RE:TA8.3

Attachment 1

CONSOLIDATED FINANCIAL STATEMENTS

For

TORONTO ATMOSPHERIC FUND

For the year ended

DECEMBER 31, 2015

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, 2015, 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 consolidated financial statements present fairly, in all material respects, the financial position of Toronto Atmospheric Fund as at December 31, 2015 and the results of its operations, remeasurment 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
To be determined.

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash	$ 1,649,799	$ 1,406,982
Accounts receivable	653,148	387,339
External funding receivable	1,003,316	509,236
Loans receivable - current portion (note 5)	375,315	915,201
Deferred expenses (note 2(k))	34,067	-
	3,715,645	3,218,758
CAPITAL ASSETS (note 4)	1,856,518	763,909
LOANS RECEIVABLE (note 5)	1,354,663	1,033,372
INVESTMENTS HELD IN TRUST BY THE CITY OF TORONTO (note 6)	24,949,175	22,480,465
	$ 31,876,001	$ 27,496,504
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,231,894	$ 259,255
Grants payable (note 8)	556,123	324,850
Deferred revenues (note 9)	1,285,509	626,487
Funds held in trust Dan Leckie Fund (note 10)	32,130	31,062
Refundable deposits	117,378	67,750
Deferred capital contributions (note 12)	176,532	95,467
	3,399,566	1,404,871
FUND BALANCES		
Operating fund	18,486,111	17,918,318
Grant fund	-	1,023,833
Stabilization fund (note 13)	9,990,324	7,149,482
	28,476,435	26,091,633
	$ 31,876,001	$ 27,496,504

Commitments and contingencies (Note 18)

Approved by the Board:

. . . . Director

. . . . Director

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2015

	Operating Fund	Grant Fund (note 2(i))	Stabilization Fund (note 13)	Total 2015	Total 2014
Fund balances, beginning of year	$ 17,918,318	$ 1,023,833	$ 7,149,482	$ 26,091,633	$ 24,478,582
Excess of revenue over expenses (expenses over revenue)	(425,328)	-	-	(425,328)	(31,186)
Net remeasurement gains (losses)	2,810,130	-	-	2,810,130	1,644,237
Interfund transfers	1,023,833	(1,023,833)	-	-	-
Stabilization contribution	(2,840,842)	-	2,840,842	-	-
Fund balances, end of year	$ 18,486,111	$ -	$ 9,990,324	$ 28,476,435	$ 26,091,633

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES

YEAR ENDED DECEMBER 31, 2015

	2015	2014
Accumulated remeasurement gains, beginning of year	$ 6,628,644	$ 4,984,407
Unrealized gains (losses) attributed to:		
Foreign exchange	2,775,817	1,322,272
Equity instruments	778,730	1,125,806
	3,554,547	2,448,078
Amounts reclassified to the statement of operations:		
Foreign exchange	(302,897)	(223,961)
Portfolio Investments	(441,520)	(579,880)
	(744,417)	(803,841)
Net remeasurement gains	2,810,130	1,644,237
Accumulated remeasurement gains, end of year	$ 9,438,774	$ 6,628,644

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2015

	2015	2014
Revenues		
Investment income from marketable securities, net (note 2(f))	$ 1,273,439	$ 1,509,504
Investment income from direct investments -		
Loan interest and fees, net	232,040	232,231
External funding recognized (note 9)	207,462	332,113
Sundry	3,855	1,934
	1,716,796	2,075,782
Expenses		
Program delivery	1,163,143	1,237,109
Grants approved (note 8)	469,823	406,200
Less: rescinded grants	(65,000)	(21,738)
Salaries and employee benefits	803,123	803,735
Salaries allocated to program delivery (note 14)	(550,799)	(562,615)
Corporate expenses (note 15)	143,691	152,942
Amortization	178,143	80,820
Loss on sale of equipment	-	10,515
	2,142,124	2,106,968
Excess of expenses over revenue	$ (425,328)	$ (31,186)

