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CONSOLIDATED FINANCIAL STATEMENTS

For

TORONTO ATMOSPHERIC FUND

For the year ended

DECEMBER 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board Directors of

TORONTO ATMOSPHERIC FUND AND THE CITY OF TORONTO

We have audited the accompanying consolidated financial statements of Toronto Atmospheric Fund, which comprise the consolidated statement of financial position as at December 31, 2017, 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 then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated 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 consolidated 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 consolidated 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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, 2017 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
April 30, 2018.

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TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	$ 821,681	$ 1,643
Accounts receivable	403,368	1,700,565
External funding receivable	1,428,469	857,698
Loans receivable - current portion (note 5)	119,129	294,504
Deferred expenses	3,837	832
	2,776,484	2,855,242
CAPITAL ASSETS (note 4)	6,592,202	5,588,915
LOANS RECEIVABLE (note 5)	797,208	1,232,196
INVESTMENTS HELD IN TRUST BY THE CITY OF TORONTO (note 6)	44,722,588	42,874,716
	$ 54,888,482	$ 52,551,069
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Line of credit (note 11)	$ -	$ 320,000
Accounts payable and accrued liabilities	911,487	4,446,314
Grants payable (note 8)	963,896	548,760
Current portion of long-term debt (note 13)	325,528	57,359
Deferred revenues (note 9)	1,071,162	620,254
Funds held in trust Dan Leckie Fund (note 10)	35,945	34,018
Refundable deposits	207,322	148,287
Deferred capital contributions (note 12)	133,563	152,758
	3,648,903	6,327,750
LONG-TERM DEBT (note 13)	2,555,589	1,002,929
	6,204,492	7,330,679
FUND BALANCES		
City of Toronto fund - externally restricted	25,386,419	21,182,140
Province of Ontario fund - externally restricted	17,186,199	16,985,949
Stabilization funds - internally restricted (note 14)	6,111,372	7,052,301
	48,683,990	45,220,390
	$ 54,888,482	$ 52,551,069

Commitments and contingencies (note 18)

Approved by the Board:

S. Dolendahl .... Director

.... Director

(See accompanying notes)

Welch LLP

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TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2017

	Internally restricted		Externally restricted			
	Stabilization Fund Toronto (note 14)	Stabilization Fund Ontario (note 14)	City of Toronto Fund	Province of Ontario Fund	Total 2017	Total 2016
Fund balances, beginning of year	$ 7,052,301	$ -	$ 21,182,140	$ 16,985,949	$ 45,220,390	$ 28,476,435
Excess of revenue over expenses (expenses over revenue)	-	-	3,687,241	(671,527)	3,015,714	15,937,205
Net remeasurement gains (losses)	-	-	(423,891)	871,777	447,886	806,750
Stabilization transfer	(940,929)	-	940,929	-	-	-
Fund balances, end of year	$ 6,111,372	$ -	$ 25,386,419	$ 17,186,199	$ 48,683,990	$ 45,220,390

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

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

YEAR ENDED DECEMBER 31, 2017

	2017	2016
Accumulated remeasurement gains, beginning of year	$ 10,353,939	$ 9,438,774
Changes in unrealized gains (losses) attributed to:		
Foreign exchange	(4,949,870)	(115,872)
Equity instruments	4,525,979	1,031,037
Net remeasurement gains (losses)	(423,891)	915,165
Accumulated remeasurement gains, end of year	$ 9,930,048	$ 10,353,939

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

**CONSOLIDATED STATEMENT OF OPERATIONS
- CITY OF TORONTO FUND**

YEAR ENDED DECEMBER 31, 2017

	2017	2016
Revenue		
Investment income from marketable securities, net	$ 4,911,595	$ 355,024
Investment income from direct investments, net	99,848	192,013
External funding (note 9)	636,258	823,512
Energy Savings Performance Agreement revenues (note 7)	964,230	290,640
Sundry	1,343	24,874
	6,613,274	1,686,063
Expenses		
Program delivery	1,439,854	1,678,108
Grants approved, net (note 8)	535,295	467,962
Salaries and employee benefits	1,030,889	1,257,838
Salaries allocated to program delivery (note 15)	(973,635)	(1,004,553)
Corporate expenses (note 16)	227,817	320,578
Amortization	665,813	137,098
Recovery of shared fund expenses	-	(13,809)
	2,926,033	2,843,222
Excess of revenue over expenses (expenses over revenue)	$ 3,687,241	$ (1,157,159)

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

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

YEAR ENDED DECEMBER 31, 2017

	2017	2016
Accumulated remeasurement losses, beginning of year	$ (108,415)	$ -
Changes in unrealized gains (losses) attributed to:		
Foreign exchange	(200,647)	-
Equity instruments	1,072,424	(108,415)
Net remeasurement gains (losses)	871,777	(108,415)
Accumulated remeasurement gains (losses), end of year	$ 763,362	$ (108,415)

