CONSOLIDATED FINANCIAL STATEMENTS

For

TORONTO ATMOSPHERIC FUND

For the year ended

DECEMBER 31, 2022

Management's Responsibility for the Financial Statements

The consolidated financial statements of the Board of Directors for the Toronto Atmospheric Fund (the "Organization") are the responsibility of management and have been approved by the Board.

The consolidated financial statements have been prepared in compliance with the Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in Note 2 to the consolidated financial statements.

The preparation of the consolidated financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Organization's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

The Board of Management is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board reviews the Organization's consolidated financial statements and discusses any significant financial reporting or internal control matters prior to the approval of the consolidated financial statements.

The consolidated financial statements have been audited by Welch LLP, independent external auditors appointed by the City of Toronto's City Council, in accordance with Canadian generally accepted auditing standards. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Organization's consolidated financial statements.

.... Chairperson

Kim Marshall
Kim Marshall (May 16, 2023 15:28 EDT)
.... Treasurer

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors for the

TORONTO ATMOSPHERIC FUND AND THE CITY OF TORONTO

Opinion

We have audited the consolidated financial statements of the Toronto Atmospheric Fund (the Organization), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of operations - City of Toronto fund, remeasurement gains and losses - City of Toronto fund, the consolidated statements of operations - Province of Ontario fund, remeasurement gains and losses - Province of Ontario fund, the consolidated statements of operations - Government of Canada fund, remeasurement gains and losses - Government of Canada fund, changes in fund balances and cash flows for the year the ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2022 and the results of its operations, remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Basis for Opinion

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control.

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

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

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

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

Welch LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 27, 2023.

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2022

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash	$ 1,432,092	$ 6,430,159
Accounts receivable	1,622,833	588,174
External funding receivable	-	381,777
Loans receivable - current portion (note 4)	187,676	83,890
Prepaid expenses	5,299	14,994
	3,247,900	7,498,994
CAPITAL ASSETS (note 8)	3,055,191	4,439,880
LOANS RECEIVABLE (note 4)	3,401,658	2,582,140
INVESTMENTS HELD IN TRUST BY THE CITY OF TORONTO (note 5)	82,696,135	88,402,777
INVESTMENTS IN PRIVATE FUNDS (note 6)	2,723,370	1,340,233
	$ 95,124,254	$ 104,264,024
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Line of credit (note 9)	$ 1,960,000	$ -
Accounts payable and accrued liabilities	1,285,468	1,221,407
Grants payable (note 10)	1,263,776	805,493
Current portion of long-term debt (note 13)	447,898	439,048
Deferred contributions (note 11)	311,345	-
Funds held in trust Dan Leckie Fund (note 14)	44,529	42,208
	5,313,016	2,508,156
LONG-TERM DEBT (note 13)	1,123,263	1,489,065
	6,436,279	3,997,221
FUND BALANCES		
City of Toronto fund - externally restricted	28,794,970	28,794,970
Province of Ontario fund - externally restricted	17,000,000	17,000,000
Government of Canada fund - externally restricted (note 12)	36,898,380	40,061,323
Stabilization funds - internally restricted (note 15)	5,994,625	14,410,510
	88,687,975	100,266,803
	$ 95,124,254	$ 104,264,024

Commitments (note 18)

Approved by the Board:

. . . . Director

Kim Marshall
Kim Marshall (May 16, 2023 15:28 EDT). . . . . Director

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2022

	Internally restricted			Externally restricted				
	Stabilization Fund Toronto (note 15)	Stabilization Fund Ontario (note 15)	Stabilization Fund Canada	City of Toronto Fund	Province of Ontario Fund	Government of Canada Fund	Total 2022	Total 2021
Fund balances, beginning of year	$ 9,598,324	$ 3,098,207	$ 1,713,979	$ 28,794,970	$ 17,000,000	$ 40,061,323	$ 100,266,803	$ 96,477,103
Excess of revenue over expenses (expenses over revenue)	-	-	-	702,339	(17,944)	(762,569)	(78,174)	(2,293,835)
Net changes in remeasurement gains (losses)	-	-	-	(4,947,741)	(2,438,560)	(4,114,353)	(11,500,654)	6,083,535
Stabilization transfer (note 15)	(4,245,402)	(2,456,504)	(1,713,979)	4,245,402	2,456,504	1,713,979	-	-
Fund balances, end of year	$ 5,352,922	$ 641,703	$ -	$ 28,794,970	$ 17,000,000	$ 36,898,380	$ 88,687,975	$ 100,266,803

