

Unaudited Interim Condensed Consolidated Financial Statements of

# ONEnergy Inc.

As at and for the three and nine months ended September 30, 2015 and  
2014

## **Notice of No Audit or Review of Interim Financial Statements**

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

The accompanying interim condensed consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management and have been approved by the Corporation's Board of Directors. The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

# ONEnergy Inc.

## Interim Condensed Consolidated Statements of Financial Position (Unaudited, in thousands of Canadian dollars)

As at	Note	September 30, 2015	December 31, 2014
<b>Assets</b>			
Current assets			
Cash		\$ 1,872	\$ 7,781
Restricted cash	6	3,655	2,312
Accounts and other receivables	7	4,354	2,408
Inventory		513	84
Natural gas delivered in excess of consumption		241	176
Prepaid expenses and deposits		156	284
Current portion of energy derivatives	23	194	-
		<b>10,985</b>	<b>13,045</b>
Non-current assets			
Energy derivatives	23	21	-
Property and equipment	8	13,781	13,433
Intangible assets	9	6,175	6,651
Goodwill	10	2,401	2,155
		<b>\$ 33,363</b>	<b>\$ 35,284</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	12	\$ 5,500	\$ 3,134
Payments received in advance of consumption		215	267
Credit facility	13	1,050	621
Current portion of obligation under finance lease		16	32
Current portion of energy derivatives	23	186	885
Current portion of long-term debt	14	1,842	1,877
		<b>8,809</b>	<b>6,816</b>
Non-current liabilities			
Obligation under finance lease		-	8
Energy derivatives	23	234	124
Long-term debt	14	12,824	14,584
		<b>21,867</b>	<b>21,532</b>
Shareholders' equity			
Share capital	15	39,575	39,225
Contributed surplus		667	444
Accumulated other comprehensive income		170	46
Deficit		(28,916)	(25,963)
		<b>11,496</b>	<b>13,752</b>
		<b>\$ 33,363</b>	<b>\$ 35,284</b>

### Commitments and contingencies (note 21)

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

Approved by the Board of Directors:

(Signed) – Stephen J.J. Letwin  
Director

(Signed) – Stanley H. Hartt  
Director

# ONEnergy Inc.

## Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Unaudited, in thousands of Canadian dollars, except per share amounts)

Periods ended September 30	Note	Three months		Nine months	
		2015	2014	2015	2014
Revenue	16	\$ 7,213	\$2,572	\$19,528	\$ 5,342
Cost of sales	16,17	5,594	1,490	15,318	3,620
Gross margin		1,619	1,082	4,210	1,722
Expenses					
Selling	17	870	1,843	2,541	3,674
General and administrative	17	1,618	1,513	4,552	4,395
		2,488	3,356	7,093	8,069
Operating loss before the undernoted		(869)	(2,274)	(2,883)	(6,347)
Other gains (expenses)					
Change in fair value of derivative instruments	23	700	225	867	578
Finance income		6	32	40	129
Finance cost		(371)	(379)	(1,181)	(685)
Gain on disposal of equipment		68	18	208	12
Foreign exchange gain (loss)		(2)	93	(4)	62
<b>Loss for the period</b>		<b>\$ (468)</b>	<b>\$ (2,285)</b>	<b>\$ (2,953)</b>	<b>\$ (6,251)</b>
Other comprehensive income (loss)					
Unrealized gain (loss) on translation of foreign operations		135	(66)	124	(62)
Other comprehensive income (loss)		135	(66)	124	(62)
<b>Total comprehensive loss for the period</b>		<b>\$ (333)</b>	<b>\$ (2,351)</b>	<b>\$ (2,829)</b>	<b>\$ (6,313)</b>
Total loss per share					
Basic and diluted	15	\$ (0.019)	\$ (0.108)	\$ (0.123)	\$ (0.296)
Weighted average number of shares outstanding					
Basic and diluted (in thousands)	15	24,183	21,113	23,995	21,113

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

# ONEnergy Inc.

## Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(Unaudited, in thousands of Canadian dollars)

	Share Capital <sup>(1)</sup> (note 15)		Deficit	Contributed surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance as at December 31, 2013	21,113	\$ 37,499	\$ (15,951)	\$ 131	\$ 15	\$ 21,694
Net loss for the period	-	-	(6,251)	-	-	(6,251)
Other comprehensive income (loss)	-	-	-	-	(62)	(62)
Stock compensation (note 15)	-	-	-	246	-	246
<b>Balance as at September 30, 2014</b>	<b>21,113</b>	<b>\$ 37,499</b>	<b>\$ (22,202)</b>	<b>\$ 377</b>	<b>\$ (47)</b>	<b>\$ 15,627</b>
Balance as at December 31, 2014	23,752	\$ 39,225	\$ (25,963)	\$ 444	\$ 46	\$ 13,752
Shares issued to acquire 0867893 B.C. Ltd. operating as PVL Projects (note 11(a))	430	385	-	-	-	385
Share issuance costs	-	(35)	-	-	-	(35)
Net loss for the period	-	-	(2,953)	-	-	(2,953)
Other comprehensive income	-	-	-	-	124	124
Stock compensation (note 15)	-	-	-	223	-	223
<b>Balance as at September 30, 2015</b>	<b>24,182</b>	<b>\$ 39,575</b>	<b>\$ (28,916)</b>	<b>\$ 667</b>	<b>\$ 170</b>	<b>\$ 11,496</b>

<sup>(1)</sup> On May 28, 2015, the Corporation completed a share consolidation by issuing one new Common Share for every ten then issued and outstanding Common Shares. All share capital, stock option, deferred share unit and per share data in the current and comparative periods have been adjusted to reflect this change. See note 15 for additional information.

