

**CONSOLIDATED FINANCIAL STATEMENTS OF
TORONTO ATMOSPHERIC FUND
YEAR ENDED DECEMBER 31, 2006**

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Consolidated statement of financial position	2
Consolidated statement of funds	3
Consolidated statement of operations	4
Consolidated statement of cash flows	5
Notes to consolidated financial statements	6-12

INDEPENDENT AUDITORS' REPORT

**To the Board of Directors of
Toronto Atmospheric Fund
and the City of Toronto**

We have audited the accompanying consolidated financial statements of Toronto Atmospheric Fund which comprise the statement of financial position as at December 31, 2006 and the statements of funds, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility


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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 representation of the 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. Accordingly, the auditors express no such opinion. 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 financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the organization as at December 31, 2006 and the results of its operations and changes in cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.


BROWNING, MILGRAM LLP
CHARTERED ACCOUNTANTS,
LICENSED PUBLIC ACCOUNTANTS
MARCH 9, 2007

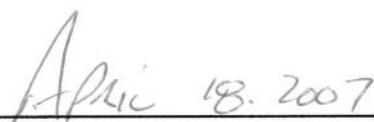
TORONTO ATMOSPHERIC FUND
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
	\$	\$
ASSETS		
Accounts receivable	107,588	104,919
Loans receivable (note 3)	1,401,154	315,753
Capital assets (note 4)	1,925	4,282
Deferred expenses (note 2(f))	13,864	7,483
Investments held in trust by the City of Toronto (note 5)	<u>26,519,941</u>	<u>27,177,718</u>
	<u>28,044,472</u>	<u>27,610,155</u>
LIABILITIES		
Bank accommodation	699,325	228,603
Accounts payable and accrued liabilities	67,178	88,933
Due to Clean Air Partnership	14,337	9,684
Grants payable (note 9)	593,812	1,047,619
Funds held in trust Dan Leckie Fund (note 2(h))	30,813	33,217
Special Projects payable	<u>179,578</u>	<u>114,401</u>
	<u>1,585,043</u>	<u>1,522,457</u>
FUND BALANCES		
Operating Fund	25,159,231	24,598,860
Grants Fund (note 2 (i))	473,070	779,641
Stabilization Fund (note 2(j))	<u>827,128</u>	<u>709,197</u>
	<u>26,459,429</u>	<u>26,087,698</u>
	<u>28,044,472</u>	<u>27,610,155</u>

SIGNED ON BEHALF OF THE BOARD:



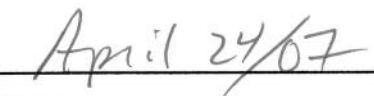
Director



Date



Director



Date

TORONTO ATMOSPHERIC FUND
CONSOLIDATED STATEMENT OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	2006		2005	
	Operating Fund \$	Grants Fund note 2(i) \$	Stabilization Fund \$	Total \$
FUND BALANCE, BEGINNING OF YEAR	24,598,860	779,641	709,197	26,087,698
Excess of revenues over expenditures	371,731	-	-	371,731
Interfund transfers:				
Allocation to grant spending	349,646	(349,646)	-	-
Funding carried forward to next year	(43,075)	43,075	-	-
To Stabilization Fund	<u>(117,931)</u>	<u>-</u>	<u>117,931</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>25,159,231</u>	<u>473,070</u>	<u>827,128</u>	<u>26,459,429</u>
				<u>26,087,698</u>

TORONTO ATMOSPHERIC FUND
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
	\$	\$
REVENUES		
Investment income, net (note 2(c))	2,046,067	1,770,381
Community loan interest	17,864	20,130
Grants	-	89,500
Advisory and application fees	-	32,500
Interest and other income	<u>18,963</u>	<u>2,668</u>
	<u>2,082,894</u>	<u>1,915,179</u>
EXPENDITURES		
Salaries and employee benefits	255,484	256,380
Office and general	21,850	18,491
Legal services	17,350	14,675
Audit services	11,986	11,449
Communications and printing	18,432	11,038
Clerk services	6,880	8,733
Contract services	11,358	7,562
Insurance	4,600	4,600
Telecommunications	4,976	3,321
Amortization	<u>2,357</u>	<u>4,666</u>
	<u>355,273</u>	<u>340,915</u>
	<u>1,727,621</u>	<u>1,574,264</u>
Grants approved, net of rescinded grants (note 9)	1,042,362	1,158,897
Special projects (note 7)	<u>313,528</u>	<u>346,523</u>
	<u>1,355,890</u>	<u>1,505,420</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>371,731</u>	<u>68,844</u>

