

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

## **ONEnergy Inc.**

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

March 31, 2015

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## **ONEnergy Inc.**

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

(In thousands, except per share amounts)

For the twelve months ending December 31, 2014 ("fiscal 2014") and sixteen months ending December 31, 2013 ("fiscal 2013")

**March 31, 2015**

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

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

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

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

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forward-looking statements and information, see the sections entitled "4. Overview and business strategy" and "16. Operating risks and uncertainties" below.

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

*All financial information in this MD&A is expressed in thousands of Canadian dollars, unless otherwise noted. All references to the "Corporation" or "ONEnergy" refer to ONEnergy Inc., including its predecessor and successor companies, and its consolidated subsidiaries, unless the context requires otherwise. All information is as at March 31, 2015, unless otherwise indicated. Certain totals, subtotals and percentages may not reconcile due to rounding.*

## **2. INTRODUCTION**

The information provided in this MD&A is intended to help the reader understand ONEnergy's operations, financial performance and present and future business environment. This MD&A is supplementary to, and should be read in conjunction with, the audited consolidated financial statements for the twelve months ended December 31, 2014 and for the sixteen months ended December 31, 2013. The following MD&A, dated March 31, 2015, has been prepared with all information available up to and including March 31, 2015. ONEnergy's audited annual consolidated financial statements and other disclosure documents are available on [www.sedar.com](http://www.sedar.com) and on ONEnergy's website at [www.onenergyinc.com](http://www.onenergyinc.com).

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

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### **3. THE CORPORATION**

ONEnergy is a corporation established under the laws of Canada. The names “ONEnergy” and the “Corporation” all refer to the same legal entity, and the use of each is dependent upon the context of the topic covered in this MD&A.

The Corporation is comprised of ONEnergy, and its wholly-owned subsidiaries including

- (i) 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
- (ii) Sunwave Home Comfort Inc. (formerly The Home Comfort Group Inc.) and Sunwave Home Comfort USA Inc. (collectively referred to as “Home Comfort”)

On April 21, 2014, the Corporation acquired all the issued and outstanding shares of The Home Comfort Group Inc. (“HCG”) for cash consideration of \$3,088. HCG is 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 customers in Ontario and Alberta. On September 23, 2014, HCG changed its name to Sunwave Home Comfort Inc.

On November 18, 2014, the Corporation acquired customer contracts (the “Assets”) from 2289274 Ontario Limited, which operated as AVACOS Clean Energy (“AVACOS”), for \$1,726. AVACOS was 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 consideration for the acquisition was satisfied through the issuance of 10,966 multiple voting shares valued at \$0.08 per share and 15,425 subordinate voting shares valued at \$0.055 per share in the capital of ONEnergy.

In this MD&A, the terms “we”, “us”, “our”, and “Corporation” refer to ONEnergy, Gas & Power and Home Comfort.

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

#### **a) Business**

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

ONEnergy, via its various Sunwave-branded operations, focuses on continually improving and expanding the value proposition offered to customers by offering complementary services and products as part of their relationship with ONEnergy. Sunwave specializes in helping customers use energy more wisely by minimizing their energy consumption and then cost-effectively managing the balance. The acquisition of Home Comfort in April 2014, was part of this strategy and provides cross-selling and geographic expansion

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opportunities for the Corporation. Similarly, the launch, in the second quarter of 2014 commercial energy efficiency services under the Sunwave Energy Efficiency™ brand was intended to increase the scope of value-added services that the Corporation offers to its business customers. ONEnergy intends to provide its customers with a steadily expanding range of value-added services designed to enhance the customer experience, thereby increasing the margin derived from each customer while improving overall customer satisfaction and retention.

## **b) Gas & Power**

ONEnergy's energy retailing business currently involves the sale of electricity to residential and commercial customers in Connecticut, Pennsylvania, Massachusetts and Ontario, and natural gas in Ontario only, under long-term fixed-price or variable-priced contracts under the brand name Sunwave Gas & Power™. In September 2014, for a variety of reasons related to market attractiveness, Gas & Power ceased marketing electricity and natural gas to residential customers in Ontario. Gas & Power's strategy is to focus on markets that provide a strong value proposition for its customers while providing the Corporation with attractive margins and return on capital.

By fixing the price of natural gas or electricity under its fixed-price program for a period of up to five years, ONEnergy's customers reduce or eliminate their exposure to volatility in the price of electricity and natural gas. Gas & Power's variable rate products allow customers to maintain competitive rates while retaining the ability to lock into a fixed price at their discretion. Gas & Power also provides its customers with the option of purchasing environmentally-friendly "green" energy in addition to conventionally-produced energy. ONEnergy's general risk management policy is to match the forecast consumption requirements of its customers by purchasing offsetting volumes of natural gas or electricity through either physical or financial transactions in the wholesale markets.

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

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

In Ontario, the natural gas volumes delivered from Gas & Power's wholesale suppliers remain constant throughout the year as required by the local natural gas distribution companies. During the winter, gas is consumed at a rate that is greater than delivery and, in the summer, deliveries to local distribution companies ("LDCs") on Gas & Power's behalf exceed customer consumption. These volume variances result in either excess or short supply positions that are accrued in a physical balance account with the applicable gas distribution company. Typically, the local natural gas distribution companies require the balance account to be reconciled within defined tolerance bands on an annual basis. In the case of deliveries exceeding consumption, the excess supply may be sold in the spot market resulting in either a gain or loss compared to the weighted average cost of supply. In the case of customer consumption exceeding deliveries, Gas & Power must purchase additional supply in the spot market, resulting in either a gain or loss compared to the weighted average cost of supply. To the extent that the supply balancing is

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not fully covered through active supply and risk management, Gas & Power's customer gross margin may be reduced or increased depending on market conditions at the time of balancing.

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

The Corporation markets its energy commodity products through various sales channels. Gas & Power markets energy commodity to commercial customers in both the U.S. and Canada through a network of direct sales agents who provide customers with a highly interactive and customized sales process. In U.S. residential markets, Gas & Power markets and sells to both residential and commercial customers via the Company's [www.gosunwave.com](http://www.gosunwave.com) website as well as via state-operated energy shopping websites such as [www.energizeCT.com](http://www.energizeCT.com) in Connecticut and [www.PApowerswitch.com](http://www.PApowerswitch.com) in Pennsylvania. Additionally Gas & Power utilizes both independent telemarketing services and targeted, customized direct mailings to reach potential customers in its chosen U.S. markets.

