

Unaudited Interim Condensed Consolidated Financial Statements of

# ONEnergy Inc.

As at and for the three and six months ended June 30, 2016

**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 ONEnergy Inc. (the "Company") have been prepared by and are the responsibility of the Company's management and have been approved by the Company's Board of Directors. The Company'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 | June 30,<br>2016 | December 31,<br>2015 |
|--|------|------------------|----------------------|
| <b>Assets</b>  |      |                  |                      |
| Current assets   |      |                  |                      |
| Cash   |      | \$ 4,111         | \$ 1,176             |
| Restricted cash  | 6    | 2,583            | 2,603                |
| Accounts and other receivables                             | 7    | 4,125            | 3,749                |
| Inventory  |      | 758              | 922                  |
| Natural gas delivered in excess of consumption             |      | 78               | 329                  |
| Prepaid expenses and deposits                              |      | 161              | 177                  |
| Current portion of energy derivatives                      | 24   | 139              | 18                   |
|  |      | <b>11,955</b>    | 8,974                |
| Assets classified as held for sale                         | 12   | 19,651           | 17,219               |
|  |      | <b>31,606</b>    | 26,193               |
| Non-current assets   |      |                  |                      |
| Energy derivatives   | 24   | 14               | 109                  |
| Property and equipment                                     | 8    | 349              | 409                  |
| Intangible assets  | 9    | 350              | 505                  |
| Goodwill   | 10   | 794              | 794                  |
|  |      | <b>\$ 33,113</b> | \$ 28,010            |
| <b>Total assets</b>  |      |                  |                      |
| <b>Liabilities and Shareholders' Equity</b>                |      |                  |                      |
| Current liabilities  |      |                  |                      |
| Accounts payable and accrued liabilities                   | 13   | \$ 7,994         | \$ 7,181             |
| Payments received in advance of consumption                |      | 70               | 248                  |
| Credit facility  | 14   | 1,422            | 1,088                |
| Current portion of obligation under finance lease          |      | -                | 8                    |
| Current portion of energy derivatives                      | 24   | 615              | 455                  |
|  |      | <b>10,101</b>    | 8,980                |
| Liabilities relating to assets classified as held for sale | 12   | 12,708           | 14,022               |
|  |      | <b>22,809</b>    | 23,002               |
| Non-current liabilities                                    |      |                  |                      |
| Energy derivatives   | 24   | 211              | 243                  |
|  |      | <b>23,020</b>    | 23,245               |
| Shareholders' equity                                       |      |                  |                      |
| Share capital  | 16   | 39,477           | 39,477               |
| Contributed surplus  |      | 1,028            | 810                  |
| Accumulated other comprehensive income                     |      | 206              | 214                  |
| Deficit  |      | (30,618)         | (35,736)             |
|  |      | <b>10,093</b>    | 4,765                |
|  |      | <b>\$ 33,113</b> | \$ 28,010            |
| <b>Total liabilities and shareholders' equity</b>          |      |                  |                      |

### Commitments and contingencies (note 22)

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

Approved by the Board of Directors:

(Signed) – David Rattee  
Director

(Signed) – Stanley H. Hart  
Director

# ONEnergy Inc.

## Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (Unaudited, in thousands of Canadian dollars, except per share amounts)

| Periods ended June 30   | Note  | Three months  |                 | Six months      |                   |
|---|-------|---------------|-----------------|-----------------|-------------------|
|   |       | 2016          | 2015            | 2016            | 2015              |
| <b>Continuing Operations</b>  |       |               |                 |                 |                   |
| Revenue   | 17    | \$ 7,201      | \$ 5,073        | \$ 15,337       | \$ 10,641         |
| Cost of sales   | 17,18 | 6,308         | 4,116           | 13,268          | 9,242             |
| Gross margin  |       | 893           | 957             | 2,069           | 1,399             |
| Expenses  |       |               |                 |                 |                   |
| Selling   | 18    | 934           | 662             | 1,979           | 1,268             |
| General and administrative  | 18    | 856           | 1,246           | 2,594           | 2,445             |
|   |       | 1,790         | 1,908           | 4,573           | 3,713             |
| Operating loss before the undernoted                                |       | (897)         | (951)           | (2,504)         | (2,314)           |
| Other gains (expenses)  |       |               |                 |                 |                   |
| Change in fair value of derivative instruments                      | 24    | 1,138         | 41              | (152)           | 167               |
| Finance income  |       | 14            | 12              | 20              | 34                |
| Finance cost  |       | (44)          | (46)            | (93)            | (94)              |
| Foreign exchange gain (loss)  |       | 1             | 9               | (4)             | -                 |
| Legal settlement  | 22    | -             | -               | 7,175           | -                 |
| <b>Income (loss) from continuing operations</b>                     |       | <b>212</b>    | <b>(935)</b>    | <b>4,442</b>    | <b>(2,207)</b>    |
| <b>Discontinued Operations</b>                                      |       |               |                 |                 |                   |
| Income (loss) from discontinued operations                          | 12    | 394           | 15              | 676             | (278)             |
| <b>Total income (loss)</b>  |       | <b>606</b>    | <b>(920)</b>    | <b>5,118</b>    | <b>(2,485)</b>    |
| <b>Other Comprehensive Income</b>                                   |       |               |                 |                 |                   |
| <b>Item that may subsequently be reclassified to profit or loss</b> |       |               |                 |                 |                   |
| Unrealized gain (loss) on translation of foreign operations         |       | (19)          | (11)            | (8)             | (11)              |
| <b>Other comprehensive income</b>                                   |       | <b>(19)</b>   | <b>(11)</b>     | <b>(8)</b>      | <b>(11)</b>       |
| <b>Total comprehensive income (loss)</b>                            |       | <b>\$ 587</b> | <b>\$ (931)</b> | <b>\$ 5,110</b> | <b>\$ (2,496)</b> |
| <b>Earnings (loss) per share from continuing operations</b>         |       |               |                 |                 |                   |
| Basic and diluted   | 16    | \$ 0.01       | \$ (0.04)       | \$ 0.18         | \$ (0.09)         |
| <b>Earnings (loss) per share attributable to shareholders</b>       |       |               |                 |                 |                   |
| Basic and diluted   | 16    | \$ 0.03       | \$ (0.04)       | \$ 0.21         | \$ (0.10)         |
| <b>Weighted average number of shares outstanding</b>                |       |               |                 |                 |                   |
| Basic and diluted (in thousands)                                    | 16    | 24,122        | 24,045          | 24,122          | 23,899            |

