CONSOLIDATED FINANCIAL STATEMENTS

For

TORONTO ATMOSPHERIC FUND

For the year ended

DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors for the

TORONTO ATMOSPHERIC FUND AND THE CITY OF TORONTO

Opinion

We have audited the consolidated financial statements of the Toronto Atmospheric Fund (the Organization), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations - City of Toronto fund, remeasurement gains and losses - City of Toronto fund, the consolidated statements of operations - Province of Ontario fund, remeasurement gains and losses - Province of Ontario fund, changes in fund balances and cash flows for the year the ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

In preparing the consolidated financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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 consolidated financial statements are free from material misstatement.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Welch LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 30, 2019.

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 83,283	$ 821,681
Accounts receivable	413,626	403,368
External funding receivable	932,164	1,428,469
Loans receivable - current portion (note 5)	121,445	119,129
Prepaid expenses	59,673	3,837
	1,610,191	2,776,484
CAPITAL ASSETS (note 4)	6,078,963	6,463,590
LOANS RECEIVABLE (note 5)	704,168	797,208
INVESTMENTS HELD IN TRUST BY THE CITY OF TORONTO (note 6)	44,032,766	44,722,588
	$ 52,426,088	$ 54,759,870
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Line of credit (note 11)	$ 10,000	$ -
Accounts payable and accrued liabilities	691,309	1,123,760
Grants payable (note 8)	1,120,528	963,896
Current portion of long-term debt (note 12)	376,435	325,528
Deferred revenue (note 9)	647,440	1,071,162
Funds held in trust Dan Leckie Fund (note 10)	35,945	35,945
	2,881,657	3,520,291
LONG-TERM DEBT (note 12)	2,573,943	2,555,589
	5,455,600	6,075,880
FUND BALANCES		
City of Toronto fund - externally restricted	25,301,446	25,386,419
Province of Ontario fund - externally restricted	16,084,032	17,186,199
Stabilization funds - internally restricted (note 13)	5,585,010	6,111,372
	46,970,488	48,683,990
	$ 52,426,088	$ 54,759,870

Commitments (note 17)

Approved by the Board:

S. Oldendahl .... Director

.... Director

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2018

	Internally restricted		Externally restricted			
	Stabilization Fund Toronto (note 13)	Stabilization Fund Ontario (note 13)	City of Toronto Fund	Province of Ontario Fund	Total 2018	Total 2017
Fund balances, beginning of year	$ 6,111,372	$ -	$ 25,386,419	$ 17,186,199	$ 48,683,990	$ 45,220,390
Excess of revenue over expenses (expenses over revenue)	-	-	(997,300)	(1,476,283)	(2,473,583)	3,015,714
Net remeasurement gains	-	-	385,965	374,116	760,081	447,886
Stabilization transfer	(526,362)	-	526,362	-	-	-
Fund balances, end of year	$ 5,585,010	$ -	$ 25,301,446	$ 16,084,032	$ 46,970,488	$ 48,683,990

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES - CITY OF TORONTO FUND

YEAR ENDED DECEMBER 31, 2018

	2018	2017
Accumulated remeasurement gains, beginning of year	$ 10,312,779	$ 10,736,670
Changes in unrealized gains (losses) attributed to:		
Foreign exchange	750,580	(4,949,870)
Equity instruments	(364,615)	4,525,979
Net remeasurement gains (losses)	385,965	(423,891)
Accumulated remeasurement gains, end of year	$ 10,698,744	$ 10,312,779

(See accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS - CITY OF TORONTO FUND

YEAR ENDED DECEMBER 31, 2018

	2018	2017
Revenue		
Investment income from marketable securities, net	$ 250,970	$ 4,911,595
Investment income from direct investments, net	139,549	99,848
External funding (note 9)	374,366	617,063
Energy Savings Performance Agreement revenues (note 7)	824,165	964,230
Sundry	19,876	1,343
	1,608,926	6,594,079
Expenses		
Program delivery	1,155,875	1,439,854
Grants approved, net (note 8)	356,786	535,295
Salaries and employee benefits	898,519	1,030,889
Salaries allocated to program delivery (note 14)	(783,049)	(973,635)
Corporate expenses (note 15)	252,630	227,817
Amortization	725,465	646,618
	2,606,226	2,906,838
Excess of revenue over expenses (expenses over revenue)	$ (997,300)	$ 3,687,241

