

ETC GROUP
ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

FINANCIAL STATEMENTS

AUGUST 31, 2007

ETC GROUP
ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

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AUDITORS' REPORT

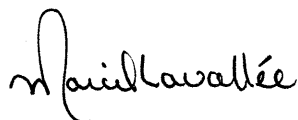
To the Board of Directors
ETC Group: action group on erosion, technology and concentration

We have audited the statement of financial position of ETC Group: action group on erosion, technology and concentration as at August 31, 2007 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many charitable organizations, the Organization derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to revenue, excess of revenues over expenses, assets and net assets.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenue referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Organization as at August 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

Ottawa, Ontario
September 13, 2007

COMPTABLES AGRÉÉS | CHARTERED ACCOUNTANTS

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Nos partenaires canadiens et internationaux BHD™
Our Canadian and International Affiliates IAPA

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED AUGUST 31, 2007

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| | 2007 | 2006 |
|---|--------------------|-------------------|
| REVENUE (Schedule A) | \$ 800,076 | \$ 949,592 |
| EXPENSES | | |
| Salaries and benefits | 469,591 | 499,835 |
| Consulting fees | 24,768 | 26,955 |
| Rent | 33,915 | 35,487 |
| Insurance | 3,844 | 3,836 |
| Interest and bank charges | 3,688 | 3,676 |
| Meetings | 61,493 | 7,754 |
| Professional fees | 32,580 | 12,797 |
| Telecommunications | 14,616 | 14,743 |
| Website management | 8,104 | 15,379 |
| Travel expenses | 52,796 | 25,174 |
| Office expenses | 21,064 | 24,103 |
| Maintenance and repairs | 5,853 | 6,162 |
| Books, printing and distribution | 24,532 | 13,064 |
| Foreign exchange loss | 25,507 | 31,023 |
| Amortization of capital assets | 8,479 | 9,380 |
| Portion of operating expenses charged to projects | (21,691) | (91,926) |
| | 769,139 | 637,442 |
| PROJECT EXPENSES (Schedule B) | 46,424 | 283,320 |
| | 815,563 | 920,762 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | \$ (15,487) | \$ 28,830 |

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED AUGUST 31, 2007

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| | <u>Internally restricted net assets</u> | | | | Unrestricted | 2007 Total | 2006 Total |
|---|---|-----------------------------------|-------------------------------|-----------|--------------|---------------|---------------|
| | Building acquisition reserve | Six month operating reserve | Invested in capital assets | | | | |
| BALANCE, BEGINNING OF YEAR | \$ 300,000 | \$ 350,000 | \$ 25,255 | \$ 30,314 | \$ 705,569 | \$ 676,739 | |
| Excess (deficiency) of revenue over expenses | - | - | (8,479) | (7,008) | (15,487) | 28,830 | |
| Investment in capital assets | - | - | 4,945 | (4,945) | - | - | |
| BALANCE, END OF YEAR | \$ 300,000 | \$ 350,000 | \$ 21,721 | \$ 18,361 | \$ 690,082 | \$ 705,569 | |

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2007

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| | 2007 | 2006 |
|---|-------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 54,544 | \$ 125,899 |
| Short-term investments, 4.5% and 3.55%, maturing September 27, 2007 and June 5, 2008 | 209,500 | 324,720 |
| Funding receivable (note 3) | 505,178 | 334,982 |
| Other receivables | 26,623 | 17,318 |
| Prepaid expenses | - | 16,866 |
| | 795,845 | 819,785 |
| CAPITAL ASSETS (note 4) | 21,721 | 25,255 |
| | \$ 817,566 | \$ 845,040 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 11,415 | \$ 13,260 |
| Deferred revenue (note 5) | 116,069 | 126,211 |
| | 127,484 | 139,471 |
| NET ASSETS | | |
| Unrestricted | 18,361 | 30,314 |
| Invested in capital assets | 21,721 | 25,255 |
| Internally restricted net assets | | |
| - Six month operating reserve | 350,000 | 350,000 |
| - Building acquisition reserve | 300,000 | 300,000 |
| | 690,082 | 705,569 |
| | \$ 817,566 | \$ 845,040 |

