

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of the Pacific Carbon Trust is responsible for ensuring that the financial statements and other financial information are complete and accurate.

Management has prepared the financial statements in accordance with Canadian Generally Accepted Accounting Principles. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. Management does not believe it is likely that any differences will be material.

Management develops and maintains systems of control that give the board reasonable assurance that management has:

- operated within its authorized limits;
- safeguarded assets; and
- kept complete and accurate financial records.

The board is responsible for establishing prudent rules of business and staff conduct. It is the board's intention to create a corporation with the highest standard of ethics in all its activities.

The board is also responsible for ensuring that management fulfils its financial reporting and control responsibilities. An audit committee was established to oversee the financial reporting process. Its mandate includes oversight of the development of financial statements, adequacy of financial reporting, accounting systems and controls and communicating with auditors.

The Auditor General of BC has been retained as the external auditor for the fiscal period ending March 31, 2011. The Auditor General has examined the financial statements and his report follows.



D. Scott MacDonald
Chief Executive Officer



Kim Ewasechko
Managing Director

REPORT OF THE AUDITOR GENERAL OF BRITISH COLUMBIA



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Pacific Carbon Trust Inc., and
To the Deputy Premier and Minister of Finance, Province of British Columbia

Report on the Financial Statements

I have audited the accompanying financial statements of Pacific Carbon Trust Inc., which comprise the statement of financial position as at March 31, 2011, and the statement of operations and change in net assets and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Pacific Carbon Trust Inc. as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

AUDITED FINANCIAL STATEMENTS

PACIFIC CARBON TRUST
Statement of Financial Position as at March 31

	2011	2010
Financial Assets		
Cash and equivalents (Note 4)	\$ 26,489,610	\$ 16,930,776
Accounts receivable	-	65,287
Carbon offset inventory	-	35,222
Total Financial Assets	<u>\$ 26,489,610</u>	<u>\$ 17,031,285</u>
Financial Liabilities		
Accounts payable and accruals (Note 5)	1,811,144	525,124
Deferred revenue (Note 6)	8,117,540	-
Long term liabilities (Note 7)	-	46,940
Total Financial Liabilities	<u>\$ 9,928,684</u>	<u>\$ 572,064</u>
Net Financial Assets (Liabilities)	<u>\$ 16,560,926</u>	<u>\$ 16,459,221</u>
Non-Financial Assets		
Prepaid expenses (Note 9)	32,689	18,273
Capital assets (Note 10)	220,405	70,537
Total Non-Financial Assets	<u>\$ 253,094</u>	<u>\$ 88,810</u>
Net Assets	<u><u>\$ 16,814,020</u></u>	<u><u>\$ 16,548,031</u></u>

Commitments (Note 12)

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



Chris Trumpy, Chair
Pacific Carbon Trust Inc.
Board of Directors



D. Scott MacDonald, CEO
Pacific Carbon Trust Inc.

PACIFIC CARBON TRUST
Statement of Operations and Change in Net Assets for the Year Ended March 31

	Budget (Unaudited)	2011	2010
Revenues			
Operating grant from the Government of BC	\$ 5,000,000	\$ 2,000,000	\$ 5,000,000
Offset revenue	25,103,000	4,809,045	912,686
Interest revenue	94,000	140,229	59,587
Total Revenues	<u>\$ 30,197,000</u>	<u>\$ 6,949,274</u>	<u>\$ 5,972,273</u>
Expenses (Note 11)			
Strategic Acquisitions	23,764,000	4,222,211	1,305,870
Business Development	1,363,000	1,400,657	707,191
Finance and Operations	1,022,000	1,060,417	965,959
Total Operating Expenses	<u>\$ 26,149,000</u>	<u>\$ 6,683,285</u>	<u>\$ 2,979,020</u>
Surplus (Deficit) for the year	<u>\$ 4,048,000</u>	265,989	2,993,253
Net Assets, beginning of year		<u>16,548,031</u>	<u>13,554,778</u>
Net Assets, end of year		<u>\$ 16,814,020</u>	<u>\$ 16,548,031</u>