### **c) Home Comfort**

Home Comfort owns and operates a portfolio of furnaces, air conditioners, boilers and ancillary equipment ("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 sells, installs and maintains HVAC and water heaters directly to residential customers.

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

Historically, Home Comfort marketed its products through a network of independent sales agents in Ontario and Alberta. Beginning in late 2014, Home Comfort began increasingly marketing its products via telemarketing and appointment setting using both its internal call centre capabilities as well as external independent telemarketing firms.

Home Comfort has a number of supplier relationships for all products which it sells or rents, and as such is not dependent upon any single vendor for any product.

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All of Home Comfort's activities was rebranded under Sunwave Home Comfort™ in September 2014.

**d) Energy Efficiency**

During the second quarter of 2014, the Corporation launched a commercial energy efficiency products and services business under the Sunwave Energy Efficiency™ brand, initially as a provider of high efficiency LED lighting retrofits and upgrades to commercial customers in Canada and the northeast United States. This business was launched in partnership with AVACOS. Based on the positive initial results of the partnership with AVACOS, on November 18, 2014, the Corporation acquired the Assets of AVACOS. By acquiring the Assets, the Corporation substantially increased the breadth of energy efficiency products and services it could deliver to customers. Today, in addition to LED lighting retrofits Sunwave Energy Efficiency offers building envelope upgrades, commercial HVAC products and services and commercial solar photovoltaic design and construction.

The Corporation expanded into energy efficiency services during 2014 as it identified significant demand for such services as customers looked to reduce their energy consumption and costs. More specifically, the LED lighting retrofit market was identified as both a high-growth market based on various factors including the phase-out of older lighting technologies, attractive government incentive programs in various provinces and states that encourage the adoption of more advanced lighting products and the need to assist our customers in first reducing their electrical load and then actively managing the remaining load via our Gas & Power business. ONEnergy believes that by taking a more holistic approach to the energy needs of its customers, both commercial and residential, will increase the stability and longevity of customer relationships and increase the long-term profitability of the customer to ONEnergy through the delivery of greater overall value to the customer.

Sunwave Energy Efficiency has developed a strong group of suppliers to address virtually every customer need. In its LED retrofit business, the Corporation works directly with multiple lighting manufacturers to cover not only the general white lighting market but also application-specific lighting such as lighting for horticulture, food processing and hazardous locations to name a few. Similarly, Sunwave Energy Efficiency works with multiple vendors for commercial HVAC equipment.

Sunwave Energy Efficiency markets its products and services via employee salespersons who focus on larger enterprise accounts, as well as via a network of independent commission-based salespeople.

**e) Geographic expansion**

The Corporation's primary geographic focus across all of its businesses is on markets in Canada and the northeast United States.

Gas & Power markedly expanded its geographic footprint in the northeast U.S. markets in 2014, entering the Connecticut, Pennsylvania and Massachusetts electricity retailing markets. It also currently holds an electric supplier licence in Ohio and has a pending electric supplier licensing application in New York. It operates in two electric distribution service territories in Connecticut, three electric distribution service territories in Pennsylvania and one in Massachusetts. Gas & Power reaches its customers through an online presence directly through its own website as well as via a link to the respective state-operated energy choice websites ([www.energyCT.com](http://www.energyCT.com) and [www.PApowerswitch.com](http://www.PApowerswitch.com)) as well as through the telemarketing sales channel. In Ontario, Gas & Power serves customers at approximately 68 electric LDCs as well as both major gas utilities.

Beginning in early 2015 the Energy Efficiency business began actively marketing its services in Connecticut, to existing Gas & Power commercial customers as well as to new customer opportunities.

ONEnergy is continually evaluating new markets which have the appropriate growth and profitability profiles, and additional markets may be pursued by one or more of the Sunwave branded businesses in the future.

## 5. SELECTED ANNUAL INFORMATION

	<b>Twelve months ended December 31, 2014</b>	Sixteen months ended December 31, 2013	Twelve months ended August 31, 2012
Total revenue	\$ 9,282	\$ 604	\$ -
Total comprehensive loss	(9,981)	(6,327)	(4,221)
Loss per share, basic and diluted	(0.05)	(0.04)	(0.03)
Total assets	35,284	23,338	18,805
Total non-current financial liabilities	14,716	104	-
Distributions declared and paid per multiple voting share and per subordinate voting share	\$ -	\$ -	\$ 0.05

### **2014 vs 2013**

Revenue rose in 2014 as a result of organic growth and the two acquisitions completed by the Corporation. Gas & Power grew its customer base significantly in 2014 by expanding into northeast U.S. and continuing to grow its Ontario base. The acquisition of HCG added \$2,325 of revenue from the date of its acquisition on April 21, 2014. Energy Efficiency added a non-material amount of revenue in 2014. Operating expenses increased in 2014 as Gas & Power incurred full year customer acquisition costs compared to 2013. The Corporation grew its operations during 2014 investing in personnel, systems and related office costs. In 2013, the Corporation incurred one-time professional fees of \$609.

The Corporation's assets are comprised primarily of its cash and cash equivalents, restricted cash, property and equipment, and intangible assets. The increase in total assets in 2014 from 2013 resulted principally from assets acquired in the HCG acquisition - \$11,285 in rental equipment and \$4,482 in customer contracts and goodwill of \$1,607. In addition, additional customer contracts, valued at \$1,726, were acquired in the AVACOS asset transaction. The cash and cash equivalents balance decreased to \$7,781 in 2014 from \$20,555 in 2013. Cash was used to fund the HCG acquisition, customer acquisition and operations.

The Corporation's non-current financial liabilities increased by \$14,584 representing the non-current portion of long-term debt on Home Comfort rental equipment financing. In addition, the non-current portion of

energy derivatives increased by \$62 to \$124 in fiscal 2014, compared to \$62 in fiscal 2013. The Corporation drew advances of \$621 under the Shell credit facility mainly to support operations in the U.S.

## **2013 vs 2012**

Revenue rose in 2013 as a result of the Sunwave acquisition in July 2013. Expenses increased from 2012 in connection with professional fees from the change of business in 2013, the acquisition of Sunwave and entering into the Shell agreements; operating costs of Gas & Power for six months following its acquisition and ongoing litigation costs from a Statement of Claim (see section 15 below). Professional fees during 2012 were \$2,899. 2013 included four additional months of operating expenses due to the change in the Corporation's fiscal year-end to December 31 from August 31.