Commitment (note 8)

ON BEHALF OF THE BOARD

_____, Director

_____, Director

 **MARCIL LAVALLÉE**

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2007

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| | 2007 | 2006 |
|---|-------------------|-------------------|
| OPERATING ACTIVITIES (note 6) | | |
| Excess (deficiency) of revenue over expenses | \$ (15,487) | \$ 28,830 |
| Adjustments for: | | |
| Amortization of capital assets | 8,479 | 9,380 |
| Loss on disposal of capital assets | 917 | - |
| | (6,091) | 38,210 |
| Net change in non-cash working capital items (note 6) | (174,622) | 44,914 |
| | (180,713) | 83,124 |
| INVESTING ACTIVITIES | | |
| Acquisition of capital assets | (5,962) | (12,939) |
| Proceeds from disposal of capital assets | 100 | - |
| | (5,862) | (12,939) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (186,575) | 70,185 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 450,619 | 380,434 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 264,044 | \$ 450,619 |

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2007

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1. STATUTE AND NATURE OF OPERATIONS

ETC Group: action on erosion, technology and concentration is a non-profit registered charitable organization incorporated without share capital under the Canada Corporation Act.

ETC Group is dedicated to the conservation and sustainable advancement of cultural and ecological diversity and human rights. To this end, ETC Group supports socially responsible developments of technologies useful to the poor and marginalized and it addresses international governance issues and corporate power.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that impact on the measure of assets and liabilities, the disclosure of contingent assets and liabilities and the amounts of revenue and expenses reported in the financial statements. Actual results may vary from these estimates.

Revenue recognition

The Organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Operating expenses charged to projects

Salaries and benefits and other operating expenses are charged to the projects according to management's best estimates of the time and expenses spent on these projects.

Foreign currency transactions

The Organization uses the temporal method to translate its foreign currency transactions. Monetary assets and liabilities are translated at the rate of exchange in effect at year end. Other assets and liabilities are translated at their historic rates. Items appearing in the statement of operations, except for depreciation, are translated at average year rates. Exchange gains and losses are included in the statement of operations.

Foreign exchange translation

Funds are converted to Canadian dollars using the exchange rate effective as at the balance sheet date. The exchange rate applied to convert transactions throughout the year is the estimated average exchange rate between the foreign currency and the Canadian dollar.

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2007

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign exchange gain (loss)

An unrealized foreign exchange gain (loss) is created on the conversion of US dollar amounts held in monetary assets and short-term liabilities to Canadian dollars using the exchange rate as at the balance sheet date for financial statement presentation purposes only. These gains or losses are unrealized; and may or may not be realized depending on the fluctuation of the US dollar exchange to the Canadian dollar when the funds are actually exchanged.

Contributed services

The Organization would not be able to carry out its activities without the services of volunteers who donate a considerable number of hours. Because of the inherent difficulty in compiling these hours and determining their fair value, contributed services are not recognized in the financial statements.

Capital assets

Capital assets are accounted for at cost. Amortization is calculated on their respective estimated useful life using the diminishing balance method at the following annual rates:

| | Rates |
|------------------------|-------|
| Computer equipment | 33.3% |
| Furniture and fixtures | 33.3% |

3. FUNDING RECEIVABLE

| | 2007 | 2006 |
|---|-------------------|-------------------|
| Friends of Action Group on Erosion, Technology and Concentration Inc. | \$ 505,178 | \$ 323,782 |
| IDRC | - | 11,200 |
| | <u>\$ 505,178</u> | <u>\$ 334,982</u> |

Friends of Action Group on Erosion, Technology and Concentration Inc. is a public charity registered in the United States with 501c(3) status. This organization receives donations from USA supporters of ETC Group's work. Funding receivable is provided pursuant to contracts for specified research, education, and advisory work.