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

# ONEnergy Inc.

## Interim Condensed Consolidated Statements of Cash Flows

(Unaudited, in thousands of Canadian dollars)

Periods ended September 30	Note	Three months		Nine months	
		2015	2014	2015	2014
Cash flows from the following:					
<b>Operating activities</b>					
Loss for the period		\$ (468)	\$ (2,285)	\$ (2,953)	\$ (6,251)
Items not affecting cash					
Depreciation of property and equipment		269	261	812	477
Amortization of intangible assets		207	62	569	178
Change in fair value of energy derivatives	23	(700)	(225)	(867)	(578)
Interest earned on short-term investments		-	(32)	-	(129)
Gain on disposition of equipment		(68)	(18)	(208)	(12)
Unrealized foreign exchange (gain) loss		-	(93)	-	(61)
Finance costs		371	379	1,181	685
Stock based compensation	15	73	93	223	245
Change in non-cash operating assets and liabilities	18	503	385	334	(262)
Cash provided by (used in) operating activities		187	(1,473)	(909)	(5,708)
<b>Investing activities</b>					
Decrease (increase) in restricted cash		(120)	(457)	(1,343)	(910)
Interest received on cash, cash equivalents and short-term investments		-	29	-	129
Purchase of equipment		(1,615)	(1,772)	(1,813)	(2,813)
Proceeds from disposals of equipment		294	442	861	526
Purchase of intangible assets		(13)	(10)	(68)	(91)
Acquisition of PVL, net of cash acquired		-	-	(221)	-
Acquisition of Home Comfort, net of cash acquired		-	-	-	(3,072)
Cash provided by (used in) investing activities		(1,454)	(1,768)	(2,584)	(6,231)
<b>Financing activities</b>					
Proceeds from long-term debt		57	1,340	346	2,660
Repayments of long-term debt		(728)	(700)	(2,130)	(1,558)
Finance costs paid		(373)	(376)	(1,185)	(682)
Repayment of related party loan		-	(7)	-	(14)
Proceeds from credit facility		4,267	384	12,443	439
Repayments of credit facility		(4,952)	-	(12,185)	-
Repayment of obligation under finance lease		(8)	(7)	(24)	(22)
Share issuance costs		4	-	(35)	-
Cash (used in) provided by financing activities		(1,733)	634	(2,770)	823
Effect of foreign currency translation		184	6	354	4
Decrease in cash		(2,816)	(2,601)	(5,909)	(11,112)
Cash and cash equivalents, beginning of period		4,688	12,044	7,781	20,555
<b>Cash and cash equivalents, end of period</b>		<b>\$ 1,872</b>	<b>\$ 9,443</b>	<b>\$ 1,872</b>	<b>\$ 9,443</b>

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

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

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### 1. Nature of operations

Look Communications Inc. ("Look") was formed on October 31, 1999 under the *Canada Business Corporations Act* ("CBCA"). On July 8, 2013, pursuant to articles of amendment, Look changed its name to ONEnergy Inc. ("ONEnergy"). On July 9, 2013, ONEnergy completed a change-of-business transaction and a concurrent private placement. On May 19, 2015 the Shareholders approved a resolution continuing the Corporation under the *Business Corporations Act (Ontario)* ("OBCA") and discontinuing the Corporation under the CBCA. On August 4, 2015, the Corporation continued under the OBCA.

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

- (a) Sunwave Gas & Power Inc. ("Sunwave"), Sunwave USA Holdings Inc., Sunwave Gas & Power New York Inc., Sunwave Gas & Power Illinois Inc., Sunwave Gas & Power Massachusetts Inc., Sunwave Gas & Power Connecticut Inc., Sunwave Gas & Power Pennsylvania Inc. and Sunwave Gas & Power Ohio Inc. (collectively referred to as "Gas & Power");
- (b) Sunwave Home Comfort Inc. (formerly The Home Comfort Group Inc., "SHC") and Sunwave Home Comfort USA Inc. (collectively referred to as "Home Comfort"); and
- (c) 0867893 B.C. Ltd. dba PVL Projects ("PVL").

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

ONEnergy operates in the Gas & Power, Home Comfort and Energy Efficiency businesses. The Corporation's Gas & Power business involves the sale of natural gas and electricity in Ontario, and electricity in Connecticut, Pennsylvania and Massachusetts, to residential and commercial customers under short or long-term fixed-price, price-protected or variable-priced contracts, under the brand name Sunwave Gas & Power™. The Corporation's Home Comfort business, under the brand name Sunwave Home Comfort™, owns a portfolio of furnaces, boilers and air conditioners ("HVAC") and water heaters, which are rented to residential customers in Ontario and Alberta, under long-term water heater and HVAC rental programs. In addition, Home Comfort also sells and installs HVAC and water heaters directly to residential customers. Under its Energy Efficiency business, the Corporation provides a variety of products and services including high efficiency lighting, commercial HVAC products and services, energy storage (battery) products and services, energy auditing services, energy management software products and services and commercial solar photovoltaic design and construction to help commercial, industrial, manufacturing, retail and institutional clients minimize their energy consumption under the ONEnergy brand.

On May 28, 2015, the Corporation changed the designation of the Subordinate Voting Shares to Common Shares and exchanged the Multiple Voting Shares on a one-for-one basis into Common Shares. The corporation completed a share consolidation issuing one new Common Share for every ten then issued and outstanding Common Shares. All share capital, stock option, deferred share unit and per share data in the current and comparative periods have been adjusted to reflect this change.

The Common Shares of the Corporation are listed on the TSX Venture exchange under the symbol OEG.

These unaudited interim condensed consolidated financial statements were approved for issue by the Board of Directors on November 17, 2015.

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

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### 2. Summary of significant accounting policies

#### Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), and using accounting policies consistent with International Financial Reporting Standards ("IFRS"). Accounting policies and methods of their application followed in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those used in the consolidated financial statements for the twelve months ended December 31, 2014, except for the adoption of new standards and interpretations effective January 1, 2015 as disclosed below.

The following new accounting standards that have been adopted had no material impact on the unaudited interim condensed consolidated financial statements.

Amendment to IFRS 2 – Share-Based Payment

Amendment to IFRS 8 – Operating Segments

#### Basis of presentation

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars, the functional currency of the Corporation, and all values are rounded to the nearest thousand, except per share amounts. The unaudited interim condensed consolidated financial statements are prepared on a going concern basis under the historical cost convention except for the initial accounting for business acquisitions and for certain financial assets and liabilities which are stated at fair value.

#### Principles of consolidation

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

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

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

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

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



# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

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### Revenue recognition

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

### Provisions

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

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

### Fair value of financial instruments

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

### Impairment of non-financial assets

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

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

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

### Acquisition accounting

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

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

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### 4. Accounting standards issued but not yet applied

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the unaudited interim condensed consolidated financial statements are disclosed below. The Corporation intends to adopt these standards when they become effective.

The following is a description of the new standards:

IFRS 9 - Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model where the basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018.

