Grant Thornton

Consolidated Financial Statements

Toronto Atmospheric Fund

December 31, 2011

Contents

Independent auditor's report

Grant Thornton LLP
19th Floor, Royal Bank Plaza South Tower
200 Bay Street, Box 55
Toronto, ON
M5J 2P9

T +1 416 366 0100
F +1 416 360 4949
www.GrantThornton.ca

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 consolidated Statement of Financial Position as at December 31, 2011, consolidated statement of changes in fund balances, consolidated statement of operations and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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 presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Toronto, Ontario
April 30, 2012

Chartered Accountants
Licensed Public Accountants

Toronto Atmospheric Fund

Consolidated Statement of Financial Position

December 31		2011		2010
Assets				
Cash	**$**	**142,237**	$	-
Accounts receivable		**281,728**		228,803
External funding receivable		**165,110**		37,065
Loans receivable – net (Note 3)		**2,659,007**		3,021,149
Capital assets (Note 4)		**-**		-
Deferred expenses (Note 2(f))		**55,811**		10,880
Other investments – LP Units at cost (Note 5)		**199,830**		199,830
Investments held in trust by the City of Toronto (Note 6)		**19,108,263**		20,091,861
	$	**22,611,986**	$	23,589,588
Liabilities				
Bank indebtedness (Note 7)	**$**	**-**	$	211,937
Accounts payable and accrued liabilities		**233,304**		118,020
Grants payable (Note 9)		**991,267**		886,301
Payable to Clean Air Partnership		**77,500**		5,000
Funds held in trust Dan Leckie Fund (Note 2(h))		**28,373**		30,254
Deferred revenue		**427,602**		550,598
Refundable deposits		**39,000**		69,000
Special Projects payable		**-**		15,000
		1,797,046		1,886,110
Fund Balances				
Operating Fund		**19,689,399**		19,440,973
Grant Fund (Notes 2(d) and 9)		**120,723**		127,873
Stabilization Fund (Note 10)		**1,004,818**		2,134,632
		20,814,940		21,703,478
	$	**22,611,986**	$	23,589,588

Commitments and contingencies (Note 8)

Approved on behalf of the Board

_______________________________ Director _______________________________ Director

See accompanying notes to the financial statements.

Toronto Atmospheric Fund

Consolidated Statement of Changes in Fund Balances

Year Ended December 31, 2011

	Operating Fund	Grant Fund (Note 2(d))	Stabilization Fund (Note 10)	**Total 2011**	Total 2010
Fund balances, beginning of year	$ 19,440,973	$ 127,873	$ 2,134,632	**$ 21,703,478**	$ 21,473,071
Excess (deficiency) of revenue over expenditures	(888,538)	-	-	**(888,538)**	230,407
Interfund transfers					
Rescissions	(231,650)	231,650	-	**-**	-
Drawdown amount	238,800	(238,800)	-	**-**	-
Stabilization contribution	1,129,814	-	(1,129,814)	**-**	-
Fund balances, end of year	$ 19,689,399	$ 120,723	$ 1,004,818	**$ 20,814,940**	$ 21,703,478

See accompanying notes to the financial statements.

Toronto Atmospheric Fund
Consolidated Statement of Operations

Year Ended December 31		2011		2010
Revenues				
Investment income, net (Note 2(c))	**$**	**86,186**	$	1,727,631
Loan interest and fees		**236,834**		131,274
Less: allowance for credit losses (Note 3(j))		**(30,000)**		-
External funding		**596,702**		314,734
Deferred funding recognized		**149,353**		217,983
Sundry		**78,549**		70,283
		1,117,624		2,461,905
Expenditures				
Program delivery		**1,007,769**		834,106
Grants approved (Note 9)		**743,800**		965,919
Less: rescinded grants and special projects		**(231,650)**		(24,750)
Clean Air Partnership – City-mandated contribution		**100,000**		50,000
Salaries and employee benefits		**759,957**		695,235
Salaries allocated to program delivery (Note 11)		**(486,372)**		(403,236)
Communications and printing		**14,142**		17,638
Office operations		**58,774**		60,930
Professional services		**31,163**		27,057
Telecommunications		**8,579**		8,599
		2,006,162		2,231,498
(Deficiency) excess of revenues over expenditures	**$**	**(888,538)**	$	230,407

See accompanying notes to the financial statements.