The Corporation had limited operations during 2012 as a result of the sale of its spectrum and broadcast licence in 2009. Expenses incurred in 2012 were predominately Statement of Claim litigation costs and management services fees. Management services fees amounted to \$Nil in 2013 compared to \$1,244 in 2012, with the decrease due to the termination of the Management Services Agreement in 2012 (see section 12(d)(i) below).

The Corporation's assets are comprised primarily of its cash and cash equivalents. The increase in total assets in 2013 from 2012 resulted principally from the cash proceeds from a private placement in July 2013 of \$9,000 reduced by the use of cash in operations of \$5,818. In addition, goodwill of \$548 and intangible assets of \$919 were acquired as part of the Sunwave transaction.

Long-term financial liabilities include a finance lease for office equipment in the amount of \$42 maturing in 2016 and electricity fix-for-floating swaps with a fair value of \$62.

## **6. RESULTS OF OPERATIONS**

*Fiscal 2014 compared to fiscal 2013*

### **Selected financial information**

<b>Loss and comprehensive loss</b>	<b>Twelve months ended December 31, 2014</b>	<b>Sixteen months ended December 31, 2013</b>
Revenue	\$ 9,282	\$ 604
Cost of sales	6,465	378
Gross margin	2,817	226
Selling	5,144	1,519
General and administrative	5,727	5,373
Change in fair value of energy derivatives	(1,041)	30
Finance income	158	294
Finance cost	(1,081)	-
Unrealized gain on translation of foreign operations	31	15
Loss and comprehensive loss	\$ (9,981)	\$ (6,327)
Total comprehensive loss per share	\$ (0.05)	\$ (0.04)

<b>Financial position</b>	<b>December 31, 2014</b>	December 31, 2013
Current assets	\$ 13,045	\$ 21,782
Non-current assets	22,239	1,556
Current liabilities	6,816	1,540
Non-current liabilities	14,716	104
Shareholders' equity	\$ 13,752	\$ 21,694

## Revenue

Revenue was \$9,282 for fiscal 2014 compared to \$604 for fiscal 2013. The increase is a result of the inclusion of twelve months' of Gas & Power results compared to six months in 2013, as Sunwave was acquired in July 2013. Also commencing on April 21, 2014, revenue includes the results of Home Comfort.

Gas & Power's revenue arose from sales of natural gas and electricity to customers in Ontario, and sales of electricity in Connecticut, Pennsylvania and Massachusetts. 2014 saw revenue from new northeast U.S. states, starting with Connecticut launching in late March, followed by Pennsylvania in late June and Massachusetts sales in early October. Revenue for fiscal 2014 was \$6,937 compared to \$604 in fiscal 2013.

Home Comfort's revenue is comprised of rental revenue from its portfolio of HVAC and water heater rental equipment. This is supplemented with equipment sales. Revenue for fiscal 2014 was \$2,325, compared to \$NIL in fiscal 2013.

## Cost of sales

Cost of sales was \$6,465 in fiscal 2014 compared to \$378 in fiscal 2013. The increase is a result of the inclusion of twelve months' of Gas & Power results compared to six months in 2013, as Sunwave was acquired in July 2013. Also commencing April 21, 2014, cost of sales includes the results of Home Comfort.

Gas & Power's cost of sales is comprised of the cost of natural gas or electricity, along with costs to deliver to the LDCs. Cost of sales for fiscal 2014 was \$5,621, compared to \$378 in fiscal 2013. The Corporation enters into fixed contracts for floating electricity swaps in order to manage exposures to changes in electricity prices. The Corporation experienced \$11 of gains for fiscal 2014 compared to \$NIL for fiscal 2013 on these swaps.

Home Comfort's cost of sales is comprised of amortization of the rental equipment cost and, for equipment sales, the cost of the equipment, installation and commissions. Home Comfort cost of sales for fiscal 2014 was \$844, compared to \$NIL for fiscal 2013.

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## Selling

Selling expenses include commissions and other compensation paid to independent contractors such as sales representatives, brokers and consultants. Marketing expenses include the development of sales programs and materials, costs of sales collateral and costs to maintain an online presence for web sales. Sales and marketing expenses were \$5,144 for fiscal 2014 compared to \$1,519 for fiscal 2013.

Selling costs arise from customer aggregation activity including (i) commissions; (ii) other customer acquisition costs; and (iii) management and back-office support costs. Selling expenses are expensed in the period that the commissions are earned by the independent contractors for Gas & Power sales and Home Comfort equipment sales. For fiscal 2014, selling expenses consisted of (i) \$2,194 for commissions; (ii) other customer acquisition and marketing costs of \$955 and (iii) management and back-office support costs of \$1,995, which included personnel costs of \$1,092, comprised of wages, salaries, fees, benefits and stock compensation expense.

Customer acquisition costs in fiscal 2014 increased due to full year selling activities in Canada and the U.S. compared to Ontario in 2013.

## General and administrative

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

	Twelve months ended December 31, 2014	Sixteen months ended December 31, 2013
Personnel	\$ 2,748	\$ 1,426
Professional fees	619	1,589
Litigation costs	646	1,832
Occupancy	289	153
Operations	617	75
Other expenses	706	311
Depreciation and amortization	102	39
Management services income	-	(52)
Total general and administrative expenses	\$ 5,727	\$ 5,373

### Personnel

Personnel costs include wages, salaries, benefits, termination payments and share-based payments. During fiscal 2014, the Corporation incurred \$2,748 in personnel costs compared to \$1,426 in fiscal 2013, primarily due to the Sunwave acquisition in July 2013 and the HCG acquisition in April 2014.

### Professional fees

Professional fees are comprised of legal, accounting, audit and consulting fees. For fiscal 2014, professional fees decreased by \$970 to \$619 compared to \$1,589 in fiscal 2013. In fiscal 2013, the

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Corporation incurred professional fees of \$609 for activity that is not considered to be recurring (see “2013 MD&A”).

#### Former Officer and Director litigation costs

Litigation costs are the legal fees and other related costs to the Statement of Claim as discussed under section 14 below. During fiscal 2014, litigation costs of \$646 decreased by \$1,186 from \$1,832 in fiscal 2013. The higher level of expense in 2014 compared to 2013 was a result of the amount of preparatory work performed in 2013, as well sixteen months of costs incurred in 2013 compared to twelve months in 2014.

#### Occupancy

Occupancy costs rose by \$136 to \$289 during fiscal 2014, compared to \$153 in fiscal 2013, as a result of 2014 representing a full year of rental costs following the acquisition of Sunwave, the HCG acquisition and the opening of the Corporation’s U.S. office in Connecticut. During 2014, the Corporation consolidated all of its Ontario operations other than the Home Comfort office in Ottawa, Ontario into a new, lower cost location. The Corporation also sublet the majority of the office space acquired in the HCG acquisition.

