

Audited Consolidated Financial Statements of

**ONEnergy Inc.**  
*(formerly Look Communications Inc.)*

For the sixteen months ended December 31, 2013 and twelve months  
ended August 31, 2012

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

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

(Signed) – Mark J. Lewis

**Mark J. Lewis**

Chief Executive Officer

(Signed) – Ray de Ocampo

**Ray de Ocampo**

Chief Financial Officer

March 13, 2014



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BDO Canada LLP  
60 Columbia Way, Suite 300  
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## Independent Auditor's Report

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To the Shareholders of  
ONEnergy Inc. (formerly Look Communications Inc.)

We have audited the accompanying consolidated financial statements of ONEnergy Inc. (formerly Look Communications Inc.), which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of loss and comprehensive income (loss), changes in shareholders' equity and cash flows for the period from September 1, 2012 to December 31, 2013, and a summary of significant accounting policies and other explanatory information.

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

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ONEnergy Inc. (formerly Look Communications Inc.) as at December 31, 2013 and its financial performance and its cash flows for the period from September 1, 2012 to December 31, 2013 in accordance with International Financial Reporting Standards.

### Other Matter

The consolidated financial statements of ONEnergy Inc. (formerly Look Communications Inc.) for the year ended August 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on November 22, 2012.

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants  
Markham, Ontario  
March 13, 2014

# ONEnergy Inc.

## Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

As at

	Note	December 31 2013	August 31 2012
<b>Assets</b>			
Current assets			
Cash and cash equivalents	6	\$ 20,555	\$ 147
Restricted cash	7	266	-
Short-term investments	8	-	18,009
Accounts and other receivables	9	437	628
Natural gas delivered in excess of consumption		136	-
Prepaid expenses and deposits		284	21
Current portion of other financial assets	24	104	-
		<b>21,782</b>	<b>18,805</b>
Other financial assets	24	29	-
Property and equipment	10	147	-
Intangible asset	11	832	-
Goodwill	12	548	-
<b>Total assets</b>		<b>\$ 23,338</b>	<b>\$ 18,805</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	13	\$ 1,280	\$ 915
Payments received in advance of consumption		191	-
Current portion of obligation under finance lease	14	28	-
Current portion of other financial liabilities	24	41	-
		<b>1,540</b>	<b>915</b>
Obligation under finance lease	14	42	-
Other financial liabilities	24	62	-
		<b>1,644</b>	<b>915</b>
Shareholders' equity			
Share capital	16	37,499	27,499
Contributed surplus		131	-
Accumulated other comprehensive income		15	-
Deficit		(15,951)	(9,609)
		<b>21,694</b>	<b>17,890</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 23,338</b>	<b>\$ 18,805</b>

### Commitments and contingencies (note 22)

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

Approved by the Board of Directors:

(Signed) – Stephen J.J. Letwin  
Director

(Signed) – Lawrence Silber  
Director

# ONEnergy Inc.

## Consolidated Statements of Loss and Comprehensive Income (Loss)

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

	Note	Sixteen months ended December 31, 2013	Twelve months ended, August 31, 2012
Revenue	17	\$ 604	\$ -
Cost of sales	17,18	378	-
Gross margin		226	-
Expenses			
Selling	18	1,519	-
General and administrative	18	5,373	4,495
		6,892	4,495
Operating loss before the undernoted		(6,666)	(4,495)
Change in fair value of derivative instruments	24	30	-
Finance income		294	274
<b>Loss for the period</b>		<b>\$ (6,342)</b>	<b>\$ (4,221)</b>
Other comprehensive income			
Unrealized gain on translation of foreign operations		15	-
Other comprehensive income		15	-
<b>Total comprehensive loss for the period</b>		<b>\$ (6,327)</b>	<b>\$ (4,221)</b>
Total comprehensive loss per share			
Basic and diluted	16	\$ (0.038)	\$ (0.030)
Weighted average number of shares outstanding			
Basic and diluted (in thousands)	16	165,516	139,702

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

# ONEnergy Inc.

## Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)

	Share Capital (note 16)		Deficit	Contributed surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance as at September 1, 2011	139,702	\$ 34,484	\$ (5,388)	\$ -	\$ -	\$ 29,096
Return of capital	-	(6,985)	-	-	-	(6,985)
Net loss and comprehensive loss for the period	-	-	(4,221)	-	-	(4,221)
<b>Balance as at August 31, 2012</b>	<b>139,702</b>	<b>\$ 27,499</b>	<b>\$ (9,609)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,890</b>
Shares issued from treasury (note 16)	64,286	9,000	-	-	-	9,000
Shares issued to acquire Sunwave (note 12)	7,143	1,000	-	-	-	1,000
Net loss for the period	-	-	(6,342)	-	-	(6,342)
Other comprehensive income	-	-	-	-	15	15
Stock compensation (note 16)	-	-	-	131	-	131
<b>Balance as at December 31, 2013</b>	<b>211,131</b>	<b>\$ 37,499</b>	<b>\$ (15,951)</b>	<b>\$ 131</b>	<b>\$ 15</b>	<b>\$ 21,694</b>