Toronto Atmospheric Fund

Consolidated Statement of Cash Flows

Year Ended December 31	2011	2010
Increase (decrease) in cash and short term investments		
Operating activities		
Net (decrease) increase in Operating fund	**$ (888,538)**	$ 230,407
Items not involving cash:		
Deferred funding	**(149,353)**	(217,983)
Grants approved	**743,800**	965,919
Grants and special projects rescinded	**(231,650)**	(24,750)
Provision for Credit Losses	**30,000**	-
	(495,741)	953,593
Net change in non-cash working capital items:		
Accounts receivable	**(52,924)**	(39,022)
External funding receivable	**(128,045)**	54,935
Loans receivable	**362,142**	(1,573,506)
Accounts payable and accrued liabilities	**115,282**	(108,684)
Payable to CAP	**72,500**	-
Deferred expenses	**(44,930)**	(10,349)
Refundable deposits	**(30,000)**	36,500
Grants paid, net of recovered	**(407,184)**	(609,340)
Special projects paid, net of recovered	**(15,000)**	(36,325)
Net cash flows from operating activities	**(623,900)**	(1,332,198)
Investment activities		
Investment in limited partnership units	**-**	(199,830)
Funds on deposit with the City of Toronto:		
Reinvestment of investment gains	**(120,045)**	(1,786,323)
Withdrawals	**1,100,000**	2,720,000
Dan Leckie fund		
Program expenditures	**(3,887)**	-
Income attributed	**2,006**	1,881
Net cash flows from investing activities	**978,074**	735,728
Net change in cash for the year	**354,174**	(596,470)
Cash (bank indebtedness), beginning of year	**(211,937)**	384,533
Cash (bank indebtedness) end of year	**$ 142,237**	$ (211,937)

See accompanying notes to the financial statements.

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. TAF is currently governed by the TAF Act, 2005, which amended the objects, investment powers and other provisions of the original TAF Act. TAF operates as a not for profit organization.

TAF is financed by investment revenues from its endowment fund including interest income from its loan portfolio and by external grants. TAF does not draw on the City of Toronto operating budget.

TAF focuses on incubating and demonstrating social, financial, policy and technological innovations which position the City of Toronto to achieve significant reductions in smog and greenhouse gas emissions.

The City of Toronto (the “City") appoints TAF’s Board of Directors. The TAF Relationship Framework (2006) established specific accountability requirements to the City.

2. Summary of significant accounting policies

The preparation of financial statements was done in accordance with Canadian generally accepted accounting principles which require 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”); refer to Note 14. These accounts are prepared on an accrual basis, in accordance with Canadian generally accepted accounting principles.

(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. The LP investment units which are described in Note 5 are valued at cost.

(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 portfolio management and custodial fees.

2. Significant accounting policies (continued)

(d) Grants

All grants must meet TAF's criteria and be approved by the Board of Directors. Approved grants are included in current liabilities and expenditures.

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 various conditions. Grant rescissions are recognized in future fiscal years when TAF becomes aware of previously-approved grants which no longer meet TAF's funding conditions.

In 2006 TAF established a policy of carrying forward the unspent portion of any year's grants budget. The unspent amount is transferred to the Grant Fund, an internally restricted fund. Note 9 provides information on TAF's specific grants.

(e) Revenue recognition

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

(f) Deferred expenses

Legal expenses related to financing negotiations which are payable by the borrower are deferred and expensed when reimbursement is received. Expenses related to programs of future periods are deferred and recognized as the program occurs.

(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. At the end of 2011 and 2010 TAF's capital assets were fully depreciated.

(h) Dan Leckie Fund

The Clean Air Partnership ("CAP") has engaged TAF as its agent to invest this Fund for CAP's account. The purpose of the Dan Leckie Fund is to support and recognize emission reduction opportunities in Toronto. TAF attributes investment income which is recognized as income of the Fund. The attributed investment income is based on the long term average rate of return as budgeted by TAF for its endowment portfolio. For 2011 the rate used was 6.6% resulting in income attribution of $2,006 for the year. Expenditures for 2011 chargeable to the Fund amounted to $3,887 in 2011 and $Nil in 2010. Therefore Fund operations during 2011 were as follows:

Opening balance	$ 30,254
Income attributed from TAF	2,006
Expenditures	(3,887)
Closing balance and original fund principal	$ 28,373

2. Significant accounting policies (continued)

(i) Stabilization fund

This fund was established in 2003 to enable TAF to reduce variability in its spending from investment income caused by fluctuating financial markets. Note 10 provides the amounts allocated or withdrawn from the Stabilization Fund in the two most recent fiscal years.

