

Management's Discussion and Analysis of Financial Condition and  
Results of Operations of

## **ONEnergy Inc.**

**As at and for the three and six months ended June 30, 2014**

August 14, 2014

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## ONEnergy Inc.

### MANAGEMENT'S DISCUSSION AND ANALYSIS of the Financial Condition and Results of Operations

(In thousands, except per share amounts)

As at and for the three and six months ended June 30, 2014

August 14, 2014

#### 1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This management's discussion and analysis of financial condition and results of operations ("MD&A") includes forward-looking statements and information concerning expected future events, the future performance of ONEnergy Inc. ("ONEnergy" or the "Corporation"), its operations, and its financial performance and condition. These forward-looking statements and information include, among others, statements with respect to our objectives and strategies to achieve those objectives, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates, and intentions. When used in this MD&A, the words "believe", "anticipate", "may", "should", "intend", "estimate", "expect", "project", and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. These forward-looking statements and information are based on current expectations.

The Corporation cautions that all forward-looking statements and information are inherently uncertain and actual future results, conditions, actions, or events may differ materially from the targets, assumptions, estimates, or expectations reflected or contained in the forward-looking statements and information, and that actual future results, conditions, actions, events, or performance will be affected by a number of factors including economic conditions and competitive factors, many of which are beyond the Corporation's control. New risks and uncertainties arise from time to time, and it is impossible for the Corporation to predict these events or the effect that they may have on the Corporation.

Certain statements in this MD&A, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. This may include, without limitation, statements based on current expectations involving a number of risks and uncertainties. These risks and uncertainties include, but are not restricted to: (i) tax-related matters, (ii) financial risk related to short-term investments (including credit risks and reductions in interest rates), (iii) human resources developments including competition for, and the availability of, qualified employees and contractors, (iv) business integrations and internal reorganizations, (v) business process risks including the use of, and reliance on, external vendors and contractors, (vi) regulatory developments and changes including regulatory requirements for sales channels used by the Corporation and financial surety requirements from utilities and regulators, (vii) the outcome of litigation and legal matters, (viii) any prospective acquisitions or divestitures, (ix) commodity pricing volatility and availability, (x) disruption to transmission systems for energy commodities that could impair the Corporation's ability to serve its customers, (xi) other risk factors related to the Corporation's historic business, (xii) risk factors related to the Corporation's future operations, and (xiii) changes to and compliance with applicable laws and regulations. For a more detailed discussion of factors that may affect actual results or cause actual results to differ materially from any conclusion, forecast or projection in these forward-looking statements and information, see the sections *entitled "4. Overview and business strategy"* and *"14. Operating risks and uncertainties"* below.

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Therefore, future events and results may vary significantly from what the Corporation currently foresees. Readers are cautioned that the forward-looking statements and information made by the Corporation in this MD&A are stated as of the date of this MD&A, are subject to change after that date, are provided for the purposes of this MD&A and may not be appropriate for other purposes. We are under no obligation to update or alter the forward-looking statements whether as a result of new information, future events, or otherwise, except as required by National Instrument 51-102, and we expressly disclaim any other such obligation.

*All financial information in this MD&A is expressed in thousands of Canadian dollars, unless otherwise noted. All references to the "Corporation" or "ONEnergy" refer to ONEnergy Inc., including its predecessor and successor companies, and its consolidated subsidiaries, unless the context requires otherwise. All information is as at August 14, 2014, unless otherwise indicated. Certain totals, subtotals and percentages may not reconcile due to rounding.*

## **2. INTRODUCTION**

The information provided in this MD&A is intended to help the reader understand ONEnergy's operations, financial performance and present and future business environment. This MD&A, is supplementary to, and should be read in conjunction with, the unaudited interim condensed consolidated financial statements and accompanying notes to the unaudited interim condensed consolidated financial statements as at and for the three and six months ended June 30, 2014, and the Company's audited consolidated financial statements and accompanying notes to the audited consolidated financial statements for the sixteen months ended December 31, 2013, which are available, along with other disclosure documents, on the Company's website at [www.onenergyinc.com](http://www.onenergyinc.com) and on SEDAR at [www.sedar.com](http://www.sedar.com) under the Company's profile.

The unaudited interim condensed consolidated financial statements and the audited annual consolidated financial statements of ONEnergy are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The unaudited interim condensed consolidated financial statements and annual audited consolidated financial statements of ONEnergy are presented in thousands of Canadian dollars.

## **3. THE CORPORATION**

ONEnergy, formerly Look Communications Inc. ("Look"), is a corporation established under the laws of Canada. The names "ONEnergy", "Look" and the "Corporation" all refer to the same legal entity, and the use of each is dependent upon the context of the topic covered in this MD&A.

On April 21, 2014, ONEnergy acquired all the issued and outstanding shares of The Home Comfort Group Inc. for cash consideration of \$3,088 (see section 4(c) - Home Comfort). Sunwave Gas & Power Ohio Inc. was incorporated under the laws of Delaware on March 18, 2014.

The Corporation is comprised of ONEnergy, and its wholly-owned subsidiaries which include:

- (i) Sunwave Gas & Power Inc., Sunwave USA Holdings Inc., Sunwave Gas & Power New York Inc., Sunwave Gas & Power Illinois Inc., Sunwave Gas & Power Massachusetts Inc., Sunwave Gas & Power Connecticut Inc., Sunwave Gas & Power Pennsylvania Inc. and Sunwave Gas & Power Ohio Inc. (collectively referred to as "Gas & Power"); and
- (ii) The Home Comfort Group Inc. ("Home Comfort")

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ONEnergy, through Gas & Power, is a licensed retailer of natural gas and electricity to the residential and commercial customer market segments in Ontario. Gas & Power is also a licensed retailer of electricity in Connecticut, Pennsylvania, Massachusetts and Ohio. ONEnergy's energy retailing business can be divided into three customer segments: residential, small commercial and large commercial. The recently acquired The Home Comfort Group Inc. business comprises the Corporation's Home Comfort segment.

In this MD&A, the terms "we", "us", "our", and "Corporation" refer to ONEnergy, Gas & Power and Home Comfort, and Look's subsidiary entities, prior to their dissolution.

#### **4. OVERVIEW AND BUSINESS STRATEGY**

##### **a) Business**

ONEnergy is pursuing a strategy of building an integrated energy management firm for both business and residential customers. The Corporation operates its business under three primary brand names: Sunwave Gas & Power™ (natural gas and electricity for both residential and commercial customers), Sunwave Home Comfort™ (residential HVAC equipment sales and rentals) and Sunwave for Business™ (commercial energy efficiency equipment and services). The Sunwave umbrella brand is a key part of the Corporation's strategy of building a unified, recognized brand in the marketplace.

ONEnergy, via its various Sunwave-branded operations, focuses on continually improving and expanding the value proposition offered to customers by offering complementary services and products as part of their relationship with ONEnergy. The acquisition of Home Comfort is part of this strategy and provides cross-selling and geographic expansion opportunities for the Corporation. Similarly, the launch during the second quarter of commercial energy efficiency services under the Sunwave for Business™ brand is intended to increase the scope of value-added services that the Corporation offers to its business customers. ONEnergy intends to provide its customers with a steadily expanding range of value-added services designed to enhance the customer experience, thereby increasing the margin derived from each customer while improving overall customer satisfaction and retention.

##### **b) Gas & Power**

ONEnergy's energy retailing business currently involves the sale of natural gas and/or electricity to residential and commercial customers in Ontario, Connecticut and Pennsylvania under long-term fixed-price or variable-priced contracts under the brand name Sunwave Gas & Power™. By fixing the price of natural gas or electricity under its fixed-price program for a period of up to five years, ONEnergy's customers reduce or eliminate their exposure to volatility in the price of energy. Gas & Power's variable rate products allow customers to maintain competitive rates while retaining the ability to lock into a fixed price at their discretion. Gas & Power also provides its customers with the option of purchasing environmentally-friendly "green" energy in addition to conventionally-sourced energy. ONEnergy's general policy is to match the forecast consumption requirements of its customers by purchasing offsetting volumes of natural gas or electricity through either physical or financial transactions in the wholesale markets.

