

CONSOLIDATED FINANCIAL STATEMENTS
For
TORONTO ATMOSPHERIC FUND
For the year ended
DECEMBER 31, 2014

INDEPENDENT AUDITOR'S REPORT

To the Board Directors of

TORONTO ATMOSPHERIC FUND AND THE CITY OF TORONTO

We have audited the accompanying financial statements of Toronto Atmospheric Fund, which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of operations, changes in fund balances, remeasurement gains and losses and 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 public sector accounting standards for government not-for-profit organizations, 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 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 Toronto Atmospheric Fund as at December 31, 2014 and the results of its operations, remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 23, 2015.

TORONTO ATMOSPHERIC FUND
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash | \$ 1,406,982 | \$ 729,419 |
| Accounts receivable | 387,339 | 212,251 |
| External funding receivable | 509,236 | 444,615 |
| Loans receivable - current portion (note 5) | 915,201 | 356,985 |
| Deferred expenses (note 2(k)) | <u>-</u> | <u>85,748</u> |
| | 3,218,758 | 1,829,018 |
| CAPITAL ASSETS (note 4) | 763,909 | 676,988 |
| LOANS RECEIVABLE (note 5) | 1,033,372 | 1,982,200 |
| INVESTMENTS HELD IN TRUST BY THE CITY OF TORONTO (note 6) | <u>22,480,465</u> | <u>21,342,377</u> |
| | <u>\$ 27,496,504</u> | <u>\$ 25,830,583</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | |
| CURRENT LIABILITIES | | |
| Bank indebtedness (note 11) | \$ - | \$ 160,000 |
| Accounts payable and accrued liabilities | 259,255 | 151,225 |
| Grants payable (note 8) | 324,850 | 288,735 |
| Deferred revenues (note 9) | 626,487 | 666,545 |
| Funds held in trust Dan Leckie Fund (note 10) | 31,062 | 30,246 |
| Refundable deposits | 67,750 | 55,250 |
| Deferred capital contributions (note 12) | <u>95,467</u> | <u>-</u> |
| | <u>1,404,871</u> | <u>1,352,001</u> |
| FUND BALANCES | | |
| Operating fund | 17,918,318 | 18,288,546 |
| Grant fund | 1,023,833 | 958,295 |
| Stabilization fund (note 14) | <u>7,149,482</u> | <u>5,231,741</u> |
| | <u>26,091,633</u> | <u>24,478,582</u> |
| | <u>\$ 27,496,504</u> | <u>\$ 25,830,583</u> |

Commitments and contingencies (Note 13)

Approved by the Board:

..... Director

..... Director

(See accompanying notes)

TORONTO ATMOSPHERIC FUND
CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2014

| | <u>Operating Fund</u> | <u>Grant Fund</u> (note 2(i)) | <u>Stabilization Fund</u> (note 14) | <u>Total 2014</u> | <u>Total 2013</u> |
|--|---------------------------|--------------------------------------|--|-----------------------|-----------------------|
| Fund balances, beginning of year | \$ 18,288,546 | \$ 958,295 | \$ 5,231,741 | \$ 24,478,582 | \$ 21,666,887 |
| Excess of revenue over expenses (expenses over revenue) | (31,186) | - | - | (31,186) | (737,420) |
| Net remeasurement gains (losses) | 1,644,237 | - | - | 1,644,237 | 3,549,115 |
| Interfund transfers | | | | | |
| Rescissions (note 8) | (21,738) | 21,738 | - | - | - |
| Drawdown amount | <u>(43,800)</u> | <u>43,800</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net | (65,538) | 65,538 | - | - | - |
| Stabilization contribution | <u>(1,917,741)</u> | <u>-</u> | <u>1,917,741</u> | <u>-</u> | <u>-</u> |
| Fund balances, end of year | <u>\$ 17,918,318</u> | <u>\$ 1,023,833</u> | <u>\$ 7,149,482</u> | <u>\$ 26,091,633</u> | <u>\$ 24,478,582</u> |

(See accompanying notes)

TORONTO ATMOSPHERIC FUND
CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES
YEAR ENDED DECEMBER 31, 2014

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Accumulated remeasurement gains, beginning of year | \$ <u>4,984,407</u> | \$ <u>1,435,292</u> |
| Unrealized gains (losses) attributed to: | | |
| Foreign exchange | 1,322,272 | 817,742 |
| Equity instruments | <u>1,125,806</u> | <u>3,076,961</u> |
| | <u>2,448,078</u> | <u>3,894,703</u> |
| Amounts reclassified to the statement of operations: | | |
| Foreign exchange | (223,961) | (50,597) |
| Portfolio Investments | <u>(579,880)</u> | <u>(294,991)</u> |
| | <u>(803,841)</u> | <u>(345,588)</u> |
| Net remeasurement gains | <u>1,644,237</u> | <u>3,549,115</u> |
| Accumulated remeasurement gains, end of year | \$ <u>6,628,644</u> | \$ <u>4,984,407</u> |

