

**CONSOLIDATED FINANCIAL STATEMENTS OF  
TORONTO ATMOSPHERIC FUND  
YEAR ENDED DECEMBER 31, 2007**

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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, 2007 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, 2007 and the results of its operations and changes in cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Akler, Browning, Frimet  
& Landzberg LLP*

**AKLER, BROWNING, FRIMET & LANDZBERG LLP**  
CHARTERED ACCOUNTANTS,  
LICENSED PUBLIC ACCOUNTANTS  
APRIL 10, 2008

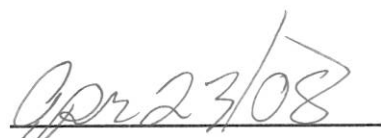
**TORONTO ATMOSPHERIC FUND**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2007**

	<u>2007</u>	<u>2006</u>
	\$	\$
<b>ASSETS</b>		
Accounts receivable	48,438	107,588
Loans receivable (note 3)	1,318,071	1,401,154
Capital assets (note 4)	642	1,925
Portlands Energy Centre funds (note 6 (l))	404,282	-
Deferred expenses (note 2(f))	7,009	13,864
Investments held in trust by the City of Toronto (note 5)	<u>24,183,136</u>	<u>26,519,941</u>
	<u>25,961,578</u>	<u>28,044,472</u>
<b>LIABILITIES</b>		
Bank loan payable	154,387	699,325
Accounts payable and accrued liabilities	100,294	67,178
Due to Clean Air Partnership	6,296	14,337
Grants payable (note 9)	982,542	593,812
Funds held in trust Dan Leckie Fund (note 2(h))	28,373	30,813
Portlands Energy Centre deferred revenue (note 6 (l))	404,282	-
Refundable deposits	30,000	-
Special Projects payable	<u>178,655</u>	<u>179,578</u>
	<u>1,884,829</u>	<u>1,585,043</u>
<b>FUND BALANCES</b>		
Operating Fund	22,520,552	25,159,231
Grants Fund (note 2 (i))	1,142,633	473,070
Stabilization Fund (note 2(j))	413,564	827,128
	<u>24,076,749</u>	<u>26,459,429</u>
	<u>25,961,578</u>	<u>28,044,472</u>

SIGNED ON BEHALF OF THE BOARD:



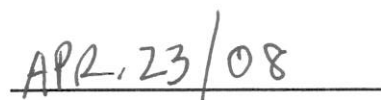
Director



Date



Director



Date

**TORONTO ATMOSPHERIC FUND**  
**CONSOLIDATED STATEMENT OF FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	2007		2006	
	Operating Fund \$	Grants Fund note 2(i) \$	Stabilization Fund \$	Total \$
Excess of revenues over expenditures	(2,382,680)	-	-	371,731
Interfund transfers:				
Allocation to grant spending (note 8)	649,646	(649,646)	-	-
Funding carried forward to next year	(19,209)	19,209	-	-
From Stabilization Fund (note 2(j))	413,564	-	(413,564)	-
Net contribution for the year	<u>(1,338,679)</u>	<u>(630,437)</u>	<u>(413,564)</u>	<u>371,731</u>
Board allocation to grants fund (note 8)	<u>(1,300,000)</u>	<u>1,300,000</u>	-	-
Net change in Funds	(2,638,679)	669,563	(413,564)	371,731
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>25,159,231</u>	<u>473,070</u>	<u>827,128</u>	<u>26,087,698</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>22,520,552</u>	<u>1,142,633</u>	<u>413,564</u>	<u>26,459,429</u>