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of expenses over revenue	$ (425,328)	$ (31,186)
Adjustments for:		
Grants approved	469,823	406,200
Less: rescinded grants	(65,000)	(21,738)
Provision for credit losses	30,000	30,000
Amortization	178,143	80,820
Provision on ESPA contracts	35,534	14,700
Loss on sale of equipment	-	10,515
Amortization of deferred capital contributions	(13,095)	(5,025)
	210,077	484,286
Increase (decrease) resulting from changes in:		
Accounts receivable	(265,809)	(175,088)
External funding receivable	(494,080)	(64,621)
Loans receivable - current portion	539,886	(558,216)
Deferred expenses	(34,067)	85,748
Loans receivable	(351,291)	918,828
Accounts payable and accrued liabilities	972,639	108,030
Grants payable	(173,550)	(348,347)
Deferred revenues	659,022	(40,058)
Refundable deposits	49,628	12,500
Cash flows from (used in) operating activities	1,112,455	423,062
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in capital assets	(1,306,286)	(251,585)
Proceeds from sale of capital assets	-	58,629
Funds on deposit with the City of Toronto:		
Reinvestment of investment gains	(1,137,829)	(1,439,231)
Withdrawals	1,479,249	1,945,380
Dan Leckie fund		
Income attributed	1,068	816
Cash flows from (used in) investing activities	(963,798)	314,009
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from (repayments to) credit facility	-	(160,000)
Capital contributions received	94,160	100,492
Cash flows from (used in) financing activities	94,160	(59,508)
INCREASE IN CASH	242,817	677,563
CASH AT BEGINNING OF YEAR	1,406,982	729,419
CASH AT END OF YEAR	$ 1,649,799	$ 1,406,982

(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.

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 direct investments 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.

On February 25, 2016, the Ontario government announced in the provincial budget its intention to increase TAF's endowment by $17 million. The terms of this potential additional funding are being negotiated between the City of Toronto and the Province of Ontario.

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.

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, 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.

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 the approved grants which are payable beyond one year are disclosed as contingent liabilities.

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 where any year's unspent budget amount and rescissions are transferred to the Grant Fund, an internally restricted reserve fund. During 2015, TAF decided to consolidate its Grant Fund into its Operating Fund by December 31, 2015. The Grant Fund balance consolidated with the Operating Fund totalled $1,023,833 and is reflected in the Statement of Changes in Fund Balances as an intefund transfer. 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 are amortized using the straight line method over four years with half year rates applying in the year of acquisition. Computer software is expensed in the year purchased. 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 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 13 provides the amounts allocated or withdrawn from the Stabilization Fund for the two most recent fiscal years.

3. FINANCIAL INSTRUMENTS

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

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).

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.

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, 2015 the cash and investments held denominated in US dollars were, translated in Canadian dollars, $775,497 and $15,494,978, respectively (2014 - $273,061 and $13,546,768).

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.

4. CAPITAL ASSETS

Capital assets consist of the following:

	2015		2014	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Computer/office equipment	$ 37,992	$ 37,992	$ 37,992	$ 35,953
Software	43,349	43,349	43,349	18,964
Energy efficiency equipment - note 7	2,166,691	246,739	860,405	95,020
	2,248,032	$ 328,080	941,746	$ 149,937
Accumulated amortization	328,080		149,937	
	1,919,952		791,809	
Less provisions related to ESPA contracts	(63,434)		(27,900)	
	$ 1,856,518		$ 763,909	

5. LOANS RECEIVABLE

Loans receivable consist of the following:

	2015	2014
Windmill Developments - note 5(h)	$ 737,530	$ -
M5V Tower, TSCC #2206 - note 5(b)	387,025	460,559
York Condominium Corporation, YCC #132 - note 5(c)	300,444	318,567
Toronto Solar Neighbourhoods Initiative - note 5(f)	145,311	191,858
Exhibition Place - note 5(e)	129,791	210,081
Grande Triomphe, TSCC #2033 - note 5(d)	119,877	215,632
Pure Energies 7711565 Canada Inc. - note 5(a)	-	590,268
Toronto Artscape Inc. - note 5(g)	-	21,608
	1,819,978	2,008,573
Less current portion	(375,315)	(915,201)
	1,444,663	1,093,372
Less credit provision - (note 5(i))	(90,000)	(60,000)
	$ 1,354,663	$ 1,033,372

(a) Pure Energies 7711565 Canada Inc. Loans and warrants

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") for the installation of 34 residential roof top solar photovoltaic systems under the Ontario Power Authority's MicroFIT program.

During 2014 TAF received notice that SPEI was sold which triggered full repayment of the loan to TAF on February 20, 2015. In addition the sale enabled TAF to exercise its warrants resulting in TAF receiving warrants proceeds of $319,645 in 2014 which was 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 two years following the sale. The likelihood of SPEI meeting the performance milestones and conditions is unknown and as a result this additional potential investment income has not been recognized in these financial statements.

There were no cash receipts from exercised warrants during 2015. Subsequent to year-end a total of $136,751 was received by TAF from the trustee.

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

(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 and matures in March 2020.

(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 2018.

(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 and matures in February 2017.

(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.

(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 39 loans receivable under this program totalling $145,311, with the last loan is scheduled to mature in April 2021.

(g) Toronto Artscape Inc.