(See accompanying notes)

TORONTO ATMOSPHERIC FUND
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2014

| | <u>2014</u> | <u>2013</u> |
|--|--------------------|---------------------|
| Revenues | | |
| Investment income, net (note 2(f)) | \$ 1,509,504 | \$ 704,494 |
| Loan interest and fees, net | 232,231 | 193,977 |
| External funding recognized (note 9) | 332,113 | 357,717 |
| Sundry | <u>1,934</u> | <u>1,753</u> |
| | <u>2,075,782</u> | <u>1,257,941</u> |
| Expenses | | |
| Program delivery | 1,237,109 | 1,558,367 |
| Grants approved (note 8) | 406,200 | 208,500 |
| Less: rescinded grants | (21,738) | (197,500) |
| Salaries and employee benefits | 803,735 | 694,832 |
| Salaries allocated to program delivery (note 15) | (562,615) | (486,382) |
| Corporate expenses (note 16) | 152,942 | 173,102 |
| Amortization | 80,820 | 44,442 |
| Loss on sale of equipment | <u>10,515</u> | <u>-</u> |
| | <u>2,106,968</u> | <u>1,995,361</u> |
| Excess of revenue over expenses (expenses over revenue) | <u>\$ (31,186)</u> | <u>\$ (737,420)</u> |

(See accompanying notes)

TORONTO ATMOSPHERIC FUND
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Excess of revenue over expenses (expenses over revenue) | \$ (31,186) | \$ (737,420) |
| Adjustments for: | | |
| Grants approved | 406,200 | 208,500 |
| Less: rescinded grants | (21,738) | (197,500) |
| Provision for credit losses | 30,000 | (34,000) |
| Amortization | 80,820 | 44,442 |
| Provision on ESPA contracts | 14,700 | 13,200 |
| Loss on sale of equipment | 10,515 | - |
| Amortization of deferred capital contributions | <u>(5,025)</u> | <u>-</u> |
| | 484,286 | (702,778) |
| Increase (decrease) resulting from changes in: | | |
| Accounts receivable | (175,088) | (53,571) |
| External funding receivable | (64,621) | 137,332 |
| Loans receivable - current portion | (558,216) | 143,394 |
| Deferred expenses | 85,748 | (65,915) |
| Loans receivable | 918,828 | 870,870 |
| Accounts payable and accrued liabilities | 108,030 | 2,940 |
| Grants payable | (348,347) | (352,024) |
| Deferred revenues | (40,058) | (199,129) |
| Refundable deposits | <u>12,500</u> | <u>22,180</u> |
| Cash flows from (used in) operating activities | <u>423,062</u> | <u>(196,701)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment in capital assets | (251,585) | (685,732) |
| Proceeds from sale of capital assets | 58,629 | - |
| Funds on deposit with the City of Toronto: | | |
| Reinvestment of investment gains | (1,439,231) | (764,025) |
| Withdrawals | 1,945,380 | 2,127,082 |
| Dan Leckie fund | | |
| Income attributed | <u>816</u> | <u>1,873</u> |
| Cash flows from (used in) investing activities | <u>314,009</u> | <u>679,198</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances from (repayments to) credit facility | (160,000) | 160,000 |
| Capital contributions received | <u>100,492</u> | <u>-</u> |
| Cash flows from (used in) financing activities | <u>(59,508)</u> | <u>160,000</u> |
| INCREASE IN CASH | 677,563 | 642,497 |
| CASH AT BEGINNING OF YEAR | <u>729,419</u> | <u>86,922</u> |
| CASH AT END OF YEAR | <u>\$ 1,406,982</u> | <u>\$ 729,419</u> |

(See accompanying notes)

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

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 is an arms-length agency of the City of Toronto (the "City") and operates as a not-for-profit organization

The City appoints TAF's Board of Directors while the TAF Relationship Framework, updated in 2013, establishes specific accountability requirements to the City.

TAF is financed by investment revenues from its endowment fund including income from its loan portfolio and by external grants and contributions. 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 air pollution and greenhouse gas emissions.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations (PSA-GNPO) as issued by the Public Sector Accounting Board (PSAB).

(b) Basis of presentation

These consolidated financial statements include the accounts of the Toronto Atmospheric Fund and its wholly owned subsidiary, CAIT Ventures Inc. ("CAIT"); The financial statements of this subsidiary are summarized in Note 19.

(c) Revenue recognition

TAF follows the deferral method of accounting for contributions. Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are deferred and recognized as revenue in the year in which the related expenses are recognized and are recorded as deferred contributions on the statement of financial position.

Other revenues are recorded on an accrual basis, when the service has been provided, evidence of an arrangement exists, the fee is fixed or determinable and the amount is collectible.

