

Audited Consolidated Financial Statements of

# ONEnergy Inc.

For the twelve months ended December 31, 2014 and sixteen months  
ended December 31, 2013

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of ONEnergy Inc. (the "Corporation") and its subsidiaries and all the information in the Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. The consolidated financial statements include certain amounts that are based on the best estimates and judgments of management and in their opinion present fairly, in all material respects, the Corporation's financial position, financial performance and cash flows. Management has prepared the financial information presented elsewhere in Management's Discussion and Analysis and has ensured that it is consistent with the consolidated financial statements.

Management of the Corporation is responsible for the internal controls that provides reasonable assurance that transactions are properly authorized and recorded, financial records are reliable and form a proper basis for the preparation of consolidated financial statements and that the Corporation's assets are properly accounted for and safeguarded.

The Board of Directors is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit and Corporate Governance Committee (the "Audit Committee").

The Audit Committee meets periodically with management, as well as with external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and to review Management's Discussion and Analysis, the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by BDO Canada LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. BDO Canada LLP has full and free access to the Audit Committee.

(Signed) – Mark J. Lewis

**Mark J. Lewis**

Chief Executive Officer

(Signed) – Ray de Ocampo

**Ray de Ocampo**

Chief Financial Officer

March 31, 2015



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## Independent Auditor's Report

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### To the Shareholders of ONEnergy Inc.

We have audited the accompanying consolidated financial statements of ONEnergy Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of loss and comprehensive income, changes in shareholders' equity and cash flows for the year ended December 31, 2014 and sixteen months ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ONEnergy Inc. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the year ended December 31, 2014 and sixteen months ended December 31, 2013 in accordance with International Financial Reporting Standards.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
March 31, 2015

# ONEnergy Inc.

## Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

As at December 31	Note	2014	2013
<b>Assets</b>			
Current assets			
Cash and cash equivalents	6	\$ 7,781	\$ 20,555
Restricted cash	7	2,312	266
Accounts and other receivables	8	2,408	437
Inventory		84	-
Natural gas delivered in excess of consumption		176	136
Prepaid expenses and deposits		284	284
Current portion of energy derivatives	24	-	104
		<b>13,045</b>	<b>21,782</b>
Non-current assets			
Energy derivatives	24	-	29
Property and equipment	9	13,433	147
Intangible assets	10	6,651	832
Goodwill	11	2,155	548
<b>Total assets</b>		<b>\$ 35,284</b>	<b>\$ 23,338</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	13	\$ 3,134	\$ 1,280
Payments received in advance of consumption		267	191
Credit facility	14	621	-
Current portion of obligation under finance lease		32	28
Current portion of energy derivatives	24	885	41
Current portion of long-term debt	15	1,877	-
		<b>6,816</b>	<b>1,540</b>
Non-current liabilities			
Obligation under finance lease		8	42
Energy derivatives	24	124	62
Long-term debt	15	14,584	-
		<b>21,532</b>	<b>1,644</b>
Shareholders' equity			
Share capital	16	39,225	37,499
Contributed surplus		444	131
Accumulated other comprehensive income		46	15
Deficit		<b>(25,963)</b>	<b>(15,951)</b>
		<b>13,752</b>	<b>21,694</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 35,284</b>	<b>\$ 23,338</b>

### Commitments and contingencies (note 22)

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

Approved by the Board of Directors:

(Signed) – Stephen J.J. Letwin  
Director

(Signed) – Stanley H. Hartt  
Director

# ONEnergy Inc.

## Consolidated Statements of Loss and Comprehensive Income

(In thousands of Canadian dollars, except per share amounts)

	Note	Twelve months ended December 31, 2014	Sixteen months ended, December 31, 2013
Revenue	17	\$ 9,282	\$ 604
Cost of sales	17,18	6,465	378
Gross margin		2,817	226
Expenses			
Selling	18	5,144	1,519
General and administrative	18	5,727	5,373
		10,871	6,892
Operating loss before the undernoted		(8,054)	(6,666)
Other gains (expenses)			
Change in fair value of energy derivatives	24	(1,041)	30
Finance income		158	294
Finance cost		(1,081)	-
Gain on disposal of equipment		31	-
Foreign exchange loss		(25)	-
<b>Loss for the period</b>		<b>\$ (10,012)</b>	<b>\$ (6,342)</b>
Other comprehensive income			
Unrealized gain on translation of foreign operations		31	15
Other comprehensive income		31	15
<b>Total comprehensive loss for the period</b>		<b>\$ (9,981)</b>	<b>\$ (6,327)</b>
Total loss per share			
Basic and diluted	16	\$ (0.05)	\$ (0.04)
Weighted average number of shares outstanding			
Basic and diluted (in thousands)	16	214,239	165,516

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

# ONEnergy Inc.

## Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)

	Share Capital (note 16)		Deficit	Contributed surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance as at September 1, 2012	139,702	\$ 27,499	\$ (9,609)	\$ -	\$ -	\$ 17,890
Shares issued from treasury (note 16)	64,286	9,000	-	-	-	9,000
Shares issued to acquire Sunwave (note 16)	7,143	1,000	-	-	-	1,000
Net loss for the period	-	-	(6,342)	-	-	(6,342)
Other comprehensive income	-	-	-	-	15	15
Stock compensation (note 16)	-	-	-	131	-	131
<b>Balance as at December 31, 2013</b>	<b>211,131</b>	<b>\$ 37,499</b>	<b>\$ (15,951)</b>	<b>\$ 131</b>	<b>\$ 15</b>	<b>\$ 21,694</b>
Shares issued to acquire AVACOS assets (note 16)	26,391	1,726	-	-	-	1,726
Net loss for the year	-	-	(10,012)	-	-	(10,012)
Other comprehensive income	-	-	-	-	31	31
Stock compensation (note 16)	-	-	-	313	-	313
<b>Balance as at December 31, 2014</b>	<b>237,522</b>	<b>\$ 39,225</b>	<b>\$ (25,963)</b>	<b>\$ 444</b>	<b>\$ 46</b>	<b>\$ 13,752</b>

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

# ONEnergy Inc.

## Consolidated Statements of Cash Flows (In thousands of Canadian dollars)

	Note	Twelve months ended December 31, 2014	Sixteen months ended December 31, 2013
Cash flows from the following:			
<b>Operating activities</b>			
Loss for the period		\$ (10,012)	\$ (6,342)
Items not affecting cash			
Depreciation of property and equipment		758	36
Amortization of intangible assets		504	108
Write-down of refundable taxes receivable		-	446
Transaction cost related to change of business		-	676
Change in fair value of energy derivatives	24	1,041	(30)
Finance income		(158)	(216)
Gain on disposition of equipment		(31)	-
Unrealized foreign exchange loss		22	-
Finance costs		1,081	-
Stock based compensation	16	313	131
Change in non-cash operating assets and liabilities	19	(485)	(627)
Cash used in operating activities		(6,967)	(5,818)
<b>Investing activities</b>			
Redemption/maturity of short-term investments		-	17,812
Increase in restricted cash		(1,346)	(266)
Interest received on cash, cash equivalents and short-term investments		150	413
Purchase of equipment		(3,526)	(17)
Proceeds from disposals of equipment		798	-
Purchase of intangible assets		(115)	(16)
Acquisition of The Home Comfort Group Inc., net of cash acquired	12	(3,072)	-
Cash (used in) provided by investing activities		(7,111)	17,926
<b>Financing activities</b>			
Share issuance from treasury for private placement	16	-	9,000
Transaction costs related to change of business		-	(676)
Proceeds from long-term debt		3,946	-
Repayments of long-term debt		(2,167)	-
Finance costs paid		(1,044)	-
Proceeds from credit facility		621	-
Repayment of obligation under finance lease		(34)	(11)
Cash provided by financing activities		1,322	8,313
Effect of foreign currency translation on cash balances		(18)	(13)
Increase (decrease) in cash and cash equivalents		(12,774)	20,408
Cash and cash equivalents, beginning of period		20,555	147
<b>Cash and cash equivalents, end of period</b>		<b>\$ 7,781</b>	<b>\$ 20,555</b>

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

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

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### 1. Nature of operations

Look Communications Inc. ("Look") was formed on October 31, 1999 under the Canada Business Corporations Act. On July 8, 2013, pursuant to articles of amendment, Look changed its name to ONEnergy Inc. ("ONEnergy"). On July 9, 2013, Look completed a change-of-business transaction (the "Transaction") (note 12(b)) and a concurrent private placement (notes 16(b)).

