



Pacific Carbon Trust 2012/13–2014/15 Service Plan

www.pacificcarbontrust.com



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Message from the Board Chair to the Minister Responsible

The Honourable Kevin Falcon
Minister of Finance
Government of British Columbia

Dear Minister,

On behalf of the Board of Directors and employees of Pacific Carbon Trust, I am pleased to present our 2012/13–2014/15 Service Plan. As we look ahead, Pacific Carbon Trust is well positioned to continue to drive the development of the low-carbon economy in BC while delivering its services to support public sector carbon neutrality and providing carbon solutions to private clients.

Last year, Pacific Carbon Trust added 13 projects to its diversified carbon offset portfolio across multiple sectors and regions of the province. As a result of Pacific Carbon Trust's activities, organizations in transportation, pulp and paper, oil and gas, forestry, mining, agriculture and waste management are implementing innovative, emissions-reducing technologies that are helping BC become more efficient and more competitive on the world stage.

To date, Pacific Carbon Trust has retired 783,816 tonnes of carbon offsets on behalf of government and private clients. In the 2012/13 to 2014/15 period, it expects to procure up to 800,000 tonnes of carbon offsets per year, which will drive new economic activity in the province, cleaner energy use and reduced carbon emissions. Following a first successful year, Pacific Carbon Trust is actively working with the Ministry of Environment on stakeholder engagement to solicit feedback on how to improve the implementation of the Carbon Neutral Government policy going forward.

In 2012/13, Pacific Carbon Trust will maintain its core services as an offset provider to the public sector and will continue to build the low-carbon economy through industry engagement, client education and leading-edge offset projects. Looking forward, Pacific Carbon Trust expects to generate surplus operating revenue, which will increase the size of the net assets to 2014/15. The Board of Directors is working with the shareholder to identify potential uses for these funds. Significant headway was made in 2011/12 to establish a carbon market in BC – now the third-largest by value in North America; in 2012/13 PCT will leverage its past endeavours to foster the continued growth of a healthy carbon market in the province, developing new protocols, piloting new programs and exploring opportunities to participate in international carbon markets.

During the 2011/12 year, Pacific Carbon Trust began to see “first of kind” offset projects in BC provide significant results for industry; benefits such as improved efficiency, lower fuel costs and reduced carbon emissions. Industries across the province have invested \$300 million in emissions reduction projects, which have resulted in offsets purchased by Pacific Carbon Trust. Over the next three years, Pacific Carbon Trust will continue to work in tandem with the private sector to drive the development of the low-carbon economy.

As the start of the California and Quebec cap and trade systems in January 2013 draws near, Pacific Carbon Trust will support BC's interests by identifying entry points into the North American carbon market, facilitate BC industry participation in these new markets, and align itself with other carbon standards. By monitoring events both nationally and internationally, Pacific Carbon Trust will enable BC to take advantage of new carbon export opportunities.

Pacific Carbon Trust will face uncertainty in the regulatory environment for carbon offsets in North America. As the California and Quebec markets expand after 2013, carbon offset supplies may be constrained as private organizations focus on compliance or selling into those markets. Additionally, the development of these markets will increase a demand for carbon professionals, which may create employee scarcity for Pacific Carbon Trust and

the industry. Generally, carbon markets face the same downturn that economic recession causes to all industries in British Columbia. Over the next few years PCT will vigilantly monitor and proactively address developing market issues concerning supply and professional availability.

Pacific Carbon Trust's 2012/13–2014/15 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 prepared.

All significant assumptions and risks identified as of January 9, 2012 have been considered in preparing this plan. The performance measures are consistent with Pacific Carbon Trust's mandate and goals, and focus on aspects critical to the organization's success. The performance targets in the plan have been determined based on an assessment of Pacific Carbon Trust's operating environment, forecast conditions, risk assessment and expected performance.



Chris Trumpy
Chair, Board of Directors

January 9, 2012

I Organizational Overview

OVERVIEW

Pacific Carbon Trust (PCT) is a BC Crown corporation that delivers high-quality greenhouse gas (GHG) offsets to help clients meet their carbon reduction goals. Its goals are to reduce emissions provincewide and to help grow a low-carbon economy in BC. PCT is responsible for purchasing offsets from BC-based GHG reduction projects that are in compliance with the BC Emissions Offset Regulation, ensuring world-class offsets build on recognized international standards.

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

BENEFITS TO THE PUBLIC

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

- improving the environment by incentivising greenhouse gas reduction activities;
- creating jobs in both rural and urban areas through public and private investment;
- meeting our obligations to help the public sector and private organizations become carbon neutral;
- providing new economic opportunities for BC business in both the clean technology sector and traditional sectors implementing new technology;
- helping traditional industries, such as pulp and paper, to remain competitive and innovative; and
- providing a focal a point for industry to leverage new approaches to investing in a low-carbon economy.

