

ANNUAL REPORT

The copy below is from an annual report I drafted for Crown corporation Pacific Carbon Trust. I have extensive experience writing and editing all types of corporate communications, including technical backgrounders, service plans, executive messages and bios.





Pacific Carbon Trust

Annual Report 2013/2014



June 2014



Message from the Chair to the Minister Responsible

The Honourable Michael de Jong
Minister of Finance
Government of British Columbia

Dear Minister,

On behalf of Pacific Carbon Trust, I am pleased to present our *Annual Report 2013/2014*, which summarizes our activities over the last year.

During fiscal year 2013/14, Pacific Carbon Trust retired 761,368 tonnes of offsets on behalf of BC's 128 provincial public-sector organizations. The 2012 Carbon Neutral Government Offset Portfolio comprised 26 projects from across BC sectors, including land-based and industrial forestry, transportation, agriculture, community landfills, buildings, and the oil and gas sector. Outside of its Carbon Neutral Government commitments, Pacific Carbon Trust helped 10 local governments achieve carbon neutrality under the BC Climate Action Charter.

Pacific Carbon Trust continued to work to provide comprehensive guidance for offset project proponents and to implement continuous improvement in its procurement, risk management and due diligence efforts.

In November 2013, government announced it would transition the functions of Pacific Carbon Trust into the Climate Action Secretariat in the Ministry of Environment, maintaining government's commitment to climate leadership and a carbon-neutral public sector. This move is anticipated to generate a savings of approximately \$5.6 million annually by 2015/16. The previous Pacific Carbon Trust Board was dissolved on November 13, 2013 and I was appointed sole director and chair to oversee the orderly wind down of the corporation.

Pacific Carbon Trust is completing the acquisition and delivery of offsets to meet the 2013 public-sector carbon-neutrality requirement by the end of June 2014. The corporation will be dissolved later in fiscal 2014/15. Due to the closure, some other 2012/13 to 2014/15 service plan targets have not been met; these are noted in this report.

As announced, Pacific Carbon Trust's accumulated surplus will be returned to government as part of the dissolution. At the end of fiscal year 2013/14, the organization's accumulated surplus was \$31.98 million. Revenues were slightly below budget, as were expenditures, which were reduced as operations were scaled down and transitioned into government.

Pacific Carbon Trust's *Annual Report 2013/2014* was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The report is consistent with government's strategic priorities and fiscal plan. As chair, I am accountable for the contents of the report, including the information and how it is prepared.

The information reflects the actual performance of Pacific Carbon Trust for the 12 months ended March 31, 2014 in relation to the revised service plan published in June 2013. As chair, I have been responsible for ensuring internal controls are in place to see that the information is measured and reported accurately and in a timely fashion.

All significant assumptions and risks identified as of June 1, 2014 have been considered in preparing this report, and the information contained herein is complete, accurate and in compliance with the shareholder's direction. The performance measures are consistent with Pacific Carbon Trust's mandate and goals, and focus on aspects critical to the organization's success.

A handwritten signature in black ink, appearing to read 'W. Shoemaker', with a long horizontal flourish extending to the right.

Wes Shoemaker
Deputy Minister of Environment and
Director and Chair, Pacific Carbon Trust

Contents

Message from the Chair to the Minister Responsible	1
1. Organization Overview	5
2. Corporate Governance	6
3. Report on Performance	7
Goals, strategies, performance measures and targets	7
Goal 1: An organization that delivers a high-quality, cost-effective and diversified carbon offset portfolio.	7
Goal 2: An organization that is highly valued by the public sector, the broader public and industry.	11
Goal 3: An effective, environmentally responsible organization known for its industry expertise.	12
4. Risks and Opportunities	13
5. Progress against Government’s Letter of Expectations	14
6. Financial Report	15
Management Discussion and Analysis	15
Revenue and Expenditure – Comparison to Budget and Prior Year	16
Statement of Management Responsibility	17
Independent Auditor’s Report	18
Financial Statements	20
Notes to Financial Statements	24



I. Organization Overview

Pacific Carbon Trust is a BC Crown Corporation responsible for purchasing BC-based offsets that are in compliance with the BC Emission Offsets Regulation, ensuring carbon neutral government-compliant offsets build on recognized international standards.

A carbon offset represents a quantified reduction in greenhouse gas emissions generated from activities that avoid or absorb (sequester) greenhouse gases in one location to compensate for, or “offset,” emissions in another.

Enabling Legislation

Pacific Carbon Trust was incorporated as a Crown corporation in March 2008 under the *Business Corporations Act*. The corporation is owned by the Province of British Columbia and reports to the Minister of Finance.

Mandate

Pacific Carbon Trust was created to deliver high-quality BC-based greenhouse gas offsets to help the public sector and other clients achieve carbon neutrality and to foster the growth of the low-carbon economy in BC. Pacific Carbon Trust benefits the public and the economy by:

- Establishing a strong offset business sector in BC;
- Improving the environment by incentivising greenhouse gas reduction activities;
- Helping government meet its legislated obligations to carbon neutrality;
- Creating and supporting jobs in rural and urban areas through public and private investment;
- Providing economic opportunities for BC business in the clean technology sector and in traditional sectors implementing new technology;
- Helping traditional industries such as pulp and paper remain competitive and innovative; and
- Providing a focal point for industry to leverage new approaches to investing in a low-carbon economy.

Business Model

Pacific Carbon Trust's business model focuses on creating a portfolio of offsets from a diverse range of activities, sectors and geographic locations within BC. The corporation's business lines include business development and carbon offset deliveries supported by a strong financial and risk-management infrastructure. As a Crown Corporation, Pacific Carbon Trust is also transparent and publicly accountable in its performance and operations.

2. Corporate Governance

Prior to government's decision to close Pacific Carbon Trust, the corporation was governed by a six-member board and guided by a Government Letter of Expectations (GLE).

