CONSOLIDATED FINANCIAL STATEMENTS

For

TORONTO ATMOSPHERIC FUND

For the year ended

DECEMBER 31, 2016

Welch LLP®

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, 2016, the consolidated statements of operations - operating fund, remeasurement gains and losses - operating fund, the consolidated statements of operations - restricted fund, remeasurement gains and losses - restricted fund, changes in fund balances, 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 consolidated financial statements present fairly, in all material respects, the financial position of Toronto Atmospheric Fund as at December 31, 2016 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.

Welch LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
June 29, 2017.

Welch LLP - Chartered Professional Accountants
36 Toronto Street, Suite 1070, Toronto ON, M5C 2C5
T: 647 288 9200 F: 647 288 7600 W: welchllp.com
An Independent Member of BKR International

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	$ 1,643	$ 1,649,799
Accounts receivable	1,700,565	653,148
External funding receivable	857,698	1,003,316
Loans receivable - current portion (note 5)	294,504	375,315
Deferred expenses (note 2(k))	832	34,067
	2,855,242	3,715,645
CAPITAL ASSETS (note 4)	5,588,915	1,856,518
LOANS RECEIVABLE (note 5)	1,232,196	1,354,663
INVESTMENTS HELD IN TRUST BY THE CITY OF TORONTO (note 6)	42,874,716	24,949,175
	$ 52,551,069	$ 31,876,001
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Line of credit (note 11)	$ 320,000	$ -
Accounts payable and accrued liabilities	4,446,314	1,231,894
Grants payable (note 8)	548,760	556,123
Current portion of long-term debt (note 13)	57,359	-
Deferred revenues (note 9)	620,254	1,285,509
Funds held in trust Dan Leckie Fund (note 10)	34,018	32,130
Refundable deposits	148,287	117,378
Deferred capital contributions (note 12)	152,758	176,532
	6,327,750	3,399,566
LONG-TERM DEBT (note 13)	1,002,929	-
	7,330,679	3,399,566
FUND BALANCES		
Restricted		
Province of Ontario fund - externally restricted (note 14)	16,985,949	-
Stabilization fund - internally restricted (note 15)	7,052,301	7,119,109
Unrestricted		
Operating fund	21,182,140	21,357,326
	45,220,390	28,476,435
	$ 52,551,069	$ 31,876,001

Commitments and contingencies (Note 20)

Approved by the Board:

S. Odendahl .... Director

R. Roberts .... Director

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2016

	Restricted		Unrestricted		
	Province of Ontario Fund (note 14)	Stabilization Fund (note 15)	Operating Fund	Total 2016	Total 2015
Fund balances, beginning of year	$ -	$ 7,119,109	$ 21,357,326	$ 28,476,435	$ 26,091,633
Excess of revenue over expenses (expenses over revenue)	17,094,364	-	(1,157,159)	15,937,205	(425,328)
Net remeasurement gains (losses)	(108,415)	-	915,165	806,750	2,810,130
Stabilization transfer	-	(66,808)	66,808	-	-
Fund balances, end of year	$ 16,985,949	$ 7,052,301	$ 21,182,140	$ 45,220,390	$ 28,476,435

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES - OPERATING FUND

YEAR ENDED DECEMBER 31, 2016

	2016	2015
Accumulated remeasurement gains, beginning of year	$ 9,438,774	$ 6,628,644
Unrealized gains (losses) attributed to:		
Foreign exchange	(81,790)	2,775,817
Equity instruments	1,029,583	778,730
	947,793	3,554,547
Amounts reclassified to the statement of operations:		
Foreign exchange	(34,082)	(302,897)
Portfolio investments	1,454	(441,520)
	(32,628)	(744,417)
Net remeasurement gains	915,165	2,810,130
Accumulated remeasurement gains, end of year	$ 10,353,939	$ 9,438,774

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF OPERATIONS - OPERATING FUND