In August 2003 TAF loaned $280,000 to Toronto Artscape Inc. which was secured by a collateral mortgage covering the renovation assets. The loan was repaid in August 2015 as scheduled.

(h) 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.

Interest rates

The above loans and contracts receivable bear interest rates between 6% and 8% per annum.

(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:

	2015	2014
Opening balance	$ 60,000	$ 30,000
Charge for potential loan impairments	30,000	30,000
Ending balance	$ 90,000	$ 60,000

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.

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 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.

		2015	2014
Marketable investments at fair market value*			
Greenchip Global Equity Fund	Level 1	$ 2,975,703	$ 2,642,275
TD Emerald Canadian Bond Pooled Fund Trust	Level 1	3,146,751	3,039,718
TD Short Term Bond Fund, O-Series	Level 1	2,926,777	2,846,738
Generation IM Global Equity A Shares A32	Level 1	15,494,978	13,546,768
Total investments at fair market value		24,544,209	22,075,499
Investment at amortized cost			
Limited Partnership Units at cost**		404,966	404,966
Total investment at amortized cost		404,966	404,966
Total investments		$ 24,949,175	$ 22,480,465

*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.

**TAF's Board of Directors approved two private equity investments of approximately $200,000 each in limited partnership units (LP Units): (1) InvestEco Capital Corporation ("ICC") Fund III focused on cleantech investments including technologies and services that mitigate air pollution and advance energy efficiency; (2) ICC's Sustainable Food Fund. The above LP Units are valued at cost as market value is not readily determinable.

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.

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 retrofit project are insured in the manner described above.

TAF earned $90,331 (2014 - $60,000) 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 $375,411 (2014 - $357,609). The ESPA contract has a term of up to 10 years and TAF's share of the projected energy savings for the remaining balance of the contract is estimated at $507,000.

7. ENERGY SAVINGS PERFORMANCE AGREEMENTS- Cont'd.

(c) 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 $49,730 (2014 - $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 $225,073 (2014 - $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 $294,377.

(d) Energy Savings Performance Agreement with Perth Avenue Co-op

During the year the above performance contract was finalized and the project's installation 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 duration term of up to 10 years and TAF's share of the projected energy savings from this project is estimated at $432,000.

(e) Energy Savings Performance Agreement with Rouge Valley Co-op

During the year the above performance contract was finalized with installation 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 duration term of up to 10 years and TAF's share of the projected energy savings from this project is estimated at $577,000.

(f) Energy Savings Performance Agreement with York Condo #128

During the year the above performance contract was finalized with installation 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) was $491,408. This ESPA contract has a duration term of up to 10 years and TAF's share of the projected energy savings from this project is estimated at $3,051,000.

8. GRANTS APPROVED AND PAYABLE

Grants approved by TAF's Board of Directors allocated to 2015 and balances payable are as follows:

	Allocated to 2015	Payable 2015	Payable 2014
City of Toronto Environment & Energy Division	$ 130,000	$ 130,000	$ -
Environmental Defence Canada – part 1	150,000	125,000	125,000
Evergreen	-	-	15,000
MaRS	20,000	-	-
Plug'n Drive	70,000	70,000	-
Ryerson University - Centre for Urban Energy	-	-	19,050
Tides Canada (Project Neutral)	-	-	15,000
Toronto Environmental Alliance	99,823	74,823	-
	469,823	399,823	174,050
Grants approved in prior years	-	156,300	150,800
	$ 469,823	$ 556,123	$ 324,850

8. GRANTS APPROVED AND PAYABLE - Cont'd.

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 $65,000 of outstanding grants during the year (2014 - $21,738) .

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:

	2015	2014
External funding brought forward from prior year	$ 626,487	$ 666,545
External funding received during the year	866,484	292,055
Total external funding committed to TAF	$ 1,492,971	$ 958,600
External funding recognized in the current year	194,367	327,088
Amortization of deferred capital contributions	13,095	5,025
	207,462	332,113
External funding carried forward into subsequent year	$ 1,285,509	$ 626,487

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. The deal had been signed in 2015 by TAF, the City of Toronto and FCM. The engineering firm selected by the client commenced the installation phase of the project in late 2015. The $511,000 grant has been reflected in these statements as external funding receivable and deferred revenue.

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 had been reflected in financial statements as at December 31, 2014 in external funding receivable and deferred revenue. Of the balance recognized in 2014, $238,021 is included in external funding receivable and deferred revenue at December 31, 2015.