The consolidated financial statements are comprised of ONEnergy; and its wholly owned subsidiaries which include:

- (a) Sunwave Gas & Power Inc. ("Sunwave"), 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
- (b) Sunwave Home Comfort Inc. (formerly The Home Comfort Group Inc., "HCG") and Sunwave Home Comfort USA Inc. (collectively referred to as "Home Comfort")

References to the Corporation include ONEnergy, Gas & Power and Home Comfort. The Corporation is domiciled in Canada and the address of its registered office is 155 Gordon Baker Road, Suite 301, Toronto, Ontario, Canada M2H 3N5.

ONEnergy operates in the Gas & Power, Home Comfort and Energy Efficiency businesses. The Corporation's Gas & Power business involves the sale of natural gas and electricity in Ontario, and electricity in Connecticut, Pennsylvania and Massachusetts, to residential and commercial customers under short or long-term fixed-price, price-protected or variable-priced contracts, under the brand name Sunwave Gas & Power™. The Corporation's Home Comfort business, under the brand name Sunwave Home Comfort™, owns a portfolio of furnaces, boilers and air conditioners ("HVAC") and water heaters, which are rented to residential customers in Ontario and Alberta, under long-term water heater and HVAC rental programs. In addition, Home Comfort also sells, installs and maintains HVAC and water heaters directly to residential customers. Under its Energy Efficiency business, the Corporation provide a variety of products and services including sales and rental of energy-efficient furnaces, boilers and air conditioners, complete turnkey LED lighting retrofits, supply of conventional and "green" electricity, commercial solar PV installation, home protection plans, building envelop upgrades, energy audits to help commercial, industrial, multi-residential and residential clients minimize their energy consumption, under the brand name Sunwave for Business™.

Effective July 11, 2013, the Corporation's multiple voting shares and subordinate voting shares were listed and posted for trading on the TSX Venture exchange under the symbols OEG and OEG.A respectively.

ONEnergy's operating subsidiary Sunwave has historically operated on a fiscal year ending December 31. Management believes it is in the best interest of shareholders to continue to report consolidated results consistent with a December 31 year-end. An application was made to the Ontario Securities Commission to change ONEnergy's fiscal reporting period to the sixteen months ending December 31, 2013, which was approved on August 15, 2013. This change resulted in the Annual Report for fiscal 2013 covering a period representing sixteen months to December 31, 2013 ("2013"). For 2014, ONEnergy's fiscal year is the twelve months ending December 31. Therefore, these consolidated financial statements compare a twelve month period ending December 31, 2014 to the sixteen month period ending December 31, 2013. The operating results may not be comparable because of the different number of months reported in each fiscal period and the inclusion of HCG and Sunwave results from their dates of acquisition.

These consolidated financial statements were approved for issue by the Board of Directors on March 31, 2015.



# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

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## 2. Summary of significant accounting policies

### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB").

### Basis of presentation

The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousands. The consolidated financial statements are prepared on a going concern basis under the historical cost convention except for the initial accounting for business acquisitions and for certain financial assets and liabilities which are stated at fair value.

### Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and all of its wholly-owned subsidiaries for which it has the power to govern the financial and operating policies. All material inter-company balances and transactions are eliminated. For any new acquisitions, the results of operations are reflected from the dates of acquisition.

### Cash and cash equivalents

Cash and cash equivalents consists of cash with financial institutions and includes highly liquid investments with original maturities of three months or less. At any time, cash in banks may exceed federally insured limits.

### Restricted cash

Restricted cash is pledged as collateral for issued letters of credit and as security for long-term debt. Letters of credit are posted with State regulatory entities, independent system operators, local distribution companies ("LDCs"), or other counterparties as required collateral in order to operate in certain markets or for other financial assurance programs. A portion of the proceeds is held from long-term debt by the lender as a reserve against default.

### Accounts receivable

The Corporation delivers gas and electricity to its customers through LDCs, many of which guarantee amounts due from customers for consumed gas or electricity. Accounts receivable represents amounts due for gas or electricity consumed by customers.

The Corporation collects monthly rental revenue on the HVAC rental directly from customers or through LDCs. Accounts receivable represents amounts due for monthly rental payments as defined in the rental contracts.

The Corporation primarily operates in LDC markets which have purchase of receivables ("POR") programs in place under which the LDCs assume the credit risk associated with the customer billings. Consequently, in these markets, the Corporation's exposure to credit risk concentration is limited primarily to those LDCs that collect and remit receivables to the Corporation. For HCG, there are certain LDC markets where POR programs are not in place for its products or services, consequently HCG bills the customer directly and assumes the credit risk associated with customer billings.

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

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### Inventory

Inventory consists of HVAC equipment and water heaters. Inventory is stated at the lower of cost and net realizable value with cost being determined on a weighted average basis.

### Gas delivered in excess of consumption/ Payments received in advance of consumption

Gas delivered to LDCs in excess of consumption by customers is stated at the lower of cost and net realizable value. Any payments received from LDCs in advance of consumption by customers are recognized as a liability at amortized cost.

### Property and equipment

Property and equipment are initially recognized at cost and subsequently at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and capitalized borrowing costs.

Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the cost of these assets to their estimated residual value over their estimated useful lives. When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate components of the asset and depreciated over their estimated useful life on a straight-line basis.

Estimated useful lives are as follows:

Rental equipment	Straight line	15 years
Computer hardware	Straight line	2-3 years
Office furniture and equipment	Straight line	5 years
Leasehold improvement	Straight line	over term of the lease

Depreciation methods, useful lives and residual values are reviewed at each reporting date and are adjusted if appropriate.

### Intangible assets

Intangible assets are initially measured at cost and are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization method and useful life of an intangible asset with a finite useful life is reviewed at least once annually. Changes in the expected life or pattern of consumption of future economic benefits are accounted for by changing the amortization period or method, as appropriate, and treated as a change in accounting estimate and recorded on a prospective basis. The amortization expense related to intangible assets with finite lives is recognized in the consolidated statement of loss in depreciation and amortization expense.

Intangible assets primarily consist of purchased customer contracts and computer software.

Estimated useful lives are as follows:

Customer contracts	Straight line	3 – 15 years
Computer software	Straight line	3 years

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

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### Goodwill

Goodwill is measured as the excess of the cost of the business combination over the net fair value of the identifiable assets acquired and liabilities assumed including non-controlling interest. Any negative difference is recognized as a gain directly in the consolidated statement of comprehensive loss. If the fair values of the assets, liabilities and non-controlling interest can only be calculated on a provisional basis the business combination is recognized using provisional values. Any adjustments resulting from the completion of the measurement process are recognized within twelve months of the date of acquisition.

Goodwill is considered to have an indefinite useful life and is not amortized, but rather is tested annually for impairment. After initial recognition, goodwill is measured at cost, less any accumulated impairment losses.

### Leases

#### *As lessee*

Leases entered into by the Corporation as lessee that transfer substantially all the benefits and risks of ownership to the Company are record as finance leases and are included in property and equipment and obligations under finance leases. Obligations under finance lease are reduced by lease payments net of imputed interest. All other leases are classified as operating leases under which lease payments are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease cost, over the term of the lease.

#### *As lessor*

Leases where the Corporation does not transfer substantially all the risks and benefits of ownership are classified as operating leases. Direct costs associated with initializing the operating lease are added to the carrying amount of the rental equipment and recognized over the term of the lease.

### Impairment of non-financial assets

At each statement of financial position date, the Corporation reviews the carrying amounts of its finite life non-financial assets, including property and equipment and intangible assets to determine whether there is any indication of impairment.

For the purposes of reviewing finite life non-financial assets for impairment, asset groups are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a cash generating unit ("CGU"). Corporate assets are tested for impairment at the minimum collection of CGUs to which the corporate asset can be allocated reasonably and consistently.

The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of a CGU exceeds its recoverable amount. Impairment losses are recognized in profit and loss in the period in which they occur. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss will only be reversed if there will be a change in the assumptions used to determine the asset's recoverable amount since the time the impairment loss was recognized. Where impairment subsequently reverses, the carrying amount of the asset is increased to the extent that the carrying value of the underlying asset does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized. Impairment reversals are recognized in profit and loss in the period in which they occur.

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

### Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss,” “loans and receivables,” “available-for-sale,” “held-to-maturity” or “other financial liabilities.”

All derivative instruments are classified as fair value through profit and loss and are subsequently measured at fair value. Subsequent measurement and recognition of changes in the fair value are recognized in profit or loss.