Gas & Power purchases its energy requirements from various wholesale energy markets, including both physical and financial markets. For both natural gas and electricity, Gas & Power purchases its wholesale energy requirements at various city gates for natural gas and various utility load zones for electricity. Gas supply and electricity is generally purchased concurrently with the execution of an end-user contract.

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Gas & Power's gross margin is derived from the difference between the price charged to its customers and the price paid to its wholesale energy suppliers. Gas & Power also incurs selling expenses to compensate independent contractors for customer acquisition activities, through a mixture of upfront payments and residual-based payments. All such costs are recognized as expenses in the period incurred. In addition, Gas & Power incurs general, administrative and finance expenses to operate its business.

In Ontario, the natural gas volumes delivered from Gas & Power's wholesale suppliers remain constant throughout the year as required by the local natural gas distribution companies. During the winter, gas is consumed at a rate that is greater than delivery and, in the summer, deliveries to local distribution companies ("LDCs") on Gas & Power's behalf exceed customer consumption. These volume variances result in either excess or short supply positions that are accrued in a physical balance account with the applicable gas distribution company. Typically, the local natural gas distribution companies require the balance account to be reconciled within defined tolerance bands on an annual basis. In the case of deliveries exceeding consumption, the excess supply may be sold in the spot market resulting in either a gain or loss compared to the weighted average cost of supply. In the case of customer consumption exceeding deliveries, Gas & Power must purchase additional supply in the spot market, resulting in either a gain or loss compared to the weighted average cost of supply. To the extent that the supply balancing is not fully covered through active supply and risk management, Gas & Power's customer gross margin may be reduced or increased depending on market conditions at the time of balancing.

Gas & Power purchases electricity supply concurrently with the execution of a contract for residential and commercial customers. In some cases Gas & Power is required to aggregate sufficient volume in order to transact in the wholesale supply markets. This introduces a short term execution risk that is managed by Gas & Power pricing policies. The fixed price products are load-shaped, for a single load profile for residential customers and each utility. For a commercial customer, their historical usage data defines their load profile. Gas & Power purchases wholesale energy in the form of on peak and off peak blocks, hedging between 96% and 102% of the actual customer consumption profiles. The LDC provides Gas & Power with historical customer usage which enables Gas & Power to purchase the expected normal customer load. To the extent that balancing requirements are outside of the forecasted purchase, Gas & Power bears the financial responsibility for excess or short supply caused by fluctuations in customer usage within its residential and small commercial portfolio. For its large commercial portfolio, Gas & Power has provisions to pass through large consumption variances relative to historical consumption. To the extent that the supply balancing is not fully covered through active supply and risk management or customer pass-through, Gas & Power's customer gross margin may be affected by the cost of balancing.

The Corporation markets its energy commodity products through various sales channels. Gas & Power markets natural gas and electricity to commercial customers through a network of direct sales agents who provide customers with a highly interactive and customized sales process; and markets to its residential customers through a direct sales force of independent contractors. An online presence, in both Canada and the U.S., allows customers to secure their energy needs through Gas & Power's website at [www.gosunwave.com](http://www.gosunwave.com).

### **c) Home Comfort**

The Home Comfort Group Inc. is a Toronto, Ontario-based company that owns a portfolio of furnaces, boilers and air conditioners ("HVAC") and water heaters, which are rented primarily to residential customers in Ontario, Alberta and British Columbia, under long-term water heater and HVAC rental programs. In

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addition, Home Comfort sells, installs and maintains HVAC and water heaters directly to residential customers.

Home Comfort entered into a long-term financing agreement with Home Trust Company (“Home Trust”) for the funding of HVAC and water heater rentals. Under the Home Trust agreement, Home Comfort receives funds equal to the amount of the seven or ten year cash flow (depending on product) of the HVAC and water heater contracts discounted to present value at the contracted rate, which is currently 8.9%. The Home Trust loan is serviced from the payments received from the end customer over the 7 to 10 year life of the loan.

Home Comfort markets its products through a network of independent sales agents in Ontario, Manitoba and Alberta.

The Corporation expects to fully rebrand all of Home Comfort’s activities under the Sunwave Home Comfort™ brand during the third quarter of 2014.

**d) Energy Efficiency**

During the second quarter the Corporation launched a commercial energy efficiency business, which today is a provider of high efficiency LED lighting retrofits and upgrades to commercial customers in Canada. This business was launched in partnership with AVACOS Clean Energy Inc. (“AVACOS”), a Toronto, Ontario-based provider of i) energy efficient lighting retrofits, ii) solar energy development, design and installation, and iii) energy saving products and services for building envelopes. AVACOS and the Corporation are jointly selling retrofit projects to their respective customer bases, and AVACOS provides the Corporation with LED lighting products through a proprietary supply relationship as well as lighting auditing services.

The Corporation has entered this business as it identified LED lighting retrofits as both a high-growth market based on various factors including the phase-out of older lighting technologies, attractive government incentive programs in various provinces and states that encourage the adoption of more advanced lighting products and the need to assist our customers in first reducing their electrical load and then actively managing the remaining load. ONEnergy believes that by taking a more holistic approach to the energy needs of its customers, both commercial and residential, that this will increase the stability of the customer relationship and increase the long-term profitability of the customer to ONEnergy through the delivery of greater overall value to the customer.

**e) Geographic expansion**

Gas & Power entered the Connecticut electricity retailing market in February 2014 and the Pennsylvania electricity retailing market in March 2014 after receiving its electric supplier licences from the relevant regulatory bodies in those states. It operates in two electric distribution service territories in Connecticut and three electric distribution service territories in Pennsylvania. Gas & Power reaches its customers through an online presence directly through its own website as well as via a link to the respective state-operated energy choice websites ([www.CTenergyinfo.com](http://www.CTenergyinfo.com) and [www.PApowerswitch.com](http://www.PApowerswitch.com)) as well as through the telemarketing sales channel. In Ontario, Gas & Power serves customers on approximately 68 electric LDCs as well as both major gas utilities.

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In June 2014, Gas & Power was granted an electric supplier licence in Massachusetts and was granted an electric supplier licence in Ohio in July 2014. It has a pending electric supplier licensing application in New York.

Home Comfort has a presence in Ontario, Alberta, and Manitoba, providing a cross-selling and geographic expansion opportunity for the Gas & Power energy commodity business.

ONEnergy is continually evaluating new energy commodity markets which have the appropriate growth and profitability profiles, and additional state or provincial markets may be pursued in the future.

## 5. RESULTS OF OPERATIONS

Three months ending June 30, 2014 ("Q2 2014") compared to three months ending June 30, 2013 ("Q2 2013"). Six months ended June 30, 2014 ("1H 2014") compared to six months ended June 30, 2013 ("1H 2013").