(j) New accounting standards for Government not-for-profit organizations (GNFPOs)

The Public Sector Accounting Board has issued revised standards for GNFPOs which are effective for fiscal years beginning on or after January 1, 2012. GNFPOs with be required to adopt CICA Public Sector handbook with or without the addition of sections PS 4200 series. The organization has commenced assessing the impact of these new standards and does not expect them to have a significant impact on the financial statements.

3. Loans receivable

	2011	2010
Exhibition Place (Note 3(a))	**$ 424,097**	$ 487,331
Toronto Artscape Inc. (Note 3(b))	**111,774**	137,724
Toronto Standard Condominium Corporation No. 2033 Grande Triumphe (Note 3(c))	**468,220**	542,044
Toronto Standard Condominium Corporation No. 1959 Nuvo Green (Note 3(d))	**181,135**	378,026
TREC Lakewind (Note 3(e))	**150,000**	150,000
Toronto Solar Neighbourhoods Initiative (Note 3(f))	**311,583**	383,024
Pure Energies 7711565 Canada Inc. – (Note 3(g))	**645,000**	643,000
SolarShare (In Trust Gardiner Roberts LLP) (Note 3(h))	**-**	300,000
Senarra Green Energy Capital Inc. (Note 3(i))	**397,198**	-
Allowance for Credit Losses (Note 3(j))	**(30,000)**	-
Loans receivable – net	**$ 2,659,007**	$ 3,021,149

(a) Exhibition Place:

TAF approved and advanced a loan of $1 million to Exhibition Place for the District Energy and Trigeneration project in 2007. Security for this loan is a chattel mortgage on the Trigeneration asset. The loan is to be repaid in semi-annual instalments of $67,402. The first instalment was paid in July 2007 and the final payment is due in January 2017. In 2009 Exhibition Place exercised its option to repay principal in the amount of $256,000. The subsequent semi-annual instalments were adjusted to $45,911.

(b) Toronto Artscape Inc.:

TAF approved and advanced a loan in the amount of $280,000 to Toronto Artscape Inc. in 2003. The security consists of a collateral mortgage covering the renovation assets. The loan is to be repaid in monthly instalments of $2,927 (12 years or 144 monthly periods). The first instalment was paid in September 2004 and the final payment is due in August 2015.

3. Loans receivable (continued)

(c) Grand Triumphe Toronto Standard Condominium Corporation (“TSCC”) No. 2033:

The transaction was completed pursuant to a loan agreement dated January 13, 2010 under which TAF loaned $600,000 to TSCC No. 2033 for energy efficiency measures incorporated into the building to enhance its energy performance by at least 25% improvement above the National Model Building Code. The first instalment was received in March 2010 and the final payment is due on February 1, 2017. The loan is secured by a general security agreement.

(d) Nuvo Green Toronto Standard Condominium Corporation No. 1959:

The transaction was completed pursuant to a loan agreement dated December 1, 2008 under which TAF loaned $500,000 to TSCC No. 19592033 for energy efficiency measures incorporated into the building to enhance its energy performance by at least 25% improvement above the National Model Building Code. The first instalment was paid in January 2009 and the final payment is due in December 2015. The loan is secured by a general security agreement.

(e) TREC Lakewind:

TAF entered into an agreement to provide unsecured financing of up to $300,000 to the Toronto Renewable Energy Co-operative (“TREC”) for the purpose of establishing the Lakewind Power Generation Project, a wind farm offered for community ownership by Toronto Renewable Energy Co-operative. In 2004 TAF advanced $50,000 to TREC and a further $100,000 was advanced in 2006 with no interest payable. The original agreement stated that the loan is forgivable if the project did not proceed by December 31, 2008. An amending agreement was signed on December 1, 2008 to extend the funding term for the loan. The loan may be terminated by TAF at any time after January 11, 2011. If the project proceeds, the entire loan amount will be converted into equity in the Windshare co-operative corporation which was established to operate the project. If the project does not proceed, TAF may forgive the loan at its discretion. TAF is entitled to be repaid only by way of equity participation or by return of the loaned amount without interest to the extent the loaned funds have not been spent.