#### Operations

Operations expenses include billing and collection fees charged by LDCs, third party verification fees and certain call centre costs. During fiscal 2014, the Corporation incurred \$617 in operations expenses compared to \$75 in fiscal 2013, arising from a larger Gas & Power customer base, its entry into the US electricity retail market and the inclusion of HCG results since April 2014.

#### Other expenses

Other expenses include costs for investor relations, costs for the shareholders’ annual and special meeting, insurance and other general & administrative cost. During fiscal 2014, the Corporation incurred \$706 in other expenses compared to \$386 in fiscal 2013. The Corporation had limited operations in the first ten months of fiscal 2013 before the Sunwave acquisition in July 2013 which resulted in lower other expenses.

#### **Change in fair value of energy derivatives**

The fair value of energy derivatives consists of changes in unrealized gains or losses on derivatives, which represent the estimated amount that the Corporation would need to pay or receive to dispose of the remaining notional commodity positions in the market if the derivative contracts were to be terminated at the respective period end (see the section 16 below).

For fiscal 2014, the unrealized gains and losses associated with derivative contracts were a loss of \$1,041; made up of (a) unrealized losses of \$409 on forward natural gas positions and (b) unrealized loss of \$632 on fixed-for-floating electricity swaps. These gains and losses represent non-cash gains and losses associated with mark-to-market movements on forward hedge positions that are outstanding at period end. For fiscal 2013, the unrealized gains and losses associated with derivative contracts were \$30.

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## Finance income

For fiscal 2014, interest income recognized on cash and cash equivalents balances totalled \$158, compared to \$294 in fiscal 2013. The lower level of interest earned reflect lower average cash and cash equivalents balances during fiscal 2014 compared to fiscal 2013.

## Finance costs

For fiscal 2014, finance costs were \$1,081, compared to \$NIL in fiscal 2013. Long-term debt was assumed as part of the HCG acquisition as Home Comfort finances the acquisition costs of its rental equipment via its relationship with Home Trust. Long-term debt was \$16,461 at December 31, 2014 and this debt is serviced using customer rental revenues.

## Total comprehensive loss

The total comprehensive loss amounted to \$9,981 for fiscal 2014 and \$6,327 for fiscal 2013 or \$0.05 and \$0.04 per basic and diluted share, respectively.

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

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

	Twelve months ended December 31, 2014	Sixteen months ended December 31, 2013
Loss for the period	\$ (10,012)	\$ (6,342)
Add/(subtract)		
Depreciation and amortization	1,262	144
Change in fair value of energy derivatives	1,041	(30)
Finance income	(158)	(294)
Finance costs	1,081	-
Gain on disposal of equipment	(31)	-
Foreign exchange loss	25	-
EBITDA <sup>(1)</sup>	\$ (6,792)	\$ (6,522)

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

## 8. QUARTERLY FINANCIAL RESULTS

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

	Fiscal 2014				Fiscal 2013			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31 <sup>(1)</sup>	Aug 31	May 31	Feb 28
Revenue	\$ 3,940	\$ 2,572	\$ 1,719	\$1,051	\$ 490	\$ 114	\$ -	\$ -
Cost of sales	3,241	1,259	957	1,008	300	78	-	-
Gross margin	699	1,313	762	43	190	36	-	-
Operating expenses before depreciation and amortization, interest and finance charges, and finance income	1,801	3,263	2,621	1,924	3,017	1,588	1,186	587
EBITDA	(1,102)	(1,950)	(1,859)	(1,881)	(2,827)	(1,552)	(1,186)	(587)
Depreciation and amortization	(606)	(324)	(253)	(79)	(82)	(62)	-	-
Change in fair value of derivative instruments	(1,619)	225	(169)	522	30	-	-	-
Finance income	29	32	39	58	102	50	56	57
Finance costs	(396)	(379)	(293)	(13)	(22)	-	-	-
Gain (loss) on disposal of rental equipment	19	18	(6)	-	-	-	-	-
Unrealized foreign exchange gain (loss)	(86)	93	(68)	36	(7)	-	-	-
Net loss from operations	\$ (3,761)	\$ (2,285)	\$ (2,609)	\$ (1,357)	\$ (2,806)	\$ (1,564)	\$ (1,130)	\$ (530)
<b>Loss per share</b>								
Basic and diluted	(0.018)	(0.011)	(0.012)	(0.006)	(0.0151)	(0.0086)	(0.0081)	(0.004)

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

Customer acquisition in the U.S. by Gas & Power began in the quarter ended March 31, 2014 and the subsequent quarters reflects the growth in the customer base since that time. The periods that include winter months reflect seasonality where Gas & Power customers will generally consume more gas impacting gross margin. The period after April 21, 2014 includes activity of Home Comfort following its acquisition by ONEnergy. The period after July 9, 2013 includes the activity of Gas & Power following its acquisition by ONEnergy. Prior to the quarter ended August 31, 2013, the Corporation was operating as a holding company that was actively seeking a transaction to enhance shareholder value. Expenses during this period were related to attempts to maximize shareholder value including the monetization of the remaining assets, the return of capital to shareholders, and legal charges incurred related to the recovery of payments made to former directors and former management (see section 13 below).

## 9. LIQUIDITY AND CAPITAL RESOURCES

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

The Corporation's total cash liquidity is \$10,093 comprised of cash and cash equivalents, and restricted cash. Unrestricted cash and cash equivalents were \$7,781, at December 31, 2014 compared with \$20,555 at December 31, 2013. Restricted cash increased from \$266 at the end of 2013 to \$2,312 at the end of 2014. The Corporation invested in acquisitions using cash (HCG) and through the issuance of additional

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shares (certain assets of AVACOS). Restricted cash includes mandatory collateral security with the LDCs and the state regulatory body; and minimum cash reserves required under the HCG lending agreement. The increase in restricted cash was due to the expansion into three U.S. Gas & Power markets and into the Home Comfort lender cash reserves. Cash was also used in operations to build the customer base in the U.S. Gas & Power business and the Energy Efficiency business.

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 payable 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 – 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.