**TORONTO ATMOSPHERIC FUND**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>2007</u>	<u>2006</u>
	\$	\$
<b>REVENUES</b>		
Investment income, net (note 2(c))	(359,074)	2,046,067
Community loan interest	75,184	17,864
Advisory and application fees	31,925	-
Grants and contributions	(31,568)	-
Sundry	-	18,963
	<u>(283,533)</u>	<u>2,082,894</u>
<b>EXPENDITURES</b>		
Salaries and employee benefits	335,326	255,484
Office and general	33,961	21,850
Legal services	18,637	17,350
Audit services	11,399	11,986
Communications and printing	7,635	18,432
Clerk services	9,060	6,880
Contract services	2,023	11,358
Dan Leckie forum expenses	5,661	-
Insurance	3,183	4,600
Telecommunications	5,623	4,976
Amortization	1,283	2,357
	<u>433,791</u>	<u>355,273</u>
	<u>(717,324)</u>	<u>1,727,621</u>
Grants approved, net of rescinded grants (note 9)	1,369,179	1,042,362
Special projects (note 7)	296,177	313,528
	<u>1,665,356</u>	<u>1,355,890</u>
<b>EXCESS OF (EXPENDITURES OVER REVENUE)</b>		
<b>REVENUES OVER EXPENDITURES</b>	<u>(2,382,680)</u>	<u>371,731</u>

**TORONTO ATMOSPHERIC FUND**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>2007</u>	<u>2006</u>
	\$	\$
Cash Provided by (Used for):		
<b>OPERATING ACTIVITIES</b>		
Net increase (decrease) in Operating fund	(2,638,679)	560,371
Items not involving cash:		
Board allocation to Grants fund	1,300,000	-
Grants approved, net of rescinded	1,369,179	1,042,362
Special projects	296,177	313,528
Amortization	1,283	2,357
Loss on foreign exchange	774	-
Contribution from Grants fund	(649,646)	(349,646)
Funding carried forward to next year	19,209	43,075
Contribution to (from) Stabilization fund	<u>(413,564)</u>	<u>117,931</u>
	(715,267)	1,729,978
Net change in non-cash working capital items:		
Accounts receivable	59,150	(2,669)
Loans receivable	83,083	(1,085,401)
Due from/to Clean Air Partnership	(8,041)	4,653
Accounts payable and accrued liabilities	33,116	(21,755)
Deferred expenses	6,855	(6,381)
Refundable deposits	30,000	-
Grants paid, net of grants recovered	(980,449)	(1,496,169)
Special projects paid	<u>(297,100)</u>	<u>(248,351)</u>
Net cash flows from operating activities	<u>(1,788,653)</u>	<u>(1,126,095)</u>
<b>INVESTMENT ACTIVITIES</b>		
Bank loan payable	(544,938)	470,722
Funds on deposit with the City of Toronto:		
Reinvestment of investment gains	-	(2,062,223)
Investment loss	316,805	-
Withdrawals	2,000,000	2,740,000
Investment in Hymotion	19,226	(20,000)
Dan Leckie fund:		
Program expenditures	(4,135)	(4,844)
Income attributed	<u>1,695</u>	<u>2,440</u>
Net cash flows from investing activities	<u>1,788,653</u>	<u>1,126,095</u>
Net change in cash position for year	-	-
Cash position, beginning of year	-	-
<b>CASH POSITION, END OF YEAR</b>	<u><u>0</u></u>	<u><u>0</u></u>

**TORONTO ATMOSPHERIC FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**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 on December 10, 1992 as a corporation without share capital, and continued as such under the Toronto Atmospheric Fund Act, 2005 (the "TAF Act"). The objects of TAF include promotion of global climate stabilization and air quality improvement and promotion of public understanding of global warming and air quality improvement and their implications. TAF functions as a not for profit organization.

The City of Toronto (the "City") appoints the Board of Directors of TAF and has additional powers over the activities of TAF under the provisions of the Municipal Act, 2001.

**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 10.

**(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, 2007**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**(d) Grants**

Grants are included in current liabilities and expenditures in the fiscal year as approval 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 2006 (consisting of fund principal of \$28,373 and accumulated income of \$2,671). The purpose of the fund is to sponsor a forum bringing together stakeholders on climate change issues. 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. As there was a decline in the portfolio market value over the year, TAF attributed income using the five year average rate of return, which was 5.5 %, amounting to \$1,695 (2006 TAF used the rate of return for the year of 8.6% \$2,440).

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

Opening balance	\$ 30,813
Interest income	<u>1,695</u>
	32,508
Expenditures	<u>(4,135)</u>
Closing balance	<u>\$ 28,373</u>



**TORONTO ATMOSPHERIC FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**(i) Grants fund**

The purpose of this internally restricted fund, established by the Board in 2006, is to carry forward any grants funding that was not spent in the year used to the Dan Leckie fund to which advocate environmental awareness.