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

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

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfilment costs. This Standard is effective for annual periods beginning on or after January 1, 2018.

### 5. Seasonality

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

### 6. Restricted cash

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

- i. The Corporation has deposits of \$2,100 at September 30, 2015 (December 31, 2014 – \$1,300) held as collateral to support letters of credit issued by the Corporation and as financial assurance against our operations in certain U.S. and Canadian markets.
- ii. The Corporation has cash of \$883 at September 30, 2015 (December 31, 2014 - \$62) that is pledged as collateral against energy purchases and other obligations under its commodity supply and credit facility agreement with Shell Energy North America (Canada) Inc. and Shell Energy North America (US), L.P. (collectively "Shell Energy").
- iii. The Corporation finances the cost of rental equipment. A portion of the proceeds from each draw is held as security ("finance reserve") against the loan described in note 14(a). As at September 30, 2015, the finance reserve balance was \$672 (December 31, 2014 - \$832).
- iv. The Corporation has other restricted cash of \$NIL at September 30, 2015 (December 31, 2014 - \$118).

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

### 7. Accounts and other receivables

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

	September 30, 2015	December 31, 2014
Trade receivables	\$ 2,492	\$ 984
Unbilled receivables	1,581	1,357
Refundable taxes	118	52
Other receivables	163	15
<b>Total</b>	<b>\$ 4,354</b>	<b>\$ 2,408</b>

### 8. Property and equipment

	Rental Equipment	Computer Hardware	Office Furniture and Equipment	Leasehold Improvement	Total Property and Equipment
<b>Cost</b>					
Balance at December 31, 2014	\$ 13,481	\$101	\$172	\$397	\$14,151
Additions	1,807	1	1	4	1,813
Disposal	(731)	-	-	-	(731)
<b>Balance at September 30, 2015</b>	<b>14,557</b>	<b>102</b>	<b>173</b>	<b>401</b>	<b>15,233</b>
<b>Accumulated depreciation</b>					
Balance at December 31, 2014	\$577	\$72	\$39	\$30	\$718
Depreciation	707	13	33	59	812
Disposal	(78)	-	-	-	(78)
<b>Balance at September 30, 2015</b>	<b>1,206</b>	<b>85</b>	<b>72</b>	<b>89</b>	<b>1,452</b>
<b>Net book value</b>					
As at December 31, 2014	\$ 12,904	\$ 29	\$ 133	\$ 367	\$ 13,433
<b>As at September 30, 2015</b>	<b>\$ 13,351</b>	<b>\$ 17</b>	<b>\$ 101</b>	<b>\$ 312</b>	<b>\$ 13,781</b>

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

### 9. Intangible assets

	Customer Contracts	Computer Software	Non-Compete Agreement	Total Intangible Assets
<b>Cost</b>				
Balance at December 31, 2014	\$ 7,127	\$ 136	\$ -	\$ 7,263
Acquisition (note 11)	-	-	25	25
Additions	-	68	-	68
<b>Balance at September 30, 2015</b>	<b>\$ 7,127</b>	<b>\$ 204</b>	<b>\$ 25</b>	<b>\$ 7,356</b>
<b>Accumulated amortization</b>				
Balance at December 31, 2014	\$ 586	\$ 26	\$ -	\$ 612
Amortization	521	43	5	569
<b>Balance at September 30, 2015</b>	<b>\$ 1,107</b>	<b>\$ 69</b>	<b>\$ 5</b>	<b>\$ 1,181</b>
<b>Net book value</b>				
As at December 31, 2014	\$ 6,541	\$ 110	\$ -	\$ 6,651
<b>As at September 30, 2015</b>	<b>\$ 6,020</b>	<b>\$ 135</b>	<b>\$ 20</b>	<b>\$ 6,175</b>

### 10. Goodwill

<b>Cost</b>	
Balance at December 31, 2014	\$ 2,155
Acquisition of 0867893 B.C. Ltd. operating as PVL Projects (note 11(a))	246
<b>Balance at September 30, 2015</b>	<b>\$ 2,401</b>

### 11. Acquisitions

#### (a) Acquisition of 0867893 B.C. Ltd. operating as PVL Projects

On April 30, 2015, the Corporation acquired all the issued and outstanding shares of 0867893 B.C. Ltd. operating as PVL Projects ("PVL") for total consideration of \$698 satisfied by the issuance of 225 Multiple Voting Shares and 205 Subordinate Voting Shares of the Corporation and \$313 in cash. PVL, which is based in Vancouver, British Columbia, is a provider of retrofit high efficiency lighting solutions for commercial and industrial customers including demanding applications for ports, aircraft maintenance facilities, arenas and gymnasiums, warehouses, offices and general industrial facilities.

The acquisition of PVL was accounted for using the purchase method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Corporation effective April 30, 2015 and has contributed incremental revenue of \$161 and \$317 for the three months and nine months ended September 30, 2015, respectively and net loss of \$100 and \$135 for the three months and nine months ended September 30, 2015, respectively. Management estimates that if the acquisition of PVL had taken place at the beginning of the fiscal period, the consolidated revenue and net loss for the nine

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

months ended September 30, 2015 would have been \$21,172 and \$2,958, respectively. Transaction costs of \$20 related to the acquisition of PVL have been expensed and are included in general and administrative expenses in the consolidated statement of loss.

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

<b>Purchase price</b>	
Cash consideration	\$ 313
Share consideration	385
	<u>\$ 698</u>
<b>Fair value recognized on acquisition</b>	
Current assets	669
Current liabilities	(242)
Non-compete agreement	25
Goodwill	246
	<u>\$ 698</u>

Goodwill comprised the value of PVL's current infrastructure while intangible asset is comprised of the value of non-compete agreements with PVL's former shareholders. The non-compete agreement is being amortized over a period of 2 years. None of the goodwill recognized is expected to be deductible for tax purposes.

The purchase price allocation is considered preliminary, and as a result, it may be adjusted during the 12-month period following the acquisition, in accordance with IFRS 3, as management determines the fair value of the intangible asset. The carrying value of current assets and current liabilities, are considered to approximate their fair value.

The acquired assets, including tangible assets and goodwill, are included in the Corporation's Energy Efficiency business.