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

The change in cash is summarized as follows:

	<b>For the twelve months ended December 31, 2014</b>	For the sixteen months ended December 31, 2013
Cash used in operating activities	\$ (6,967)	\$ (5,818)
Cash (used in) provided by investing activities	(7,111)	17,926
Cash provided by financing activities	1,322	8,313
Increase (decrease) in cash	\$ (12,774)	\$ 20,408

Cash used in operating activities for fiscal 2014 was \$6,967 compared to \$5,818 for fiscal 2013, an increase of \$1,149 or 19.75%. Net loss increased by \$3,546 in fiscal 2014 compared to fiscal 2013 was offset by items not affecting cash increased by \$2,266 to \$3,417 compared to \$1,151 in fiscal 2013. Change in non-cash working capital decreased by \$142 to (\$485) in fiscal 2014 from (\$627) in fiscal 2013.

Cash used in investing activities for fiscal 2014 was \$7,111 and made up of cash consideration for acquisition of HCG (net of cash acquired) of \$3,072, purchases of equipment totalling \$3,526 and funding restricted cash of \$1,346, offset by proceeds received from disposition of equipment of \$798. This compares to cash provided by investing activities for fiscal 2013 totalling \$17,926, primarily because redemptions of short-term investments of \$17,812. Restricted cash is cash collateral held as security for letters of credit issued by the Corporation and security for long-term debt.

Cash provided by financing activities during fiscal 2014, was \$1,322 compared to \$8,313 in fiscal 2013. Cash provided in fiscal 2014 is mainly from proceeds of long-term debt and credit facility of \$4,567, net of principal and interest repayments of \$3,245. The provision of cash in fiscal 2013 was the result of a private placement of shares for \$9,000. In fiscal 2014, the Corporation issued \$1,726 of shares as consideration for the acquisition of certain assets of AVACOS, whereas during fiscal 2013, the Corporation issued \$1,000 of shares as consideration for the acquisition of Sunwave.

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

Gas & Power is required to post financial assurance in order to operate in certain states or utility service territories. The Corporation has issued letters of credit to satisfy the financial assurance requirement. If these letters of credit were withdrawn by the Corporation, it would be required to post another form of financial assurance satisfactory to the regulatory agency or utility, in order to continue to operate in that electricity retailing market. The Corporation has deposited \$853 (US\$735) with a financial institution as security for outstanding letters of credit. As at December 31, 2014, the Corporation has \$853 (US\$735) (2013 - \$266) in outstanding letters of credit.

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## 11. SHARE CAPITAL

As at December 31, 2014, there were 110,961 multiple voting shares and 126,561 subordinate voting shares issued, totalling 237,521 shares issued and outstanding (December 31, 2013 – 99,995 multiple voting shares, 111,136 subordinate voting shares, totalling 211,131). The increase in multiple voting shares and subordinate voting shares is a result of the issuance of shares to acquire certain assets of AVACOS (see section 3(a) above).

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 a prices between \$0.055 and \$0.14 and expire between April 2024 and November 2014.

In determining diluted loss per share for fiscal 2014 and fiscal 2013, the weighted average number of shares outstanding was not increased for stock options outstanding as it is considered anti-dilutive.

As at March 25, 2015, there were no changes to the number of issued and outstanding shares from December 31, 2014.

## 12. STOCK BASED COMPENSATION

### *Stock option plans*

During fiscal 2014, stock option costs totaling \$313 (2013 - \$131) were issued to employees and consultants. The options were expensed to selling, general and administrative and which has been recorded in contributed surplus.

### *Deferred share units*

During fiscal 2014, deferred share units totaling \$13 (2013 - \$NIL) was granted to non-executive directors. The DSUs were recognized as general and administrative expenses, and recorded as current liabilities.

## 13. TAX LOSSES

The Corporation's tax attributes may be utilized by the Corporation in its future operations, or may be utilized by a potential acquirer to offset income, provided certain tests are satisfied including those related to a change in control of the Corporation. The Corporation has federal non-capital income tax losses of \$174,157, which may be carried forward to reduce future years' taxable income.

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

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

<b>Year</b>	<b>Amount</b>
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
	<b>\$ 174,157</b>

#### **14. 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.

##### **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. The balance outstanding as at December 31, 2014 was \$NIL (December 31, 2013 - \$NIL).

##### **c) Management services income**

During 2013 the Corporation provided 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. RiteRate paid for certain consultant fees on behalf of the Corporation in 2013, for which the Corporation reimbursed RiteRate. For 2014, the Corporation charged RiteRate \$NIL (2013 - \$52). No amounts were outstanding as at December 31, 2014. In November 2013 RiteRate provided the Corporation with notice of cancellation under the terms of the management services agreement, and services are no longer provided by the Corporation to RiteRate under this agreement.

#### d) Compensation of key management personnel

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

	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 compensation	276	117
	<b>\$ 1,614</b>	<b>\$ 932</b>

#### 15. FORMER OFFICER AND DIRECTOR LITIGATION

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

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

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

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

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

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

These payments were not formally disclosed to the market until the Corporation released its 2009 Management Information Circular (the "2009 MIC") on January 19, 2010. The 2009 MIC referred to the payments that were made as Contingent Restructuring Awards (the "CRAs"). The CRAs had two components: a bonus and a payment made to compensate for the decision of the directors and management to cancel options and share appreciation rights ("SARs"). The compensation paid for the

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cancellation of options and SARs was based on a non-market share value of \$0.40 when the share price traded at substantially lower prices. Shareholders protested the payments and inquiries were initiated by the Autorité des marchés financiers (the “AMF”) and the Toronto Stock Exchange (“TSX”).

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

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

#### **b) Applications For Advances**

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

#### **c) Status of the Claim**

The defendants delivered Statements of Defence in the spring of 2013. The defendants, other than Mr. Dolgonos and DOL Technologies Inc., also issued Third Party Claims against Stikeman Elliott LLP and one of its lawyers (collectively, “Stikeman Elliott”). Stikeman Elliott delivered Statements of Defence to the third party claims. The parties exchanged Affidavits of Documents in late 2013 and early 2014. Examinations for discovery began in February 2014 and are effectively completed. The Court has directed the parties to be prepared for a trial in 2014. The parties participated in a mediation on July 30 and 31, 2014 with the Honorable George Adams Q.C. The mediation did not result in a settlement though discussions continue. A pre-trial hearing was to have taken place on September 4, 2014. As the judge was not available on that date, the pre-trial was rescheduled for October 1, 2014. 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.

#### **d) Claim Against McMillan LLP**

The Corporation also issued a Statement of Claim against McMillan LLP (“McMillan”) 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 and other law firms before the former directors and officers resigned on July 21, 2010. The Corporation has received a defence from McMillan. McMillan participated in the mediation with Mr. Adams and the other defendants in Look’s action against its former officers and directors. The mediation did not result in a settlement though discussions continue. As a result, the

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Corporation and McMillan are completing documentary production and proceeding with examinations for discovery.