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

# ONEnergy Inc.

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

	Note	Sixteen months ended December 31, 2013	Twelve months ended August 31, 2012
Cash flows from the following:			
<b>Operating activities</b>			
Loss for the period		\$ (6,342)	\$ (4,221)
Items not affecting cash			
Depreciation of property and equipment		36	-
Amortization of intangible assets		108	-
Write-down of refundable taxes receivable	9	446	-
Transaction cost related to change of business	12	676	-
Change in fair value of derivative instruments	24	(30)	-
Interest earned on short-term investments		(216)	(274)
Stock based compensation	16	131	-
Change in non-cash operating assets and liabilities	19	(627)	1,846
Cash used in operating activities		(5,818)	(2,649)
<b>Investing activities</b>			
Redemption/maturity of short-term investments		17,812	9,188
Purchase of short-term investments		(266)	-
Interest received on short-term investments		413	357
Purchase of property and equipment		(17)	-
Purchase of intangible assets		(16)	-
Cash provided by investing activities		17,926	9,545
<b>Financing activities</b>			
Share issuance from treasury for private placement	16, 19	9,000	-
Transaction costs related to change of business	12	(676)	-
Return of capital		-	(6,985)
Repayment of obligation under finance lease		(11)	-
Cash provided by (used in) financing activities		8,313	(6,985)
Effect of foreign currency translation on cash balances		(13)	-
Increase (decrease) in cash and cash equivalents		20,408	(89)
Cash and cash equivalents, beginning of period		147	236
<b>Cash and cash equivalents, end of period</b>		<b>\$ 20,555</b>	<b>\$ 147</b>

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

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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### 1. Nature of operations

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

The consolidated financial statements are comprised of ONEnergy; and its wholly owned subsidiaries (collectively referred to as "Sunwave") which include Sunwave Gas & Power Inc., Sunwave USA Holdings Inc., Sunwave Gas & Power New York Inc., Sunwave Gas & Power Illinois Inc., Sunwave Gas & Power Massachusetts Inc., Sunwave Gas & Power Connecticut Inc. and Sunwave Gas & Power Pennsylvania Inc. References to the Corporation include ONEnergy and Sunwave.

On December 28, 2012, the Corporation's wholly owned subsidiaries – Look Mobility Inc., Look Mobile Corporation, Look Communications Limited Partnership, and Delphi SuperNet Inc. - were dissolved, as they were inactive.

The Corporation is domiciled in Canada and the address of its registered office is 2225 Sheppard Avenue East, Suite 1600, Toronto, Ontario, Canada. M2J 5C2.

The Corporation operates in the sale of natural gas and electricity in Ontario, and beginning in 2014, electricity in Connecticut and Pennsylvania, to residential and commercial customers under short or long-term fixed-price, price-protected or variable-priced contracts. It markets its natural gas and electricity contracts under the Sunwave Gas & Power trade name.

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

ONEnergy's principal operating subsidiary Sunwave has historically operated on a fiscal year ending December 31. Management believes it is in the best interest of shareholders to continue to report consolidated results consistent with a December 31 year-end. An application was made to the Ontario Securities Commission ("OSC") to change ONEnergy's fiscal reporting period to the 16 months ending December 31, 2013, which was approved on August 15, 2013. This change resulted in the Annual Report for fiscal 2013 covering a period representing 16 months to December 31, 2013. Beginning in 2014 ONEnergy's fiscal year will be the twelve months ending December 31. Therefore, these consolidated financial statements compare a sixteen month period ending December 31, 2013 to the twelve month period ending August 31, 2012. The operating results may not be comparable because of the different number of months reported in each fiscal period and the inclusion of Sunwave results from the date of acquisition.

These consolidated financial statements were approved for issue by the Board of Directors on March 13, 2014.

### 2. Summary of significant accounting policies

#### Statement of Compliance

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



# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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### Basis of Presentation

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

### Principles of consolidation

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

### Cash and cash equivalents

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

### Restricted cash

Restricted cash is pledged as collateral for issued letters of credit. Letters of credit are posted with State regulatory entities, independent system operators ("ISOs"), local distribution companies ("LDCs"), or other counterparties as required collateral in order to operate in certain markets or for other financial assurance programs.

### Accounts receivable

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

### Allowance for doubtful accounts

The Corporation primarily operates in LDC markets which have purchase of receivables ("POR") programs in place under which the LDCs assume the credit risk associated with the customer billings. Consequently, in these markets, the Corporation's exposure to credit risk concentration is limited primarily to those LDCs that collect and remit receivables to the Corporation.

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

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

### Property and equipment

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

Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the cost of these assets to their estimated residual value over their estimated useful lives. When

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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significant parts of an item of property and equipment have different useful lives, they are accounted for as separate components of the asset and depreciated over their estimated useful life on a straight-line basis.

Estimated useful lives are as follows:

Computer hardware	Straight line	3 years
Office equipment	Straight line	5 years

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in net income in the period the item is derecognized.

### Intangible assets

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

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

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

Estimated useful lives are as follows:

Customer contracts	Straight line	3 – 5 years
Computer software	Straight line	3 years

### Goodwill

Goodwill is measured as the excess of the cost of the business combination over the net fair value of the identifiable assets acquired and liabilities assumed including non-controlling interest. Any negative difference is recognized as a gain directly in the consolidated statement of comprehensive loss. If the fair values of the assets, liabilities and non-controlling interest can only be calculated on a provisional basis the business combination is recognized using provisional values. Any adjustments resulting from the completion of the measurement process are recognized within 12 months of the date of acquisition.