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

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

The acquisition of SHC was accounted for using the purchase method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Corporation effective April 21, 2014 and contributed incremental revenue of \$855 and \$1,503 for the three months and nine months ended September 30, 2014, respectively and net loss of \$355 and \$690 for the three months and nine months ended September 30, 2014, respectively. Management estimates that if the acquisition of SHC had taken place at the beginning of the fiscal period, the consolidated revenue and net loss for the nine months ended September 30, 2014 would have been \$6,414 and \$7,584, respectively. Transaction

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

costs of \$96 related to the acquisition of SHC have been expensed and are included in general and administrative expenses in the consolidated statement of loss.

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

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

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

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

## 12. Accounts payable and accrued liabilities

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

	<b>September 30, 2015</b>	December 31, 2014
Accounts payable	<b>\$ 894</b>	\$ 690
Accrued liabilities	<b>4,417</b>	2,255
Accrued restructuring liabilities <sup>(1)</sup>	<b>189</b>	189
Total	<b>\$ 5,500</b>	\$ 3,134

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

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

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

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### 13. Credit facility

On November 20, 2013, Gas & Power entered into agreements with Shell Energy under which Shell Energy will supply energy, credit support, and environmental commodities to Gas & Power in multiple North American natural gas and power retail markets.

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

Under the credit facility agreements Shell Energy has provided Gas & Power credit arrangements for its Canadian and U.S. operations. Under the Canadian revolving credit facility Shell Energy provides 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 provides 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 September 30, 2015, LIBOR was 0.33% (December 31, 2014 – 0.26%). An additional interest rate penalty of 0.50% applies to all facilities in the event that Gas & Power were to be in default of certain financial covenants. Interest is repayable in the month following the month that advances were made. Principal on the revolving credit facility is repayable in the month following the month that advances were made. Principal on the collateral credit facility is repayable by November 20, 2018. No further advances can be made after November 20, 2018.

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

As at September 30, 2015, Gas & Power had \$1,050 (US\$787) (December 31, 2014 - \$464) outstanding under the U.S. collateral credit facility and \$NIL (US\$NIL) (December 31, 2014 - \$157) outstanding under the U.S. revolving credit facility. In 2015, no advances were drawn on the Canadian credit facilities. Under the U.S. credit facilities, amounts are available in US\$5,000 tranches depending on monthly delivered volumes. As at September 30, 2015, a total of US\$5,000 (December 31, 2014 – US\$5,000) was available to be drawn on these facilities. Under the Canadian credit facilities, a total of \$1,000 (December 31, 2014 - \$1,000) was available to be drawn. As at June 30, 2015, Gas & Power was non-compliant with a single covenant in the Shell credit agreements. An additional penalty interest rate of 0.5% is 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% for covenant non-compliance; and at 7.0% per annum on the revolving credit facility plus an interest penalty of 0.5% for covenant non-compliance. On September 1, 2015 the credit facility agreements were amended to change certain covenants. As a result of these amendments, Gas & Power was compliant with the covenants in the Shell credit agreements as at September 30, 2015 and the additional penalty interest rate adder was removed.

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

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

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 September 30, 2015 and December 31, 2014 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 September 30, 2015 and December 31, 2014.

### 14. Long-term debt

	September 30, 2015	December 31, 2014
Equipment financing		
Principal	\$ 14,639	\$ 16,343
Accrued Interest payable	27	37
Other long-term debt	-	81
	<b>14,666</b>	16,461
Less: current portion	<b>1,842</b>	1,877
	<b>\$ 12,824</b>	\$ 14,584

#### (a) Equipment financing

The Corporation finances the cost of rental equipment over a period of seven to ten years. The loans bear interest at rates of 8.9% per annum. Principal and interest are repayable on a monthly basis. The lender retains a portion of the financing proceeds as security ("financing reserve"). This financing reserve is currently at \$672 (December 31, 2014 - \$832) and is reported as restricted cash. The financing reserve becomes available to the Corporation as the debt is repaid. The loan is secured by the rental contracts and the rental equipment that is financed.

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

SHC's former controlling shareholder made advances totaling \$100 to SHC. The remaining balance of the loan was repaid in May 2015 as part of a settlement with SHC's former controlling shareholder.

### 15. Share capital

#### (a) Authorized

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

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



# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

### (b) Capital reorganization and share consolidation

On May 28, 2015, the Corporation changed the designation of the Subordinate Voting Shares to Common Shares and exchanged the Multiple Voting Shares on a one-for-one basis into Common Shares ("Capital Reorganization"). The Corporation completed a share consolidation by issuing one new Common Share for every ten then issued and outstanding Common Shares ("Share Consolidation"). All share capital, stock option, deferred share unit and per share data in the current and comparative periods have been adjusted to reflect this change.

### (c) Issued and outstanding

Shares (in thousands)	Common Shares <sup>(1)</sup>		Multiple Voting Shares <sup>(1)</sup>		Total
Balance, as at December 31, 2014	12,656	\$ 20,420	11,096	\$ 18,805	\$ 39,225
Issued by the Corporation to acquire PVL (note 11(a))	205	205	225	180	385
Share exchange	11,321	18,985	(11,321)	(18,985)	-
Share issuance costs	-	(35)	-	-	(35)
<b>Balance, as at September 30, 2015</b>	<b>24,182</b>	<b>\$ 39,575</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 39,575</b>

<sup>(1)</sup> Adjusted to reflect the Share Consolidation.

### (d) Stock option plans

On March 25, 2002, the Board of Directors of the Corporation ("Board") approved the 2002 Stock Option Incentive Plan (the "2002 Plan"). The 2002 Plan was subsequently amended in 2004 and 2005. On July 9, 2013, the Board approved the 2013 Stock Option Plan ("2013 Plan") and terminated the 2002 Plan. On May 28, 2015, the 2013 Plan was adjusted to reflect the effects of the Capital Reorganization and Share Consolidation. The objective of the 2013 Plan is to provide directors, officers and employees of, and service providers to, the Corporation with a proprietary interest through the granting of options to purchase Common Shares of the Corporation. These groups are primarily responsible for the management, growth and protection of the business of the Corporation. Under the 2013 Plan, the Board may grant options provided that the total number of shares issued under the 2013 Plan does not exceed 2,111. The exercise price of the options is determined by the Board at the time of the grant of an option, but cannot be lower than the market price of the Corporation's shares on the TSX Venture Exchange ("Exchange") on the business day immediately preceding the day on which an option is granted, less any permissible discount under the policies of the Exchange. The options vest over a four- or five-year period and the maximum period during which an option may be exercised is 10 years from the date on which it is granted.