## **16. OPERATING RISKS AND UNCERTAINTIES**

### **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; cash-accretive asset and business acquisitions and into new infrastructure to support expansion into new markets. 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.

### **Financial instruments and risk management**

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

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

#### Electricity and natural gas derivatives

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

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

The fair value of derivative financial instruments is the estimated amount that the Corporation would pay or

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

#### Credit risk

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

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

The LDCs provide 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 CRA. Refundable taxes are subject to review by CRA, which may delay receipt. Management believes the risk of CRA failing to deliver payment to the Corporation is minimal.

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

	<b>December 31, 2014</b>	December 31, 2013
<u>Accounts and other receivables</u>		
Currently due	\$ 2,180	\$ 292
Past due by 90 days or less not impaired	81	83
Past due by greater than 90 days not impaired	147	62
	<b>\$ 2,408</b>	<b>\$ 437</b>

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

#### Liquidity risk

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

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## Contractual Obligations

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

The Corporation's financial liabilities are comprised of its accounts payable and accrued liabilities, payments received in advance of consumption, due to related party, derivative instruments, non-cancellable leases, finance leases and long-term debt. 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
Non-cancellable leases	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

## Interest rate risk

The Corporation is exposed to interest rate fluctuations associated with its floating rate credit facility. The Corporation has \$621 outstanding under this facility, therefore the Corporation's current exposure to interest rate risk does not economically warrant the use of derivative instruments and the Corporation does not currently believe that it is exposed to material interest rate risk.

## Currency risk

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

Although the Corporation's operations in 2014 were predominately in Ontario, it has operations in the U.S. A portion of ONEnergy's income is generated in U.S. dollars and will be subject to currency fluctuations. The performance of the Canadian dollar relative to the U.S. dollar could positively or negatively affect ONEnergy's income. As the Corporation is deriving an increasing percentage of its revenue 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.

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## Fair Values

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

The fair values of short-term financial assets and liabilities, including cash and cash equivalents, accounts and other receivables, deposits, trade and other payables as presented in the Consolidated Statements of Financial Position, approximate their carrying amounts due to the short period to maturity of these financial instruments.

## Supplier Risk

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

Both Home Comfort and Energy Efficiency work with multiple vendors for the sourcing of their products, and neither are reliant on a single supplier for any material amount of products or services.

## **17. OTHER RISK FACTORS**

In addition to operating risks described in the section entitled “16. *Operating risks and uncertainties*”, below are other risk and uncertainties that ONEnergy can foresee. It is not an exhaustive list, as some future risks may be yet unknown and other risks, currently regarded as immaterial, could turn out to be material.

### *Electricity supply – balancing risk*

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

### *Natural gas supply – balancing risk*

It is the Corporation’s policy to procure the estimated gas requirements of its customers with offsetting gas purchases (see the section entitled “16. *Operating risk and other uncertainties – Financial instruments and risk management – Electricity and natural gas derivatives*”) in advance of obtaining customers. Depending

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on several factors including weather, the Corporation's customers may use more or less gas than the volume purchased by the Corporation for delivery to them. The Corporation does not invoice its natural gas customers for balancing and, accordingly, bears the risk of fluctuation in customer consumption. The Corporation monitors gas consumption and actively manages forecast differences in customer consumption due to weather variations as well as forecast LDC balancing requirements. To the extent that forecast balancing requirements are beyond initial estimates, the Corporation will bear financing responsibility, be exposed to market risk and, furthermore, may also be exposed to penalties by the LDCs. The inability or failure of the Corporation to manage and monitor these balancing risks could have a material adverse effect on its operations and cash flow.

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

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

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

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

*Our business is dependent on our contracts with our commodity suppliers and their inability to perform their obligations under the contracts could adversely affect our margins on electricity and natural gas sales.*

Our business model is based on contracting for supply of natural gas and electricity, through physical and financial transactions, to fix margins. If our commodity suppliers experiences financial difficulties or is

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otherwise unable to perform its obligations to us, we may suffer losses, including as a result of being unable to secure energy supply on a timely basis. As a result, our ability to earn margins on electricity and natural gas sales could be affected. If the Corporation cannot identify an alternative supply of natural gas and electricity in a timely manner, our business will be adversely affected as the Corporation may not be able to meet its obligations to its customers.

*We may suffer economic losses where risk management policies and programs do not work as planned.*

The Corporation's risk management programs may not work as planned. For example, actual electricity and natural gas prices may be significantly different or more volatile than the historical trends and assumptions upon which the Corporation based its risk management calculations. In addition, unforeseen market disruptions could decrease market depth and liquidity, negatively impacting the Corporation's ability to enter into new transactions. Similarly, interest rates or foreign currency exchange rates could change in significant ways that the Corporation's risk management procedures were not designed to address. As a result, the Corporation cannot always predict the impact that its risk management decisions may have on its business if actual events result in greater losses or costs than predicted by the Corporation's risk models, or if there is greater than expected volatility in the Corporation's results of operations.

In addition, the Corporation's trading, marketing and hedging activities are exposed to counterparty credit risk and market liquidity risk. If counterparties fail to perform, the Corporation may be forced to enter into alternative arrangements at then-current market prices. In that event, the Corporation's results of operations may be adversely affected.

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

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

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

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

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

#### *Financing agreement*

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

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otherwise fund the Home Comfort business, and there is no assurance that such replacement financing would be available to the Corporation on acceptable terms or at all.

#### Risk Relating to the Retail Energy Industry

*We operate in a highly competitive market and our customers may switch to another retail energy provider or to the LDC.*

A number of retail energy providers compete with the Corporation in the residential and commercial markets. It is possible that the existing competition and additional new entrants may compete directly for the customer base that the Corporation targets, slowing growth or reducing its market share. It is also possible that new entrants may be better capitalized, or that their existing customer base will provide them with a competitive advantage over the Corporation. Changes in customer behaviour, government regulation or increased competition may affect (potentially adversely) attrition and retention rates in the future, and these changes could adversely impact the future cash flow or margin of the Corporation.

*Our revenues and results from operations may fluctuate on a seasonal and quarterly basis as a result of our high concentration of residential customers.*

The Corporation's revenues and results of operations may fluctuate significantly on a seasonal basis depending on the demand for electricity and natural gas. Generally, demand for electricity peaks in winter and summer months while demand for natural gas peaks in the winter months for residential customers. The impact may be exaggerated as a result of extreme weather conditions, resulting in variances in forecasted electricity and natural gas consumption. Depending on prevailing market prices for electricity and natural gas, these and other unexpected circumstances may reduce our revenues and results of operations.

