INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of Pacific Carbon Trust Inc., which comprise the statement of financial position as at March 31, 2013, and the statement of operations, statement of change in net financial assets and statement of cash flow 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 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

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, 2013, 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.

Russ Jones

Victoria, British Columbia
June 24, 2013

Russ Jones, MBA, CA
Auditor General

Pacific Carbon Trust

Statement of Management Responsibility

For the year ended March 31, 2013

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.

The Auditor General of BC has been appointed by the Board of Directors to audit the financial statements. The report of the Auditor General of British Columbia is attached, outlining the scope of his examination and providing an opinion on the financial statements.

D. Scott MacDonald
Chief Executive Officer

Brent Blackhall, CA
Director of Finance

June 24, 2013

Pacific Carbon Trust

Statement of Financial Position

As at March 31	2013	2012
Financial Assets		
Cash and equivalents (Note 4)	$ 4,286,694	$ 18,818,361
Investments (Note 5)	16,000,000	-
Accounts receivable (Note 6)	354,684	91,618
Carbon offset inventory	8,769,856	7,919,136
Total Financial Assets	$ 29,411,234	$ 26,829,115
Financial Liabilities		
Accounts payable and accruals (Note 7)	1,795,482	1,560,606
Deferred revenue (Note 8)	2,855,595	6,177,065
Total Financial Liabilities	$ 4,651,077	$ 7,737,671
Net Financial Assets	$ 24,760,157	$ 19,091,444
Non-Financial Assets		
Prepaid expenses (Note 9)	61,015	53,031
Tangible capital assets (Note 10)	133,931	206,062
Total Non-Financial Assets	$ 194,946	$ 259,093
Accumulated Surplus	**$ 24,955,103**	**$ 19,350,537**

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

For the year ended March 31	Budget	2013	2012
Revenues			
Offset revenue	$ 20,000,000	$ 19,493,610	$ 13,940,291
Interest revenue	350,000	312,677	256,771
Total Revenues	$ 20,350,000	$ 19,806,287	$ 14,197,062
Expenses (Note 11)			
Strategic Acquisitions	10,922,000	10,991,420	9,264,207
Business Development	1,501,000	1,912,440	1,427,209
Finance and Operations	1,136,000	1,297,861	969,129
Total Operating Expenses	$ 13,559,000	$ 14,201,721	$ 11,660,545
Annual Operating Surplus	$ 6,791,000	5,604,566	2,536,517
Accumulated Surplus, beginning of year		19,350,537	16,814,020
Accumulated Surplus, end of year		**$ 24,955,103**	**$ 19,350,537**

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	Budget	2013	2012
Annual operating surplus	$ 6,791,000	$ 5,604,566	$ 2,536,517
Effect of change in tangible capital assets:			
(Acquisition) of tangible capital assets	-	(7,604)	(56,358)
Disposals of tangible capital assets	-	796	-
Amortization of tangible capital assets	-	78,939	70,701
	-	72,131	14,343
Effect of change in prepaid expenses:			
(Acquisition) of prepaid expenses	-	(92,485)	(116,790)
Use of prepaid expenses	-	84,501	96,448
	-	(7,984)	(20,342)
Increase in Net Financial Assets	$ 6,791,000	5,668,713	2,530,518
Net Financial Assets, beginning of year		19,091,444	16,560,926
Net Financial Assets, end of year		**$ 24,760,157**	**$ 19,091,444**

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

Pacific Carbon Trust

Statement of Cash Flow

For the year ended March 31	2013	2012
Operating Transactions		
Surplus for the year	$ 5,604,566	$ 2,536,517
Non-cash items included in surplus:		
Loss on disposal of capital assets	796	
Amortization of tangible capital assets	78,939	70,701
	5,684,301	2,607,218
Changes in operating accounts:		
Accounts Receivable	(263,066)	(91,618)
Accounts payable and accruals	234,876	(250,538)
Prepaid expenses	(7,984)	(20,342)
Inventory	(850,720)	(7,919,136)
Deferred revenue	(3,321,470)	(1,940,475)
Cash (used for)/derived from operations	1,475,937	(7,614,891)
Investing Transactions		
Purchase of investments	(16,000,000)	-
Cash (used for)/derived from investing	(16,000,000)	-
Capital Transactions		
Tangible capital assets (acquired)	(7,604)	(56,358)
Cash (used for)/derived from capital	(7,604)	(56,358)
(Decrease)/Increase in cash and cash equivalents	(14,531,667)	(7,671,249)
Cash and Equivalents, beginning of period	18,818,361	26,489,610
Cash and Equivalents, end of period	$ 4,286,694	$ 18,818,361

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. 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.

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, 2013. This is based upon the calculated greenhouse gas (GHG) emissions for the province in calendar 2012, as reported according to the Carbon Neutral Government Regulation. 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, 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 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 Public Sector Accounting Board.