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES - PROVINCE OF ONTARIO FUND

YEAR ENDED DECEMBER 31, 2018

	2018	2017
Accumulated remeasurement gains (losses), beginning of year	$ 763,362	$ (108,415)
Changes in unrealized gains (losses) attributed to:		
Foreign exchange	512,308	(200,647)
Equity instruments	(138,192)	1,072,424
Net remeasurement gains	374,116	871,777
Accumulated remeasurement gains, end of year	$ 1,137,478	$ 763,362

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF OPERATIONS - PROVINCE OF ONTARIO FUND

YEAR ENDED DECEMBER 31, 2018

	2018	2017
Revenue		
Investment income (loss) from marketable securities, net	$ (132,876)	$ 132,728
External funding (note 9)	154,836	181,239
	21,960	313,967
Expenses		
Program delivery	478,880	502,308
Grants approved, net (note 8)	619,557	283,664
Salaries and employee benefits	556,915	360,925
Salaries allocated to program delivery (note 14)	(299,877)	(223,844)
Corporate expenses (note 15)	142,768	62,441
	1,498,243	985,494
Excess of expenses over revenue	$ (1,476,283)	$ (671,527)

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue):		
City of Toronto fund	$ (997,300)	$ 3,687,241
Province of Ontario fund	(1,476,283)	(671,527)
	(2,473,583)	3,015,714
Adjustments for:		
Recovery on credit losses	(70,000)	-
Amortization	725,465	646,618
Provision (recovery) on ESPAs	190,000	(75,436)
Provision on investment impairment	61,993	-
	(1,566,125)	3,586,896
Increase (decrease) resulting from changes in:		
Accounts receivable	(10,258)	1,297,197
External funding receivable	496,305	(570,771)
Prepaid expenses	(55,836)	(3,005)
Accounts payable and accrued liabilities	(432,451)	(3,475,792)
Grants payable	156,632	415,136
Deferred revenue	(423,722)	450,908
	(1,835,455)	1,700,569
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in capital assets	(530,838)	(1,593,664)
Funds on deposit with the City of Toronto:		
Reinvestment of investment gains	(4,536,838)	(5,462,913)
Withdrawals (purchases) of investments, net	5,924,748	4,062,927
Income attributed to Dan Leckie fund	-	1,927
Repayments from loans receivable	160,724	610,363
	1,017,796	(2,381,360)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from (repayments of) line of credit	10,000	(320,000)
Advances of long-term debt	420,563	1,878,188
Repayments of long-term debt	(351,302)	(57,359)
	79,261	1,500,829
INCREASE (DECREASE) IN CASH	(738,398)	820,038
CASH AT BEGINNING OF YEAR	821,681	1,643
CASH AT END OF YEAR	$ 83,283	$ 821,681

(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 objectives, 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, approved by the City Council 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 Area ("GTHA"). 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.

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 to position the GTHA to achieve significant reductions in greenhouse gas emissions.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The consolidated financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards for Government Not-for-Profit Organizations as issued by the Public Sector Accounting Board.

(b) Basis of presentation

These consolidated financial statements include the accounts of both original funds provided by the City of Toronto and the Province of Ontario. Each of the funds are accounted for separately, using fund accounting as the basis of presentation. A proportionality ratio based on the audited net asset value of each fund is established annually in order to allocate proceeds of the funds proportionately, where applicable. External funding is received and used proportionately. These consolidated financial statements also include TAF's wholly-owned subsidiary, CAIT Ventures Inc. ("CVI"). The financial statements of this subsidiary are summarized in note 19.

(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. 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 consolidated 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) Volunteers

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 consolidated financial statements.

(e) Financial assets and liabilities

Initial measurement

TAF recognizes a financial asset or a financial liability on the consolidated 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 investments held in trust 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 consolidated 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. Changes in unrealized gains or losses are recorded in the consolidated 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 in the year. Approved grants which are in effect across several years are only recorded as current liabilities and expenditures in the year they become payable.

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 the year the grant is rescinded.

(j) Capital assets

Capital assets are recorded at cost and contributed capital assets are recorded at fair value at the date of contribution. 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. Office improvements is amortized using the straight line method over five years with half year rates applying in the year of acquisition.

(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.

3. **FINANCIAL INSTRUMENTS**

The investment activities undertaken by TAF expose it to a variety of financial risks described below:

Liquidity risk

Liquidity risk is the risk that the entity will not be able to meet its cash flow obligations as they come due. TAF 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.