(f) Toronto Solar Neighbourhood Initiative (formerly Enwise Capital Corporation)

TAF made loans to homeowners participating in the Toronto Solar Neighbourhoods Initiative (TSNI) which are backed by unsecured promissory notes from the homeowners and have full prepayment privileges. As at December 31, 2011 the total loans receivable under this program totalled $311,583. TAF took over the administration of the above loans from Enwise Capital Corporation in April 2011.

3. Loans receivable (continued)

(g) Pure Energies 7711565 Canada Inc. Loan

In December 2010 TAF advanced a revolving loan of $645,000 to 7711565 Canada Inc., a wholly owned subsidiary of Solar Pure Energies Inc. The project consists of the installation of 35 to 40 residential roof top solar photovoltaic systems under the Ontario Power Authority's MicroFit program. TAF has received a promissory note and a security agreement which pledges all assets of the borrower as well as a hypothecation of 100% of the shares of the borrower to TAF.

(h) SolarShare Loan – completed

The loan was advanced in May 2011 and it was repaid to TAF in full on December 9, 2011.

(i) Senarra Green Energy Capital Inc.

TAF has approved $615,000 in debt financing to Senarra Green Energy Capital Inc. to finance the installation of solar hot water heating systems at several City of Toronto facilities. In early 2011 $412,358 was advanced for three systems subject to the terms of the loan agreement. TAF has received a promissory note, a general security agreement on all solar panels located at the three locations, and the assignment of power purchase agreements. The loan is scheduled to be repaid over 5 years with monthly payments of principle and interest of $3,656.

(j) Allowance for Credit Losses

In 2011 a general allowance for potential credit losses was established and will be reviewed annually. The allowance for credit losses is deducted from the loan receivable balance and any write-offs, net of recoveries, will be deducted from this allowance. TAF has not written off any loans in the last 13 years.

4. Capital assets

			2011	2010
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computer equipment	$ 32,553	$ 32,553	**$ -**	$ -

5. Investment in Limited Partnership Units

On December 15, 2010 the Board of Directors approved an investment in limited partnership units (LP Units) of InvestEco Capital Corporation ("ICC") Fund III. ICC is a private equity firm focused on "cleantech" investment opportunities including technologies and services that mitigate air pollution and advance energy efficiency. The LP Units are valued at cost as market value is not readily determinable.

6. Investments held in trust

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

After receiving The City of Toronto's approval, TAF changed investment managers during 2011. Consequently TAF's investment portfolio holds units of the Greenchip Global Equity Fund, which came with a non-transferable option to purchase 20 shares of Greenchip Financial Corp. at $1.00 per share as defined by the terms of the option offer. Exercising the option may result in enhanced returns to TAF from this investment. .

7. Bank indebtedness

TAF has a revolving line of credit with a Canadian chartered bank repayable on demand with interest rate calculated at the bank's prime rate plus 0.50% per annum. The credit limit is the lesser of $2 million or the standard margin value of TAF's fixed income investment portfolio. At year-end, TAF had drawn $Nil (2010 – $Nil) on the line of credit.

At the end of 2010 bank indebtedness was reported due to cheques issued but not negotiated.

8. Commitments and contingencies

(a) TAF has approved $300,000 in contingent debt financing to TREC for the Lakewind Power Generation Project. Advances made as at December 31, 2011 total $150,000 (refer to Note 3(e)). TAF believes that it is unlikely that the remaining $150,000 will be advanced.

(b) TAF has approved in principle a $635,000 loan to the condominium corporation which will be created by TAS DesignBuild to fund energy efficiency enhancements. A loan agreement was executed in December 2010, but no advances have been made as of the 2011 year end.

(c) During 2011 TAF has approved in principle and issued commitment letters to the following prospective borrowers but no loan advances have been made as of the 2011 year end:

- GreenSaver – prospective $639,000 loan to accelerate the development of their residential photovoltaic business.

- ZooShare Biogas Cooperative – prospective $250,000 loan to develop a biogas facility at the Toronto Zoo.

8. Commitments and contingencies (continued)

- EnerMotion – prospective $250,000 loan to accelerate the development of their energy recovery system used in Class 8 heavy trucks.
- Harbourfront Centre – prospective $117,000 loan to fund the purchase and installation of energy efficient equipment.
- York Condominium Corporation 132 – prospective $355,000 loan to fund the purchase and installation of energy efficient equipment.
- Green Energy Watch Dog **-** prospective $150,000 loan to commercialize their energy monitoring system.