During 2015, the Corporation granted 150 options to purchase Common Shares in the capital of the Corporation to employees. These options vest over a four or five year period, are exercisable at prices from \$0.60 to \$1.10 and expire between March 2025 and August 2025.

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

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

	Weighted average remaining contractual life	Number of options (in thousands) <sup>(1)</sup>	Weighted average exercise price
Outstanding as at December 31, 2014	8.81	1,843	\$ 1.32
Granted		150	0.96
Forfeited		(168)	1.02
<b>Outstanding as at September 30, 2015</b>	<b>8.00</b>	<b>1,825</b>	<b>\$ 1.32</b>
Exercisable as at December 31, 2014	8.81	549	\$ 1.35
<b>Exercisable as at September 30, 2015</b>	<b>8.00</b>	<b>721</b>	<b>\$ 1.38</b>

<sup>(1)</sup> Adjusted to reflect the Share Consolidation.

The Corporation uses the Black-Scholes option pricing model to estimate fair value of options granted. The fair value of options issued during the period was determined using the following weighted average assumptions: risk-free interest rate of 0.99%-1.44%; expected volatility of 80%; expected life of ten years and an expected dividend yield of NIL. The weighted average grant date fair value of options was \$0.96.

### (e) Loss per share

Periods ended September 30	Three months		Nine Months	
	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>
Loss for the period	\$ 468	\$ 2,285	\$ 2,953	\$ 6,251
Weighted average number of shares outstanding (in thousands)	24,183	21,113	23,995	21,113
Basic and diluted loss per share	\$ (0.019)	\$ (\$0.108)	\$ (0.123)	\$ (\$0.296)

<sup>(1)</sup> Adjusted to reflect the Share Consolidation.

Basic loss per share is calculated by dividing the total loss by the weighted average number of shares outstanding during the period. Outstanding stock options, as at September 30, 2015, of 1,825 (September 30, 2014 – 1,842) and Deferred Share Units (“DSUs”) of 106 (September 30, 2014 – NIL), have not been factored into the calculation as they are considered anti-dilutive.

### (f) Deferred share unit plan

On May 28, 2015, the DSU Plan was amended to reflect the effects of the Capital Reorganization and Share Consolidation.

During 2015, the Corporation awarded 80 DSUs to non-executive directors. These DSUs vest immediately and expire between January 2025 and July 2025.

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

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

	Deferred share unit (in thousands) <sup>(1)</sup>	Weighted average exercise price <sup>(1)</sup>
Outstanding as at December 31, 2014	26	\$ 0.50
Granted	80	0.60
<b>Outstanding as at September 30, 2015</b>	<b>106</b>	<b>\$ 0.57</b>

<sup>(1)</sup> Adjusted to reflect the Share Consolidation.

During the three months ended September 30, 2015 and the nine months ended September 30, 2015 the Corporation recorded compensation expense of (\$12) (three months ended September 30, 2014 - \$NIL) and \$56 (nine months ended September 30, 2014 - \$NIL) respectively related to the DSUs granted. As at September 30, 2015, a liability of \$68 (December 31, 2014 - \$13) related to the DSUs granted is included in accrued liabilities (note 12).

The DSU plan originated in October 2014 and as such no DSUs were outstanding as of September 30, 2014.

## 16. Segment disclosure

For the nine months ended September 30, 2015, the Corporation reports operations in two reportable segments: Gas & Power and Home Comfort. The Corporation has chosen to organize the entity around differences in products and service. Substantially all of its revenue for the three months ended September 30, 2015 was derived from these two business segments. The balance of revenue was derived from the Energy Efficiency business which does not meet the quantitative thresholds to be disclosed as a separate reportable segment. The revenue for the Energy Efficiency business is disclosed under Corporate & Others. The prior year segmented disclosure has been restated to conform to the current year presentation.

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

### For the three months ended September 30, 2015

	Gas & Power	Home Comfort	Corporate and Others	Consolidated
Revenue	\$ 6,190	\$ 649	\$ 374	\$ 7,213
Cost of sales	5,091	236	267	5,594
Gross margin	1,099	413	107	1,619
Selling	416	161	293	870
General and administrative	533	240	845	1,618
Operating income (loss) before the undernoted	150	12	(1,031)	(869)
Change in fair value of energy derivatives	700	-	-	700
Finance income	1	-	5	6
Finance cost	(39)	(330)	(2)	(371)
Gain on (loss) disposal of equipment	-	68	-	68
Foreign exchange gain (loss)	-	-	(2)	(2)
<b>Income (loss) for the period</b>	<b>\$ 812</b>	<b>\$ (250)</b>	<b>\$ (1,030)</b>	<b>\$ (468)</b>

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

### For the three months ended September 30, 2014

	Gas & Power	Home Comfort	Corporate and Others	Consolidated
Revenue	\$ 1,717	\$ 855	\$ -	\$ 2,572
Cost of sales	1,227	263	-	1,490
Gross margin	490	592	-	1,082
Selling	1,416	207	220	1,843
General and administrative	322	400	791	1,513
Operating loss before the undernoted	(1,248)	(15)	(1,011)	(2,274)
Change in fair value of energy derivatives	225	-	-	225
Finance income	4	-	28	32
Finance cost	(21)	(358)	-	(379)
Gain (loss) on disposal of equipment	-	18	-	18
Foreign exchange gain (loss)	92	(1)	2	93
<b>Loss for the period</b>	<b>\$ (948)</b>	<b>\$ (356)</b>	<b>\$ (981)</b>	<b>\$ (2,285)</b>

### For the nine months ended September 30, 2015

	Gas & Power	Home Comfort	Corporate and Others	Consolidated
Revenue	\$ 16,469	\$ 2,324	\$ 735	\$ 19,528
Cost of sales	14,112	718	488	15,318
Gross margin	2,357	1,606	247	4,210
Selling	1,060	564	917	2,541
General and administrative	1,463	729	2,360	4,552
Operating income (loss) before the undernoted	(166)	313	(3,030)	(2,883)
Change in fair value of energy derivatives	867	-	-	867
Finance income	2	-	38	40
Finance cost	(131)	(1,046)	(4)	(1,181)
Gain on (loss) disposal of equipment	-	208	-	208
Foreign exchange gain (loss)	(8)	(2)	6	(4)
<b>Income (loss) for the period</b>	<b>\$ 564</b>	<b>\$ (527)</b>	<b>\$ (2,990)</b>	<b>\$ (2,953)</b>