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 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 receivable is mitigated through a financial approval process, the use of general security agreements and pledges of assets, and insurance.

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

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 financial assets and liabilities 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 prevailing exchange rate. At December 31, 2018, the cash and investments held denominated in US dollars were, $30,112 and $23,033,116, respectively (2017 - $51,746 and $22,065,140).

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. TAF 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 investments in a variety of equities. Risk and volatility of investment returns are mitigated through diversification of investments. To minimize market risks, TAF's investment policy operates within the constraints established by the City. 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:

	2018		2017	
	Cost	Accumulated amortization	Cost	Accumulated amortization
ESPA capital assets (note 7)	$ 7,730,871	$ 1,695,636	$ 7,459,731	$ 996,141
Office improvements	259,698	25,970	-	-
	7,990,569	$ 1,721,606	7,459,731	$ 996,141
Accumulated amortization	1,721,606		996,141	
	6,268,963		6,463,590	
Less provisions related to ESPAs	(190,000)		-	
	$ 6,078,963		$ 6,463,590	

5. LOANS RECEIVABLE

Loans receivable consist of the following:

	2018	2017
(a) Cathedral Hill (Windmill Developments), OCLCC No. 973	$ 567,162	$ 628,459
(b) Old Sheppard, YCC No. 132	237,830	260,174
(c) Toronto Solar Neighbourhoods Initiative	40,621	76,057
(d) 120 Perth Avenue Housing Co-Operative	-	41,647
	845,613	1,006,337
Less current portion	(121,445)	(119,129)
	724,168	887,208
(e) Allowance for credit provision	(20,000)	(90,000)
	$ 704,168	$ 797,208

As at December 31, 2018 and 2017, all loans receivable pertains to the City of Toronto fund.

(a) *Ottawa Carleton Leasehold Condominium Corporation ("OCLCC") No. 973*

In September 2015, TAF advanced $750,000 as a "Green Condo Loan" to Cathedral Hill (Windmill Developments) in care of OCLCC No. 973 for a highly energy-efficient condominium project called Cathedral Hill in Ottawa. This loan is repayable in monthly installments of $9,048, principle and interest, bearing interest at 8% per annum, maturing September 2025.

(b) *York Condominium Corporation ("YCC") No. 132*

In 2012, TAF advanced $355,000 for the installation of energy efficiency measures in the YCC No. 132 (Old Sheppard) condominium building. This "Green Condo Loan" is repayable in monthly installments of $3,321, principle and interest, bearing interest at 7% per annum, maturing September 2026.

(c) *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 38 loans receivable under this program, with the last loan scheduled to mature in April 2021. The loans bear interest at 7.25% per annum.

(d) *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. The loan was fully repaid in 2018.

(e) Allowance for credit losses

Management makes an assessment of the collectability of each loan receivable at year end and establishes an allowance for potential credit losses. Any write-offs, net of recoveries, will be deducted from this allowance. Allowance for impaired loans is as follows:

	2018	2017
Balance, beginning of year	$ 90,000	$ 90,000
Reduction in credit provision	(70,000)	-
Closing balance	$ 20,000	$ 90,000

6. INVESTMENTS HELD IN TRUST BY THE CITY OF TORONTO

In accordance with the TAF Act, monies that are not immediately required are in the custody of the Treasurer of the City of Toronto ("City Treasurer"). 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 equity instruments are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values. 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.

Marketable investments at fair market value*	2018 Toronto	2018 Ontario	2018 Total	2017 Total
TD Emerald Canadian Bond Pooled Fund Trust	$ 630,848	$ 494,507	$ 1,125,355	$ 1,898,030
TD Short Term Bond Fund, O-Series	788,130	587,172	1,375,302	3,784,153
TD Emerald Canadian Short Term Investment Fund	6,525,940	6,485,347	13,011,287	11,132,880
Greenchip Global Equity Fund**	2,311,658	1,388,194	3,699,852	4,031,037
Generation IM Global Equity A Shares A32	13,888,542	8,029,433	21,917,975	20,924,080
NEI Environmental Leaders Fund	691,681	413,480	1,105,161	1,178,000
Dimensional Global Sustainability Core Equity Fund	702,352	412,789	1,115,141	1,141,060
Total investments at fair market value	25,539,151	17,810,922	43,350,073	44,089,240
Limited partnership units and private equity shares at cost***	596,797	85,896	682,693	633,348
Total investments	$ 26,135,948	$ 17,896,818	$ 44,032,766	$ 44,722,588

*Investments reported at fair market value are marketable securities held in trust by the City of Toronto. As at December 31, 2018 and 2017, all marketable securities are classified as Level 1.