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

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

YEAR ENDED DECEMBER 31, 2022

	2022	2021
Accumulated remeasurement gains, beginning of year	$ 14,479,613	$ 12,179,455
Increase (decrease) in unrealized gains attributed to:		
Foreign exchange	561,387	(43,173)
Equity instruments	(4,549,292)	3,273,791
Amounts reclassified to the statement of operations	(959,836)	(930,460)
Net changes in remeasurement gains	(4,947,741)	2,300,158
Accumulated remeasurement gains, end of year	$ 9,531,872	$ 14,479,613

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF OPERATIONS - CITY OF TORONTO FUND

YEAR ENDED DECEMBER 31, 2022

	2022	2021
Revenue		
Investment income, net of fees	$ 1,803,766	$ 1,187,225
Direct investment interest income	175,692	120,660
External funding (note 11)	666,242	120,632
Energy Savings Performance Agreement revenues (note 7)	1,095,617	1,125,696
Sundry	16,645	127,783
	3,757,962	2,681,996
Expenses		
Program delivery	1,406,994	1,165,397
Grants approved, net (note 10)	461,216	618,801
Salaries and employee benefits	1,014,705	729,356
Salaries allocated to program delivery (note 16)	(815,669)	(613,661)
Corporate expenses (note 17)	210,716	90,312
Amortization	821,187	849,043
Provision for (recovery of) bad debt (note 4)	(43,526)	(77,353)
	3,055,623	2,761,895
Excess of revenue over expenses (expenses over revenue)	$ 702,339	$ (79,899)

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

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

YEAR ENDED DECEMBER 31, 2022

	2022	2021
Accumulated remeasurement gains, beginning of year	$ 5,426,146	$ 3,999,808
Increase (decrease) in unrealized gains attributed to:		
Foreign exchange	253,576	(33,845)
Equity instruments	(2,473,064)	1,712,585
Amounts reclassified to the statement of operations	(219,072)	(252,402)
Net changes in remeasurement gains	(2,438,560)	1,426,338
Accumulated remeasurement gains, end of year	$ 2,987,586	$ 5,426,146

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF OPERATIONS - PROVINCE OF ONTARIO FUND

YEAR ENDED DECEMBER 31, 2022

	2022	2021
Revenue		
Investment income, net of fees	$ 801,612	$ 286,418
Direct investment interest income	82,702	55,799
External funding (note 11)	313,654	42,029
Energy Savings Performance Agreement revenues (note 7)	-	2,895
	1,197,968	387,141
Expenses		
Program delivery	670,729	573,120
Grants approved, net (note 10)	320,982	381,589
Salaries and employee benefits	526,098	394,755
Salaries allocated to program delivery (note 16)	(421,900)	(320,007)
Corporate expenses (note 17)	115,814	36,423
Provision for bad debt (recovery of) (note 4)	-	(26,923)
Amortization	4,189	4,725
	1,215,912	1,043,682
Excess of revenue over expenses (expenses over revenue)	$ (17,944)	$ (656,541)

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES - GOVERNMENT OF CANADA FUND

YEAR ENDED DECEMBER 31, 2022

	2022	2021
Accumulated remeasurement gains, beginning of year	$ 3,783,169	$ 1,426,130
Increase (decrease) in unrealized gains attributed to:		
Foreign exchange	480,732	(110,740)
Equity instruments	(4,906,333)	3,441,006
Amounts reclassified to the statement of operations	311,248	(973,227)
Net changes in remeasurement gains	(4,114,353)	2,357,039
Accumulated remeasurement gains, end of year	$ (331,184)	$ 3,783,169