Effective April 1, 2012 PCT adopted the Public Sector Accounting Board's new standard on Financial Instruments, PS 3450. This standard has had minimal impact on PCT's financial statements since PCT does not record any of its financial assets or liabilities at fair value and has not elected to record any at fair value. A Statement of Remeasurment Gains and Losses has not been included as PCT has no remeasurement gains or losses to report.

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.

In fiscal 2012 there was a partial retirement of 2010 PSO calendar offset requirements as an earlier retirement of the 2010 total had been recorded on March 31, 2011, prior to PCT having its external registry in place. The 2011 PSO calendar offset requirement was fully retired in June 2012 and is recognized in PCT's 2013 fiscal year.

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 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 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, accounts receivable, investments and accounts payable balances. All of PCT's financial instruments are recorded at cost, which approximates market value. PCT does not have any derivative financial instruments or equity instruments.

Investments, described in Note 3(g) below, are recorded at 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 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 consists of net HST receivable from the Government of Canada. Accordingly no valuation allowance is necessary.

g) Investments

Investments include amounts held in Guaranteed Investment Certificates. These investments mature within two years and are not subject to a risk of change in value. PCT records these investments at 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 are 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

	2013	2012
Unrestricted cash	$4,286,694	$5,603,433
Short term liquid investments	-	13,214,928
Total	$4,286,694	$18,818,361

5. INVESTMENTS

	2013	2012
Guaranteed Investment Certificates	$16,000,000	$ -
Total	$16,000,000	$ -

6. ACCOUNTS RECEIVABLE

	2013	2012
Net HST receivable	$354,684	$91,618
Total	$354,684	$91,618

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.

	2013	2012
Carbon offset purchases payable	$1,182,604	$1,028,505
Accrued salaries and benefits	271,954	240,898
Accrued professional services	70,528	51,693
Other general payables	270,396	239,510
Total	$1,795,482	$1,560,606

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.

	2013	2012
Opening Balance	$6,177,065	$8,117,540
Net Receipts During the Year	16,172,140	11,999,816
Transferred to Revenue	(19,493,610)	(13,940,291)
Closing Balance	$2,855,595	$6,177,065

9. Prepaid Expenses

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

	2013	2012
Software License	$17,684	$16,222
Rent	-	3,700
Insurance	7,800	2,760
Registry	-	3,333
Prepaid Airfare	35,531	27,016
Total	$61,015	$53,031

10. Tangible Capital Assets

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	$104,165	$14,801	$14,965	$133,931

March 31, 2012	Furniture & Equipment	Leasehold Improvements	IT Systems & Hardware	Total
Historical cost				
Opening Balance	$148,630	$68,259	$39,637	$256,526
Additions/transfers	35,808	-	20,550	56,358
Closing Balance	184,438	68,259	60,187	312,884
Accumulated amortization				
Opening Balance	13,490	11,073	11,558	36,121
Amortization	34,494	22,146	14,061	70,701
Closing Balance	47,984	33,219	25,619	106,822
Net book value March 31, 2012	$136,454	$35,040	$34,568	$206,062

11. Expenditures by Type

The following is a summary of expenditures by type.

	2013	2012
Salaries & Benefits	$1,984,236	$1,836,129
Operating and Administration Expenses	9,809,243	7,757,355
Professional Services	2,045,719	1,762,023
Rent	283,584	234,337
Amortization	78,939	70,701
Total	$14,201,721	$11,660,545

12. Contractual Obligations

PCT has entered into a number of multiple-year contracts for the delivery of services, carbon offset purchases and leased premises. 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.

	Years		
	2014	2015	2016 - 2018
General Services Agreements	$839,260	$182,926	$46,570
Offset Purchase Agreements	$9,608,580	$4,339,238	$4,152,078
Leased Premises	$205,970	$173,226	$692,904

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 consists of net HST receivable from the Government of 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 GIC's with terms of maturity no greater than two years and are not subject to significant risk of a change in value.

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 $275 million unfunded liability for basic pension benefits.

During the year ended March 31, 2013 PCT contributed $131,527 (2012 $104,651) 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:

	2013	2012
Revenue		
Offset Sales to Government of BC	$19,399,700	$13,886,815
Expenditures		
Salaries & Benefits* (Shared Services, BC Pension Corp.)	$450,599	$1,628,521
Professional Services (Smarttool, Attorney General, Auditor General)	$902,654	$927,607
Operating and Administration expenses (Workplace	$38,351	$116,104

	2013	2012
Technology Services, BC Stats, Ministry of Finance)		
Rent (ARES)	$245,129	$234,337
Liabilities		
Accounts Payable and accruals (Shared Services, BC Pension Corp., Auditor General)	$108,191	$103,396
Deferred Revenue (Government of BC)	$2,855,595	$6,177,065

*Salaries and Benefits related party transactions are lower in fiscal 2013 due to PCT moving its payroll in house and off the government system. The amount for 2013 includes payments to BC Pension Corporation, MSP and the salary for one employee who remains on government's payroll (paid to Shared Services).