

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

# ONEnergy Inc.

As at and for the three and six months ended June 30, 2017

August 29, 2017

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# ONEnergy Inc.

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

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

As at and for the three and six months ended June 30, 2017

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### 1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

Certain statements in this MD&A, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. This may include, without limitation, statements based on current expectations involving a number of risks and uncertainties. These risks and uncertainties include, but are not restricted to: (i) tax-related matters, (ii) financial risk related to short-term investments (including credit risks and reductions in interest rates), (iii) human resources developments including competition for, and the availability of, qualified employees and contractors, (iv) business integrations and internal reorganizations, (v) business process risks including the use of, and reliance on, external vendors and contractors, (vi) regulatory developments and changes including regulatory requirements for sales channels used by the Company and financial surety requirements from utilities and regulators, (vii) the outcome of litigation and legal matters, (viii) any prospective acquisitions or divestitures, (ix) commodity pricing volatility and availability, (x) disruption to transmission systems for energy commodities that could impair the Company's ability to serve its customers, (xi) other risk factors related to the Company's historic business, (xii) risk factors related to the Company's future operations, and (xiii) changes to and compliance with applicable laws and regulations. For a more detailed discussion of factors that may affect actual results or cause actual results to differ materially from any conclusion, forecast or projection in these forward-looking statements and information, see *Section 4 Overview and Business Strategy* and *Section 15 Operating Risks and Uncertainties*.

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

*All financial information in this MD&A is expressed in thousands of Canadian dollars, unless otherwise noted. All references to the "Company" or "ONEnergy" refer to ONEnergy Inc., including its predecessor and successor companies, and its consolidated subsidiaries, unless the context requires otherwise. All information is as at August 29, 2017, unless otherwise indicated. Certain totals, subtotals and percentages may not reconcile due to rounding.*

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## 2. **INTRODUCTION**

The information provided in this MD&A is intended to help the reader understand ONEnergy's operations, financial performance and present and future business environment. This MD&A is supplementary to, and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2017. The following MD&A, dated August 29, 2017, has been prepared with all information available up to and including August 29, 2017. ONEnergy's unaudited interim condensed consolidated financial statements and other disclosure documents are available on [www.sedar.com](http://www.sedar.com) and on ONEnergy's website at [www.onenergyinc.com](http://www.onenergyinc.com).

The unaudited interim condensed consolidated financial statements of ONEnergy are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). The audited consolidated financial statements for the year ended December 31, 2016 of ONEnergy have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The unaudited interim condensed consolidated financial statements and audited consolidated financial statements of ONEnergy are presented in thousands of Canadian dollars.

## 3. **THE COMPANY**

ONEnergy is a corporation incorporated under the *Business Corporations Act* (Ontario). The names "ONEnergy" and the "Company" all refer to the same legal entity and the use of each are dependent upon the context of the topic covered in this MD&A.

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

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

The Home Comfort business was classified as held for sale and as discontinued operations as of June 30, 2017, December 31, 2016 and December 31, 2015. As a result, the financial results from operations for prior periods have been restated to reflect results from continuing and discontinued operations for comparative purposes. See *Section 6 Discontinued Operations* for additional information.

In this MD&A, the terms "we", "us", "our", and "Company" refer to ONEnergy, Gas & Power, Home Comfort and PVL.

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

### (a) **Business**

ONEnergy continues to pursue a strategy of building a comprehensive energy services company for both commercial and residential customers. The Company operates its business under two primary brand names: Sunwave Gas & Power, for the sale of natural gas and electricity to residential and commercial customers; and, since April 2016, ONEnergy, for energy efficiency products and services.

ONEnergy focuses on continually improving and expanding the value proposition offered to customers by offering complementary services and products as part of their relationship with ONEnergy. ONEnergy via its Sunwave and ONEnergy branded businesses specializes in helping customers use energy more wisely by minimizing their energy consumption and then cost-effectively managing the balance. ONEnergy intends to provide its customers with a steadily expanding range of value-added services designed to enhance the customer experience, thereby increasing the margin derived from each customer while improving overall customer satisfaction and retention.

### (b) **Gas & Power**

ONEnergy's energy retailing business currently involves the sale of electricity to residential and commercial customers in Connecticut, Pennsylvania, Massachusetts and Ohio and the sale of electricity and natural gas to residential and commercial customers in Ontario under long-term fixed-price or variable-priced contracts under

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the brand name Sunwave Gas & Power™. Gas & Power's strategy is to focus on markets that provide a strong value proposition for its customers while providing the Company with attractive margins and return on capital.

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

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

Gas & Power's gross margin is derived from the difference between the price charged to its customers and the price paid to its wholesale energy suppliers. Gas & Power also incurs selling expenses to compensate third-party energy brokers as well as telemarketing firms for customer acquisition activities. Customer acquisition costs paid to these third party sales channels are comprised of a combination of hourly charges plus per customer acquired payments for telemarketing, and through a mixture of upfront payments and residual-based payments. All such costs are recognized as expenses in the period incurred. In addition, Gas & Power incurs general, administrative and finance expenses to operate its business.

In Ontario, the natural gas volumes delivered from Gas & Power's wholesale suppliers remain constant throughout the year as required by the local natural gas distribution companies ("LDCs"). During the winter, gas is consumed at a rate that is greater than delivery and, in the summer, deliveries to LDCs on Gas & Power's behalf exceed customer consumption. These volume variances result in either excess or short supply positions that are accrued in a physical balance account with the applicable gas distribution company. Typically, the LDCs require the balance account to be reconciled within defined tolerance bands on an annual basis. In the case of deliveries exceeding consumption, the excess supply may be sold in the spot market resulting in either a gain or loss compared to the weighted average cost of supply. In the case of customer consumption exceeding deliveries, Gas & Power must purchase additional supply in the spot market, resulting in either a gain or loss compared to the weighted average cost of supply. To the extent that the supply balancing is not fully covered through active supply and risk management, Gas & Power's gross margin may be reduced or increased depending on market conditions at the time of balancing.