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF OPERATIONS - GOVERNMENT OF CANADA FUND

YEAR ENDED DECEMBER 31, 2022

	2022	2021
Revenue		
Investment income, net of fees	$ 917,327	$ 302,162
Direct investment interest income	110,986	41,819
External funding (note 11)	513,738	18,064
Energy Savings Performance Agreement revenues (note 7)	-	6,159
	1,542,051	368,204
Expenses		
Program delivery	1,183,242	231,927
Grants approved, net (note 10)	547,769	520,685
Salaries and employee benefits	1,093,861	807,396
Salaries allocated to program delivery (note 16)	(886,336)	-
Corporate expenses (note 17)	152,396	42,051
Canada Operating Fund (note 12)	212,500	300,000
Amortization	14,688	10,040
Provision for bad debt (recovery)	(13,500)	13,500
	2,304,620	1,925,599
Excess of revenue over expenses	$ (762,569)	$ (1,557,395)

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2022

	2022	2021
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue):		
City of Toronto fund	$ 702,339	$ (79,899)
Province of Ontario fund	(17,944)	(656,541)
Government of Canada fund	(762,569)	(1,557,395)
	(78,174)	(2,293,835)
Adjustments for:		
Changes in unrealized gain on investments	(3,926,894)	(1,220,523)
Provision on credit losses	1,026	(104,275)
Amortization	840,064	863,808
	(3,163,978)	(2,754,825)
Increase (decrease) resulting from changes in:		
Accounts receivable	(1,034,659)	769,324
External funding receivable	381,777	2,016
Prepaid expenses	9,695	1,190
Accounts payable and accrued liabilities	64,061	(1,062,927)
Grants payable	458,283	(72,598)
Deferred contributions	311,345	(135,496)
	(2,973,476)	(3,253,316)
INVESTING ACTIVITIES		
Withdrawals of investments	11,882,668	13,948,375
Purchase of investments	(15,132,923)	(17,410,904)
Income attributed to Dan Leckie fund	2,321	2,200
Repayments from loans receivable	118,683	1,232,097
Loans receivable advanced	(1,043,013)	(1,459,825)
	(4,172,264)	(3,688,057)
CAPITAL ACTIVITIES		
Proceeds from sale of capital assets	682,548	-
Investment in capital assets	(137,923)	(467,120)
	544,625	(467,120)
FINANCING ACTIVITIES		
Advances from line of credit	1,960,000	-
Repayments of long-term debt	(356,952)	(348,746)
	1,603,048	(348,746)
INCREASE (DECREASE) IN CASH	(4,998,067)	(7,757,239)
CASH AT BEGINNING OF YEAR	6,430,159	14,187,398
CASH AT END OF YEAR	$ 1,432,092	$ 6,430,159

(See accompanying notes)

1. NATURE OF OPERATIONS

The Toronto Atmospheric Fund ("TAF") was incorporated under the laws of the Province of Ontario, by the Toronto Atmospheric Fund Act, 1992 (the "TAF Act"), on December 10, 1992 as a Corporation without share capital. TAF is currently governed by the TAF Act, 2005, which amended the objectives, investment powers and other provisions of the original TAF Act. TAF is an arms-length agency of the City of Toronto (the "City") operating as a not-for-profit organization which is exempt from income tax pursuant to the Income Tax Act (Canada).

The City appoints TAF's Board of Directors while the TAF Relationship Framework, approved by the City Council in 2013, establishes specific accountability requirements to the City.

The original endowment from the City was $23 million. Under a tripartite agreement between TAF, the City and the Province of Ontario (the "Province"), TAF received an additional $17 million endowment from the Province in November 2016 which expanded TAF's geographical scope to the Greater Toronto and Hamilton Area ("GTHA").

In September 2020, TAF received an additional $38 million endowment from the Government of Canada, via the Federation of Canadian Municipalities, along with $2 million in operating funding.

TAF is primarily financed by investment revenues from its three funds including income from marketable securities and direct investments, as well as by external grants and contributions. TAF does not draw on the City's, the Province's or the Federal government's operating budgets.

