



Report of the Auditor General of British Columbia

*To the Board of Directors of
Pacific Carbon Trust Inc., and*

*To the Minister of Finance and Deputy Premier
Province of British Columbia:*

I have audited the statement of financial position of *Pacific Carbon Trust Inc.* as at March 31, 2010, and the statements of operations and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of the *Pacific Carbon Trust Inc.*'s management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Pacific Carbon Trust Inc.* as at March 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia
June 14, 2010*

John Doyle, MBA, CA
Auditor General



Pacific Carbon Trust

Statement of Financial Position

As at March 31,	Note	<u>2010</u>	<u>2009</u>
Financial Assets			
Cash & equivalent	4	16,930,776	14,744,096
Accounts receivable	5	65,287	22,209
Carbon offset inventory		<u>35,222</u>	<u>-</u>
Total Financial Assets		<u>17,031,285</u>	<u>14,766,305</u>
Financial Liabilities			
Accounts payable & accruals	6	525,124	425,310
Deferred revenue	7	-	859,223
Long term liabilities	8	<u>46,940</u>	<u>11,631</u>
Total Financial Liabilities		<u>572,064</u>	<u>1,296,164</u>
Net Financial Assets (Liabilities)		<u>16,459,221</u>	<u>13,470,141</u>
Non-Financial Assets			
Prepaid expense	10	18,273	310
Capital assets	11	<u>70,537</u>	<u>84,327</u>
Total Non-Financial Assets		<u>88,810</u>	<u>84,637</u>
Net Assets		<u><u>16,548,031</u></u>	<u><u>13,554,778</u></u>
Commitments	13		

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,	Note	Budget (Unaudited)	2010	2009
Revenues				
Operating grant from the Government of BC		5,000,000	5,000,000	5,000,000
Offset revenue		3,250,000	912,686	-
Interest revenue		210,000	59,587	206,237
Total Revenues		<u>8,460,000</u>	<u>5,972,273</u>	<u>5,206,237</u>
Expenses				
	12			
Strategic Acquisitions		6,338,000	1,305,870	297,160
Market Strategy and Operations		1,452,000	965,959	311,173
Business Development		600,000	707,191	45,592
Total Operating Expenses		<u>8,390,000</u>	<u>2,979,020</u>	<u>653,925</u>
Surplus for the year		<u>70,000</u>	2,993,253	4,552,312
Net Assets, beginning of year			<u>13,554,778</u>	<u>9,002,466</u>
Net Assets, end of period			<u>16,548,031</u>	<u>13,554,778</u>



Pacific Carbon Trust

Statement of Cash Flows

For the Year Ended March 31,

	<u>2010</u>	<u>2009</u>
Cash Flow from Operating Activities		
Net Income	2,993,253	4,552,312
Items not involving cash		
Add back: Amortization	43,644	-
	<u>3,036,897</u>	<u>4,552,312</u>
Changes in operating accounts		
Accounts receivable	(43,080)	(19,743)
Accounts payable and accruals	99,816	436,941
Prepaid expenses	(17,963)	(310)
Inventory	(35,222)	-
Deferred revenue	(859,223)	859,223
Long term liability	35,309	-
	<u>(820,363)</u>	<u>1,276,111</u>
Total Sources (Uses) of Cash		
	<u>2,216,534</u>	<u>5,828,423</u>
Net Cash Flow from Operating Activities		
	<u>2,216,534</u>	<u>5,828,423</u>
Cash Flow from Investing Activities		
Additions of Property & Equipment	<u>(29,854)</u>	<u>(84,327)</u>
Net increase in cash	<u>2,186,680</u>	<u>5,744,096</u>
Cash and Equivalents at Beginning of Period	14,744,096	9,000,000
Cash and Equivalents at End of Period	<u><u>16,930,776</u></u>	<u><u>14,744,096</u></u>

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



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 35,617 tonnes of emission offsets for the province by June 30, 2010. This is based upon audited greenhouse gas (GHG) emissions for the province in calendar 2009 of 10,100 tonnes and estimated GHG emissions for the province in the period January 1, 2010 to March 31, 2010 of 25,517 tonnes. 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 \$15 million in unrestricted operating grants payable in annual instalments of \$5 million in fiscal years 2009, 2010 and 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 Goods and Service 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 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 occurred 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 revenues in the Statement of Financial Position.