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF OPERATIONS - PROVINCE OF ONTARIO FUND

YEAR ENDED DECEMBER 31, 2017

	2017	2016
Revenue		
Investment income from marketable securities, net	$ 132,728	$ 108,173
Province of Ontario funding	-	17,000,000
External funding (note 9)	181,239	-
	313,967	17,108,173
Expenses		
Program delivery	502,308	-
Grants approved, net (note 8)	283,664	-
Salaries and employee benefits	360,925	-
Salaries allocated to program delivery (note 15)	(223,844)	-
Corporate expenses (note 16)	62,441	-
Shared fund expenses	-	13,809
	985,494	13,809
Excess of revenue over expenses (expenses over revenue)	$ (671,527)	$ 17,094,364

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue):		
City of Toronto fund	$ 3,687,241	$ (1,157,159)
Province of Ontario fund	(671,527)	17,094,364
	3,015,714	15,937,205
Adjustments for:		
Amortization	665,813	137,098
Provision (recovery) on ESPAs	(75,436)	12,002
Amortization of deferred capital contributions	(19,195)	(23,774)
	3,586,896	16,062,531
Increase (decrease) resulting from changes in:		
Accounts receivable	1,297,197	(1,047,417)
External funding receivable	(570,771)	145,618
Deferred expenses	(3,005)	33,235
Loans receivable	610,363	203,278
Accounts payable and accrued liabilities	(3,534,827)	3,214,420
Grants payable	415,136	(7,363)
Deferred revenues	450,908	(665,255)
Refundable deposits	59,035	30,909
Cash flows from operating activities	2,310,932	17,969,956
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in capital assets	(1,593,664)	(3,881,497)
Funds on deposit with the City of Toronto:		
Reinvestment of investment gains	(5,462,913)	(518,829)
Withdrawals (purchases) of investments, net	4,062,927	(16,599,962)
Income attributed to Dan Leckie fund	1,927	1,888
Cash flows used in investing activities	(2,991,723)	(20,998,400)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from (repayments of) line of credit	(320,000)	320,000
Advances of long-term debt	1,878,188	1,074,099
Repayments of long-term debt	(57,359)	(13,811)
Cash flows from financing activities	1,500,829	1,380,288
INCREASE (DECREASE) IN CASH	820,038	(1,648,156)
CASH AT BEGINNING OF YEAR	1,643	1,649,799
CASH AT END OF YEAR	$ 821,681	$ 1,643

(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 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 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 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 funds provided by 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 20.

(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 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 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 and 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.

(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

In keeping with best practice for endowments, 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.

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.

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. 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.

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, 2017 the cash and investments held denominated in US dollars were, translated into Canadian dollars, $51,746 and $22,065,140, respectively (2016 - $101,206 and $16,613,239).

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:

	2017 Cost	2017 Accumulated amortization	2016 Cost	2016 Accumulated amortization
ESPA capital assets (note 7)	$ 7,641,852	$ 1,049,650	$ 6,048,188	$ 383,837
Accumulated amortization	1,049,650		383,837	
	6,592,202		5,664,351	
Less provisions related to ESPAs	-		(75,436)	
	$ 6,592,202		$ 5,588,915	

5. LOANS RECEIVABLE

Loans receivable consist of the following:

	2017	2016
(a) Cathedral Hill (Windmill Developments), OCLCC No. 973	$ 628,459	$ 685,133
(b) Efficiency Capital Corporation	-	435,847
(c) Old Sheppard, YCC No. 132	260,174	281,011
(d) Toronto Solar Neighbourhoods Initiative	76,057	107,237
(e) 120 Perth Avenue Housing Co-Operative	41,647	45,224
(f) Exhibition Place	-	44,561
(g) Grande Triomphe, TSCC No. 2033	-	17,687
	1,006,337	1,616,700
Less current portion	(119,129)	(294,504)
	887,208	1,322,196
(h) Credit provision	(90,000)	(90,000)
	$ 797,208	$ 1,232,196

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. As at December 31, 2017 and 2016, 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 matures in September 2025.

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

(b) *Efficiency Capital Corporation Loan*

A secured subordinated debt facility (“TAF Debt Facility”) of up to $2 million was concluded in 2016 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.

In 2016, ECC used the TAF Debt Facility for a qualified ESPA energy retrofit project that was commissioned, the draw was for $442,143. The loan was fully repaid in 2017.

(c) *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 secured by a general security agreement and matures in September 2026.

(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 $76,057, 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. The loan matures December 2025.

(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. 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 loan was fully repaid in February 2017.

