

Pacific Carbon Trust 2011/12 – 2013/14 Service Plan

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Message from the Board Chair to Minister Responsible

The Honourable Colin Hansen
Minister of Finance and Deputy Premier
Government of British Columbia

Dear Minister,

On behalf of the Board of Directors and employees of Pacific Carbon Trust (PCT), I am pleased to present our **2011/12 – 2013/14 Service Plan**. As we look ahead, PCT is well positioned to deliver on its obligations to support public sector carbon neutrality.

PCT supports BC in meeting its obligations for carbon neutrality by building a well diversified portfolio across multiple sectors and regions of the province. Companies in pulp and paper, oil and gas, forestry, mining, agriculture and waste management are all working to generate offsets in BC.

PCT continues to build its expertise in the carbon market and to make substantial progress in delivering contracts and growing its pipeline of potential projects. In such a new market, we are focusing our efforts on business and market infrastructure development, from promoting protocol development – training validators/verifiers on ISO standards and establishing carbon developers in BC – to advancing carbon finance transactions more quickly. This will help to prepare for emerging market opportunities and mitigate the risk of uncertain offset supply due to the uncertainty in the North American carbon market. We will continue to monitor events in the carbon market both nationally and internationally, ensuring that BC is well positioned to build on opportunities and to manage any future challenges.

Pacific Carbon Trust's 2011/12 – 2013/14 Service Plan was prepared under the direction of the Board of Directors in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The plan is consistent with government's strategic priorities and fiscal plan. The board is accountable for the contents of the plan, including the information and how it is reported.

All significant assumptions, policy decisions and identified risks as of January 15, 2011 have been considered in preparing the plan. The performance measures are consistent with PCT's mandate and goals, and focus on aspects critical to the organization's performance. The performance targets in this plan have been determined based on an assessment of PCT's operating environment, forecast conditions, risk assessment and expected performance.

Chris Trumpy
Chair, Board of Directors

I Organizational Overview

OVERVIEW

Pacific Carbon Trust (PCT) is a Crown corporation that delivers quality BC-based greenhouse gas (GHG) offsets to help clients meet their carbon reduction goals. Its goals are to reduce emissions province-wide and to help grow BC's low-carbon economy. PCT is responsible for purchasing offsets from BC-based projects that are in compliance with BC's Emission Offsets Regulation, ensuring credible offsets built on recognized international standards.

A carbon offset represents a qualifying reduction in greenhouse gas emissions generated by activities such as improved energy efficiency, that can be used to balance the emissions from another source, such as travel. PCT delivers offsets to several clients, including the BC government and broader public service organizations, to offset carbon emissions.

BENEFITS TO THE PUBLIC

Pacific Carbon Trust benefits the people and economy of BC by:

- incenting new reductions in greenhouse gas emissions in the province and improving the environment;
- meeting our obligations to the public sector by helping it to become carbon neutral;
- providing new economic opportunities for BC business. For example, the price attached to selling offsets can help make clean technology projects a reality, resulting in many economic and social benefits;
- ensuring high-quality offset purchases for a carbon neutral public sector as well as for other organizations and individuals; and
- providing a focal point for industry to leverage new approaches to investing in a low-carbon economy.

BUSINESS MODEL

PCT's business model focuses on building a portfolio of credible offsets and growing the low-carbon economy to ensure delivery of quality offsets for a broad base of clients. To effectively carry out this activity, the corporation's business lines include business development, offset procurement and delivery and a strong supporting financial infrastructure. As a Crown corporation, PCT must also be transparent and publicly accountable in its operations and performance.

About PCT

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

PCT Mandate – to deliver quality BC-based greenhouse gas offsets to help clients meet their carbon reduction goals and to support growth of this industry in BC.

PCT Values – As PCT grows, its development will be centred on three core values:

- 1. Entrepreneurial**
PCT is an innovative company that puts results above process, seizing opportunities and taking the risks necessary to drive growth of the low-carbon economy.
- 2. Sustainable**
PCT is a champion for sustainable business practices and a role model for low-carbon operations.
- 3. Credible**
PCT is recognized for its expertise, professional standards and high-quality, credible carbon products.

OUR STAKEHOLDERS

PCT's stakeholders include those who have a significant interest in the corporation: our employees; our shareholder, the Minister of Finance; our clients; and our partners within government and within industry.

Clients

Under the Province's carbon neutral commitment, the public sector measures its carbon footprint, reducing emissions as much as possible and offsetting remaining emissions at year-end. Pacific Carbon Trust provides quality BC-based offsets for this provincial commitment.