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2007

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4. CAPITAL ASSETS

| | Cost | Accumulated amortization | 2007 | 2006 |
|------------------------|------------|-----------------------------|-----------|-----------|
| Computer equipment | \$ 141,518 | \$ 123,859 | \$ 17,659 | \$ 19,165 |
| Furniture and fixtures | 26,339 | 22,277 | 4,062 | 6,090 |
| | \$ 167,857 | \$ 146,136 | \$ 21,721 | \$ 25,255 |

5. DEFERRED REVENUE

| | 2007 | 2006 |
|----------------------------|------------|------------|
| Ford Foundation | \$ 80,736 | \$ - |
| Marin Community Foundation | 35,333 | - |
| CS Fund | - | 74,000 |
| Swedbio | - | 32,839 |
| IDRC | - | 19,372 |
| | \$ 116,069 | \$ 126,211 |

6. CASH FLOWS

Net change in non-cash working capital items

| | 2007 | 2006 |
|--|--------------|------------|
| Funding receivable | \$ (170,196) | \$ 124,026 |
| Other receivables | (9,305) | 14,132 |
| Prepaid expenses | 16,866 | (16,866) |
| Accounts payable and accrued liabilities | (1,845) | (3,462) |
| Deferred revenue | (10,142) | (72,916) |
| | \$ (174,622) | \$ 44,914 |

Cash flows from interest

| | 2007 | 2006 |
|-------------------|-----------|----------|
| Interest received | \$ 14,459 | \$ 9,294 |

Cash and cash equivalents

| | 2007 | 2006 |
|------------------------|------------|------------|
| Cash | \$ 54,544 | \$ 125,899 |
| Short-term investments | 209,500 | 324,720 |
| | \$ 264,044 | \$ 450,619 |

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2007

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7. FINANCIAL INSTRUMENTS

Credit risk

In the normal course of its operations, the Organization normally reviews the financial situation of its clients when required. The Organization establishes allowances for doubtful accounts while keeping in mind the specific credit risk of clients, their historic tendencies and economic situation.

Currency risk

The Organization realizes some of its transactions in US dollars. Consequently, it is exposed to fluctuations of this currency. As at August 31, 2007, assets include funding receivable of \$488,680, short-term investment of \$100,000 and a cash balance of \$33,279 in US dollars, which have been converted into Canadian dollars.

Fair value

The carrying value of cash, short-term investments, funding receivable, other receivables as well as accounts payable and accrued liabilities approximate their fair value, given their short-term maturities.

8. COMMITMENT

The commitment entered into by the Organization under a lease agreement totals \$49,477. Payments for the next three years are as follows:

| | | |
|------|----|--------|
| 2008 | \$ | 19,383 |
| 2009 | \$ | 19,964 |
| 2010 | \$ | 10,130 |

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

ADDITIONAL INFORMATION

FOR THE YEAR ENDED AUGUST 31, 2007

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| | 2007 | 2006 |
|---|-------------------|-------------------|
| SCHEDULE A - REVENUE | | |
| SwedBio | \$ 290,073 | \$ 203,929 |
| CS Fund | 118,400 | 119,000 |
| IDRC | 19,968 | 100,829 |
| Canadian International Development Agency | - | 150,000 |
| HKH | 111,000 | 119,000 |
| Lillian Goldman Charitable Trust | 111,000 | 99,167 |
| Marin Community Foundation | 74,000 | - |
| Ford Foundation | 26,456 | 20,627 |
| IDRC - Translation | - | 15,538 |
| Educational Foundation of America | - | 14,882 |
| Terminator Project - Canada | - | 11,999 |
| Ban Terminator Campaign - International | - | 59,580 |
| Consulting | 75 | 6,359 |
| Other (including donations of \$4,494) | 49,104 | 28,682 |
| | \$ 800,076 | \$ 949,592 |

SCHEDULE B - PROJECT EXPENSES

| | | |
|---------------------------------------|------------------|-------------------|
| IDRC | \$ 19,968 | \$ 100,829 |
| Ford Foundation | 26,456 | 16,872 |
| PreVenter | - | 7,272 |
| IDRC - Translation | - | 15,538 |
| Terminator Project - Canada | - | 21,067 |
| Ban Terminator Campaign International | - | 121,742 |
| | \$ 46,424 | \$ 283,320 |