Externally restricted contributions for depreciable capital assets are deferred and amortized over the life of the related capital assets. Externally restricted contributions for capital assets that have not been expended are recorded as part of deferred capital contribution on the statement of financial position.

(d) Contributed services

Volunteers contribute their time during the year to assist TAF in delivering on its mandate. Due to the difficulty in determining their fair market value, contributed services are not recognized in the financial statements.

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

(e) Financial assets and liabilities

Initial measurement

TAF recognizes a financial asset or a financial liability on the statement of financial position when, and only when, it becomes party to the contractual provisions of the financial instrument. Unless otherwise stated, financial assets and liabilities are initially measured at fair value

Subsequent measurement

At each reporting date, TAF measures its financial assets and liabilities at amortized cost, except for portfolio investments which are measured at fair value, including any impairment in the case of financial assets.

TAF determines whether there is any objective evidence of impairment of the financial assets subsequently measured at amortized cost. Any financial asset impairment is recognized in the statement of operations.

(f) Investment income

Investment income consists of interest, dividends and realized gains (losses) on disposition of investments. Investment income is recorded net of portfolio management fees. Unrealized gains or losses are recorded in the statement of remeasurement gains and losses.

(g) Foreign currency translation

Foreign currency transactions are translated at the exchange rate prevailing at the date of the transactions.

Financial instruments included in the fair value measurement category denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Unrealized foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses. In the period of settlement, realized foreign exchange gains and losses are recognized in the statement of operations, and the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses.

(h) Loans/contracts receivable

Loans receivable are recorded at amortized cost less any amount for valuation allowance. Valuation allowances are made to reflect loans receivable at the lower of amortized cost and the net recoverable value, when collectability and risk of loss exists. Changes in valuation allowance are recognized in the statement of operations as costs of program delivery. Interest is accrued on loans receivable to the extent it is deemed collectible.

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

(i) Grants

All grants must receive a funding recommendation by TAF's Grants and Programs Committee and subsequently be approved by the Board of Directors. Approved one-time payment grants are reported as current liabilities and expenditures. Approved grants which are in effect across several years are allocated to subsequent years.

Payment of the first instalment of a grant for a project meeting the objectives of TAF is 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 from grantees detailing results of work on the project and are subject to various conditions.

Grants can be rescinded by TAF when the original granting conditions have not been met, or cannot be met, or when the applicant/recipient no longer needs the grant. The rescinded amounts are recognized in future fiscal years.

In 2006 TAF established a policy of carrying forward the unspent portion of any year's grants budget. Any year's unspent budget amount and rescissions are transferred to the Grant Fund, an internally restricted fund. Note 8 summarizes TAF's specific grants.

(j) Capital assets

Capital assets are recorded at cost and contributed capital assets are recorded at fair value at the date of contribution. Computer/office equipment and software are amortized using the straight line method over four years with half year rates applying in the year of acquisition. Energy efficiency equipment which is located on client premises is amortized using the straight line method over ten years with half year rates applying in the year of acquisition. Note 4 summarizes TAF's capital assets.

(k) Deferred expenses

Expenditures related to programs to be completed in future fiscal years are deferred and recognized in proportion to progress made. Legal expenses related to financing negotiations which are payable by the borrower are deferred and expensed in future fiscal years when reimbursement is received by TAF.

(l) Stabilization fund

This fund was established in 2003 to enable TAF to reduce variability in its program spending due to fluctuating financial markets which directly impact TAF's investment income. Note 14 provides the amounts allocated or withdrawn from the Stabilization Fund for the two most recent fiscal years.

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

3. FINANCIAL INSTRUMENTS

The activities of TAF expose it to a variety of financial risks including credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk of financial loss if a debtor fails to make payments of interest and principal when due. TAF's maximum exposure to credit risk represents the sum of the carrying value of its cash, accounts receivable, loans/contracts receivable and external funding receivable. TAF's cash is deposited with a Canadian Chartered bank and as a result, management believes the risk of loss of this item to be remote. Accounts receivable and external funding receivable balances are managed and analyzed on an ongoing basis and accordingly, management believes all amounts receivable will be collected and has determined that a provision for bad debts is not required. Credit risk on loans/contracts receivable is mitigated through a financial approval process, the use of general security agreements and pledges of assets, details of which are provided in note 5. Management makes a provision for possible credit losses each year detailed in note 5(j).