In June 2015, The J.W. McConnell Family Foundation approved its $276,000 grant to TAF via four installments to be advanced by mid-2017 for the purpose of advancing best practices which improve the energy performance of large buildings in various Canadian jurisdictions. The first installment of $100,000 was received during 2015. The deferred portion of this committed funding of $259,127 has been reflected in these financial statements as 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:

	2015	2014
Opening balance and original fund principal	$ 31,062	$ 30,246
Income attributed from TAF	1,864	1,646
Expenditures	(796)	(830)
Closing balance and original fund principal	$ 32,130	$ 31,062

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. Security has been provided using TAF's fixed income investment portfolio. The line of credit was not drawn as of December 31, 2015 or December 31, 2014.

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).

	2015	2014
Balance, beginning of year	$ 95,467	$ -
Capital contributions received	94,160	100,492
Amortization of deferred capital contributions	(13,095)	(5,025)
Closing balance and original fund principal	$ 176,532	$ 95,467

13. STABILIZATION FUND

Any investment income from marketable securities which exceeds the long-term average rate of return assumed 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 2015 amounted to $2,840,842 (2014 - $1,917,741).

14. 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 2015 was 70% (2014 - 70%).

15. CORPORATE EXPENSES

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

	2015	2014
Communications	$ 14,547	$ 13,550
Office operations	49,382	90,375
Professional services	64,952	34,328
IT/telecommunications	14,810	14,689
Corporate expenses	$ 143,691	$ 152,942

16. 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.

	2015	2014
Receivable from CAP including accrued amounts	$ 3,692	$ 1,737
Payable to CAP including project and accrued amounts	(3,369)	(1,247)
Net owed by CAP to TAF (or owed by TAF to CAP)	$ 323	$ 490

17. TAF BUDGET FISCAL YEAR 2015

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:

	2015 (in $ Thousands)	2014 (in $ Thousands)
Revenues		
Investment portfolio revenues*	$ 1,215	$ 930
Loan interest and transaction fees	390	529
External funding	650	816
Allocation from TAF's capital - if required	-	-
Sundry	320	149
Total Revenues	$ 2,575	$ 2,424
Program Delivery Expenditures		
Strategic programs	1,517	1,522
New and committed grants	500	450
Total programs and projects	2,017	1,972
Administration	558	452
Total Expenditures	$ 2,575	$ 2,424

* Based on mark-to-market valuation assumption.

18. 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:

- Toronto Community Housing Corporation (TCHC) potential financing up to $3 million, structured as an ESPA, to install energy efficiency measures in seven TCHC highrise buildings. The ESPA contract was signed with TCHC during the year and the selection of the design/build firm was completed in during 2015 who commenced the installation phase of the project in late 2015. The last $1 million of the above $3 million financing will be advanced based on the guarantee agreement for $1 million which was signed with a third party during 2015.
- Legend Power potential $1 million ESPA vendor financing to support installations of HarmonizerAVR electricity optimization systems in client buildings.
- Greensoil Building Innovation Fund potential US dollar $500,000 investment to accelerate adoption of energyefficient building technologies. The Fund's first capital call of USD $91,328 was invested with the Fund on March 10, 2016.
- Energy Efficiency Corporation commitment to provide $2,000,000 as subordinated debt to launch this new enterprise which is focused on scalingup the ESPA financing method.

During 2015 the following changes occurred: (1) the previously reported commitment to Windmill Development Group became a Green Loan financing agreement as outlined in note 7(c); (2) the previously reported commitment to Perth Avenue Co-op became an ESPA performance contract as outlined in note 7(d); (3) the previously reported commitment to Rouge Valley Co-op became an ESPA performance contract as outlined in note 7(e); (4) the previously reported commitment to York Condominium Corporation #128 became an ESPA performance contract as outlined in note 7 (f); and (5) TAF rescinded the previously reported financing commitment to Enermotion totalling $250,000.

18. COMMITMENTS AND CONTINGENCIES - Cont'd.

In 2014 a multi-year grant totalling $300,000 was awarded to Environmental Defence Canada, of which the final payment of $25,000 is expected to be paid in 2017.

In 2013 TAF approved a multiyear grant totalling $200,000 to the City of Toronto Environment & Energy Division. The final payment of $40,000 is expected to be paid in 2017 upon receipt of the final report.

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:

	2015	2014
Assets		
Bank	$ 1,242	$ 1,302
Liabilities		
Due to TAF	$ 293,631	$ 293,631
Equity		
Capital	1	1
Deficit, opening	(292,330)	(292,270)
Net (loss)	(60)	(60)
Deficit, closing	(292,390)	(292,330)
	(292,389)	(292,329)
	$ 1,242	$ 1,302

	2015	2014
Expenses		
Bank charges	$ 60	$ 60
Net (loss)	$ (60)	$ (60)