### Selected financial information

| <b>Loss and comprehensive loss</b>                   | <b>Three months ended June 30, 2014</b> | Three months ended June 30, 2013 | <b>Six months ended June 30, 2014</b> | Six months ended June 30, 2013 |
|--|---|----------------------------------|---------------------------------------|--------------------------------|
| Revenue  | \$ 1,719                                | \$ -                             | \$ 2,770                              | \$ -                           |
| Cost of sales  | (1,123)                                 | -                                | (2,130)                               | -                              |
| Gross margin   | 596                                     | -                                | 640                                   | -                              |
| Selling  | (1,197)                                 | -                                | (1,831)                               | -                              |
| General and administrative                           | (1,511)                                 | 1,028                            | (3,048)                               | (1,891)                        |
| Change in fair value of derivative instruments       | (169)                                   | -                                | 353                                   | -                              |
| Finance income                                       | 39                                      | 53                               | 97                                    | 108                            |
| Finance costs  | (293)                                   | -                                | (306)                                 | -                              |
| Unrealized loss on translation of foreign operations | (68)                                    | -                                | (31)                                  | -                              |
| Loss and comprehensive loss                          | \$ (2,609)                              | \$ (975)                         | \$ (3,966)                            | \$ (1,783)                     |
| Total comprehensive loss per share                   | \$ (0.012)                              | \$ (0.007)                       | \$ (0.018)                            | \$ (0.013)                     |

  

| <b>Financial position</b> | <b>June 30, 2014</b> | December 31, 2013 |
|---------------------------|----------------------|-------------------|
| Current assets            | \$ 16,519            | \$ 21,782         |
| Non-current assets        | 19,786               | 1,556             |
| Current liabilities       | 4,277                | 1,540             |
| Non-current liabilities   | 14,143               | 104               |
| Shareholders' equity      | \$ 17,885            | \$ 21,694         |

### Revenue

Revenue for the three and six months ended June 30, 2014 was \$1,719 and \$2,770, respectively compared to \$Nil and \$Nil for the same period in 2013. The increase is a result of the acquisition of Gas & Power in July 2013 and the resulting revenue associated with Gas & Power's business operations. Also commencing April 21, 2014, revenue includes the results of Home Comfort.

Gas & Power's revenue arises from sales of natural gas and electricity to customers in Ontario, and sales of electricity in Connecticut and in Pennsylvania. Connecticut sales commenced in late March 2014, and Pennsylvania sales commencing in late June 2014. Q2 2014 benefited from full quarter customer acquisition activities in Connecticut.

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Home Comfort's revenue is comprised of rental revenue from its portfolio of HVAC and water heater rental equipment. This is supplemented with equipment sales.

### **Cost of sales**

Cost of sales for the three and six months ended June 30, 2014 was \$1,123 and \$2,130, respectively compared to \$Nil and \$Nil for 2013. The increase is a result of the acquisition of Gas & Power in July 2013 and the resulting cost of sales associated with Gas & Power's business operations. Also commencing April 21, 2014, cost of sales includes the results of Home Comfort.

Gas & Power's cost of sales is comprised of the cost of natural gas or electricity, along with costs to deliver to the LDCs. The Corporation enters into fixed for floating electricity swaps in order to manage exposures to changes in electricity prices. The Corporation experienced \$2 of losses for Q2 2014 compared to \$Nil for Q1 2013 on these swaps.

Home Comfort's cost of sales is comprised of amortization of the rental equipment cost and, for equipment sales, the cost of the equipment, installation and commissions.

### **Selling**

Selling expenses include commissions and other compensation paid to independent contractors such as sales representatives, brokers and consultants. Marketing expenses include the development of sales programs and materials, costs of sales collateral and costs to maintain an online presence for web sales. Sales and marketing expenses were \$1,197 for Q2 2014 compared to \$Nil for Q2 2013.

Gas & Power selling costs arise from customer aggregation activity in 2014. Selling expenses are expensed in the period that the commissions are earned by the independent contractors. For Q2 2014, selling expenses consisted of (i) \$432 for commissions; (ii) other customer acquisition and marketing costs of \$287 and (iii) management and back-office support costs of \$336, which included personnel costs of \$243, comprised of wages, salaries, fees, benefits and stock compensation expense. For the 1H 2014, selling expenses consisted of (i) \$729 for commissions; (ii) other customer acquisition and marketing costs of \$427 and (iii) management and back-office support costs of \$533, which included personnel costs of \$404, comprised of wages, salaries, fees, benefits and stock compensation expense.

Home Comfort selling costs arise from customer acquisition costs including: (i) call centre costs, (ii) other customer acquisition costs; and (iii) management and back-office support costs.

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## General and administrative

General and administrative expenses include personnel costs, professional fees, occupancy, information technology, and other administrative overheads for the Corporation. A summary of the key components of general and administrative expenses is set out below:

|   | <b>Three months<br/>ended June<br/>30, 2014</b> | Three months<br>ended<br>June 30, 2013 | <b>Six months<br/>ended June<br/>30, 2014</b> | Six months<br>ended<br>June 30, 2013 |
|---|---|--|---|--------------------------------------|
| Personnel                                 | <b>\$ 701</b>                                   | \$ 73                                  | <b>\$ 1,469</b>                               | \$ 138                               |
| Professional fees                         | <b>245</b>                                      | 283                                    | <b>368</b>                                    | 912                                  |
| Litigation costs                          | <b>139</b>                                      | 590                                    | <b>311</b>                                    | 736                                  |
| Occupancy and other expenses              | <b>340</b>                                      | 82                                     | <b>575</b>                                    | 105                                  |
| Depreciation                              | <b>86</b>                                       | -                                      | <b>159</b>                                    | -                                    |
| Total general and administrative expenses | <b>\$ 1,511</b>                                 | \$ 1,028                               | <b>\$ 2,882</b>                               | \$ 1,891                             |

### Personnel

Personnel costs include wages, salaries, benefits, termination payments and share-based payments. During the three and six months ended June 30, 2014, the Corporation incurred \$701 and \$1,469, respectively in personnel costs compared to \$73 and \$138, respectively, for the same period in 2013, primarily due to having an active business during 2014. This also included termination payments to the Corporation's former CFO (see section 12(d) below) and fees of \$80 paid to the Board of Directors.

### Professional fees

Professional fees are comprised of legal, accounting, audit and filing fees. Professional fees for Q2 2014 were consistent with Q2 2013 at \$245. For the six months ended June 30, 2014 professional fees were lower by \$544 at \$368 compared to \$912 for the same period in 2013. For the six months ended June 30, 2013, the Corporation incurred professional fees of \$609 for activity that is not considered to be recurring, including overseeing the sale of its shares by one of its major shareholders (see section 3(e) in the 2013 MDA); fees related to the acquisition of Gas & Power; and support agreement termination fees (section 12(e) in the 2013 MDA).

### Former Officer and Director litigation costs

Litigation costs are the legal fees and other related costs to the Statement of Claim as discussed under section 13 below. During Q2 2014, litigation costs of \$139 decreased by \$451 from \$590 for Q2 2013. These costs decreased during Q2 2013 due to lower level of activity compared to prior year.

### Occupancy and other expenses

Occupancy costs rose during Q2 2014 compared to Q2 2013 as a result of the Gas & Power acquisition. The Corporation had previously sold its land and building in June 2011, thereby eliminating its occupancy costs at that time. All of its workforce has operated from virtual offices since that time until July 2013, when its workforce re-located to Gas & Power's premises. In July 2014, the Corporation relocated its head office to new premises.

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Other expenses include costs for investor relations, and costs for the shareholders' annual and special meeting during Q2 2014.

### **Finance income**

For the three and six months ended June 30, 2014, interest income recognized on cash balances totalled \$39, and \$97, respectively compared to \$53 and \$108 for the same periods in 2013. The lower level of interest earned reflect lower average cash balances during 2014 compared to 2013.

### **Finance costs**

For the three and six months ended June 30, 2014, finance costs were \$293 and \$306, respectively compared to \$Nil and \$Nil for the same periods in 2013. Long-term debt was acquired as part of the acquisition of Home Comfort during Q2 2014. HCG finances the acquisition of its rental equipment. Long-term debt was \$15,305 at June 30, 2014.

### **Change in fair value of derivative instruments**

The fair value of derivative instruments consists of changes in unrealized gains or losses on derivatives, which represent the estimated amount that the Corporation would need to pay or receive to dispose of the remaining notional commodity positions in the market if the derivative contracts were to be terminated at the respective period end (see the section entitled "*Financial Instruments and Risk Management*" in this MD&A).

