

Direct Investment Request 2025 C

Date: July 4, 2025
To: Board of Directors of the Toronto Atmospheric Fund
From: Vice President, Impact Investing

REASON FOR CONFIDENTIAL INFORMATION

The attachment to this report contains commercial information, supplied in confidence to the Toronto Atmospheric Fund which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

SUMMARY

The Direct Investment Committee recommends an unfunded loan guarantee of \$3,500,000 on the term loan portion of a \$5,000,000 debt facility in a mass timber prefabrication housing construction company (Company). This investment is strongly aligned with TAF's mandate to mobilize capital for low-carbon solutions and accelerate net-zero new construction. The proposed allocation complies with TAF's investment policy and target portfolio.

RECOMMENDATIONS

The Vice President, Impact Investing recommends the Board of Directors of the Toronto Atmospheric Fund:

1. Approve an investment of \$3,500,000, structured as an unfunded guarantee of the repayment by the Company of a term loan made to it by Third-Party Credit Lender of no greater than 4 years length, subject to the following conditions:
 - a. Third-Party Credit Lender shall have agreed to lend to the Company not less than \$3,500,000 as a working capital loan facility upon the terms described in the Confidential Attachment 1 – Direct Investment Request 2025.C ("Memo") and upon such additional terms as may be consistent therewith as are approved by VP Impact Investing;
 - b. The terms of the Guarantee shall provide for a total return to TAF of no less than 3% per annum of the amount of the Guarantee through a combination of fees and warrant consideration, the aggregate value of which is to be determined by the VP Impact Investing as meeting that requirement by using the methods set out in the Memo.

2. Direct the Vice President, Impact Investing to implement the investment subject to the satisfaction of TAF's solicitor; and
3. Direct that the confidential information contained in Confidential Attachment 1 remain confidential in its entirety, as it contains commercial and financial information, supplied in confidence to the Toronto Atmospheric Fund, which, if disclosed, could reasonably be expected to significantly prejudice the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

FINANCIAL IMPACT

There is no financial impact to the City of Toronto resulting from the adoption of the recommendations in this report.

DECISION HISTORY

At its meeting held on June 24, 2025, the Direct Investment Committee recommended that TAF's Board of Directors approve the investment described in Confidential Attachment 1.

On November 21, 2023, the Board of Directors approved an investment of up to \$1,250,000 in the Company (<https://secure.toronto.ca/council/agenda-item.do?item=2023.TA4.9>).

COMMENTS

Investment Profile

This investment will support a term loan and working capital facility of the Company, providing bridge financing to position the Company for a significant capital raise to establish a planned mass timber prefabrication manufacturing plant. The Company has recently acquired new equipment from a European supplier, procured a site for a manufacturing plant and obtained commitments for significant grant funding in support of building and operating a prefabrication manufacturing facility for wood wall panels for housing construction. The Company's construction business has a robust pipeline of projects to profitably operate the plant shortly after commissioning and will have significant excess capacity for sales to third parties.

Investment Terms

The investment is structured as an unfunded loan guarantee with deal terms set at market standards and includes terms such as guarantee fees, warrants and conditions for exercising the guarantee.

TAF's investment is expected to allow the Company to obtain a larger working capital facility multiplying the effect of TAF's investment as well as supporting the Company for success in a major capital raise.

TAF is providing a guarantee instead of direct financing to not only increase the amount available to the Company as the third-party lender will leverage TAF's guarantee, but also because the third-party lender has expertise in both underwriting and managing a working capital facility which TAF will benefit from. Note that the third-party lender is a current TAF investee.

Due Diligence

Financial due diligence was conducted to validate the investment thesis and determine the cash requirements of the business to execute on its program delivery strategy while providing sufficient cashflow to support TAF's financing. The Company's business model, asset security, and project pipeline were analyzed to assess the Company's capacity to take on the debt facility. Conversations with the Company's existing investors, suppliers, and clients showed that the management team and the Company's business plan are focused and headed towards successful market adoption. TAF also has insights on the Company from its Board observer role and active participation in advising management on the equity raise.

An investment of \$3.5 million notional guarantee amount would represent 3.60% of TAF's total NAV and 12.00% of TAF's 30% direct investment target asset allocation. As this is an unfunded loan guarantee, the amounts would remain invested broadly in the endowment portfolio, earning the overall portfolio returns.

Impact Generation

Impact due diligence indicates that scaling of the Company's business will have substantial greenhouse gas (GHG) emission reduction potential while accelerating mass timber affordable housing construction in the GTHA. The Company anticipates multiple affordable housing projects with a significant target portfolio allocation to the not-for-profit sector. It also has several purpose-built rental projects underway that when completed will successfully demonstrate the benefits of prefabricated mass timber construction within the GTHA developer community, further supporting adoption of this green building affordable housing construction model. The manufacturing facility also has the potential to catalyze additional mass timber prefabricated construction by increasing the availability of prefabricated wood wall panels in the GTHA.

CONTACT

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SIGNATURE

Kristian Knibutat
Vice President Impact Investing

ATTACHMENTS

Confidential Attachment 1 – Direct Investment Request 2025.C