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

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

(c) Revenue recognition

TAF follows the restricted fund method of accounting for contributions. Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions not expended for which there is not a specified fund are deferred and recognized as revenue in the year in which the related expenses are recognized.

Externally restricted contributions for depreciable capital assets are deferred and amortized over the life of the related capital assets. Externally restricted contributions for capital assets that have not been expended are recorded as part of deferred capital contribution on the consolidated statement of financial position.

Other revenues are recorded on an accrual basis, when the service has been provided, evidence of an arrangement exists, the fee is fixed or determinable and the amount is collectible.

(d) Volunteers

Volunteers contribute their time and expertise 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, 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 statements 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 statements 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.

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

(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 bad debt expense. Interest is accrued on loans receivable and is recognized in the statement of operations as investment income from direct investments.

(i) Grants

All grants must receive a funding recommendation by TAF's Grants and Programs Committee and subsequently be approved by the Board of Directors. Approved one-time payment grants are reported as current liabilities and expenditures in the year. Approved grants which are in effect across several years are only recorded as current liabilities and expenditures in the year they become payable.

Payment of the first installment of a grant for a project meeting the objectives of TAF is made after approval of the Board of Directors and on execution of an agreement. Subsequent payments of grant installments are generally made after acceptance and approval of reports from grantees detailing results of work on the project and are subject to various conditions.

Grants can be rescinded by TAF when the original granting conditions have not been met, or cannot be met, or when the applicant/recipient no longer needs the grant. The rescinded amounts are recognized in the year the grant is rescinded.

(j) Capital assets

Capital assets are recorded at cost and contributed capital assets are recorded at fair value at the date of contribution. Energy efficiency equipment which is located on client premises is amortized using the straight line method over eight and half to ten years with half year rates applying in the year of acquisition. Office improvements is amortized using the straight line method over five years with half year rates applying in the year of acquisition. Assets under construction are not amortized until the asset is substantially complete and available for productive use.

(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) Use of estimates and measurement uncertainty

The preparation of these consolidated financial statements in conformity with Canadian public sector accounting standards for government not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions, which include valuation of investments, valuation of loans receivable, and significant accrued liabilities, are based on management's best information and judgment. Actual results could differ from those estimates, the impact of which would be recorded in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

3. FINANCIAL INSTRUMENTS

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

Liquidity risk

Liquidity risk is the risk that the entity will not be able to meet its cash flow obligations as they come due. TAF mitigates this risk by maintaining a committed credit facility and monitoring cash activities and expected outflows through budgeting and maintaining liquid investments that may be converted to cash on short notice if unexpected cash outflows arise.

Credit risk

Credit risk is the risk of financial loss if a debtor fails to make payments of interest and principal when due. TAF's maximum exposure to credit risk represents the sum of the carrying value of its cash, accounts receivable, loans receivable and external funding receivable. TAF's cash is deposited with a Canadian Chartered bank and as a result, management believes the risk of loss of this item to be remote. Accounts receivable and external funding receivable balances are managed and analyzed on an ongoing basis and accordingly, management believes all amounts receivable will be collected and has determined that a provision for bad debts is not required. Credit risk on loans receivable is reduced 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, 2022, the cash, receivables, and investments held denominated in U.S. dollars were, $918,861, $990,338, and $17,230,252, respectively (2021 - $253,975, $990,338, and $23,030,407).

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 TAF’s risk exposures or policies, procedures and methods used to measure the above risks, from the prior year.