BUSINESS MODEL

PCT's business model focuses on delivering a portfolio of carbon offsets from a diverse and innovative range of activities while fostering the growth of a low-carbon economy in BC. To effectively carry out this activity, the corporation's business lines include business development and carbon offset deliveries, which are supported by a strong financial infrastructure. As a Crown corporation and proponent of environmental stewardship, PCT must also be transparent and publicly accountable in its performance and operations.

About PCT

Enabling Legislation – Pacific Carbon Trust was incorporated as a 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 foster the growth of the low-carbon economy in BC.

PCT Vision – PCT is a leader in the global low carbon marketplace.

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 the growth of the low-carbon economy.

2. *Credible*

PCT is recognized for its expertise, professional standards and high-quality, credible carbon products.

3. *Sustainable*

PCT is a champion for sustainable business practices and a role model for low-carbon operations.

STAKEHOLDERS

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

Clients

Our primary clients are the BC government and broader public sector organizations. Under the Province's carbon neutral commitment, the public sector measures its carbon footprint and reduces its emissions as much as possible, offsetting remaining emissions at year-end. Pacific Carbon Trust provides the offsets for this provincial commitment.

PCT purchased 729,782 tonnes of carbon offsets to balance the emissions generated by public sector operations in 2010. It was the first year that the government adopted a policy of full carbon neutrality, making it the first major jurisdiction in the world to accomplish such a goal. PCT will continue to deliver on its obligations to help the public sector achieve carbon neutrality. Additionally, Pacific Carbon Trust has offset the provincial government's business travel for 2007 to 2009 with 36,532 tonnes of carbon offsets.

PCT also continues to expand its client base in the private sector and the services that it offers those clients. Various industries, such as transportation services and accommodations services, are seeing the environmental benefits of carbon offsets and are passing on those benefits to their customers. This increase in offset sales signals an increase in environmental awareness and responsibility, which PCT readily supports. Pacific Carbon Trust has also engaged Climate Smart, an emissions education and reduction consulting firm, to become an official channel partner to expand infrastructure and expertise so BC businesses and communities can measure and reduce their carbon footprint through offsets. As of January 2012, PCT had 30 private clients from various industries.

Partners and Suppliers

To deliver the quality offsets that our clients require, PCT works with a wide variety of professionals, including project developers, engineers, environmental consultants who provide emissions reduction projects, and validators and verifiers who provide quality assurance in project offset delivery. During the growth period for Pacific Carbon Trust leading to the first government requirement for carbon neutrality (2008-2011), PCT has developed a business value chain with the aforementioned groups to ensure that a healthy market exists to create and deliver carbon offsets.



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 a close working relationship with the Ministry of Environment's Climate Action Secretariat (responsible for the Climate Action Plan, the *Greenhouse Gas Reduction Targets Act* and government's carbon neutral program) and the Ministry of Citizens' Services, which provides emission measurement and reductions services such as SMARTTool.

CORPORATE GOVERNANCE

Pacific Carbon Trust is owned by the Province of British Columbia and 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 Government's Letter of Expectations (GLE). The letter outlines the corporation's and government's responsibilities and is jointly signed by the Minister of Finance and the Chair of the PCT Board.

Pacific Carbon Trust Board and Supporting Committees

The PCT Board adopted the Province of BC's governance principles as outlined in the Province of British Columbia's Governance Framework for Crown Corporations. PCT follows the Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations and is in the process of developing a corporate governance manual that will include formal guidelines on corporate governance policies. Interim information on corporate governance can be found at the PCT website, www.pacificcarbontrust.com.

PCT is governed by a six-member Board supported by the corporate secretary. PCT Board members are:

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

Information on PCT Board members can be found on the PCT website. Also available on the PCT website are key accountability documents, including Government's Letter of Expectations, service plans, annual reports and financial statements.



The Board meets at least four times per year, and at each of these meetings board members regularly set aside time for an in-camera session where corporation management staff are not present. It also holds monthly conference call updates. The Board is responsible for the overall direction of the corporation, 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 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 Audit and Finance Committee, established by the Board, 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 Board. Heather Holden chairs the committee and all board members participate in the Audit and Finance Committee.

Senior Management

- D. Scott MacDonald, Chief Executive Officer
- David Moffat, Managing Director, Business Development
- David Muter, Managing Director, Strategic Acquisitions

Governance Principles

PCT follows the Best Practice Guidelines on Governance and Disclosure published by the Board Resourcing and Development Office. The disclosures include terms of reference for the Board and its committees, the Chair and the CEO. Director biographies, director attendance records and Board meeting information are also disclosed. This information can be found at www.pacificcarbontrust.com.