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

The Company markets its energy commodity products through various sales channels. Gas & Power markets energy commodity to commercial customers in both the U.S. and Canada through a network of direct sales agents who provide customers with a highly interactive and customized sales process. In U.S. residential markets, Gas & Power markets and sells to both residential and commercial customers via the Company's [www.gosunwave.com](http://www.gosunwave.com) website as well as via state-operated energy shopping websites in Connecticut ([www.energizeCT.com](http://www.energizeCT.com)), Pennsylvania ([www.PApowerswitch.com](http://www.PApowerswitch.com)), Massachusetts ([www.cessweb.azurewebsites.net](http://www.cessweb.azurewebsites.net)) and Ohio ([www.energychoice.ohio.gov](http://www.energychoice.ohio.gov)). Additionally Gas & Power utilizes

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both independent telemarketing services and targeted, customized direct mailings to reach potential customers in its chosen U.S. markets.

**(c) Energy Efficiency**

The Company sells commercial energy efficiency products and services business under the ONEnergy brand. ONEnergy offers commercial, industrial, manufacturing, retail and institutional clients a range of energy efficiency products and services including high efficiency lighting, commercial HVAC products and services, energy storage (battery) products and services, energy auditing services, energy management software products and services and commercial solar photovoltaic design and construction.

The Company expanded into energy efficiency services during 2014 as it identified demand for such services as customers looked to reduce their energy consumption and costs. More specifically, the LED lighting retrofit market was identified as both a high-growth market based on various factors including the phase-out of older lighting technologies, attractive government incentive programs in various provinces and states that encourage the adoption of more advanced lighting products and the need to assist our customers in first reducing their electrical load and then actively managing the remaining load via our Gas & Power business. In 2016, the Company began marketing a battery energy storage system (“BESS”) under the PowerCor™ brand for the residential and commercial markets. ONEnergy believes that taking a more holistic approach to the energy needs of its customers, both commercial and residential, will increase the stability and longevity of customer relationships and increase the long-term profitability of the customer to ONEnergy through the delivery of greater overall value to the customer.

ONEnergy has developed a strong group of suppliers to address virtually every customer need. In its LED retrofit business, the Company works directly with multiple lighting manufacturers to cover not only the general white lighting market but also application-specific lighting such as lighting for horticulture, food processing and hazardous locations to name a few. In the BESS segment, ONEnergy has a strategic alliance agreement with a leading battery manufacturer to provide battery components for its PowerCor™ BESS.

ONEnergy markets its products and services through a combination of its own salesforce and via a network of independent commission-based salespeople.

**(d) Geographic focus**

The Company’s primary geographic focus across all of its businesses is on markets in Canada and the northeast U.S.

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

Energy Efficiency has customers with multiple locations throughout Canada.

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

**(e) Discontinued operations**

Home Comfort owns and operates a portfolio of furnaces, air conditioners, boilers and ancillary equipment (“HVAC”) and water heaters, which are rented to residential customers in Ontario and Alberta, under long-term water heater and HVAC rental programs. In addition, Home Comfort sells and installs HVAC and water heaters directly to residential customers. Since mid-2015, Home Comfort has focused principally on the Ontario new home construction market.

Home Comfort has a long-term financing agreement with Home Trust Company (“Home Trust”) for the funding of HVAC and water heater rentals. The Home Trust loan is serviced from the payments received from the end customer over the seven to ten year life of the loan.

In December 2015 the Company formally commenced the process to sell Home Comfort. As at June 30, 2017, December 31, 2016 and December 31, 2015, Home Comfort was classified as held for sale and as discontinued operations. See *Section 6 Discontinued Operations* for additional information and the financial results of Home Comfort.

## 5. RESULTS OF CONTINUING OPERATIONS

Home Comfort is presented as discontinued operations as it was classified as held for sale as of June 30, 2017, December 31, 2016 and December 31, 2015. Home Comfort is therefore excluded from the results presented below.

### Selected financial information

Periods ended June 30	Three months		Six months	
	2017	2016	2017	2016
<b>Income (loss)</b>				
Revenue	\$ 10,966	\$ 7,201	\$ 22,607	\$ 15,337
Cost of sales	10,068	6,308	21,075	13,268
Gross margin	898	893	1,532	2,069
Selling	712	934	1,451	1,979
General and administrative	1,647	856	3,076	2,594
Change in fair value of energy derivatives	(357)	1,138	(1,359)	(152)
Finance income	6	14	12	20
Finance cost	(75)	(44)	(139)	(93)
Foreign exchange gain (loss)	(11)	1	(14)	(4)
Legal settlement	-	-	-	7,175
Income (loss) from continuing operations	(1,898)	212	(4,495)	4,442
Earnings (loss) per share from continuing operations – basic and diluted	(0.08)	0.01	(0.19)	0.18

As at	June 30, 2017	December 31, 2016
<b>Financial position</b>		
Current assets	\$ 13,097	\$ 13,553
Non-current assets	845	1,021
Current liabilities	18,771	15,387
Non-current liabilities	262	111
Shareholders' equity	2,916	7,564

### Revenue

Revenue for the three and six months ended June 30, 2017 was \$10,966 and \$22,607, respectively, compared to \$7,201 and \$15,337 for the same period in 2016. The increase is a result of the Company's continued organic growth in the Gas & Power U.S. business.

Gas & Power's revenue for the three and six months ended June 30, 2017 was \$10,052 and 21,056, respectively, compared to \$7,072 and 14,640 for the same period in 2016. The increase is a result of higher average number of electricity customers from net new customer additions, particularly in the Pennsylvania market. Revenue is derived from sales of natural gas and electricity to customers in Ontario and sales of electricity in Connecticut, Pennsylvania, Massachusetts and Ohio. U.S. operations contributed \$9,249 and \$19,145 of revenues for the three and six months ended June 30, 2017, respectively, compared to \$6,366 and \$13,104 for the same period in 2016.