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 (note 16) <sup>(1)</sup> |                  |                    | Contributed surplus | Accumulated other comprehensive income | Shareholders' equity |
|--|--|------------------|--------------------|---------------------|--|----------------------|
|  | Shares                                 | Amount           | Deficit            |                     |  |                      |
| Balance as at January 1, 2015                      | 23,752                                 | \$ 39,225        | \$ (25,963)        | \$ 444              | \$ 46                                  | \$ 13,752            |
| Shares issued to acquire PVL Projects (note 11(a)) | 430                                    | 385              | -                  | -                   | -                                      | 385                  |
| Share issuance costs                               | -                                      | (39)             | -                  | -                   | -                                      | (39)                 |
| Net loss for the period                            | -                                      | -                | (2,485)            | -                   | -                                      | (2,485)              |
| Other comprehensive income (loss)                  | -                                      | -                | -                  | -                   | (11)                                   | (11)                 |
| Stock compensation (note 16)                       | -                                      | -                | -                  | 150                 | -                                      | 150                  |
| <b>Balance as at June 30, 2015</b>                 | <b>24,182</b>                          | <b>\$ 39,571</b> | <b>\$ (28,448)</b> | <b>\$ 594</b>       | <b>\$ 35</b>                           | <b>\$ 11,752</b>     |
| Balance as at January 1, 2016                      | 24,122                                 | \$ 39,477        | \$ (35,736)        | \$ 810              | \$ 214                                 | \$ 4,765             |
| Net income for the period                          | -                                      | -                | 5,118              | -                   | -                                      | 5,118                |
| Other comprehensive income                         | -                                      | -                | -                  | -                   | (8)                                    | (8)                  |
| Stock compensation (note 16)                       | -                                      | -                | -                  | 218                 | -                                      | 218                  |
| <b>Balance as at June 30, 2016</b>                 | <b>24,122</b>                          | <b>\$ 39,477</b> | <b>\$ (30,618)</b> | <b>\$ 1,028</b>     | <b>\$ 206</b>                          | <b>\$ 10,093</b>     |

(1) On May 28, 2015, the Company 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 comparative periods have been adjusted to reflect this change. See note 16 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 June 30  | Note | Three months    |                 | Six months      |                 |
|--|------|-----------------|-----------------|-----------------|-----------------|
|  |      | 2016            | 2015            | 2016            | 2015            |
| Cash flows from the following:   |      |                 |                 |                 |                 |
| <b>Operating activities</b>  |      |                 |                 |                 |                 |
| Income (loss) from continuing operations   |      | \$ 212          | \$ (935)        | \$ 4,442        | \$ (2,207)      |
| Items not affecting cash   |      |                 |                 |                 |                 |
| Depreciation of property and equipment   |      | 35              | 35              | 71              | 71              |
| Amortization of intangible assets  |      | 78              | 128             | 155             | 255             |
| Change in fair value of energy derivatives                                       | 24   | (1,138)         | (41)            | 152             | (167)           |
| Finance costs  |      | 44              | 46              | 93              | 94              |
| Stock based compensation   | 16   | 30              | 70              | 218             | 150             |
| Other  |      | (2)             | -               | (18)            | -               |
| Cash flows provided by (used in) operating activities of discontinued operations |      | 603             | 597             | 1,147           | 878             |
| Change in non-cash operating assets and liabilities                              | 19   | 5,670           | 714             | 690             | (169)           |
| <b>Cash provided by (used in) operating activities</b>                           |      | <b>5,532</b>    | <b>614</b>      | <b>6,950</b>    | <b>(1,095)</b>  |
| <b>Investing activities</b>  |      |                 |                 |                 |                 |
| Decrease (increase) in restricted cash   |      | (99)            | (1,182)         | 20              | (1,304)         |
| Purchase of equipment  |      | (5)             | -               | (11)            | (2)             |
| Purchase of intangible assets  |      | -               | (18)            | -               | (55)            |
| Acquisition of PVL, net of cash acquired   |      | -               | (221)           | -               | (221)           |
| Cash flows provided by (used in) investing activities of discontinued operations |      | (1,198)         | 222             | (2,303)         | 451             |
| <b>Cash used in investing activities</b>   |      | <b>(1,302)</b>  | <b>(1,199)</b>  | <b>(2,294)</b>  | <b>(1,131)</b>  |
| <b>Financing activities</b>  |      |                 |                 |                 |                 |
| Finance costs paid   |      | (43)            | (48)            | (92)            | (87)            |
| Proceeds from credit facility  |      | 5,283           | 3,873           | 10,311          | 8,176           |
| Repayments of credit facility  |      | (4,877)         | (3,697)         | (9,905)         | (7,233)         |
| Repayment of obligation under finance lease                                      |      | -               | (8)             | (8)             | (16)            |
| Share issuance costs   |      | -               | (39)            | -               | (39)            |
| Cash flows provided by (used in) financing activities of discontinued operations |      | (932)           | (1,031)         | (1,896)         | (1,838)         |
| <b>Cash (used in) provided by financing activities</b>                           |      | <b>(569)</b>    | <b>(950)</b>    | <b>(1,590)</b>  | <b>(1,037)</b>  |
| Effect of foreign currency translation   |      | (12)            | (19)            | (131)           | 170             |
| Increase (decrease) in cash  |      | 3,649           | (1,554)         | 2,935           | (3,093)         |
| Cash and cash equivalents, beginning of period                                   |      | 462             | 6,242           | 1,176           | 7,781           |
| <b>Cash and cash equivalents, end of period</b>                                  |      | <b>\$ 4,111</b> | <b>\$ 4,688</b> | <b>\$ 4,111</b> | <b>\$ 4,688</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 and six months ended June 30, 2016

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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 Company under the *Business Corporations Act* (Ontario) ("OBCA") and discontinuing the Company under the CBCA. On August 4, 2015, the Company 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.) 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 Company include ONEnergy, Gas & Power, Home Comfort and PVL. The Company 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 (as described below) businesses. The Company'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 Company'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 sells and installs HVAC and water heaters directly to residential customers. Home Comfort was classified as held for sale as at December 31, 2015; see note 12. Under its Energy Efficiency business, the Company 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 Company 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 Company completed a share consolidation issuing one new Common Share for every ten then issued and outstanding Common Shares (note 16(b)). All share capital, stock option, deferred share unit and per share data in the comparative periods have been adjusted to reflect this change.

The Common Shares of the Company 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 August 23, 2016.

# ONEnergy Inc.

**Notes to the interim condensed consolidated financial statements**  
(Unaudited, in thousands of Canadian dollars, except per share amounts)  
For the three and six months ended June 30, 2016

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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 year ended December 31, 2015.

### Basis of presentation

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars, the functional currency of the Company, 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 Company 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:

### 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 Company based on the number of units of energy consumed but not yet billed, based on 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 Company 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



# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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

For the three and six months ended June 30, 2016

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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, goodwill 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 Company 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 Company.

### 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 are recognized at fair value on the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities as at the date of acquisition.

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

The 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 Company intends to adopt these standards when they become effective.

The following is a description of the new standards:

IFRS 9, *Financial Instruments* ("IFRS 9") 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* ("IFRS 15"): 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;

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## Notes to the interim condensed consolidated financial statements

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

For the three and six months ended June 30, 2016

- 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, 2018.

IFRS 16, *Leases* ("IFRS 16"): In January 2016, the IASB issued IFRS 16 which supersedes IAS 17, *Leases*. This standard introduces a single lessee accounting model. The new standard will affect the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including for most leases which are currently accounted for as operating leases. The Standard is effective for annual periods beginning on or after January 1, 2019.

### 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 Company 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:

- The Company has deposits of \$2,371 at June 30, 2016 (December 31, 2015 – \$2,195) held as collateral to support letters of credit issued by the Company and as financial assurance against our operations in certain U.S. and Canadian markets.
- The Company has cash of \$188 at June 30, 2016 (December 31, 2015 - \$408) 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").
- The Corporation has other restricted cash of \$24 at June 30, 2015 (December 31, 2015 - \$NIL).