TORONTO ATMOSPHERIC FUND
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
	\$	\$
Cash Provided by (Used for):		
OPERATING ACTIVITIES		
Net increase (decrease) in Operating fund	560,371	(1,075,709)
Items not involving cash:		
Board allocation to Grants fund	-	1,048,938
Grants approved, net of rescinded	1,042,362	1,158,897
Special projects	313,528	346,523
Amortization	2,357	4,666
Contribution from Grants fund	(349,646)	(349,646)
Funding carried forward to next year	43,075	194,750
Contribution to Stabilization fund	<u>117,931</u>	<u>250,511</u>
	1,729,978	1,578,930
Net change in non-cash working capital items:		
Accounts receivable	(2,669)	(72,175)
Loans receivable	(1,085,401)	32,349
Due from/to Clean Air Partnership	4,653	2,927
Accounts payable and accrued liabilities	(21,755)	(23,010)
Deferred expenses	(6,381)	(7,483)
Grants paid, net of grants recovered	(1,496,169)	(618,878)
Special projects paid	<u>(248,351)</u>	<u>(207,122)</u>
Net cash flows from operating activities	<u>(1,126,095)</u>	<u>685,538</u>
INVESTMENT ACTIVITIES		
Bank accommodation	470,722	228,603
Funds on deposit with the City of Toronto:		
Reinvestment of investment gains	(2,062,223)	(1,773,689)
Withdrawals	2,740,000	500,000
Investment in Hymotion	(20,000)	-
Dan Leckie fund:		
Transferred from Clean Air Partnership	-	31,044
Program expenditures	(4,844)	-
Income attributed	<u>2,440</u>	<u>2,173</u>
Net cash flows from investing activities	<u>1,126,095</u>	<u>(1,011,869)</u>
Net change in cash position for year	-	(326,331)
Cash position, beginning of year	<u>-</u>	<u>326,331</u>
CASH POSITION, END OF YEAR	<u><u>0</u></u>	<u><u>0</u></u>

Cash position is comprised entirely of balances held with a Canadian chartered bank.

TORONTO ATMOSPHERIC FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. NATURE OF OPERATIONS

The Toronto Atmospheric Fund ("TAF") was incorporated under the laws of the Province of Ontario, by the Toronto Atmospheric Fund Act, 1992 (the "TAF Act"), on December 10, 1992 as a Corporation without share capital. The objectives of TAF include promotion of global climate stabilization, promotion of public understanding of global warming and its implications and air quality improvement. TAF functions as a not for profit organization.

The City of Toronto (the "City") appoints the Board of Directors of TAF and, under amendments made in 1996 to the Municipal Act, has additional powers over the activities of TAF.

The TAF Act was amended by the Toronto Atmospheric Fund Act, 2005, to change TAF's objects, investment powers and other relevant provisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

The significant accounting policies of TAF are summarized below:

(a) Basis of presentation

These consolidated financial statements include the accounts of the Toronto Atmospheric Fund and its wholly owned subsidiary, CAIT Ventures Inc. ("CAIT"). These accounts are prepared on an accrual basis, in accordance with Canadian generally accepted accounting principles. Information concerning the status and resources of the Clean Air Partnership is disclosed in note 11.

(b) Financial Instruments

Investments are recorded at fair market value. The cost of other financial instruments approximates fair value due to their short term nature.

(c) Investment income

Investment income consists of interest, dividends, realized gains (losses) on disposition of investments and changes in unrealized gains (losses) on investments. Investment income is recorded net of management fees.

TORONTO ATMOSPHERIC FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(d) Grants

Grants are included in current liabilities and expenditures on approval of the project by the Board of Directors.

Payment of the first instalment of a grant for a project meeting the objectives of TAF is generally made after approval of the Board of Directors and on execution of an agreement. Subsequent payments of grant instalments are generally made after acceptance and approval of reports detailing progress and results of work on the project and are subject to other conditions.

(e) Revenue recognition

Contributions related to expenses of future periods or specific expenditures are deferred and recognized as the related expenditures are incurred.

(f) Expenses deferred

Legal expenses related to financing negotiations which are payable by the borrower are deferred and expensed when reimbursement is received.

(g) Capital assets

Computer equipment and software are amortized on the straight line method over four years with half year rates applying in the year of acquisition.

(h) Dan Leckie fund

The Clean Air Partnership ("CAP") has engaged TAF as its agent to invest this fund for CAP's account. CAP transferred the fund balance of \$31,044 at the beginning of 2005. The purpose of the fund is to confer awards which recognize the achievements of citizens and community groups in promoting CAP's aims. Investment income earned on resources of the fund is recognized as income of the fund. Accordingly, TAF attributes investment income to the fund at the average rate of return for the portfolio, which was 8.6 % in 2006, amounting to \$2,440.