PCT has purchased 36,532 tonnes to offset provincial government business travel from October 2007 to December 2009. On January 1, 2010, the commitment expanded to include government's operational emissions, as well as those of all public sector organizations (PSOs), such as boards of education, colleges, universities, health authorities, Crown corporations and other government agencies. In June 2011, PCT plans to retire offsets to enable these organization to be carbon neutral for calendar year 2010.

PCT also continues to expand into the private sector. As of January 2011 it had ten private sector clients in air travel, tourism and other small business areas.

Partners and Suppliers

A primary focus of the company is to purchase credible, made-in-BC offsets. This involves working with a wide variety of professionals – project developers and suppliers, engineers and environmental consultants – who provide carbon emission reduction projects, and validators and verifiers who provide quality assurance in project plans and offset delivery.

PCT also works with municipalities, First Nations, environmental groups and other non-government organizations to discuss opportunities and challenges in this growing industry.

To deliver on its core mandate, PCT maintains close working relationships with the Ministry of Environment's Climate Action Secretariat (responsible for the Climate Action Plan, *Greenhouse Gas Reduction Targets Act* and government's carbon neutral program) and the Ministry of Citizens' Services, which provides GHG emission measurement and reduction services.



Corporate Governance

The Pacific Carbon Trust is owned by the Province of British Columbia and reports to its shareholder, the Minister of Finance. As a Crown agency registered under the *Business Corporations Act*, it operates under the governance and accountability system set out by government. This process includes a regular review of the corporation's mandate and activities, guided by a Shareholder's Letter of Expectations. The letter outlines the corporation's and the shareholder's responsibilities and is jointly signed by the Minister of Finance and Chair of the PCT Board.

Pacific Carbon Trust Board and Supporting Committees

The PCT Board has adopted the Province of BC's governance principles as outlined in the Province of British Columbia's Governance Framework for Crown corporations. PCT also follows the Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations Board. Guidelines can be found at www.fin.gov.bc.ca/brdo/governance/corporateguidelines.pdf.

PCT is currently governed by a six-member Board supported by the corporate secretary. PCT Board Directors include:

- Chris Trumpy, Chair
- Heather Holden, Director, and Chair of Audit and Finance sub-committee
- Michael H. Watson, Director
- James S. Mutter, Director
- Steven Hnatiuk, Director
- H. Anne Lippert, Director

More information on PCT board members can be found on the PCT website at www.pacificcarbontrust.com or on the Board Resourcing and development office website www.fin.gov.bc.ca/BRDO/currentBoards.asp. PCT has also posted on its website key accountability documents such as its Shareholder's Letter of Expectations, board charter, service plans and annual reports, *Financial Information Act* report, and financial statements.

The Board meets at least four times a year, and at each of these meetings the board members set aside time for an "in camera" session where corporation management are not present. The Board is responsible for the overall direction of the company, including:

- setting its strategic direction;
- ensuring appropriate financial and operational controls are in place;
- ensuring PCT has the appropriate resources to meet its mandate;
- monitoring its key activities;
- reporting to the Minister of Finance on activities, accountabilities and performance; and
- providing the public with relevant and timely information about PCT's intentions and operations.

The Board has established a standing committee, the Audit and Finance Committee. This committee meets at least four times a year. The committee assists the board in fulfilling its financial accountability and oversight responsibilities by reviewing financial information and financial systems, monitoring the systems of risk management and internal controls, and overseeing the external and internal audit functions. As required, the committee provides recommendations to the full Board. Current members include:

- Heather Holden, Chair
- Chris Trumpy, Director and Chair of PCT Board
- James S. Mutter, Director
- Michael H. Watson, Director

Senior Management Team

- D. Scott MacDonald, Chief Executive Officer
- David Moffat, Managing Director
- Kim Ewasechko, Managing Director

SHAREHOLDER'S LETTER OF EXPECTATIONS

Government direction for the PCT is provided in the Shareholder's Letter of Expectations (SLE). This is an agreement between the Minister of Finance on behalf of government and the Board of PCT that establishes priorities and expectations for PCT. The chart below highlights the shareholder's expectations and PCT's alignment.