### 7. Accounts and other receivables

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

| As at                | June 30,<br>2016 | December 31,<br>2015 |
|----------------------|------------------|----------------------|
| Trade receivables    | \$ 2,576         | \$ 2,126             |
| Unbilled receivables | 1,549            | 1,487                |
| Refundable taxes     | -                | 136                  |
| Other receivables    | -                | -                    |
| Total                | \$ 4,125         | \$ 3,749             |

# ONEnergy Inc.

Notes to the interim condensed consolidated financial statements  
(Unaudited, in thousands of Canadian dollars, except per share amounts)  
For the three and six months ended June 30, 2016

## 8. Property and equipment

As at June 30, 2016

|   | Rental<br>equipment | Computer<br>hardware | Office<br>furniture and<br>equipment | Leasehold<br>improvement | Total<br>property and<br>equipment |
|---|---------------------|----------------------|--------------------------------------|--------------------------|------------------------------------|
| <b>Cost</b>   |                     |                      |                                      |                          |                                    |
| Balance at January 1, 2016                                  | \$ -                | \$ 102               | \$ 176                               | \$ 413                   | \$ 691                             |
| Additions   | 2,874               | -                    | -                                    | 11                       | 2,885                              |
| Disposals   | -                   | -                    | -                                    | -                        | -                                  |
| Transfer to assets classified as held for sale<br>(note 12) | (2,874)             | -                    | -                                    | -                        | (2,874)                            |
| <b>Balance at June 30, 2016</b>                             | <b>-</b>            | <b>102</b>           | <b>176</b>                           | <b>424</b>               | <b>702</b>                         |
| <b>Accumulated depreciation</b>                             |                     |                      |                                      |                          |                                    |
| Balance at January 1, 2016                                  | -                   | 88                   | 84                                   | 110                      | 282                                |
| Depreciation  | -                   | 5                    | 24                                   | 42                       | 71                                 |
| Disposals   | -                   | -                    | -                                    | -                        | -                                  |
| <b>Balance at June 30, 2016</b>                             | <b>-</b>            | <b>93</b>            | <b>108</b>                           | <b>152</b>               | <b>353</b>                         |
| <b>Net book value</b>                                       |                     |                      |                                      |                          |                                    |
| As at December 31, 2015                                     | \$ -                | \$ 14                | \$ 92                                | \$ 303                   | \$ 409                             |
| <b>As at June 30, 2016</b>                                  | <b>\$ -</b>         | <b>\$ 9</b>          | <b>\$ 68</b>                         | <b>\$ 272</b>            | <b>\$ 349</b>                      |

## 9. Intangible assets

As at June 30, 2016

|                                  | Customer<br>contracts | Computer<br>software | Non-<br>compete<br>agreement | Total<br>intangible<br>assets |
|----------------------------------|-----------------------|----------------------|------------------------------|-------------------------------|
| <b>Cost</b>                      |                       |                      |                              |                               |
| Balance at January 1, 2016       | \$ 919                | \$ 204               | \$ 25                        | \$ 1,148                      |
| Additions                        | -                     | -                    | -                            | -                             |
| Disposals, retirements and other | -                     | -                    | -                            | -                             |
| <b>Balance at June 30, 2016</b>  | <b>919</b>            | <b>204</b>           | <b>25</b>                    | <b>1,148</b>                  |
| <b>Accumulated amortization</b>  |                       |                      |                              |                               |
| Balance at January 1, 2016       | 546                   | 89                   | 8                            | 643                           |
| Amortization                     | 110                   | 39                   | 6                            | 155                           |
| Disposals, retirements and other | -                     | -                    | -                            | -                             |
| <b>Balance at June 30, 2016</b>  | <b>656</b>            | <b>128</b>           | <b>14</b>                    | <b>798</b>                    |
| <b>Net book value</b>            |                       |                      |                              |                               |
| As at December 31, 2015          | \$ 373                | \$ 115               | \$ 17                        | \$ 505                        |
| <b>As at June 30, 2016</b>       | <b>\$ 263</b>         | <b>\$ 76</b>         | <b>\$ 11</b>                 | <b>\$ 350</b>                 |

## 10. Goodwill

|                                 |               |
|---------------------------------|---------------|
| <b>Cost</b>                     |               |
| Balance at December 31, 2015    | \$ 794        |
| <b>Balance at June 30, 2016</b> | <b>\$ 794</b> |

# ONEnergy Inc.

Notes to the interim condensed consolidated financial statements  
(Unaudited, in thousands of Canadian dollars, except per share amounts)  
For the three and six months ended June 30, 2016

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## 11. Acquisitions

### (a) Acquisition of 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 contributed incremental revenue from continuing operations of \$156 and loss from continuing operations of \$35 for the three months and six months ended June 30, 2015. Management estimates that if the acquisition of PVL had taken place at the beginning of the fiscal year, the consolidated revenue from continuing operations would have been \$5,074 and \$12,285 for the three months and six months ended June 30, 2015, respectively, and loss from continuing operations would have been \$1,616 and \$2,212 for the three months and six months ended June 30, 2015, 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           |
|   | <hr/>         |
|   | <b>\$ 698</b> |
| <br>  |               |
| <b>Fair value recognized on acquisition</b> |               |
| Current assets                              | \$ 669        |
| Current liabilities                         | (242)         |
| Non-compete agreement                       | 25            |
| Goodwill                                    | 246           |
|   | <hr/>         |
|   | <b>\$ 698</b> |

Goodwill comprised the value of PVL's workforce and management team 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 acquired assets, including tangible assets and goodwill, are included in the Company's Energy Efficiency business.

## 12. Discontinued operations

In December 2015 the Company formally commenced the process to sell Home Comfort. Home Comfort has been operating in a highly competitive environment which has seen its major competitors consolidate, making it difficult for management to derive real growth and profitability from the segment. As a result, management has decided this is a non-core business. The disposal of Home Comfort is due to be completed within the current fiscal year. At June 30, 2016 and December 31, 2015 Home Comfort was classified as held for sale and as a discontinued operation.