4. LOANS RECEIVABLE

Loans receivable consist of the following:

	2022	2021
(i) Loan receivable A	$ 267,701	$ 351,591
(ii) Loan receivable E	990,338	990,338
(iii) Loan receivable F	1,000,000	1,000,000
(iv) Loan receivable G	443,362	459,825
(v) Loan receivable H	568,270	-
(vi) Loan receivable I	145,970	-
(vii) Loan receivable J	310,443	-
	3,726,084	2,801,754
Less current portion	(187,676)	(83,890)
	3,538,408	2,717,864
(viii) Allowance for credit losses	(136,750)	(135,724)
	$ 3,401,658	$ 2,582,140

Loans receivable (i), (vi), and (vii) pertain to the City of Toronto fund. Loan receivable (ii) pertains proportionately to the City and Province Fund. Loan receivable (iii) and (iv) pertains proportionately to the Province Fund and Government of Canada fund. Loan receivable (v) pertains proportionately to the City, Province Fund and Government of Canada fund as per note 2(b). The loans receivable earn interest in the range between 6% to 9%.

(i) In 2015, TAF advanced $750,000 as a "Green Condo Loan" to a condominium corporation for the installation of energy efficiency measures. This loan is repayable in blended monthly installments of $9,048, maturing September 2025.

(ii) TAF made a loan to a third party who focuses on a low-carbon wastewater treatment technology that uses algae to remove nitrogen and phosphorous. As at December 31, 2022, $990,338 ($740,000 U.S. dollars) has been advanced. Interest is payable annually, and entire principal is repayable when the loan matures in October 2025.

(iii) TAF made a loan to a third party who focuses on providing energy storage, management, and efficiency technology to the building sector. The loan matures February 2024.

(iv) TAF made a loan to a third party to partially finance an energy savings performance agreement ("ESPA") for a Co-operative Housing organization. The loan term is 15 years maturing in February 2032.

(v) During the year, TAF assigned its rights under an ESPA to Efficiency Capital (EC) Inc. ("EC Inc.") and EC Inc. assumed the obligations under the ESPA. EC Inc. has assigned its rights to certain payments under the ESPA to TAF, in accordance with a sub-debt agreement. The loan term is 10 years maturing in June 2032.

(vi) During the year, TAF assigned its rights under an ESPA to EC Inc. and EC Inc. assumed the obligations under the ESPA. EC Inc. has assigned its rights to certain payments under the ESPA to TAF, in accordance with a sub-debt agreement. The loan term is 5.5 years maturing in December 2027.

(vii) During the year, TAF made a loan to EC Inc. to finance an ESPA in accordance with a sub-debt agreement. The loan term is 14 years maturing in June 2036.

(viii) Allowance for credit losses

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

	2022	2021
Balance, beginning of year	$ 135,724	$ 240,000
Increase (decrease) in credit provision	1,026	(104,276)
Closing balance	$ 136,750	$ 135,724

5. INVESTMENTS HELD IN TRUST BY THE CITY OF TORONTO

In accordance with the TAF Act, monies that are not immediately required are in the custody of the Treasurer of the City of Toronto ("City Treasurer"). Marketable securities investments consist of pooled funds managed by investment managers selected by TAF and engaged by the City Treasurer. These monies are invested in securities authorized under Sections 27 to 31 of the Trustee Act and income thus earned accrues to TAF.

TAF’s investment policy states that the investment limits as percentages of TAF's net asset value are as follows: direct investments up to 60%, publicly-traded equities up to 55%, alternative investments (which includes private equities) up to 15%, and a minimum of 20% in fixed income.

TAF's equity instruments are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values. The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data.

As at December 31, 2022 and 2021, all marketable securities are classified as Level 1.

	2022				2021
	Toronto	Ontario	Canada	Total	Total
TD Emerald Canadian Bond Pooled Fund Trust	$ 865,173	$ 1,275,692	$ 2,896,511	$ 5,037,376	$ 5,700,964
TD Short Term Bond Fund, O-Series	-	-	-	-	7,485,411
TD Emerald Canadian Short Term Investment Fund	6,669,292	6,493,208	14,304,480	27,466,980	22,787,224
TD Greystone Short Bond Plus Fund	926,365	1,144,227	5,108,219	7,178,811	-
Greenchip Global Equity Fund	6,723,305	3,142,240	5,528,481	15,394,026	14,885,206
Generation IM Global Equity A Shares A32	7,876,402	4,218,900	8,114,646	20,209,948	28,888,818
NEI Environmental Leaders Fund	1,076,600	643,582	1,272,944	2,993,126	3,587,028
Dimensional Global Sustainability Core Equity Fund	2,731,244	613,239	1,071,385	4,415,868	5,068,126
Total investments in marketable securities	$ 26,868,381	$ 17,531,088	$ 38,296,666	$ 82,696,135	$ 88,402,777