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

### Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Corporation (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the consolidated statement of comprehensive loss over the period of the lease

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

### Impairment of non-financial assets

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

For the purposes of reviewing finite life non-financial assets for impairment, asset groups are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a cash generating unit ("CGU").

If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the CGU to which the asset belongs is tested for impairment. Corporate assets are tested for impairment at the minimum collection of CGUs to which the corporate asset can be allocated reasonably and consistently.

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

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

### Financial instruments

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

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

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

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

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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

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

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

### Impairment of financial assets

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

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

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

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

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

### Revenue recognition

Revenue is recognized when significant risks and rewards of ownership are transferred to the customer. For natural gas and electricity, the transfer of risks and rewards generally coincide with consumption of the commodity by the customer. Revenue is measured at the fair value of the consideration received and sales taxes. Revenue is recognized based on consumption used by customers at the agreed amount prices.

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

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

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

### Foreign currency translation

#### *Functional and presentation currency*

Items included in the consolidated financial statements of each of the Corporation's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the parent Corporation's presentation and functional currency.

#### *Transactions*

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

#### *Translation of foreign operations*

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

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

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

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

### Per share amounts

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

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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### Share-based compensation plans

ONEnergy accounts for its share-based compensation as equity-settled transactions. The cost of share-based compensation is measured by reference to the fair value at the date on which it was granted. Awards are valued at the grant date and are not adjusted for changes in the prices of the underlying shares and other measurement assumptions. The cost of equity-settled transactions is recognized, together with the corresponding increase in equity, over the period in which the performance or service conditions are fulfilled, ending on the date on which the relevant grantee becomes fully entitled to the award. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting period reflects the extent to which the vesting period has expired and ONEnergy's best estimate of the number of the shares that will ultimately vest. The expense or credit recognized for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

### Equity transaction costs

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

### Income taxes

Income tax expense consists of current and deferred tax expense.

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

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

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

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

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

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

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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

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

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

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

#### Revenue recognition

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

#### Provisions

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

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

#### Stock compensation

Management determines the fair value of stock options granted using Black Scholes valuation which can be affected by the assumptions used including risk free rates, expected life, dividend yields, volatility and estimated forfeiture rates.

#### 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.

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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### Impairment of non-financial assets

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

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

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

### Acquisition accounting

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

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

The IASB has issued the following applicable standards, which have not yet been adopted by the Corporation. Each of the new standards is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a description of the new standards:

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

IAS 36 – Impairment of assets requires additional disclosures in relation to the recoverable amount for non-financial assets. The standard is effective for annual periods beginning on or after January 1, 2014.

IAS 39 – Financial Instruments: recognition and measurement allows the continuation of hedge accounting in instances where a derivative is required by law or regulation to be novated to a central counterparty (CCP) or an entity acting in a similar capacity. The standard is effective for annual periods beginning on or after January 1, 2014.

IFRIC 21 – Levies: clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The standard is effective for annual periods beginning on or after January 1, 2014.

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

IAS 19 – Employee Benefits

IAS 32 – Offsetting Financial Assets and Financial Liabilities



# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

### 5. Seasonality

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

### 6. Cash and cash equivalents

As at December 31, 2013, the Corporation had \$20,555 (August 31, 2012 - \$147) of cash and cash equivalents, comprised of \$17,555 (August 31, 2012 - \$147) of cash on hand and \$3,000 (August 31, 2012 - \$Nil) of short-term investments with original maturities of 90 days or less. As at December 31, 2013, the effective annual interest rate on the short-term investments was 1.3% and they are fully redeemable at any time by the Corporation, at its discretion.

### 7. Restricted cash

The Corporation has a term deposit of \$266 (US\$250) at December 31, 2013 (August 31, 2012 - \$Nil) held as collateral to support a letter of credit issued by the Corporation. The security will remain as long as the letter of credit is outstanding.

### 8. Short-term investments

As at December 31, 2013, the Corporation held \$Nil in short-term investments (August 31, 2012 - \$18,009). As at August 31, 2012, the effective annual interest rate on the GICs was 1.21%.

### 9. Accounts and other receivables

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

	December 31, 2013	August 31, 2012
Trade receivables	\$ 246	\$ -
Refundable taxes <sup>(1)</sup>	175	446
Legal retainers <sup>(2)</sup>	-	164
Other receivables	16	18
Total	\$ 437	\$ 628

<sup>(1)</sup> In November 2013, Canada Revenue Agency ("CRA"), Canada's taxing authority, concluded its review of certain refundable harmonized sale taxes ("HST") claimed by the Corporation. The CRA denied certain of the Corporation's claims related to litigation costs connected with the Statement of Claim (note 22). The Corporation has expensed \$605 to litigation costs. The Corporation believes that the HST claimed is valid and has filed a Notice of Objection with the CRA.

<sup>(2)</sup> During the three months ended February 28, 2011, as a result of a settlement agreement executed between the Corporation and a former director, a legal retainer totaling \$164 was reallocated from prepayments. During the sixteen months ended December 31, 2013, \$78 was returned to the Corporation and \$86 was expensed, as at December 31, 2013, \$Nil remained on retainer. The Corporation is seeking recovery of these retainers (note 22(b)(i)).