On November 13, 2013, the Pacific Carbon Trust board of directors was dissolved and Wes Shoemaker, Deputy Minister of Environment, was appointed sole director and chair. A small staff is working under the chair's direction to complete the orderly wind down and to transition the program to the Ministry of Environment's Climate Action Secretariat.

As of April 1, 2014, five business development staff positions – including offset acquisition and risk and delivery management – will continue within the Ministry of Environment as the Climate Investment Branch.



3. Report on Performance

Goals, strategies, performance measures and targets

GOALS	Goal 1 An organization that delivers a high-quality, cost-effective and diversified carbon offset portfolio.		Goal 2 An organization that is highly valued by the public sector, the broader public and industry.		Goal 3 An effective, environmentally responsible organization known for its industry expertise.	
	Competitively negotiate offset deals while ensuring offset quality and diversity.		Implement and execute a sales strategy to deliver offsets to a broad base of clients.		Continually find ways to improve operational efficiencies and service for clients and suppliers.	
	Monitor and maintain an appropriate level of risk in the project portfolio.		Promote accuracy and transparency in offsetting greenhouse gas emissions.		Foster offset expertise by encouraging staff development and building industry relationships.	
STRATEGIES	Implement mechanisms that support the growth of BC-based clean technologies.		Work with offset market participants and stakeholders to build expertise and drive growth in the carbon market.		Build a team of high-performing professionals by developing shared values to guide decisions.	
	Manage a portfolio of offset projects sourced from across BC's regions and industries.		Maintain a balanced offset portfolio to stimulate a low-carbon economy.		Be transparent and accountable in all business activities.	
	PM 1: Percentage of public and private client demand met.		PM 2: Average price paid for offsets.		PM 3: Percentage of stakeholders with a positive opinion of PCT.	
PERFORMANCE MEASURES					PM 4: Lower-than-average organizational carbon footprint.	
					PM 5: Number of partnership agreements.	

Goal 1: An organization that delivers a high-quality, cost-effective and diversified carbon offset portfolio.

For the 2012 carbon neutral year, Pacific Carbon Trust delivered 761,368 tonnes of offsets on behalf of BC's 128 provincial public-sector organizations. These offsets were sourced from 26 projects spanning six economic regions and eight sectors. They included PCT's first initiative in transportation – a project with BC Transit and TransLink in Whistler and the Lower Mainland that made important inroads into the sector that accounts for the largest share (36 percent) of provincial GHG emissions. Pacific Carbon Trust also acquired offsets from two First Nations forestry projects: Nanwakolas and Great Bear Initiative. Revenues from these projects will contribute to the development of a conservation economy while protecting regional ecosystems and important cultural values.

All offsets in the 2012 portfolio are in compliance with the emission offsets regulation (EOR) established under the British Columbia *Greenhouse Gas Reduction Targets Act*, and were audited by independent firms accredited by the International Standards Organization.

Table 1: 2012 Carbon Neutral Government Portfolio (retired in June 2013)

Project	Economic Region	Validator	Verifier	Number of Offsets
Biomass Fuel Switch (Interfor)	Thompson/Okanagan	KPMG	Conestoga-Rovers & Assoc.	17,088
Boiler Upgrades to Increase Thermal Efficiency (Canfor Pulp RB #1)	Cariboo	Ernst & Young	KPMG	42,723
Bus Fuel Switch (BC Transit/TransLink)	Mainland/Southwest	KPMG	First Environment	26,606
Cement Plant Fuel-Switching (Lafarge)	Mainland/Southwest	Conestoga-Rovers & Assoc.	KPMG	587
Clean Tech Biomass Gasification (Kruger Products)	Mainland/Southwest	Ernst & Young	Ruby Canyon Engineering	19,730
Electrification of Gas Processing Plant (CNRL)	Northeast	Stantec	Ruby Canyon Engineering	31,964
Fuel Switching (Neucel)	Vancouver Island/Coast	Ruby Canyon Engineering	Ernst & Young	7,111
Engine Fuel Gas Management Program of Activities (Blue Source)	Northeast	Stantec	Ruby Canyon Engineering	19,643
Greenhouse Energy Efficiency (Randhawa Farms)	Mainland/Southwest	Williams Engineering Canada Inc.	Ernst & Young	78
Greenhouse Fuel Switch (Katatheon Farms)	Mainland/Southwest	Stantec	Ernst & Young	1,893
Greenhouse Fuel Switch (Sun Select Farms)	Mainland/Southwest	Stantec	Ernst & Young	14,653
Hybrid Heating System (ENBALA)	Mainland/Southwest and Thompson/Okanagan	Envirochem	KPMG	99
Improved Forest Management (Great Bear Initiative)	North Coast	Stantec	KPMG	220,699
Improved Forest Management (Nanwakolas)	Vancouver Island/Coast	Stantec	KPMG	105,000
Improved Forest Management (TimberWest)	Vancouver Island/Coast	KPMG	SCS Global Services	52,279
Landfill Methane Conversion (Salmon Arm Regional Landfill)	Thompson/Okanagan	KPMG	Ruby Canyon Engineering	12,393

Table 1: 2012 Carbon Neutral Government Portfolio (retired in June 2013)