**The Greenchip Global Equity Fund 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.

***Limited partnership units are valued at cost as market value is not readily determinable. The Limited partnership units are comprised of (a) 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, (b) ICC’s Sustainable Food Fund which invests in sustainable food production with a cost of $202,136, and (c) 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 $251,224 USD ($342,720 CAD) was advanced to date. The remaining commitment will be advanced to the Fund based on future cash calls. During the year, an impairment loss of $61,993 was recorded.

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. The equipment installed in the building under an ESPA is the property of TAF and is part of TAF’s capital assets. At the end of the agreement, ownership of the equipment is transferred to the building owner.

Efficiency Capital Corporation ("ECC") was an exclusive licensee of TAF’s ESPA program. During 2018, TAF entered into an agreement with ECC and Efficiency Capital (EC) Inc. ("EC Inc."), in which ECC transferred the exclusive license of the ESPA program to EC Inc.. EC Inc. is the exclusive licensee of TAF's ESPA program and can finance projects under TAF’s warehouse financing facility ("Warehouse Facility"). Under the Warehouse Facility, TAF enters into ESPAs with building owner clients which EC Inc. will administer for a fee. EC Inc. is committed to refinance and purchase the ESPA from TAF within two years after project commissioning.

TAF entered into an agreement with EC Inc., which grants TAF the right to purchase a limited number of shares of EC Inc. at a discount at a future date upon the completion of certain milestone events. As at December 31, 2018, such events have not yet occurred, and the value of the rights has not been included in these consolidated financial statements.

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.

As at December 31, 2018 and 2017, all ESPA pertains to the City of Toronto Fund.

As at December 31, 2018, there were 9 (2017 - 9) active ESPA projects, of which 8 of them had commissioned and active, and 1 is under construction. The total depreciated value of the ESPA capital assets, net of rebates and incentives amounts to $6,035,235 (2017 - $6,463,590). The ESPAs have a term ranging from 7 to 10 years.

The cash flow from 4 active ESPA projects are pledged as security for third party loans as discussed in note 12. The total revenue from those active ESPA projects amounted to $184,785 (2017 - $133,220).

8. GRANTS APPROVED AND PAYABLE

Grants are funded from the City of Toronto and/or Province of Ontario funds based on the project and proponent's characteristics. Grants approved by TAF's Board of Directors and paid during the year are as follows:

	2018	2017
Balance, beginning of year	$ 963,896	$ 548,760
Grants approved - City of Toronto fund	470,586	535,295
Grants approved - Province of Ontario fund	619,557	283,664
Grants rescinded during the year	(113,800)	(3,500)
Grants paid during the year	(819,711)	(400,323)
Closing balance	$ 1,120,528	$ 963,896

9. DEFERRED REVENUE

External revenues received by TAF related to project expenditures in the future are deferred and recognized as revenue in the year the expenditures are incurred.

	2018	2017
External funding brought forward from prior year	$ 1,071,162	$ 620,254
External funding received during the year	105,480	1,249,210
Total external funding committed to TAF	1,176,642	1,869,464
External funding recognized - City of Toronto fund	374,366	617,063
External funding recognized - Province of Ontario fund	154,836	181,239
	529,202	798,302
External funding carried forward into subsequent year	$ 647,440	$ 1,071,162

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 undertaken by TAF. 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:

	2018	2017
Opening balance and original fund principal	$ 35,945	$ 34,018
Income attributed from TAF	-	1,927
Closing balance	$ 35,945	$ 35,945

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 $3.0 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, 2018 was $10,000 (2017 - $nil).

12. LONG-TERM DEBT

In 2013, TAF was approved for a loan from Federation of Canadian Municipalities ("FCM"), via the City, for the purpose of financing eligible costs of green energy retrofits to social housing buildings owned by the Toronto Community Housing Corporation. The loan is to be repaid over a period of nine years, with principal repayments commencing in 2018.