(h) Allowance for credit losses

Management makes an assessment of the collectability of each loan receivable at year end and, to be prudent, 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:

	2017	2016
Balance, beginning of year	$ 90,000	$ 90,000
Charge for potential loan impairments	-	-
Closing balance	$ 90,000	$ 90,000

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6. INVESTMENTS HELD IN TRUST

In accordance with the TAF Act, monies that are not immediately required are in the custody of the Treasurer of the City of Toronto ("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 shift to direct investments is being funded from investments held in trust.

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*	2017 Toronto	2017 Ontario	2017 Total	2016 Total
TD Emerald Canadian Bond Pooled Fund Trust	$ 622,175	$ 1,275,855	$ 1,898,030	$ 1,850,571
TD Short Term Bond Fund, O-Series	773,954	3,010,199	3,784,153	3,769,531
TD Emerald Canadian Short Term Investment Fund**	6,346,911	4,785,969	11,132,880	17,063,078
Greenchip Global Equity Fund	2,518,582	1,512,455	4,031,037	3,073,369
Generation IM Global Equity A Shares A32	13,258,706	7,665,374	20,924,080	16,613,239
NEI Environmental Leaders Fund	737,268	440,732	1,178,000	-
Dimensional Global Sustainability Core Equity Fund	718,676	422,384	1,141,060	-
Total investments at fair market value	24,976,272	19,112,968	44,089,240	42,369,788
Limited Partnership Units and private equity shares at cost***	547,452	85,896	633,348	504,928
Total investments	$ 25,523,724	$ 19,198,864	$ 44,722,588	$ 42,874,716

*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. As at December 31, 2017 and 2016, all marketable securities are classified as Level 1.

**Subsequent to year end, $1.6 million of the TD Emerald Canadian Short Term Investment Fund was sold under the Ontario fund on January 30, 2018, and a corresponding $1.2 million of the same investment under Toronto fund was purchased on February 13, 2018.

***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, (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 $182,050 USD ($228,382 CAD) was advanced to date. The remaining commitment will be advanced to the Fund based on future cash calls, and (d) 30% of the common shares of a private corporation which are valued at cost of $3,000.

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.

ECC is an exclusive licensee of TAF's ESPA program and as such can finance projects under TAF's warehouse financing facility ("Warehouse Facility"). Under the Warehouse Facility, TAF enters into ESPAs 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.

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, 2017 and 2016, all ESPA pertains to the City of Toronto fund.

(a) Harbourfront Centre

In 2012, TAF advanced project funding after entering into an ESPA 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 on behalf of CoPower for a fee for the remaining term of the Harbourfront ESPA which matured on January 1, 2017.

(b) Robert Cooke Cooperative Homes Inc.

In 2014, TAF completed a retrofit project under an 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. At the end of the year, the depreciated value of the ESPA capital assets, net of incentives, was $291,448 (2016 - $343,193). This ESPA has a term of up to 10 years.

(c) Rouge Valley Co-operative

Installation of the retrofit measures was completed in 2016. At the end of the year, the depreciated value of the ESPA capital assets, net of incentives, was $260,474 (2016 - $295,488). This ESPA has a term of up to 10 years.

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

(d) YMCA of Greater Toronto

In 2014, TAF completed a retrofit project under an 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. At the end of the year, the depreciated value of the ESPA capital assets, net of incentives, was $171,404 (2016 - $198,238). The ESPA has a term of up to 7 years.

In 2016, 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 has been recognized as long-term debt on the consolidated statement of financial position as described in note 13.

(e) Perth Avenue Co-operative

In 2015, TAF entered into an ESPA with Perth Avenue Co-operative. The project was commissioned at the beginning of 2016. At the end of the year, the depreciated value of the ESPA capital assets, net of incentives, was $213,060 (2016 - $242,236). The ESPA has a term of up to 10 years.

In 2016, 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 has been recognized as as long-term debt on the consolidated statement of financial position as described in note 13.

(f) YCC No. 128 - Four Winds

In 2016, TAF entered into an ESPA with YCC No. 128 (Four Winds) to finance energy efficiency retrofit project for the building under the Warehouse Facility. The project was commissioned at the beginning of 2017. At the end of the year, the depreciated value of the ESPA capital assets, net of incentives, was $1,776,655 (2016 - $1,978,070). The ESPA has a term of up to 10 years.

(g) Toronto Community Housing Corporation ("TCHC")

In 2016, TAF entered into an ESPA with TCHC, in which project installation was substantially completed in 2017. The cost of TAF's energy efficiency equipment installed to date after rebates totalled $3,442,509 (2016 - $2,460,303). This ESPA has a term of up to 10 years.

(h) Grandravine

During the year, TAF enters into an ESPA with building owner clients, which ECC will administer for a fee. During the on-going installation period in 2017, the debt facility with ECC has been converted to the Warehouse Facility. The draw amount in 2017 was $415,065 and the ESPA capital asset, net of incentives and rebates, was $373,779. The ESPA has a term of up to 10 years.