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

PACIFIC CARBON TRUST
Statement of Cash Flows for the Year Ended March 31

	2011	2010
Cash Flows from Operating Activities		
Net Income	\$ 265,989	\$ 2,993,253
Items not involving cash		
Add back: Amortization	53,257	43,644
Add back: Loss on sale of assets	27,390	
	<u>346,636</u>	<u>3,036,897</u>
	\$ 346,636	\$ 3,036,897
Changes in operating accounts		
Accounts receivable	65,287	(43,080)
Accounts payable and accruals	1,286,020	99,816
Prepaid expenses	(14,416)	(17,963)
Inventory	35,222	(35,222)
Deferred revenue	8,117,540	(859,223)
Long term liabilities	(46,940)	35,309
	<u>9,442,713</u>	<u>(820,363)</u>
	\$ 9,442,713	\$ (820,363)
Total Sources (Uses) of Cash	<u>9,442,713</u>	<u>(820,363)</u>
Net Cash Flows from Operating Activities	<u>9,789,349</u>	<u>2,216,534</u>
Cash Flows from Capital Activities		
Additions of property and equipment	\$ (230,515)	\$ (29,854)
Net Cash Flows from Capital Activities	<u>(230,515)</u>	<u>(29,854)</u>
Cash and Equivalents, beginning of year	\$ 16,930,776	\$ 14,744,096
Cash and Equivalents, end of year	<u>\$ 26,489,610</u>	<u>\$ 16,930,776</u>
Supplemental disclosure of Cash Flows information		
Interest Received	<u>\$ 140,229</u>	<u>\$ 59,587</u>

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

Notes to Financial Statements

For the period ended March 31, 2011

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.

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 750,000 tonnes of emission offsets for the province by June 30, 2011. This is based upon the calculated greenhouse gas (GHG) emissions for the province in calendar 2010. PCT is mandated to make future purchases of up to 1,000,000 tonnes of emission offsets per year to satisfy the province's legislated mandate of carbon neutrality.

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 and 2010 and \$2 million in fiscal year 2011.

Net assets 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 Harmonized Sales Tax (HST). 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 Canadian Institute of Chartered Accountants' Public Sector Accounting Board. Significant accounting policies followed in the preparation of these financial statements are:

a) Revenues

Revenues are recognized in the period in which the transactions or events occur that gave rise to the revenues. Revenues for sales transactions are recognized when carbon offsets are retired on behalf of the purchasing party. 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 in which they are received or receivable.

Notes to Financial Statements

For the period ended March 31, 2011

Summary of Significant Accounting Policies (cont.)

b) Expenses

Expenses are reported on the accrual basis of accounting. Goods and services acquired are recorded in the period they were received.

Business units 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 budget approved by the Board of Directors and published in the PCT Service Plan.

d) Cash and Cash Equivalents

Cash and cash equivalents consist of all cash, demand deposits and short-term liquid investments. Short-term liquid investments consist of units in the pooled investment portfolios of British Columbia Investment Management Corporation (bcIMC). The investments are held in Canadian Money Market funds, are carried at cost and are redeemable on demand.

e) 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.

f) Capital Assets

Purchased capital assets are recorded at cost. Capital assets are amortized on a straight-line basis over the following periods which approximate the useful life of the assets:

Furniture and Equipment - 5 years

Tenant Improvements - the lesser of five years and the lease term

IT systems and hardware - 3 years

Notes to Financial Statements

For the period ended March 31, 2011

Summary of Significant Accounting Policies (cont.)

g) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 and accrued liabilities. Actual results could differ from these estimates.

4 Cash and Cash Equivalents

	2011	2010
Unrestricted cash	\$ 13,423,362	\$ 3,981,437
Short term liquid investments	13,066,248	12,949,339
Total	<u>\$ 26,489,610</u>	<u>\$ 16,930,776</u>

5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist primarily of accrued staff salaries, professional services supplied to PCT, and Harmonized Sales Tax payable to the Canada Revenue Agency.

6 Deferred Revenue

Deferred revenue primarily consists of funds received by PCT to pay for carbon offsets related to the greenhouse gas emissions from business travel, supplies and building emissions of provincial government and public sector employees. Funds received for offsets are deferred until such time as the offsets are acquired, delivered and retired on behalf of the purchaser.