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

### 10. Property and equipment

	Computer Hardware	Office Furniture & Equipment	Total Property and Equipment
<b>Cost</b>			
Balance at August 31, 2012	\$ -	\$ -	\$ -
Acquisition (note 12)	62	104	166
Additions	17	-	17
<b>Balance at December 31, 2013</b>	<b>\$ 79</b>	<b>\$ 104</b>	<b>\$ 183</b>
<b>Accumulated depreciation</b>			
Balance at August 31, 2012	\$ -	\$ -	\$ -
Depreciation	22	14	36
<b>Balance at December 31, 2013</b>	<b>\$ 22</b>	<b>\$ 14</b>	<b>\$ 36</b>
<b>Net book value</b>			
As at August 31, 2012	\$ -	\$ -	\$ -
<b>As at December 31, 2013</b>	<b>\$ 57</b>	<b>\$ 90</b>	<b>\$ 147</b>

### 11. Intangible assets

	Customer contracts	Computer software	Total intangible assets
<b>Cost</b>			
Balance at August 31, 2012	\$ -	\$ -	\$ -
Acquisition (note 12)	919	5	924
Additions	-	16	16
<b>Balance at December 31, 2013</b>	<b>\$ 919</b>	<b>\$ 21</b>	<b>\$ 940</b>
<b>Accumulated amortization</b>			
Balance at August 31, 2012	\$ -	\$ -	\$ -
Amortization	105	3	108
<b>Balance at December 31, 2013</b>	<b>\$ 105</b>	<b>\$ 3</b>	<b>\$ 108</b>
<b>Net book value</b>			
As at August 31, 2012	\$ -	\$ -	\$ -
<b>As at December 31, 2013</b>	<b>\$ 814</b>	<b>\$ 18</b>	<b>\$ 832</b>

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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### 12. Acquisition of Sunwave Gas & Power Inc.

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

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

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

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

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

The acquired assets, including intangible assets and goodwill, form the Company's single CGU.

The purchase price allocation has been finalized.

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

### 13. Accounts payable and accrued liabilities

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

	December 31, 2013	August 31, 2012
Accounts payable	\$ 593	\$ 547
Accrued liabilities	498	179
Accrued restructuring liabilities <sup>(1)</sup>	189	189
Total	\$ 1,280	\$ 915

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

During fiscal 2009, the Corporation sold its spectrum and broadcast license, initiated a Plan of Arrangement under the *Canada Business Corporations Act* (Section 192) and, up to November 30, 2010, expensed all associated costs to restructuring charges. Additional charges may be incurred as the Corporation continues in its attempt to recover advances made to various law firms (note 20(e)).

### 14. Obligation under finance lease

The Corporation leases office equipment under a financing arrangement, which bears interest at 7.54% per annum and matures in April 2016. The net carrying value of office equipment under finance lease is \$72 (August 31, 2012 - Nil).

The following table presents future minimum lease payments under finance lease together with the present value of the minimum lease payments:

Future minimum lease payments due:	
Less than one year	\$ 34
Between one and five years	43
More than five years	-
Total minimum lease payments	77
Less: amounts representing interest	(7)
Present value of total minimum lease payments	70
Less: current portion of minimum lease obligation	28
Non-current portion of minimum lease obligation	\$ 42

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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### 15. Credit facility

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

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

Under the credit facility agreements Shell Energy has provided Sunwave credit arrangements for its Canadian and U.S. operations. Under the Canadian revolving credit facility Shell Energy will be providing Sunwave with advances of up to \$1,000 for commodity purchases and, financial derivatives and related services. Interest is payable on outstanding advances at 4% plus the greater of: (i) 3% or (ii) LIBOR. Under the U.S. revolving credit and collateral credit facilities Shell Energy will be providing Sunwave with advances of up to US\$15,000 for commodity purchases, certain working capital uses, collateral security support and financial derivatives and related services. Interest is payable on outstanding advances under the revolving credit facility at 4% plus the greater of: (i) 3% or (ii) LIBOR, and under the collateral credit facility at 4% plus the greater of: (i) 4% or (ii) LIBOR. On December 31, 2013, LIBOR was 0.24%. An additional interest rate penalty of 0.50% applies to all facilities in the event that Sunwave were to be in default of certain financial covenants. Principal and interest are repayable in the month following the month that advances were made. No further advances can be made after November 20, 2018. No advances were drawn during 2013 and no amount is outstanding at December 31, 2013.

The agreements are secured by a general security agreement and a pledge of Sunwave's assets and subject to certain covenant restrictions. As at December 31, 2013, the Corporation was non-compliant with a single covenant in the Shell credit agreements. However, given that the Corporation has not drawn on the facility as at December 31, 2013, there is no significant financial impact.