2 Strategic Context

WORLD CARBON MARKET

The world carbon market, which has grown from US \$11 billion in 2005 to \$142 billion in 2010, saw a minor decline in 2010 due to stalled climate change agreements and the general global economic downturn. Despite the decline, the market is anticipated to grow by 13% in 2011.¹

The European Union Emissions Trading System, which has grown at an annual rate of 72%, continues to be the largest carbon market as it prepares for its third phase in 2013. Other national systems continue to advance, with Australia passing legislation for an emissions trading system, and countries such as China, Japan and South Korea continue to draft legislative policy for cap and trade. A roadmap for legally binding emissions targets by 2020 has been negotiated by nations under the United Nations Framework Convention on Climate Change (UNFCCC) in Durban, South Africa. The Kyoto Protocol has been extended by the European Union and nine other nations, although Canada has formally withdrawn from its commitment. With agreement between developing and developed nations on a pathway ahead and new international carbon market mechanisms being established over the next year, there are strong positive indicators that carbon markets will continue to grow. In the short term, new market growth will likely continue to focus on national and regional levels, with international market regulations being established in 2013.

The California carbon market, which covers the eighth-largest economy in the world, continues to develop as planned. 2011 saw the first future trades for the California market. Regulations were finalized in October of 2011,



signalling California's commitment to proceed with the start of the program in 2013. Three other potential partners now exist for the Western Climate Initiative (WCI): British Columbia, Quebec and Ontario. In Canada, Quebec has finalized legislation to establish a carbon market in 2013, and Ontario's Liberal party has made commitments to join as well.

The voluntary market saw considerable growth between 2009 and 2010, with market size increasing from 98 to 131 million tonnes of carbon offsets transacted. Total market size is now more than \$424 million.² Year over year, more companies make voluntary commitments to reduce their carbon footprint, increasing the demand for offsets.³ Despite this increase, the North American voluntary carbon market declined in value slightly, from US \$22 million to US \$19 million.

2012 and 2013 will likely see a large growth in the carbon markets as multiple new programs come online across the world. Market consolidation remains elusive, however, with no agreement at an international level. North America in particular will likely see increased carbon reduction activities resulting from demand in the WCI for offsets.

¹ Bloomberg, New Energy Finance

² Ecosystem Marketplace, State of Voluntary Markets 2011

³ Carbon Disclosure Project, Global 500 Report 2011

BC CARBON MARKET

The 2010/11 fiscal year saw a large increase in the activity of the carbon market in the province. Public sector demand for offsets played a significant role in this increase, facilitating and encouraging the development of many carbon offset projects. Since 2008, 26 GHG projects have started in BC that have sold or will sell offsets to Pacific Carbon Trust. More information on the projects that PCT has developed across various industries can be found on the Markit Environmental Registry at www.markit.com/en/products/registry/markit-environmental-registry.page. The carbon market in BC is expected to see modest growth over the next year as a result of the stagnant North American economy and policy uncertainty at a national level.

The number and size of GHG projects in the province will likely continue to be affected by limited availability of capital for projects and as a result, emissions reductions could be slowed due to project delays or decreased production activity. PCT monitors these factors and mitigates risks where needed. As the economy recovers, industries will be more likely to implement emission reduction projects.

Regardless, PCT has engaged the marketplace and has established the necessary infrastructure to deliver on its mandate to ensure public sector carbon neutrality.

BC is committed to climate change and, along with a carbon neutral public sector has strong carbon policies that position BC to be a leader in North America.

BC LABOUR MARKET

North American carbon markets present new professional opportunities in carbon asset management, project development, quality assurance, retail sales and advisory services. Given the growth expected from the green sectors throughout the world, the supply of experienced workers may be one of the largest constraints to greening BC's economy. There may be a lag before training and job experience can build an adequate level of available professionals and firms. PCT has already begun to experience this constraint, and plans are in motion to proactively address external labour availability shortfalls.

BC INDUSTRIES

Companies in transport, pulp and paper, forestry, oil and gas, mining, waste management, building products and agriculture have all generated offsets from GHG projects in BC. These projects have resulted in the implementation of fuel switching, energy efficiency and sequestration activities to reduce pollution in the province across a variety of BC's economic sectors.

PCT will continue to engage with BC industries and develop additional and varied projects. For example, emission reduction opportunities in buildings and waste diversion are currently being developed. Bioenergy technologies continue to be developed in the province, and offsets should continue to be generated from the use of biofuels and waste-to-energy systems across BC. BC's plentiful forestry resource is a good example of an industry with the potential for projects in improved forest management and fuel switching to biofuels.