YEAR ENDED DECEMBER 31, 2016

	2016	2015
Revenue		
Investment income from marketable securities, net (note 2(f))	$ 338,269	$ 1,273,439
Investment income from direct investments, net	192,013	82,761
External funding (note 9)	823,512	207,462
Energy Savings Performance Agreement revenues	290,640	149,279
Sundry	24,874	3,855
	1,669,308	1,716,796
Expenses		
Program delivery	1,678,108	1,163,143
Grants approved (note 8)	497,962	469,823
Less: rescinded grants	(30,000)	(65,000)
Salaries and employee benefits	1,257,838	803,123
Salaries allocated to program delivery (note 16)	(1,004,553)	(550,799)
Corporate expenses (note 17)	303,823	143,691
Amortization	137,098	178,143
Recovery of shared fund expenses	(13,809)	-
	2,826,467	2,142,124
Excess of revenue over expenses	$ (1,157,159)	$ (425,328)

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES - RESTRICTED FUND

YEAR ENDED DECEMBER 31, 2016

	2016	2015
Accumulated remeasurement gains, beginning of year	$ -	$ -
Unrealized losses attributed to:		
Equity instruments	(108,415)	-
Net remeasurement losses	(108,415)	-
Accumulated remeasurement losses, end of year	$ (108,415)	$ -

(See accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS - RESTRICTED FUND

YEAR ENDED DECEMBER 31, 2016

	2016	2015
Revenue		
Investment income from marketable securities, net (note 2(f))	$ 108,173	$ -
External funding recognized - Province of Ontario	17,000,000	-
	17,108,173	-
Expenses		
Shared fund expenses	13,809	-
	13,809	-
Excess of revenue over expenses	$ 17,094,364	$ -

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of expenses over revenue - operating fund	$ (1,157,159)	$ (425,328)
Excess of revenue over expenses - restricted fund	17,094,364	-
	15,937,205	(425,328)
Adjustments for:		
Provision for credit losses	-	30,000
Amortization	137,098	178,143
Provision on ESPA contracts	12,002	35,534
Amortization of deferred capital contributions	(23,774)	(13,095)
	16,062,531	(194,746)
Increase (decrease) resulting from changes in:		
Accounts receivable	(1,047,417)	(265,809)
External funding receivable	145,618	(494,080)
Loans receivable - current portion	80,811	539,886
Deferred expenses	33,235	(34,067)
Loans receivable	122,467	(351,291)
Accounts payable and accrued liabilities	3,214,420	972,639
Grants payable	(7,363)	231,273
Deferred revenues	(665,255)	659,022
Refundable deposits	30,909	49,628
Cash flows from operating activities	17,969,956	1,112,455
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in capital assets	(3,881,497)	(1,306,286)
Funds on deposit with the City of Toronto:		
Reinvestment of investment gains	(518,829)	(1,137,829)
Withdrawals (purchases) of investments	(16,599,962)	1,479,249
Dan Leckie fund		
Income attributed	1,888	1,068
Cash flows used in investing activities	(20,998,400)	(963,798)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from line of credit	320,000	-
Capital contributions received	-	94,160
Advances of long-term debt	1,074,099	-
Repayments of long-term debt	(13,811)	-
Cash flows from financing activities	1,380,288	94,160
INCREASE (DECREASE) IN CASH	(1,648,156)	242,817
CASH AT BEGINNING OF YEAR	1,649,799	1,406,982
CASH AT END OF YEAR	$ 1,643	$ 1,649,799

(See accompanying notes)

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”) operating as a not-for-profit organization which is exempt from income tax pursuant to the Income Tax Act (Canada).

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

On February 25, 2016, the Ontario government announced in the provincial Budget its plan to provide $17 million to TAF to expand TAF’s geographical scope to the Greater Toronto and Hamilton (GTHA) areas. A Transfer Payment Agreement (“TPA”) was signed by TAF, the City of Toronto and the Province of Ontario on October 30, 2016 and $17 million was advanced to TAF on November 14, 2016. The TPA stipulates that TAF will keep the funds from the Province of Ontario segregated from TAF's existing funds for investing and accounting purposes.