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

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

### 16. Share capital

#### (a) Authorized

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

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

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

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

#### (b) Issued and outstanding

Shares (in thousands)	Multiple Voting Shares		Subordinate Voting Shares		Total
Balance, as at September 1, 2011	66,165	\$ 16,499	73,537	\$ 17,985	\$ 34,484
Return of capital <sup>(1)</sup>	-	(3,308)	-	(3,677)	(6,985)
Balance, as at August 31, 2012	66,165	\$ 13,191	73,537	\$ 14,308	\$ 27,499
Issued by the Corporation to acquire Sunwave <sup>(2)</sup>	3,383	474	3,760	526	1,000
Issued by the Corporation <sup>(3)</sup>	30,447	4,263	33,839	4,737	9,000
Balance, as at December 31, 2013	99,995	\$ 17,928	111,136	\$ 19,571	\$ 37,499

<sup>(1)</sup> On March 13, 2012, the Corporation paid a distribution of \$6,985 to the holders of its multiple voting shares and subordinate voting shares, as a return of capital equivalent to \$0.05 for each outstanding multiple voting share and subordinate voting share.

<sup>(2)</sup> See note 12

<sup>(3)</sup> Concurrently with the completion of the acquisition of Sunwave, the Corporation completed a private placement for an aggregate of 30,446,767 multiple voting shares and 33,838,947 subordinate voting shares in the capital of ONEnergy, at a price of \$0.14 per share, for aggregate cash subscription proceeds of \$9,000.

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

### (c) Stock option plan

On March 25, 2002, the Board of Directors of the Corporation ("Board") approved the 2002 Stock Option Incentive Plan (the "2002 Plan"). The 2002 Plan was subsequently amended in 2004 and 2005. On July 9, 2013, the Board approved the 2013 Stock Option Plan ("2013 Plan") and terminated the 2002 Plan. The objective of the 2013 Plan is to provide directors, officers and employees of, and service providers to, the Corporation with a proprietary interest through the granting of options to purchase Subordinate Voting Shares of the Corporation. These groups are primarily responsible for the management, growth and protection of the business of the Corporation. Under the 2013 Plan, the Board may grant options provided that the total number of shares issued under the 2013 Plan does not exceed 21,113,009. The total number of shares that may be issued under the 2013 Plan represents 10% of the Corporation's currently issued and outstanding shares. The exercise price of the options is determined by the Board at the time of the grant of an option, but cannot be lower than the market price of the Corporation's shares on the TSX Venture Exchange ("Exchange") on the business day immediately preceding the day on which an option is granted, less any permissible discount under the policies of the Exchange. The options vest over a four- or five-year period and the maximum period during which an option may be exercised is 10 years from the date on which it is granted.

During 2013, the Corporation granted 18,087,410 options to purchase subordinate voting shares in the capital of the Corporation to officers, employees and others providing similar services. The options vest over a four or five-year period, are exercisable at a price of \$0.14 per share and expire in July or October 2023.

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

	Weighted average remaining contractual life	Number of options	Weighted average exercise price
Outstanding as at July 8, 2013		-	\$ -
Granted		18,087,410	0.14
Forfeited		(90,000)	0.14
<b>Outstanding as at December 31, 2013</b>	<b>9.5</b>	<b>17,997,410</b>	<b>\$ 0.14</b>
<b>Exercisable as at December 31, 2013</b>	<b>9.5</b>	<b>1,434,368</b>	<b>\$ 0.14</b>

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

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

### (d) Loss per share

	<b>For the sixteen months ended December 31, 2013</b>	For the twelve months ended August 31, 2012
Loss for the period	\$ 6,342	\$ 4,221
Weighted average number of shares outstanding	165,515,815	139,701,524
Basic and diluted loss per share	\$ (0.038)	\$ (0.030)

Basic loss per share is calculated by dividing the total comprehensive loss by the weighted average number of shares outstanding during the period (sixteen months ended December 31, 2013 and twelve months ended August 31, 2013). Outstanding stock options during fiscal 2013, of 17,997,410, have not been factored into the calculation as it is considered anti-dilutive.

### 17. Segment disclosure

For the sixteen months ended December 31, 2013, the Corporation operated in one segment, as a provider of natural gas and electricity products and services to residential and commercial customers in Ontario, Canada. All of its revenue in fiscal 2013 was derived from this business. The Corporation is not considered to have any key customers. As a result of the sale of its spectrum and broadcast license in 2009, the Corporation had limited operations during the twelve months ended August 31, 2012.

The gross margin of natural gas and electricity sales are as follows:

	<b>For the sixteen months ended December 31, 2013</b>	For the twelve months ended August 31, 2012
<b>Revenue</b>		
Natural gas	\$ 389	\$ -
Electricity	215	-
	<b>604</b>	-
<b>Cost of sales</b>		
Natural gas	260	-
Electricity	118	-
	<b>378</b>	-
<b>Gross margin</b>		
Natural gas	129	-
Electricity	97	-
	<b>\$ 226</b>	<b>\$ -</b>



# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

### 18. Expenses

	For the sixteen months ended December 31, 2013	For the twelve months ended August 31, 2012
Cost of gas and electricity	\$ 378	\$ -
Selling cost	965	-
Personnel	1,828	267
Professional fees	1,589	371
Litigation costs <sup>(1)</sup>	1,832	2,528
Occupancy <sup>(2)</sup>	159	24
Office and other expenses	426	61
Depreciation and amortization	145	-
Management services income <sup>(3)</sup>	(52)	-
Management services agreement <sup>(4)</sup>	-	1,244
	<b>\$ 7,270</b>	<b>\$ 4,495</b>