MAXIMIZING OPPORTUNITIES AND MINIMIZING RISKS

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

OPPORTUNITIES	SIGNIFICANCE FOR PCT	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>British Columbia Climate Action Charter</i> 	<p>Provincial policy has created a market for BC offsets, through the public sector carbon neutral commitment and a regional market through the WCI.</p> <p>A regional market in BC is expected to encourage investments in market infrastructure and innovative technologies that reduce emissions.</p> <p>Other complementary policies (e.g., Low Carbon Fuel Standard) encourage the use of cleaner energy sources help to create additional financing needed for capital intensive GHG projects.</p> <p>Municipal pledges for carbon neutrality will create further demand for offsets and encourage GHG reduction strategies in communities.</p>	<ul style="list-style-type: none"> • Develop a diversified portfolio of offsets; • Support the development of infrastructure by explaining regulation, developing protocols and advising businesses; • Deliver and participate in industry events to build expertise and networking opportunities; and • Monitor and contribute to climate change policy development in BC and North America.
Carbon Markets	<p>The Western Climate Initiative (WCI) is on track to begin trading offsets in 2013; the Australian carbon market has been legislated to begin in 2015; Japan is creating a fund to purchase overseas carbon reductions; and Korea and China are planning emissions trading schemes.</p>	<ul style="list-style-type: none"> • Monitor various carbon markets; • In 2012/13, build expertise and knowledge, and develop market strategies, to leverage BC's expertise and bring new revenues into the province;
Industry and Economic Factors	<p>Demonstrated GHG projects have been successful in many industries, presenting market growth opportunities for carbon offsets over the 2012–2015 year period.</p> <p>Biofuels and other clean technologies could help to drive additional offset projects.</p>	<ul style="list-style-type: none"> • During 2012/13, engage industry sectors to assess potential GHG projects and build awareness of opportunities; and • Work with industry to remove barriers (i.e., access to biomass, protocol development).
Made-in-BC Clean Technology	<p>Renewed economic activity across BC industries over time will allow for more GHG project opportunities.</p> <p>Development of clean technology and green jobs in the province strengthens a low-carbon economy.</p>	<ul style="list-style-type: none"> • Monitor opportunities to support PCT's secondary mandate of growing the low-carbon economy.
New Sectors	<p>Development of offsets from new sectors in BC, further affecting the scope of emission reductions across the provincial emissions inventory.</p>	<ul style="list-style-type: none"> • Continue to research opportunities to work with industries in BC and apply innovative approaches to GHG reductions.

RISKS	SIGNIFICANCE FOR PCT	PCT ACTION
Climate Change Regulatory Environment	<p>Regulations have yet to be finalized for the Western Climate Initiative and BC's participation in it; such policy delays may decrease the scale of project investment.</p> <p>BC carbon offset supply may be constrained in 2014 with the start of the WCI program, as organizations use reductions for compliance purposes rather than offset projects.</p> <p>A decrease in the regulated selling price of \$25 would negatively affect PCT's cash flows and restrict investment opportunities in the low-carbon economy.</p>	<ul style="list-style-type: none"> • Build a pipeline of potential offset projects to meet carbon neutral obligations; • Monitor development and work with industry to take advantage of new markets, while securing BC supply; and • Investigate sales strategies to sell offsets into other markets. • PCT's longer-term portfolio strategy is designed to diversify offsets by delivery time, type and location.
Fledgling Carbon Market in a Slow Economy	<p>If regulated prices are lowered, PCT may have to sell offsets procured from existing contracts at a loss.</p> <p>PCT's offset supply faces risk from a slowly recovering economy; projects could be delayed or cancelled.</p>	<ul style="list-style-type: none"> • Actively manage risk with proponents; • Diversify its portfolio to protect against economic shocks; and • Contract in excess of its initial needs over the 2012-2013 period to mitigate potential shortages
Labour Market	PCT and the industry face a shortfall of experienced professionals for the emerging carbon offset markets.	<p>Support ISO Standards and industry training sessions.</p> <p>Share information across industry and education centres to build professional capacity in BC.</p>
Offset Market	The global offset market has general concerns about the legitimacy of offsets and organizations' claims of carbon neutrality.	<p>The Pacific Carbon Standard uses industry best practices, a stringent triple audit, and a transparent offset registry.</p> <ul style="list-style-type: none"> • Oversee due diligence in project delivery and ensure third-party auditing; • Partner with firms that teach organizations how to report, reduce and offset emissions accurately and openly

CAPACITY CHALLENGES

Pacific Carbon Trust plans to meet the coming year's goals with a staff complement of up to 20 employees. Capacity needs will be monitored as requirements change over time. As the California market grows, there will be a high demand for experienced carbon finance professionals, which creates a risk for Pacific Carbon Trust of losing key staff.