TAF is financed by investment revenues from its two funds including income from marketable securities and direct investments as well as by external grants and contributions. TAF does not draw on the City of Toronto or Province of Ontario operating budgets.

TAF’s aim is to innovate, demonstrate, de-risk and advance social, financial, policy and technological opportunities that position the City of Toronto to achieve reductions in air pollution and greenhouse gas emissions, and as of late 2016, also to position the GTHA to achieve significant reductions in 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 21.

(c) Revenue recognition

TAF follows the restricted fund 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. Contributions not expended are included as surplus under the specified fund for the year. Restricted contributions not expended for which there is not a specified fund are deferred and recognized as revenue in the year in which the related expenses are recognized.

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.

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.

2. **SIGNIFICANT ACCOUNTING POLICIES** - Cont'd.

(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.

(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 for marketable securities and cost for private equity investments, 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 and related 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 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 a reduction of investment income from direct investments. Interest is accrued on loans receivable and is recognized in the statement of operations as investment income from direct investments.

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 and any potential liabilities related to approved grants which are payable beyond one year are disclosed as contingent liabilities.

Payment of the first installment 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 installments 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.

(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 are expensed in the year they are acquired. Energy efficiency equipment which is located on client premises is amortized using the straight line method over seven to 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 internally restricted reserve 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 15 provides the amounts allocated or withdrawn from the Stabilization Fund for the two most recent fiscal years. As of December 31, 2015, TAF capped the size of the Stabilization Fund to a maximum of 25% of the Net Asset Value.

3. **FINANCIAL INSTRUMENTS**

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

Liquidity risk

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.

3. **FINANCIAL INSTRUMENTS** - Cont'd.

Credit risk

Credit risk is the risk of financial loss if a debtor fails to make payments of interest and principal when due. TAFs 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(i).

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, 2016 the cash and investments held denominated in US dollars were, translated into Canadian dollars, $101,206 and $16,713,201, respectively (2015 - $775,497 and $15,494,978).

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 significant changes in the organization's risk exposures or policies, procedures and methods used to measure the above risks, from the prior year.

4. **CAPITAL ASSETS**

Capital assets consist of the following:

	2016		2015	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Computer/office equipment	$ 37,992	$ 37,992	$ 37,992	$ 37,992
Software	43,349	43,349	43,349	43,349
Energy efficiency equipment - note 7	6,048,188	383,837	2,166,692	246,739
	6,129,529	$ 465,178	2,248,032	$ 328,080
Accumulated amortization	465,178		328,080	
	5,664,351		1,919,952	
Less provisions related to ESPA contracts	(75,436)		(63,434)	
	$ 5,588,915		$ 1,856,518	

5. **LOANS RECEIVABLE**

Loans receivable consist of the following:

	2016	2015
Windmill Developments - note 5(a)	$ 685,133	$ 737,530
Efficiency Capital Corp. - note 5(b)	435,847	-
York Condominium Corporation, YCC #132 - note 5(c)	281,011	300,444
Toronto Solar Neighbourhoods Initiative - note 5(d)	107,237	145,311
120 Perth Avenue Housing Co-Operative - note 5(e)	45,224	-
Exhibition Place - note 5(f)	44,561	129,791
Grande Triomphe, TSCC #2033 - note 5(g)	17,687	119,877
M5V Tower, TSCC #2206 - note 5(h)	-	387,025
	1,616,700	1,819,978
Less current portion	(294,504)	(375,315)
	1,322,196	1,444,663
Less credit provision - (note 5(i))	(90,000)	(90,000)
	$ 1,232,196	$ 1,354,663

The loans receivable bear interest rates between 6% and 8% per annum and are closed loans with penalties charged for early repayment, except where otherwise noted.

(a) *Windmill Developments Green Condominium Loan*

In September 2015 TAF advanced $750,000 as a "Green Condo Loan" to Windmill Developments for a highly energy-efficient condominium project called Cathedral Hill in Ottawa. This loan matures in September 2025.