Liquidity risk is the risk that the entity will not be able to meet its cash flow obligations as they come due. The entity mitigates this risk by maintaining a committed credit facility and monitoring cash activities and expected outflows through budgeting and maintaining liquid investments that may be converted to cash on short notice if unexpected cash outflows arise.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors and is comprised of currency risk, interest rate risk and other price risk.

i) *Currency risk*

Currency risk relates to cash and investments denominated in foreign currency and converting these to Canadian currency at different points in time when adverse or beneficial changes in foreign exchange rates can occur. Cash and investments are translated into Canadian dollars at the exchange rate prevailing at the period end. At December 31, 2014 the cash and investments held denominated in US dollars were, translated in Canadian dollars, \$273,061 and \$13,546,768, respectively (2013 - \$0 and \$12,261,058). During the year the organization opened a US dollar bank account to help manage its US dollar cash flows.

ii) *Interest rate risk*

Interest rate risk is the potential for financial loss caused by fluctuations in fair value of financial instruments due to changes in market interest rates. The entity is exposed to this risk through its investments in marketable securities and direct loans.

iii) *Other price risk*

Other price risk refers to the risk that the fair value of financial instruments or future associated cash flows will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

TAF is exposed to other price risk due to its investment in a variety of equities. Risk and volatility of investment returns are mitigated through diversification of investments. To minimize market risks, the entity's investment policy operates within the constraints established by the City of Toronto. This policy's application is monitored by management, a third party investment advisor, TAF's Board appointed Investment Committee and the Board of Directors.

Changes in risk

There have been no changes in the organization's risk exposures or policies, procedures and methods used to measure the above risks, from the prior year.

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

4. CAPITAL ASSETS

Capital assets consist of the following:

| | <u>2014</u> | | <u>2013</u> | |
|--|-------------------|-------------------------------------|-------------------|-------------------------------------|
| | <u>Cost</u> | <u>Accumulated amortization</u> | <u>Cost</u> | <u>Accumulated amortization</u> |
| Computer/office equipment | \$ 37,992 | \$ 35,953 | \$ 37,992 | \$ 34,593 |
| Software | 43,349 | 18,964 | 43,349 | 8,127 |
| Energy efficiency equipment - note 7 | <u>860,405</u> | <u>95,020</u> | <u>689,700</u> | <u>38,133</u> |
| | 941,746 | <u>\$ 149,937</u> | 771,041 | <u>\$ 80,853</u> |
| Accumulated amortization | <u>149,937</u> | | <u>80,853</u> | |
| | 791,809 | | 690,188 | |
| Less provisions related to ESPA contracts | <u>(27,900)</u> | | <u>(13,200)</u> | |
| | <u>\$ 763,909</u> | | <u>\$ 676,988</u> | |

5. LOANS RECEIVABLE

Loans receivable consist of the following:

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Pure Energies 7711565 Canada Inc. - note 5(a) | \$ 590,268 | \$ 609,975 |
| M5V Tower, TSCC #2206 - note 5(b) | 460,559 | 528,458 |
| York Condominium Corporation, YCC #132 - note 5(c) | 318,567 | 335,467 |
| Grande Triomphe, TSCC #2033 - note 5(d) | 215,632 | 305,359 |
| Exhibition Place - note 5(e) | 210,081 | 285,718 |
| Toronto Solar Neighbourhoods Initiative - note 5(f) | 191,858 | 232,174 |
| Toronto Artscape Inc. - note 5(g) | 21,608 | 53,869 |
| Nuvo II, TSCC #1959 - note 5(h) | <u>-</u> | <u>18,165</u> |
| | 2,008,573 | 2,369,185 |
| Less current portion | <u>(915,201)</u> | <u>(356,985)</u> |
| | 1,093,372 | 2,012,200 |
| Less credit provision - (note 5(j)) | <u>(60,000)</u> | <u>(30,000)</u> |
| | <u>\$ 1,033,372</u> | <u>\$ 1,982,200</u> |

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

5. **LOANS RECEIVABLE - Cont'd.**

(a) 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. ("SPEI"). The loan is for the installation of 34 residential roof top solar photovoltaic systems under the Ontario Power Authority's MicroFIT program. TAF's security consists of a promissory note, plus pledging all assets of the borrower including the assignment of the power purchase agreements. The loan matures in December 2029 and bears interest at 8% per annum.

In September 2014 TAF received notice that SPEI was sold which triggered two events: (1) the loan repayment process was started which resulted in full repayment of the loan to TAF on February 20, 2015; and (2) TAF exercised its warrants resulting in TAF receiving the first tranche of warrants proceeds of \$319,645 on December 11, 2014 which is reported as realized investment income

If various milestones and conditions related to the sale are met by SPEI, TAF expects that its warrants may generate additional investment income of up to \$500,000 over the next two years. The likelihood of SPEI meeting the milestones and conditions is unknown and as a result this additional potential investment income has not been recognized in these financial statements.

(b) M5V Tower (TSCC No. #2206)

During 2012 TAF advanced \$635,000 for the incremental cost of energy efficiency measures to enhance the building's energy performance by at least 25% above the National Model Building Code. This "Green Condo Loan" loan is secured by a general security agreement, matures in March 2020 and bears interest at 8% per annum.

(c) York Condominium Corporation (YCC No. #132)

During 2012 TAF advanced \$355,000 for the installation of energy efficiency measures in this condominium building. This "Green Condo Loan" is secured by a general security agreement and matures in May 2026 and bears interest at 7% per annum.