### Cost of sales

Cost of sales for the three and six months ended June 30, 2017 was \$10,068 and \$21,075, respectively, compared to \$6,308 and \$13,268 for the same period in 2016. The increase is a result of higher customer numbers in Gas & Power's U.S. operations.

Gas & Power's cost of sales is comprised of the cost of natural gas or electricity, along with costs to deliver to the LDCs. Cost of sales for the three and six months ended June 30, 2017 was \$9,283 and \$19,776, respectively, compared to \$6,185 and 12,689 for the same period in 2016 consistent with the increase in revenue as

discussed above. The Company enters into financial swap contracts and forward contracts for electricity in order to manage exposures to changes in electricity prices. The Company experienced \$202 of losses and \$246 of losses for the three and six months ended June 30, 2017, respectively, compared to \$115 of losses and \$247 of losses for the same period in 2016 under these contracts.

### Selling

Selling expenses include commissions and other compensation paid to independent contractors such as sales representatives, brokers and consultants. Marketing expenses include the development of sales programs and materials, costs of sales collateral and costs to maintain an online presence for web sales. Sales and marketing expenses for the three and six months ended June 30, 2017 were \$712 and \$1,451, respectively, compared to \$934 and \$1,979 for the same period in 2016.

Selling costs arise from customer aggregation activity including (i) commissions; (ii) other customer acquisition costs; and (iii) management and back-office support costs. Selling expenses are expensed in the period that the commissions are earned by the independent contractors for Gas & Power sales. A summary of selling expenses is set out below:

Periods ended June 30	Three months		Six months	
	2017	2016	2017	2016
Commissions	\$ 138	\$ 179	\$ 281	\$ 403
Customer acquisition and marketing	44	53	111	122
Management and back-office support	530	702	1,059	1,454
<b>Total selling expenses</b>	<b>\$ 712</b>	<b>\$ 934</b>	<b>\$ 1,451</b>	<b>\$ 1,979</b>
Personnel costs included in management and back-office support	\$ 254	\$ 459	\$ 523	\$ 1,028

### General and administrative

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

Periods ended June 30	Three months		Six months	
	2017	2016	2017	2016
Personnel	\$ 504	\$ 571	\$ 952	\$ 1,787
Professional fees	198	74	531	178
Litigation costs	566	-	808	26
Occupancy	23	46	60	102
Operations	137	116	265	228
Other expenses	199	19	418	213
Depreciation and amortization	20	30	42	60
<b>Total general and administrative expenses</b>	<b>\$ 1,647</b>	<b>\$ 856</b>	<b>\$ 3,076</b>	<b>\$ 2,594</b>

#### Personnel

Personnel costs include wages, salaries, benefits, separation payments and share-based payments. Personnel costs decreased by \$67 and \$835 for the three and six months ended June 30, 2017, respectively, compared to the same period in 2016 primarily due to the recognition of the costs of the separation agreement with the Company's former CEO during 2016.

#### Professional fees

Professional fees are comprised of legal, accounting, audit and consulting fees. Professional fees increased by \$124 and \$353 for the three and six months ended June 30, 2017, respectively, compared to the same period in 2016 due to activity related to the acquisition of Ozz Electric Inc. See *Section 20 Acquisition of Ozz Electric Inc.* for additional information.

#### Former Officer and Director litigation costs

Litigation costs are the legal fees and other related costs to the Statement of Claim (see *Section 14 Former Officer and Director Litigation*). Litigation costs increased by \$566 and \$782 for the three and six months ended June 30, 2017, respectively, compared to the same period in 2016 as the Company prepared for the trial with the

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McGoey Defendants. The trial commenced April 10, 2017 and concluded on May 23, 2017. See *Section 14 Former Officer and Director Litigation* for additional information.

#### Occupancy

Occupancy costs decreased by \$23 and \$42 for the three and six months ended June 30, 2017, respectively, compared to the same period in 2016 as the Vancouver office was subleased in January 2017.

#### Operations

Operations expenses include billing and collection fees charged by LDCs, third party verification fees and certain call centre costs. Operations expenses increased \$21 and \$37 for the three and six months ended June 30, 2017, respectively, compared to the same period in 2016, commensurate with the increase in the average number of customers in 2017 compared to 2016.

#### Other expenses

Other expenses include costs for investor relations, costs for the shareholders' annual and special meeting, insurance and other general & administrative costs. Other expenses increased by \$180 and \$205 for the three and six months ended June 30, 2017, respectively, compared to the same period in 2016. The increase is due to higher bad debts provision as a results of higher Gas & Power revenue.

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

The change in fair value of energy derivatives consists of unrealized gains or losses on derivatives, which represent the estimated amount that the Company would need to pay or receive to dispose of the remaining notional commodity positions in the market if the derivative contracts were to be terminated at the respective period end (see *Section 15 Operating Risks and Uncertainties*).

The following table summarizes the unrealized losses associated with derivative contracts:

Periods ended June 30	Three months		Six months	
	2017	2016	2017	2016
Fixed-for-floating electricity swaps	\$ (94)	\$ 39	\$ (137)	\$ (63)
Physical electricity forward contracts	(212)	979	(1,000)	(189)
Natural gas forward contracts	(51)	120	(222)	100
	\$ (357)	\$ 1,138	\$ (1,359)	\$ (152)

These losses represent non-cash losses associated with mark-to-market movements on forward hedge positions that are outstanding at period end.

#### **Finance income**

Finance income recognized on cash and cash equivalents balances for the three and six months ended June 30, 2017 was \$6 and \$12, respectively, compared to \$14 and \$20 for the same period in 2016.