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

### For the nine months ended September 30, 2014

	Gas & Power	Home Comfort	Corporate and Others	Consolidated
Revenue	\$ 3,839	\$ 1,503	\$ -	\$ 5,342
Cost of sales	3,053	567	-	3,620
Gross margin	786	936	-	1,722
Selling	2,685	371	618	3,674
General and administrative	1,569	627	2,199	4,395
Operating loss before the undernoted	(3,468)	(62)	(2,817)	(6,347)
Change in fair value of energy derivatives	578	-	-	578
Finance income	20	-	109	129
Finance cost	(41)	(640)	(4)	(685)
Gain (loss) on disposal of equipment	-	12	-	12
Foreign exchange gain (loss)	61	-	1	62
<b>Loss for the period</b>	<b>\$ (2,850)</b>	<b>\$ (690)</b>	<b>\$ (2,711)</b>	<b>\$ (6,251)</b>

### Geographic information

Revenue from external customers

Periods ended September 30	Three months		Nine Months	
	2015	2014	2015	2014
Canada	\$ 1,682	\$ 1,569	\$ 5,834	\$ 3,872
United states	5,531	1,003	13,694	1,470
	<b>\$ 7,213</b>	<b>\$ 2,572</b>	<b>\$ 19,528</b>	<b>\$ 5,342</b>

### Non-current assets

Non-current assets consist of energy derivatives, property and equipment, intangible assets and goodwill. The energy derivatives and a portion of goodwill are held in the U.S. All non-current assets are held in Canada.

## 17. Expenses

Periods ended September 30	Three months		Nine months	
	2015	2014	2015	2014
Cost of gas and electricity	\$ 5,091	\$ 1,228	\$ 14,112	\$ 3,053
Cost of equipment sales	269	32	499	170
Selling cost	257	1,373	647	2,687
Personnel	1,238	1,103	3,788	3,044
Professional fees	221	172	697	578
Litigation costs <sup>(1)</sup>	117	232	237	543
Occupancy <sup>(2)</sup>	68	128	146	385
Office and other expenses	345	255	904	574
Depreciation and amortization	476	323	1,381	655
	<b>\$ 8,082</b>	<b>\$ 4,846</b>	<b>\$ 22,411</b>	<b>\$ 11,689</b>

<sup>(1)</sup> Note 21(b)

<sup>(2)</sup> Note 19(a)

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

Periods ended September 30	Three months		Nine months	
	2015	2014	2015	2014
<b>Reported as</b>				
Cost of sales	\$ 5,594	\$ 1,490	\$ 15,318	\$ 3,620
Selling	870	1,843	2,541	3,674
General and administrative	1,618	1,513	4,552	4,395
	\$ 8,802	\$ 4,846	\$ 22,411	\$ 11,689

### 18. Supplemental cash flow information

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

Periods ended September 30	Three months		Nine months	
	2015	2014	2015	2014
Accounts receivable and other receivables	\$ (387)	\$ (170)	\$ (1,763)	\$ (1,342)
Inventory	316	(43)	(37)	37
Natural gas delivered in excess of consumption	(241)	(223)	(65)	(87)
Prepaid expenses and deposits	(16)	263	128	(76)
Accounts payable and accrued liabilities	616	440	2,123	1,221
Payments received in advance of consumption	215	118	(52)	(15)
	\$ 503	\$ 385	\$ 334	\$ (262)

### 19. Related party transactions

#### (a) Premises sublease

From January to July 2014, the Corporation subleased its head office premises from OZZ Clean Energy Inc. ("OCE"), who is Sunwave's former controlling shareholder and who is a current shareholder of the Corporation. The sublease was for the period from July 2013 to November 2017. For the nine months ended September 30, 2014, \$167 was charged to the Corporation. No amounts were outstanding as of September 30, 2014. On January 20, 2014, the sublease and underlying head lease was amended, at no penalty, to early terminate on July 31, 2014, resulting in a termination of the Corporation's obligations under the sublease as of that date. The Corporation relocated its head office to new premises in July 2014.

As part of the PVL acquisition, the Corporation rents its Vancouver office from the former controlling shareholder of PVL. For the nine months ended September 30, 2015, the Corporation paid rent totaling \$12 (2014 - \$NIL). The balance outstanding as at September 30, 2015 was \$NIL (December 31, 2014 - \$NIL).

#### (b) Electricity revenue

For the nine months ended September 30, 2015, the Corporation supplied electricity totaling \$8 (2014 - \$23) to a company that is controlled by the controlling shareholder of OCE, based on the Corporation's standard supply agreement for electricity at a negotiated price per kilowatt hour ("kWh"). The balance outstanding as at September 30, 2015 was \$NIL (December 31, 2014 - \$NIL).

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

### (c) Compensation of key management personnel

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

Periods ended September 30	Three months		Nine months	
	2015	2014	2015	2014
Salaries, fees, and short-term employee benefits	\$ 338	\$ 328	\$ 998	\$ 954
Stock-based compensation	78	80	248	214
	\$ 416	\$ 408	\$ 1,246	\$ 1,168

### 20. Income taxes

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

This difference results from the following:

Periods ended September 30	Three months		Nine months	
	2015	2014	2015	2014
Loss before income taxes	\$ (468)	\$ (2,285)	\$ (2,953)	\$ (6,251)
Statutory income tax rate	26.5%	26.5%	26.5%	26.5%
Income tax recovery at combined Federal and Provincial rates	\$ (124)	\$ (606)	\$ (782)	\$ (1,657)
Increase (decrease) in income tax resulting from:				
Non-deductible expenses	\$ 22	\$ 22	\$ 52	\$ 64
Change in unrecognized deferred tax assets	(24)	674	538	1,761
Variance between Canadian & U.S. tax rate applicable to U.S. earnings and other	126	(90)	192	(168)
Income tax expense	\$ -	\$ -	\$ -	\$ -

Deferred tax assets have not been recognized for the following:

	September 30, 2015	December 31, 2014
Non-capital tax loss carry-forwards	\$ 46,949	\$ 46,486
Other	1,861	1,786
	\$ 48,810	\$ 48,272