**(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 2007 investment performance was a loss for the year. The Board withdrew one half of the fund balance \$413,564 to offset the portfolio losses (2006 - \$117,931 was contributed to the fund) (see page 3).

**3. LOANS RECEIVABLE**

	<u>2007</u>	<u>2006</u>
Exhibition Place (note 3(a))	\$ 962,898	\$ 1,000,000
Toronto Artscape Inc. (note 3(b))	205,173	224,586
TREC convertible loan (note 3(c))	150,000	150,000
Moving the economy	-	20,000
Urban Environment Centre (GreenSaver)	-	6,568
	<u>\$1,318,071</u>	<u>\$ 1,401,154</u>

- (a) TAF approved a loan of \$1 million to Exhibition Place for the District Energy and Trigereneration project. In 2005 a term sheet was executed, the funds were advanced to TAF's solicitor in 2006 and the agreement was executed January 3, 2007. The loan is to be repaid in semi-annual instalments of \$62,402 blending principal and interest at a rate of 6.06% per annum, compounded semi-annually. The first instalment was due July 3, 2007. The final payment is due in January 2017.
- (b) 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.

**TORONTO ATMOSPHERIC FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**3. LOANS RECEIVABLE - continued**

- (c) 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 by December 31, 2008. 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.

**4. CAPITAL ASSETS**

	2007		2006
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	<u>\$ 32,553</u>	<u>\$ 31,911</u>	<u>\$ 1,925</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 has approved \$300,000 in contingent debt financing to TREC for the Lakewind Power Generation Project. Refer to note 3(c).
- (b) 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 advances had been made as at December 31, 2007.
- (c) 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. No advance is anticipated prior to 2009.
- (d) TAF has approved \$375,000 in debt financing to the condominium corporation that will be created by TAS Designbuild for its 375 King Street West project to fund energy efficiency enhancements. TAS Designbuild has not signed an agreement with TAF and accordingly TAF has withdrawn the financing offer.

**TORONTO ATMOSPHERIC FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**6. COMMITMENTS AND CONTINGENCIES - continued**

- (e) TAF has entered into an agreement to provide \$730,000 in debt financing to the condominium corporation that will be created by Monarch Developments to fund energy efficiency enhancements. No advance is anticipated prior to 2010.
- (f) The Board has approved debt financing to the condominium corporation that will be created to fund energy efficiency enhancements as follows:
  - a. \$540,000 to Daniels Corporation, no advance is anticipated prior to 2009; and
  - b. \$540,000 to Remington Group Inc., no advance is anticipated prior to 2009.No agreements have been executed and no advances had been made as at December 31, 2007.
- (g) TAF has approved \$635,000 in debt financing to Green Phoenix to fund energy efficiency retrofits. No agreement has been executed and no advances had been made as at December 31, 2007.
- (h) As part of its contracts with UEC, TAF has guaranteed a \$30,000 loan payable to the Metro Credit Union.
- (i) TAF has approved \$100,000 in debt financing to Toronto Hydro Energy Services Inc. to fund a wind study for a wind power project. No agreement has been executed and no advances had been made as at December 31, 2007.
- (j) TAF has approved \$40,000 in debt financing to the YWCA to fund a feasibility study for the installation of geothermal energy generation in its new building to be constructed. No agreement has been executed and no advances had been made as at December 31, 2007.
- (k) TAF has approved \$345,000 in funding for the Toronto Solar Neighbourhood Initiative ("TSNI"). The TSNI is a program to encourage installation of solar thermal water heating by residents in the Riverdale neighbourhood. The program offers financing and financial incentives. This funding will be paid out of the funds received from the Portlands Energy Centre of \$400,000 (note 6 (l)). No agreement has been executed and no advances had been made as at December 31, 2007.
- (l) TAF has received advance funding from the Portlands Energy Centre ("PEC") to be used for the Toronto Neighbourhood Solar Initiative. PEC advanced funds in the amount of \$400,000 in July of 2007. The funds have been invested in short term deposits. The program is anticipated to be carried out in 2008.
- (m) 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.