#### **Finance costs**

Finance costs for the three and six months ended June 30, 2017 were \$75 and \$139, respectively, compared to \$44 and \$93 for the same period in 2016, as the Company had a higher average credit facility balance outstanding during 2017 compared to 2016.

#### **Legal settlement**

A legal settlement of \$7,175 was reached with certain of the defendants to the Statement of Claim against former officers and directors. The settlement was received on April 1, 2016 and recognized during the three months ended March 31, 2016. See *Section 14 Former Officer and Director Litigation* for additional information.

#### **Income (loss) from continuing operations**

Loss from continuing operations amounted to \$1,898 and \$4,495 for the three and six months ended June 30, 2017, respectively, or \$0.08 and \$0.19 per basic and diluted share, respectively. Income from continuing operations amounted to \$212 and \$4,442 for the three and six months ended June 30, 2016, respectively, or \$0.01 and \$0.18 per basic and diluted share, respectively.

## 6. DISCONTINUED OPERATIONS

### Home Comfort

In December 2015 the Company formally commenced the process to sell Home Comfort. Home Comfort has been operating in a highly competitive environment which has seen its major competitors consolidate, making it difficult for management to derive real growth and profitability from the segment. As a result, management has decided this is a non-core business. At June 30, 2017, December 31, 2016 and December 31, 2015 Home Comfort was classified as held for sale and as a discontinued operation.

On March 9, 2017, the Company entered into a letter of intent (“LOI”) with Cricket Energy Holdings Inc. (“Cricket”), whereby Cricket will acquire Home Comfort for \$8,300. One of Cricket’s significant shareholders is also a shareholder of OEnergy and the beneficial controlling shareholder of OZZ Electric Inc. As an indication of Cricket’s commitment to acquire Home Comfort and to incentivize Home Comfort to continue to invest in its hot water tank rental portfolio, Cricket advanced \$507 and \$851 in cash and working capital support during the three months and six months ended June 30, 2017, respectively. The advances carry no interest and are repayable on demand. The balance outstanding as at June 30, 2017 was \$4,659 (December 31, 2016 - \$3,808). The purchase price will be satisfied with cash and a promissory note. In addition, the Company will deliver a promissory note to Cricket for the working capital advances outstanding on closing. The sale is subject to regulatory and shareholder approval and is expected to close following the 2017 annual and special shareholder meeting. The promissory notes will be non-interest bearing and will be payable on demand.

### Results of operations

Home Comfort’s revenue is comprised of rental revenue from its portfolio of HVAC and water heater rental equipment. This is supplemented with equipment sales. Revenue for the three and six months ended June 30, 2017 was \$602 and \$1,244, respectively, compared to \$693 and \$1,399 for the same period in 2016.

Home Comfort’s cost of sales is comprised of amortization of the rental equipment cost and, for equipment sales, the cost of the equipment and installation. Home Comfort’s cost of sales for the three and six months ended June 30, 2017 was \$NIL and \$12, respectively, compared to \$2 and \$17 for the same period in 2016.

Loss from discontinued operations amounted to \$162 and \$210 for the three and six months ended June 30, 2017, respectively, or \$0.01 and \$0.01 per basic and diluted share, respectively. Income from discontinued operations amounted to \$394 and \$676 for the three and six months ended June 30, 2016, respectively, or \$0.02 and \$0.03 per basic and diluted share, respectively.

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

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

Periods ended June 30	Three months		Six months	
	2017	2016	2017	2016
Income (loss) from continuing operations	\$ (1,898)	\$ 212	\$ (4,495)	\$ 4,442
Add/(subtract)				
Depreciation and amortization	89	113	181	226
Change in fair value of energy derivatives	357	(1,138)	1,359	152
Finance income	(6)	(14)	(12)	(20)
Finance costs	75	44	139	93
Foreign exchange loss (gain)	11	(1)	14	4
Legal settlement	-	-	-	(7,175)
Adjusted EBITDA <sup>(1)</sup>	\$ (1,372)	\$ (784)	\$ (2,814)	\$ (2,278)

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

## 8. QUARTERLY FINANCIAL RESULTS FROM CONTINUING OPERATIONS

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

	2017		2016				2015	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Revenue	\$10,966	\$11,641	\$ 9,956	\$11,018	\$ 7,201	\$ 8,136	\$ 5,860	\$ 6,564
Cost of sales	10,068	11,007	9,329	9,635	6,308	6,960	4,757	5,358
Gross margin	898	634	627	1,383	893	1,176	1,103	1,206
Operating expenses before the undernoted	2,270	2,076	1,875	2,154	1,677	2,670	1,772	1,921
Adjusted EBITDA	(1,372)	(1,442)	(1,248)	(771)	(784)	(1,494)	(669)	(715)
Depreciation and amortization	(89)	(92)	(101)	(104)	(113)	(113)	(169)	(166)
Change in fair value of derivative instruments	(357)	(1,002)	407	574	1,138	(1,290)	(362)	700
Finance income	6	6	10	11	14	6	2	6
Finance costs	(75)	(64)	(61)	(55)	(44)	(49)	(45)	(41)
Unrealized foreign exchange gain (loss)	(11)	(3)	(1)	(2)	1	(5)	4	(2)
Impairment loss on assets	-	-	(270)	-	-	-	(1,476)	-
Legal settlement	-	-	-	-	-	7,175	-	-
<b>Income (loss) from continuing operations</b>	<b>\$ (1,898)</b>	<b>\$ (2,597)</b>	<b>\$ (1,264)</b>	<b>\$ (347)</b>	<b>\$ 212</b>	<b>\$ 4,230</b>	<b>\$ (2,715)</b>	<b>\$ (218)</b>
<b>Earnings (loss) per share from continuing operations</b>								
Basic and diluted	\$ (0.08)	\$ (0.11)	\$ (0.05)	\$ (0.01)	\$ 0.01	\$ 0.18	\$ (0.11)	\$ (0.01)

Customer acquisition in the U.S. by Gas & Power began in the quarter ended March 31, 2014 and the subsequent quarters reflect the growth in the customer base since that time. The periods that include winter months reflect seasonality where Gas & Power customers will generally consume more gas, impacting gross margin.