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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

For the three and six months ended June 30, 2016

The results of Home Comfort for the period are presented below:

| Periods ended June 30                             | Three months  |              | Six months    |                 |
|---|---------------|--------------|---------------|-----------------|
|   | 2016          | 2015         | 2016          | 2015            |
| Revenue   | \$ 693        | \$ 950       | \$ 1,399      | \$ 1,674        |
| Cost of sales                                     | 2             | 244          | 17            | 482             |
| Gross margin                                      | 691           | 706          | 1,382         | 1,192           |
| Expenses  |               |              |               |                 |
| Selling   | 7             | 207          | 27            | 403             |
| General and administrative                        | 81            | 213          | 209           | 489             |
|   | 88            | 420          | 236           | 892             |
| Operating profit before the undernoted            | 603           | 286          | 1,146         | 300             |
| Other gains (expenses)                            |               |              |               |                 |
| Finance income                                    | -             | -            | 1             | -               |
| Finance cost                                      | (294)         | (354)        | (601)         | (716)           |
| Gain on disposal of equipment                     | 85            | 83           | 130           | 140             |
| Foreign exchange loss                             | -             | -            | -             | (2)             |
| <b>Income (loss) from discontinued operations</b> | <b>\$ 394</b> | <b>\$ 15</b> | <b>\$ 676</b> | <b>\$ (278)</b> |

### Earnings (loss) per share from discontinued operations

|                   |         |         |         |           |
|-------------------|---------|---------|---------|-----------|
| Basic and diluted | \$ 0.02 | \$ 0.00 | \$ 0.03 | \$ (0.01) |
|-------------------|---------|---------|---------|-----------|

Deferred tax assets have not been recognized for the following:

| As at                               | June 30,<br>2016 | December 31,<br>2015 |
|-------------------------------------|------------------|----------------------|
| Non-capital tax loss carry-forwards | \$ 579           | \$ 724               |
| Other                               | 68               | 102                  |
|                                     | \$ 647           | \$ 826               |

Unrecognized losses available for carryforward will expire in the taxation years ending December 31 as follows:

| Year | Amount   |
|------|----------|
| 2032 | 1,707    |
| 2033 | 119      |
| 2034 | 359      |
|      | \$ 2,185 |

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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

For the three and six months ended June 30, 2016

The major classes of assets and liabilities of Home Comfort classified as held for sale are as follows:

| As at  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| <b>Assets</b>  |                  |                      |
| Current assets   |                  |                      |
| Restricted cash  | \$ 663           | \$ 761               |
| Accounts and other receivables   | 330              | 336                  |
| Inventory  | 48               | 37                   |
| Prepaid expenses and deposits  | -                | 6                    |
|  | <b>1,041</b>     | 1,140                |
| Non-current assets   |                  |                      |
| Property and equipment   | 17,010           | 14,479               |
| Intangible assets  | 1,600            | 1,600                |
| <b>Assets classified as held for sale</b>                                      | <b>\$ 19,651</b> | <b>\$ 17,219</b>     |
| <b>Liabilities</b>   |                  |                      |
| Current liabilities  |                  |                      |
| Accounts payable and accrued liabilities                                       | \$ 47            | \$ 66                |
| Current portion of long-term debt (note 15)                                    | 1,798            | 1,824                |
|  | <b>1,845</b>     | 1,890                |
| Non-current liabilities  |                  |                      |
| Long-term debt (note 15)   | 10,863           | 12,132               |
| <b>Liabilities directly associated with assets classified as held for sale</b> | <b>\$ 12,708</b> | <b>\$ 14,022</b>     |

### 13. Accounts payable and accrued liabilities

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

| As at  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Accounts payable                                 | \$ 951           | \$ 2,488             |
| Accrued liabilities <sup>(1)</sup>               | 7,043            | 4,504                |
| Accrued restructuring liabilities <sup>(2)</sup> | -                | 189                  |
| <b>Total</b>                                     | <b>\$ 7,994</b>  | <b>\$ 7,181</b>      |

(1) A company controlled by a shareholder of ONEnergy has expressed interest in acquiring Home Comfort and has advanced \$1,127 and \$2,208 in cash and working capital support during the three months and six months ended June 30, 2016, respectively, as an indication of that interest. No definitive agreement has been reached as of June 30, 2016. The advances carry no interest and are repayable on demand. The balance outstanding as at June 30, 2016 was \$2,208 (December 31, 2015 - \$NIL) and was included in accrued liabilities.

(2) During fiscal 2009, the Company 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. Costs associated with the \$7,175 legal settlement recognized during the year were applied against the accrued restructuring liabilities. See note 22(b) for additional information.

### 14. 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.

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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

For the three and six months ended June 30, 2016

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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 six US states, namely Connecticut, New York, Pennsylvania, Illinois, Massachusetts and Ohio. 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 June 30, 2016, LIBOR was 0.65% (December 31, 2015 – 0.61%). 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 June 30, 2016, Gas & Power had \$1,422 (US\$1,101) (December 31, 2015 - \$1,088) outstanding under the U.S. collateral credit facility and \$NIL (December 31, 2015 - \$NIL) outstanding under the U.S. revolving credit facility. In 2015 and 2016, 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 June 30, 2016, a total of US\$5,000 (December 31, 2015 – US\$5,000) was available to be drawn on these facilities. Under the Canadian credit facilities, a total of \$1,000 (December 31, 2015 - \$1,000) was available to be drawn. Interest is provided at 8.0% per annum on the collateral credit facility and at 7.0% per annum on the revolving credit facility.

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 Company. 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 Company. 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 June 30, 2016 and December 31, 2015 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 June 30, 2016 and December 31, 2015.

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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

For the three and six months ended June 30, 2016

### 15. Long-term debt

| As at  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Equipment financing  |                  |                      |
| Principal  | \$ 12,638        | \$ 13,927            |
| Accrued Interest payable   | 23               | 29                   |
|  | <b>12,661</b>    | <b>13,956</b>        |
| Less: transfer to liabilities relating to assets classified as held for sale (note 12) | <b>(12,661)</b>  | <b>(13,956)</b>      |
|  | <b>\$ -</b>      | <b>\$ -</b>          |

The Company 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 \$663 (December 31, 2015 - \$749) and is included in assets classified as held for sale. The financing reserve becomes available to the Company as the debt is repaid. The loans are secured by the rental contracts and the rental equipment that is financed. The loans have been reclassified to liabilities relating to assets held for sale.

### 16. 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 Company.

#### (b) Capital reorganization and share consolidation

On May 28, 2015, the Company 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 Company 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 comparative periods have been adjusted to reflect this change.

#### (c) Issued and outstanding

| Shares (in thousands)                                     | Common Shares           |
|---|-------------------------|
| <b>Balance, as at December 31, 2015 and June 30, 2016</b> | <b>24,122 \$ 39,477</b> |

#### (d) Stock option plans

On July 9, 2013, the Board approved the 2013 Stock Option Plan ("2013 Plan") and terminated the 2002 Stock Option Incentive 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 Company with a proprietary interest through the granting of options to purchase Common Shares of the Company. These groups are primarily responsible for the management, growth and protection of the business of the Company. 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 Company'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



# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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

For the three and six months ended June 30, 2016

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.

The Company did not grant any options to purchase Common Shares in the capital of the Company to employees during 2016.

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

|  | Weighted average remaining contractual life | Number of options (in thousands) | Weighted average exercise price |
|--|---|----------------------------------|---------------------------------|
| Outstanding as at January 1, 2016      | 7.84  | 1,910                            | \$ 1.29                         |
| Granted                                |   | -                                | -                               |
| Forfeited                              |   | (1,069)                          | 1.39                            |
| <b>Outstanding as at June 30, 2016</b> | <b>7.68</b>                                 | <b>841</b>                       | <b>\$ 1.15</b>                  |
| Exercisable as at December 31, 2015    | 7.57  | 809                              | 1.37                            |
| <b>Exercisable as at June 30, 2016</b> | <b>7.32</b>                                 | <b>392</b>                       | <b>\$ 1.27</b>                  |

The Company uses the Black-Scholes option pricing model to estimate fair value of options granted.