6. INVESTMENTS IN PRIVATE FUNDS

Investment in private funds are valued at cost as market value is not readily determinable. Investment in private funds are comprised of:

	2022				2021
	Toronto	Ontario	Canada	Total	Total
InvestEco Private Equity Fund III, LP	$ 937	$ -	$ -	$ 937	$ 217,476
InvestEco Sustainable Food Fund	35,971	-	-	35,971	69,070
InvestEco Sustainable Food Fund III	49,196	25,344	-	74,540	34,254
Greensoil Building Innovation Fund	242,242	226,751	-	468,993	513,469
Greensoil Property Fund Tech Fund	-	50,069	200,021	250,090	205,453
One Planet Living Fund	-	78,774	315,095	393,869	250,000
Active Improvements	-	32,102	128,409	160,511	50,511
Spring Lane Capital Fund II	-	6,030	24,120	30,150	-
Uncommon LP	490,672	261,677	555,960	1,308,309	-
Total investments in private funds	$ 819,018	$ 680,747	$ 1,223,605	$ 2,723,370	$ 1,340,233

TAF's Board of Directors approved participation of up to $500,000 USD in the Greensoil Building Innovation Fund. As at December 31, 2022, $346,274 USD ($468,993 CAD) had been advanced to date. TAF's Board of Directors also approved participation of up to $150,000 in the InvestEco Sustainable Food Fund III. As at December 31, 2022, $74,540 had been advanced to date.

7. ENERGY SAVINGS PERFORMANCE AGREEMENTS

In 2012, TAF began marketing a financing program based on its proprietary Energy Savings Performance Agreement ("ESPA"), which enables building owners to retrofit and upgrade their buildings' energy performance. The ESPA is a multi-year performance contract between TAF and a building owner where TAF provides a turnkey energy efficiency retrofit for the owner who undertakes to re-pay TAF from realized energy cost savings. The installation process is managed by pre-qualified engineering firms who perform investment grade energy audits and use proven energy-saving technologies to achieve significant savings in both energy consumption and cash flow for building owners to make energy retrofits economically feasible.

Under an ESPA, the building owner remits to TAF a significant portion (typically 90%) of their actual energy savings based on an investment grade energy audit performed before installation. The energy savings are remitted monthly to TAF for up to 10 years until TAF recovers its capital plus a financial return. The equipment installed in the building under an ESPA is the property of TAF and is part of TAF's capital assets. At the end of the agreement, ownership of the equipment is transferred to the building owner.

Efficiency Capital (EC) Inc. ("EC Inc.") is the exclusive licensee of TAF's ESPA program and can finance projects under TAF's warehouse financing facility ("Warehouse Facility"). Under the Warehouse Facility, TAF enters into ESPAs with building owner clients which EC Inc. will administer for a fee. Under the agreement with EC Inc., TAF has the right to purchase a limited number of shares of EC Inc. at a discount at a future date upon the completion of certain milestone events. As at December 31, 2022, such events have not yet occurred, and the value of the rights has not been included in these consolidated financial statements.

TAF's financial risk related to ESPA retrofit projects is mitigated by: (1) review of project economics and building owner's creditworthiness with TAF's Investment Committee; (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, 2022, there were 6 (2021 - 8) active ESPA projects. The total depreciated value of the ESPA capital assets, net of rebates and incentives amounts to $3,111,759 (2021 - $4,527,826). The ESPAs have a term ranging from 8.5 to 15 years.

The cash flow from three active ESPA projects are pledged as security for third party loans as discussed in note 13. The total revenue from those active ESPA projects amounted to $161,088 (2021 - $161,088).