Project	Economic Region	Validator	Verifier	Number of Offsets
Low Emissions Facility (ARC Resources)	Northeast	Ruby Canyon Engineering	KPMG	82,429
Low-Carbon Cement Production (Lafarge)	Mainland/Southwest	Conestoga-Rovers & Assoc.	KPMG	5,052
Methane Capture (Foothills Boulevard Regional Landfill)	Cariboo	Ruby Canyon Engineering	NSF International Strategic Registrations	18,154
Natural Gas Pipeline Venting Reduction (Spectra)	Northeast	Stantec	Ernst & Young	1,859
Renewable Power Installation (Apache)	Northeast	Stantec	Ruby Canyon Engineering	31,915
Side Stream Scrubber & Hog System Upgrade (Canfor Pulp PB #4)	Cariboo	Ernst & Young	KPMG	14,282
Wood Residuals Fuel Switch (Canfor, Chetwynd)	Northeast	KPMG	PwC	9,647
Wood Residuals Fuel Switch (Canfor, Fort St. John)	Northeast	KPMG	Ernst & Young	6,616
Wood Residuals Fuel Switch (Canfor, Mackenzie)	Cariboo	KPMG	PwC	11,212
Wood Residuals Fuel Switch (Canfor, Prince George)	Cariboo	KPMG	PwC	7,656
Total Offsets				761,368 tonnes¹

Note: 761,368 reflects the number of tonnes retired in June 2013 on behalf of BC's 128 provincial public-sector organizations. This includes 752,298 tonnes retired to achieve Carbon Neutral Government for calendar year 2012. In addition, it includes 9,070 extra tonnes, retired to offset adjustments to 2010 and 2011 public-sector emissions and previous years' travel emissions.

¹ 761,368 reflects the number of tonnes retired in June 2013 on behalf of BC's 128 provincial public-sector organizations. In addition, PCT retired 10,186 tonnes for private-sector clients, including municipalities. This total retirement of 771,554 tonnes is noted in this report's financial statements.

Performance Measure 1	Actual 2011/12	Actual 2012/13	2013/14 Target	Actual 2013/14
Percentage of public and private client demand met	100%	100%	100%	100%

This data is reliable and verifiable by direct inspection.
 Source: Pacific Carbon Trust and Ministry of Technology, Innovation and Citizens' Services.

Pacific Carbon Trust achieved its 2013/14 goal, meeting 100 percent of purchase orders, and meeting them on time. The organization also secured the necessary carbon offsets to ensure the Province of BC and the broader public sector will be carbon neutral for calendar year 2013 by June 30, 2014.

Performance Measure 2	Actual 2011/12	Actual 2012/13	2013/14 Target	Actual 2013/14
Average price paid for offsets	\$12.83	\$11.92	Less than \$25	\$11.16

This data is reliable and verifiable by direct inspection.
 Source: Pacific Carbon Trust accounting and registry systems. All price information is available through [Pacific Carbon Trust](#).

Pacific Carbon Trust achieved its 2013/14 target, negotiating the purchase of offsets at much less than \$25 per tonne, on average. The current average Canadian retail offset price is \$25.88 per tonne.² In 2012/13 Pacific Carbon Trust transitioned to an open pricing system. Pricing data for the 2012 carbon neutral year is available by [PDF](#).



² Based on available data from the following Canadian offset retailers: Offsetters, Carbonzero, Less.ca, Planetair, Carbon Credit Canada and Air Canada.

Goal 2: An organization that is highly valued by the public sector, the broader public and industry.

With uncertainty around the future of Pacific Carbon Trust, outreach to non-offset suppliers was significantly reduced during the 2013/14 fiscal year. However, the ongoing mandate to acquire offsets to meet Carbon Neutral Government 2013 requirements meant that Pacific Carbon Trust continued to work with its BC industry suppliers and partners.

The corporation maintained its commitment to transparency, retiring offsets and publishing project information on the [Markit Environmental Registry](#) and reporting annually on the price paid per tonne of offsets.

Public Sector

Pacific Carbon Trust partnered with the Climate Action Secretariat to provide a number of webinars to update and inform public-sector stakeholders about the development of offset projects and to provide a mechanism for client feedback.

The Carbon Offset Advisory Panel, with representatives from public- and private-sector organizations, provided input into the portfolio objectives.

Pacific Carbon Trust also funded maintenance and improvements to SMARTTool, a software program developed by government to measure and report its greenhouse gas emissions.

Voluntary Clients

Local governments continued to see the value in Pacific Carbon Trust's portfolio of offsets. Through offset projects in six economic regions of the province, local governments were able to meet their BC Climate Action Charter commitments cost-effectively while supporting emission-reduction projects close to home. During the 2013/14 fiscal year, Pacific Carbon Trust helped 10 local governments achieve carbon neutrality, supporting these climate leaders with marketing and communications tools to help raise awareness in their communities.

As well, Pacific Carbon Trust partnered with Climate Smart (a Vancouver-based environmental training program for small and medium-sized enterprises) and with FortisBC to deliver a series of seminars to 20 community businesses interested in learning how to reduce their emissions.

Industry

Pacific Carbon Trust continued its industry outreach activities in 2013, providing a forum for carbon experts, BC business sectors and local governments to offer input into BC's carbon market, share best practices and learn about carbon markets in other jurisdictions.

Performance Measure 3	Actual 2011/12	Actual 2012/13	2013/14 Target	Actual 2013/14
Percentage of stakeholders with a positive opinion of PCT	78%	73%	90%	72%

This data is reliable and verifiable by direct inspection.

Source: Pacific Carbon Trust annual stakeholder satisfaction survey.

While satisfaction with Pacific Carbon Trust's role in the carbon market declined slightly from 2012, relationship value increased, as indicated by other survey measures related to business relationships and market insight. The 2013/14 survey polled 63 individuals from across Pacific Carbon Trust's stakeholder groups.

Goal 3: An effective, environmentally responsible organization known for its industry expertise.

In 2013/14, Pacific Carbon Trust continued to streamline internal processes and build expertise in the carbon market through seminars and workshops. Pacific Carbon Trust also met its corporate emissions target of less than 3.2 tonnes per FTE. The corporation maintained a minimal footprint in its operations and ensured that sustainability thrived within the culture of the organization. Employees used alternative methods of transportation (public transit, bike, foot) and voluntarily monitored GHG emissions from business travel.