Financial assets classified as loans and receivables, held-to-maturity and other financial liabilities are subsequently measured at amortized cost using the effective interest method of amortization.

Financial assets classified as available-for-sale are subsequently measured at fair value, with changes in fair value recognized in other comprehensive income (“OCI”).

The Company’s financial assets and financial liabilities are classified and measured as follows:

<b>Asset/Liability</b>	<b>Classification</b>	<b>Subsequent Measurement</b>
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Accounts and other receivables	Loans and receivables	Amortized cost
Derivative financial assets	Fair value through profit or loss	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Payments received in advance of consumption	Other financial liabilities	Amortized cost
Obligations under finance lease	Other financial liabilities	Amortized cost
Credit facility	Other financial liabilities	Amortized cost
Derivative financial liabilities	Fair value through profit or loss	Fair value
Long-term debt	Other financial liabilities	Amortized cost

Transaction costs of financial instruments are capitalized to the carrying amount of the instrument and amortized using the effective interest method, other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred.

### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of the estimated future cash flows, discounted at the financial asset’s original effective interest rate.

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

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The carrying amount of all financial assets, excluding accounts receivable, is directly reduced by the impairment loss. The carrying amount of accounts receivable is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of income (loss).

With the exception of available-for-sale investments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through the consolidated statement of income (loss). On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

### Revenue recognition

Revenue is recognized when significant risks and rewards of ownership are transferred to the customer. Revenue is measured at the fair value of the consideration received.

#### *Gas & Power*

The transfer of risks and rewards generally coincide with consumption of the commodity by the customer. Revenue is recognized based on consumption used by customers at the agreed amount prices.

Natural gas delivery is based on estimated customer historical usage and is regularly reconciled to determine if customers consumed more gas than has been delivered or if consumption is less than has been delivered. Gas delivered in excess of consumption by customers is recognized as an asset at the lower of cost and net realizable value. Consumption by customers in excess of gas delivered is recognized as accrued gas payable at amortized cost. Any payments received from LDCs in advance of consumption by customers are recognized as a liability at amortized cost.

Revenue for electricity is recognized upon consumption of power by the customer. Consumption for a reporting period is estimated based on historical usage rates by that customer at their agreed upon selling price. Upon receipt of customer billing information from the LDC, estimated consumption is reconciled to actual usage, with any variances recorded in a subsequent period.

#### *Home Comfort*

Revenue from sales of HVAC equipment is recognized upon installation, when the selling price has been determined, and the ability to collect is reasonably assured. Revenue from the rental of HVAC equipment is recognized straight line based on rental rates over the term commencing from the installation date.

#### *Energy Efficiency*

Revenue from sales of Energy Efficiency equipment is recognized upon installation, when the selling price has been determined, and the ability to collect is reasonably assured.

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

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### Foreign currency translation

#### *Functional and presentation currency*

Items included in the consolidated financial statements of each of the Corporation's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Corporation's US based Gas & Power operations is the US dollar. The functional currency of the Corporation's Canadian based Gas & Power and the Home Comfort and Energy Efficiency operations is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars, which is the parent Corporation's presentation and functional currency.

#### *Transactions*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income (loss).

#### *Translation of foreign operations*

The results and consolidated financial position of all the subsidiary entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position; and
- income and expenses for each consolidated statement of income (loss) are translated at the exchange rates prevailing at the dates of the transactions.

On consolidation, exchange differences arising from the translation of the foreign operations are recorded to other comprehensive income (loss).

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Per share amounts

The computation of earnings per share is based on the weighted average number of shares outstanding during the year. Diluted earnings per share are computed in a similar way to basic earnings per share except that the weighted average number of shares outstanding is increased to include additional shares assuming the exercise of stock options and deferred share units, if dilutive. The effect of the outstanding options and DSUs as at December 31, 2014 and 2013 was anti-dilutive.

### Share-based compensation plans

#### *Stock option plans*

ONEnergy accounts for its share-based options compensation as equity-settled transactions. The cost of share-based options compensation is measured by reference to the fair value at the date on which it was granted. Options awards are valued at the grant date and are not adjusted for changes in the prices of the underlying shares and other measurement assumptions. The cost of equity-settled transactions is recognized, together with the corresponding increase in equity, over the period in which the performance or service conditions are fulfilled, ending on the date on which the relevant grantee becomes fully entitled to the award. The cumulative expense recognized for equity-settled transactions at each reporting date until

# ONEnergy Inc.

## Notes to the consolidated financial statements

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the vesting period reflects the extent to which the vesting period has expired and ONEnergy's best estimate of the number of the shares that will ultimately vest. The expense or credit recognized for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

### *Deferred share unit plan*

Non-executive directors are eligible to receive part or all of their quarterly directorship fees in deferred share units ("DSUs"). DSUs are expensed on the date of grant since they vest immediately, although they are not payable until a director's separation date. DSUs are settled at the option of the holder in (i) cash; (ii) subordinate voting shares in the Corporation or (iii) a combination of cash and subordinate voting shares in the Corporation. The DSUs are classified as a liability once vested, and are re-measured to fair value at each reporting date. Fair value is based on the number of units vested and the underlying price of the Corporation's shares. The DSUs are governed by the provisions of the Corporation's Deferred Share Unit Plan.

### Equity transaction costs

Transaction costs incurred by Corporation in issuing, acquiring or selling its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

### Income taxes

Income tax expense consists of current and deferred tax expense.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries, branches and associates, and interest in joint ventures where the Corporation is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Corporation does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is not recognized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its tax assets and liabilities on a net basis.

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

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### New standards, interpretations and amendments adopted by the Company during the year

The Corporation has adopted the following new accounting standards and amendments which are effective for the interim and annual consolidated financial statements commencing January 1, 2014. The adoption of these did not have a significant impact on the Corporation's results of operations, financial position and disclosures.

- (a) Amendments to IFRS 10, Consolidated Financial Statements
- (b) IFRIC 21, Levies
- (c) Amendments to IAS 19, Employee Benefits
- (d) Amendments to IAS 24, Related Party Disclosures
- (e) Amendments to IAS 32, Financial Instruments: Presentation
- (f) Amendments to IAS 36, Impairment of Assets
- (g) Amendments to IAS 39, Financial Instruments: Recognition and Measurement

### **3. Significant accounting judgments, estimates and assumptions**

The preparation of these consolidated financial statements requires the use of estimates and assumptions to be made in applying accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities, at the date of the consolidated financial statements, and the reported income and expenses during the reporting period.

Judgment is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated. As the basis for its judgments, management uses estimates and related assumptions which are based on previous experience and various commercial, economic and other factors that are considered reasonable under the circumstances. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. Actual outcomes may differ from these estimates under different assumptions and conditions.

Judgments and estimates made by management in the application of IFRS that have a significant impact on the consolidated financial statements relate to the following:

#### Revenue recognition

Accounts receivable includes an unbilled receivables component, representing the amount of energy consumed by customers as at the end of the period but not yet billed. Unbilled receivables are estimated by the Corporation based on the number of units of energy consumed but not yet billed, based on estimates using usage data available, multiplied by the current customer average sales price per unit.

#### Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting year, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.



# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

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### Fair value of financial instruments

Determining the value of derivative instruments requires judgment and is based on market prices or management's best estimates if there is no market and/or if the market is illiquid. Where the fair value of financial instruments recorded cannot be derived from active markets, they are determined using valuation techniques including making internally generated adjustments to quoted prices in observable markets and discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The estimate includes consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### Impairment of non-financial assets

In assessing the value of intangible assets or non-financial assets for potential impairment, assumptions are made regarding future cash flows. These calculations require the use of estimates. If these estimates change in the future, the Corporation may be required to record impairment charges related to intangible assets and goodwill.

### Useful life of property and equipment and intangible assets

The amortization method and useful lives reflect the pattern in which management expects the asset's future economic benefits to be consumed by the Corporation.

### Acquisition accounting

Management uses judgment to determine whether an acquisition qualifies as an asset acquisition or a business combination by reviewing inputs, processes, and outputs within a transaction. All identifiable assets, liabilities and contingent liabilities acquired in an asset purchase are recognized at fair value on the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities as at the date of acquisition.

## **4. 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:

Amendment to IFRS 2 – Share-Based Payment: clarifies vesting conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition. The amendment is effective for annual periods beginning on or after July 1, 2014.