**TORONTO ATMOSPHERIC FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**7. SPECIAL PROJECTS**

	<u>2007</u>	<u>2006</u>
Clean Air Partnership	\$ 75,000	\$ 100,000
Toronto Greenhouse Gas/Air Quality Inventory and Analysis Project	(53,090)	39,500
Hymotion PHEV Pilot	119,000	-
Advanced Lighting Tech Monitor	15,000	-
Solar City Special Project	30,000	-
Technology Pilot Monitoring	27,700	-
Green Homes Green Loans	82,567	63,000
District Energy Study	-	25,000
Quantification Implementation	-	10,000
Communications Strategy	-	50,000
LEEAP Proposal Development	-	26,028
	<u>\$ 296,177</u>	<u>\$ 313,528</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.

At the meeting of June 22, 2007 the Board approved an additional allocation to the Grants Fund of up to a total of \$1.3 million over 18 to 24 months, with a maximum of \$0.75 million for the second grants round in 2007. TAF allocated \$300,000 in 2007 for the grant in respect of the Thackeray landfill generation project. The balance of \$1 million is carried forward in the Grants Fund.

**TORONTO ATMOSPHERIC FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**9. APPROVED GRANTS**

Grants approved by the TAF Board of Directors during the year and balances payable as at December 31, 2007 are as follows:	<u>Approved</u>	<u>Payable</u>
<b>City mandated contributions to:</b>		
GTA Clean Air Council	\$ 50,000	\$ 5,000
2007 Smog Summit	50,000	5,000
Associated Toronto Taxicab Cooperative	20,000	12,500
Element Village Community Services	10,000	1,000
Evergreen	35,000	3,500
Exhibition Place	140,000	14,000
Exhibition Place	131,500	13,150
Faith and the Common Good	70,110	7,011
MaRS	10,000	1,000
Net-Zero Energy Home Coalition	50,000	25,000
Ontario Clean Air Alliance	50,000	50,000
Ontario Sustainable Energy Association	71,000	7,100
Smart Commute – North Toronto Vaughan	75,000	7,500
TABIA	45,000	4,500
TABIA	20,000	2,000
Toronto – Environment Office	150,000	150,000
Toronto – Facilities & Real Estate	112,500	112,500
Toronto – Solid Waste Management Services	300,000	300,000
Toronto Renewable Energy Cooperative	15,000	1,500
University Health Network	<u>100,000</u>	<u>10,000</u>
	1,505,110	732,261
Grants rescinded	(135,931)	-
Other grants payable approved in prior years	-	210,281
Special Project – University of Toronto – Faculty of Architecture	-	32,500
Special Project – Clean Air Partnership	-	7,500
	<u>\$ 1,369,179</u>	<u>\$ 982,542</u>

**TORONTO ATMOSPHERIC FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**10. CLEAN AIR PARTNERSHIP**

The Toronto Atmospheric Fund Foundation became active in 1999 and was continued under the TAF Act in 2005 as Clean Air Partnership ("CAP"). CAP is registered as a public foundation under the Income Tax Act (Canada), effective May 31, 1996. Five of the eleven Directors of CAP are appointed by TAF.

The resources of CAP as at December 31, 2007 are as follows:

	<u>2007</u>	<u>2006</u>
<b>Total assets</b>	\$ 319,184	\$ 575,955
<b>Total liabilities</b>	<u>143,112</u>	<u>180,937</u>
	<u>176,072</u>	<u>395,018</u>
<b>Fund Balances:</b>		
Restricted fund	28,373	30,813
Operating fund	<u>147,699</u>	<u>364,205</u>
<b>Net assets</b>	<u>176,072</u>	<u>395,018</u>
<b>Revenues</b> <sup>1</sup>	880,107	968,102
<b>Expenditures</b> <sup>2</sup>	<u>1,099,053</u>	<u>1,037,168</u>
<b>Net revenue (deficit) for year</b>	(218,946)	(69,066)
<b>Fund balances, beginning of year</b>	<u>395,018</u>	<u>464,084</u>
<b>Fund balances, end of year</b>	<u>\$ 176,072</u>	<u>\$ 395,018</u>

<sup>1</sup> Includes interest income of \$ 1,695 (2006 - \$2,440) earned on the restricted fund.

<sup>2</sup> Includes expenditures of \$4,135 (2006 - \$4,844) for the Dan Leckie forum.