(b) *Efficiency Capital Corp Loan*

A secured subordinated debt facility (“TAF Debt Facility”) of up to $2 million was concluded during the year between TAF and Efficiency Capital Corporation (“ECC”), whereby TAF will provide subordinated debt financing to ECC for qualified ESPA retrofit projects. ECC can request project draws from the TAF Debt Facility, and repayments from TAF will commence upon project commissioning.

During the year ECC used the TAF debt Facility for a qualified ESPA energy retrofit project that was commissioned, the draw was for $442,143. This loan matures in May 2026. The loan may be repaid prior to maturity without bonus or penalty.

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

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

During 2012 TAF advanced $355,000 for the installation of energy efficiency measures in the YCC #132 (Old Sheppard) condominium building. This ”Green Condo Loan“ is secured by a general security agreement and matures in May 2018.

(d) *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 39 loans receivable under this program totaling $107,237, with the last loan scheduled to mature in April 2021.

(e) *120 Perth Avenue Housing Co-Operative Loan*

In January 2016 $48,526 was advanced to the Perth Avenue Housing Co-Operative for the installation of baseboard heaters which were not covered by their ESPA contract. The loan matures December 2026.

(f) *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 installments. The loan was fully repaid in January 2017.

(g) *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” was fully repaid in February 2017.

(h) *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” was fully repaid during the year.

(i) 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 is as follows:

	2016	2015
Opening balance	$ 90,000	$ 60,000
Charge for potential loan impairments	-	30,000
Ending balance	$ 90,000	$ 90,000

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. Marketable securities investments consist of pooled funds managed 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.

TAF's investment policy states that the investment limits as percentages of TAF's net asset value are as follows: direct investments up to 60%, publicly-traded equities up to 55%, private equities up to 5%, and a minimum of 20% in fixed income. TAF's shift to direct investments is being 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.

		2016	2015
Marketable investments at fair market value*			
Greenchip Global Equity Fund	Level 1	$ 3,073,369	$ 2,975,703
TD Emerald Canadian Bond Pooled Fund Trust	Level 1	1,850,571	3,146,751
TD Short Term Bond Fund, O-Series	Level 1	3,769,531	2,926,777
TD Emerald Canadian Short Term Investment Fund	Level 1	17,063,078	
Generation IM Global Equity A Shares A32	Level 1	16,613,239	15,494,978
Total investments at fair market value		42,369,788	24,544,209
Investment at amortized cost			
Limited Partnership Units and private equity shares at cost**		504,928	401,966
Total investment at amortized cost		504,928	401,966
Total investments		$ 42,874,716	$ 24,946,175

*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.

**The Limited Partnership Units are valued at cost as market value is not readily determinable. The Limited Partnership Units are comprised of InvestEco Capital Corporation ("ICC") Fund III focused on cleantech investments including technologies and services that mitigate air pollution and advance energy efficiency with a cost of $199,830, ICC's Sustainable Food Fund which invests in sustainable food production with a cost of $202,136 and Greensoil Building Innovation Fund which is focused on accelerating adoption of energy efficient technologies for large buildings. TAF's Board of Directors approved participation of up to $500,000 USD in the Fund of which $94,104 USD ($99,962 CAD) was advanced during the year. The remaining commitment will be advanced to the Fund based on future cash calls. TAF also owns 30% of the common shares of a private corporation which are valued at cost.

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 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 with Harbourfront Corporation (1990) which operates buildings called Harbourfront Centre.

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.

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

In 2014, 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-financed retrofit project are insured in the manner described above.

TAF earned $66,697 (2015 - $90,331) 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 $343,193 (2015 - $375,411). The ESPA contract has a term of up to 10 years.

(c) Energy Savings Performance Agreement with Rouge Valley Co-operative

During the year the above performance contract was finalized and installation of the retrofit measures was initiated with completion expected by mid-2016. At the end of the year the depreciated value of TAF's energy efficiency equipment installed to-date (with energy efficiency incentives yet to be received) totalled $352,899. This ESPA contract has a term of up to 10 years.