A summary of fund operations for the year is as follows:

Opening balance	\$ 33,217
Expenditures	<u>(4,844)</u>
Principal	28,373
Interest income	<u>2,440</u>
Closing balance	<u>\$ 30,813</u>

TORONTO ATMOSPHERIC FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(i) Grants fund

The purpose of this internally restricted fund, established by the Board in 2005, is to carry forward any grants funding that was not spent in the year

(j) Stabilization fund

Established in 2003, the purpose of this fund is to enable TAF to stabilize its spending from investment income through different market environments.

The 2006 investment returns exceeded the budgeted amount and the excess of \$117,931 (2005 - \$250,511) was contributed to the fund (see page 3).

3. LOANS RECEIVABLE

	<u>2006</u>	<u>2005</u>
Urban Environment Centre (GreenSaver)	\$ 6,568	\$ 23,115
Toronto Artscape Inc.	224,586	242,638
TREC convertible loan	150,000	50,000
Moving the economy	20,000	-
Exhibition Place	<u>1,000,000</u>	<u>-</u>
	<u>\$ 1,401,154</u>	<u>\$ 315,753</u>

- (a) TAF approved and advanced a loan in the amount of \$280,000 to Toronto Artscape Inc. in 2003. The loan is to be repaid in monthly instalments of \$2,927 blending principal and interest at a rate of 7.39% per annum, compounded semi-annually. The first instalment was due September 22, 2004. The final payment is due in August 2015.
- (b) TAF approved financing of up to \$300,000 to the Toronto Renewable Energy Co-operative ("TREC") for the purpose of establishing the Lakewind Power Generation Project (wind farm). During 2004 TAF advanced \$50,000 to TREC and a further \$100,000 in 2006. No interest is payable on this loan and the loan is forgivable if the project does not proceed. If the project proceeds, the entire loan amount is to be converted into equity in a new co-operative corporation to be established to operate the project.
- (c) TAF approved a loan of \$1 million to Exhibition Place for the District Energy and Trigereneration project. In 2005 a term sheet was executed and the funds were advanced in 2006.

TORONTO ATMOSPHERIC FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

4. CAPITAL ASSETS

	2006		2005	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	<u>\$ 32,553</u>	<u>\$ 30,628</u>	<u>\$ 1,925</u>	<u>\$ 4,282</u>

5. INVESTMENTS HELD IN TRUST

In accordance with the TAF Act, monies that are not immediately required are given to the Treasurer of the City for custody. Investments consist of funds held by investment managers jointly selected by TAF and the City. These monies are invested in securities authorized under the current Sections 27 to 31 of the Trustee Act and income earned accrues to TAF.

6. COMMITMENTS AND CONTINGENCIES

- (a) TAF entered into an agreement with Enbridge Gas Distribution Inc. (“Enbridge”) and the City to provide a security facility to a maximum amount of \$2 million. The agreement established an Energy and Water Efficiency Loan Resource Fund to indemnify lenders participating in the Better Buildings Partnership, providing loans to finance energy and water retrofit and other building improvement measures. This agreement expired on December 31, 2005.
- (b) TAF has entered into an agreement to provide up to \$300,000 in contingent debt financing to TREC for the Lakewind Power Generation Project. Refer to note 3(b).
- (c) TAF has entered into an agreement to provide \$475,000 in debt financing to the condominium corporation that will be created by Tridel for its Verve Condominium Project to fund energy efficiency enhancements. No advance is anticipated prior to 2008.
- (d) TAF has entered into another agreement to provide up to \$950,000 in debt financing to the condominium corporations that will be created by Tridel for a series of additional projects to be designated to fund energy efficiency enhancements. The final advance must be completed on or before December 15, 2010.
- (e) TAF has approved \$375,000 in debt financing to the condominium corporation that will be created by Tasdesignbuild for its 375 King Street West project to fund energy efficiency enhancements. As at December 31, 2006 no agreement has been signed.

TORONTO ATMOSPHERIC FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

6. COMMITMENTS AND CONTINGENCIES - continued

- (f) TAF has approved a loan up to \$100,000 to Toronto Hydro Energy Services Inc. to share the costs and risks of undertaking an offshore wind anemometer feasibility study in Lake Ontario with the aim of developing an offshore wind power generation facility in Lake Ontario.
- (g) As part of its contracts with UEC, TAF has guaranteed a \$30,000 loan payable to the Metro Credit Union.
- (h) Any defaults on the agreements, security facilities and lines of credit noted above will be recorded as expenditures of TAF if and when a loss is anticipated and determinable.