(d) Grand Triomphe Toronto Standard Condominium Corporation (TSCC) No. 2033

In January 2010 TAF loaned \$600,000 to TSCC No. 2033 for energy efficiency measures to enhance the building's energy performance by at least 25% above the National Model Building Code. This "Green Condo Loan" is secured by a general security agreement, matures in February 2017 and bears interest at 6.61% per annum.

(e) Exhibition Place

In January 2007 TAF loaned \$1 million to Exhibition Place for the District Energy and Trigeneration project secured by a chattel mortgage on the Trigeneration asset. In 2009 the borrower exercised their option to accelerate repayment of principal by \$256,000 which resulted in reduced semi-annual instalments. The loan matures in January 2017 and bears interest at 6.06% per annum.

(f) Toronto Solar Neighbourhood Initiative

Between July 2009 and April 2011 TAF provided loans to homeowners participating in the Toronto Solar Neighbourhoods Initiative (TSNI). The loans are backed by unsecured promissory notes from the homeowners who have full repayment privileges at any time. As of the year-end, there were 42 loans receivable under this program, bearing interest at 7.25%, totalling \$191,858 and the last loan is scheduled to mature in April 2021.

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

5. LOANS AND CONTRACTS RECEIVABLE - Cont'd.

(g) Toronto Artscape Inc.

In August 2003 TAF loaned \$280,000 to Toronto Artscape Inc. which is secured by a collateral mortgage covering the renovation assets. The loan matures in August 2015 and bears interest at 7.4% per annum.

(h) Nuvo II Green Toronto Standard Condominium Corporation - TSCC No. 1959

In December 2008 TAF loaned \$500,000 to TSCC No. 1959 for energy efficiency measures to enhance the building's energy performance by at least 25% above the National Model Building Code. This "Green Condo Loan" matured on March 1, 2014, It was secured by a general security agreement and earned interest of 6.1% per annum.

(i) Senarra Green Energy Capital Inc.

In December 2009 TAF agreed to finance Senarra Green Energy Capital Inc. to purchase and install solar hot water heating systems at three City of Toronto facilities which culminated with TAF advancing \$412,358 for the project in January 2011. TAF's security package includes a promissory note, a general security agreement on all solar panels at the three locations, plus the assignment of power purchase agreements at five other Senarra solar sites. The loan was also guaranteed by Glenbarra Energy Management Corp. (GEMCO).

Monthly loan repayments commenced as scheduled and, as provided by the loan agreement, TAF also began accumulating a loan pre-payment fund from customer billings sent directly to TAF by the three solar sites.

During 2013 it became evident that the borrower had ceased operations and consequently TAF placed the borrower into receivership and began an asset recovery process which included an expert assessment of the potential market value of equipment and potential revenues from the solar sites. As of December 31, 2013 the market value of the solar assets was still being determined and thus TAF had made a full provision for the loan balance. As of December 31, 2014 the solar assets are being rehabilitated and their market value is yet to be determined. In 2013 a full provision of the loan balance of \$340,052 was recorded in program delivery expense.

(j) Allowance for credit losses

Management makes an assessment of the collectability of each loan receivable at year end and, to be prudent, establishes a general allowance for potential credit losses. Any write-offs, net of recoveries, will be deducted from this allowance.

Allowance for impaired loans:

| | <u>2014</u> | <u>2013</u> |
|----------------------------|------------------|------------------|
| Opening balance | \$ 30,000 | \$ 64,000 |
| Charge for loan impairment | 30,000 | 30,000 |
| Amounts written off | <u>-</u> | <u>(64,000)</u> |
| Ending balance | <u>\$ 60,000</u> | <u>\$ 30,000</u> |

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

6. INVESTMENT 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.

During 2012 TAF's investment policy was revised by City Council to increase TAF's maximum allocation limit for direct investments to up to 60% of TAF's net asset value, the prior maximum allocation limit for direct investments was 40%. TAF's shift to direct investments has and will be funded from investments held in trust.

TAF's equity instruments are categorized according to a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data.

| | | <u>2014</u> | <u>2013</u> |
|--|---------|----------------------|----------------------|
| Investments at fair market value* | | | |
| Greenchip Global Equity Fund | Level 1 | \$ 2,642,275 | \$ 2,495,211 |
| TD Emerald Canadian Bond Pooled Fund Trust | Level 1 | 3,039,718 | 2,794,190 |
| TD Short Term Bond Fund, O-Series | Level 1 | 2,846,738 | 2,757,197 |
| Generation IM Global Equity A Shares A32 | Level 1 | <u>13,546,768</u> | <u>13,095,949</u> |
| Total investments at fair market value | | 22,075,499 | 21,142,547 |
| Investment at amortized cost | | | |
| Limited Partnership Units at cost** | | <u>404,966</u> | <u>199,830</u> |
| Total investment at amortized cost | | <u>404,966</u> | <u>199,830</u> |
| Total investments | | <u>\$ 22,480,465</u> | <u>\$ 21,342,377</u> |

*Investments reported at fair market value are marketable securities held in trust by the City of Toronto. This portfolio also 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.