For the three months June 30, 2014, the unrealized gains and losses associated with derivative contracts were a loss of \$169; made up of (a) unrealized losses of \$48 on forward natural gas positions and (b) unrealized losses of \$121 on fixed-for-floating electricity swaps. For the six months ended June 30, 2014, the unrealized gains associated with derivative contracts were a gain of \$353; made up of (a) unrealized gains of \$109 on forward natural gas positions and (b) unrealized gains of \$244 on fixed-for-floating electricity swaps. These gains and losses represent non-cash gains and losses associated with mark-to-market movements on forward hedge positions that are outstanding at period end. There were no derivative contracts during the three and six months ended June 30, 2013.

### **Total comprehensive loss**

The total comprehensive loss for the three and six months ended June 30, 2014 was \$2,587 and \$3,962 respectively, or \$0.012 and \$0.018 per basic and diluted share, respectively. The total comprehensive loss for the three and six months ended June 30, 2013 was \$975 and \$1,783 respectively, or \$0.007 and \$0.013 per basic and diluted share, respectively.

## 6. EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (“EBITDA”)

The following table reconciles EBITDA, to net loss as determined under IFRS, for the respective periods:

|  | Three<br>months<br>ended<br>June 30,<br>2014 | Three<br>months<br>ended<br>June 30,<br>2013 | Six months<br>ended<br>June 30,<br>2014 | Six months<br>ended<br>June 30,<br>2013 |
|--|--|--|---|---|
| Loss for the period                            | \$ (2,609)                                   | \$ (975)                                     | \$ (3,966)                              | \$ (1,783)                              |
| Add/(subtract):                                |  |  |   | -                                       |
| Depreciation and amortization                  | 253  | -  | 331                                     | -                                       |
| Finance costs                                  | 293  | -  | 306                                     | -                                       |
| Loss on disposition of rental equipment        | 6  | -  | 6                                       | -                                       |
| Change in fair value of derivative instruments | 169  | -  | (353)                                   | -                                       |
| Finance income                                 | (39)   | (108)  | (97)                                    | (108)                                   |
| Unrealized foreign exchange losses             | 68   | -  | 31                                      | -                                       |
| <b>EBITDA<sup>(1)</sup></b>                    | <b>\$ (1,859)</b>                            | <b>\$ (1,028)</b>                            | <b>\$ (3,742)</b>                       | <b>\$ (1,891)</b>                       |

<sup>(1)</sup> Management views EBITDA as an important measure of operating performance of the Corporation; however, since EBITDA does not have any standardized meaning prescribed by IFRS, it may not be considered in isolation of IFRS measures such as (1) net loss, as an indicator of operating performance, or (2) cash flows from operating, investing and financing activities, as a measure of liquidity. We believe, however, that it is an important measure as it allows us to assess our ongoing business without the impact of depreciation or amortization expenses as well as non-operating factors. It is intended to indicate our ability to incur or service debt and invest in capital assets while allowing us to compare our business to our peers and competitors. This measure is not a defined term under IFRS and might not be comparable to similar measures presented by other issuers.

## QUARTERLY FINANCIAL RESULTS

The table below sets out financial information for the past eight quarters:

|   | Fiscal 2014    |                | Fiscal 2013           |                |                |              |              | Fiscal 2012    |
|---|----------------|----------------|-----------------------|----------------|----------------|--------------|--------------|----------------|
|   | June 30        | Mar 31         | Dec 31 <sup>(1)</sup> | Aug 31         | May 31         | Feb 28       | Nov 30       | Aug 31         |
| Revenue   | \$ 1,719       | \$ 1,051       | \$ 490                | \$ 114         | \$ -           | \$ -         | \$ -         | \$ -           |
| Cost of sales   | 957            | 1,008          | 300                   | 78             |                |              |              |                |
| Gross margin  | 762            | 43             | 190                   | 36             | -              | -            | -            | -              |
| Operating expenses before depreciation and amortization, interest and finance charges, and finance income | 2,621          | 1,924          | 3,017                 | 1,588          | 1,186          | 587          | 370          | 1,419          |
| <b>EBITDA</b>   | <b>(1,859)</b> | <b>(1,881)</b> | <b>(2,827)</b>        | <b>(1,552)</b> | <b>(1,186)</b> | <b>(587)</b> | <b>(370)</b> | <b>(1,419)</b> |
| Depreciation and amortization   | (253)          | (79)           | (82)                  | (62)           | -              | -            | -            | -              |
| Finance income  | 39             | 58             | 102                   | 50             | 56             | 57           | 58           | 55             |
| Finance costs   | (293)          | (13)           | (22)                  | -              | -              | -            | -            | -              |
| Loss on disposition of rental equipment   | (6)            | -              | -                     | -              | -              | -            | -            | -              |
| Unrealized foreign exchange gain (loss)   | (68)           | 36             | (7)                   | -              | -              | -            | -            | -              |
| Change in fair value of derivative instruments  | (169)          | 522            | 30                    | -              | -              | -            | -            | -              |
| Net loss from operations  | \$ (2,609)     | \$ (1,357)     | \$ (2,806)            | \$ (1,564)     | \$ (1,130)     | \$ (530)     | \$ (312)     | \$ (1,364)     |
| <b>Loss per share</b>   |                |                |                       |                |                |              |              |                |
| Basic and diluted   | (0.012)        | (0.006)        | (0.0151)              | (0.0086)       | (0.0081)       | (0.004)      | (0.0022)     | (0.010)        |

<sup>(1)</sup>Four months ended December 31

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The period after July 9, 2013 reflects the activity of Gas & Power following its acquisition by ONEnergy. The period after April 21, 2014 includes activity of Home Comfort following its acquisition by ONEnergy. Prior to the quarter ended August 31, 2013, the Corporation was operating as a holding company that was actively seeking a transaction to enhance shareholder value. Expenses during this period were related to activity to maximize shareholder value including the monetization of the remaining assets, the return of capital to shareholders, and legal charges incurred related to the recovery of payments made to former directors and former management (see section 13 below).

## **7. LIQUIDITY AND CAPITAL RESOURCES**

ONEnergy expects to have sufficient liquidity to fund its planned operations for the foreseeable future. The following sources of funding for future expenditures are expected by management to be available: (i) existing cash and working capital; (ii) internally generated cash flow from operations; (iii) borrowing capacity under our Shell Energy credit facility; (iv) borrowing capacity under our Home Trust financing agreement; (v) external debt financing; and (vi) new equity capital through the issuance of additional shares.

Cash and cash equivalents consists of all bank balances and short-term investments maturing within 91 days. The Corporation's cash and cash equivalents were \$12,044, as at June 30, 2014 compared with \$20,555 of cash and short-term investments as at December 31, 2013. The decrease \$8,511 was primarily due to the use of cash in current operations and the acquisition of Home Comfort for cash consideration of \$3,088.

Under the credit facility agreements, Shell Energy has provided Gas & Power credit arrangements for its Canadian and U.S. operations. Under the Canadian revolving credit facility Shell Energy will be providing Gas & Power with advances of up to \$1,000 for commodity purchases, financial derivatives and related services. Interest is payable on outstanding advances at 4% plus the greater of: (i) 3% or (ii) LIBOR. Under the U.S. revolving credit and collateral credit facilities Shell Energy will be providing Gas & Power with advances of up to US\$15,000 for commodity purchases, certain working capital uses, collateral security support and financial derivatives and related services. Interest is payable on outstanding advances under the revolving credit facility at 4% plus the greater of: (i) 3% or (ii) LIBOR, and under the collateral credit facility at 4% plus the greater of: (i) 4% or (ii) LIBOR. On June 30, 2014, LIBOR was 0.23%. An additional interest rate penalty of 0.50% applies to all facilities in the event that Gas & Power were to be in default of certain financial covenants. Principal and interest are repayable in the month following the month that advances were made. No further advances can be made after November 20, 2018. No advances were drawn during 2013 and no amount is outstanding as at December 31, 2013. Cash transfers to ONEnergy from Gas & Power are subject to certain restrictions under the Shell Energy agreements, however ONEnergy currently has sufficient liquidity to meet its obligations without requiring any such transfers.

