

**ETC GROUP**  
**ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION**

FINANCIAL STATEMENTS

AUGUST 31, 2012

**ETC GROUP**  
**ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION**

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report	1
Financial Statements	
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Financial Position	5
Statement of Cash Flows	6
Notes to the Financial Statements	7
Additional Information	12

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of ETC Group: action group on erosion, technology and concentration, which comprise the statement of financial position as at August 31, 2012, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Marcil Lavallée, S.E.N.C. / G.P.**

500-214, chemin Montréal Road  
Ottawa ON K1L 8L8

125-1160, boulevard St-Joseph Boulevard  
Gatineau QC J8Z 1T3

Tél. / Tel. : **613 745-8387**  
Télec. / Fax : 613 745-9584

Tél. / Tel. : **819 778-2428**  
Télec. / Fax : 613 745-9584

**www.marcil-lavallee.ca**  
info@marcil-lavallee.ca

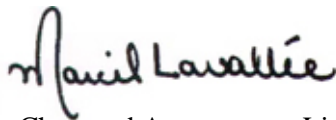
BHD | Nos partenaires canadiens et internationaux  
IAPA | Our Canadian and International Partners

*Basis for Qualified Opinion*

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. Therefore, we were not able to determine whether any adjustments might be necessary to revenue from donations, deficiency of revenue over expenses, and cash flow from operations for the years ended August 31, 2012 and 2011, current assets as at August 31, 2012 and 2011, and net assets as at September 1, 2011 and 2010 and August 31, 2012 and 2011. Our audit opinion on the financial statements for the year ended August 31, 2011 was modified accordingly because of the possible effects of this limitation in scope.

*Qualified Opinion*

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of ETC Group: action group on erosion, technology and concentration as at August 31, 2012, 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  
November 14, 2012

# ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

## STATEMENT OF OPERATIONS

FOR THE YEAR ENDED AUGUST 31, 2012

3

	2012	2011
<b>REVENUE</b> (Schedule A)	\$ 608,628	\$ 1,102,492
<b>OPERATING EXPENSES</b>		
Salaries and benefits	532,459	580,491
Travel	94,844	60,505
Consulting fees	60,993	67,445
Meetings	49,692	22,641
Rent	37,573	38,852
Books, printing and distribution	32,661	52,905
Office	27,847	25,806
Telecommunications	22,322	29,091
Website management	17,106	1,817
Insurance	4,242	5,233
Maintenance and repairs	2,206	3,564
Foreign exchange loss (gain)	(14,325)	88,554
Professional fees	11,100	8,999
Interest and service charges	6,049	7,712
Amortization of capital assets	6,764	8,730
Portion of operating expenses charged to projects	(22,961)	(53,483)
	868,572	948,862
<b>PROJECT EXPENSES</b> (Schedule B)	126,143	190,754
	994,715	1,139,616
<b>DEFICIENCY OF REVENUE OVER EXPENSES</b>	\$ (386,087)	\$ (37,124)

## ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

### STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED AUGUST 31, 2012

4

	Internally Restricted			2012 Total	2011 Total
	Building Acquisition Reserve	Six-month Operating Reserve	Unrestricted		
<b>BALANCE, BEGINNING OF YEAR</b>	\$ 300,000	\$ 350,000	\$ 42,711	\$ 692,711	\$ 729,835
Deficiency of revenue over expenses	-	-	(386,087)	(386,087)	(37,124)
Interfund transfers	(300,000)	(43,376)	343,376	-	-
<b>BALANCE, END OF YEAR</b>	\$ -	\$ 306,624	\$ -	\$ 306,624	\$ 692,711

# ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

## STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

5

	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 122,646	\$ 597,548
Short-term investment, 1%, maturing October 21, 2012	50,001	50,001
Funding receivable (Note 4)	79,425	293,168
Other receivable	195,592	27,102
Prepaid expenses	3,343	6,474
	<b>451,007</b>	974,293
<b>CAPITAL ASSETS (Note 5)</b>	<b>14,298</b>	19,561
	<b>\$ 465,305</b>	\$ 993,854
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank loan (Note 6)	\$ -	\$ 5,000
Accounts payable and accrued liabilities	17,674	23,806
Deferred revenue (Note 7)	141,007	272,337
	<b>158,681</b>	301,143
<b>NET ASSETS</b>		
Unrestricted	-	42,711
Internally Restricted		
- Six-month Operating Reserve	306,624	350,000
- Building Acquisition Reserve	-	300,000
	<b>306,624</b>	692,711
	<b>\$ 465,305</b>	\$ 993,854

