Pacific Carbon Trust

Financial Statements

(Expressed in Canadian dollars)

For the year ended March 31, 2014

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 auditors' report

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To the Board of Directors of the 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.

Grant Thornton LLP

Victoria, Canada
May 22, 2014

Chartered accountants

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.

W. Shoemaker

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 (Note 3c)		2014		2013
Revenues							
Offset revenue		$	20,000,000	$	19,288,340	$	19,493,610
Interest revenue			400,000		461,516		312,677
Total Revenues			20,400,000		19,749,856		19,806,287
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			14,957,000		12,561,286		14,201,721
Net results from operations			5,443,000		7,188,570		5,604,566
Transition costs	16		-		163,157		-
Annual Operating Surplus		$	5,443,000		7,025,413		5,604,566
Accumulated Surplus, beginning of year					24,955,103		19,350,537
Accumulated Surplus, end of year				**$**	**31,980,516**	**$**	**24,955,103**

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 (Note 3c)		2014		2013
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 in 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
		7,098,623		5,684,301
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)
Cash derived from operations		10,196,427		1,475,937
Investing Transactions				
Purchase of investments		(12,000,000)		(16,000,000)
Cash used for from investing		(12,000,000)		(16,000,000)
Capital Transactions				
Tangible capital assets acquired		-		(7,604)
Proceeds on disposal		52,391		-
Cash used for from capital		52,391		(7,604)
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	**$**	**2,535,512**	**$**	**4,286,694**

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.

On November 19, 2013, the Provincial government announced that PCT will 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.

3. Summary of Significant Accounting Policies (continued)

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.

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.

3. Summary of Significant Accounting Policies (continued)

d) Financial Instruments (continued)

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.

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

3. Summary of Significant Accounting Policies (continued)

i) Tangible Capital Assets (continued)

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	$ 2,535,512	$ 4,286,694

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 Payables and 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

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	$ 8,840	$ 61,015

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	$ 3,137	$ -	$ 5,193	$ 8,330

10. Tangible Capital Assets (continued)

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

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	$ 12,561,286	$ 14,201,721

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

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 is 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.

13. Risk Management (continued)

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.

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 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

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	$	163,157