SHAREHOLDER'S LETTER OF EXPECTATIONS	PCT ALIGNMENT
Specific Government Direction to PCT	
Acquire high-quality carbon offsets in a transparent and competitive manner and deliver these offsets to a broad base of clients including the provincial public sector, businesses, organizations and individuals.	<p>PCT continues to purchase offsets through its open and on-going procurement process.</p> <p>PCT delivers these offsets to the public sector while continuing to expand pipeline of private clients. Currently there is limited expansion to individuals.</p> <p>PCT is working with industry and public sector partners (e.g., Ryan Vending, Helijet, Climate Action Secretariat) to meet legislative requirements and ensure consistency with respect to government objectives, including climate change priorities and economic opportunities for First Nations.</p>
Develop and implement investment strategies, including a strategy to support and grow BC-based clean tech company activities, that accelerate GHG emissions reductions while stimulating growth of a low-carbon economy in BC.	<p>PCT is building a portfolio of offsets that will include a range of clean technologies that will contribute to emission reductions in BC.</p> <p>In the future, PCT will have opportunities to provide investment in project development to leverage private sector capital.</p>
Develop and maintain a risk management strategy that includes a diversified portfolio of GHG emission reductions and removals, and establishment of reserves to help mitigate the reversal of offsets.	<p>PCT is building a diversified portfolio across multiple sectors and regions of the province. Companies in pulp and paper, oil and gas, forestry, mining, agriculture and waste management are all working to generate offsets in BC.</p> <p>PCT has created a model to evaluate the development and delivery risk associated with individual projects in its portfolio. This risk model will assist PCT to predict the delivery date and volumes of each project, and will inform PCT's procurement decisions in the future.</p>
Work cooperatively with other BC-based carbon offset market participants to support the overall growth of the carbon offsets industry and service sector in BC.	<p>PCT supports ISO standard training for project developers, validators and verifiers.</p> <p>PCT is working with large purchasers to gain critical mass that will stimulate market growth.</p> <p>PCT continues its outreach activities to accelerate offset production.</p>
Climate Change and Carbon Neutrality Initiatives	
Comply with the shareholder's requirements to be carbon neutral under the <i>Greenhouse Gas Reduction Targets Act</i> , including accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the corporation's operations; implementing aggressive measures and reduction plans; and offsetting any remaining emissions through its procurement activities.	<p>PCT will deliver required tonnes to the public sector organizations by June 30, 2011. PCT acts as the government's agent in delivering GHG offsets to help achieve carbon neutral objectives.</p> <p>PCT continued to be carbon neutral for 2010, recognizing further reductions from 2009 emissions.</p>

2 Strategic Context

TRENDS, OPPORTUNITIES AND CHALLENGES

CARBON MARKET

The global carbon market is expected to experience its first year of decline in 2010, by 4% to \$122 billion, as major climate change agreements stall in the face of a sluggish economy.¹

The European Union Emissions Trading System (EU-ETS) will likely continue to be the central hub of the global carbon market in the near term as it prepares for its third trading period starting in 2013. International discussions, as part of United Nations Framework Convention in Climate Change (UNFCCC), have established new frameworks aimed at reducing emissions in most countries; however, decisions did not set binding emissions targets post-2012. As a result, expectations for new market growth predominantly rests at national and regional levels.

The promise of a US cap and trade legislation was also delayed in 2010, for at least two years, turning the market's focus to the Western Climate Initiative's (WCI) plans for a North American regional system. With US federal cap-and-trade delayed, the pre-compliance market is focused on California and three other potential WCI partners, including BC.

The pure voluntary market has been largely flat the past year and half. The global voluntary market is estimated to trade 48.0 million tonnes in 2010 with a value of \$307.8 million (US\$), down 49% and 21% respectively.²

Overall long-term growth is expected for the global market given the need to address climate change; however, the extent of the market's linkage, coverage and overall importance is still unclear in the short-term as governments explore other policy levers such as targeted technological support.

BC CARBON MARKET

BC continues with action against climate change. BC's Ministry of Environment has released consultation papers in preparation for a cap and trade program with other WCI partners. This could create a larger regional offset market for BC companies in addition to the sizeable BC market created by the province's public sector carbon neutral commitment. There is a level of risk leading various climate initiatives, and the potential introduction of a new regional market could create uncertainty in BC as policies continue to be defined and implemented.

The large demand for BC offsets presents challenges in this new and uncertain market. The market infrastructure – while expanding with new suppliers, specialists, financial partners, project protocols, and new technologies – is constrained by lack of capital due to the recent recession and unclear policy in North America. New markets outside of BC, depending on offset rules, can also compete for the supply of BC offsets or resources. These challenges could affect PCT's ability to deliver the high volume of verified quality offsets required in 2011.

BC BUSINESS

Companies in pulp and paper, oil and gas, forestry, mining, agriculture and waste management are all looking to generate offsets in BC. Projects with potential in these sectors include fuel switching, energy efficiency and reduced emissions in forestry. Work is also underway to move project development forward in the building and transportation sectors.

¹ Bloomberg, New Energy Finance

² Bloomberg, New Energy Finance

BC's ample forestry resource presents a good opportunity for offsets from improved forest management and switching to biomass or other cleaner fuels, to generating energy in making forest products.

BC's bio-energy subsector has developed world-class bio-energy technologies in past decades, which supply about two-thirds of the forest industry's energy requirements. More recent innovations in the use of biofuels, biomass and waste-to-energy systems should drive additional offsets across BC.