Amendment to IFRS 8 – Operating Segments: require additional disclosures regarding management's judgements when operating segments have been aggregated in determining reportable segments. Also, the amendment clarifies that a reconciliation of the total of reportable segments assets to the entity's assets is only required if a measure of segment assets is regularly provided to the chief operating decision maker. The amendment is effective for annual periods beginning on or after July 1, 2014.

# ONEnergy Inc.

## Notes to the consolidated financial statements

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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 where the basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 – Revenue from contracts with customers: In May 2014, the IASB issued IFRS 15 which supersedes existing standards and interpretations including IAS 18, Revenue and IFRIC 13, Customer Loyalty Programs. IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs such as IAS 17, Leases. This Standard requires revenue to be recognized in a method that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

- i. Identify the contract with a customer;
- ii. Identify the performance obligations in the contract;
- iii. Determine the transaction price;
- iv. Allocate the transaction price to the performance obligations in the contract; and
- v. Recognize revenue when each performance obligation is satisfied.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfilment costs. This Standard is effective for annual periods beginning on or after January 1, 2017.

The Corporation is assessing the impact of these Standards on the consolidated financial statements.

### 5. Seasonality

Gas & Power's customers typically consume more natural gas during the winter months than the summer months and while they typically consume more electricity during the summer months; electricity consumption is subject to less seasonality than natural gas. The combined impact of natural gas and electricity consumption seasonality on the results of the Corporation is that revenue and cost of sales will be typically higher in the quarters ended December 31 and March 31.

### 6. Cash and cash equivalents

As at December 31, 2014, the Corporation had \$7,781 (2013 - \$20,555) of cash and cash equivalents, comprised of \$7,781 (2013 - \$17,555) of cash on hand and \$NIL (2013 – \$3,000) of short-term investments with original maturities of 90 days or less.

### 7. Restricted cash

Restricted cash includes cash where availability of funds is restricted by debt arrangements:

- i. The Corporation has term deposits of \$853 (US\$735) at December 31, 2014 (2013 – \$266) held as collateral to support letters of credit issued by the Corporation. The security will remain as long as the letters of credit are outstanding.
- ii. The Corporation has short-term investments of \$389 (US\$335) at December 31, 2014 (2013 - \$NIL) in a financial institution held as financial assurance against its operations in the New England market.
- iii. The Corporation has cash of \$58 (US\$50) at December 31, 2014 (2013 - \$NIL) held as collateral for its payments made through its electronic payment service.
- iv. At December 31, 2014, the Corporation has \$62 (2013 - \$NIL) in cash that is pledged as collateral against energy purchases and other obligations under its commodity supply and credit facility agreement with Shell Energy North America (Canada) Inc. and Shell Energy North America (US), L.P. (collectively "Shell Energy").

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

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- v. The Corporation finances the cost of rental equipment. A portion of the proceeds from each draw is held as security ("finance reserve") against the loan described in note 16. The finance reserve becomes available to the Corporation as the loan is repaid. As at December 31, 2014, the finance reserve balance was \$832 (2013 - \$NIL).
- vi. The Corporation has cash of \$118 (2013 - \$NIL) held by a service provider, pending distribution to vendors.

### 8. Accounts and other receivables

Accounts and other receivables are set out in the following table:

As at December 31	2014	2013
Trade receivables	\$ 984	\$ 16
Unbilled receivables	1,357	230
Refundable taxes	52	175
Other receivables	15	16
Total	\$ 2,408	\$ 437

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### 9. Property and equipment

As at December 31, 2014

	Rental Equipment	Computer Hardware	Office Furniture and Equipment	Leasehold Improvement	Total Property and Equipment
<b>Cost</b>					
Balance at December 31, 2013	\$ -	\$ 79	\$ 104	\$ -	\$ 183
Acquisition (note 12(a))	11,249	6	30	-	11,285
Additions	3,025	22	82	397	3,526
Disposal	(793)	(6)	(44)	-	(843)
<b>Balance at December 31, 2014</b>	<b>13,481</b>	<b>101</b>	<b>172</b>	<b>397</b>	<b>14,151</b>
<b>Accumulated depreciation</b>					
Balance at December 31, 2013	\$ -	\$ 22	\$ 14	\$ -	\$ 36
Depreciation	639	50	39	30	758
Disposal	(62)	-	(14)	-	(76)
<b>Balance at December 31, 2014</b>	<b>577</b>	<b>72</b>	<b>39</b>	<b>30</b>	<b>718</b>
<b>Net book value</b>					
<b>As at December 31, 2014</b>	<b>\$ 12,904</b>	<b>\$ 29</b>	<b>\$ 133</b>	<b>\$ 367</b>	<b>\$ 13,433</b>

As at December 31, 2013

	Rental Equipment	Computer Hardware	Office Furniture and Equipment	Leasehold Improvement	Total Property and Equipment
<b>Cost</b>					
Balance at September 1, 2012	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisition (note 11(b))	-	62	104	-	166
Additions	-	17	-	-	17
<b>Balance at December 31, 2013</b>	<b>\$ -</b>	<b>\$ 79</b>	<b>\$ 104</b>	<b>\$ -</b>	<b>\$ 183</b>
<b>Accumulated depreciation</b>					
Balance at September 1, 2012	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	-	22	14	-	36
<b>Balance at December 31, 2013</b>	<b>\$ -</b>	<b>\$ 22</b>	<b>\$ 14</b>	<b>\$ -</b>	<b>\$ 36</b>
<b>Net book value</b>					
<b>As at December 31, 2013</b>	<b>\$ -</b>	<b>\$ 57</b>	<b>\$ 90</b>	<b>\$ -</b>	<b>\$ 147</b>

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### 10. Intangible assets

#### As at December 31, 2014

	Customer Contracts	Computer Software	Total Intangible Assets
<b>Cost</b>			
Balance at December 31, 2013	\$ 919	\$ 21	\$ 940
Acquisition (note 12(a))	4,482	-	4,482
Additions <sup>1</sup>	1,726	115	1,841
<b>Balance at December 31, 2014</b>	<b>\$ 7,127</b>	<b>\$ 136</b>	<b>\$ 7,263</b>
<b>Accumulated amortization</b>			
Balance at December 31, 2013	\$ 105	\$ 3	\$ 108
Amortization	481	23	504
<b>Balance at December 31, 2014</b>	<b>\$ 586</b>	<b>\$ 26</b>	<b>\$ 612</b>
<b>Net book value</b>			
<b>As at December 31, 2014</b>	<b>\$ 6,541</b>	<b>\$ 110</b>	<b>\$ 6,651</b>

#### As at December 31, 2013

	Customer Contracts	Computer Software	Total Intangible Assets
<b>Cost</b>			
Balance at September 1, 2012	\$ -	\$ -	\$ -
Acquisition (note 12(b))	919	5	924
Additions	-	16	16
<b>Balance at December 31, 2013</b>	<b>\$ 919</b>	<b>\$ 21</b>	<b>\$ 940</b>
<b>Accumulated amortization</b>			
Balance at September 1, 2012	\$ -	\$ -	\$ -
Amortization	105	3	108
<b>Balance at December 31, 2013</b>	<b>\$ 105</b>	<b>\$ 3</b>	<b>\$ 108</b>
<b>Net book value</b>			
<b>As at December 31, 2013</b>	<b>\$ 814</b>	<b>\$ 18</b>	<b>\$ 832</b>

<sup>1</sup> On November 18, 2014, the Corporation acquired customer contracts from 2289274 Ontario Limited, which operates as AVACOS Clean Energy ("AVACOS") for share consideration of 10,966,000 multiple voting shares and 15,425,262 subordinate voting shares, valued at \$1,726. AVACOS is a Toronto, Ontario-based provider of energy generation and energy efficiency products and services including LED lighting retrofits, commercial solar photovoltaic power generation system design and installation, and building envelope upgrades. The customer contracts are being amortized over a period of 7.5 years

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### 11. Goodwill

As at December 31, 2014

	<b>Goodwill</b>
<b>Cost</b>	
Balance at September 30, 2012	\$ -
Acquisition of Sunwave Gas & Power Inc (note 12(b))	548
<b>Balance at December 31, 2013</b>	<b>\$ 548</b>
Acquisition of The Home Comfort Group Inc (note 12(a))	1,607
<b>Balance at December 31, 2014</b>	<b>\$ 2,155</b>

### 12. Acquisitions

#### (a) The Home Comfort Group Inc.

On April 21, 2014, the Corporation acquired 100% of the issued and outstanding shares of The Home Comfort Group Inc. ("HCG") for cash consideration of \$3,088. HCG operates in the residential heating, ventilation, & air conditioning ("HVAC") rentals, sales and installation business and provides heating and air conditioning equipment, tankless and conventional hot water systems and other in-home and commercial appliances, products and services. Based in Toronto, Ontario, HCG has operations in Ontario and Alberta. The acquisition is part of the Corporation's strategy to expand into additional energy services and products.