HCG entered into a long-term financing agreement with Home Trust for the funding of HVAC and water heater rentals. Under the Home Trust agreement, Home Comfort receives funds equal to the amount of the seven or ten year cash flow (depending on product) of the HVAC and water heater contracts discounted to present value at the contracted rate, which is currently 8.9%. The Home Trust loan is serviced from the payments received from the rental customer over the 7 to 10 year life of the loan. The loan is secured by each rental agreement, the related equipment and a cash reserve held by HomeTrust.

The change in cash is summarized as follows:

|  | <b>For the<br/>three<br/>months<br/>ended June<br/>30, 2014</b> | For the three<br>months<br>ended June<br>30, 2013 | <b>For the six<br/>months<br/>ended June<br/>30, 2014</b> | For the six<br>months<br>ended<br>June 30, 2014 |
|--|---|---|---|---|
| Cash used in operating activities                  | \$ (2,086)  | \$ (1,487)  | \$ (4,479)  | \$ (1,992)                                      |
| Cash provided by (used in) investing activities    | (4,080)   | 1,447   | (4,465)   | 1,908   |
| Cash provided by financing activities              | 388   | -   | 419   | -   |
| Effect of foreign currency translation on cash bal | (8)   | -   | 14  | -   |
| Decrease in cash                                   | <b>(5,786)</b>  | (40)  | <b>\$ (8,511)</b>   | \$ (84)   |

Cash used in operating activities for Q2 2014 was \$2,086 compared to \$1,487 for Q2 2013, an increase of \$599. Net loss increased by \$1,634 in Q2 2014 compared to Q2 2013. Change in non-cash working capital increased by \$212 to (\$300) in Q2 2014 compared to (\$512) in Q2 2013. The increase in non-cash working capital is a result of higher trade payables offset by higher customer receivables as result of the HCG acquisition, along with prepayment of leasehold improvements for the Corporation's new office premises.

Cash used in operating activities for 1H 2014 was \$4,479 compared to \$1,992 for 1H 2013, an increase of \$2,487. Net loss increased by \$2,183 in 1H 2014 compared to 1H 2013. Change in non-cash working capital decreased by \$677 to (\$886) in 1H 2014 compared to (\$209) in 1H 2013. The decrease in non-cash working capital is largely a result of increases in customer receivables and equipment financing receivable arising from the Home Comfort acquisition.

Cash used by investing activities for three and six months ended June 30 2014 was (\$4,080) and (\$4,465), respectively, compared to the provision of cash of \$1,447 and \$1,908, respectively, from investing activities for the same period in 2013. In 2014, the Corporation acquired \$1,002 of rental equipment purchases and acquired Home Comfort for \$3,088 cash consideration, compared to redemptions of short-term investments in 2013.

Cash provided by financing activities during the three and six months ended June 30, 2014 was \$388 and \$419, respectively, compared \$Nil and \$Nil, respectively, for the same period in 2013. The amounts arise from the net funding from the HCG rental equipment financing program. Net funding is the gross funds received upon financing of rental equipment less principal and interest payments during the period.

## **8. OFF-BALANCE SHEET ARRANGEMENTS**

Gas & Power is required to post financial assurance in order to operate in certain states or markets. The Corporation has issued letters of credit to satisfy the financial assurance requirement. If these letters of credit were withdrawn by the Corporation, it would be required to post another form of financial assurance satisfactory to the regulatory agency or utility, in order to continue to operate in that electricity retailing market. The Corporation has deposited \$692 (US\$648) with a financial institution as security for outstanding letters of credit. As at June 30, 2014, the Corporation has \$692 (US\$648) (June 30, 2013 - \$Nil) in outstanding letters of credit.

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## **9. SHARE CAPITAL**

As at June 30, 2014 and December 31, 2013, there were 99,995 multiple voting shares and 111,136 subordinate voting shares issued, totalling 211,131 shares issued and outstanding

On February 6, 2014, the Corporation granted 150 options to purchase subordinate voting shares in the capital of the Corporation to employees. The options vest over a four year period, are exercisable at a price of \$0.14 per share, and expire in February 2024. On April 21, 2014, the Corporation granted 1,500 options to purchase subordinate voting shares in the capital of the Corporation to an employee and consultants. The options vest over a four year period, are exercisable at a price of \$0.08 per share, and expire in April 2024.

In determining diluted loss per share for the three months and six months ended June 30, 2014, the weighted average number of shares outstanding was not increased for stock options outstanding as it is considered anti-dilutive. There were no options outstanding during the three months and six months ended June 30, 2013.

## **10. STOCK BASED COMPENSATION**

For the three months and six months ended June 30, 2014, stock-based compensation totaling \$79 and \$152, respectively (2013 - \$Nil and \$Nil) was expensed to selling, general and administrative, and related to options issued to employees and consultants, which has been recorded in contributed surplus.

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## 11. TAX LOSSES

The Corporation's tax attributes may be utilized by the Corporation in its future operations, or may be utilized by a potential acquirer to offset income, provided certain tests are satisfied including those related to a change in control of the Corporation. The Corporation has federal non-capital income tax losses of \$175,337, which may be carried forward to reduce future years' taxable income.

Due to the Canada Revenue Agency's ("CRA") current interpretation of the tax treatment with respect to the disposition of the Corporation's broadcast and spectrum licenses in 2007, the Corporation conducted an independent study, in fiscal 2012, of its remaining federal non-capital income tax losses, amending the total amount to reflect greater certainty of their deductibility, which may be carried forward to reduce future years' taxable income. As part of this process, the Corporation filed a protective tax election to ensure that no tax liability could occur should the CRA challenge the Corporation's position with respect to the 2007 license disposition.

Deferred taxes have not been recognized in respect of the Company's loss carry forwards. The Corporation has the following federal non-capital income tax losses, which may be carried forward to reduce future years' taxable income. These losses will expire in the taxation years ending December 31 as follows:

| <u>Year</u> | <u>Amount</u>     |
|-------------|-------------------|
| 2014        | \$ 12,588         |
| 2015        | 55                |
| 2026        | 403               |
| 2027        | 1                 |
| 2028        | 8,987             |
| 2029        | 115,583           |
| 2030        | 5,748             |
| 2031        | 21,933            |
| 2032        | 3,558             |
| 2033        | 5,109             |
| 2034        | 3,387             |
|             | <u>\$ 177,352</u> |

## 12. RELATED PARTY TRANSACTIONS

### a) Premises sublease

The Corporation subleases its premises from OZZ Clean Energy Inc. ("OCE"), which is Gas & Power's former controlling shareholder and which is a current shareholder of the Corporation. The sublease expires November 2017. For Q2 2014 and Q2 2013, \$126 and \$Nil respectively was charged to the Corporation. No amounts are currently outstanding.

On January 20, 2014, the sublease and underlying head lease was amended by agreement of the Landlord and the holder of the head lease, OCE, to terminate at the end of July 2014, resulting in a termination of the Corporation's obligations under the sublease at no cost, as of July 31, 2014.

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**b) Electricity revenue**

In Q2 2014, the Corporation supplied electricity totalling \$7 (Q2 2013 - \$Nil) to a company that is controlled by the controlling shareholder of OCE, based on the Corporation's standard supply agreement for electricity at a negotiated price per kilowatt hour ("kWh"). The balance outstanding as at March 31, 2014 was \$Nil (December 31, 2013 - \$Nil).