	2018	2017
FCM loan - 1.75% interest, due May 20, 2026, repayable in blended semi-annual installments of $154,111, secured by the investment portfolio	$ 2,292,700	$ 2,557,333
Third party loan A - 6% interest, due February 2, 2026, repayable in blended quarterly installments of $7,906, secured by a portion of the future cash flows from an ESPA project	181,153	201,097
Third party loan B - 6% interest, due November 1, 2020, repayable in blended quarterly installments of $11,859, secured by a portion of the future cash flows from an ESPA project	81,735	122,687
Third party loan C - 4% interest, due March 2, 2026, repayable in blended quarterly installments of $9,436, secured by a portion of the future cash flows from an ESPA project	236,410	-
Third party loan D - 5% interest, due February 1, 2028, repayable in blended quarterly installments of $2,689, secured by a portion of the future cash flows from an ESPA project	79,190	-
Third party loan E - 5% interest, due February 1, 2028, repayable in blended quarterly installments of $2,689, secured by a portion of the future cash flows from an ESPA project	79,190	-
	2,950,378	2,881,117
Less current portion	376,435	325,528
	$ 2,573,943	$ 2,555,589

Principal repayments over the next five years and thereafter are as follows:

2019	$ 376,435
2020	379,125
2021	349,034
2022	357,453
2023 and thereafter	1,488,331
	$ 2,950,378

For those thirdly party loans secured by cash flows from an ESPA project, TAF's total liability is limited to the lesser of the principle or the secured cash flow of the related ESPA. Any default of the secured ESPA by the building owner would result in a revaluation of the future cash outflows of the loan.

13. STABILIZATION FUND

In keeping with best practice for endowments, the Stabilization 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.

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 may be withdrawn from the Stabilization Fund. TAF caps its Stabilization Fund to a maximum of 25% of its net asset value.

The Toronto and Ontario funds' marketable securities portfolio yielded returns below projections, resulting in a reduction of $526,362 from the Toronto Stabilization Fund (2017 - $940,929), and no respective reduction in the Ontario Stabilization Fund since it was established in 2017 with a balance of zero.

14. SALARY ALLOCATION TO PROGRAM DELIVERY

TAF's practice is to allocate the 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 was 70% (2017 - 70%).

15. CORPORATE EXPENSES

Corporate expenses include activities related to communications, governance, organizational development and administration. TAF also shares its premises and certain office services with Clean Air Partnership ("CAP"), the related costs are allocated between TAF and CAP based on utilization. CAP is a registered charity which was also created by the TAF Act.

16. TAF BUDGET FISCAL YEAR 2018

TAF is a self-sustaining endowment fund, and it does not draw on the tax base of the City of Toronto or the Province of Ontario. However, as an agency of the City, TAF submits its consolidated annual operating budget to the City of Toronto for approval. TAF's "net zero" budget submission to the City was as follows:

	2018 (in $ Thousands)	2017 (in $ Thousands)
Revenue		
Investment portfolio revenues*	$ 2,190	$ 2,090
Loan interest and transaction fees	525	331
External funding	500	400
Allocation from TAF's capital - if required	1,183	887
Total revenue	$ 4,398	$ 3,708
Program delivery expenditures		
Strategic programs	$ 2,067	$ 1,894
New and committed grants	900	806
Total programs and projects	2,967	2,700
Administration	1,431	1,008
Total expenditures	$ 4,398	$ 3,708

* Based on mark-to-market valuation assumption.

17. COMMITMENTS AND CONTINGENCIES

In the course of carrying out its mandate, TAF issues financing commitment letters to prospective borrowers or prospective 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.

(a) EC Inc. is an exclusive licensee of TAF's 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 EC Inc.'s capital mobilization. Both financing commitments are revolving and thus can be repaid anytime if EC Inc. can refinance using external capital:

- up to $2 million from TAF's secured subordinated debt facility which finances ESPAs signed between EC Inc. and building owner clients;
- up to $7 million from the Warehouse Facility which finances ESPAs signed between TAF and building owner clients which EC Inc. is committed to buy from TAF within two years.

18. COMPARATIVE FIGURES

Comparative figures have been reclassified where necessary to conform to the presentation adopted in the current year.

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:

	2018	2017
Assets		
Cash	$ 24,080	$ 3,179
Liabilities		
Due to TAF	$ 316,602	$ 295,634
Equity		
Capital	1	1
Deficit	(292,523)	(292,456)
	$ 24,080	$ 3,179

	2018	2017
Expenses		
Bank charges	$ 67	$ 66
Net loss	$ (67)	$ (66)