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



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.

Market Strategy 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) Inventory

Carbon offset inventories are held for resale and are recorded at the lower of cost or net realizable value. Carbon offset inventories are determined on a first-in, first-out weighted average cost basis. Cost of carbon offsets is comprised of the invoiced value of carbon offsets acquired.

e) 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

f) 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, employee future benefits and leave liability. Actual results could differ from these estimates.



Notes to the Financial Statements
For the period ended March 31, 2010

4. 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 and are redeemable on demand. The units are carried at fair value.

5. ACCOUNTS RECEIVABLE

Accounts receivable consists primarily of amounts due from the province of British Columbia to cover leave liability balances of staff transferred from government and Goods and Services Tax recoverable from the Canada Revenue Agency.

6. ACCOUNTS PAYABLE & ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist primarily of accrued staff salaries and professional services supplied to PCT.

7. DEFERRED REVENUE

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

8. LONG TERM LIABILITIES

	Employee Leave Liability	Employee Future Benefits	2010	2009
Total long term liabilities	\$67,939	\$22,262	\$90,201	\$11,631
Less current portion	<u>43,261</u>	<u>-</u>	<u>43,261</u>	<u>11,631</u>
Net long term liabilities	<u>\$24,678</u>	<u>\$22,262</u>	<u>\$46,940</u>	<u>-</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.

Financial liabilities for employee benefits consist of unused vacation earned by PCT staff during the year, based on their terms of employment and years of service, under the provincial public sector benefits program.

Future post retirement 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, 2010 was \$22,262 (2009: Nil).



Notes to the Financial Statements
For the period ended March 31, 2010

9. 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) determined that the Plan has a surplus. Despite the surplus, the Public Service Pension Board of Trustees was required to implement a contribution rate increase of 0.15% for plan members effective April 1, 2009.

10. PREPAID EXPENSES

	2010	2009
Rent	\$8,747	-
MSP	717	\$310
Prepaid Airfare	8,809	-
Total	<u>\$18,273</u>	<u>\$310</u>

11. TANGIBLE CAPITAL ASSETS

	Furniture & Equipment	Leasehold Improvements	Information Technology Systems & Hardware	Total
Historical cost				
Opening	\$34,827	\$49,500	-	\$84,327
Additions/transfers	4,646	-	\$25,209	29,885
Disposals	-	-	-	-
Write-downs	-	-	-	-
Closing	<u>39,473</u>	<u>49,500</u>	<u>25,209</u>	<u>114,182</u>
Accumulated amortization				
Opening	-	-	-	-
Amortization	7,481	34,947	1,217	43,645
Effects of disposals/write-downs	-	-	-	-
Closing	<u>7,481</u>	<u>34,947</u>	<u>1,217</u>	<u>43,645</u>
Net book value March 31, 2010	<u>\$31,992</u>	<u>\$14,553</u>	<u>\$23,992</u>	<u>\$70,537</u>
Net book value March 31, 2009	<u>\$34,827</u>	<u>\$49,500</u>	<u>-</u>	<u>\$84,327</u>

**12. EXPENDITURES BY TYPE**

The following is a summary of expenditures by type.

	2010	2009
Salaries & Benefits	\$1,351,420	\$160,235
Operating and Administration Expenses	943,424	24,184
Professional Services	537,506	441,012
Rent	103,025	28,494
Amortization	43,645	-
Total	<u>\$2,979,020</u>	<u>\$653,925</u>

13. COMMITMENTS

The following table presents the contractual commitments the PCT is subject to over the next 5 years.

	2011	Years 2012	2013 - 2015
Operating Obligations	\$126,107	\$6,034	\$10,034
Leasehold Obligations	\$46,648	-	-

14. 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.

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



RELATED PARTY TRANSACTIONS (CONT.)

	2010	2009
Revenue		
Operating Grant from the Government of BC	\$5,000,000	\$5,000,000
Offset Sales to the Government of BC	\$859,223	-
Expenditures		
Salaries	\$1,351,420	\$160,235
Professional Services	\$265,560	\$93,140
Operating and Administration expenses	\$113,500	\$9,146
Rent	\$103,025	\$28,494
Assets		
Accounts Receivable	\$52,679	-
Liabilities		
Accounts Payable	\$421,610	\$49,240
Deferred Revenue	-	\$859,223

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2010 presentation.