**c) Compensation of key management personnel**

The Corporation's key management personnel are comprised of the Board of Directors and members of the executive team of the Corporation.

|  | <b>For the<br/>three<br/>months<br/>ended<br/>June 30,<br/>2014</b> | For the<br>three<br>months<br>ended<br>June 30,<br>2013 | <b>For the six<br/>months<br/>ended<br/>June 30,<br/>2014</b> | For the six<br>months<br>ended<br>June 30,<br>2013 |
|--|---|---|---|--|
| Salaries, fees, and short-term employee benefits | <b>\$ 313</b>   | \$ 93   | <b>\$ 695</b>   | \$ 100   |
| Stock-based compensation                         | <b>67</b>   | -   | <b>134</b>  | -  |
|  | <b>\$ 380</b>   | \$ 93   | <b>\$ 829</b>   | \$ 100   |

**d) Employee loan payable**

|                       | <b>June 30,<br/>2014</b> | December 31,<br>2013 |
|-----------------------|--------------------------|----------------------|
| Employee loan payable | <b>\$ 93</b>             | \$ -                 |
| Less: current portion | <b>33</b>                | -                    |
|                       | <b>\$ 60</b>             | \$ -                 |

The employee loan consist of advances made to HCG by HCG's former controlling shareholder. The gross amount of \$100,000 is to be paid over a three (3) year term and is non-interest bearing.

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### 13. FORMER OFFICER AND DIRECTOR LITIGATION

#### a) Claim seeking recovery of damages from former officers and directors

On July 6, 2011, the Corporation issued a Statement of Claim (the “Claim”) in the Ontario Superior Court of Justice (the “Court”) against certain former directors and senior officers of the Corporation and their personal service companies. The Claim sought recovery of approximately \$20,000, which was paid in 2009 from the net proceeds of approximately \$64,000 realized by the Corporation on the sale of its spectrum license which closed September 11, 2009. Approximately \$15,700 was paid to the directors and officers named in the Claim (or their personal service companies). The following table summarizes the amounts paid to directors and senior management:

|   | Number of options relinquished | Number of Share Appreciation Rights (SARs) relinquished | Equity-related payment | Compensation-related payment | Total payments  |
|---|--------------------------------|---|------------------------|------------------------------|-----------------|
| First Fiscal Management Ltd. <sup>(1)</sup><br>/ Michael Cytrynbaum | 727                            | 7,384   | \$1,746                | \$2,400                      | \$4,146         |
| Jolian Investments Limited <sup>(2)</sup><br>/ Gerald McGoey        | 335                            | 14,769  | 3,166                  | 2,400                        | 5,566           |
| DOL Technologies Inc. <sup>(3)</sup><br>/ Alex Dolgonos             | -                              | 7,384   | 1,551                  | 2,400                        | 3,951           |
| Former Directors and Senior Management                              | 4,325                          | 3,194   | 1,585                  | 1,976                        | 3,561           |
| <b>Total</b>  | <b>5,387</b>                   | <b>32,731</b>   | <b>\$8,048</b>         | <b>\$9,176</b>               | <b>\$17,224</b> |

<sup>(1)</sup>First Fiscal Management Ltd. is a company controlled by the former Chairman of the Board of Directors of the Corporation, Michael Cytrynbaum.

<sup>(2)</sup>Jolian Investments Limited is a company controlled by the former Chief Executive Officer (“CEO”) and Vice-Chairman of the Board of Directors of the Corporation, Gerald McGoey.

<sup>(3)</sup>DOL Technologies Inc. is a company controlled by the former Chief Technology Officer to the Corporation, Alex Dolgonos.

These payments were not formally disclosed to the market until the Corporation released its 2009 Management Information Circular (the “2009 MIC”) on January 19, 2010. The 2009 MIC referred to the payments that were made as Contingent Restructuring Awards (the “CRAs”). The CRAs had two components: a bonus and a payment made to compensate for the decision of the directors and management to cancel options and share appreciation rights (“SARs”). The compensation paid for the cancellation of options and SARs was based on a non-market share value of \$0.40 when the share price traded at substantially lower prices. Shareholders protested the payments and inquiries were initiated by the Autorité des marchés financiers (the “AMF”) and the Toronto Stock Exchange (“TSX”).

In June of 2010, the former directors and officers authorized the advance of \$1,550 to law firms to fund the legal costs they expected to incur defending anticipated shareholder litigation and regulatory proceedings. The Claim also seeks recoveries of these advances.

The former officers and directors named in the Claim resigned from their positions at the Corporation effective July 21, 2010. None of the factual allegations in the Claim have been proven before the Court. The Corporation did not claim against Louis Mitrovich, one of the former directors, because it reached a settlement with him. Mr. Mitrovich paid the Corporation \$100 and approximately \$78 from the share of advances paid to Mr. Mitrovich’s counsel.

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**b) Applications For Advances**

The former officers and directors named in the Claim brought applications and motions seeking further advances of their legal fees and expenses from the Corporation in order to defend themselves against the Claim. On September 28, 2012, the Court dismissed these proceedings, except with respect to Mr. Dolgonos. The Court required the Corporation to pay advances to Mr. Dolgonos only, because the Court did not accept that the Corporation had sufficient evidence at that time to demonstrate that Mr. Dolgonos was an officer or that he participated in the decisions to make the payments that the Claim seeks to recover. The defendants, except Mr. Dolgonos, appealed to the Ontario Court of Appeal. Their appeals were dismissed on July 4, 2013. They were required to pay \$58 to the Corporation toward the costs of the appeal, which amounts were paid. The defendants Mr. Cytrynbaum, First Fiscal Management Ltd., Mr. McGoey and Jolian Investments Limited sought leave to appeal to the Supreme Court of Canada. On February 13, 2014 the Supreme Court of Canada denied leave to appeal, bringing the proceedings for further advances to an end.

**c) Status of the Claim**

The defendants delivered Statements of Defence in the spring of 2013. The defendants, other than Mr. Dolgonos and DOL Technologies Inc., also issued Third Party Claims against Stikeman Elliott LLP and one of its lawyers (collectively, "Stikeman Elliott"). Stikeman Elliott delivered Statements of Defence to the third party claims. The parties exchanged Affidavits of Documents in late 2013 and early 2014. Examinations for discovery began in February 2014 and are effectively completed. The Court has directed the parties to be prepared for a trial in 2014. The parties participated in a mediation on July 30 and 31, 2014 with the Honorable George Adams Q.C. The mediation did not result in a settlement though discussions continue. A pre-trial is scheduled for September 4, 2014.

**d) Claim Against McMillan LLP**

The Corporation also issued a Statement of Claim against McMillan LLP on August 20, 2012 (the "McMillan Claim"). The McMillan Claim seeks recovery of the advances paid in June of 2010 in the amount of \$1,550, which were paid to McMillan LLP and other law firms before the former directors and officers resigned on July 21, 2010. The Corporation has received a defence from McMillan LLP. McMillan participated in the mediation with Mr. Adams and the other defendants in Look's action against its former officers and directors. The mediation did not result in a settlement though discussions continue. If a settlement is not achieved, Look intends to schedule examinations for discovery to be held this fall.

**14. OPERATING RISKS AND UNCERTAINTIES****Management of capital**

The Corporation determines capital to include its cash and shareholders' equity. The Corporation's overall strategy with respect to management of capital is to hold low-risk, highly-liquid cash accounts and short-term investments.

The Corporation invests its capital in short-term investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Corporation's short-term obligations while maximizing liquidity and returns of unused capital.

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## Financial instruments and risk management

The Corporation's activities may expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign currency risk and commodity and equity price risk).

Risk management is carried out by the Corporation's management team with guidance from the Audit Committee and the Risk Management Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

### Electricity and natural gas derivatives

The Corporation has entered into contracts with customers to provide electricity or natural gas at either variable or fixed prices, with the majority of the electricity and natural gas provided by the Corporation to customers is pursuant to fixed price contracts. Fixed price contracts expose the Corporation to changes in market prices of electricity and natural gas as the Corporation is obligated to purchase the electricity or natural gas at floating wholesale market prices for the electricity or natural gas consumed by its customers. To reduce its exposure to short-term and long-term movements in commodity prices arising from the procurement of electricity or natural gas at floating prices, the Corporation uses derivative financial and physical contracts to secure fixed price commodity supply to cover its estimated fixed price delivery. The derivative financial contracts are fixed-for-floating swaps whereby the Corporation agrees with a counterparty, principally Shell Energy, to cash settle the difference between the floating price and the fixed price on a notional quantity of electricity for a specified time frame. The cash flow from these instruments is expected to be effective in offsetting the Corporation's price exposure and serves to fix the Corporation's wholesale cost of electricity or natural gas to be delivered to the customer. The Corporation remains subject to commodity risk for any volumetric differences between the actual quantities used by customers and the forecasted quantities upon which the commodity hedging is based.