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 the low-carbon economy in BC*. This direction evolves from the BC 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 diverse and innovative offset projects.		Objective 2.1: Deliver offsets to a broad base of clients.		Objective 3.1: Maintain the corporate capacity and infrastructure to support operations.	
	Streamline procurement processes and buy offsets in a competitive manner while ensuring offset quality and diversity.		Implement a sales strategy to deliver offsets to a broad base of clients.		Streamline business processes to improve operational efficiencies and service for clients and suppliers.	
OBJECTIVES and STRATEGIES	Monitor an appropriate level of risk in the portfolio of offset projects.		Provide a high level of service to our clients, including delivering quality offsets in a timely manner and promoting accuracy and transparency in offsetting greenhouse gas emissions.		Promote PCT as a centre of offset expertise. Encourage staff development and build industry relationships to develop expertise across the sector.	
	Manage inventory levels in a transparent manner on a publicly accessible registry.		Retire offsets for our clients in an open and transparent manner.		Build a team of high-performing professionals by developing shared values to guide decisions, opportunities for professional growth and performance rewards.	
	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 the BC carbon market.		Continue building the corporate infrastructure and governance structures to enable effective operations.	
	Implement strategies to support and grow BC-based clean technologies.		Work with offset market participants and industry stakeholders to build expertise and drive growth in the carbon market.		Be transparent and accountable. Monitor and report on financial and corporate performance.	
	Manage a pipeline of offset projects across the province and its industries.		Design a balanced offset portfolio to stimulate a low-carbon economy.		Objective 3.2: Analyze emerging GHG regulations and carbon markets to help BC take advantage of expanding market opportunities.	
					Monitor and analyze emerging carbon markets to identify implications for BC and identify opportunities to position BC to benefit from new carbon markets.	
PERFORMANCE MEASURES	PM 1 Meet offset purchase orders on time		PM 2 Average price paid for offsets per tonne		PM 3 Percentage of customers, suppliers, and partners satisfied / very satisfied	
					PM 4 Lower than average organizational carbon footprint	
					PM 5 Annual overhead as a percentage of revenue	

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

PCT has demonstrated that it can secure an offset portfolio that spans regions and industries across the province, which has contributed to economic and employment growth. PCT plans to build upon its current portfolio by implementing projects in new sectors using new technologies and project types. By completing a diverse array of projects, PCT will ensure that it is experienced in developing offsets from multiple industries, which will help to ensure that there is a steady supply of offsets for public and private use.

Objective 1.1 Build a portfolio of diverse and innovative offset projects.

In 2010/11 it was demonstrated that Pacific Carbon Trust has the resources and capability to meet BC government needs. PCT has developed its own risk-management system, streamlined its offset procurement process and developed an independent offset registry service, all of which ensure a carefully and purposefully managed portfolio.

Strategies:

- Streamline procurement processes to buy offsets in a competitive manner while ensuring offset quality and diversity.
- Monitor an appropriate level of risk in the portfolio of offset projects.
- Manage inventory levels in a transparent manner on a publicly accessible registry.
- 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.
- Manage a pipeline of offset projects across the province and its industries.



Performance Measure 1	Actual 2010/11	Forecast 2011/12	2012/13 Target	2013/14 Target	2014/15 Target
Meets offset purchase orders on time	100%	100%	100%	100%	100%

Description of Measure	Rationale and Benchmarks
<p>The first measure monitors the company's ability to meet the demands of its clients, either regulated or voluntary.</p> <p>Target: PCT aims to be able to have enough volume to deliver offsets to all public and private clients year over year.</p> <p>Data: Offset volumes are monitored in the PCT pipeline, and delivered offsets are quantified on the Market Environmental registry.</p>	<p>This measure was chosen because it directs corporate strategies toward ensuring PCT delivers enough offsets to meet client requirements in a challenging offset project environment. It ensures that basic corporate operations take priority.</p> <p>This target sets high expectations for the corporation in an area that presents risks to PCT, e.g., not sourcing enough 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> <p>Benchmark: Number of offset sales vs. other offset providers, where data is available.</p>

Performance Measure 2	Actual 2010/11	Forecast 2011/12	2012/13 Target	2013/14 Target	2014/15 Target
Average price paid for offsets per tonne	Less than \$25 ⁴	Less than \$25	Less than \$25	Less than \$25	Less than \$25

Description of Measure	Rationale and Benchmarks
<p>This performance measure will monitor the average price paid by PCT for offsets.</p> <p>Target: PCT keeps 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 constitute the majority of expenses. Providing cost-effective offsets is important for managing public sector funds and helps to keep Pacific Carbon Trust financially viable.</p> <p>PCT will maintain a target of less than \$25. As project opportunities become more challenging in BC or depend on more expensive technology, the cost of generating offsets will rise. PCT wishes to ensure that it does not miss opportunities by limiting its buying price.</p> <p>Benchmark: PCT monitors industry and market information for prices of various offsets in North America to compare the market value of PCT offsets with other standards.</p>

⁴ The price of \$25/tonne is tied to the current offset price that clients pay to purchase offsets from PCT.

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

Pacific Carbon Trust continues to build its expertise through hiring and training a high-performance team. All employees are encouraged to seek professional development and industry relationships that can help them and PCT as a whole become expert in the carbon space. Additionally, PCT will continue its industry outreach activities – meetings, speaking engagements, conferences, workshops and webinars – to identify offset development opportunities and support the growth of the carbon market. This will help support a healthy economy in BC while furthering the corporate strategy to help all clients meet their carbon reduction goals.

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

Progressive companies in the voluntary offsetting market continue to rise in number as fighting climate change becomes a more pressing issue. In 2012/13, PCT has the opportunity to build relationships with these early adopters and, as carbon markets continue to grow, to become a well-known and well-regarded standard in the carbon economy.