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

Deferred taxes, in respect of the Corporation's loss carry-forwards, are recognized to the extent that it is probable that they can be utilized. The Corporation has the following Federal non-capital income tax losses, which may be carried forward to reduce future years' taxable income. These losses will expire in the taxation years ending December 31 as follows:

Year	Amount
2015	\$ 55
2026	403
2028	8,987
2029	115,583
2030	5,748
2031	20,550
2032	5,355
2033	7,736
2034	9,740
2035	2,472
	\$ 176,629

## 21. Commitments and contingencies

### (a) Commitments

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

#### September 30, 2015

	Less than one year	Between one and five years	More than five years	Total
Non-cancellable lease	\$ 204	\$ 788	\$ 58	\$ 1,050
Non-cancellable sublease	(116)	(369)	-	(485)
	\$ 88	\$ 419	\$ 58	\$ 565

#### September 30, 2014

	Less than one year	Between one and five years	More than five years	Total
Non-cancellable lease	\$ 168	\$ 762	\$ 184	\$ 1,114
Non-cancellable sublease	-	-	-	-
	\$ 168	\$ 762	\$ 184	\$ 1,114

### (b) Contingencies

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

On July 6, 2011, the Corporation issued a Statement of Claim (the "Claim") in the Ontario Superior Court of Justice (the "Court") against certain former directors and certain former officers of Look in connection with the payment of approximately \$20 million of "restructuring awards" accrued in fiscal 2009 and paid during the first quarter of fiscal 2010 (the "Sale Awards"), of which approximately



# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

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\$15.7 million was paid to the directors and senior officers named in the Claim (or their personal holding companies, as applicable) from the net proceeds of approximately \$64 million realized by the Corporation on the sale of its spectrum license in 2009. The former officers and directors named in the Claim collectively resigned effective July 21, 2010.

The defendants delivered Statements of Defence in the spring of 2013. The defendants, other than Mr. Dolgonos and DOL Technologies Inc., also issued Third Party Claims against Stikeman Elliott LLP and one of its lawyers (collectively, "Stikeman Elliott"). Stikeman Elliott delivered Statements of Defence to the third party claims. The parties exchanged Affidavits of Documents in late 2013 and early 2014. Examinations for discovery began in February 2014 and are completed.

The parties participated in a mediation on July 30 and 31, 2014 with the Honorable George Adams Q.C. The mediation did not result in a settlement.

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

On February 2, 2015 the court scheduled the action for a 6 week trial beginning November 9, 2015. Both the date for, and duration of, a trial will be changed, however, due to the Corporation reaching the Proposed Settlement (described below) with certain but not all of the defendants. The only defendants not party to the Proposed Settlement are the Corporation's former CEO Gerald McGoey and his personal service company Jolian Investments Limited.

On October 14, 2015 the Corporation reached a conditional settlement (the "Proposed Settlement"), subject to court approval, with certain defendants to the claim in the total amount of \$6.7 million. The Proposed Settlement remains subject to Court approval, and all amounts due under the terms of the Proposed Settlement will only be released to the Corporation upon receipt of such Court approval of the terms and conditions of the Proposed Settlement. The Court is scheduled to review the proposal on November 19, 2015. The trial scheduled to start on November 9, 2015 will be rescheduled after the Court has reviewed the Proposed Settlement.

The Proposed Settlement does not include the Corporation's former CEO Gerald McGoey and his personal service company Jolian Investments Limited (collectively the "McGoey Defendants"). If the Proposed Settlement is approved, the claim against the McGoey Defendants will be limited to their proportionate and several liability for up to a maximum of \$5.6 million (being the amounts they received from the Corporation) plus the McGoey Defendants' proportionate and several share of amounts paid by the Corporation as advances to law firms for the payment of legal fees and expenses. The Corporation will continue to vigorously pursue this claim against the McGoey Defendants.

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 \$1.55 million, 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 the Corporation's action against its former officers and directors. The mediation did not result in a settlement though discussions continue. If the Proposed Settlement is approved, this claim will be limited to McMillan's proportionate and several liabilities for these advances. The Corporation will continue to vigorously pursue the McMillan Claim as well.

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

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

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

(iv) Gas & Power is subject to a participation payment to Shell Energy (note 13) upon certain triggering events occurring.

## 22. 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, credit facility, long-term debt and shareholders' equity.

The Corporation invests its capital in high-return bank accounts to obtain adequate returns; targeted asset acquisitions and new infrastructure to support expansion into new markets. During 2014 and 2015, the Corporation used a combination of cash, credit facility financing, long-term debt financing, issuance of shares and grants of stock compensation to meet its investment strategy. The investment decision is based on cash management to ensure working capital is available to meet the Corporation's short-term obligations while maximizing liquidity and returns of unused capital.

## 23. Financial instruments and risk management

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

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

### Risk management

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

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

The Corporation purchases both physical energy commodities, such as natural gas, and financially settled energy instruments such as electricity swap contracts. These commodity products are subject to market fluctuations based upon market supply and demand for such products. The Corporation experiences fluctuations in the unrealized valuation of its contracts to purchase energy commodities. The Corporation is also subject to cancellations by customers that may leave the Corporation with an excess of commodity supply, which may have to be sold into the open market at an indeterminate price. Management actively

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

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

The fair values of the Corporation's financial instruments are significantly influenced by the variability of forward spot prices for electricity and natural gas. Period to period changes in forward spot prices could cause significant changes in the mark to market valuation ("MTM valuation") of these contracts. If forward spot prices increased by 10%, loss for the period would have been \$433 lower, whereas if forward spot prices decreased by 10%, loss for the period would have been \$433 higher, primarily as a result of the change in fair value of the Corporation's derivative instruments.

### Credit risk

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

Credit risk associated with cash is minimized by ensuring this financial asset is 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 SHC, in markets where LDCs do not provide billing & collection services for a fee, the customer is billed directly by SHC. The Corporation's customers are individually insignificant and geographically dispersed. The Corporation currently believes that its susceptibility to an individually significant write-off as a result of concentrations of customer accounts receivable with those LDCs is remote.

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

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

	<b>September 30, 2015</b>	December 31, 2014
<u>Accounts and other receivables</u>		
Current	\$ 4,177	\$ 2,180
31- 90 days	79	81
Over 90 days	98	147
	<b>\$ 4,354</b>	<b>\$ 2,408</b>

The Corporation's maximum assessed exposure to credit risk, as at September 30, 2015 and December 31, 2014, is the carrying value of its accounts and other receivables.