8. CAPITAL ASSETS

Capital assets consist of the following:

	2022		2021	
	Cost	Accumulated amortization	Cost	Accumulated amortization
ESPA capital assets (note 7)	$ 7,235,025	$ 4,123,266	$ 8,199,349	$ 3,671,523
Office improvements	395,053	324,321	374,686	259,132
	7,630,078	$ 4,447,587	8,574,035	$ 3,930,655
Accumulated amortization	(4,447,587)		(3,930,655)	
	3,182,491		4,643,380	
Less provisions related to ESPA	(127,300)		(203,500)	
	$ 3,055,191		$ 4,439,880	

9. CREDIT FACILITY

TAF has a revolving line of credit with a Canadian chartered bank repayable on demand with interest rate calculated at the bank’s prime rate plus 0.50% per annum. The credit limit is the lesser of $3.07 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, 2022 was $1,960,000 (2021 - $nil).

Public Equities and fixed income investments are periodically redeemed to provide cash for operations and investments. Due to the decline in investment markets in 2022 and the fall of the public and fixed income portfolio investments, TAF was motivated to avoid redeeming investments during fiscal 2022. To meet its liquidity requirements, TAF utilized its existing line of credit during fiscal 2022. As at December 31, 2022, the line of credit had an outstanding balance of $1,960,000. Subsequent to year end, $6,500,000 in fixed income investments were redeemed and the line of credit fully paid down with excess cash going into the operating bank accounts.

10. GRANTS APPROVED AND PAYABLE

Grants are funded from the Toronto, Ontario and/or Canada 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:

	2022	2021
Balance, beginning of year	$ 805,493	$ 878,091
Grants approved during the year	1,651,928	1,430,993
Grants rescinded during the year	-	-
Grants paid during the year	(1,193,645)	(1,503,591)
Closing balance	$ 1,263,776	$ 805,493

11. DEFERRED CONTRIBUTIONS

External revenues received by TAF which are externally restricted for project expenditures in the future are deferred and recognized as revenue in the year the expenditures are incurred.

	2022	2021
External funding brought forward from prior year	$ -	$ 135,496
External funding received during the year	1,441,741	148,037
Total external funding committed to TAF	1,441,741	283,533
External funding recognized - City of Toronto fund	666,242	120,632
External funding recognized - Province of Ontario fund	313,654	42,029
External funding recognized - Government of Canada fund	150,500	120,872
	1,130,396	283,533
External funding carried forward into subsequent year	$ 311,345	$ -

12. CANADA OPERATING FUND

During 2020, TAF received $2 million from the Government of Canada, via the Federation of Canadian Municipalities, as an operating fund to support eligible operating expenditure. The balance of unspent operating fund is included in the externally restricted fund - Government of Canada.

	2022	2021
Operating fund brought forward from prior year	$ 1,495,828	$ 1,795,828
Operating fund received during the year	-	-
Total external funding committed to TAF	1,495,828	1,795,828
Operating fund expenditure to date:		
Program deliveries	195,860	150,500
Salaries and employee benefits	8,700	100,000
Corporate expenses	7,940	49,500
	212,500	300,000
Operating fund carried forward into subsequent year	$ 1,283,328	$ 1,495,828

13. LONG-TERM DEBT

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

For those third party loans secured by cash flows from an ESPA project, TAF's total liability is limited to the lesser of the principle or the secured cash flow of the related ESPA. Any default of the secured ESPA by the building owner would result in a revaluation of the future cash outflows of the loan. These third party loans bears interest at 4% to 6%.