The volume of projects and emission reductions will continue to be impacted by the economy. A slowdown may result in less available capital for projects, and reduce the level of emissions/reductions generated resulting in project delays or slower offset yields. For example, the recent recession affected the cement industry and project yields in that sector.

As the economy recovers, industries driving the growth will have more opportunities to increase offset yields. If for example external markets for energy and mining products improve over time as forecasted, this could result in increased activity, higher offset yields and potential reductions in these sectors.



photo courtesy of Offsetters

LABOUR MARKET

North American carbon markets present opportunities for new professions – in carbon asset management, project development, quality assurance, and advisory services. But given the growth expected generally from various green sectors, the supply of workers may be one of the largest constraints to greening BC's economy. Within the carbon market, there may be a lag before training and job experience can build an adequate level of professionals, skilled workers or accredited firms (e.g. validation and verification) creating a shortage in some fields.

OPERATING ENVIRONMENT

PCT plans to continue operating under its three central business functions in 2011/12 – Strategic Acquisitions, Business Development and Finance and Operations. The volume and scope of work within each is likely to increase to meet offset demand and adapt to changing regulatory and economic environments.

³ British Columbia's Green Economy, The Globe Foundation. February 2010

MAXIMIZING OPPORTUNITIES AND MINIMIZING RISKS

PCT is pursuing several strategies to take advantage of new market opportunities and mitigate risks.

OPPORTUNITIES	IMPACT ON PCT	ACTION
Climate Change Regulatory Environment <ul style="list-style-type: none"> <i>Greenhouse Gas Reduction Targets Act (GGRTA)</i> <i>Greenhouse Gas Reduction Cap and Trade Act (GGRCTA)</i> <i>Complementary policies</i> <i>Carbon Neutral Local Government Charter</i> 	<p>Provincial policy creates a growing market for BC offsets - a BC market through its carbon neutral commitment and a second potential regional market through WCI.</p> <p>New BC cap and trade legislation may also encourage early action in emission reduction projects.</p> <p>A regional market is expected to encourage new investments in market infrastructure and innovative technologies to reduce emissions, and may also stimulate demand in the voluntary market.</p> <p>Other complementary policies (e.g. Feed in Tariffs) that encourage the use of cleaner energy sources can help create additional financing needed for capital intensive emission reduction projects.</p> <p>Municipalities' pledge to become carbon neutral - creates further demand for offsets, and encourages exploration of offset development in communities.</p>	<p>PCT:</p> <ul style="list-style-type: none"> continues to build a diversified portfolio of offsets; supports development of market infrastructure by explaining regulation, developing protocols, and advising businesses; delivers and participates in industry events to build expertise and networking opportunities; and will monitor and contribute to climate change policy development in BC and North America.
Industry and Economic Factors	<p>BC's ample forestry resource presents market growth opportunities for carbon offsets.</p> <p>Recent innovations in the use of biofuels, biomass and waste-to-energy systems could drive additional offset projects.</p> <p>Renewed growth in industry sectors over time as the economy recovers, for example energy and mining sectors could generate opportunities for reductions.</p>	<p>PCT:</p> <ul style="list-style-type: none"> continues to work with industry sectors to assess potential of offset projects and build awareness of opportunities; and works with industry to remove barriers (e.g., access to biomass, forestry protocol development).

RISKS	IMPACT ON PCT	ACTION
Climate Change Regulatory Environment	<p>There continues to be uncertainty in the North American carbon market that can delay investment in projects and market infrastructure, creating risk for ample offset supply. A national carbon market has been delayed, and the scope and rules of a regional market are still in development.</p> <p>Depending on the outcome, PCT could also face competing demands for BC offsets.</p> <p>Certain offset supply may be constrained over time as sectors use emission reductions for compliance or complementary regulatory requirements (e.g. landfills), instead of offset projects.</p>	<p>PCT's open procurement process and industry outreach continues to highlight benefits of offset development in the province.</p> <p>PCT is:</p> <ul style="list-style-type: none"> building an active pipeline of potential offset projects to meet carbon neutral obligations; and monitoring developments and working with industry to take advantage of new markets, while securing BC supply. <p>PCT's longer-term portfolio strategy is designed to diversify offsets by delivery time, type and location.</p>
New Carbon Market and the Economy	BC's offset supply also faces risk from failures during project development.	<p>PCT is:</p> <ul style="list-style-type: none"> actively managing risk with project proponents; diversifying its portfolio – by sector, region and type; and aiming to contract in excess of initial needs to mitigate potential shortages in delivery.
Labour Market	One of the risks to PCT and the industry is a shortfall in offset industry professionals for the emerging carbon offset markets.	<p>PCT is supportive of companies certifying to ISO standards and industry training sessions.</p> <p>PCT continues to share information across industry and education centres to build professional capacity in BC.</p>
Offset Market	The global offset market has generated concerns about the quality of offsets and organizations' claims of carbon neutrality.	<p>PCT's procurement process is designed to evaluate offset project proposals against the stringent criteria of BC's Emission Offsets Regulation.</p> <p>PCT:</p> <ul style="list-style-type: none"> continues to oversee quality in management of project delivery and ensuring third-party verification; has also developed partnerships with firms that teach organizations how to report, reduce and offset emissions accurately and openly.