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

### Liquidity risk

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

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

The Corporation's financial liabilities are comprised of its accounts payable and accrued liabilities, payments received in advance of consumption, derivative instruments, credit facility, financial leases, long-term debt and commitments. The payments due by period are set out in the following table:

### **As at September 30, 2015**

	Payment due by period			Total
	Less than one year	Between one and five years	More than five years	
Accounts payable and accrued liabilities	\$ 5,500	\$ -	\$ -	\$ 5,500
Payments received in advance of consumption	215	-	-	215
Credit facility	1,050	-	-	1,050
Energy derivatives	3,765	1,684	-	5,449
Commitments	88	419	58	565
Finance lease obligation	16	-	-	16
Long-term debt	3,180	10,524	6,514	20,218
	\$ 13,814	\$ 12,627	\$ 6,572	\$ 33,013

### **As at December 31, 2014**

	Payment due by period			Total
	Less than one year	Between one and five years	More than five years	
Accounts payable and accrued liabilities	\$ 3,134	\$ -	\$ -	\$ 3,134
Payments received in advance of consumption	267	-	-	267
Credit facility	621	-	-	621
Energy derivatives	3,608	2,305	-	5,913
Commitments	139	688	144	971
Finance lease obligation	34	8	-	42
Long-term debt	2,929	11,719	8,577	23,225
	\$ 10,732	\$ 14,720	\$ 8,721	\$ 34,173

### Derivative financial instruments

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

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

At September 30, 2015, the Corporation had the following financial instruments classified as fair value through profit and loss.

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

Notional volumes (on-peak/off-peak)	19,184 MWh / 15,988 MWh
Total remaining notional volume	35,172 MWh
Maturity dates	January 31, 2016 to December 31, 2018
Fixed price per MWh (in dollars)	\$24.04 to \$47.34
Fair value favourable/(unfavourable)	(168)
Notional value	\$ 878

### Fixed-for-floating electricity swaps – U.S.

Notional volumes (on-peak/off-peak)	17,392 MWh / 18,176 MWh
Total remaining notional volume	35,568 MWh
Maturity dates	October 31, 2015 to January 31, 2017
Fixed price per MWh (in U.S. dollars)	\$26.75 to \$93.00
Fair value favourable/(unfavourable)	\$ 157
Notional value	\$ 1,838

### Natural gas forward contracts - Canada

Total remaining notional volume	323,096 GJ
Maturity dates	March 31, 2016 to February 28, 2019
Fixed price per GJ (in dollars)	\$3.58 to \$4.55
Fair value favourable/(unfavourable)	\$ (249)
Notional value	\$ 1,040

### Change in fair value of derivative instruments

Periods ended September 30	Three months		Nine months	
	2015	2014	2015	2014
Fixed-for-floating electricity swaps	\$ 680	\$ 43	\$ 840	\$ 286
Natural gas forward contracts	20	182	27	292
	\$ 700	\$ 225	\$ 867	\$ 578

### Fair Values

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

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

The following tables illustrates the classification of financial assets / (liabilities) in the FV hierarchy.

As at September 30, 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	\$ 1,872	\$ -	\$ -	\$ 1,872
Restricted cash	3,655	-	-	3,655
Accounts and other receivables	-	4,354	-	4,354
Energy derivatives	-	-	215	215
Financial liabilities				
Accounts payable and accrued liabilities	-	(5,500)	-	(5,500)
Payments received in advance of consumption	-	(215)	-	(215)
Obligation under finance lease	-	(16)	-	(16)
Credit facility	-	(1,050)	-	(1,050)
Energy derivatives	-	-	(420)	(420)
Long-term debt	-	(14,666)	-	(14,666)
	\$ 5,527	\$ (17,093)	\$ (205)	\$ (11,771)

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

Key assumptions used when determining the significant unobservable inputs included in Level 3 of the FV hierarchy consist of:

- (i) discount for lack of marketability up to 1.5%. Discount for lack of marketability represents the amounts the Corporation has determined that market participants would take into account when pricing these derivative instruments;
- (ii) discount for counterparty non-performance risk in the range of 0.19% to 0.34%; and
- (iii) discount rate of 7%.

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

Periods ended September 30	Three months		Nine months	
	2015	2014	2015	2014
Balance, beginning of period	\$ (906)	\$ 370	\$ (1,009)	\$ 30
Gains (losses)	85	164	(21)	332
Purchases	67	65	233	314
Settlements	549	9	592	(68)
Balance, end of period	\$ (205)	\$ 608	\$ (205)	\$ 608

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

### Classification of financial assets and liabilities

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

<b>As at September 30, 2015</b>	<b>Carrying amount and Fair value</b>
Cash	\$ 1,872
Restricted cash	3,655
Accounts and other receivables	4,354
Energy derivatives	215
Accounts payable and accrued liabilities	(5,500)
Payments received in advance of consumption	(215)
Obligation under finance lease	(16)
Credit facility	(1,050)
Energy derivatives	(420)
Long-term debt	(14,666)

  

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

As at September 30, 2015 and December 31, 2014, the carrying value of cash, restricted cash, accounts and other receivables, accounts payable and accrued liabilities, payments in advance of consumption and credit facility approximates their fair value due to their short-term nature. The carrying value of obligation under finance lease and the long-term debt approximates its fair value as its interest payable on outstanding amounts approximates the Corporation's current cost of debt.

### Interest rate risk

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

### Currency risk

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

Although the Corporation is headquartered in Ontario, the majority of the Corporation's customers and revenues are in the U.S. A material portion of ONEnergy's income is generated in U.S. dollars and will be subject to currency fluctuations. As a result of the Corporation's continued expansion of its U.S. operations, ONEnergy expects to have a greater exposure to U.S. currency fluctuations 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

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

(Unaudited, in thousands of Canadian dollars, except per share amounts)

For the three months and nine months ended September 30, 2015 and 2014

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respect to translation exposure, if the Canadian dollar had been 5% stronger or weaker against the U.S. dollar for the nine months ended September 30, 2015, assuming that all the other variables had remained constant, loss for the period would have been \$72 higher/lower (nine months ended September 30, 2014 - \$63 lower/higher) and other comprehensive loss would have been \$72 higher/lower (nine months ended September 30, 2014 - \$63 lower/higher).