Performance Measure 4	Actual 2011/12	Actual 2012/13	2013/14 Target	Actual 2013/14
Lower-than-average organizational carbon footprint (tonnes CO₂e per FTE)	1.8	1.2	Less than 3.2	1.0

This data is reliable and verifiable by direct inspection.

Source: Pacific Carbon Trust and Ministry of Technology, Innovation and Citizens' Services.

Pacific Carbon Trust surpassed its corporate emissions target of less than 3.2 tonnes per FTE. Total emissions for Pacific Carbon Trust in 2013 were 12 tonnes, comprising 10 tonnes from operations and 2 tonnes from employee business travel. Tonnes of emissions per employee were 1.0.³

Performance Measure 5	Actual 2011/12	Actual 2012/13	2013/14 Target	Actual 2013/14
Number of partnership agreements	N/A	N/A	9	N/A

With uncertainty around the future of Pacific Carbon Trust, the partnership agreements initiative was not carried out. This was to ensure that, in the event of the closure of Pacific Carbon Trust, government would not incur any additional liability.

³ Based on average FTE count for calendar year 2013. Employee count was variable in the period leading up to and following government's November 2013 announcement that Pacific Carbon Trust would be shut down.

4. Risks and Opportunities

	Impact on Pacific Carbon Trust	Action Taken
Opportunities (Not Applicable)		
Risks		
Uncertainty in BC carbon market	Short-term policy uncertainty and pause could lead to an inadequate supply of offsets.	<p>Pacific Carbon Trust contracted sufficient carbon offsets for the 2013/14 year and made contingency plans for purchasing additional offsets as needed.</p> <p>The Climate Action Secretariat (CAS) and Pacific Carbon Trust provided regular updates to suppliers and project developers.</p> <p>A revised procurement unit in CAS is developing a new procurement plan.</p>
Government core review decision	Necessity of an orderly transition and wind-down that includes the disposal and transfer of assets and liabilities.	<p>A Pacific Carbon Trust transition steering committee was formed to oversee the dissolution and transition.</p> <p>Reporting to the steering committee, a small transition team is implementing the plan.</p> <p>After proper review, assets and liabilities are being disposed of and transferred.</p>
Adequate staffing during transition	When the dissolution of Pacific Carbon Trust was announced, staff left for other positions inside and outside of government.	Key staff resources (leadership, finance and program) were secured for the transition and to deliver on the 2013 Carbon Neutral Government program.
Adequate financial controls and segregation	Importance of ensuring adequate financial control and segregation and oversight, despite fewer staff resources.	Monthly financial updates have been provided to the transition steering committee and adequate financial controls have been maintained.

Pacific Carbon Trust maintained adequate capacity levels to meet its primary objectives through the transition period for the 2013/14 fiscal year. The transition is proceeding in an orderly fashion under the guidance of a steering committee chaired by PCT chair Wes Shoemaker with representatives from the Ministry of Finance, Ministry of Environment, Pacific Carbon Trust, the legal services branch and the Public Service Agency.

5. Progress against Government's Letter of Expectations

Government's priorities and expectations for Pacific Carbon Trust are provided in the Government's Letter of Expectations (GLE). This annual letter sets out expectations the Minister of Finance, on behalf of the Province, has in relation to the board of Pacific Carbon Trust.

Specific Direction to Pacific Carbon Trust	Progress
Deliver quality, BC-based greenhouse gas offsets to help clients meet their carbon reduction goals and to support the growth of the low-carbon economy in BC.	Pacific Carbon Trust successfully met three years of government carbon-neutrality requirements. Pacific Carbon Trust's activities have contributed to over \$300 million in leveraged private investment in BC.
Acquire a risk-managed, high-quality and diversified carbon offset portfolio that is independently reviewed and meets public- and private-sector carbon-neutrality commitments.	Pacific Carbon Trust established a portfolio of 32 offset projects in eight economic regions and communities across the province. All of the projects in the Pacific Carbon Trust offset portfolio are twice audited by independent ISO 14065-accredited third parties.
Secure new customers to purchase carbon products and drive revenue into the province.	In 2013/14, Pacific Carbon Trust helped 10 local governments and three new private-sector clients achieve carbon neutrality. As Pacific Carbon Trust's functions are transitioned into government, non-public-sector clients will obtain offsets from other sources. Pacific Carbon Trust has provided past clients with the names of alternate offset suppliers and registries.
Increase awareness within the public sector and broader public of the corporation's plans and accomplishments and of the role of carbon markets in climate-change policy.	Due to the ongoing review and eventual closure of Pacific Carbon Trust, this activity was not carried out.
Engage the carbon-market industry to support the growth of the low-carbon economy in BC and position the province to benefit from the emerging carbon markets.	Due to the ongoing review and eventual closure of Pacific Carbon Trust, this activity was not carried out.

6. Financial Report

Management Discussion and Analysis

- Pacific Carbon Trust purchased 510,795 carbon offsets in fiscal year 2013/14 and has contracted sufficient amounts of offsets to meet the demand of the BC government reporting entity.
- Pacific Carbon Trust retired 771,554 carbon offsets on the Markit Environmental Registry in fiscal year 2013/14. The revenue received for these offsets was recognized in the current fiscal year in accordance with the corporation's policy of recognizing offset revenue when the carbon offsets are retired.

Variations between Budget and Prior Year

Revenues

The budget for offset revenues was based on sales of 800,000 tonnes of offsets, while actual sales were 771,554 tonnes. The difference is largely due to variances in Public Sector Organizations' emissions, which are weather-dependent and thus difficult to accurately predict.

Interest revenue exceeded budget and the prior year due to the investment of additional surplus funds into higher-interest GICs.