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

<sup>(2)</sup> Note 20(a) and 20(d)(ii)

<sup>(3)</sup> Note 20(c)

<sup>(4)</sup> Note 20(d)(i)

	For the sixteen months ended December 31 2013	For the twelve months ended August 31, 2012
<b>Reported as</b>		
Cost of sales	\$ 378	\$ -
Selling	1,519	-
General and administrative	5,373	4,495
	<b>\$ 7,270</b>	<b>\$ 4,495</b>

### 19. Supplemental cash flow information

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

	For the sixteen months ended December 31 2013	For the twelve months ended August 31, 2012
Accounts receivable and other receivables	\$ 10	\$ (147)
Natural gas delivered in excess of consumption	(146)	-
Prepaid expenses and deposits	(277)	2,388
Due from related party	(4)	-
Accounts payable and accrued liabilities	(359)	(395)
Payments received in advance of consumption	149	-
	<b>\$ (627)</b>	<b>\$ 1,846</b>

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

	For the sixteen months ended December 31 2013	For the twelve months ended August 31, 2012
Shares issued as consideration in Sunwave acquisition	\$ 1,000	\$ -

In connection with the acquisition of Sunwave (note 12), the Corporation issued an additional \$1,000 of shares from treasury. The shares were used as consideration in the acquisition.

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

### 20. Related party transactions

#### (a) Premises sublease

The Corporation subleases its premises from OZZ Clean Energy Inc. ("OCE"), who is Sunwave's former controlling shareholder and is a current shareholder of the Corporation. The sublease is for the period from July 2013 to November 2017. For the sixteen months ended December 31, 2013, \$130 was charged to the Corporation (August 31, 2012 - \$Nil). No amounts are currently outstanding. On January 20, 2014, the sublease and underlying head lease was amended, at no penalty, to early terminate on July 31, 2014, resulting in a termination of the Corporation's obligations under the sublease as of that date.

#### (b) Electricity revenue

For the sixteen months ended December 31, 2013, the Corporation supplied electricity totaling \$14, to a company that is controlled by the controlling shareholder of OCE, based on the Corporation's standard supply agreement for electricity at a negotiated price per kilowatt hour ("kWh"). The balance outstanding as at December 31, 2013 was \$Nil (August 31, 2012 - \$Nil).

#### (c) Management services income

The Corporation provides certain commodity management and general administrative services, under a management services agreement, to Canadian RiteRate Energy Corporation ("RiteRate"), a company that is controlled by the controlling shareholder of OCE. For the sixteen months ending December 31, 2013, the Corporation charged RiteRate \$52 (August 31, 2012 - \$Nil) for these services. RiteRate paid for certain consultant fees on behalf of the Corporation during the sixteen months ending December 31, 2013, for which the Corporation reimbursed RiteRate (August 31, 2012 - \$Nil). As at December 31, 2013, the Corporation provided for \$27 of the remaining amounts due leaving \$Nil is outstanding from RiteRate.

#### (d) Unique Broadband Systems, Inc.

Related party transactions and balances with Unique Broadband Systems, Inc. (the Corporation's former parent company, which previously controlled the Corporation and with whom the Corporation had previously entered into transactions either directly or through its wholly-owned subsidiaries – collectively "UBS"), are as follows:

	Sixteen months ended December 31, 2013	Twelve months ended August 31, 2012
Management fees expense	\$ -	\$ 1,244
Rent revenue	(2)	(24)

#### (i) Management fees expense

Under the original terms of the Management Service Agreement entered into between the Corporation and UBS on May 19, 2004 ("MSA"), the Corporation had been required to pay an annual fee of \$2,400 to UBS. In September 2007, the Corporation advanced \$2,400, which was included in prepaid expenses and deposits. Effective January 1, 2011, the \$2,400 prepayment was expensed at approximately \$145 per month over the remaining term of the MSA, which expired on May 19, 2012.

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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### (ii) Rent revenue

During 2013, the Corporation subleased a portion of its premises to UBS for \$2 (August 31, 2012 - \$24), which was on a month-to-month basis and was recorded as a reduction of general and administrative expenses. On September 30, 2012, UBS terminated its lease agreement with the Corporation.

### (e) 2010 legal advances

During June and July, 2010, the former Board of Directors of the Corporation approved \$1,550 of advances to various professional firms as retainers for future legal fees the directors and officers expected would be incurred answering shareholder complaints and regulatory enquiries. Approximately \$1,472 of the advances was expensed, up to December 31, 2013, (August 31, 2012 - \$1,386) and \$78 was recovered leaving \$Nil in accounts receivable and other receivables, as a result of a settlement agreement executed between the Corporation and a former director.

The Corporation is seeking recovery of these 2010 legal advances and other payments made to these former directors and officers, and have filed a Statement of Claim (note 22)

On September 28, 2012, the Ontario Superior Court of Justice (the "Court") dismissed applications and motions made by certain of the Corporation's former officers and directors and personal service companies for interim advances to finance their costs of defending claims made against them by the Corporation.