### (e) Earnings (loss) per share

| Periods ended June 30  | Three months |                     | Six months |                     |
|--|--------------|---------------------|------------|---------------------|
|  | 2016         | 2015 <sup>(1)</sup> | 2016       | 2015 <sup>(1)</sup> |
| Income (loss) from continuing operations                                 | \$ 212       | \$ (935)            | \$ 4,442   | \$ (2,207)          |
| Income (loss) attributable to shareholders                               | \$ 606       | \$ (920)            | \$ 5,118   | \$ (2,485)          |
| Weighted average number of shares outstanding (in thousands)             | 24,122       | 24,045              | 24,122     | 23,899              |
| Basic and diluted earnings (loss) per share from continuing operations   | \$ 0.01      | \$ (\$0.04)         | \$ 0.18    | \$ (\$0.09)         |
| Basic and diluted earnings (loss) per share attributable to shareholders | \$ 0.03      | \$ (\$0.04)         | \$ 0.21    | \$ (\$0.10)         |

(1) Adjusted to reflect the Share Consolidation.

Basic earnings (loss) per share is calculated by dividing the total income (loss) by the weighted average number of shares outstanding during the period. Outstanding stock options, as at June 30, 2016, of 841 (June 30, 2015 – 1,833) and Deferred Share Units (“DSUs”) of 244 (June 30, 2015 – 89), 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 2016, the Company awarded 111 DSUs to non-executive directors. These DSUs vest immediately and expire between January 2026 and June 2026.

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

|  | Deferred share unit (in thousands) | Weighted average exercise price |
|--|------------------------------------|---------------------------------|
| Outstanding as at January 1, 2016      | 133                                | \$ 0.57                         |
| Granted                                | 111                                | 0.44                            |
| <b>Outstanding as at June 30, 2016</b> | <b>244</b>                         | <b>\$ 0.51</b>                  |

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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

For the three and six months ended June 30, 2016

During the three months and six months ended June 30, 2016 the Company recorded compensation expense of \$8 (three months ended June 30, 2015 - \$44) and \$53 (six months ended June 30, 2015 - \$69), respectively, related to the DSUs granted. As at June 30, 2016, a liability of \$93 (December 31, 2015 - \$40) related to the DSUs granted is included in accrued liabilities (note 13).

### (g) Purchase of shares for cancellation pursuant to normal course issuer bid

On October 7, 2015 the Company announced its intention to make a Normal Course Issuer Bid ("NCIB") to repurchase up to 1,209 of its Common Shares from October 12, 2015 to October 7, 2016 through the facilities of the TSX Venture Exchange ("Exchange"). During the six months ended June 30, 2016 the Company purchased NIL (six months ended June 30, 2015 – NIL) Common Shares for cancellation through the facilities of the Exchange pursuant to the NCIB. The excess of the average stated value over the purchase price of shares purchased for cancellation is credited to contributed surplus. The Company ceases to consider shares outstanding on the date of purchase of the shares, although the actual cancellation of the shares by the transfer agent and registrar occurs on a timely basis on a date shortly thereafter.

### 17. Segment disclosure

For the three months and six months ended June 30, 2016, the Company reports operations in two reportable segments: Gas & Power and Home Comfort. The Company has chosen to organize the entity around differences in products and service. Substantially all of its revenue for the three months and six months ended June 30, 2016 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.

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 Company is not considered to have any key customers.

#### For the three months ended June 30, 2016

|  | Gas & Power   | Home Comfort  | Corporate and Others | Consolidated  |
|--|---------------|---------------|----------------------|---------------|
| Revenue  | \$ 7,072      | \$ -          | \$ 129               | \$ 7,201      |
| Cost of sales                                  | 6,185         | -             | 123                  | 6,308         |
| Gross margin                                   | 887           | -             | 6                    | 893           |
| Selling  | 563           | -             | 371                  | 934           |
| General and administrative                     | 475           | -             | 381                  | 856           |
| Operating income (loss) before the undernoted  | (151)         | -             | (746)                | (897)         |
| Change in fair value of derivative instruments | 1,138         | -             | -                    | 1,138         |
| Finance income                                 | 2             | -             | 12                   | 14            |
| Finance cost                                   | (43)          | -             | (1)                  | (44)          |
| Foreign exchange loss                          | 1             | -             | -                    | 1             |
| Legal settlement                               | -             | -             | -                    | -             |
| Income (loss) from continuing operations       | 947           | -             | (735)                | 212           |
| Discontinued operations                        | -             | 394           | -                    | 394           |
| <b>Income (loss) for the period</b>            | <b>\$ 947</b> | <b>\$ 394</b> | <b>\$ (735)</b>      | <b>\$ 606</b> |

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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

For the three and six months ended June 30, 2016

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

|  | Gas & Power  | Home Comfort | Corporate and Others | Consolidated    |
|--|--------------|--------------|----------------------|-----------------|
| Revenue  | \$ 4,890     | \$ -         | \$ 183               | \$ 5,073        |
| Cost of sales                                  | 3,980        | -            | 136                  | 4,116           |
| Gross margin                                   | 910          | -            | 47                   | 957             |
| Selling  | 331          | -            | 331                  | 662             |
| General and administrative                     | 503          | -            | 743                  | 1,246           |
| Operating loss before the undernoted           | 76           | -            | (1,027)              | (951)           |
| Change in fair value of derivative instruments | 41           | -            | -                    | 41              |
| Finance income                                 | 1            | -            | 11                   | 12              |
| Finance cost                                   | (45)         | -            | (1)                  | (46)            |
| Foreign exchange gain (loss)                   | 2            | -            | 7                    | 9               |
| Legal settlement                               | -            | -            | -                    | -               |
| Income (loss) from continuing operations       | 75           | -            | (1,010)              | (935)           |
| Discontinued operations                        | -            | 15           | -                    | 15              |
| <b>Income (loss) for the period</b>            | <b>\$ 75</b> | <b>\$ 15</b> | <b>\$ (1,010)</b>    | <b>\$ (920)</b> |

### For the six months ended June 30, 2016

|  | Gas & Power     | Home Comfort  | Corporate and Others | Consolidated    |
|--|-----------------|---------------|----------------------|-----------------|
| Revenue  | \$ 14,640       | \$ -          | \$ 697               | \$ 15,337       |
| Cost of sales                                  | 12,689          | -             | 579                  | 13,268          |
| Gross margin                                   | 1,951           | -             | 118                  | 2,069           |
| Selling  | 1,099           | -             | 880                  | 1,979           |
| General and administrative                     | 916             | -             | 1,678                | 2,594           |
| Operating income (loss) before the undernoted  | (64)            | -             | (2,440)              | (2,504)         |
| Change in fair value of derivative instruments | (152)           | -             | -                    | (152)           |
| Finance income                                 | 3               | -             | 17                   | 20              |
| Finance cost                                   | (90)            | -             | (3)                  | (93)            |
| Foreign exchange loss                          | -               | -             | (4)                  | (4)             |
| Legal settlement                               | -               | -             | 7,175                | 7,175           |
| Income (loss) from continuing operations       | (303)           | -             | 4,745                | 4,442           |
| Discontinued operations                        | -               | 676           | -                    | 676             |
| <b>Income (loss) for the period</b>            | <b>\$ (303)</b> | <b>\$ 676</b> | <b>\$ 4,745</b>      | <b>\$ 5,118</b> |