7. **ENERGY SAVINGS PERFORMANCE AGREEMENTS**- Cont'd.

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

During 2014 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 $76,614 (2015 - $49,730) 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 $198,238 (2015 - $225,073). The ESPA contract has a term of up to 7 years.

During the year, TAF entered into a non-recourse funding agreement with a third party to give access to a portion of the energy savings generated by this ESPA in return for a cash payment. The amount of cash received by TAF from the third party vendor in the fiscal year amounted to $170,548 and has been recognized as long-term debt on the statement of financial position as described in note 13. During the year, $11,859 has been paid to the third party.

(e) Energy Savings Performance Agreement with Perth Avenue Co-operative

In 2015 the above performance contract was finalized and the installation of the retrofit measures is nearing completion. At the end of the year the depreciated value of TAF's energy efficiency equipment (net of energy efficiency incentives received) installed in the building was $331,863. TAF earned $13,083 as its share of the energy savings during the installation phase. The ESPA contract has a term of up to 10 years.

During the year, TAF entered into a non-recourse funding agreement with a third party to give access to a portion of the energy savings generated by this ESPA in return for a cash payment. The amount of cash received by TAF from the third party vendor in the fiscal year amounted to $224,406 and has been recognized as as long-term debt on the statement of financial position as described in note 13. During the year, $7,906 has been paid to the third party.

(f) Energy Savings Performance Agreement with York Condo Corporation #128 - Four Winds

During the year TAF entered into an ESPA financing agreement with York Condominium Corporation #128 (Four Winds) to finance energy efficiency retrofit project for the building. As of year end, $1,978,070 after rebates (2015 - $491,408 before rebates) has been advanced to this building owner to install energy efficiency equipment with expected project commissioning in the first half of 2017.

Efficiency Capital Corporation (ECC) is an exclusive licensee of TAF's Energy Savings Performance Agreement (ESPA) program and as such can finance this project under TAF's Warehouse financing facility. Under the Warehouse facility TAF enters into ESPA agreements with building owner clients which ECC will administer for a fee. ECC has committed to refinance and purchase the ESPA transaction from TAF within two years after project commissioning.

(g) Energy Savings Performance Agreement with Toronto Community Housing Corporation (TCHC)

During the year project installation began with completion expected by mid-2017. At the year end the cost of TAF's energy efficiency equipment installed to date after rebates totalled $2,460,303 (2015 - $33,235). During the installation phase TAF earned $48,558 (2015 - $nil) as its share of the energy savings resulting from the retrofit. This ESPA contract has a term of up to 10 years.

8. GRANTS APPROVED AND PAYABLE

Grants approved by TAF's Board of Directors allocated to 2016 and balances payable are as follows:

	Allocated to 2016	Payable 2016	Payable 2015
City of Toronto Environment & Energy Division	$ -	$ -	$ 130,000
Environmental Defence Canada - part 1	150,000	150,000	125,000
Toronto Regional Conservation Authority	101,008	101,008	-
Plug'n Drive	-	-	70,000
University of Toronto	56,000	-	-
YMCA of Greater Toronto	30,000	10,000	-
Pembina Institute	99,325	51,000	-
Ontario Association of Architects	31,629	31,629	-
Toronto Environmental Alliance	-	-	74,823
	467,962	343,637	399,823
Grants approved in prior years	-	205,123	156,300
	$ 467,962	$ 548,760	$ 556,123

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 $30,000 of outstanding grants during the year (2015 - $65,000).

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.