Strategies:

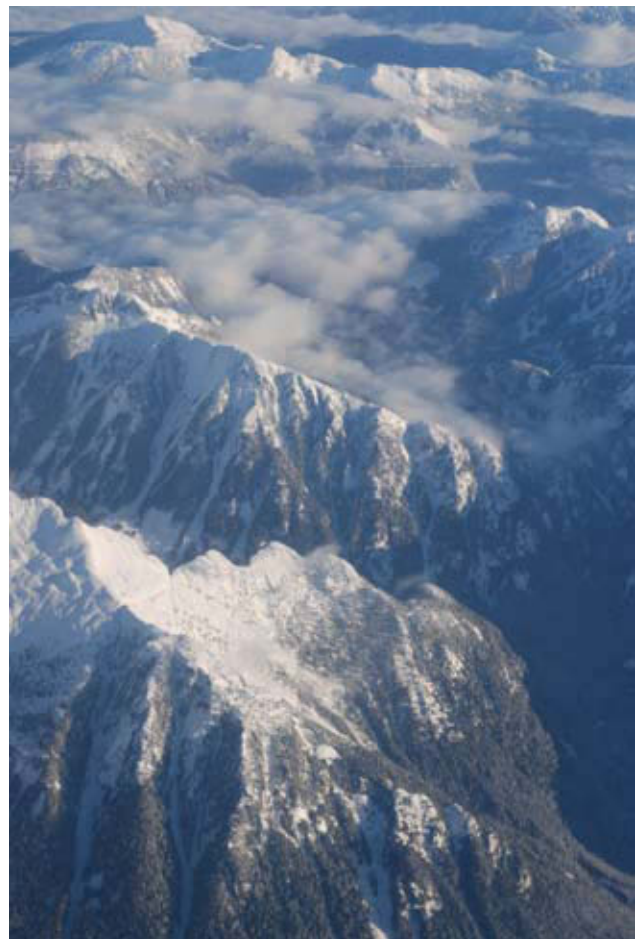
- Implement a sales strategy to deliver offsets to a broad base of clients.
- Provide a high level of service to our clients, including delivering quality offsets in a timely manner and promoting accuracy and transparency in offsetting greenhouse gas emissions.
- Retire offsets for our clients in an open and transparent manner.

Objective 2.2: Accelerate growth of the BC carbon market.

PCT has designed its portfolio objectives to consider the economic significance and the potential for projects to foster industry-wide technology adoption. It plans to pursue those projects that not only create a high yield of offsets but also foster innovation and economic growth in BC. PCT plans to identify further opportunities for developing the BC economy by assessing offset projects within North America that can benefit from made-in-BC clean technology.

Strategies:

- Work 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	Actual 2009/10	Forecast 2011/12	2012/13 Target	2013/14 Target	2014/15 Target
Percentage of customers, suppliers and partners satisfied/very satisfied ²	74%	90%	90%	90%	90%

Description of Measure	Rationale and Benchmarks
<p>This performance measure looks at the satisfaction levels amongst PCT's clients as well as industry partners.</p> <p>Target: an approval of at least 90% by 2011/12 and a maintained level of at least 90% each year thereafter.</p> <p>Data: This information is 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 strong customer relationships as it provides offsets to a growing list clients.</p> <p>The target was chosen to set a goal of continued improvement for the corporation's client, supplier and partner support.</p> <p>Benchmark: Repeat client business vs. other offset providers.</p>



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

As carbon markets in North America come online, PCT has the opportunity to play a leading role in carbon transactions. The goal has identified two important characteristics that help to describe the type of corporation PCT aspires to become: effectively managing public sector resources as outlined in the Government's Letter of Expectations, and robust industry expertise, a particularly important asset for development of a new, complex industry.

Objective 3.1: Maintain the corporate capacity and infrastructure to support operations.

PCT will ensure that in the 2012/13 to 2014/15 period it continuously improves its operational efficiency, from project-level details to carbon offset accounting, and strives to maximize opportunities for carbon transactions.

Strategies:

- Streamline business processes to improve operational efficiencies and service for clients and suppliers.
- Promote PCT as a centre of offset expertise. Encourage staff development and build industry relationships to develop expertise across the sector.
- Build a team of high-performing professionals by developing shared values to guide decisions, opportunities for professional growth and performance rewards.
- Continue building the corporate infrastructure and governance structures to enable effective operations.
- Be transparent and accountable. Monitor and report on financial and corporate performance.

Objective 3.2: Analyze emerging GHG regulations and carbon markets to help BC take advantage of expanding market opportunities.

Moving into its third year of operations in 2011/12, Pacific Carbon Trust has established a base of knowledge and experience in working with greenhouse gas reduction projects across the province and its industrial sectors. PCT has the knowledge and expertise necessary to ensure BC leverages these strengths, and throughout 2012/13 and beyond it plans to explore them, while anticipating evolving trends in the carbon markets. For example, BC's large expanses of forest can be used for carbon capture projects that can generate offsets to be sold in international markets.

Strategies:

- Monitor and analyze emerging carbon markets to identify implications for BC and identify opportunities to position BC to benefit from new carbon markets.