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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

For the three and six months ended June 30, 2016

### For the six months ended June 30, 2015

|  | Gas & Power     | Home Comfort    | Corporate and Others | Consolidated      |
|--|-----------------|-----------------|----------------------|-------------------|
| Revenue  | \$ 10,279       | \$ -            | \$ 362               | \$ 10,641         |
| Cost of sales                                  | 9,021           | -               | 221                  | 9,242             |
| Gross margin                                   | 1,258           | -               | 141                  | 1,399             |
| Selling  | 644             | -               | 624                  | 1,268             |
| General and administrative                     | 930             | -               | 1,515                | 2,445             |
| Operating loss before the undernoted           | (316)           | -               | (1,998)              | (2,314)           |
| Change in fair value of derivative instruments | 167             | -               | -                    | 167               |
| Finance income                                 | 2               | -               | 32                   | 34                |
| Finance cost                                   | (92)            | -               | (2)                  | (94)              |
| Foreign exchange gain (loss)                   | (8)             | -               | 8                    | -                 |
| Legal settlement                               | -               | -               | -                    | -                 |
| Loss from continuing operations                | (247)           | -               | (1,960)              | (2,207)           |
| Discontinued operations                        | -               | (278)           | -                    | (278)             |
| <b>Loss for the period</b>                     | <b>\$ (247)</b> | <b>\$ (278)</b> | <b>\$ (1,960)</b>    | <b>\$ (2,485)</b> |

### Geographic information

Revenue from external customers:

| Periods ended June 30 | Three months    |                 | Six months       |                  |
|-----------------------|-----------------|-----------------|------------------|------------------|
|                       | 2016            | 2015            | 2016             | 2015             |
| Canada                | \$ 835          | \$ 976          | \$ 2,233         | \$ 2,478         |
| United states         | 6,366           | 4,097           | 13,104           | 8,163            |
|                       | <b>\$ 7,201</b> | <b>\$ 5,073</b> | <b>\$ 15,337</b> | <b>\$ 10,641</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 other non-current assets are held in Canada.

## 18. Expenses

| Periods ended June 30         | Three months    |                 | Six months       |                  |
|-------------------------------|-----------------|-----------------|------------------|------------------|
|                               | 2016            | 2015            | 2016             | 2015             |
| Cost of gas and electricity   | \$ 6,185        | \$ 3,980        | \$ 12,689        | \$ 9,021         |
| Cost of equipment sales       | 123             | 135             | 579              | 220              |
| Selling cost                  | 237             | 136             | 535              | 265              |
| Personnel                     | 1,029           | 1,160           | 2,813            | 2,117            |
| Professional fees             | 198             | 223             | 347              | 463              |
| Litigation costs (note 22(b)) | -               | 19              | 26               | 120              |
| Occupancy                     | 83              | 50              | 186              | 68               |
| Office and other expenses     | 130             | 158             | 440              | 356              |
| Depreciation and amortization | 113             | 163             | 226              | 325              |
|                               | <b>\$ 8,098</b> | <b>\$ 6,024</b> | <b>\$ 17,841</b> | <b>\$ 12,955</b> |

| Periods ended June 30      | Three months    |                 | Six months       |                  |
|----------------------------|-----------------|-----------------|------------------|------------------|
|                            | 2016            | 2015            | 2016             | 2015             |
| <b>Reported as</b>         |                 |                 |                  |                  |
| Cost of sales              | \$ 6,308        | \$ 4,116        | \$ 13,268        | \$ 9,242         |
| Selling                    | 934             | 662             | 1,979            | 1,268            |
| General and administrative | 856             | 1,246           | 2,594            | 2,445            |
|                            | <b>\$ 8,098</b> | <b>\$ 6,024</b> | <b>\$ 17,841</b> | <b>\$ 12,955</b> |

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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### 19. Supplemental cash flow information

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

| Periods ended June 30                          | Three months |        | Six months |            |
|--|--------------|--------|------------|------------|
|  | 2016         | 2015   | 2016       | 2015       |
| Accounts receivable and other receivables      | \$ 6,778     | \$ 287 | \$ (376)   | \$ (1,375) |
| Inventory                                      | (112)        | (352)  | 164        | (353)      |
| Natural gas delivered in excess of consumption | 165          | -      | 251        | 176        |
| Prepaid expenses and deposits                  | 18           | 19     | 16         | 144        |
| Accounts payable and accrued liabilities       | (1,059)      | 847    | 813        | 1,506      |
| Payments received in advance of consumption    | (120)        | (87)   | (178)      | (267)      |
|  | \$ 5,670     | \$ 714 | \$ 690     | \$ (169)   |

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

| Periods ended June 30  | Three months |        | Six months |        |
|--|--------------|--------|------------|--------|
|  | 2016         | 2015   | 2016       | 2015   |
| Shares issued as consideration in PVL acquisition (note 11(a)) | \$ -         | \$ 385 | \$ -       | \$ 385 |
|  | \$ -         | \$ 385 | \$ -       | \$ 385 |

### 20. Related party transactions

#### (a) Compensation of key management personnel

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

| Periods ended June 30   | Three months |        | Six months |        |
|---|--------------|--------|------------|--------|
|   | 2016         | 2015   | 2016       | 2015   |
| Salaries, bonuses, fees, separation payments and short-term employee benefits | \$ 172       | \$ 293 | \$ 834     | \$ 640 |
| Stock-based compensation  | 36           | 84     | 257        | 171    |
|   | \$ 208       | \$ 377 | \$ 1,091   | \$ 811 |

### 21. Income taxes

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

This difference results from the following:

| Periods ended June 30   | Three months |          | Six months |            |
|---|--------------|----------|------------|------------|
|   | 2016         | 2015     | 2016       | 2015       |
| Income (loss) from continuing operations before income taxes                    | \$ 212       | \$ (935) | \$ 4,442   | \$ (2,207) |
| Statutory income tax rate   | 26.5%        | 26.5%    | 26.5%      | 26.5%      |
| Income tax expense (recovery) at combined Federal and Provincial rates          | \$ 56        | \$ (248) | \$ 1,177   | \$ (585)   |
| Increase (decrease) in income tax resulting from:                               |              |          |            |            |
| Non-deductible expenses   | 7            | 19       | 71         | 30         |
| Change in unrecognized deferred tax assets                                      | (237)        | 175      | (1,380)    | 489        |
| Variance between Canadian & U.S. tax rate applicable to U.S. earnings and other | 174          | 54       | 132        | 66         |
| Income tax expense  | \$ -         | \$ -     | \$ -       | \$ -       |

# ONEnergy Inc.

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Deferred tax assets have not been recognized for the following:

| As at                               | June 30,<br>2016 | December 31,<br>2015 |
|-------------------------------------|------------------|----------------------|
| Non-capital tax loss carry-forwards | \$ 45,067        | \$ 46,499            |
| Other                               | 83               | 31                   |
|                                     | \$ 45,150        | \$ 46,530            |