Expenses

Operating expenses were less than both budget and the prior year, mainly due to the mid-year decision by the Province to transition the corporation's activities into government. Once this decision was made, the organization's staffing complement decreased progressively through the remainder of the year and operations were scaled back. Additionally, the variance between actual and budgeted offset sales as described in the revenue section above resulted in a lower cost of offsets sold.

Transition costs of \$163,000 were also incurred during the year as a result of the decision to wind up the corporation. These have been disclosed separately from regular operating costs and include employee severance, legal and other professional fees as well as losses realized on the disposal of capital assets.

Revenue and Expenditure – Comparison to Budget and Prior Year

Statement of operations and change in net assets

For the year ended March 31, 2014	Budget 2013/14 (\$000s)	Actual 2013/14 (\$000s)	Budget Variance (\$000s)	Actual 2012/13 (\$000s)	Year Variance (\$000s)
Revenues					
Offset revenue	\$ 20,000	\$ 19,288	\$ (712)	\$ 19,494	\$ (206)
Interest revenue	400	462	62	312	150
Total Revenues	<u>\$ 20,400</u>	<u>\$ 19,750</u>	<u>\$ (650)</u>	<u>\$ 19,806</u>	<u>\$ (56)</u>
Expenses					
Strategic Acquisitions					
- Salaries and Benefits	500	545	(45)	691	(146)
- Operating and Administration	10,680	9,169	1,511	9,477	308
- Professional Services	521	380	141	696	316
- Rent	78	74	4	100	26
- Amortization	33	21	12	28	7
	<u>11,812</u>	<u>10,189</u>	<u>1,623</u>	<u>10,992</u>	<u>511</u>
Business Development					
- Salaries and Benefits	943	706	237	790	84
- Operating and Administration	143	172	(29)	214	42
- Professional Services	632	480	152	769	289
- Rent	77	95	(18)	109	14
- Amortization	33	26	7	31	5
	<u>1,828</u>	<u>1,479</u>	<u>349</u>	<u>1,913</u>	<u>434</u>
Finance and Operations					
- Salaries and Benefits	517	387	130	500	113
- Operating and Administration	143	81	62	124	43
- Professional Services	547	358	189	579	221
- Rent	77	54	23	74	20
- Amortization	33	14	19	20	6
	<u>1,317</u>	<u>894</u>	<u>423</u>	<u>1,297</u>	<u>403</u>
Total Operating Expenses	<u>14,957</u>	<u>12,562</u>	<u>2,395</u>	<u>14,202</u>	<u>1,348</u>
Net results from operations	5,443	7,188	(1,745)	5,604	(1,404)
Transition costs	-	163	(163)	-	-
Surplus (Deficit) for the year	<u>\$ 5,443</u>	<u>7,025</u>	<u>\$ 1,582</u>	<u>5,604</u>	<u>\$ 1,421</u>
Accumulated Surplus, beginning of year		<u>24,955</u>		<u>19,351</u>	
Accumulated Surplus, end of year		<u>\$ 31,980</u>		<u>\$ 24,955</u>	

Statement of Management Responsibility

For the year ended March 31, 2014

The financial statements of Pacific Carbon Trust have been prepared by management in accordance with Canadian public sector generally accepted accounting principles as established by the Public Sector Accounting Board and fairly present Pacific Carbon Trust's financial position and results of operations.

The integrity of the information presented in the financial statements, including estimates and judgements relating to matters not concluded by fiscal year end, is the responsibility of management.

Management is responsible for establishing and maintaining appropriate systems of internal control (which include policies and procedures) to provide reasonable assurance that Pacific Carbon Trust's assets are safeguarded and that reliable financial records are maintained.

Grant Thornton LLP, independent external auditors, have been appointed by the Board of Directors to perform an independent audit of the financial statements. The Independent Auditors' report of Grant Thornton LLP is attached, outlining the scope of their examination and providing an opinion on the financial statements of Pacific Carbon Trust.



Michael Lord, CPA, CA
CFO, Corporate Services for the
Natural Resource Sector

May 22, 2014





Independent auditor's report

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To the Board of Directors of Pacific Carbon Trust,

We have audited the accompanying financial statements of the Pacific Carbon Trust, which comprise the statement of financial position as at March 31, 2014 and the statements of operations, changes in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements of the Pacific Carbon Trust in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Pacific Carbon Trust as at March 31, 2014, and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

The financial statements of Pacific Carbon Trust for the year ended March 31, 2013, were audited by another auditor who expressed an unmodified opinion on those statements on June 24, 2013.

Victoria, Canada
May 22, 2014

The signature of Grant Thornton LLP is written in a cursive, handwritten style.

Chartered accountants

Financial Statements

(Expressed in Canadian dollars)
For the year ended March 31, 2014

PACIFIC CARBON TRUST

Statement of Financial Position at March 31, 2014

	Note	2014	2013
Financial Assets			
Cash and equivalents	4	\$ 2,535,512	\$ 4,286,694
Investments	5	28,000,000	16,000,000
Accounts receivable	6	140,031	354,684
Carbon offset inventory	11	6,486,201	8,769,856
Total Financial Assets		37,161,744	29,411,234
Financial Liabilities			
Accounts payable and accruals	7	2,746,176	1,795,482
Deferred revenue	8	2,452,222	2,855,595
Total Financial Liabilities		5,198,398	4,651,077
Net Financial Assets		31,963,346	24,760,157
Non-Financial Assets			
Prepaid expenses	9	8,840	61,015
Tangible capital assets	10	8,330	133,931
Total Non-Financial Assets		17,170	194,946
Accumulated Surplus		\$ 31,980,516	\$ 24,955,103

The accompanying notes are an integral part of these financial statements.



Wes Shoemaker, Chair
Pacific Carbon Trust Inc.