## 9. LIQUIDITY AND CAPITAL RESOURCES

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

The Company's total cash liquidity is \$5,861 comprised of cash and restricted cash. Unrestricted cash was \$1,652 at June 30, 2017 compared with \$2,746 at December 31, 2016. Restricted cash increased from \$3,240 at December 31, 2016 to \$4,209 at June 30, 2017. Cash was used to grow the Energy Efficiency business and to support operating activities in Home Comfort and Gas & Power.

As at June 30, 2017, the Company has an accumulated deficit of \$37,922 (December 31, 2016 - \$33,217), including a net loss of \$2,060 and \$4,705 for the three months and six months ended June 30, 2017, respectively (net income of \$606 and \$5,118 for the three months and six months ended June 30, 2016, respectively). To address its financing needs, the Company will work towards concluding the previously announced sale of its Home Comfort business and its acquisition of OZZ Electric Inc. as well as securing additional debt and/or equity financing. Whether and when the Company can achieve the above is uncertain. As a result, there is material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There can be no assurance that the Company will have sufficient capital to fund its ongoing operations or develop and deploy any further products without future financing. If adequate funds are not available or the Company is unable to obtain additional customers and contracts, the Company may have to substantially reduce or eliminate planned expenditures and seek additional financing from shareholders or lenders. If the Company is unable to obtain additional financing when and if required, the Company may be unable to continue operations.

Under the credit facility agreements Shell Energy has provided Gas & Power credit arrangements for its Canadian and U.S. operations. Under the Canadian revolving credit facility Shell Energy provides Gas & Power with advances of up to \$1,000 for commodity purchases and financial derivatives and related services. Interest

is payable on outstanding advances at 4% plus the greater of: (i) 3% or (ii) LIBOR. Under the U.S. revolving credit and collateral credit facilities Shell Energy provides Gas & Power with advances of up to US\$15,000 for commodity purchases, certain working capital uses, collateral security support and financial derivatives and related services. Interest is payable on outstanding advances under the revolving credit facility at 4% plus the greater of: (i) 3% or (ii) LIBOR, and under the collateral credit facility at 4% plus the greater of: (i) 4% or (ii) LIBOR. On June 30, 2017, LIBOR was 1.30% (December 31, 2016 – 1.00%). An additional interest rate penalty of 0.50% applies to all facilities in the event that Gas & Power were to be in default of certain financial covenants. Interest is repayable in the month following the month that advances were made. Principal on the revolving credit facility is repayable in the month following the month that advances were made. Principal on the collateral credit facility is repayable by November 20, 2018. No further advances can be made after November 20, 2018.

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

As at June 30, 2017, Gas & Power had \$3,974 (US\$3,062) (December 31, 2016 - \$1,911) outstanding under the U.S. collateral credit facility and \$NIL (December 31, 2016 - \$NIL) outstanding under the U.S. revolving credit facility. In 2016 and 2017, no advances were drawn on the Canadian credit facilities. Under the U.S. credit facilities, amounts are available in US\$5,000 tranches depending on monthly delivered volumes. As at June 30, 2017, a total of US\$5,000 (December 31, 2016 – US\$5,000) was available to be drawn on these facilities. Under the Canadian credit facilities, a total of \$1,000 (December 31, 2016 - \$1,000) was available to be drawn. As at June 30, 2017, Gas & Power was non-compliant with a single covenant in the Shell credit agreements. An additional interest rate penalty of 0.5% is applied until Gas & Power becomes compliant with this covenant. Interest is provided at 8.0% per annum on the collateral credit facility plus an interest penalty of 0.5%; and at 7.0% per annum on the revolving credit facility plus an interest penalty of 0.5%.

As partial consideration for entering into the agreements above, Gas & Power has agreed to provide Shell Energy with a "participation" payment based upon the performance of Gas & Power during the term of the agreements. A participation payment is payable to Shell Energy upon Gas & Power reaching certain milestones such as customer count thresholds, an acquisition of control of Gas & Power, a disposition of Gas & Power's assets or a material public share issuance by Gas & Power or the Company. The payment is based on a certain percentage of Gas & Power's equity value at the time of the triggering event. The payment, if and when triggered, is a one-time event. For clarity, the calculation of the payment is based on Gas & Power's equity value at the time of the triggering event, and not upon the equity value of the Company. Given that various events could result in the achievement of triggering milestones, and that the milestones that would trigger a payment may occur at any point over the life of the agreements, as at June 30, 2017 and December 31, 2016 management does not believe it is reasonably possible to estimate either the timing or the amount of such participation payment. No amount for a participation payment to Shell Energy has been accrued as at June 30, 2017 and December 31, 2016.

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

The change in cash is summarized as follows:

Periods ended June 30	Three months		Six months	
	2017	2016	2017	2016
Cash provided by (used in) operating activities of continuing operations	\$ (1,541)	\$ 4,929	\$ (3,153)	\$ 5,803
Cash provided by (used in) investing activities of continuing operations	(865)	(104)	(969)	9
Cash provided by financing activities of continuing operations	2,624	363	2,924	306
Effect of foreign currency translation	(139)	(12)	(166)	(131)
Increase (decrease) in cash from continuing operations	79	5,176	(1,364)	5,987
Increase (decrease) in cash from discontinued operations	(366)	(1,527)	270	(3,052)
Increase (decrease) in cash	\$ (287)	\$ 3,649	\$ (1,094)	\$ 2,935

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Cash used in operating activities of continuing operations for the three months ended June 30, 2017 was \$1,541 compared to cash provided by operating activities of continuing operations of \$4,929 for the same period in 2016, a decrease of \$6,470. The decrease was primarily a result of income from continuing operations decreasing by \$2,110, non-cash operating assets and liabilities decreasing by \$5,858 offset by change in fair value of derivatives increasing by \$1,495.