9. Grants approved and payable

Grants approved by TAF's Board of Directors which were allocated to 2011 and balances payable as at December 31, 2011 were as follows:

	Allocated to 2011	Payable
Canadian Foundation of Apartment Associations	25,000	25,000
Centre for Social Innovation	20,000	20,000
City of Toronto – Facilities and Management Division	75,000	75,000
City of Toronto – Fleet Services	50,000	50,000
City of Toronto – Public Health	25,000	25,000
City of Toronto – Transportation Services	65,000	65,000
City of Toronto – Parks, Forestry & Rec	19,000	19,000
City of Toronto - Renewable Energy Office	25,000	2,500
Evergreen	10,000	10,000
Humber College	49,500	49,500
MaRS	10,000	10,000
Pollution Probe	20,000	20,000
Pollution Probe – two year project	50,000	50,000
Summerhill Impact	75,000	75,000
Sustainable Buildings Canada	55,000	32,500
Toronto and Region Conservation Authority	40,000	40,000
Toronto Environmental Alliance	37,500	3,750
University of Toronto – Civil Engineering	25,000	25,000
University of Toronto – Mechanical & Industrial Engineering	32,800	0
York University & Centennial College	35,000	35,000
	743,800	632,250
Grants approved in prior years	-	359,017
	$ 743,800	$ 991,267

10. Stabilization Fund

Any investment income in excess of the long term average rate of return assumption in the budget is allocated to the Stabilization Fund. Similarly when investment income falls below the budgeted amount, the shortfall is withdrawn from the Stabilization Fund. The amount withdrawn from the Fund was $1,129,814 in 2011 and $420,432 was added to the Fund in 2010.

11. Salary allocation to program delivery

In general most of TAF staff's time is dedicated to program delivery, and this internal contribution is leveraged by securing external funding for mandate-related programs. In 2010 TAF established a practice of allocating program staff costs to the program delivery cost line. In 2011 64% of staff costs were allocated to the program delivery cost line; in 2010 the staff cost allocation percentage was 58%.

12. Clean Air Partnership

Clean Air Partnership ("CAP") is a registered charity which was also created by the TAF Act and TAF appoints three of CAP's eleven directors. TAF shares its premises and certain office services with CAP. The related costs are allocated proportionately between TAF and CAP. Amounts due to CAP are included in TAF's Accounts Payable balance and amounts owing from CAP are included in TAF's Accounts Receivable balance.

	2011	2010
Receivable from CAP including accrued amounts	**$ 101,371**	$ 73,226
Payable to CAP including accrued amounts	**(93,193)**	(35,520)
Net owed by CAP	**$ 8,178**	$ 39,870
Payments to CAP		
City-mandated contribution for GTA-CAC (in 2010 included grant for Summit 2010)	**$ 100,000**	$ 100,000

13. 2011 TAF Budget

TAF is a self-supporting agency and it does not draw on the tax base of the City of Toronto. However, as an agency of the City, TAF submits its operating budget to the City of Toronto for approval. TAF's "net zero" budget submission for 2011 to the City was as follows:

	2011 TAF Budget
Revenues	
Investment Portfolio Revenues	$ 1,216,000
Loan Interest and transaction fees	286,000
Allocation from TAF's capital – if required	234,000
External funding	500,000
Total Revenues	$ 2,236,000
Program Delivery Expenditures	
Strategic Programs	$ 1,242,000
New and Committed Grants	580,000
City-mandated Contribution – GTA Clean Air Council	25,000
Total Programs and Projects	1,847,000
Administration	389,000
Total Expenditures	$ 2,236,000

14. CAIT Ventures Inc.

CAIT Ventures Inc. ("CVI") is a wholly-owned subsidiary of TAF which is currently inactive. CVI's financial status is as follows:

	2011	2010
Assets		
Bank	**$ 1,596**	$ 1,702
Total Assets	**$ 1,596**	$ 1,702
Liabilities		
Due to TAF	**$ 293,631**	$ 293,631
Equity		
Capital	**1**	1
Deficit, opening	**291,930**	(291,835)
Net (loss)	**(106)**	(95)
Deficit, closing	**(292,036)**	(291,930)
	(292,035)	(291,929)
	$ 1,596	$ 1,702
Expenses		
Bank charges	**$ 106**	95
	106	95
Net (loss)	**$ (106)**	(95)

15. Restatement of certain comparative amounts

In 2011 TAF streamlined its financial reporting and therefore certain 2010 comparative amounts have been restated in these statements.