(i) Marine Heights Co-operative

During the year, TAF enters into an ESPA with building owner clients, which ECC will administer for a fee. The equipment installation was commissioned in 2018 subsequent to TAF's fiscal year end. The debt facility with ECC has been converted to the Warehouse Facility. The draw amount in 2017 was $268,149 and the ESPA capital asset, net of incentives and rebates was $229,402. The ESPA has a term of up to 10 years.

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:

	2017	2016
Balance, beginning of year	$ 548,760	$ 556,123
Grants approved - City of Toronto fund	535,295	497,962
Grants approved - Province of Ontario fund	283,664	-
Grants rescinded during the year	(3,500)	(30,000)
Grants paid during the year	(400,323)	(505,325)
Closing balance	$ 963,896	$ 548,760

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. Funding commitments are booked and deferred for specific projects. External revenues are recognized in the year the funds are received for expenditures incurred.

	2017	2016
External funding brought forward from prior year	$ 620,254	$ 1,285,509
External funding received during the year	1,268,405	158,257
Total external funding committed to TAF	1,888,659	1,443,766
External funding recognized - City of Toronto fund	636,258	823,512
External funding recognized - Province of Ontario fund	181,239	-
	817,497	823,512
External funding carried forward into subsequent year	$ 1,071,162	$ 620,254

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:

	2017	2016
Opening balance and original fund principal	$ 34,018	$ 32,130
Income attributed from TAF	1,927	1,888
Closing balance	$ 35,945	$ 34,018

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 $4.0 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, 2017 was $nil (2016 - $320,000).

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).

	2017	2016
Balance, beginning of year	$ 152,758	$ 176,532
Amortization of deferred capital contributions	(19,195)	(23,774)
Closing balance	$ 133,563	$ 152,758

13. LONG-TERM DEBT

In 2013, TAF was approved for a loan in the amount of $2,557,333 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 bears interest at 1.75% and is to be repaid in semi-annual installments over a period of nine years. As at December 31, 2017, the loan was drawn in the amount of $2,557,333 (2016 - $679,145) with principal repayments to commence in 2018.

In 2016, 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 ESPAs 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.

	2017	2016
FCM loan - 1.75% interest, due May 20, 2026, repayable in blended semi-annual installments of $154,111	$ 2,557,333	$ 679,145
Third party loan A - 6% interest, due February 2, 2026, repayable in blended quarterly installments of $7,906.	201,097	219,883
Third party loan B - 6% interest, due November 1, 2020, repayable in blended quarterly installments of $11,859.	122,687	161,260
	2,881,117	1,060,288
Less current portion	325,528	57,359
	$ 2,555,589	$ 1,002,929

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

2018	$ 325,528
2019	333,935
2020	334,750
2021	302,699
2022 and thereafter	1,584,205
	$ 2,881,117

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

While the Toronto fund's marketable securities portfolio yielded returns in excess of projections, its Stabilization Fund was reduced by $940,929 (2016 - $66,808) due to the 25% net asset value cap. The Ontario fund's returns were not in excess of projections in 2017 and therefore, no amounts were added to the Stabilization Fund.

15. 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% (2016 - 70%).

16. 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.

17. TAF BUDGET FISCAL YEAR 2017

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 or for approval. TAF’s “net zero” budget submission to the City was as follows:

	2017 (in $ Thousands)	2016 (in $ Thousands)
Revenue		
Investment portfolio revenues*	$ 2,090	$ 1,320
Loan interest and transaction fees	331	420
External funding	400	550
Allocation from TAF's capital - if required	887	320
Total revenue	$ 3,708	$ 2,610
Program delivery expenditures		
Strategic programs	$ 1,814	$ 1,425
New and committed grants	806	500
Interest	80	-
Total programs and projects	2,700	1,925
Administration	1,008	685
Total expenditures	$ 3,708	$ 2,610

* 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 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) ECC 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 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 ESPAs signed between ECC and building owner clients;
- up to $7 million from the Warehouse Facility which finances ESPAs signed between TAF and building owner clients which ECC is committed to buy from TAF within two years and under which $2,661,284 (2016 - $1,978,070) has been advanced to the project described in note 7.

(b) 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.

(c) During the year, TAF awarded multi-year grants, and the total amounts payable in 2018 is $93,939.

19. COMPARATIVE FIGURES

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

20. 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:

	2017	2016
Assets		
Cash	$ 3,179	$ 5,107
Liabilities		
Due to TAF	$ 295,634	$ 297,562
Equity		
Capital	1	1
Deficit	(292,456)	(292,456)
	$ 3,179	$ 5,107

	2017	2016
Expenses		
Bank charges	$ -	$ 66
Net loss	$ -	$ (66)