	2016	2015
External funding brought forward from prior year	$ 1,285,509	$ 626,487
External funding received during the year	134,482	866,484
Total external funding committed to TAF	1,419,991	1,492,971
External funding recognized in the current year	847,286	220,557
Amortization of deferred capital contributions	(23,774)	(13,095)
	823,512	207,462
External funding carried forward into subsequent year	$ 596,479	$ 1,285,509

In 2013 the Federation of Canadian Municipalities ("FCM") approved a loan of up to $2,557,333 combined with a grant of up to $511,000 to TAF to be used for energy retrofits of seven Toronto Community Housing Corporation ("TCHC") buildings. The $511,000 grant to TAF has been reflected in these statements as external funding receivable and deferred revenue of $134,467 with $375,533 recognized as revenue in 2016.

In 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). At December 31, 2016, $156,871 is included in external funding receivable and deferred revenue.

In June 2015, The J.W. McConnell Family Foundation approved a $276,000 grant to TAF for the purpose of advancing best practices which can accelerate the implementation of retrofits and improve the energy performance of large buildings in various Canadian jurisdictions. The deferred portion of this committed funding of $259,127, which will be received via three additional payments in 2017, has been reflected in these financial statements as external funding receivable and deferred revenue of $139,008 with $120,119 recognized as revenue in 2016.

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, based on the long-term average rate of return as budgeted by TAF for its portfolio, to be recognized as income of the Fund. The changes in the fund were as follows:

	2016	2015
Opening balance and original fund principal	$ 32,130	$ 31,062
Income attributed from TAF	1,888	1,864
Expenditures	-	(796)
Closing balance	$ 34,018	$ 32,130

11. CREDIT FACILITY

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. Security has been provided using TAF's fixed income investment portfolio. The line of credit balance drawn as of December 31, 2016 was $320,000 (2015 - $nil).

12. DEFERRED CAPITAL CONTRIBUTIONS

Contributions received by TAF for the acquisition of equipment as part of an external funding project are being deferred and amortized over the life of the equipment (10 years).

	2016	2015
Balance, beginning of year	$ 176,532	$ 95,467
Capital contributions received	-	94,160
Amortization of deferred capital contributions	(23,774)	(13,095)
Closing balance	$ 152,758	$ 176,532

13. LONG-TERM DEBT

TAF has been approved for a loan in the amount of $2,557,333 from Federation of Canadian Municipalities ("FCM"), via the City of Toronto, for the purpose of financing eligible costs of green energy retrofits to social housing buildings owned by the Toronto Community Housing Corporation. The loan bears interest at 1.75% and is to be repaid in semi-annual installments over a period of nine years. As at December 31, 2016 the loan was drawn in the amount of $679,145 with principal repayments to commence in 2018.

During the year, TAF entered into a non-recourse funding agreement with a third party to give access to a portion of the energy savings generated by two ESPA agreements in return for a cash payment. The total amount of cash given to TAF from the third party vendor in the fiscal year amounted to $394,954 and has been recognized as long-term debt on the statement of financial position. The amounts repayable to the third party is described below:

	2016	2015
FCM loan - 1.75% interest, due May 20, 2026, repayable in blended semi-annual instalments of $75,461	$ 679,145	$ -
Third party loan A - 6% interest, due February 2, 2026, repayable in blended quarterly instalments of $7,906.	219,883	-
Third party loan B - 6% interest, due November 1, 2020, repayable in blended quarterly instalments of $11,859.	161,260	-
	1,060,288	-
Less current portion	57,359	-
	$ 1,002,929	$ -

Principal repayments over the next five years are estimated to be as follows:

2017	$ 132,820
2018	136,357
2019	140,113
2020	136,199
2021 and thereafter	514,799
	$ 1,060,288

14. RESTRICTED FUND

The restricted fund, Province of Ontario fund, is used to fund projects which reduce the green house gas emissions in the Greater Toronto Hamilton Area with funds received from the Province of Ontario in 2016 as part of a Transfer Payment Agreement.

15. STABILIZATION FUND

Any investment income from marketable securities which exceeds the long-term average rate of return assumed in the annual 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. At the end of 2015, TAF capped its Stabilization Fund to a maximum of 25% of its net asset value.