The acquisition of HCG was accounted for using the purchase method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Corporation effective April 21, 2014 and has contributed incremental revenue of \$2,325 and net loss of \$1,428 for the year ended December 31, 2014. Management estimates that if the acquisition of HCG had taken place at the beginning of the fiscal period, the consolidated revenue would have been \$10,354 and the consolidated net loss would have been \$11,345. Transaction costs of \$96 related to the acquisition of HCG have been expensed and are included in general and administrative expenses in the consolidated statement of loss.

The Corporation allocated the purchase price to the net identified assets and liabilities acquired based on their fair values at the time of the acquisition as follows:

<b>Purchase price</b>	
Cash consideration	<b>\$ 3,088</b>
<b>Fair value recognized on acquisition</b>	
Current assets	1,482
Property and equipment	11,285
Current liabilities	(1,086)
Long-term debt	(14,682)
Customer contracts	4,482
Goodwill	1,607
	<b>\$ 3,088</b>

# ONEnergy Inc.

## Notes to the consolidated financial statements

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Goodwill comprised the value of HCG's current infrastructure while intangible asset comprised the value of HCG's customer contracts. The customer contracts are being amortized over a period of 15 years. None of the goodwill recognized is expected to be deductible for tax purposes.

The acquired assets, including tangible assets and goodwill, form the Corporation's Home Comfort CGU.

### (b) Acquisition of Sunwave Gas & Power Inc.

On July 9, 2013 the Corporation acquired 100% of the outstanding share capital of Sunwave Gas & Power Inc. located in Toronto, Ontario, for aggregate consideration of \$1,000. Sunwave operates as a retailer of natural gas and electricity to residential and commercial customers under short or long-term fixed-price, price-protected or variable-priced contracts. The consideration for the acquisition was satisfied through the issuance of 3,382,974 multiple voting shares and 3,759,883 subordinate voting shares in the capital of ONEnergy, each valued at \$0.14 per share. This acquisition was the result of the Corporation pursuing potential investment opportunities to utilize the Corporation's cash and tax attributes to maximize shareholder value.

The acquisition of Sunwave was accounted for using the purchase method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Corporation effective July 9, 2013 and has contributed incremental revenue of \$604 and net loss of \$1,881 for the period ended December 31, 2013. Management estimates that if the acquisition of Sunwave had taken place at the beginning of the fiscal period, the consolidated revenue would have been \$1,144 and the consolidated net loss would have been \$8,000. Transaction costs of \$676 related to the change of business and the acquisition of Sunwave have been expensed and are included in general and administrative expenses in the consolidated statement of loss.

The Corporation allocated the purchase price to the net identified assets and liabilities acquired based on their fair values at the time of the acquisition as follows:

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<b>Purchase price</b>	
ONEnergy multiple voting shares and subordinate voting shares	<u>\$ 1,000</u>
<b>Fair value recognized on acquisition</b>	
Current assets	205
Property and equipment	166
Computer software	5
Due from related party	4
Current liabilities	(766)
Obligation under finance lease	(81)
Customer contracts	919
Goodwill	548
	<u>\$ 1,000</u>

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Goodwill comprised the value of Sunwave's current infrastructure while intangible asset comprised the value of Sunwave's customer contracts. None of the goodwill recognized is expected to be deductible for tax purposes.

The acquired assets, including intangible assets and goodwill, form the Company's Gas & Power CGU.

The purchase price allocation has been finalized.

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### 13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are set out in the following table:

As at December 31	2014	2013
Accounts payable	\$ 690	\$ 593
Accrued liabilities	2,255	498
Accrued restructuring liabilities <sup>(1)</sup>	189	189
Total	\$ 3,134	\$ 1,280

<sup>(1)</sup> Accrued restructuring liabilities – 2009 restructuring

During fiscal 2009, the Corporation sold its spectrum and broadcast license, initiated a Plan of Arrangement under the *Canada Business Corporations Act* (Section 192) and, up to November 30, 2010, expensed all associated costs to restructuring charges. Additional charges may be incurred as the Corporation continues in its attempt to recover advances made to various law firms (note 21).

### 14. Credit facility

On November 20, 2013, Gas & Power entered into agreements with Shell Energy North America (Canada) Inc. and Shell Energy North America (US), L.P. (collectively "Shell Energy") under which Shell Energy will supply energy, credit support, and environmental commodities to Gas & Power in multiple North American natural gas and power retail markets.

The commodity supply agreements allow for Shell Energy to provide Gas & Power with wholesale electricity, natural gas, carbon offsets, and renewable energy credits in Canada and five US states, namely Connecticut, New York, Pennsylvania, Illinois and Massachusetts. The agreements can be further expanded to cover additional states as Gas & Power moves into additional deregulated markets for natural gas and electricity.

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 and, 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 December 31, 2014, LIBOR was 0.26% (2013 – 0.24%). 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. Interest is repayable in the month following the month that advances were made. Principal on the revolving credit facility is repayable in the month following the month that advances were made. Principal on the collateral credit facility is repayable by November 20, 2018. No further advances can be made after November 20, 2018.

The agreements are secured by a general security agreement and a pledge of Gas & Power's assets and subject to certain covenant restrictions.

As at December 31, 2014, Gas & Power had \$464 (US\$400) outstanding under the U.S.collateral credit facility and \$157 (US\$136) outstanding under the U.S.revolving credit facility. In 2014, no advances were drawn on the Canadian credit facilities. No advances were drawn during 2013 and no amount was outstanding at December 31, 2013. Under the U.S. credit facilities, amounts are available in US\$5,000 tranches depending on monthly delivered volumes. As at December 31, 2014, a total of US\$ 5,000 (2013 –



# ONEnergy Inc.

## Notes to the consolidated financial statements

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US\$5,000) was available to be drawn on these facilities. Under the Canadian credit facilities, a total of \$1,000 (2013 - \$1,000) was available to be drawn. As at December 31, 2014, Gas & Power was non-compliant with a single covenant in the Shell credit agreements. An additional interest rate penalty of 0.5% has been applied until Gas & Power becomes compliant with this covenant. Interest is provided at 8.0% per annum on the collateral credit facility plus an interest penalty of 0.5%; and at 7.0% per annum on the revolving credit facility plus an interest penalty of 0.5%.

As partial consideration for entering into the agreements above, Gas & Power has agreed to provide Shell Energy with a "participation" payment based upon the performance of Gas & Power during the term of the agreements. A participation payment is payable to Shell Energy upon Gas & Power reaching certain milestones such as customer count thresholds; a disposition of Gas & Power's assets or a material public share issuance by Gas & Power or the Corporation. The payment is based on a certain percentage of Gas & Power's equity value at the time of the triggering event. The payment, if and when triggered, is a one-time event. For clarity, the calculation of the payment is based on Gas & Power's equity value at the time of the triggering event, and not upon the equity value of the Corporation. Given that various events could result in the achievement of triggering milestones, and that the milestones that would trigger a payment may occur at any point over the life of the agreements, as at December 31 management does not believe it is reasonably possible to estimate either the timing or the amount of such participation payment. No amount for a participation payment to Shell Energy has been accrued as at December 31, 2014.

### 15. Long-term debt

As at December 31	2014	2013
Equipment financing		
Principal	\$ 16,343	\$ -
Accrued Interest payable	37	-
Other long-term debt	81	-
	<b>16,461</b>	-
Less: current portion	1,877	-
	<b>\$ 14,584</b>	\$ -

#### (a) Equipment financing

The Corporation finances the cost of rental equipment over a period of seven to ten years. The loans bear interest at rates of 8.9% per annum. Principal and interest are repayable on a monthly basis. The lender retains a portion of the financing proceeds as security ("financing reserve"). This financing reserve is currently at \$832 (2013 - \$NIL) and is reported as restricted cash. The financing reserve becomes available to the Corporation as the debt is repaid. The loan is secured by the rental contracts and the rental equipment that is financed.

#### (b) Other long-term debt

HCG's former controlling shareholder made advances totaling \$100 to HCG. The loan matures in April 2017, is non-interest bearing, unsecured and principal is repayable monthly.