Realized swap settlements under derivative instruments are included in cost of sales in the consolidated statement of comprehensive loss. Unrealized gains or losses resulting from changes in the fair value of the swaps, generally referred to as mark-to-market gains or losses, have been recognized as the change in fair value on derivative instruments in the consolidated statement of loss and comprehensive income (loss).

The fair value of derivative financial instruments is the estimated amount that the Corporation would pay or receive to dispose of these derivative instruments in the market, in the unlikely event that the Corporation was required to dispose of its derivative instruments. The Corporation has estimated the value of derivative instruments using market-based forward wholesale price curves.

### Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its obligations. Financial instruments, which are potentially subject to credit risk for the Corporation, consist primarily of cash and cash equivalents, accounts and other receivables.

Credit risk associated with cash and cash equivalents is minimized by ensuring these financial assets are placed with financial institutions with high credit ratings.

The LDCs provide collection services and assume the risk of any bad debts from customers for a fee. Therefore, the Corporation receives the collection of customer account balances directly from the LDCs.

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Management believes that the risk of the LDCs failing to deliver payment to the Corporation is minimal. The Corporation's customers are individually insignificant and geographically dispersed. The Corporation currently believes that its susceptibility to an individually significant write-off as a result of concentrations of customer accounts receivable with those LDCs is remote.

Other receivables are comprised primarily of refundable taxes receivable from the CRA. Refundable taxes are subject to review by the CRA, which may delay receipt. Management believes the risk of the CRA failing to deliver payment to the Corporation is minimal.

The Corporation's maximum exposure to credit risk at the end of the reporting period under its financial instruments is summarized as follows:

|   | <b>June 30,<br/>2014</b> | December 31,<br>2013 |
|---|--------------------------|----------------------|
| Accounts and other receivables                |                          |                      |
| Currently due                                 | \$ 1,619                 | \$ 292               |
| Past due by 90 days or less not impaired      | 322                      | 83                   |
| Past due by greater than 90 days not impaired | 197                      | 62                   |
|   | <b>\$ 2,138</b>          | <b>\$ 437</b>        |

All of the Corporation's cash is held with major financial institutions in Canada and in the U.S., and management believes the exposure to credit risk with these institutions is not significant. The Corporation's maximum assessed exposure to credit risk, as at June 30, 2014 and December 31, 2013, is the carrying value of its accounts and other receivables.

#### Liquidity risk

Liquidity risk is the risk the Corporation will encounter difficulty in meeting obligations associated with financial liabilities that are settled in cash or other financial assets. The Corporation's approach is to ensure it will have sufficient liquidity to meet operations, tax, capital and regulatory requirements and obligations, under both normal and stressed circumstances. Cash flow projections are prepared and reviewed by management to ensure a sufficient continuity of funding exists.

#### Contractual Obligations

In the normal course of business, ONEnergy is obligated to make future payments under various non-cancellable contracts and other commitments.

The Corporation's financial liabilities are comprised of its accounts payable and accrued liabilities, payments received in advance of consumption, non-cancellable leases and financial leases. As at June 30, 2014, the payments due by period are set out in the following table:

|   | Payment due by period |                            |                      | Total     |
|---|-----------------------|----------------------------|----------------------|-----------|
|   | Less than one year    | Between one and five years | More than five years |           |
| Accounts payable and accrued liabilities    | \$ 2,854              | \$ -                       | \$ -                 | \$ 2,854  |
| Payments received in advance of consumption | 58                    | -                          | -                    | 58        |
| Due to related party                        | 33                    | 60                         | -                    | 93        |
| Finance lease obligation                    | 33                    | 26                         | -                    | 59        |
| Derivative instruments                      | 2,406                 | 2,244                      | -                    | 4,650     |
| Long-term debt                              | 1,301                 | 6,405                      | 7,600                | 15,306    |
|   | \$ 6,685              | \$ 8,735                   | \$ 7,600             | \$ 23,020 |

#### Interest rate risk

The Corporation is exposed to interest rate fluctuations associated with its floating rate credit facility. The Corporation has drawn limited amounts under this facility, therefore the Corporation's current exposure to interest rate risk does not economically warrant the use of derivative instruments and the Corporation does not currently believe that it is exposed to material interest rate risk.

#### Currency risk

Foreign currency risk is created by fluctuations in the fair value or cash flows of financial instruments due to changes in foreign exchange rates and exposure as a result of investments in U.S. operations.

Although the Corporation's operations are predominately in Ontario, it has operations in the U.S. A growing percentage of ONEnergy's income will be generated in U.S. dollars and will be subject to currency fluctuations. The performance of the Canadian dollar relative to the U.S. dollar could positively or negatively affect ONEnergy's income. Due to commencement of operations in the U.S., ONEnergy expects to have a greater exposure to U.S. fluctuations in the future than in prior years.

ONEnergy may, from time to time, experience losses resulting from fluctuations in the values of its foreign currency transactions, which could adversely affect its operating results. Translation risk is not hedged.

#### Fair Values

IFRS 7 Financial Instruments: Disclosure requires disclosure of a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include those whose valuations are determined using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are those based on inputs that are unobservable and significant to the overall fair value measurement.

The fair values of short-term financial assets and liabilities, including cash and cash equivalents, accounts and other receivables, deposits, trade and other payables as presented in the Consolidated Statements of

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Financial Position, approximate their carrying amounts due to the short period to maturity of these financial instruments.

### Supplier Risk

Gas & Power purchases all of the natural gas and electricity delivered to its customer through long-term contracts entered into with various suppliers. The Corporation has an exposure to supplier risk as the ability to continue to deliver natural gas and electricity to its customers is reliant upon ongoing operations of these suppliers and their ability to fulfill their contractual obligations.

## **15. OTHER RISK FACTORS**

In addition to operating risks described in the section entitled “14. *Operating risks and uncertainties*”, below are other risk and uncertainties that ONEnergy can foresee. It is not an exhaustive list, as some future risks may be yet unknown and other risks, currently regarded as immaterial, could turn out to be material. Additional risks and uncertainties are discussed in the “Other Risk Factors” section of the Corporation’s MD&A for the sixteen months ended December 31, 2013 which can be found on SEDAR under the Company’s profile or on the Corporation’s website at [www.onenergyinc.com](http://www.onenergyinc.com).

### *Electricity supply – balancing risk*

It is the Corporation’s policy to procure the estimated electricity requirements of its customers with offsetting electricity derivatives. Depending on several factors, including weather, the Corporation’s customers may use more or less electricity than the volume purchased by the Corporation for delivery to them. The Corporation is able to invoice some of its existing electricity customers for balancing charges or credits when the amount of energy used is greater than or less than the amount of energy that the Corporation has estimated. For other customers, the Corporation bears the risk of fluctuation in customer consumption. In addition, under certain circumstances, there can be balancing issues for which the Corporation is responsible when customer aggregation forecasts are not realized. The inability or failure of the Corporation to manage and monitor these balancing risks could have a material adverse effect on its operations and cash flow.

### *Natural gas supply – balancing risk*

It is the Corporation’s policy to procure the estimated gas requirements of its customers with offsetting gas purchases (see the section entitled “15. *Operating risk and other uncertainties – Financial instruments and risk management – Electricity and natural gas derivatives*”) in advance of obtaining customers. Depending on several factors including weather, the Corporation’s customers may use more or less gas than the volume purchased by the Corporation for delivery to them. The Corporation does not invoice its natural gas customers for balancing and, accordingly, bears the risk of fluctuation in customer consumption. The Corporation monitors gas consumption and actively manages forecast differences in customer consumption due to weather variations as well as forecast LDC balancing requirements. To the extent that forecast balancing requirements are beyond initial estimates, the Corporation will bear financing responsibility, be exposed to market risk and, furthermore, may also be exposed to penalties by the LDCs. The inability or failure of the Corporation to manage and monitor these balancing risks could have a material adverse effect on its operations and cash flow.