Based on the marketable securities portfolio results for 2016, the Stabilization Fund was reduced by $66,808 at the end of 2016. At the end of 2015, the Stabilization Fund was reduced to $7,119,109 due to the 25% net asset value cap.

16. **SALARY ALLOCATION TO PROGRAM DELIVERY**

TAF's practice is to allocate program-related costs of its core staff to the program delivery expenditure line. The percent of core staff costs allocated to the program delivery expenditure line in 2016 was 70% (2015 - 70%).

17. **CORPORATE EXPENSES**

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

18. **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.

	2016	2015
Receivable from CAP including accrued amounts	$ 10,850	$ 3,692
Payable to CAP including project and accrued amounts	(5,132)	(3,369)
Net owed by CAP to TAF (or owed by TAF to CAP)	$ 5,718	$ 323

19. **TAF BUDGET FISCAL YEAR 2016**

TAF is a self-supporting funding 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:

	2016 (in $ Thousands)	2015 (in $ Thousands)
Revenue		
Investment portfolio revenues*	$ 1,320	$ 1,215
Loan interest and transaction fees	420	390
External funding	550	650
Allocation from TAF's capital - if required	320	320
Total revenue	$ 2,610	$ 2,575
Program Delivery Expenditures		
Strategic programs	$ 1,425	$ 1,517
New and committed grants	500	500
Total programs and projects	1,925	2,017
Administration	685	558
Total expenditures	$ 2,610	$ 2,575

* Based on mark-to-market valuation assumption.

20. **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 either partial or no cash advances have been made as of the year end.

- Efficiency Capital Corporation (“ECC”) is an exclusive licensee of TAF’s Energy Savings Performance Agreement (“ESPA) program for the purpose of scaling up TAF’s financing method for energy retrofit projects in buildings. TAF has two financing commitments for the purpose of assisting ECC’s capital mobilization. Both financing commitments are revolving and thus can be repaid anytime if ECC can refinance using external capital:

- up to $2 million from TAF’s secured subordinated debt facility which finances ESPA contracts signed between ECC and building owner clients and under which $349,831 was advanced to the project described in Note 5 as of the year-end;
- up to $7 million from TAF’s “warehouse” facility which finances ESPA contracts signed between TAF and building owner clients which ECC is committed to buy from TAF within two years and under which $1,978,070 has been advanced to the project described in Note 7 as of the year-end.

- TAF has made a commitment to deploy USD $500,000 to the Arena LP Fund which is focused on investing in the transition to clean economy. The Fund has the following stated objectives which are aligned with TAF: (1) reduce energy consumption and water usage; (2) cut greenhouse gas emissions and contribute to slowing global warming; (3) generate clean energy; (4) cut air and water pollution and improve ecosystems and human health.

- During the year TAF awarded multi-year grants with amounts payable in 2017 and subsequent years, as follows:

- A grant was awarded to Toronto and Region Conservation Authority, of which $143,707 is committed for 2017 or subsequent years.
- A grant was awarded to Pembina Institute, of which $112,800 is committed for 2017 or subsequent years.
- A grant was awarded to Environmental Defence Canada, of which $150,000 is committed for 2017 or subsequent years.
- A grant was awarded to the University of Toronto, of which $84,000 is committed for 2017 or subsequent years.

During 2016 the following changes occurred to previously reported commitments; the Toronto Community Housing Corporation (TCHC) became an ESPA project as outlined in Note 7 and TAF rescinded its offer to provide $1 million of vendor financing to LegendPower.

21. **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:

	2016	2015
Assets		
Bank	$ 5,107	$ 1,242
Liabilities		
Accounts Payable to TAF	$ 3,931	$ -
Due to TAF	293,631	293,631
	297,562	293,631
Equity		
Capital	1	1
Deficit, opening	(292,390)	(292,330)
Net loss	(66)	(60)
Deficit, closing	(292,456)	(292,390)
	(292,455)	(292,389)
	$ 5,107	$ 1,242

	2016	2015
Expenses		
Bank charges	$ 66	$ 60
Net loss	$ (66)	$ (60)