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

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### 16. Share capital

#### (a) Authorized

Preference Shares – non-voting, issuable in series. The number of shares under each series, designation, privileges, restrictions and conditions attaching thereto to be determined by the Board of Directors prior to issue. No such shares are issued and outstanding.

Unlimited Multiple Voting Shares - voting, entitled to 150 votes per share (except at separate meetings of holders of shares of any other class), subject to the rights of holders of any preference shares, entitled to dividends, and to the receipt of any distribution of property or assets upon the liquidation, winding-up or other dissolution of the Corporation.

Unlimited Subordinate Voting Shares - voting, entitled to one vote per share (except at separate meetings of holders of shares of any other class), subject to the rights of holders of any preference shares, entitled to dividends and to the receipt of any distribution of property or assets upon the liquidation, winding-up or other dissolution of the Corporation.

Unlimited Class A Non-Voting Shares – non-voting, entitled to dividends, subject to the rights holders of any preference shares, and to the receipt of any distribution of property or assets upon the liquidation, winding-up or other dissolution of the Corporation. No such shares are issued and outstanding.

#### (b) Issued and outstanding

Shares (in thousands)	Multiple Voting Shares		Subordinate Voting Shares		Total
Balance, as at August 31, 2012	66,165	\$ 13,191	73,537	\$ 14,308	\$ 27,499
Issued by the Corporation to acquire Sunwave <sup>(1)</sup>	3,383	474	3,760	526	1,000
Issued by the Corporation <sup>(2)</sup>	30,447	4,263	33,839	4,737	9,000
Balance, as at December 31, 2013	99,995	\$ 17,928	111,136	\$ 19,571	\$ 37,499
Issued by the Corporation to acquire assets of AVACOS <sup>(3)</sup>	10,966	877	15,425	849	1,726
<b>Balance, as at December 31, 2014</b>	<b>110,961</b>	<b>\$ 18,805</b>	<b>126,561</b>	<b>\$ 20,420</b>	<b>\$ 39,225</b>

<sup>(1)</sup> See note 12(b)

<sup>(2)</sup> Concurrently with the completion of the acquisition of Sunwave, the Corporation completed a private placement for an aggregate of 30,447 multiple voting shares and 33,839 subordinate voting shares in the capital of ONEnergy, at a price of \$0.14 per share, for aggregate cash subscription proceeds of \$9,000

<sup>(3)</sup> See note 10

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### (c) Stock option plans

On March 25, 2002, the Board of Directors of the Corporation ("Board") approved the 2002 Stock Option Incentive Plan (the "2002 Plan"). The 2002 Plan was subsequently amended in 2004 and 2005. On July 9, 2013, the Board approved the 2013 Stock Option Plan ("2013 Plan") and terminated the 2002 Plan. The objective of the 2013 Plan is to provide directors, officers and employees of, and service providers to, the Corporation with a proprietary interest through the granting of options to purchase Subordinate Voting Shares of the Corporation. These groups are primarily responsible for the management, growth and protection of the business of the Corporation. Under the 2013 Plan, the Board may grant options provided that the total number of shares issued under the 2013 Plan does not exceed 23,752. The total number of shares that may be issued under the 2013 Plan represents 10% of the Corporation's currently issued and outstanding shares. The exercise price of the options is determined by the Board at the time of the grant of an option, but cannot be lower than the market price of the Corporation's shares on the TSX Venture Exchange ("Exchange") on the business day immediately preceding the day on which an option is granted, less any permissible discount under the policies of the Exchange. The options vest over a four- or five-year period and the maximum period during which an option may be exercised is 10 years from the date on which it is granted.

During 2014, the Corporation granted 2,650 options to purchase subordinate voting shares in the capital of the Corporation to employees and consultants. These options vest over a four year period, are exercisable at prices from \$0.055 to \$0.14 and expire between April 2024 and November 2024.

The following table reflects the options outstanding under the 2013 Plan:

	Weighted average remaining contractual life	Number of options (in thousands)	Weighted average exercise price
<b>Outstanding as at July 8, 2013</b>		-	\$ -
Granted		18,087	0.14
Forfeited		(90)	0.14
<b>Outstanding as at December 31, 2013</b>	<b>9.5</b>	<b>17,997</b>	<b>\$ 0.14</b>
Granted		2,650	0.07
Forfeited		(2,214)	0.13
<b>Outstanding as at December 31, 2014</b>	<b>8.81</b>	<b>18,433</b>	<b>\$ 0.13</b>
Exercisable as at December 31, 2013	9.5	1,434	\$ 0.14
<b>Exercisable as at December 31, 2014</b>	<b>8.81</b>	<b>5,485</b>	<b>\$ 0.135</b>

The Corporation uses the Black-Scholes option pricing model to estimate fair value of options granted. The fair value of options issued during the year was determined using the following weighted average assumptions: risk-free interest rate of 1.77%-2.02% (2013 – 2.28%); expected volatility of 80% (2013 – 80%); expected life of ten years (2013 – ten years) and an expected dividend yield of NIL (2013 – NIL). The weighted average grant date fair value of options was \$0.074 (2013 - \$0.078).

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### (d) Loss per share

	For the twelve months ended December 31, 2014	For the sixteen months ended December 31, 2013
Loss for the period	\$ 10,012	\$ 6,342
Weighted average number of shares outstanding (in thousands)	214,239	165,516
Basic and diluted loss per share	\$ (0.05)	\$ (0.04)

Basic loss per share is calculated by dividing the total loss by the weighted average number of shares outstanding during the period (Twelve months ended December 31, 2014 and sixteen months ended December 31, 2013). During fiscal 2014, outstanding stock options, of 18,309,410, and DSUs of 260,000, have not been factored into the calculation as it is considered anti-dilutive.

### (e) Deferred share unit plan

During 2014, the Corporation awarded 260,000 DSUs to non-executive directors. These DSUs vest immediately and expire in October 2024.

DSUs are settled at the option of the holder in (i) cash; (ii) subordinate voting shares in the Corporation or (iii) a combination of cash and subordinate voting shares in the Corporation.

	Deferred share unit (in thousands)	Weighted average exercise price
Outstanding as at December 31, 2013	-	\$ -
Granted	260	0.05
<b>Outstanding as at December 31, 2014</b>	<b>260</b>	<b>\$ 0.05</b>

During the twelve months ended December 31, 2014 and sixteen months ended December 31, 2013, the Corporation recorded compensation expense of \$13 and \$NIL, respectively to the DSUs granted. As at December 31, 2014, a liability of \$13 (2013 - \$NIL) related to the DSUs granted is included in accrued liabilities (note 13).

## 17. Segment disclosure

For the twelve months ended December 31, 2014, the Corporation reports operations in two reportable segments: Gas & Power and Home Comfort. The Corporation has chosen to organize the entity around differences in products and service. Substantially all of its revenue for the twelve months ended December, 2014 was derived from these two business segments. For the sixteen months ended December 31, 2013, the Corporation operated only in the Gas & Power segment. All of its revenue in fiscal 2013 was derived from this business. The prior year segmented disclosure has been restated to conform to the current year presentation.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statement. The Corporation is not considered to have any key customers.

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### For the year ended December 31, 2014

	Gas & Power	Home Comfort	Corporate and Others	Consolidated
Revenue	\$ 6,937	\$ 2,325	\$ 20	\$ 9,282
Cost of sales	5,621	844	-	6,465
Gross margin	1,316	1,481	20	2,817
Selling	3,411	1,061	672	5,144
General and administrative	1,962	873	2,892	5,727
Operating loss before the undernoted	(4,057)	(453)	(3,544)	(8,054)
Change in fair value of energy derivatives	(1,041)	-	-	(1,041)
Finance income	21	-	137	158
Finance cost	(65)	(1,011)	(5)	(1,081)
Gain on disposal of equipment	(5)	36	-	31
Foreign exchange loss	(25)	-	-	(25)
<b>Loss for the year</b>	<b>\$ (5,172)</b>	<b>\$ (1,428)</b>	<b>\$ (3,412)</b>	<b>\$ (10,012)</b>

### For the sixteen months ended December 31, 2013

	Gas & Power	Home Comfort	Corporate and Others	Consolidated
Revenue	\$ 604	\$ -	\$ -	\$ 604
Cost of sales	378	-	-	378
Gross margin	226	-	-	226
Selling	1,305	-	214	1,519
General and administrative	1,461	-	3,912	5,373
Operating loss before the undernoted	(2,540)	-	(4,126)	(6,666)
Change in fair value of energy derivatives	30	-	-	30
Finance income	-	-	294	294
<b>Loss for the period</b>	<b>\$ (2,510)</b>	<b>\$ -</b>	<b>\$ (3,832)</b>	<b>\$ (6,342)</b>

### Geographic information

Revenue from external customers

	For the twelve months ended December 31, 2014	For the sixteen months ended December 31, 2013
Canada	\$ 5,646	\$ 604
United states	3,636	-
	<b>\$ 9,282</b>	<b>\$ 604</b>

### Non-current assets

Non-current assets consist of property and equipment, intangible assets and goodwill. All non-current assets, excluding a portion of goodwill, are held in Canada.