**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.

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

7. ENERGY SAVINGS PERFORMANCE AGREEMENTS

In 2012 TAF began marketing a financing program based on its proprietary Energy Savings Performance Agreement (“ESPA”), which enables building owners to retrofit and upgrade their buildings’ energy performance. The ESPA is a multi-year performance contract between TAF and a building owner where TAF provides a turnkey energy efficiency retrofit for the owner who undertakes to re-pay TAF from realized energy cost savings. The installation process is managed by pre-qualified engineering firms who perform investment grade energy audits and use proven energy-saving technologies to achieve significant savings in both energy consumption and cash flow for building owners to make energy retrofits economically feasible.

Under an ESPA the building owner remits to TAF a significant portion (typically 90%) of their actual energy savings based on an investment grade energy audit performed before installation. The energy savings are remitted monthly to TAF for up to 10 years until TAF recovers its capital plus a financial return.

TAF’s financial risk related to ESPA retrofit projects is mitigated by: (1) review of project economics and building owner’s creditworthiness with TAF’s Investment Committee which in turn recommends approval by TAF’s Board of Directors; (2) project-specific insurance policy to ensure that TAF will receive the projected energy savings; (3) TAF’s right to increase a building’s energy savings remittances up to 100% of actual savings; (4) regular equipment maintenance combined with measurement and verification of a building systems’ operating performance for the duration of the ESPA contract.

The equipment installed in the building under an ESPA contract is the property of TAF and is part of TAF’s capital assets.

(a) Energy Savings Purchase Agreement with Harbourfront Centre

In 2012, TAF advanced project funding after entering into an Energy Savings Purchase Agreement (the Agreement) with Harbourfront Corporation (1990) which operates buildings called Harbourfront Centre. During the year, TAF finalized this retrofit financing project. Since this Agreement was a field trial for TAF’s ESPA financing program, the projected energy savings of this project are not insured.

On November 1, 2014 TAF sold the above energy efficiency equipment assets for \$58,629 to Fonds CoPower I, SEC (“CoPower”) who are focused on acquiring de-risked energy efficiency assets delivering predictable cash flows. TAF also entered into an Administration Agreement with CoPower to continue to administer the ESPA Agreement on behalf of CoPower for a fee for the remaining term of the Harbourfront ESPA maturing on January 1, 2017.

During the year TAF earned \$32,564 (2013 - \$12,932) as its share of the energy savings resulting from the retrofit.

(b) Energy Savings Performance Agreement with Robert Cooke Cooperative Homes Inc.

During the year, TAF completed a retrofit project under an Energy Savings Performance Agreement (ESPA) for a multi-unit residential building: Robert Cooke Cooperative Homes Inc. The projected energy savings of this ESPA retrofit project are insured in the manner described above.

TAF earned \$60,000 (2013 - \$21,815) as its share of the energy savings resulting from the retrofit. At the end of the year the depreciated value of TAF’s energy efficiency equipment (net of energy efficiency incentives received) located in the building was \$357,609 (2013 - \$600,194). The ESPA contract has a duration of up to 10 years and TAF’s share of the projected energy savings for the remaining balance of the contract is estimated at \$597,000.

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

7. ENERGY SAVINGS PERFORMANCE AGREEMENTS- Cont'd.

(c) Energy Savings Performance Agreement with YMCA of Greater Toronto

During the year TAF completed a retrofit project under an Energy Savings Performance Agreement (ESPA) covering six buildings owned by YMCA of Greater Toronto using Legend Power's Harmonizer-AVR electricity optimization system. The projected energy savings of this ESPA retrofit project are insured in the manner described above.

During the year TAF earned \$3,901 as its share of the energy savings resulting from the retrofit. At the end of the year the depreciated value of TAF's energy efficiency equipment (net of energy efficiency incentives received) located in the buildings was \$312,308. The ESPA contract has a duration of up to 7 years and TAF's share of the projected energy savings for the remaining balance of the contract is estimated at \$344,107.