Deferred taxes, in respect of the Company's loss carry-forwards, are recognized to the extent that it is probable that they can be utilized. The Company has the following Federal non-capital income tax losses from continuing operations, 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     |
|------|------------|
| 2028 | 3,941      |
| 2029 | 115,583    |
| 2030 | 5,849      |
| 2031 | 20,834     |
| 2032 | 5,272      |
| 2033 | 5,601      |
| 2034 | 7,962      |
| 2035 | 2,189      |
|      | \$ 167,231 |

## 22. Commitments and contingencies

### (a) Commitments

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

#### June 30, 2016

|                          | Less than<br>one year | Between one<br>and five<br>years | More than<br>five years | Total  |
|--------------------------|-----------------------|----------------------------------|-------------------------|--------|
| Non-cancellable lease    | \$ 188                | \$ 707                           | \$ -                    | \$ 895 |
| Non-cancellable sublease | (135)                 | (326)                            | -                       | (461)  |
|                          | \$ 53                 | \$ 381                           | \$ -                    | \$ 434 |

#### December 31, 2015

|                          | Less than<br>one year | Between one<br>and five<br>years | More than<br>five years | Total    |
|--------------------------|-----------------------|----------------------------------|-------------------------|----------|
| Non-cancellable lease    | \$ 198                | \$ 776                           | \$ 29                   | \$ 1,003 |
| Non-cancellable sublease | (135)                 | (393)                            | -                       | (528)    |
|                          | \$ 63                 | \$ 383                           | \$ 29                   | \$ 475   |

### (b) Contingencies

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

On July 6, 2011, the Company 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 \$20,000 of "restructuring awards" accrued in fiscal 2009 and paid during the first quarter of fiscal 2010 (the "Sale Awards"), of which approximately \$15,700 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 \$64,000 realized by the Company on the sale of its spectrum license in 2009. The former officers and directors named in the Claim collectively resigned effective July 21, 2010.

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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The Company 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.

On October 14, 2015 the Company reached a conditional settlement (the "Proposed Settlement"), subject to Court approval, with certain defendants to the Claim. On November 18, 2015, the Company reached a conditional settlement with McMillan ("McMillan Settlement") that is contingent on the Court approval of the Proposed Settlement. The Court convened to review the proposal on November 19, 2015, however did not issue a decision on the Proposed Settlement and did not schedule a new trial date. On March 1, 2016, the Ontario Superior Court of Justice released a decision approving the Proposed Settlement by which the Company will recover, along with the McMillan Settlement, a total of \$7,175. The Company received the funds on April 1, 2016, following a 30 day appeal period.

The Proposed Settlement does not include the Company's former CEO Gerald McGoey and his personal service company Jolian Investments Limited (collectively the "McGoey Defendants"). The Claim against the McGoey Defendants will be limited to their proportionate and several liability for up to a maximum of \$5,600 (being the amounts they received from the Company) plus the McGoey Defendants' proportionate and several share of amounts paid by the Company as advances to law firms for the payment of legal fees and expenses. The Company will continue to vigorously pursue this Claim against the McGoey Defendants.

- (ii) In the normal course of its operations, the Company may be subject to other litigation and claims.
- (iii) The Company indemnifies its directors, officers, consultants, and employees against claims and costs reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers.
- (iv) Gas & Power is subject to a participation payment to Shell Energy (note 14) upon certain triggering events occurring.

### 23. Management of capital

The Company'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 Company 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 2015 and 2016, the Company 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 Company's short-term obligations while maximizing liquidity and returns of unused capital.

### 24. Financial instruments and risk management

The Board of Directors has overall responsibility for the determination of the Company'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 Company's management. Periodically throughout the year, the Board of Directors receive reports from the Company'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 Company's competitiveness and flexibility. The Company's activities expose it to a variety of market risks, principally from fluctuating commodity prices in Gas & Power. The Company has established risk management policies and procedures designed to reduce the potentially adverse effects of price volatility on operating results and distributions. The Company maintains commodity risk management strategies that use

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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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 Company'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 Company 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 Company experiences fluctuations in the unrealized valuation of its contracts to purchase energy commodities. The Company is also subject to cancellations by customers that may leave the Company with an excess of commodity supply, which may have to be sold into the open market at an indeterminate price. Management actively monitors these positions on a daily basis in accordance with its Risk Management Policy. This policy sets out a variety of limits, most importantly thresholds for open positions in the electricity and natural gas portfolios. The Company'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 Company enters into derivative instruments in order to manage exposures to changes in commodity prices. The inability or failure of the Company to manage and monitor the above market risks could have a material adverse effect on the operations and cash flow of the Company.

The fair values of the Company'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%, income for the six months ended June 30, 2016 would have been \$1,087 higher, whereas if forward spot prices decreased by 10%, income for the six months ended June 30, 2016 would have been \$1,086 lower, primarily as a result of the change in fair value of the Company's derivative instruments.

### Credit risk

Credit risk is the risk of financial loss to the Company 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 Company, 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 Company 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 Company is minimal. For Home Comfort, in markets where LDCs do not provide billing & collection services for a fee, the customer is billed directly by Home Comfort. The Company's customers are individually insignificant and geographically dispersed. The Company 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 Company is minimal.



# ONEnergy Inc.

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

| As at                                 | June 30,<br>2016 | December 31,<br>2015 |
|---------------------------------------|------------------|----------------------|
| <b>Accounts and other receivables</b> |                  |                      |
| Current                               | \$ 4,021         | \$ 3,495             |
| 31- 90 days                           | 41               | 168                  |
| Over 90 days                          | 63               | 86                   |
|                                       | \$ 4,125         | \$ 3,749             |

The Company's maximum assessed exposure to credit risk, as at June 30, 2016 and December 31, 2015, is the carrying value of its accounts and other receivables.

### Liquidity risk

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled in cash or other financial assets. The Company'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 Company'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, excluding liabilities relating to assets classified as held for sale, are set out in the following table:

### **As at June 30, 2016**

|   | Payment due by period |                   |                         |           |
|---|-----------------------|-------------------|-------------------------|-----------|
|   | Between one           |                   |                         | Total     |
|   | Less than<br>one year | and five<br>years | More than<br>five years |           |
| Accounts payable and accrued liabilities    | \$ 7,994              | \$ -              | \$ -                    | \$ 7,994  |
| Payments received in advance of consumption | 70                    | -                 | -                       | 70        |
| Credit facility                             | 1,422                 | -                 | -                       | 1,422     |
| Energy derivatives                          | 8,299                 | 3,777             | -                       | 12,076    |
| Program fees                                | 497                   | -                 | -                       | 497       |
| Commitments                                 | 53                    | 381               | -                       | 434       |
| Finance lease obligation                    | -                     | -                 | -                       | -         |
|   | \$ 18,335             | \$ 4,158          | \$ -                    | \$ 22,493 |

# ONEnergy Inc.

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## As at December 31, 2015

|   | Payment due by period |                            |                      | Total            |
|---|-----------------------|----------------------------|----------------------|------------------|
|   | Less than one year    | Between one and five years | More than five years |                  |
| Accounts payable and accrued liabilities    | \$ 7,181              | \$ -                       | \$ -                 | \$ 7,181         |
| Payments received in advance of consumption | 248                   | -                          | -                    | 248              |
| Credit facility                             | 1,088                 | -                          | -                    | 1,088            |
| Energy derivatives                          | 8,761                 | 1,491                      | -                    | 10,252           |
| Program fees                                | 750                   | -                          | -                    | 750              |
| Commitments                                 | 63                    | 383                        | 29                   | 475              |
| Finance lease obligation                    | 8                     | -                          | -                    | 8                |
|   | <b>\$ 18,099</b>      | <b>\$ 1,874</b>            | <b>\$ 29</b>         | <b>\$ 20,002</b> |

### Derivative financial instruments

The Company has fixed-for-floating electricity swaps and gas and electricity forward contracts that are considered financial instruments. The fair value of financial instruments is the estimated amount that the Company 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 Company 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.