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### 18. Expenses

	<b>For the twelve months ended December 31, 2014</b>	For the sixteen months ended December 31, 2013
Cost of gas and electricity	\$ 5,621	\$ 378
Cost of equipment sales	211	-
Selling cost	3,541	965
Personnel	3,938	1,828
Professional fees	810	1,589
Litigation costs <sup>(1)</sup>	646	1,832
Occupancy <sup>(2)</sup>	493	159
Office and other expenses	814	426
Depreciation and amortization	1,262	145
Management services income	-	(52)
	<b>\$ 17,336</b>	<b>\$ 7,270</b>

<sup>(1)</sup> Note 22(b)

<sup>(2)</sup> Note 20(a)

<b>Reported as</b>	<b>For the twelve months ended December 31, 2014</b>	For the sixteen months ended December 31, 2013
Cost of sales	\$ 6,465	\$ 378
Selling	5,144	1,519
General and administrative	5,727	5,373
	<b>\$ 17,336</b>	<b>\$ 7,270</b>

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### 19. Supplemental cash flow information

(a) Change in non-cash operating assets and liabilities consist of the following:

	For the twelve months ended December 31, 2014	For the sixteen months ended December 31, 2013
Accounts receivable and other receivables	\$ (1,385)	\$ 10
Inventory	69	-
Natural gas delivered in excess of consumption	(40)	(146)
Prepaid expenses and deposits	27	(277)
Due from related party	-	(4)
Accounts payable and accrued liabilities	768	(359)
Payments received in advance of consumption	76	149
	\$ (485)	\$ (627)

The consolidated statements of cash flows exclude the following non-cash transactions:

	For the twelve months ended December 31, 2014	For the sixteen months ended December 31, 2013
Shares issued as consideration in Sunwave acquisition (note 12(b))	\$ -	\$ 1,000
Shares issued as consideration in AVACOS asset acquisition (note 10)	1,726	-
	\$ 1,726	\$ 1,000

### 20. Related party transactions

#### (a) Premises sublease

From January to July 2014, the Corporation subleased its premises from OZZ Clean Energy Inc. ("OCE"), who is Sunwave's former controlling shareholder and is a current shareholder of the Corporation. The sublease was for the period from July 2013 to November 2017. For the year ended December 31, 2014, \$167 was charged to the Corporation (2013 - \$130). No amounts are currently outstanding. On January 20, 2014, the sublease and underlying head lease was amended, at no penalty, to early terminate on July 31, 2014, resulting in a termination of the Corporation's obligations under the sublease as of that date. The Corporation relocated its head office to new premises in July 2014.

#### (b) Electricity revenue

For the year ended December 31, 2014, the Corporation supplied electricity totaling \$30 (2013 - \$14) 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 December 31, 2014 was \$NIL (2013 - \$NIL).

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### (c) Management services income

The Corporation provides certain commodity management and general administrative services, under a management services agreement, to Canadian RiteRate Energy Corporation ("RiteRate"), a company that is controlled by the controlling shareholder of OCE. For the year ending December 31, 2014, the Corporation charged RiteRate \$NIL (2013- \$52) for these services. RiteRate paid for certain consultant fees on behalf of the Corporation during the year ending December 31, 2013, for which the Corporation reimbursed RiteRate. As at December 31, 2014, the Corporation has \$NIL is outstanding from RiteRate.

### (d) Compensation of key management personnel

The Corporation's key management personnel are comprised of the Board of Directors and officers of the Corporation.

	For the twelve months ended December 31, 2014	For the sixteen months ended December 31, 2013
Salaries, fees, and short-term employee benefits	\$ 1,338	\$ 815
Stock-based compensation	276	117
	\$ 1,614	\$ 932

## 21. Income taxes

The provision for income taxes differs from the results that would be obtained by applying consolidated Canadian Federal, Provincial (Ontario), U.S. Federal and State statutory income tax rates to profits or loss before income taxes.

This difference results from the following:

	2014	2013
Loss before income taxes	\$ (10,012)	\$ (6,342)
Statutory income tax rate	26.5%	26.5%
Income tax recovery at combined federal and provincial rates	\$ (2,653)	\$ (1,681)
Increase in income tax resulting from:		
Non-deductible expenses	\$ 305	\$ 107
Change in unrecognized deferred tax assets	2,133	410
Variance between Canadian & U.S. tax rate applicable to U.S earnings and other	215	-
Change in enacted tax rates	-	1,164
Income tax expense	\$ -	\$ -



# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

Deferred tax assets have not been recognized for the following:

	2014	2013
Non-capital tax loss carry-forwards	\$ 46,486	\$ 45,728
Other	1,786	411
	\$ 48,272	\$ 46,139

Deferred taxes, in respect of the Corporation's loss carry-forwards, are recognized to the extent that it is probable that they can be utilized. 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:

Year	Amount
2015	\$ 55
2026	403
2028	8,987
2029	115,583
2030	5,748
2031	20,550
2032	5,355
2033	7,736
2034	9,740
	\$ 174,157

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### 22. Commitments and contingencies

#### (a) Commitments

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

	Less than one year	Between one and five years	More than five years	Total
Non-cancellable lease	\$ 139	\$ 688	\$ 144	\$ 971
Non-cancellable sublease	(87)	(457)	-	(544)
	\$ 52	\$ 231	\$ 144	\$ 427

#### (b) Contingencies

##### (i) Statement of Claim against certain former directors and officers of Look:

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 certain former officers of Look in connection with the payment of approximately \$20 million of "restructuring awards" accrued in fiscal 2009 and paid during the first quarter of fiscal 2010 (the "Sale Awards"), of which approximately \$15.7 million was paid to the directors and senior officers named in the Claim (or their personal holding companies, as applicable) from the net proceeds of approximately \$64 million realized by the Corporation on the sale of its spectrum license in 2009. The former officers and directors named in the Claim collectively resigned effective July 21, 2010.

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 completed.

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 was to have taken place on September 4, 2014. As the judge was not available, the pre-trial was rescheduled for October 1, 2014. At the pre-trial, the court set a schedule for the parties to complete preparation for trial by the end of December, 2014.

On February 2, 2015 the court scheduled the action for a 6 week trial beginning November 9, 2015.

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 the Corporation's action against its former officers and directors. The mediation did not result in a settlement though discussions continue. As a result, the Corporation and McMillan are completing documentary production and proceeding with examinations for discovery.

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

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- (ii) In the normal course of its operations, the Corporation may be subject to other litigation and claims.
- (iii) 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.
- (iv) Gas & Power is subject to a participation interest payment to Shell Energy (note 13) upon certain triggering events occurring.

### 23. Management of capital

The Corporation's overall strategy with respect to management of capital is to maintain financial flexibility to support profitable growth and expansion into new markets. ONEnergy considers capital to be primarily cash and cash equivalents, credit facility, long-term debt and shareholders' equity.

The Corporation invests its capital in high-return bank accounts to obtain adequate returns; targeted asset acquisitions and new infrastructure to support expansion into new markets. During 2014, the Corporation used a combination of cash, credit facility financing, long-term debt financing, issuance of shares and grants of stock compensation to meet its investment strategy. 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.

### 24. Financial instruments and risk management

The Board of Directors has overall responsibility for the determination of the Corporation's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies by the Corporation's management. Periodically throughout the year, the Board of Directors receive reports from the Corporation's management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Corporation's competitiveness and flexibility. With the acquisition of Sunwave, the Corporation's activities expose it to a variety of market risks, principally from fluctuating commodity prices. The Corporation has established risk management policies and procedures designed to reduce the potentially adverse effects of price volatility on operating results and distributions. The Corporation maintains commodity risk management strategies that use derivative instruments, within approved risk tolerances to minimize significant, unanticipated fluctuations in earnings caused by market price volatility. Further details regarding these policies are set out below.