Michael Lord, CPA, CA
CFO, Corporate Services for the
Natural Resource Sector

PACIFIC CARBON TRUST

Statement of Operations for the Year Ended March 31, 2014

	Note	Budget	2014	2013
		(Note 3c)		
Revenues				
Offset revenue		\$ 20,000,000	\$ 19,288,340	\$ 19,493,610
Interest revenue		400,000	461,516	312,677
Total Revenues		<u>20,400,000</u>	<u>19,749,856</u>	<u>19,806,287</u>
Expenses	11			
Strategic Acquisitions		11,812,000	10,189,501	10,991,420
Business Development		1,828,000	1,478,741	1,912,440
Finance and Operations		1,317,000	893,044	1,297,861
Total Operating Expenses		<u>14,957,000</u>	<u>12,561,286</u>	<u>14,201,721</u>
Net results from operations		5,443,000	7,188,570	5,604,566
Transition costs	16	-	163,157	-
Annual Operating Surplus		<u>\$ 5,443,000</u>	7,025,413	5,604,566
Accumulated Surplus, beginning of year			24,955,103	19,350,537
Accumulated Surplus, end of year			<u>\$ 31,980,516</u>	<u>\$ 24,955,103</u>

The accompanying notes are an integral part of these financial statements.

PACIFIC CARBON TRUST

Statement of Change in Net Financial Assets for the Year Ended March 31, 2014

	Budget	2014	2013
	(Note 3c)		
Annual operating surplus	\$ 5,443,000	\$ 7,025,413	\$ 5,604,566
Effect of change in tangible capital assets:			
(Acquisition) of tangible capital assets	-	-	(7,604)
Disposals of tangible capital assets	-	64,619	796
Amortization of tangible capital assets	-	60,982	78,939
	-	125,601	72,131
Effect of change prepaid expenses:			
(Acquisition) of prepaid expenses	-	(19,321)	(92,485)
Use of prepaid expenses	-	71,496	84,501
	-	52,175	(7,984)
Increase in Net Financial Assets	\$ 5,443,000	7,203,189	5,668,713
Net Financial Assets, beginning of year		24,760,157	19,091,444
Net Financial Assets, end of year		\$ 31,963,346	\$ 24,760,157

The accompanying notes are an integral part of these financial statements.

PACIFIC CARBON TRUST

Statement of Cash Flows for the Year Ended March 31, 2014

	2014	2013
Operating Transactions		
Surplus for the year	\$ 7,025,413	\$ 5,604,566
Non-cash items included in surplus:		
Loss on disposal of assets	12,228	796
Amortization of tangible capital assets	60,982	78,939
	<u>7,098,623</u>	<u>5,684,301</u>
Changes in operating accounts		
Accounts Receivable	214,653	(263,066)
Accounts payable and accruals	950,694	234,876
Prepaid expenses	52,175	(7,984)
Inventory	2,283,655	(850,720)
Deferred revenue	(403,373)	(3,321,470)
	<u>10,196,427</u>	<u>1,475,937</u>
Investing Transactions		
Purchase of investments	(12,000,000)	(16,000,000)
	<u>(12,000,000)</u>	<u>(16,000,000)</u>
Capital Transactions		
Tangible capital assets acquired	-	(7,604)
Proceeds on disposal	52,391	-
	<u>52,391</u>	<u>(7,604)</u>
Cash used for from capital	(1,751,182)	(14,531,667)
Decrease in cash and cash equivalents	(1,751,182)	(14,531,667)
Cash and Cash Equivalents, beginning of period	4,286,694	18,818,361
Cash and Cash Equivalents, end of period	<u>\$ 2,535,512</u>	<u>\$ 4,286,694</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

March 31, 2014

1 Authority

The Pacific Carbon Trust Inc. (PCT) is a Crown corporation created by the Province of British Columbia on March 14, 2008 under the *Business Corporations Act*. PCT operates under the authority of the *Greenhouse Gas Reduction Targets Act*, the Emissions Offsets Regulation and the Carbon Neutral Government Regulation. Under the Carbon Neutral Government Regulation, the provincial government and government organizations are required to purchase carbon offsets from PCT in order to achieve carbon neutrality in each calendar year.

On November 19, 2013, the provincial government announced that PCT would be transitioned into government and appointed the Deputy Minister of Environment as the chair and director. It is anticipated that this transition will be completed in fiscal 2015.

2 Nature of Operations

The purpose of PCT is to acquire, deliver and retire greenhouse gas offsets on behalf of its clients, those being: the Government of British Columbia; all other public sector organizations to which the *Greenhouse Gas Reduction Targets Act* applies; and any other public agency, company or individual resident in British Columbia who PCT has agreed to serve.

PCT is obligated to purchase and retire approximately 800,000 tonnes of emission offsets for the province by June 30, 2014. This is based upon the calculated greenhouse gas (GHG) emissions for the province in calendar 2013, as reported according to the Carbon Neutral Government Regulation.

The Province provided PCT with an initial unrestricted operating grant of \$9 million in fiscal year 2008 and a further \$12 million in unrestricted operating grants which was paid in annual instalments of \$5 million in fiscal years 2009, 2010 and \$2 million in fiscal year 2011.

Accumulated Surplus includes one common share (\$1 par value) of the corporation held by the Minister of Finance on behalf of the Province of British Columbia.

PCT is subject to the Goods and Services Tax (GST). As a Crown corporation PCT is exempt from income taxes.

3 Summary of Significant Accounting Policies

Management has prepared these financial statements in accordance with Canadian public sector generally accepted accounting principles as established by the Public Sector Accounting Board.

Significant accounting policies followed in the preparation of these financial statements are:

a) Revenue Recognition

Revenues are recognized in the period in which the transactions or events occur that gave rise to the revenues.

Revenues for private client sales transactions are recognized when carbon offsets are retired on behalf of the purchasing party. These transactions occur throughout the operating period and are recognized to revenue in the month they occur.