The Court denied the advances sought by certain of the former officers and directors and the personal service companies, but held that the former chief technology consultant (but not his personal service company) is entitled to advances for his defense of the claims made against him. As at December 31, 2013, the Corporation advanced \$150 to the former chief technology consultant. This is included in 'litigation costs'.

### (f) Support agreement regarding share purchase ("Support Agreement")

On December 18, 2012, the Corporation entered into a Support Agreement, led by a director of UBS and other independent parties, to acquire up to 45,000,000 of the Corporation's multiple voting shares, at \$0.11 per share, up to a 49.9% equity interest in the Corporation. On March 25, 2013, the Corporation terminated the Support Agreement and paid a \$225 termination fee which is included in 'professional fees'.

### (g) Compensation of key management personnel

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

	For the sixteen months ended December 31, 2013	For the twelve months ended August 31, 2012
Salaries, fees, and short-term employee benefits	\$ 815	\$ 225
Stock-based compensation	117	-
	<b>\$ 932</b>	<b>\$ 225</b>

Concurrently with the Acquisition (note 12), the Corporation's former chief executive officer resigned and was awarded \$100 in termination payments. These payments are included in the table above.

# ONEnergy Inc.

## Notes to the consolidated financial statements

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### 21. Income taxes

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

This difference results from the following:

	2013	2012
Loss before income taxes	\$ (6,342)	\$ (4,221)
Statutory income tax rate	26.5%	27.2%
Income tax recovery at combined federal and provincial rates	\$ (1,681)	\$ (1,148)
Non-deductible expenses	107	996
Change in unrecognized deferred tax assets	410	2,669
Change in enacted tax rates	1,164	(2,517)
Income tax expense	\$ -	\$ -

The change in the statutory income tax rate is due to a decrease in the federal tax rate.

Deferred tax assets have not been recognized for the following:

	2013	2012
Non-capital tax loss carry-forwards	\$ 45,728	\$ 45,187
Transaction costs	130	-
Deductible expenses	10	-
	\$ 45,868	\$ 45,187
Acquisition of Sunwave - non-capital tax loss carry-forwards	\$ 271	\$ -

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

Year	Amount
2014	\$ 12,588
2015	55
2026	403
2027	1
2028	8,987
2029	115,583
2030	5,748
2031	21,933
2032	3,457
2033	4,724
	\$ 173,479

# ONEnergy Inc.

## Notes to the consolidated financial statements

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### 22. Commitments and contingencies

#### (a) Commitments

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

	December 31, 2013	August 31, 2012
Less than one year	\$ 132	\$ -
Between one and five years	47	-
	\$ 179	\$ -

#### (b) Contingencies

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

On July 6, 2011, the Corporation issued a Statement of Claim (the "Claim") in the Ontario Superior Court of Justice (the "Court") against certain former directors and certain former officers of Look in connection with the payment of approximately \$20 million of "restructuring awards" accrued in fiscal 2009 and paid during the first quarter of fiscal 2010 (the "Sale Awards"), of which approximately \$15.7 million was paid to the directors and senior officers named in the Claim (or their personal holding companies, as applicable) from the net proceeds of approximately \$64 million realized by the Corporation on the sale of its spectrum licence in 2009. The former officers and directors named in the Claim collectively resigned effective July 21, 2010.

None of the allegations in the Claim have been proven before the Court and none of the defendants have filed a statement of defence. ONEnergy is vigorously pursuing its claims against the former directors and former officers named in the Claim (as well as their personal holding companies, as applicable) for payments and decisions which the Corporation believes were not in the Corporation's or its shareholders' best interests.

- (ii) In the normal course of its operations, the Corporation may be subject to other litigation and claims.
- (iii) The Corporation indemnifies its directors, officers, consultants, and employees against claims and costs reasonably incurred and resulting from the performance of their services to the Corporation, and maintains liability insurance for its directors and officers.
- (iv) Sunwave is subject to a participation interest payment to Shell Energy (note 15) upon certain triggering events occurring.

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

For the sixteen months ended December 31, 2013 and for the twelve months ended August 31, 2012

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### 23. Management of capital

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

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

On March 13, 2012, the Corporation paid a distribution of \$6,985 to the holders of its multiple voting shares and subordinate voting shares, as a return of capital (note 16(b)).

### 24. Financial instruments and risk management

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

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

#### Risk management

The main risks arising from the Corporation's financial instruments are commodity pricing and mark-to-market risk, supplier 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.

#### Market risk

Market risk is the potential loss that may be incurred as a result of changes in the market or fair value of a particular instrument or commodity. Components of market risk to which the Corporation is exposed are discussed below.

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

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

# ONEnergy Inc.

## Notes to the consolidated financial statements

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

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

The fair values of the Corporation's financial instruments are significantly influenced by the variability of forward spot prices for electricity and natural gas. Period to period changes in forward spot prices could cause significant changes in the mark to market valuation ("MTM valuation") of these contracts. If forward spot prices increased (decreased) by 10%, loss for the period ended December 31, 2013 would have been \$6,472 (\$6,087) primarily as a result of the change in fair value of the Corporation's derivative instruments.

### Supplier risk

Sunwave purchases all of the natural gas and electricity delivered to its customer through long-term contracts entered into with various suppliers. The Corporation has an exposure to supplier risk as the ability to continue to deliver natural gas and electricity to its customers is reliant upon ongoing operations of these suppliers and their ability to fulfill their contractual obligations. The Corporation has discounted the fair value of its financial assets by \$4 to accommodate for its counterparties' risk of default.