CAPACITY ISSUES

Pacific Carbon Trust plans to meet coming year goals with a staff complement of 18 employees. However, it will need to monitor capacity needs as requirements change over time.

3 Goals, Strategies, Measures and Targets

PCT's mandate is to *deliver quality BC-based greenhouse gas offsets to help clients meet their carbon reduction goals and to support growth of this industry in BC*. This direction evolves from BC's Climate Action Plan's goal to reduce greenhouse gases by 33% from 2007 levels by 2020 and the larger provincial goal to "lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none."

GOALS	PCT Goal 1 An organization that delivers quality, cost-effective offsets.		PCT Goal 2 An organization that is highly valued by its clients and industry.		PCT Goal 3 An effective, environmentally responsible organization known for its industry expertise.	
	Objective 1.1 Build a portfolio of high-quality offsets.		Objective 2.1: Deliver quality offsets to a broad base of clients.		Objective 3.1: Develop the corporate capacity and infrastructure to support industry, clients and suppliers.	
	Continue to streamline procurement processes to support competitiveness.		Implement a sales strategy to deliver quality offsets to a broad base of clients.		Streamline business processes to improve operational efficiencies and service for industry, clients and suppliers.	
OBJECTIVES and STRATEGIES	Measure and maintain an appropriate level of risk in the portfolio of offset projects.		Deliver high-quality offsets in a timely manner.		Continue building the corporate infrastructure and governance structures to enable effective operations.	
	Manage inventory levels and link to a transparent registry of offsets projects.		Retire offsets for our clients in an open and transparent manner.		Monitor, analyze and identify implications of GHG regulations and emerging carbon markets, and identify opportunities to open new carbon markets in BC.	
	Develop and implement investment strategies that advance GHG reductions and stimulate growth of a low-carbon economy in BC.		Objective 2.2: Accelerate growth of BC's carbon market.		Objective 3.2: Build a team of high-performing, values-based professionals.	
	Implement strategies to support and grow BC-based clean technologies.		Work cooperatively with offset market participants and industry stakeholders to build expertise and drive growth in the carbon market.		Promote PCT as a centre of expertise in the carbon market.	
	Build and manage a pipeline of offset projects across the province.		Design a balanced offset portfolio to stimulate a low-carbon economy.		Encourage staff professional development and building of industry relationships.	
					Continue to exemplify low-carbon business practices, including maintaining facilities and operations that optimize CO ₂ e footprint.	
PERFORMANCE MEASURES	PM 1 Meets offset purchase orders on time		PM 2 Average price paid for offsets per tonne		PM 3 % of customers, suppliers and partners satisfied / very satisfied	
					PM 4 Annual Overhead as a % of revenue	
					PM 5 Lower than average organizational carbon footprint	

GOAL 1: An organization that delivers quality, cost-effective offsets.

Attaining this first goal – delivering quality, cost-effective offsets – directly relates to PCT’s mandate to provide BC-based offsets that help clients meet their carbon reduction goals through the purchase of real GHG reductions. Providing cost-effective offsets is also important to ensure value for PCT’s clients, including the BC government and other organizations.

Objective 1.1 Build a portfolio of high-quality offsets.

This first objective not only focuses corporate attention on the cornerstone of PCT’s operations – delivering quality offsets – but also on an initial obligation that presents considerable challenges. One is the uncertainty about the ability of the BC supply market to provide a large volume of offsets in coming years that meet BC’s high environmental standards.

Pacific Carbon Trust continues to improve its operations and to better support delivery of quality cost-effective offsets. In 2010, PCT introduced a more streamlined project acquisition process designed to give project proponents greater clarity on commercial terms early in the development process, allowing them to pursue offset projects with better certainty. In addition, PCT has developed a risk management system for management of its portfolio, maintains its own record of retired offsets and continues to stay well informed in the fast-changing emerging carbon market.

Strategies:

- Continue to streamline procurement processes to support competitiveness.
- Measure and maintain an appropriate level of risk in the portfolio of offset projects.
- Manage inventory levels and link to a transparent registry of offsets projects.
- Develop and implement investment strategies that advance GHG reductions and stimulate growth of a low-carbon economy in BC.
- Implement strategies to support and grow BC-based clean technologies.
- Build and manage a pipeline of offset projects across the province.