Revenues for Government of British Columbia Public Service Organizations (PSOs) sales transactions are recognized when carbon offsets are retired on behalf of the PSOs. This is handled as one single retirement once the final requirement has been communicated to PCT and payment has been completed. PCT records this revenue recognition in June each year to coincide with the government's reporting of carbon year emission totals.

Notes to Financial Statements

March 31, 2014

Interest income is recognized in the period in which the interest is earned.

Funds received in advance of delivery of goods or services are recorded as deferred revenue in the Statement of Financial Position.

Government grants are recognized in the period they are received or receivable.

b) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Business unit expenditures relate to:

Strategic Acquisitions - responsible for purchasing offsets from BC-based projects that meet the requirements of the Ministry of Environment's Emission Offsets Regulation.

Finance and Operations - focuses on the strategic direction and corporate services of the company to ensure an effective, accountable and environmentally responsible organization.

Business Development - builds and manages relationships with clients, suppliers and other interested parties, e.g. the public or ministries.

c) Budget Figures

Budget figures have been provided for comparison purposes and have been derived from the estimates approved by the Board of Directors and published in the PCT Service Plan.

d) Financial Instruments

PCT's financial instruments consist of its cash, guaranteed investment certificates (GIC), accounts receivable, investments and accounts payable balances. All of PCT's financial instruments are recorded at amortized cost, which approximates market value. PCT does not have any derivative financial instruments or equity instruments.

Investments, described in Note 3(g), are recorded at amortized cost. Interest income is reported in the statement of operations and is based upon the effective interest rate method.

Financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A write-down of an investment to reflect a loss in value is not reversed for a subsequent increase in value.

PCT's financial liabilities are described in Note 7 below. PCT's financial instruments included in its financial liabilities comprise its accounts payable and accrued liabilities balances, both of which are recorded at amortized cost.

e) Cash

Cash includes cash on hand and demand deposits. Cash held in deposit accounts is not subject to a risk of change in value and is held for the purpose of meeting cash commitments rather than for investing.

f) Accounts Receivable

Accounts Receivable includes net GST receivable from the Government of Canada, proceeds on the disposal of capital assets and miscellaneous other amounts. No valuation allowance is considered necessary.

Notes to Financial Statements

March 31, 2014

g) Investments

Investments include amounts held in Guaranteed Investment Certificates. These investments mature within two years. PCT records these investments at amortized cost.

h) Inventory

Carbon offset inventories are held for resale and are recorded at the lower of cost or net realizable value. Cost of carbon offsets is comprised of the invoiced value of carbon offsets acquired. PCT only purchases offsets from projects that have received unqualified validation and verification audit opinions regarding assessment of compliance with the BC Emission Offsets Regulation.

i) Tangible Capital Assets

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

The cost, less residual value, of tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Furniture and equipment	-	5 years
Tenant improvements	-	the lesser of five years and the lease term
IT systems and hardware	-	3 years

Tangible capital assets are written down when conditions indicate that they no longer contribute to PCT's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations.

j) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 financial statements and the reported amounts of the revenues and other expenditures during the period. Items requiring the use of significant estimates include the useful life of capital assets.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

4 Cash

	2014	2013
Unrestricted cash	\$ 2,535,512	\$ 4,286,694
Total	<u>\$ 2,535,512</u>	<u>\$ 4,286,694</u>

Notes to Financial Statements

March 31, 2014

5 Investments

PCT holds 16 \$1,000,000 GICs maturing on June 3, 2014 and 12 \$1,000,000 GICs maturing December 11, 2014. The interest is paid monthly and reported as interest income.

	2014	2013
Guaranteed Investment Certificates	\$ 28,000,000	\$ 16,000,000
Total	\$ 28,000,000	\$ 16,000,000

6 Accounts Receivable

	2014	2013
Net GST/HST receivable	\$ 21,746	\$ 354,684
Other receivables	118,285	-
Total	\$ 140,031	\$ 354,684

7 Accounts Payable & Accrued Liabilities

Accounts payable and accrued liabilities consist primarily of carbon offset purchases payable, accrued salaries and benefits and accrued professional services.

	2014	2013
Carbon offset purchases payable	\$ 2,431,993	\$ 1,182,604
Accrued salaries and benefits	123,125	271,954
Accrued professional services	113,305	70,528
Other general payables	77,753	270,396
Total	\$ 2,746,176	\$ 1,795,482

8 Deferred Revenue

Deferred revenue primarily consists of funds received by PCT to pay for carbon offsets related to the provincial government and public sector employees. Funds received for offsets are deferred until such time as the offsets are retired on behalf of the purchaser.

	2014	2013
Opening balance	\$ 2,855,595	\$ 6,177,065
Net receipts during the year	18,884,692	16,172,140
Transferred to revenue	(19,288,065)	(19,493,610)
Closing balance	\$ 2,452,222	\$ 2,855,595

Notes to Financial Statements

March 31, 2014

9 Prepaid Expenses

Prepaid expenses are listed below and are charged to expense in the period in which they are consumed.