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*Restrictive covenants and the terms of the Shell Energy agreements may make it more difficult for us to operate.*

The terms of the Shell Energy agreements may constrain the ability of the Corporation to operate because it must comply with certain financial, organizational, operational and other covenants. Among other things, the Shell Energy agreements may restrict the Corporation's ability to undertake the following activities or subject to the approval of Shell Energy: (i) deal with other energy suppliers; (ii) enter into hedging transactions (iii) amend or terminate material contracts; (iv) amend or modify its Risk Management Policy; (v) make capital expenditures; (vi) invest in or acquire certain other businesses or entities; (vii) enter new markets and expand its business; (viii) enter into certain commercial transactions; (ix) incur indebtedness, suffer liens or grant security on its assets; (x) sell, liquidate or dissolve its assets; (xi) merge, amalgamate or consolidate with another entity; and (xii) release any utility, LDC or Independent system operator ("ISO") from its contractual obligations.

*A default under the Shell Energy agreements could impact our business.*

The Shell Energy agreements contains numerous covenants by the Corporation, including covenants relating to the operation and conduct of its business, ownership and maintenance of assets, regulatory approvals and licenses, compliance with laws, delivery of financial information, the incurrence of indebtedness, its Risk Management Policy, the maintenance of certain financial ratios, and restrictions on undertaking certain transactions without Shell Energy's consent. A breach of any of the covenants in the Shell Energy agreements constitutes an event of default, subject to cure periods in limited circumstances. Additional events of default include the revocation of certain licenses, exceeding certain exposure limits, the loss of key employees, the existence of unsatisfied judgments in excess of a threshold, the termination of material contracts and change of control. Upon an event of default, Shell Energy is entitled to suspend its performance under or terminate the Shell Energy agreements, including the supply of energy to the Corporation under the Shell Energy agreements. In addition, Shell Energy may elect not to enter into any further transactions under the Shell Agreements unless the representations and warranties contained in the Shell Energy agreements are true and correct and there has not been a material adverse change (as defined in the Shell Energy agreements). Any such termination or election not to enter into further transactions by Shell Energy would likely have an adverse economic impact on the business of the Corporation.

*Our business is reliant on the services provided by LDCs, and any disruptions to these services could adversely impact our results of operations and cash flow.*

LDCs provide many essential services to the Corporation, including energy delivery, billing and collections and meter reading. The Corporation is reliant on LDCs to deliver the electricity and natural gas that it sells to customers. LDCs are reliant upon the continuing availability of existing distribution infrastructure. Any disruptions in this infrastructure could result in the Corporation invoking force majeure clauses in its contracts. Under such severe circumstances there would be no revenue or gross margin to report for the affected areas as the Corporation would have no alternative way to deliver energy to its customers.

The Corporation is reliant on LDCs to perform billing and collection services in utility consolidated billing markets, which includes paying the Corporation for its energy service delivered to customers. If LDCs cease to perform these services, the Corporation would have to seek a third party billing provider or develop internal systems and processes to perform these functions, which may require a significant capital expenditure and increased operating expenses to support the internal billing and collections functions.

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The Corporation is reliant on LDCs to measure and record customer electricity and natural gas meter usage rates, which is used to calculate commodity charges billed to the customer. If the LDCs do not accurately measure or record customer usage rates and the customer is under-billed relative to their actual usage rates, the Corporation may not receive full payment for energy that has been supplied to its customers.

There can be no assurance that the practices or policies of LDCs in the future will not limit the growth or profitability of the Corporation.

#### *Financing agreement*

HCG has entered into a long-term financing agreement with respect to the installation of water heaters, air conditioners, and furnaces. In the event this financing became unavailable, the Corporation would have to otherwise fund the Home Comfort business.

## **16. COMMITMENTS AND CONTINGENCIES**

### **(a) Commitments**

The minimum payments required under the terms of non-cancellable leases are as follows:

|                            | <b>June 30,<br/>2014</b> | June 30,<br>2013 |
|----------------------------|--------------------------|------------------|
| Less than one year         | \$ 148                   | \$ -             |
| Between one and five years | 777                      |                  |
| Over five years            | 241                      | -                |
|                            | <b>\$ 1,166</b>          | <b>\$ -</b>      |

### **(b) Contingencies**

In the normal course of its operations, the Corporation may be subject to other litigation and claims.

The Corporation indemnifies its directors, officers, consultants, and employees against claims and costs reasonably incurred and resulting from the performance of their services to the Corporation, and maintains liability insurance for its directors and officers. As a result of the current litigation, the Corporation may be liable for costs if unsuccessful in pursuing the Claim.

## **17. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Management's discussion and analysis of operating results and financial condition are made with reference to the Corporation's unaudited interim condensed consolidated financial statements as at, and for the three months and six months ended June 30, 2014 and 2013, and the notes thereto, which have been prepared in accordance with IFRS. The Corporation's significant accounting policies are summarized in detail in Note 2 of the Corporation's unaudited interim condensed consolidated financial statements as at, and for the three months and six months ended June 30, 2014 and 2013 and in Note 2 of the Corporation's audited consolidated financial statements for the sixteen months ended December 31, 2013.

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## **18. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED**

The IASB has issued the following applicable standards, which have not yet been adopted by the Corporation. The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a description of the new standards:

IFRS 9 - Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date has not been finally established by the IASB.

The following new standards, amendments and interpretations have not been early adopted in these consolidated financial statements and are not expected to have an effect on the Corporation's future results and financial position:

IAS 19 – Employee Benefits

## **19. SIGNIFICANT EVENTS**

### **a) Addition of director**

At the Corporation's annual shareholders' and special meeting on April 29, 2014, Mark J. Lewis, chief executive officer of the Corporation was elected to the board of directors. All incumbent directors were also elected for another term.

### **b) New head office location**

On July 28, 2014, the Corporation moved its registered office to 155 Gordon Baker Road, Toronto, Ontario, M2H 3N5.

## **20. ADDITIONAL INFORMATION**

Additional information regarding the Corporation's financial statements and corporate documents is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.ONEnergyinc.com](http://www.ONEnergyinc.com).

# ONEnergy Inc.

## SHAREHOLDER INFORMATION

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### Board of Directors

#### Chairman of the Board

Stephen J.J. Letwin  
President & CEO, IAMGOLD Corporation

#### Directors

Stanley H. Hartt  
Counsel, Norton Rose Fulbright Canada LLP

Mark J. Lewis  
Chief Executive Officer, ONEnergy Inc.

David Rattee  
Corporate Director

Lawrence Silber  
Partner, Kelly Santini LLP

#### Officers

Mark J. Lewis  
Chief Executive Officer

Ray de Ocampo  
Chief Financial Officer

Robert Weir  
Chief Operating Officer

### Auditors

BDO Canada LLP  
60 Columbia Way, Suite 300  
Markham ON L3R 0C9  
(905) 946-1066

### Transfer Agent and Registrar

Computershare Investor Services Inc.  
100 University Street, 8th Floor  
Toronto, Ontario M5J 2Y1  
(416) 885-9858

### Shareholder enquiries

ONEnergy Inc. Investor Relations  
155 Gordon Baker Road, Suite 301  
Toronto, ON M2H 3N5  
(416) 444-4848  
[irinfo@onenergyinc.com](mailto:irinfo@onenergyinc.com)

### Stock exchange listing

ONEnergy's shares are listed on Tier 1 of the  
TSX Venture Exchange under the symbols  
OEG and OEG.A