Cash used in operating activities of continuing operations for the six months ended June 30, 2017 was \$3,153 compared to cash provided by operating activities of continuing operations of \$5,803 for the same period in 2016, a decrease of \$8,956. The decrease was primarily a result of income from continuing operations decreasing by \$8,937, non-cash operating assets and liabilities decreasing by \$1,076 offset by change in fair value of derivatives increasing by \$1,207.

Cash used in investing activities of continuing operations for the three months ended June 30, 2017 was \$865 compared to cash used in investing activities of continuing operations of \$104 for the same period in 2016, a decrease of \$761. The decrease was primarily a result of the change in restricted cash. Restricted cash is cash collateral held as security for letters of credit issued by and other initiatives of the Company.

Cash used in investing activities of continuing operations for the six months ended June 30, 2017 was \$969 compared to cash provided by investing activities of continuing operations of \$9 for the same period in 2016, a decrease of \$978. The decrease was primarily a result of the change in restricted cash.

Cash provided by financing activities of continuing operations for the three months ended June 30, 2017 was \$2,624 compared to cash provided by financing activities of continuing operations of \$363 for the same period in 2016, an increase of \$2,261. The provision of cash for the three months ended June 30, 2017 was comprised of advances from Cricket of \$507 and proceeds of credit facility of \$11,433 net of principal repayments and interest of \$9,316. The provision of cash for the three months ended June 30, 2016 was comprised of proceeds of credit facility of \$5,283 net of principal repayments and interest of \$4,920.

Cash provided by financing activities of continuing operations for the six months ended June 30, 2017 was \$2,924 compared to cash provided by financing activities of continuing operations of \$306 for the same period in 2016, an increase of \$2,618. The provision of cash for the six months ended June 30, 2017 was comprised of advances from Cricket of \$851 and proceeds of credit facility of \$20,864 net of principal repayments and interest of \$18,791. The provision of cash for the three months ended June 30, 2016 was comprised of proceeds of credit facility of \$10,311 net of principal repayments and interest of \$10,005.

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

Gas & Power is required to post financial assurance in order to operate in certain states or utility service territories. Energy Efficiency is required, on certain contracts, to post financial assurance to assure satisfactory completion of its installation contracts. The Company has issued letters of credit to satisfy the financial assurance requirement. If these letters of credit were withdrawn by the Company, it would be required to post another form of financial assurance satisfactory to the regulatory agency or utility in order to continue to operate in that electricity retailing market, or to the customer in order to secure the contract. The Company has \$1,311 deposited with a financial institution as security for outstanding letters of credit. As at June 30, 2017, the Company has \$1,301 (December 31, 2016 - \$1,441) in outstanding letters of credit.

## **11. SHARE CAPITAL**

As at June 30, 2017 there were 23,975 Common Shares issued and outstanding (December 31, 2016 – 23,975).

In determining diluted income (loss) per share for the three and six months ended June 30, 2017 and 2016, the weighted average number of shares outstanding was not increased for stock options outstanding as it is considered anti-dilutive.

## **12. STOCK BASED COMPENSATION**

### *Stock option plans*

For the three and six months ended June 30, 2017, stock option costs totaling \$24 and \$49, respectively, were incurred related to employees and contractors, compared to \$30 and \$218 for the same period in 2016. The options were recognized as selling expenses and general and administrative expenses and have been recorded in contributed surplus.

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The Company did not grant any options to purchase Common Shares of the Company during the three and six months ended June 30, 2017.

*Deferred share units*

For the three and six months ended June 30, 2017, deferred share units (“DSUs”) totaling \$25 and \$25, respectively, were granted to non-executive directors compared to \$34 and \$49 for the same period in 2016. The DSUs were recognized as general and administrative expenses and recorded as current liabilities.

**13. TAX LOSSES**

The Company’s tax attributes may be utilized by the Company in its future operations, or may be utilized by a potential acquirer to offset income, provided certain tests are satisfied including those related to a change in control of the Company.

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

Year	Amount
2028	5,894
2029	115,583
2030	5,748
2031	19,992
2032	4,133
2033	5,428
2034	7,931
2035	3,295
2037	3,799
	<u>\$ 171,803</u>

**14. FORMER OFFICER AND DIRECTOR LITIGATION**

On July 6, 2011, the Company issued a Statement of Claim (the “Claim”) in the Ontario Superior Court of Justice (the “Court”) against certain former directors and certain former officers of Look Communications Inc. (now ONEnergy Inc.) in connection with the payment of approximately \$20,000 of “restructuring awards” accrued in fiscal 2009 and paid during the first quarter of fiscal 2010 (the “Sale Awards”), of which approximately \$15,700 was paid to the directors and senior officers named in the Claim (or their personal holding companies, as applicable) from the net proceeds of approximately \$64,000 realized by the Company on the sale of its spectrum license in 2009. The former officers and directors named in the Claim collectively resigned effective July 21, 2010.

The Company also issued a Statement of Claim against McMillan LLP (“McMillan”) on August 20, 2012 (the “McMillan Claim”). The McMillan Claim seeks recovery of the advances paid in June of 2010 in the amount of \$1,550, which were paid to McMillan and other law firms before the former directors and officers resigned on July 21, 2010.

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

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

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The trial against the McGoey Defendants began on April 10, 2017 and concluded on May 23, 2017. On June 1, 2017, Justice Conway of the Ontario Superior Court of Justice granted judgment in favour of the Company against the McGoey Defendants, in the amount of \$5,766 plus legal costs and interest, for breach of fiduciary duty in respect of the decision of the former board of directors of the Company to award certain equity cancellation payments and performance bonuses to Look's senior management and directors. The judgment also grants both a constructive trust and a tracing order over the damages owing.