	2014	2013
Software license	\$ -	\$ 17,684
Insurance	-	7,800
Registry	8,840	-
Prepaid airfare	-	35,531
Total	<u>\$ 8,840</u>	<u>\$ 61,015</u>

10 Tangible Capital Assets

March 31, 2014	Furniture & Equipment	Leasehold Improvements	IT Systems & Hardware	Total
Historical cost				
Opening balance	\$ 190,070	\$ 70,230	\$ 59,392	\$ 319,692
Disposals	(184,841)	(70,230)	(43,569)	(298,640)
Closing balance	5,229	-	15,823	21,052
Accumulated amortization				
Opening balance	85,905	55,429	44,427	185,761
Amortization	38,014	12,893	10,075	60,982
Disposals	(121,827)	(68,322)	(43,872)	(234,021)
Closing balance	2,092	-	10,630	12,722
Net book value				
March 31, 2014	<u>\$ 3,137</u>	<u>\$ -</u>	<u>\$ 5,193</u>	<u>\$ 8,330</u>

March 31, 2013	Furniture & Equipment	Leasehold Improvements	IT Systems & Hardware	Total
Historical cost				
Opening balance	\$ 184,438	\$ 68,259	\$ 60,187	\$ 312,884
Additions/transfers	5,632	1,971	(795)	6,808
Closing balance	190,070	70,230	59,392	319,692
Accumulated amortization				
Opening balance	47,984	33,219	25,619	106,822
Amortization	37,921	22,210	18,808	78,939
Closing balance	85,905	55,429	44,427	185,761
Net book value				
March 31, 2013	<u>\$ 104,165</u>	<u>\$ 14,801</u>	<u>\$ 14,965</u>	<u>\$ 133,931</u>

Notes to Financial Statements

March 31, 2014

11 Expenditures by Type

The following is a summary of expenditures by type.

	2014	2013
Salaries and benefits	\$ 1,637,756	\$ 1,984,236
Operating and administration expenses	9,421,952	9,809,243
Professional services	1,217,420	2,045,719
Rent	223,175	283,584
Amortization	60,983	78,939
Total	<u>\$ 12,561,286</u>	<u>\$ 14,201,721</u>

Included in the 2014 Operating and administrative line of expenses are \$450,000 of inventory that was written down to its net realizable value during the year. This inventory was purchased from the Darkwoods Forest Conservation project in May 2011 and set aside in consideration of a pending BC provincial standard. The purchase contract required the inventory to be retired within three years. As the BC standard has been adopted by industry without further modification, and the deadline to retire the offsets was reached subsequent to year-end, the units were not marketable at March 31, 2014, and, therefore, have been expensed.

12 Contractual Obligations

PCT has entered into a number of multiple-year contracts for the delivery of services and carbon offset purchases. These contractual obligations will become liabilities in the future when the terms of the contracts are met. Disclosure relates to the unperformed portion of the contracts. Due to the planned transition of PCT into government, all contractual obligations will be either complete or transferred to government during fiscal 2015.

	2015
General services agreements	\$ 70,000
Offset purchase agreements	3,003,000

Notes to Financial Statements

March 31, 2014

13 Risk Management

PCT is exposed to the following credit, liquidity and market risks. PCT uses a corporate risk register to manage and monitor its risks and to report this information to its Board.

Credit Risk

Credit risk is the risk of financial loss to PCT if a counterparty to a financial instrument fails to meet its contractual obligations. Such risk arises from the financial assets of PCT, which comprise its cash, investments and accounts receivable.

PCT's investments are held in Guaranteed Investment Certificates issued by the Royal Bank of Canada and its accounts receivable are mainly receivable from the Governments of BC and Canada.

Accordingly, the risk of default to PCT on its financial assets is low due to the credit worthiness of its counterparties. None of PCT's financial assets are impaired or past-due.

Liquidity Risk

Liquidity risk arises when PCT is unable to meet its financial obligations as they become due. PCT's policy is to settle all financial obligations within 30 days. PCT's liquidity risk is insignificant since it maintains a sufficient amount of cash in its operating account to meet all financial obligations as they become due.

PCT's maximum exposure to liquidity risk is the carrying amounts of financial liabilities, disclosed in Note 7.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk and interest rate risk.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

PCT is not exposed to significant currency risk, as amounts held and purchases made in foreign currency are insignificant.

Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

PCT has minimal exposure to cash flow interest rate risks through its cash holdings that are at a floating rate. The majority of cash held by PCT is in GICs with terms of maturity no greater than two years.

Notes to Financial Statements

March 31, 2014

14 Pension Plan

PCT and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plans Act*. The British Columbia Pension Corporation administers the plan, including payment of pension benefits to employees to whom the act applies. The Public Service Pension Plan is a multi-employer, defined benefit plan. Under joint trusteeship, the risk and reward associated with the plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions. The most recent actuarial valuation (March 31, 2011) indicated that the plan has a \$226 million unfunded liability for basic pension benefits.

During the year ended March 31, 2014 PCT contributed \$117,531 (2013: \$131,527) to the plan. These contributions are recognized as PCT's pension benefit expense. No pension liability for this type of plan is included in the financial statements.

15 Related Party Transactions

PCT is related through common ownership to all provincial government ministries, agencies and Crown corporations. The majority of PCT's clients are expected to be provincial ministries, agencies and Crown corporations. In addition, executive management, members of the board of directors as well as immediate family members of senior management and board directors are considered related parties.

During the year, PCT had the following transactions with the government and other government-controlled organizations:

	2014	2013
Revenue		
Offset Sales to the Government of BC	\$ 19,034,200	\$ 19,399,700
Expenditures		
Salaries and benefits (Shared Services, BC Pension Corp.)	\$ 404,693	\$ 450,599
Professional services (SmartTool, Attorney General, Auditor General)	919,143	902,654
Operating and administration expenses (Workplace Technology Services, BC Stats, Ministry of Finance)	16,493	38,351
Rent (ARES)	194,118	245,129
Liabilities		
Accounts payable and accruals (Shared Services, BC Pension Corp., Auditor General)	\$ 36,790	\$ 108,191
Deferred revenue (Government of BC)	2,452,222	2,855,595

Notes to Financial Statements

March 31, 2014

16 Transition Costs

During the year, the following costs were incurred which are directly attributable to the transition of operations to the Ministry of Environment.

Severance	\$	63,400
Professional fees		79,514
Write-down of assets		19,994
Other		249
Total	\$	<u>163,157</u>



Pacific Carbon Trust

Pacific Carbon Trust

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