*Customers may not widely accept retail energy providers as their energy supplier.*

The Corporation believes that its profitability and growth will depend upon the broad acceptance of retail energy providers in North America. There can be no assurance that customers will widely accept retail energy providers as their energy supplier. The acceptance of our products may be adversely affected by our ability to offer a competitive value proposition, concerns relating to product reliability, general resistance to change, and price of alternative methods of supply (e.g. residential and commercial solar programs). Unfavourable publicity involving customer experiences with other retail energy providers could also adversely affect its acceptance. Market acceptance could also be affected by regulatory developments. The failure of retail energy providers to achieve deep market penetration may have a material adverse effect on the Corporation's business, financial condition and results of operations.

*The Corporation is required to be licenced by the regulatory body in each market in which we operate, and the denial of a new licence or revocation of an existing licence may impact the Corporation's financial results.*

In each state and province in which we operate, the Corporation is required to be licenced by the relevant regulators. The Corporation's expansion strategy is dependent on continuing to be licenced in existing markets and receiving approval for additional licences in new and existing markets. For example, at the current time, the Corporation is in the process of applying for electricity licences in New York. If the Corporation is denied new licences, has a licence revoked or is not granted renewal of a licence, the Corporation's financial results may be negatively impacted.

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*Changes by regulators to the utility service rate may affect the Corporation's ability to remain competitive.*

The Corporation considers the utility service rate in each market to be the competitive benchmark for our products. The utility service rate in each state or province is regulated by the regulators. From time to time, utilities and government agencies propose changes to the utility service rate structure which may impact the Corporation's ability to offer a competitive value proposition to customers, which may increase customer attrition and negatively impact the Corporation's financial performance.

*The utility service rate may not reflect actual wholesale energy market conditions, which may make the Corporation's value proposition for customers less competitive.*

The Corporation considers the utility service rate in each market to be the competitive benchmark for our products. The utility service rate in each state or province is regulated by the regulators. In many of the states in which the Corporation operates, the utility service rate charged to customers is set yearly, quarterly, or monthly by the utility and is based on the price paid by the utility to procure electricity or natural gas for that period of time, which may have occurred over a period of up to three years. As a result, the service rate does not necessarily reflect actual market conditions, which may create circumstances where the Corporation is unable to offer a competitive value proposition to the customer and, as a result, may increase customer attrition and negatively impact the Corporation's financial performance.

#### Risks Relating to the Operations of the Corporation

*The Corporation and its predecessors have limited historical data that can be utilized to assess the performance of the Corporation.*

The Corporation acquired Sunwave in July 2013. Sunwave has a limited operating history from which investors can evaluate its business and prospects.

The Corporation's prospects must be considered in light of the risks and uncertainties encountered by an early stage business, and in rapidly evolving markets such as the retail electricity and natural gas markets. Some of these risks relate to the Corporation's potential inability to: effectively manage its business and operations; recruit and retain key personnel; successfully maintain a low-cost structure as it expands the scale of its business; manage rapid growth in personnel and operations; develop new products that complement its existing business; and successfully address the other risks it faces.

If the Corporation cannot successfully address these risks, its business, future results of operations and financial condition may be materially adversely affected.

*Our business is dependent on information systems to support business operations, and any failures or disruptions in our information systems could have a material adverse effect on our results of operations.*

The Corporation is dependent on third party information systems to track, monitor and correct or otherwise verify a high volume of data to ensure the accuracy of our sales, financial, accounting and other data. The Corporation has arrangements with various third parties to provide support for its energy load forecasting, electronic data interchange services, billing services and various marketing channels. Management also relies on information systems to provide the Corporation's independent contractors with updated marketing and compensation information and record each customer interaction. Our business and results of operations could be materially adversely affected if any of our information systems fail or have other significant shortcomings. We may also be subject to disruptions of our informational systems arising from events that are wholly or partially beyond our control (such as natural disasters, acts of terrorism, epidemics, computer viruses and telecommunications outages). Third party systems on which we rely could also suffer

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disruptions. Any failure of the information systems on which we rely or our failure to maintain and upgrade our information systems could have a material adverse effect on our business and results of operations.

*Our expansion strategy involves numerous risks that could impact our viability and harm our business.*

The Corporation plans to grow its business by expansion in new and existing deregulated markets through organic growth and acquisitions. The Corporation's expansion strategy involves numerous risks, which could harm the Corporation's business and results of operations, including: difficulties in integrating, supporting and transitioning customers' accounts; difficulties in realizing value from the expansion of new and existing products and marketing channels; assets of the target company may exceed the value the Corporation realizes, or the value it could have realized if it had allocated the purchase price or other resources to another opportunity; risks of entering new markets or customer segments in which the Corporation has limited or no experience or are outside its core competencies; and inability to generate sufficient revenue to offset acquisition or expansion costs.

The Corporation may require additional financing should an appropriate acquisition be identified and it may not have access to the funding required for the expansion of its business or such funding may not be available to the Corporation on acceptable terms. Future acquisitions or expansion could result in the incurrence of additional debt and related interest expense, as well as unforeseen liabilities, all of which could have a material adverse effect on business, results of operations and financial condition. The failure to successfully evaluate and execute acquisitions or otherwise adequately address the risks associated with acquisitions could have a material adverse effect on the Corporation's business, results of operations and financial condition. There can be no assurance that the Corporation will determine to pursue any acquisition or that such an opportunity, if pursued, will be successful.

*The Corporation will incur increased costs as a result of complying with the reporting requirements, rules and regulations affecting public issuers.*

As a public issuer, the Corporation is subject to the reporting requirements and rules and regulations under the applicable Canadian securities laws and rules of any stock exchange on which the Corporation's securities may be listed from time to time. Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on our personnel, systems and resources, which could adversely affect our business and financial condition.

*Our marketing channels may be contingent upon the viability of our independent sales contractors, telemarketing, door-to-door and outsourcing arrangements.*

Our independent contractors are essential to door-to-door marketing and telemarketing. Our ability to increase revenues in the future will depend significantly on the services of our independent contractors. If the Corporation is unable to attract new independent contractors and retain existing independent contractors, the Corporation's growth may be materially reduced. There can be no assurance that competitive conditions will allow these independent contractors, who are not employees of the Corporation, to continue to successfully sign up new customers or independent contractors. Further, if our products are not attractive to, or do not generate sufficient revenue for, our independent contractors, we may lose our existing relationships, which would have a material adverse effect on our business, revenues, results of operations and financial condition. In addition, the decline in landlines reduces the number of potential customers that may be reached by our independent telemarketers and as a result our telemarketing sales

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channel may become less viable, which may materially impact our business and results of operations.