Performance Measure 4	Baseline 2008	Forecast 2011/12	2012 Target	2013 Target	2014 Target
Lower than average organizational carbon footprint (tonnes CO ₂ e per FTE)	1.8	1.6	Less than 2.7	Less than 2.7	Less than 2.7

Description of Measure	Rationale and Benchmarks
<p>This performance measure will monitor the organization's level of greenhouse gas emissions per full time employee.</p> <p>Target: PCT has selected a target for a level of corporate greenhouse gas emissions to be lower than the average footprint 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 measure is important in demonstrating PCT's leadership in a low-carbon economy by reducing its own carbon footprint.</p> <p>The target of a lower-than-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> <p>Benchmark: the carbon footprint of core government and other similar-sized crown corporations.</p>



Performance Measure 5	Actual 2010/11	Forecast 2010/11	2012/13 Target	2013/14 Target	2014/15 Target
Overhead as a percentage of revenue	15%	10% reduction year over year	10% reduction year over year	10% reduction year over year	10% reduction year over year

Description of Measure	Rationale and Benchmarks
<p>This performance measure monitors the operating costs not directly associated with procuring or selling offsets, or for project development.</p> <p>Target: PCT has chosen to reduce maintain an overhead percentage of revenue below 15% per 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>Benchmark: PCT can use a general measurement of overhead in a business as a guideline. Given the rarity of similar organizations, industry-specific data is unlikely. Similar industry institutions can be used as a proxy.</p>

PERFORMANCE AND BENCHMARKING

Pacific Carbon Trust develops bi-weekly management reports to track its performance. Additionally, as a Crown corporation, PCT will be undergoing a performance audit in 2012/13 to ensure that it is efficiently performing and delivering on its goals.

Organizations similar to PCT are few in number. Research has revealed other offset procurement organizations are small and do not publicly report their performance. By contrast, PCT performance is available on its website, and independent analysts show PCT as the third-largest offset standard by market value in North America.⁵



⁵ Point Carbon, Thomson Reuters

GOVERNMENT'S LETTER OF EXPECTATIONS

Government direction for the Pacific Carbon Trust is outlined in the Government's Letter of Expectations (GLE). This is an agreement between the Minister of Finance on behalf of the government and the Board of PCT that establishes priorities and expectations for PCT. The chart below highlights the expectations and PCT's alignment.

GOVERNMENT'S LETTER OF EXPECTATIONS	PACIFIC CARBON TRUST PROGRESS
Specific Government Direction to PCT	
Acquire a risk-managed, high-quality and diversified carbon offset portfolio that meets public and private sector carbon neutrality commitments.	PCT has acquired a portfolio to meet the BC government and private sector carbon neutrality commitments. The portfolio is risk-managed internally with expert consultation, offsets are quantified to world-class standards, and projects are diversely spread across regions and industries of the province.
Secure new customers to purchase BC carbon products and drive revenue into the province.	PCT recently retired 729,782 tonnes of offsets for its new set of clients (public sector organizations), and has developed a sales strategy for voluntary market segments, as well as policies for service offerings. In 2011/12, 12 new clients were brought on, and PCT plans to expand that number to 30 in 2012/13.
Develop and implement investment strategies that grow BC-based clean technology and innovations that accelerate GHG reductions.	PCT's activities have resulted in over \$300 million in leveraged private investment. PCT is assessing the market for additional investment opportunities and has identified viable BC clean technologies that can be implemented to reduce greenhouse gas emissions.
Engage the carbon market industry to support the growth of the low-carbon economy in BC and position the province to benefit from the emerging North American carbon market.	PCT has established relationships with many market participants, including 14 auditing bodies, and continues to engage them to support industry growth. It is building knowledge and expertise to be able to take advantage of carbon transaction opportunities in 2012/13, with four modularized protocols developed and three "first of kind" projects.
Climate Change and Carbon Neutrality Initiatives	
Comply with the shareholder's requirements to make the public sector carbon neutral by 2010, including accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the corporation's operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through its procurement activities.	<p>PCT's mandate is to deliver quality BC-based greenhouse gas offsets to help clients meet their carbon reduction goals and to support the growth of the low-carbon economy in BC. PCT will continue to satisfy demand for offset from the public and private sectors.</p> <p>PCT maintained a lower than average organizational carbon footprint as compared to core government. In 2011, PCT recorded 1.6 tonnes CO₂e /FTE. Total emissions for 2011 were 25.6 tonnes, including 6.8 tonnes for operations and 18.8 tonnes for employee travel.</p>