At June 30, 2016, the Company 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)  | 36,928 MWh / 34,521 MWh            |
| Total remaining notional volume      | 71,449 MWh                         |
| Maturity dates                       | July 31, 2016 to December 31, 2018 |
| Fixed price per MWh (in dollars)     | \$16.55 to \$47.34                 |
| Fair value favourable/(unfavourable) | \$(357)                            |
| Notional value                       | \$1,586                            |

#### Physical electricity forward contracts – U.S.

|                                       |                                 |
|---------------------------------------|---------------------------------|
| Notional volumes (on-peak/off-peak)   | 94,933 MWh / 89,310 MWh         |
| Total remaining notional volume       | 184,243 MWh                     |
| Maturity dates                        | July 31, 2016 to March 31, 2021 |
| Fixed price per MWh (in U.S. dollars) | \$25.40 to \$82.30              |
| Fair value favourable/(unfavourable)  | \$(89)                          |
| Notional value                        | \$7,107                         |

#### Natural gas forward contracts - Canada

|                                      |                                      |
|--------------------------------------|--------------------------------------|
| Total remaining notional volume      | 201,176 GJ                           |
| Maturity dates                       | August 31, 2016 to February 28, 2019 |
| Fixed price per GJ (in dollars)      | \$3.58 to \$4.55                     |
| Fair value favourable/(unfavourable) | \$(204)                              |
| Notional value                       | \$614                                |

# ONEnergy Inc.

## Notes to the interim condensed consolidated financial statements

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### Change in fair value of derivative instruments

| Periods ended June 30                  | Three months |          | Six months |          |
|--|--------------|----------|------------|----------|
|  | 2016         | 2015     | 2016       | 2015     |
| Fixed-for-floating electricity swaps   | \$ 39        | \$ (125) | \$ (63)    | \$ (192) |
| Physical electricity forward contracts | 979          | 173      | (189)      | 353      |
| Natural gas forward contracts          | 120          | (7)      | 100        | 6        |
|  | \$ 1,138     | \$ 41    | \$ (152)   | \$ 167   |

### Fair Values

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

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

| As at June 30, 2016                         | Level 1  | Level 2    | Level 3  | Total    |
|---|----------|------------|----------|----------|
| <b>Financial assets</b>                     |          |            |          |          |
| Cash  | \$ 4,111 | \$ -       | \$ -     | \$ 4,111 |
| Restricted cash                             | 2,583    | -          | -        | 2,583    |
| Accounts and other receivables              | -        | 4,125      | -        | 4,125    |
| Energy derivatives                          | -        | -          | 153      | 153      |
| <b>Financial liabilities</b>                |          |            |          |          |
| Accounts payable and accrued liabilities    | -        | (7,994)    | -        | (7,994)  |
| Payments received in advance of consumption | -        | (70)       | -        | (70)     |
| Obligation under finance lease              | -        | -          | -        | -        |
| Credit facility                             | -        | (1,422)    | -        | (1,422)  |
| Energy derivatives                          | -        | -          | (826)    | (826)    |
|   | \$ 6,694 | \$ (5,361) | \$ (673) | \$ 660   |

| As at December 31, 2015                     | Level 1  | Level 2    | Level 3  | Total      |
|---|----------|------------|----------|------------|
| <b>Financial assets</b>                     |          |            |          |            |
| Cash  | \$ 1,176 | \$ -       | \$ -     | \$ 1,176   |
| Restricted cash                             | 2,603    | -          | -        | 2,603      |
| Accounts and other receivables              | -        | 3,749      | -        | 3,749      |
| Energy derivatives                          | -        | -          | 127      | 127        |
| <b>Financial liabilities</b>                |          |            |          |            |
| Accounts payable and accrued liabilities    | -        | (7,181)    | -        | (7,181)    |
| Payments received in advance of consumption | -        | (248)      | -        | (248)      |
| Obligation under finance lease              | -        | (8)        | -        | (8)        |
| Credit facility                             | -        | (1,088)    | -        | (1,088)    |
| Energy derivatives                          | -        | -          | (698)    | (698)      |
|   | \$ 3,779 | \$ (4,776) | \$ (571) | \$ (1,568) |

# ONEnergy Inc.

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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 Company 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 June 30        | Three months |          | Six months |            |
|------------------------------|--------------|----------|------------|------------|
|                              | 2016         | 2015     | 2016       | 2015       |
| Balance, beginning of period | \$ (1,798)   | \$ (956) | \$ (571)   | \$ (1,009) |
| Gains (losses)               | 337          | (152)    | (300)      | 26         |
| Purchases                    | 185          | 6        | 246        | (96)       |
| Settlements                  | 603          | 196      | (48)       | 173        |
| Balance, end of period       | \$ (673)     | \$ (906) | \$ (673)   | \$ (906)   |

### Classification of financial assets and liabilities

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

| As at June 30, 2016                         | Carrying amount and fair value |
|---|--------------------------------|
| Cash  | \$ 4,111                       |
| Restricted cash                             | 2,583                          |
| Accounts and other receivables              | 4,125                          |
| Energy derivatives                          | 153                            |
| Accounts payable and accrued liabilities    | (7,994)                        |
| Payments received in advance of consumption | (70)                           |
| Obligation under finance lease              | -                              |
| Credit facility                             | (1,422)                        |
| Energy derivatives                          | (826)                          |

| As at December 31, 2015                     | Carrying amount and fair value |
|---|--------------------------------|
| Cash  | \$ 1,176                       |
| Restricted cash                             | 2,603                          |
| Accounts and other receivables              | 3,749                          |
| Energy derivatives                          | 127                            |
| Accounts payable and accrued liabilities    | (7,181)                        |
| Payments received in advance of consumption | (248)                          |
| Obligation under finance lease              | (8)                            |
| Credit facility                             | (1,088)                        |
| Energy derivatives                          | (698)                          |

# ONEnergy Inc.

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As at June 30, 2016 and December 31, 2015 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 Company's current cost of debt.

### Interest rate risk

The Company is exposed to interest rate fluctuations associated with its floating rate credit facility. The Company's current exposure to interest rate risk does not economically warrant the use of derivative instruments and the Company 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 Company's U.S. operations.

Although the Company is headquartered in Ontario, the majority of the Company'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 Company'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 respect to translation exposure, if the Canadian dollar had been 5% stronger or weaker against the U.S. dollar for the six months ended June 30, 2016, assuming that all the other variables had remained constant, income for the period would have been \$21 lower/higher (loss for the six months ended June 30, 2015 - \$25 higher/lower) and other comprehensive income would have been \$21 higher/lower (loss for the six months ended June 30, 2015 - \$25 lower/higher).