Performance Measure 1	Baseline 2009/10	2011/12 Target	2012/13 Target	2013/14 Target
Meets offset purchase orders on time	100%	100%	100%	100%

Description of Measure	Rationale/Benchmarks
<p>Performance Measure: Meet offset purchase orders on time</p> <p><i>The first measure monitors the company's ability to deliver purchase orders for its clients. This includes all orders of regulated clients and purchases by voluntary clients.</i></p> <p>Target: PCT has selected a target of meeting 100% of offset orders on time for the next three years.</p> <p>Data: This information is available from PCT operations and is collected through offsets accounting and retired offsets information.</p>	<p>This measure was chosen because it directs corporate strategies towards ensuring PCT delivers enough offsets to meet client requirements at a time when supplies may be limited in an immature industry. At the same time, it ensures that the purchase of quality offsets is entrenched in basic corporate operations.</p> <p>This target sets high expectations for the corporation in an area that presents risks to PCT, e.g., not sourcing enough quality offsets because of failures during project development. PCT also plans to "self-insure" by contracting for additional offsets to manage this risk and will try to ensure offsets originate from a variety of suppliers, project types and locations in BC.</p>

Performance Measure 2	Baseline 2009/10	2011/12 Target	2012/13 Target	2013/14 Target
Average price paid for offsets per tonne	Less than \$25 ¹	Less than \$25	Less than \$25	Less than \$25

¹ The price of \$25/tonne is tied to the current offset price that clients pay to purchase offsets from PCT.

Description of Measure	Rationale/Benchmarks
<p>Performance Measure: Average price paid for offsets</p> <p><i>The second measure monitors average price paid by PCT for offsets.</i></p> <p>Target: PCT has selected a target of less than \$25 for the next three years.</p> <p>Data: This information is available from PCT operations and is collected from its purchase expense accounting information.</p>	<p>This measure was chosen because offset prices are a large component of expenses. Providing cost-effective offsets is an important part of managing public sector costs and helping clients to meet their carbon reduction goals. It also ensures PCT remains financially viable.</p> <p>PCT has set this target to ensure that the corporation does not purchase offsets at a price over the client purchase price, currently set at \$25 per tonne of GHG offset.</p> <p>PCT will be monitoring industry and market information for comparable pricing information. (Note: Given the newness and diversity of the industry, it may be difficult to find reliable comparisons.)</p>

GOAL 2: An organization that is highly valued by its clients and industry.

Ensuring responsiveness to two of the corporation's key stakeholders – its customers and suppliers – is an integral part of the corporate strategy to help clients to meet their carbon reduction goals and support growth in this industry in BC. Building awareness and developing relationships are high priorities for PCT.

Objective 2.1: Deliver quality offsets to a broad base of clients.

PCT is expanding its customer base beyond the provincial government and broader public sector and providing offsets to other organizations interested in combating climate change. Progressive companies are taking the opportunity to act early while preparing for the emerging carbon economy. PCT also maintains a record of retired offsets to support openness and transparency.

Strategies:

- Implement a sales strategy to deliver quality offsets to a broad base of clients.
- Deliver high-quality offsets in a timely manner.
- Retire offsets for our clients in an open and transparent manner.

Objective 2.2: Accelerate growth of BC's carbon market.

PCT has embarked on a series of industry outreach activities – meetings, speaking engagements, conferences, workshops and webinars – to identify offset development opportunities and build market expertise. PCT plans to identify further opportunities to stimulate growth in BC's low-carbon economy and clean technology sector.

Strategies:

- Work cooperatively with offset market participants and industry stakeholders to build expertise and drive growth in the carbon market.
- Design a balanced offset portfolio to stimulate a low-carbon economy.

Performance Measure 3	Baseline 2009/10	2010/11 Target	2011/12 Target	2012/13 Target
Percentage of customers, suppliers and partners satisfied/very satisfied ²	74%	90%	90%	90%

² PCT will conduct and report on a satisfaction survey annually.