4 Summary Financial Outlook

FINANCIAL OUTLOOK

For the year ended March 31	Actual 2010/11 (\$000s)	Forecast 2011/12 (\$000s)	Budget 2012/13 (\$000s)	Budget 2013/14 (\$000s)	Budget 2014/15 (\$000s)
Revenues					
Operating Grant from BC Government	2,000	–	–	–	–
Offset revenue	4,809	13,887	20,000	20,000	20,000
Interest revenue	140	250	350	350	350
Total Revenues	6,949	14,137	20,350	20,350	20,350
Expenses					
Strategic Acquisitions					
Salaries and Benefits	532	511	571	588	605
Operating and Administration	3,420	6,380	10,006	11,115	12,431
Professional Services	232	210	238	238	238
Rent	50	66	66	70	70
Amortization	15	22	42	64	64
	4,249	7,189	10,922	12,075	13,408
Business Development					
Salaries and Benefits	779	748	836	861	886
Operating and Administration	172	184	160	158	158
Professional Services	340	308	349	349	349
Rent	73	96	96	103	103
Amortization	22	33	62	94	94
	1,386	1,368	1,501	1,564	1,590
Finance and Operations					
Salaries and Benefits	589	565	632	651	670
Operating and Administration	130	139	121	119	119
Professional Services	257	233	264	264	264
Rent	55	73	73	78	78
Amortization	16	25	47	71	71
	1,048	1,034	1,135	1,182	1,202
Total Operating Expenses	6,683	9,591	13,559	14,822	16,200
Surplus (Deficit) for the year	266	4,546	6,791	5,528	4,150
Net Assets, beginning of year	16,548	16,814	21,360	28,151	33,679
Net Assets, end of period	16,814	21,360	28,151	33,679	37,830

KEY ASSUMPTIONS

Revenue

- Offset revenues are based on a transaction price of \$25/tonne of CO₂e and on the estimated annual delivery of offsets. The actual for 2010/11 and the forecast for 2011/12 include revenue from offsets delivered to government in June 2011 to satisfy government's carbon neutral commitments for 2010.
- Total offset demand is stable at 800,000 tonnes per year, and revenue is recognized from public sector organizations once annually starting in the 2012/13 fiscal year.
- Interest income is based on timing of forecasted cash flows and assumes continued low market returns.

Expenses

- Offset costs are assumed to escalate with inflation (2.5% estimated) and are based on forecasted levels of demand.
- Salaries and benefits may change to account for possible increases in FTEs should demand and workload increase.
- Professional services include legal costs, management consulting and other contracted services. PCT uses external resources for specific, short-term expertise as required.
- Other overhead costs (rent, systems costs, etc.) are based on existing agreements and assumptions on contract price changes beyond those dates.
- Amortization forecasts are based on estimated useful lives of assets and approved plans for future capital spending.

Equity and Debt

- Pacific Carbon Trust is expected to have \$21.4 million in equity by 2011/12, an accumulation of operating grants and net income. PCT has no outstanding long-term debt.
- Based on these assumptions, PCT will continue to generate surplus funds to 2014/15. The Board of Directors is working with the shareholder to identify potential uses for these funds.

Capital Expenditures

- Capital expenditures represent the cost of implementing corporate information technology applications and infrastructure.

FUTURE OUTLOOK

2012/13 will represent continued growth as PCT expands its core business and investigates other opportunities in the carbon markets. PCT will continue to supply the BC government with offsets to meet its carbon neutrality commitment. At the same time, PCT will expand its private client base and implement opportunities to expand the low-carbon economy. These activities are reflected in Pacific Carbon Trust's financial outlook for steady asset growth. PCT is working with the shareholder and public sector clients to identify a broader funding base for public sector clients and a sustainable revenue source for Pacific Carbon Trust to purchase offsets required for the provincial carbon neutral commitment.

PCT is contractually positioned to meet the demands of all public sector organizations for the 2011 and 2012 calendar years, and expects to meet all demands for years thereafter. The majority of PCT's expenses are related to the purchasing of offsets to ensure a full portfolio is maintained for the BC government. Projected expenses are dependent on the actual volume of offsets delivered.

If cap and trade is adopted by British Columbia, financial forecasts would greatly change due to a considerable increase in demand for offsets and an introduction of floating market prices, which may affect the current price scheme. If this scenario were to exist, the scale of PCT's operations could be adjusted to capitalize on market opportunities; both revenues and expenses could increase substantially. Pacific Carbon Trust is currently capable of meeting a demand requirement of 800,000 carbon offset credits per year, and if that volume were to increase, the scale of PCT's operations may need to incrementally increase as well.

While the budget presented represents a well-considered three-year forecast, there are many uncertainties around the future carbon market in North America. These are due to legislation for cap and trade still being finalized in various regions in Canada and the United States, as well as the ongoing economic recession. Offset rules and demand could change due to these uncertainties. PCT will continue to monitor these issues and ensure that British Columbia is well positioned to take advantage of any carbon market opportunities that arise during the next few years.

CAPITAL PLAN

Pacific Carbon Trust does not anticipate any major capital investments during the 2012/13 to 2014/15 fiscal years. Typically, PCT spends less than \$500,000 per year on capital investments in the form of minor Tenant Improvements and Information Technology Upgrades.

2011/12	2012/13	2013/14	2014/15
\$150,000	\$150,000	\$325,000	\$150,000

CONTACT INFORMATION

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