	2022	2021
FCM loan - 1.75% interest, due May 20, 2026, repayable in blended semi-annual installments of $154,111, secured by the investment portfolio	$ 1,186,841	$ 1,470,574
Third party loan A - due February 2, 2026, repayable in blended quarterly installments of $7,906, secured by a portion of the future cash flows from an ESPA project	88,651	113,630
Third party loan B - term expired, remaining payable amount due on demand and under negotiation, secured by a portion of the future cash flows from an ESPA project	81,735	81,735
Third party loan C - due March 2, 2026, repayable in blended quarterly installments of $9,578, secured by a portion of the future cash flows from an ESPA project	115,204	147,398
Third party loan D - due February 1, 2028, repayable in blended quarterly installments of $2,689, secured by a portion of the future cash flows from an ESPA project	49,365	57,388
Third party loan E - due February 1, 2028, repayable in blended quarterly installments of $2,689, secured by a portion of the future cash flows from an ESPA project	49,365	57,388
	1,571,161	1,928,113
Less current portion	447,898	439,048
	$ 1,123,263	$ 1,489,065

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

2023	$ 447,898
2024	375,303
2025	384,757
2026	336,939
2027 and thereafter	26,264
	$ 1,571,161

Interest expense of $46,585 (2021 - $67,650) relating to long-term debt has been included in program delivery.

14. 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:

	2022	2021
Opening balance and original fund principal	$ 42,208	$ 40,008
Income attributed from TAF	2,321	2,200
Closing balance	$ 44,529	$ 42,208

15. INTERNALLY RESTRICTED FUND - STABILIZATION FUND

In keeping with best practice for endowments, the Stabilization Fund was established in 2003 to enable TAF to reduce variability in its program spending due to fluctuating financial markets which directly impact TAF's investment income.

Any investment income from marketable securities which exceeds the long-term average rate of return assumed in the annual budget is added to the Stabilization Fund. Similarly, when such investment income falls below the budgeted amount, the shortfall may be withdrawn from the Stabilization Fund. TAF caps its Stabilization Fund to a maximum of 25% of its net asset value.

As the marketable securities portfolio yielded returns below projections, withdrawals from the Stabilization Funds are being made, specifically, $4,245,402 from the Toronto Stabilization Fund (2021 - addition of $522,938); a withdrawal of $2,456,504 from the Ontario Stabilization Fund (2021 - addition of $769,797); and a withdrawal of $1,713,979 to the Canada Stabilization Fund (2021 - addition of $791,201).

16. SALARY ALLOCATION TO PROGRAM DELIVERY

TAF's practice is to allocate program-related staff costs to the program delivery expenditure line. The percent of staff costs allocated to the program delivery expenditure was 80% (2021 - 80%). In 2022 all staff additions were program related.

17. CORPORATE EXPENSES

Corporate expenses include activities related to corporate communications, governance, organizational development, operations and administration. TAF shares its premises and certain office services with CAP, and 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.

18. COMMITMENTS AND CONTINGENCIES

EC Inc. is an exclusive licensee of TAF's ESPA program for the purpose of scaling up TAF's financing method for energy retrofit projects in buildings. TAF has two financing commitments for the purpose of assisting EC Inc.'s capital mobilization. Both financing commitments are revolving and thus can be repaid anytime if EC Inc. can refinance using external capital:

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

19. TAF BUDGET FISCAL YEAR 2022

TAF is a self-sustaining endowment fund, and it does not draw on the tax base of the City, the Province or the Federal government. Financial reports against the budget are provided to the Board of Directors quarterly. TAF's annual budget is as follows:

	2022 (in $ Thousands)	2021 (in $ Thousands)
Revenue		
Investment portfolio revenues*	$ 5,540	$ 3,800
Loan interest and transaction fees	1,460	1,840
External funding	1,520	1,690
Allocation from TAF's capital - if required	455	570
Total revenue	$ 8,975	$ 7,900
Program delivery expenditures		
Strategic programs	$ 5,885	$ 4,370
New and committed grants	1,700	1,620
Total programs and projects	7,585	5,990
Administration (including amortization)	1,390	1,910
Total expenditures	$ 8,975	$ 7,900

* Based on mark-to-market valuation assumption.

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:

	2022	2021
Assets		
Cash	$ 5,947	$ 6,111
Liabilities		
Due to TAF	$ 298,664	$ 298,664
Equity		
Capital	1	1
Deficit	(292,717)	(292,553)
	$ 5,947	$ 6,111

	2022	2021
Expenses		
Bank charges	$ 164	$ 15
Net loss	$ (164)	$ (15)

21. COMPARATIVE FIGURES

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