Description of Measure	Rationale/Benchmarks
<p>Performance Measure: Customer supplier and partner satisfaction</p> <p><i>This measure monitors the satisfaction of PCT's services and activities from customers and industry suppliers. It will be conducted through an annual survey.</i></p> <p>Target: PCT has selected a target of 90% as a satisfaction rate from customers and suppliers.</p> <p>Data: This information will be collected from an annual survey of customers, suppliers and partners.</p>	<p>Customer satisfaction measures the value of PCT to clients, suppliers and partners in helping them meet their carbon reduction goals. Throughout the next year, PCT will continue to develop customer relationships as it provides offsets to its clients.</p> <p>Supplier satisfaction is a way to measure how key industry players view PCT's role and activities in supporting an offset industry in BC. Having PCT as a focal point in the province for offsets enables an easy-to-access organization to spur innovation and synergies in this sector. This central hub, together with the increased demand for offsets from the public sector organization carbon neutrality requirements, is expected to stimulate industry activity and growth. Industry growth is very important to shore up the supply of offsets for PCT and other aggregators as consumer and corporate demand increases. Industry growth is also important to support successful participation in the emerging low-carbon economy.</p> <p>Partner satisfaction measures PCT's ability to build strong working relationships with organizations and individuals in advancing the priorities of the carbon market. PCT will continue to build on existing relationships and seek out new ones both domestically and internationally, building a strong network for BC's work to mitigate effects of climate change.</p> <p>This target was chosen to set high standards for the corporation's client, supplier and partner support.</p>

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

This third goal is designed to motivate employees in developing an organization built on sound business practices that incorporates fiscally as well as environmentally responsible behaviour and builds a wide breadth of knowledge capable of supporting industry innovation and growth.

The goal has identified three important characteristics that help to describe the type of corporation PCT aspires to become: effectively managing public sector resources as outlined in the Shareholder's Letter of Expectations; environmentally responsible, a value that models the corporation's reason for existence; and industry expertise, a particularly important asset for development of a new, complex industry.

Objective 3.1: Develop the corporate capacity and infrastructure to support industry, clients and suppliers.

Strategies:

- Streamline business processes to improve operational efficiencies and service for industry, clients and suppliers.
- Continue building the corporate infrastructure and governance structures to enable effective operations.
- Monitor, analyze and identify implications of GHG regulations and emerging carbon markets, and identify opportunities to open new carbon markets in BC.

Objective 3.2: Build a team of high-performing, values-based professionals.

- Promote PCT as a centre of expertise in the carbon market.
- Encourage staff professional development and building of industry relationships.
- Continue to exemplify low-carbon business practices, including maintaining facilities and operations that optimize CO₂e footprint.

Performance Measure 4	Baseline 2010/11	2011/12 Target	2012/13 Target	2013/14 Target
Annual overhead as a percentage of revenue	15%	10% reduction year over year	10% reduction year over year	10% reduction year over year

Description of Measure	Rationale/Benchmarks
<p>Performance Measure: Annual overhead as a percentage of revenue</p> <p><i>This measures the overhead expenses, or operating costs, of the company that do not relate directly to procuring or selling offsets, or for project development.</i></p> <p>Target: PCT has selected a target of 10% reduction year over year.</p> <p>Data: This information is available from PCT financial accounting information.</p>	<p>This measure was chosen to help monitor the efficiency of the company. Companies use this measure to help determine the appropriate level of overhead expenses to support the firm's ability to meet its mandate or compete with competitors.</p> <p>PCT will be monitoring industry and market information for comparable pricing information. (Note: Given the newness and diversity of the industry, it may be difficult to find reliable comparisons.)</p>

Performance Measure 5	Baseline 2008	2011 Target	2012 Target	2013 Target
Lower-than-average organizational carbon footprint (tonnes CO ₂ e per FTE)	1.8 tonnes ¹	Lower than core government average	Lower than core government average	Lower than core government average

¹ Core government recorded 2.8 tonnes CO₂e per staff person, or full-time equivalent-based on calendar year. PCT's carbon footprint was lower than core government's 2.8 tonnes for the calendar year 2008.

Description of Measure	Rationale/Benchmarks
<p>Performance Measure: Lower-than-average organizational carbon footprint</p> <p><i>This measure will monitor the organization's level of greenhouse gas emissions per full-time equivalent.</i></p> <p>Target: PCT has selected a target for a level of corporate greenhouse gas emissions to be lower than the average in core government.</p> <p>Data: PCT collects information on GHG emissions using SMARTTool and compares with core government results reported through requirements under the public sector Carbon Neutral Program. The report is released annually in June to the public.</p>	<p>This last measure is important in demonstrating PCT's leadership in reducing its own carbon footprint.</p> <p>The target of a lower average carbon footprint than core government was selected to demonstrate PCT's leadership in this area. PCT was carbon neutral one year earlier than required, offsetting 16 tonnes of CO₂e to cover both travel and operational emissions.</p>