On June 27, 2017, the McGoey Defendants filed a Notice of Intention to Make a Proposal under the Bankruptcy and Insolvency Act, and have until September 9, 2017 to make a proposal subject to order of the court. On June 30, 2017, the McGoey Defendants filed a Notice of Appeal with the Court of Appeal for Ontario. ONEnergy expects the appeal to be heard in late 2017 or early 2018. ONEnergy is confident the appeal will be dismissed.

## **15. OPERATING RISKS AND UNCERTAINTIES**

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

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

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

#### Electricity and natural gas derivatives

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

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

The fair value of derivative financial instruments is the estimated amount that the Company would pay or receive to dispose of these derivative instruments in the market, in the unlikely event that the Company was required to dispose of its derivative instruments. The Company has estimated the value of derivative instruments using market-based forward wholesale price curves.

#### Credit risk

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

Credit risk associated with cash is minimized by ensuring this financial asset is placed with financial institutions with high credit ratings.

The LDCs provide billing & collection services and assume the risk of any bad debts from customers for a fee. Therefore, the Company receives the collection of customer account balances directly from the LDCs. Management believes that the risk of the LDCs failing to deliver payment to the Company is minimal. For Home

Comfort, in markets where LDCs do not provide billing & collection services for a fee, the customer is billed directly by Home Comfort. The Company's customers are individually insignificant and geographically dispersed. The Company currently believes that its susceptibility to an individually significant write-off as a result of concentrations of customer accounts receivable with those LDCs is remote. For Energy Efficiency, the Company receives deposits in advance of performing installations thereby reducing its overall exposure on individual projects, such that the Company is not susceptible to an individually significant write-off.

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

As at	June 30, 2017	December 31, 2016
<b>Accounts and other receivables</b>		
Current	\$ 6,421	\$ 5,812
31- 90 days	14	184
Over 90 days	198	48
	\$ 6,633	\$ 6,044

All of the Company's cash is held with major financial institutions in Canada and in the U.S., and management believes the exposure to credit risk with these institutions is not significant. The Company's maximum assessed exposure to credit risk, as at June 30, 2017 and December 31, 2016, is the carrying value of its accounts and other receivables.

#### Liquidity risk

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

#### Contractual Obligations

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

The Company's financial liabilities are comprised of its accounts payable and accrued liabilities, payments received in advance of consumption, derivative instruments, credit facility, advances from Cricket, long-term debt and commitments. As at June 30, 2017, the payments due by period, excluding liabilities relating to assets classified as held for sale, 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	\$ 9,322	\$ -	\$ -	\$ 9,322
Payments received in advance of consumption	46	-	-	46
Credit facility	3,974	-	-	3,974
Advances from Cricket Energy Holdings Inc.	4,659	-	-	4,659
Energy derivatives	11,196	3,880	-	15,076
Commitments	42	235	-	277
	\$ 29,239	\$ 4,115	\$ -	\$ 33,354

#### Interest rate risk

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

#### Currency risk

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

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

ONEnergy may, from time to time, experience losses resulting from fluctuations in the values of its foreign currency transactions, which could adversely affect its operating results. Translation risk is not hedged. With respect to translation exposure, if the Canadian dollar had been 5% stronger or weaker against the U.S. dollar for the six months ended June 30, 2017, assuming that all the other variables had remained constant, comprehensive loss would have been \$60 lower/higher (six months ended June 30, 2016 – comprehensive income \$21 lower/higher).

#### Fair Values

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

The fair values of short-term financial assets and liabilities, including cash, restricted cash, accounts and other receivables, accounts payable and accrued liabilities, payments in advance of consumption and credit facility as presented in the unaudited interim condensed consolidated statements of financial position, approximate their carrying amounts due to the short period to maturity of these financial instruments.

#### Supplier Risk

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

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

### **16. OTHER RISK FACTORS**

In addition to operating risks described in *Section 15 Operating Risks and Uncertainties* are other risk and uncertainties that ONEnergy can foresee. The information presented in *Section 18 Other Risk Factors* in our MD&A for the year ended December 31, 2016 has not changed materially since December 31, 2016.

### **17. COMMITMENTS AND CONTINGENCIES**

#### **(a) Commitments**

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

**June 30, 2017**

	Between one			
	Less than	and five	More than	Total
	one year	years	five years	
Non-cancellable lease	\$ 221	\$ 486	\$ -	\$ 707
Non-cancellable sublease	(179)	(250)	-	(429)
	\$ 42	\$ 236	\$ -	\$ 278

#### **(b) Proceedings**

In December 2016 the Ontario Ministry of Government and Consumer Services (the "Ministry") laid 16 charges against Home Comfort, 16 charges against two current directors of Home Comfort, and 2 charges against a current employee of Home Comfort, alleging breaches of the Consumer Protection Act, 2002 (Ontario). The Ministry alleges that Home Comfort engaged in unfair practices by making misrepresentations to consumers, that it failed to refund payments to consumers within 15 days of notice of cancellation of a consumer agreement, and

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failed to provide either consumer agreements or disclosure statements containing all required information to consumers. The directors are alleged to have failed to have taken reasonable care to prevent Home Comfort from committing the offences.

The charges against Home Comfort are punishable by a maximum fine of \$250,000 per count. The maximum fine to which the directors and employee are subject is \$50,000 per count. Home Comfort is currently reviewing the allegations and disclosure made by the Ministry and at this time is unable to reasonably evaluate the extent of its potential financial exposure, if any. No date has been set for the trial of any of the charges.

All of the offences are alleged to have occurred during the period between September 2014 and April 2015, inclusive, and relate to the sale of heating, ventilation and air conditioner products to consumers at their homes. Home Comfort no longer utilizes the door to door business model.