7. SPECIAL PROJECTS

	<u>2006</u>	<u>2005</u>
Clean Air Partnership	\$ 100,000	\$ 150,000
Toronto Greenhouse Gas/Air Quality Inventory and Analysis Project	39,500	125,000
Quantification	-	25,000
Greater Toronto Atmospheric Fund	-	40,000
Toronto-London Exchange	-	6,523
District Energy Study	25,000	-
Quantification Implementation	10,000	-
Communications Strategy	50,000	-
Green Homes Green Loans	63,000	-
LEEAP Proposal Development	26,028	-
	<u>\$ 313,528</u>	<u>\$ 346,523</u>

8. BOARD ALLOCATION TO GRANTS

In 2005 the Board adopted a policy to allocate the amount of grants and special projects funding that was not spent during the years 2002 to 2004 from the Operating fund to the Grants Fund in the amount of \$1,048,938. The policy is to add this amount to the grants and special projects funding over the years 2005 through 2007. The additional funding amounts to \$349,646 for each of the three years.

TORONTO ATMOSPHERIC FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

9. APPROVED GRANTS

Grants approved by the TAF Board of Directors during the year and balances payable as at December 31, 2006 are as follows:	<u>Approved</u>	<u>Payable</u>
Canada-China Environmental Coop Council	\$ 46,000	\$ 36,000
City mandated contributions to:		
GTA Clean Air Council	50,000	5,000
2006 Smog Summit	50,000	5,000
Clean Air Partnership	50,000	5,000
Energy Action Council of Toronto	50,000	5,000
Etobicoke Yacht Club	35,000	25,000
Exhibition Place	35,000	3,500
Green Communities Canada	30,000	3,000
GreenSaver	50,000	15,000
Metro Toronto Condominium Corporation	3,500	350
Ontario Clean Air Alliance	75,000	7,500
Ontario College of Art and Design	10,000	1,000
Ontario Sustainable Energy Association	37,500	3,750
Parkdale United Church Foundation Inc.	25,000	5,000
RiverSides	10,862	1,000
Smart Commute – North Toronto Vaughan	60,000	6,000
TABIA	35,000	3,500
Toronto Community Housing Corporation	75,000	25,000
Toronto Renewable Energy Cooperative	75,000	65,000
Toronto – Facilities & Real Estate	15,000	1,500
Toronto – Facilities & Real Estate	79,500	8,000
Toronto – Facilities & Real Estate	80,000	80,000
University of Toronto	<u>65,000</u>	<u>6,500</u>
	1,042,362	316,600
Other grants payable approved in prior years	-	267,212
Special Project – Clean Air Partnership	<u>-</u>	<u>10,000</u>
	<u>\$ 1,042,362</u>	<u>\$ 593,812</u>

TORONTO ATMOSPHERIC FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the present year's method of financial statement presentation. Special project funds not spent in 2005 were reclassified as liabilities from the internally restricted Grants Fund. The net impact is summarized as follows:

	\$	
Total assets	-	
Total liabilities	<u>114,401</u>	
	<u>(114,401)</u>	
Fund Balances:		
Operating fund	-	
Restricted funds	<u>(114,401)</u>	
	<u>(114,401)</u>	
Revenues	-	
Expenditures	<u>114,401</u>	
Net revenue (deficit) for year	<u>(114,401)</u>	

11. CLEAN AIR PARTNERSHIP

The TAF Act provided for the incorporation of the Toronto Atmospheric Fund Foundation ("the Foundation"). The Foundation was registered with the Canada Revenue Agency as a public foundation under the Income Tax Act of Canada, effective May 31, 1996. The Foundation became active in 1999. The TAF Act was amended by the Toronto Atmospheric Fund Act, 2005, (see note 1) which included authorization to change the name of the corporation to the Clean Air Partnership ("CAP"). The majority of the Board of Directors of CAP is appointed by TAF.

The resources of CAP as at December 31, 2006 are as follows:

	<u>2006</u>	<u>2005</u>
Total assets	\$ 575,955	\$ 778,350
Total liabilities	<u>180,937</u>	<u>314,266</u>
	<u>395,018</u>	<u>464,084</u>
Fund Balances:		
Restricted fund	30,813	33,217
Operating fund	<u>364,205</u>	<u>430,867</u>
Net assets	<u>395,018</u>	<u>464,084</u>
Revenues ¹	968,102	1,579,509
Expenditures ²	<u>1,037,168</u>	<u>1,508,076</u>
Net revenue (deficit) for year	<u>(69,066)</u>	71,433
Fund balances, beginning of year	<u>464,084</u>	<u>392,651</u>
Fund balances, end of year	<u>\$ 395,018</u>	<u>\$ 464,084</u>

¹ Includes interest income of \$ 2,440 (2005 - \$2,173) earned on the restricted fund.

² Includes expenditures of \$ 4,844 (2005 - nil) for the Dan Leckie forum.