7 Long Term Liabilities

	Employee Leave Liability	Employee Future Benefits	2011	2010
Total liabilities	\$ 37,075	\$ 15,527	\$ 52,602	\$ 90,201
Less current portion	<u>37,075</u>	<u>15,527</u>	<u>52,602</u>	<u>43,261</u>
Long term liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 46,940</u>

Employee leave liability is the value of earned but unused vacation and other leave. The current portion of this liability is included in accounts payable and accruals.

Employee future benefits are employee retirement allowances. PCT has accrued the estimated costs of these benefits. The total amount accrued in long term liabilities at March 31, 2011 was nil (2010: \$22,262).

Notes to Financial Statements

For the period ended March 31, 2011

8 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, 2008) indicated that the plan has a \$487 million surplus for basic pension benefits. During the year ended March 31, 2011 Pacific Carbon Trust contributed \$113,690 (2010: \$18,280) to the plan.

9 Prepaid Expenses

	2011	2010
Rent	\$ -	\$ 8,747
MSP	-	717
Software Licence	13,229	-
Prepaid Airfare	19,460	8,809
Total	<u>\$ 32,689</u>	<u>\$ 18,273</u>

10 Tangible Capital Assets

	Furniture and Equipment	Leasehold Improvements	IT Systems and Hardware	Total
Historical cost				
Opening	\$ 39,473	\$ 49,500	\$ 25,209	\$ 114,182
Additions/transfers	147,829	68,259	14,428	230,516
Disposals	(38,672)	-	-	(38,672)
Write-downs	-	-	-	-
Closing	<u>148,630</u>	<u>117,759</u>	<u>39,637</u>	<u>306,026</u>
Accumulated amortization				
Opening	7,481	34,947	1,217	43,645
Amortization	17,290	25,626	10,341	53,257
Effects of disposals/ write-downs	(11,281)	-	-	(11,281)
Closing	<u>13,490</u>	<u>60,573</u>	<u>11,558</u>	<u>85,621</u>
Net book value March 31, 2011	<u>\$ 135,140</u>	<u>\$ 57,186</u>	<u>\$ 28,079</u>	<u>\$ 220,405</u>
Net book value March 31, 2010	<u>\$ 31,992</u>	<u>\$ 14,553</u>	<u>\$ 23,992</u>	<u>\$ 70,537</u>

Notes to Financial Statements

For the period ended March 31, 2011

11 Expenditures by Type

The following is a summary of expenditures by type.

	2011	2010
Salaries and Benefits	\$ 1,900,339	\$ 1,351,420
Operating and Administration Expenses	3,722,517	943,425
Professional Services	828,473	537,506
Rent	178,699	103,025
Amortization	53,257	43,644
Total	<u>\$ 6,683,285</u>	<u>\$ 2,979,020</u>

12 Commitments

The following table presents the contractual commitments the PCT is subject to over the next five years.

	Years		
	2012	2013	2014-2016
Operating Obligations	\$ 586,097	\$ 91,810	\$ 56,223
Lease Obligations	\$ 234,337	\$ 234,337	\$ 117,169

13 Related Party Transactions

PCT is related through common ownership to all provincial government ministries, agencies and Crown corporations. The majority of the company'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 retained the services of various government agencies that provide professional services on a fee for service basis. Transactions with related parties, considered to be in the normal course of operations, are recorded at the exchange amounts.

Notes to Financial Statements

For the period ended March 31, 2011

Related Party Transactions (cont.)

Carbon emission offsets are purchased from PCT on terms and conditions approved by the Minister of Finance.

	2011	2010
Revenue		
Operating Grant from the Government of BC	\$ 2,000,000	\$ 5,000,000
Offset Sales to the Government of BC	\$ 4,624,524	\$ 859,223
Expenditures		
Salaries	\$ 1,900,339	\$ 1,351,420
Professional Services	\$ 65,701	\$ 265,560
Operating and Administration expenses	\$ 275,960	\$ 113,500
Rent	\$ 178,699	\$ 103,025
Assets		
Accounts Receivable	-	\$ 52,679
Capital Assets	\$ 68,258	-
Liabilities		
	-	
Accounts Payable	\$ 352,067	\$ 421,610
Deferred Revenue	\$ 8,117,540	-