*Our independent contractors may expose us to risks.*

We are subject to reputational risks that may arise from the actions of our independent sales contractors that are wholly or partially beyond our control, such as violations of our marketing policies and procedures as well as any failure to comply with applicable laws and regulations. In the case of our Gas & Power business, if our independent contractors engage in marketing practices that are not in compliance with local laws and regulations, we may be in breach of applicable laws and regulations which may result in regulatory proceeding or the revocation of our energy retailer licence, which would materially impact our results of operations.

Our independent contractors are essential to our marketing channels and sales. Independent contractors are not considered employees under the applicable tax rules. The Corporation monitors and complies with regulations in the applicable tax rules regarding the tax status of independent contractors. If the applicable tax rules was amended in a way that altered the employment status of independent contractors, or if the Corporation was successfully challenged by the tax authority or its independent contractors regarding the employment status of our independent contractors, our independent contractors could be considered employees of the Corporation. This could result in adverse financial consequences to the Corporation.

#### Risks Relating to the Legal and Regulatory Environment

*The Corporation operates in markets in which government and utility incentives or rebates are an important factor in purchasing decisions by our customers.*

In many of the markets served by both Energy Efficiency and Home Comfort, attractive government and utility incentives are available to our customers. These incentives, which are intended to speed the adoption of more energy efficient equipment, are provided by government agencies or utilities and generally take the form of cash rebates on the purchase price of a product. The availability of such rebates is often a significant factor in the purchasing decision process for our customers, and as such the reduction or elimination of such incentives could negatively impact the ability of Energy Efficiency or Home Comfort to sell their products and services.

*If energy deregulation is reversed or discontinued, the Corporation's prospects and financial condition could be materially adversely affected.*

In some retail energy markets, legislators, government agencies and other interested parties have made proposals to change the use of market-based pricing, re-regulate areas of these markets that have previously been competitive, or permit electricity delivery companies to construct or acquire generating facilities. Although the Corporation generally expects retail electricity and natural gas markets to continue to be competitive, other proposals to re-regulate this industry may be made, and legislative or other actions affecting the electricity and natural gas restructuring process may cause the process to be delayed, discontinued or reversed in markets in which the Corporation currently operates or may in the future operate.

*The Corporation operates in regulated industries and is exposed to legislative and regulatory risks that could harm the Corporation's interests.*

The Corporation currently operates in the regulated electricity and natural gas retail sales sectors in all of its jurisdictions. The Corporation must comply with the legislation and regulations in these jurisdictions in order to maintain its licenced status to continue its operations and to expand to new markets and/or products. Further, the Home Comfort business is required to comply with various laws and regulations relating to sales to residential customers as well as compliance with telemarketing laws and regulations. Regulatory compliance affects how quickly we can expand organically or through acquisitions. Compliance is costly and we may be prohibited from expanding or operating if we fail to comply with regulations. There is potential for changes to the legislation and regulatory requirements that may unfavourably impact the Corporation's business model. As part of doing business through the Corporation's various marketing channels, the Corporation receives complaints from customers. The failure of the Corporation to successfully resolve complaints could result in sanctions by the regulators, such as a loss of a licence, which would have a material adverse effect on the Corporation. Increased fragmentation of the retail energy industry, resulting in a greater number of energy retail providers operating in the same jurisdictions as the Corporation, may result in more customer complaints and heightened customer protection legislation. There can be no assurance that future decisions of federal and provincial or state regulatory bodies having jurisdiction over the Corporation's business activities, or rules enacted by them, or new legislation or regulations or changes to existing legislation or regulations, will not adversely affect the operations or cash flow of the Corporation. There can be no assurance that future decisions of the regulatory bodies having jurisdiction over the Corporation's business activities, or rules enacted by them, or new legislation or regulations or changes to existing legislation or regulations, including any change in regulatory policy, rules, legislation or regulations which would impact the Corporation's ability to renew customer contracts on the expiration of their term, will not adversely affect the results of operations or cash flow of the Corporation.

## **18. COMMITMENTS AND CONTINGENCIES**

### **(a) Commitments**

The minimum payments required under the terms of non-cancellable 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**

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

The Corporation indemnifies its directors, officers, consultants, and employees against claims and costs reasonably incurred and resulting from the performance of their services to the Corporation, and maintains liability insurance for its directors and officers.

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

Management's discussion and analysis of operating results and financial condition are made with reference to the Corporation's consolidated financial statements for the twelve months ended December 31, 2014 and the sixteen months ended December 31, 2013, and the notes thereto, which have been prepared in

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accordance with IFRS. The Corporation's significant accounting policies are summarized in detail in Note 2 of the Corporation's consolidated financial statements for the twelve months ended December 31, 2014 and sixteen months ended December 31, 2013.

### **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.

IFRS 9 - Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The 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 fulfillment 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.

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## 20. **SIGNIFICANT EVENTS**

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

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

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

On July 28, 2014, the Corporation moved its registered office to 155 Gordon Baker Road, Suite 301, Toronto, Ontario, M2H 3N5.

### c) **Senior management changes**

On February 1, 2014, Ray de Ocampo was appointed chief financial officer, replacing C. Fraser Elliott, who resigned effective February 1, 2014

On October 9, 2014, Sandro Costa was appointed vice-president, Energy Efficiency

On November 18, 2014, Claire Vella was appointed vice-president, Home Services

## 21. **ADDITIONAL INFORMATION**

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

# ONEnergy Inc.

## SHAREHOLDER INFORMATION

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### Board of Directors

#### Chairman of the Board

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

#### Directors

Stanley H. Hartt  
Counsel, Norton Rose Fulbright Canada LLP

Mark J. Lewis  
Chief Executive Officer, ONEnergy Inc.

David Rattee  
Corporate Director

Lawrence Silber  
Partner, Kelly Santini LLP

#### Officers

Mark J. Lewis  
Chief Executive Officer

Ray de Ocampo  
Chief Financial Officer

Robert K. Weir  
Chief Operating Officer

#### Auditors

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

#### Transfer Agent and Registrar

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

#### Shareholder enquiries

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

#### Stock exchange listing

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