### **(c) Contingencies**

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

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

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

Management's discussion and analysis of operating results and financial condition are made with reference to the Company's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2017 which have been prepared in accordance with IAS 34. The Company's significant accounting policies are summarized in detail in Note 2 of the Company's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2017 and in Note 2 of the Company's audited consolidated financial statements for year ended December 31, 2016.

## **19. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED**

The IASB has issued the following standards and interpretations not yet adopted by the Company but will have an impact on future periods:

- IFRS 9, *Financial Instruments* – effective for annual periods beginning on or after January 1, 2018.
- IFRS 15, *Revenue from Contracts with Customers* – effective for annual periods beginning on or after January 1, 2018 and is required to be applied retrospectively.
- IFRS 16, *Leases* – effective for annual periods beginning on or after January 1, 2019.

These changes are described in the audited consolidated financial statements for the year ended December 31, 2016. Management continues to assess the impact of each of the Standards on the consolidated financial statements. As at the date of these unaudited interim condensed consolidated financial statements, there have been no significant changes to the disclosure related to the implementation and potential effects of these Standards that was included in the audited consolidated financial statements for the year ended December 31, 2016.

## **20. ACQUISITION OF OZZ ELECTRIC INC.**

On December 21, 2016, the Company announced it entered into a LOI with OZZ Electric Inc. ("OZZ"), which contemplates an acquisition of all of the common shares of OZZ in exchange for the issuance of common shares of a successor corporation to ONEnergy (the "Transaction"). The controlling shareholder of OZZ is also a shareholder of ONEnergy and one of Cricket's significant shareholders. Completion of the Transaction would potentially result in a reverse takeover and change of business of the Company under the policies of the TSX Venture Exchange (the "Exchange").

On August 10, 2017, ONEnergy, OZZ and OZZ Clean Energy Inc. ("OCE") entered into an arrangement agreement (the "Arrangement Agreement"), whereby ONEnergy, OZZ and OCE propose to effect a plan of arrangement (the "Arrangement") in accordance with Section 182 of the Business Corporations Act (Ontario). Subsequent to entering into the previously announced letter of intent with respect to the proposed Arrangement,

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ONEnergy and OZZ agreed to include OCE as part of the proposed Arrangement. OCE is a private company that is an affiliate of OZZ.

### **The Arrangement**

Commencing at the effective time of the Arrangement, among other things: (a) ONEnergy will sell and transfer to a wholly-owned subsidiary of ONEnergy to be incorporated prior to the closing of the Arrangement ("Newco"), all of ONEnergy's right, title and interest in substantially all of ONEnergy's business and assets and Newco will assume certain of ONEnergy's liabilities in exchange for 5,993,875 common shares of Newco ("Newco Shares"), which ONEnergy will distribute to its non-dissenting shareholders on a pro rata basis; (b) 728,015 outstanding stock options and 410,176 outstanding deferred share units of ONEnergy will be exchanged for 728,015 stock options and 410,176 deferred share units of Newco, respectively, with 0.25 Newco Shares being reserved for issuance pursuant to each such option and deferred share unit; (c) 98,000 outstanding common shares of OZZ (each, an "OZZ Share") (including OZZ Shares issued upon conversion of the Subscription Receipts assuming completion of the Minimum Financing (both as defined below)) will be exchanged for 49,000,000 Newco Shares; and (d) 1,000,000 outstanding common shares of OCE (each, an "OCE Share") will be exchanged for 2,500,000 Newco Shares. ONEnergy shareholders, except for those that duly exercise their rights of dissent pursuant to the Arrangement, will retain their current shares of ONEnergy. Arrangements are being made to provide funding for the possible realization of the Tax Attributes, the diligent execution of the judgement obtained in the Litigation (as defined in the Arrangement Agreement) and the continuing management of ONEnergy.

Upon completion of the Arrangement, it is the intention of the parties that Newco will be renamed "OZZ Energy + Infrastructure Inc." (the "Resulting Issuer") and its shares (the "Resulting Issuer Shares") will be listed for trading on the TSX Venture Exchange (the "TSXV") under the ticker symbol "OZZ".

ONEnergy has called a special meeting of its shareholders to be held on September 28, 2017 to approve the Arrangement (the "Meeting"). To be effective, the special resolution of the shareholders of ONEnergy approving the Arrangement must be approved by at least 66 2/3% of the votes cast in person or by proxy at the Meeting. Additional details of the Arrangement will be provided to ONEnergy shareholders in a Management Information Circular to be mailed in connection with the Meeting.

## **21. SIGNIFICANT EVENTS**

On August 14, 2017, the Company announced that it entered in an agreement to issue \$1,200 in convertible notes ("Notes"). The Notes have a 12 month duration, a 12% coupon and will be convertible into common shares of the Company at a conversion rate of \$0.50 per share. The Notes may be redeemable by the noteholder at par plus \$85 plus accrued and unpaid interest upon 30 days written notice. The securities issued under this private placement will be subject to a four-month hold period.

## **22. ADDITIONAL INFORMATION**

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

# ONEnergy Inc.

## SHAREHOLDER INFORMATION

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### Board of Directors

#### Chairman of the Board

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

#### Directors

Stanley H. Hartt  
Counsel, Norton Rose Fulbright Canada LLP

David Rattee  
Corporate Director

Lawrence Silber  
Partner, Kelly Santini LLP

#### Officers

Stephen J.J. Letwin  
Chairman

Ray de Ocampo  
Chief Financial Officer

Robert K. Weir  
Chief Operating Officer

### Auditors

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

### Transfer Agent and Registrar

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

### Shareholder enquiries

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

### Stock exchange listing

ONEnergy's shares are listed on Tier 1 of the TSX  
Venture Exchange under the symbol OEG