#### Risk management

The main risks arising from the Corporation's financial instruments are commodity pricing and mark-to-market risk, credit risk, liquidity risk, interest rate risk and currency risk. These risks arise from exposure that occur in the normal course of business and are managed on a consolidated basis.

#### Commodity pricing and mark-to-market risk

The Corporation purchases both physical energy commodities, such as natural gas, and financially settled energy instruments such as electricity swap contracts. These commodity products are subject to market fluctuations based upon market supply and demand for such products. The Corporation experiences fluctuations in the unrealized valuation of its contracts to purchase energy commodities. The Corporation is

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

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also subject to cancellations by customers that may leave the Corporation with an excess of commodity supply, which may have to be sold into the open market at an indeterminate price. Management actively monitors these positions on a daily basis in accordance with its Risk Management Policy. This policy sets out a variety of limits, most importantly thresholds for open positions in the electricity and natural gas portfolios. The Corporation's exposure to market risk is affected by a number of factors, including accuracy of estimation of customer commodity requirements, commodity prices, volatility and liquidity of markets. The Corporation enters into derivative instruments in order to manage exposures to changes in commodity prices. The inability or failure of the Corporation to manage and monitor the above market risks could have a material adverse effect on the operations and cash flow of the Corporation.

The fair values of the Corporation's financial instruments are significantly influenced by the variability of forward spot prices for electricity and natural gas. Period to period changes in forward spot prices could cause significant changes in the mark to market valuation ("MTM valuation") of these contracts. If forward spot prices increased by 10%, loss for the period ended December 31, 2014 would have been (\$9,538), whereas if forward spot prices decreased by 10%, loss for the period ended December 31, 2014 would have been (\$10,421), primarily as a result of the change in fair value of the Corporation's derivative instruments.

### 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 billing & 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. Management believes that the risk of the LDCs failing to deliver payment to the Corporation is minimal. For HCG, in markets where LDCs do not provide billing & collection services for a fee, the customer is billed directly by HCG. 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:

As at December 31,	2014	2013
<u>Accounts and other receivables</u>		
Current	\$ 2,180	\$ 292
31- 90 days	81	83
Over 91 days	147	62
	<u>\$ 2,408</u>	<u>\$ 437</u>

The Corporation's maximum assessed exposure to credit risk, as at December 31, 2014 and December 31, 2013, is the carrying value of its accounts and other receivables.

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

### 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.

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, derivative instruments, credit facility, financial leases, long-term debt and commitments. As at December 31, 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	\$ 3,134	\$ -	\$ -	\$ 3,134
Payments received in advance of consumption	267	-	-	267
Credit facility	621	-	-	621
Energy derivatives	3,608	2,305	-	5,913
Commitments	139	688	144	971
Finance lease obligation	34	8	-	42
Long-term debt	2,929	11,719	8,577	23,225
	\$ 10,732	\$ 14,720	\$ 8,721	\$ 34,173

### Derivative financial instruments

The Corporation has fixed-for-floating electricity swaps and gas forward contracts that are considered financial instruments. The fair value of financial instruments is the estimated amount that the Corporation would pay or receive to dispose of these supply contracts in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Corporation has estimated the value of these contracts using a discounted cash flow method which employs market forward curves. The market forward curves are sourced directly from third parties.

At December 31, 2014, the Corporation had the following financial instruments classified as fair value through profit and loss.

#### Fixed-for-floating electricity swaps - Canada

Notional volumes (on-peak/off-peak)	27,368 MWh / 23,652 MWh
Total remaining notional volume	51,020 MWh
Maturity dates	February 28, 2015 to December 31, 2018
Fixed price per MWh (in dollars)	\$25.04 to \$48.34
Fair value favourable/ (unfavourable)	(35)
Notional value	\$ 1,712

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

Fixed-for-floating electricity swaps – U.S.	
Notional volumes (on-peak/off-peak)	11,760 MWh/11,711 MWh
Total remaining notional volume	23,471 MWh
Maturity dates	February 28, 2015 to January 31, 2016
Fixed price per MWh (in U.S.dollars)	\$32.40 to \$64.79
Fair value favourable/ (unfavourable)	\$ (602)
Notional value	\$ 1,166

Natural gas forward contracts - Canada	
Total remaining notional volume	537,256 GJ
Maturity dates	March 31, 2015 to February 28, 2019
Fixed price per GJ (in dollars)	\$3.42 to \$4.90
Fair value favourable/ (unfavourable)	\$ (276)
Notional value	\$ 1,783

Change in fair value of derivative instruments	For the twelve months	For the sixteen months
	ended December 31, 2014	ended December 31, 2013
Fixed-for-floating electricity swaps	\$ (632)	\$ (103)
Natural gas forward contracts	(409)	133
	\$ (1,041)	\$ 30

### Fair Values

IFRS 7 Financial Instruments: Disclosures requires disclosure of a three-level hierarchy ("FV hierarchy") that reflects the significance of the inputs used in making fair value measurements and disclosures. 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 following tables illustrates the classification of financial assets/ (liabilities) in the FV hierarchy.

As at December 31, 2014	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Cash and cash equivalents	\$ 7,781	\$ -	\$ -	\$ 7,781
Restricted cash	2,312	-	-	2,312
Accounts and other receivables	-	2,408	-	2,408
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	-	(3,134)	-	(3,134)
Payments received in advance of consumption	-	(267)	-	(267)
Obligation under finance lease	-	(40)	-	(40)
Credit facility	-	(621)	-	(621)
Energy derivatives	-	-	(1,009)	(1,009)
Long-term debt	-	(16,461)	-	(16,461)
	\$ 10,093	\$ (18,115)	\$ (1,009)	\$ (9,031)

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

As at December 31, 2013	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Cash and cash equivalents	\$ 20,555	\$ -	\$ -	\$ 20,555
Restricted cash	266	-	-	266
Accounts and other receivables	-	437	-	437
Other financial assets	-	-	133	133
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	-	(1,280)	-	(1,280)
Payments received in advance of consumption	-	(191)	-	(191)
Obligation under finance lease	-	(70)	-	(70)
Energy derivatives	-	-	(103)	(103)
	\$ 20,821	\$ (1,104)	\$ 30	\$ 19,747

The following table illustrates the changes in net fair value of financial assets (liabilities) classified as Level 3 in the FV hierarchy for the periods ended:

As at December 31, 2014	For the twelve months ended December 31, 2014	For the sixteen months ended December 31, 2013
Balance, beginning of the year	\$ 30	\$ -
Purchases	(1,039)	30
Sales	-	-
Balance, end of the year	\$ (1,009)	\$ 30

### Classification of financial assets and liabilities

The following table represents the carrying amounts and fair values of financial assets and financial liabilities measured at amortized cost.

As at December 31, 2014	Carrying amount and Fair value
Cash and cash equivalents	\$ 7,781
Restricted cash	2,312
Accounts and other receivables	2,408
Accounts payable and accrued liabilities	(3,134)
Payments received in advance of consumption	(267)
Obligation under finance lease	(40)
Credit facility	(621)
Energy derivatives	(1,009)
Long-term debt	(16,461)
<b>As at December 31, 2013</b>	<b>Carrying amount and Fair value</b>
Cash and cash equivalents	\$ 20,555
Restricted cash	266
Accounts and other receivables	437
Energy derivatives	30
Accounts payable and accrued liabilities	(1,280)
Payments received in advance of consumption	(191)
Obligation under finance lease	(70)
Credit facility	(621)

As at December 31, 2014 and December 31, 2013, the carrying value of cash and cash equivalents, accounts and other receivables, other financial assets, accounts payable and accrued liabilities, payments in advance

# ONEnergy Inc.

## Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013

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of consumption and credit facility approximates their fair value due to their short-term nature. The carrying value of obligation under finance lease and the long-term debt approximates its fair value as its interest payable on outstanding amounts approximates the Corporation's current cost of debt.

### Interest rate risk

The Corporation is exposed to interest rate fluctuations associated with its floating rate credit facility. 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 US. A portion of ONEnergy's income is generated in U.S. dollars and will be subject to currency fluctuations. Due to having an increasing percentage of its 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. With respect to translation exposure, if the Canadian dollar had been 5% stronger or weaker against the U.S. dollar for the twelve months ended December 31, 2014, assuming that all the other variables had remained constant, profit for the period would have been \$113 lower/higher and other comprehensive income would have been \$113 higher/lower.