### Credit risk

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

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

The LDCs provide collection services and assume the risk of any bad debts from customers for a fee. Therefore, the Corporation receives the collection of customer account balances directly from the LDCs. Management believes that the risk of the LDCs failing to deliver payment to the Corporation is minimal. The Corporation's customers are individually insignificant and geographically dispersed. The Corporation currently believes that its susceptibility to an individually significant write-off as a result of concentrations of customer accounts receivable with those LDCs is remote.

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

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

	December 31, 2013	August 31, 2012
<u>Accounts and other receivables</u>		
Currently due	\$ 292	\$ 108
Past due by 90 days or less not impaired	83	116
Past due by greater than 90 days not impaired	62	404
	<b>\$ 437</b>	<b>\$ 628</b>

# ONEnergy Inc.

## Notes to the consolidated financial statements

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All of the Corporation's cash is held with major financial institutions in Canada and in the US, and management believes the exposure to credit risk with these institutions is not significant. The Corporation's maximum assessed exposure to credit risk, as at December 31, 2013 and August 31, 2012, is the carrying value of its accounts and other receivables.

### Liquidity risk

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

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

The Corporation's financial liabilities are comprised of its accounts payable and accrued liabilities, payments received in advance of consumption, derivative instruments, non-cancellable leases and financial leases. As at December 31, 2013, the payments due by period are set out in the following table:

	Payment due by period			Total
	Less than one year	Between one and five years	More than five years	
Accounts payable and accrued liabilities	\$ 1,280	\$ -	\$ -	\$ 1,280
Payments received in advance of consumption	191	-	-	191
Derivative instruments	1,176	1,997	-	3,173
Non-cancellable leases	98	4	-	102
Finance lease obligation	28	42	-	70
	\$ 2,773	\$ 2,043	\$ -	\$ 4,816

### Derivative financial instruments

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

At December 31, 2013, the Corporation had the following financial instruments classified as fair value through profit and loss.

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

Notional volumes	21,264 MWh/h to 22,896 MWh/h
Total remaining notional volume	44,160 MWh
Maturity dates	February 28, 2014 to March 31, 2018
Fixed price per MWh (in dollars)	\$19.36 to \$40.05
Fair value favourable/ (unfavourable)	(\$103)
Notional value	(\$120)



# ONEnergy Inc.

## Notes to the consolidated financial statements

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

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### Natural gas forward contracts - Canada

Notional volumes	5 – 470 GJ/day
Total remaining notional volume	529,031 GJ
Maturity dates	March 31, 2014 to March 31, 2018
Fixed price per GJ (in dollars)	\$3.08 to \$4.39
Fair value favourable/ (unfavourable)	\$133
Notional value	\$134

### Change in fair value of derivative instruments

	For the sixteen months ended December 31, 2013	For the twelve months ended August 31, 2012
Fixed-for-floating electricity swaps	\$ (103)	\$ -
Natural gas forward contracts	133	-
	\$ 30	\$ -

### Fair values

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

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

As at December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	\$ 20,821	\$ -	\$ -	\$ 20,821
Accounts and other receivables		437	-	437
Other financial assets	-	-	133	133
Financial liabilities				
Trade and other payables	-	(1,280)	-	(1,280)
Other financial liabilities	-	-	(103)	(103)
	\$ 20,821	\$ (843)	\$ 30	\$ 20,008

As at August 31, 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	\$ 147	\$ -	\$ -	\$ 147
Short-term investments	18,009	-	-	18,009
Accounts and other receivables	-	628	-	628
Financial liabilities				
Trade and other payables	-	(915)	-	(915)
	\$ 18,156	\$ (287)	\$ -	\$ 17,869

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:

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<b>As at December 31, 2013</b>	<b>For the sixteen months ended December 31, 2013</b>	<b>For the twelve months ended August 31, 2012</b>
Balance, beginning of the year	\$ -	\$ -
Purchases	30	-
Balance, end of the year	\$ 30	\$ -

### Classification of financial assets and liabilities

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

<b>As at December 31, 2013</b>	<b>Carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	\$ 20,555	\$ 20,555
Restricted cash	266	266
Accounts and other receivables	437	437
Accounts payable and accrued liabilities	1,280	1,280
Obligation under finance lease	70	70

As at December 31, 2013 and August 31, 2012, the carrying value of cash and cash equivalents, accounts and other receivables, accounts payable and accrued liabilities approximates their fair value due to their short-term nature. The carrying value of obligation under finance lease approximates its fair value as its interest payable on outstanding amounts approximates the Corporation's current cost of capital.

### Interest rate risk

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

### Currency risk

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

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

ONEnergy may, from time to time, experience losses resulting from fluctuations in the values of its foreign currency transactions, which could adversely affect its operating results. Translation risk is not hedged. With respect to translation exposure, if the Canadian dollar had been 5% stronger or weaker against the U.S. dollar for the sixteen months ended December 31, 2013, assuming that all the other variables had remained constant, profit for the period would have been \$4 higher/lower and other comprehensive income would have been \$4 lower/higher.