8. GRANTS APPROVED AND PAYABLE

Grants approved by TAF's Board of Directors allocated to 2014 and balances payable are as follows:

| | <u>Allocated to 2014</u> | <u>Payable 2014</u> | <u>Payable 2013</u> |
|---|------------------------------|-------------------------|-------------------------|
| City of Toronto Environment & Energy Division | \$ 80,000 | \$ - | \$ - |
| Ryerson University - Centre for Urban Energy | 76,200 | 19,050 | 68,500 |
| Pembina Institute | - | - | 15,000 |
| Evergreen | 110,000 | 15,000 | - |
| Environmental Defence Canada – part 1 | 125,000 | 125,000 | - |
| Tides Canada (Project Neutral) | <u>15,000</u> | <u>15,000</u> | <u>-</u> |
| | 406,200 | 174,050 | 83,500 |
| Grants approved in prior years | <u>-</u> | <u>150,800</u> | <u>205,235</u> |
| | <u>\$ 406,200</u> | <u>\$ 324,850</u> | <u>\$ 288,735</u> |

Grants can be rescinded by TAF when the original granting conditions have not been met, or cannot be met, or when the applicant/recipient no longer needs the grant. Based on management's ongoing review of its grants portfolio, TAF rescinded \$21,738 of outstanding grants during the year (2013 - \$197,500) .

9. EXTERNAL FUNDING RECOGNIZED AND DEFERRED

External revenues received by TAF related to project expenditures in the future are deferred and recognized in the year the expenditures are incurred. During the last two years external funding received, recognized and deferred by TAF was as follows:

| | <u>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| External funding brought forward from prior year | \$ 666,545 | \$ 865,674 |
| External funding received during the year | <u>292,055</u> | <u>158,588</u> |
| Total external funding committed to TAF | \$ 958,600 | \$ 1,024,262 |
| External funding recognized in the current year | <u>\$ 332,113</u> | <u>\$ 357,717</u> |
| External funding carried forward into subsequent year | <u>\$ 626,487</u> | <u>\$ 666,545</u> |

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

9. EXTERNAL FUNDING RECOGNIZED AND DEFERRED - Cont'd.

In addition to the above, the Federation of Canadian Municipalities ("FCM") confirmed in 2013 that TAF has been approved for a loan of up to \$2,557,000 combined with a grant of up to \$511,000 to be used for energy retrofitting of several Toronto Community Housing ("TCH") buildings in Toronto.

As of December 31, 2014 the terms of the above deal have been finalized amongst FCM, TCH and TAF and received approval from the City of Toronto's Executive Committee and City Council. The only outstanding approval is by the City's Legal Department which is expected in 2015.

In December 2014, Independent Electricity System Operator ("IESO") approved TAF as the recipient of \$260,700 from its Conservation Fund to study energy conservation and Green House Gas ("GHG") reduction potential of heat pumps in electrically-heated Multiple Unit Residential Buildings (MURBs). This funding has been reflected in these financial statements in external funding receivable and deferred revenue.

10. 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, which was originally funded at \$28,373, is to support 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. The changes in the fund were as follows:

| | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|
| Opening balance and original fund principal | \$ 30,246 | \$ 28,373 |
| Income attributed from TAF | 1,646 | 1,873 |
| Expenditures | <u>(830)</u> | <u>-</u> |
| Closing balance and original fund principal | <u>\$ 31,062</u> | <u>\$ 30,246</u> |

11. 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 (2013 - \$160,000) on the line of credit. Security has been provided in form of TAF's fixed income investment portfolio.

12. DEFERRED CAPITAL CONTRIBUTIONS

Contributions relating to the acquisition of equipment as part of an external funding project are being deferred and amortized over the life of the equipment (10 years).

| | <u>2014</u> | <u>2013</u> |
|--|------------------|-------------|
| Balance, beginning of year | \$ - | \$ - |
| Capital contributions received | 100,492 | - |
| Amortization of deferred capital contributions | <u>(5,025)</u> | <u>-</u> |
| Closing balance and original fund principal | <u>\$ 95,467</u> | <u>\$ -</u> |

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

13. COMMITMENTS AND CONTINGENCIES

In the course of carrying out its mandate, TAF issues financing commitment letters to prospective borrowers or prospective Energy Savings Performance Agreement (ESPA) clients. Commitment letters can expire or can be rescinded by TAF. At the end of the year TAF had the following financing commitments for which no cash advances have been made as of the year end:

- EnerMotion - potential \$250,000 loan to accelerate the development of an energy recovery system for Class 8 heavy trucks.
- Toronto Community Housing Corporation (TCHC) - potential financing up to \$3 million, structured as an ESPA, to install energy efficiency measures in seven TCHC high-rise buildings. The ESPA contract was signed with TCHC during the year and the selection of the design/build firm was completed in early 2015. The last \$1 million of the above \$3 million financing will be advanced when the guarantee agreement for \$1 million is signed with a third party which is expected by April 30, 2015.
- Windmill Development Group - potential \$750,000 financing structured as a Green Condo Loan for condominium development in Ottawa.
- Rouge Valley Co-op - potential \$321,000 ESPA financing in Toronto.
- Perth Avenue Co-op - potential \$316,000 ESPA financing in Toronto.
- Legend Power - potential \$1 million ESPA vendor financing to support installations of their Harmonizer-AVR electricity optimization systems in client buildings.
- YCC #128 - potential \$2 million ESPA financing.*
- Greensoil Building Innovation Fund - potential US dollar \$500,000 investment to accelerate adoption of energy-efficient building technologies.*
- Energy Efficiency Corporation - commitment to provide \$2,000,000 as subordinated debt to launch a new enterprise to scale-up the ESPA financing method.

