "Debenture Shares") at the option of the holder at a conversion price of CAD$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. The Debentures are secured against the Company pursuant to a subordinated general security agreement.

The agent for the transaction received a cash commission equal to 8% of the gross proceeds of the Debenture Offering as well as broker warrants (the "Agent's Debentures Warrants") equal to 8% of the gross proceeds of the Debenture Offering divided by CAD$0.24. The Agent's Debenture Warrants may be exercised for common shares of the Company at an exercise price of CAD$0.24 per share for a period of 24 months from the date of issuance.

Net proceeds of the Debenture Offering will be used for working capital, business development and general administrative purposes.

Secured green bonds

On October 23, 2018, the Company issued secured project green bonds (the “Bonds”) in the aggregate principal amount of CAD$500,000 ($387,350 based on the September 30, 2018 exchange rate), accruing interest at the rate of 7% per annum and maturing on October 23, 2023. For each CAD$1,000 of principal issued in Bonds, the Company has 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 CAD$0.35 per share for period of 24 months from the date of issuance.

The agent for the transaction received a cash commission equal to 6% of the gross proceeds of the Green Bond Offering, as well as broker warrants (the "Agent's Bond Warrants") equal to 6% of the total underlying value of the Bonds sold in the Green Bonds Offering divided by CAD$0.35, with each such Agent's Bond Warrant being exercisable for one Bond Unit of the Company at an exercise price of $0.35 per Bond Unit for a period of 24 months from the date of issuance.

Net proceeds from the Bond Offering will be used to finance eligible solar projects owned by UGE indirectly through a wholly-owned subsidiary of the Company. The Bonds are secured against projects owned through a subsidiary of the Company.