4 Summary Financial Outlook

FINANCIAL OUTLOOK *

	2009/10 Actual (\$000s)	2010/11 Forecast (\$000s)	2011/12 Budget (\$000s)	2012/13 Budget (\$000s)	2013/14 Budget (\$000s)
Revenues					
Operating Grant from Province of BC	\$ 5,000	\$ 5,000	–	–	–
Offset Revenue	\$ 913	\$ 8,894	\$ 31,250	\$ 22,430	\$ 20,852
Interest on Investments	59	115	95	95	100
Total Revenues	\$ 5,972	\$ 14,009	\$ 31,345	\$ 22,525	\$ 20,952
Expenses					
Strategic Acquisitions	\$ 1,306	\$ 6,370	\$ 22,863	\$ 16,180	\$ 15,129
Business Development	\$ 707	\$ 1,325	\$ 1,330	\$ 1,360	\$ 1,380
Finance and Operations	\$ 966	\$ 1,010	\$ 1,020	\$ 1,053	\$ 1,079
Total Expenses	\$ 2,979	\$ 8,705	\$ 25,213	\$ 18,593	\$ 17,588
Net Income	\$ 2,993	\$ 5,304	\$ 6,132	\$ 3,932	\$ 3,364
Retained Earnings	\$ 16,548	\$ 21,852	\$ 27,985	\$ 31,917	\$ 35,281
Capital Expenditures	\$ 30	\$ 435	\$ 150	\$ 150	\$ 325

* The above financial information, including forecast information, was prepared based on current Canadian Generally Accepted Accounting Principles.

KEY ASSUMPTIONS

Revenue

- PCT received the last \$5 million operating grant from the Province in 2010/11.
- Offset revenues are based on a transaction price of \$25/tonne of CO₂e and on the estimated annual delivery of offsets. The forecast for 2010/11 includes revenue from offsets delivered to government in June 2010 to satisfy government's carbon neutral commitments for 2009, as well as estimates of offsets to be delivered to government, the broader public sector (Crowns, school districts, health authorities and universities and colleges) and other private sector organizations. The substantial increase in revenue in 2010/11 is due largely to the additional requirements of the broader public sector to become carbon neutral by 2010.

Expenses

- Strategic Acquisitions includes relevant expenses for this core business area (e.g., staff and professional services and related overhead and office expenses) and all offset purchase expenses.
- Business Development includes relevant expenses for this core business area (e.g., staff and professional services and related overhead and office expenses) as well as the cost of increasing outreach and educational activities (e.g., workshops, conferences, marketing materials).
- Finance and Operations includes relevant expenses for this core business area (e.g., staff and professional services and related overhead and office expenses) and administration costs such as bank charges.
- PCT will fully comply with the BC Emission Offsets Regulation and provide sufficient offsets to meet the obligations to ensure the public sector is carbon neutral for 2010. Should the delivery of some offset projects be delayed, PCT may use the transition clause within the regulation to meet the offset requirements.

Equity and Debt

- PCT is expected to have \$28 million in equity by 2011/12, an accumulation of operating grants and net income. PCT has no outstanding long-term debt.

Capital Expenditures

- Capital Expenditures represents the cost of implementing corporate information technology applications and infrastructure, tenant improvements and office furniture and equipment related to moving to a new location.

Future Outlook

2011/12 will represent continued growth for Pacific Carbon Trust. After a three-year phase-in period, BC's core government and broader public sector become fully carbon neutral. At the same time, PCT will be taking on more clients from the private sector and will look for additional opportunities to help grow the carbon market. This increase is reflected in Pacific Carbon Trust's financial outlook, as revenues and expenses are to expected to grow substantially.

PCT expects to meet the demands of all public sector organizations for the 2010 calendar year. The majority of PCT's expenses are related to offset purchases as it builds up its inventory of quality offsets to meet demand. These expenditures are dependent on the actual volume of tonnes delivered.

As outlined in the risk management strategy, there are a number of supply risks that would affect the expenditures for offset purchases. The recent economic downturn, for example, increases the risk of fewer tonnes delivered. Overall, experts continue to see long-term growth in the market given the climate change battle. However, the market's linkage, coverage and overall importance could be less than initially expected as governments explore other policy levers such as targeted technological support.

The uncertain North American carbon market structures also present uncertainties related to offset rules, supply and price. For example, a \$1 increase in the price paid for tonnes of offsets will increase expenditures by an equivalent amount, resulting in a \$1 million increase in costs. In this new carbon market a competitive, stable price for offsets has not yet been established, so expenditure projections are subject to many market variables. While the budget presented provides a well considered three-year forecast, it is subject to many assumptions and industry changes that could significantly impact the projections made. PCT will continue to monitor these issues, including regulatory developments in North America, and their implications for the corporation.

The most recent Shareholder's Letter of Expectations builds on earlier direction for the corporation to support growth of the offset industry in BC's carbon market. As a result, the corporation is currently assessing opportunities to accelerate GHG reductions and support clean technologies to grow the low-carbon economy.

Pacific Carbon Trust

British Columbia

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