During 2014 the following changes occurred: (1) the previously reported commitment to YMCA of Greater Toronto became an ESPA financing agreement as outlined in note 7(c); (2) TAF rescinded the previously reported financing commitment to Ajax Municipal Housing Corporation totalling \$737,000.

A grant was awarded to Environmental Defence Canada totalling \$300,000, of which \$125,000 was payable in 2014, included in note 8, and \$175,000 is payable in 2015.*

A three month grant to Project Neutral was awarded in the amount of \$15,000.*

In 2013 TAF approved a multi-year grant to the City of Toronto Environment & Energy Division. Payment of \$80,000 was made during the year upon receipt of the interim report. The final payment of \$40,000 is expected to be made in 2017 upon receipt of the final report.

* Approved by TAF under delegated authority by City Council on August 25, 2014.

14. STABILIZATION FUND

Any investment income from marketable securities which exceeds the long term average rate of return assumption in the budget is added to the Stabilization Fund. Similarly, when such investment income falls below the budgeted amount, the shortfall is withdrawn from the Stabilization Fund. Consequently funds added to the Stabilization Fund in 2014 amounted to \$1,917,741 (2013 - \$3,676,609).

15. SALARY ALLOCATION TO PROGRAM DELIVERY

TAF's practice is to allocate program-related staff costs to the program delivery expenditure line. The percentage of staff costs allocated to the program delivery expenditure line in 2014 was 70% (2013 - 70%).

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

16. CORPORATE EXPENSES

Corporate expenses include activities related to communications, governance, organizational development and administration:

| | <u>2014</u> | <u>2013</u> |
|-----------------------|-------------------|-------------------|
| Communications | \$ 13,550 | \$ 39,813 |
| Office operations | 90,375 | 66,568 |
| Professional services | 34,328 | 52,626 |
| IT/telecommunications | <u>14,689</u> | <u>14,095</u> |
| Corporate expenses | <u>\$ 152,942</u> | <u>\$ 173,102</u> |

17. CLEAN AIR PARTNERSHIP

Clean Air Partnership ("CAP") is a registered charity which was also created by the TAF Act.

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.

| | <u>2014</u> | <u>2013</u> |
|--|----------------|----------------|
| Receivable from CAP including accrued amounts | \$ 1,737 | \$ 7,347 |
| Payable to CAP including project and accrued amounts | <u>(1,247)</u> | <u>(7,302)</u> |
| Net owed by CAP to TAF (or owed by TAF to CAP) | <u>\$ 490</u> | <u>\$ 45</u> |

18. TAF BUDGET FISCAL YEAR 2014

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 to the City was as follows:

| | <u>2014</u> (in \$ Thousands) | <u>2013</u> (in \$ Thousands) |
|---|----------------------------------|----------------------------------|
| <u>Revenues</u> | | |
| Investment portfolio revenues* | \$ 930 | \$ 866 |
| Loan interest and transaction fees | 529 | 654 |
| External funding | 816 | 500 |
| Allocation from TAF's capital - if required | - | - |
| Sundry | <u>149</u> | <u>101</u> |
| Total Revenues | <u>\$ 2,424</u> | <u>\$ 2,121</u> |
| <u>Program Delivery Expenditures</u> | | |
| Strategic programs | 1,522 | 1,414 |
| New and committed grants | <u>450</u> | <u>300</u> |
| Total programs and projects | 1,972 | 1,714 |
| Administration | <u>452</u> | <u>407</u> |
| Total Expenditures | <u>\$ 2,424</u> | <u>\$ 2,121</u> |

* Based on mark-to-market valuation assumption.

TORONTO ATMOSPHERIC FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2014

19. **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:

| | <u>2014</u> | <u>2013</u> |
|--------------------|-------------------|-------------------|
| Assets | | |
| Bank | \$ <u>1,302</u> | \$ <u>1,362</u> |
| Liabilities | | |
| Due to TAF | \$ <u>293,631</u> | \$ <u>293,631</u> |
| Equity | | |
| Capital | <u>1</u> | <u>1</u> |
| Deficit, opening | (292,270) | (292,174) |
| Net (loss) | <u>(60)</u> | <u>(96)</u> |
| Deficit, closing | <u>(292,330)</u> | <u>(292,270)</u> |
| | <u>(292,329)</u> | <u>(292,269)</u> |
| | \$ <u>1,302</u> | \$ <u>1,362</u> |
| | | |
| | <u>2014</u> | <u>2013</u> |
| Expenses | | |
| Bank charges | \$ <u>60</u> | \$ <u>96</u> |
| Net (loss) | \$ <u>(60)</u> | \$ <u>(96)</u> |