*Contingency (Note 9)*

ON BEHALF OF THE BOARD

\_\_\_\_\_, Director

\_\_\_\_\_, Director

# ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2012

6

	2012	2011
<b>OPERATING ACTIVITIES</b>		
Deficiency of revenue over expenses	\$ (386,087)	\$ (37,124)
<b>Adjustment for:</b>		
Amortization of capital assets	6,764	8,730
	<b>(379,323)</b>	(28,394)
Net change in non-cash working capital items (Note 8)	<b>(89,078)</b>	316,188
	<b>(468,401)</b>	287,794
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(1,501)	(4,153)
Proceeds from disposal of investment	-	70,000
	<b>(1,501)</b>	65,847
<b>FINANCING ACTIVITIES</b>		
Reimbursement of bank loan	(5,000)	-
Proceeds from bank loan	-	5,000
	<b>(5,000)</b>	5,000
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(474,902)</b>	358,641
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>647,549</b>	288,908
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 172,647</b>	\$ 647,549

Cash and cash equivalents consist of cash and short-term investment.



# ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

7

### 1. STATUTE AND NATURE OF OPERATIONS

ETC Group: action on erosion, technology and concentration is a registered charity incorporated without share capital under the Canada Corporations 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.

The Organization is exempt from income taxes.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Use of estimates

The preparation of financial statements in compliance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual amounts could differ 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.

Other revenues other than donations are recognized in the year received or receivable if the amount to be received can be reasonably estimated and collection is assured.

Donation revenues are recognized when received.

#### Allocation of common costs

The Organization allocates a portion of its salaries and benefits according to the budget approved in the contribution agreement, which is established depending on the actual needs of the Organization for each project.

#### 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 amortization, are translated at average year rates. Exchange gains and losses are included in the statement of operations.

# ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

8

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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:

Computer equipment	33.3%
Furniture and fixtures	33.3%

#### Financial instruments

The Organization has elected to classify its financial assets and liabilities in the following manner:

##### *Loans and receivables*

Funding receivable and other receivable are measured at amortized cost using the effective interest method. Gains and losses related to the derecognition of these financial assets are recognized in the statement of operations in the period in which they arise.

##### *Held-for-trading financial assets and liabilities*

Cash and short-term investment are measured at fair value using the market price method. Gains and losses are recognized in the statement of operations in the period in which they arise.

##### *Other financial liabilities*

Accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Gains and losses related to the derecognition of these financial liabilities are recognized in the statement of operations in the period in which they arise.

#### Financial instruments - disclosure and presentation

The Organization has elected to take advantage of the choice to apply the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861, "Financial instruments - disclosure and presentation" in place of Sections 3862, "Financial instruments - disclosures" and 3863, "Financial instruments - presentation".

# ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

9

### 3. ALLOCATION OF COMMON COSTS

Amounts for salaries and benefits are allocated to projects as follows:

	2012		2011	
CS Fund - Project/Staff in Africa	\$	22,961	\$	-
Swedbio		-		53,483
	\$	22,961	\$	53,483

### 4. FUNDING RECEIVABLE

	2012		2011	
Friends of Action Group on Erosion, Technology and Concentration Inc.	\$	79,425	\$	79,161
HKH Foundation		-		214,007
	\$	79,425	\$	293,168

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 is provided pursuant to contracts for specified research, education and advisory work.

### 5. CAPITAL ASSETS

	Cost		Accumulated amortization		2012		2011	
Computer equipment	\$	51,416	\$	38,718	\$	12,698	\$	17,162
Furniture and fixtures		30,641		29,041		1,600		2,399
	\$	82,057	\$	67,759	\$	14,298	\$	19,561

### 6. BANK LOAN

The Organization has an authorized line of credit of \$50,000, renewable annually, at prime lending rate plus 2.75%. This line of credit is secured by a general security agreement. The line of credit is unused at year-end.

# ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

10

### 7. DEFERRED REVENUE

	2012	2011
CS Fund/Core funding	\$ 98,000	\$ 98,000
CS Fund/Staff in Africa	42,275	86,240
CS Fund/Project Seeds	732	-
CS Fund/Travel support	-	60,887
Swedbio	-	27,210
	\$ 141,007	\$ 272,337

### 8. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2012	2011
Funding receivable	\$ 213,743	\$ 291,887
Other receivable	(168,490)	3,726
Prepaid expenses	3,131	4,532
Accounts payable and accrued liabilities	(6,132)	(33,451)
Deferred revenue	(131,330)	49,494
	\$ (89,078)	\$ 316,188

### 9. CONTINGENCY

#### Other indemnification agreements

In the normal course of operations, the Organization signs agreements whereby funds are provided for the execution of projects which are subject to restrictions as to the use of the funds. The sponsors of these projects can execute an audit of the Organization's financial records to ensure compliance with the project requirements. In the event that amounts to be reimbursed to the sponsor of a project are identified, the necessary adjustments will be recognized in the year they are identified.

### 10. FINANCIAL INSTRUMENTS

#### Credit risk

In the normal course of its operations, the Organization continuously reviews the financial situation of its clients. The Organization establishes allowances for doubtful accounts while keeping in mind the specific credit risk of clients, their historic tendencies and economic situation. Approximately 86% of the total trade accounts are to be received from three entities. The Organization considers that there is no significant credit risk arising from this situation.

# **ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION**

## **NOTES TO THE FINANCIAL STATEMENTS**

**AUGUST 31, 2012**

**11**

---

### **10. FINANCIAL INSTRUMENTS (continued)**

#### **Fair value**

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

#### **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, 2012, assets include funding receivable of \$79,425 (2011: \$299,097) and a cash balance of \$102,357 (2011: \$618,295) in US dollars, which have been converted into Canadian dollars.

### **11. CAPITAL DISCLOSURES**

The Organization's main objective with respect to capital management is to maintain a sufficient level of net assets, thereby ensuring the continuity of the Organization and the ongoing fulfillment of its mission.

There are two internally restricted funds. One is a future building acquisition reserve and the other is a six-month operating reserve.

During the year, amounts of \$300,000 from the Building Acquisition Reserve and \$43,376 from the Six-month Operating Reserve have been transferred to the Unrestricted Fund to cover the annual deficiency of revenue over expenses.

# ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

## ADDITIONAL INFORMATION

FOR THE YEAR ENDED AUGUST 31, 2012

12

	2012	2011
<b>SCHEDULE A - REVENUE</b>		
Lillian Goldman Charitable Trust	\$ 196,000	\$ 86,543
CS Fund		
- Core funding	147,000	159,000
- Project/Travel support	60,887	30,602
- Project/Staff in Africa	43,965	-
- Project/Seeds	4,168	-
Swedbio		
- Core funding	69,800	48,373
- Project	-	55,106
Heinrich Boell Foundation	12,399	21,027
Biodiversidad Magazine	2,384	6,359
Other (including donations of \$3,073; 2011: \$2,866)	70,432	27,890
HKH Foundation matching grant	1,593	231,477
HKH Foundation/Tides Canada Foundation	-	106,000
Amy P. Goldman Foundation	-	212,000
Wallace Global Fund	-	53,000
FPH/Fondation Charles Léopold Mayer	-	27,328
Oxfam Novib	-	23,950
ForUM	-	13,837
	<b>\$ 608,628</b>	<b>\$ 1,102,492</b>

## SCHEDULE B - PROJECT EXPENSES

CS Fund		
- Project/Travel support	\$ 74,972	\$ 30,602
- Project/Staff in Africa	43,965	-
- Project/Seeds	4,168	-
Biodiversidad Magazine	3,038	6,422
Swedbio	-	55,106
Oxfam Novib	-	41,960
FPH/Fondation Charles Léopold Mayer	-	33,523
ForUM	-	23,141
	<b>\$ 126,143</b>	<b>\$ 190,754</b>