

ETC GROUP
ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

FINANCIAL STATEMENTS

AUGUST 31, 2011

ETC GROUP
ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

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INDEPENDENT AUDITOR'S REPORT

To the Directors

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, 2011 and the statements of operations, changes in net assets and cash flows for the year then ended, as well as 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.

COMPTABLES AGRÉÉS | CHARTERED ACCOUNTANTS

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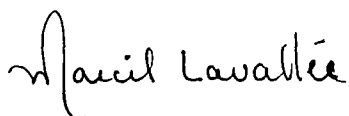
Nos partenaires canadiens et internationaux BHD™
Our Canadian and International Affiliates IAPA

Basis for Qualified Opinion

In common with many charitable organizations, the Organization derives revenues 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 (deficiency) of revenue over expenses, assets and net assets.

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, 2011, 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 4, 2011

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED AUGUST 31, 2011

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	2011	2010
REVENUE (Schedule A)	\$ 1,102,492	\$ 1,210,679
OPERATING EXPENSES		
Salaries and benefits	580,491	687,526
Consulting fees	67,445	97,609
Travel	60,505	97,151
Office	25,806	37,327
Rent	38,852	38,027
Telecommunications	29,091	29,537
Books, printing and distribution	52,905	23,671
Meetings	22,641	57,488
Insurance	5,233	4,500
Maintenance and repairs	3,564	11,344
Website management	1,817	7,732
Foreign exchange loss	88,554	17,665
Professional fees	8,999	8,220
Interest and service charges	7,712	6,295
Amortization of capital assets	8,730	9,644
Portion of operating expenses charged to projects (note 3)	(53,483)	(69,226)
	948,862	1,064,510
PROJECT EXPENSES (Schedule B)	190,754	120,155
	1,139,616	1,184,665
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ (37,124)	\$ 26,014

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED AUGUST 31, 2011

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	Internally restricted			Unrestricted	2011 Total	2010 Total
	Building Acquisition Reserve	Six-month Operating Reserve				
BALANCE, BEGINNING OF YEAR	\$ 300,000	\$ 350,000	\$ 79,835	\$ 729,835	\$ 703,821	
Excess (deficiency) of revenue over expenses	-	-	(37,124)	(37,124)	26,014	
BALANCE, END OF YEAR	\$ 300,000	\$ 350,000	\$ 42,711	\$ 692,711	\$ 729,835	

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2011

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	2011	2010
ASSETS		
CURRENT ASSETS		
Cash	\$ 597,548	\$ 238,907
Short-term investment, 0.9%, maturing October 21, 2011	50,001	50,001
Funding receivable (note 4)	293,168	585,055
Other receivable	27,102	30,828
Prepaid expenses	6,474	11,006
	974,293	915,797
INVESTMENT	-	70,000
CAPITAL ASSETS (note 5)	19,561	24,138
	\$ 993,854	\$ 1,009,935
LIABILITIES		
CURRENT LIABILITIES		
Bank loan (note 6)	\$ 5,000	\$ -
Accounts payable and accrued liabilities	23,806	57,257
Deferred revenue (note 7)	272,337	222,843
	301,143	280,100
NET ASSETS		
Unrestricted	42,711	79,835
Internally restricted		
- Six-month Operating Reserve	350,000	350,000
- Building Acquisition Reserve	300,000	300,000
	692,711	729,835
	\$ 993,854	\$ 1,009,935

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, 2011

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	2011	2010
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ (37,124)	\$ 26,014
Adjustment for:		
Amortization of capital assets	8,730	9,644
	(28,394)	35,658
Net change in non-cash working capital items (note 8)	316,188	(557,628)
	287,794	(521,970)
INVESTING ACTIVITIES		
Acquisition of investment	-	(70,000)
Proceeds from disposal of investment	70,000	-
Acquisition of capital assets	(4,153)	(9,647)
	65,847	(79,647)
FINANCING ACTIVITY		
Proceeds from bank loan	5,000	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	358,641	(601,617)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	288,908	890,525
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 647,549	\$ 288,908

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, 2011

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1. STATUTE AND NATURE OF OPERATIONS

ETC Group: action on erosion, technology and concentration is a registered charitable organization 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 (excluding 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 and operating costs 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, 2011

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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 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

Bank loan and accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Gains and losses related to 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, 2011

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3. ALLOCATION OF COMMON COSTS

Amounts for salaries and benefits and operating costs are allocated as follows:

	Salaries and benefits		Operating costs		Total	
	2011	2010	2011	2010	2011	2010
Swedbio	\$ 53,483	\$ -	\$ -	\$ -	\$ 53,483	\$ -
Christensen Fund	-	42,666	-	16,227	-	58,893
Marin Community Foundation	-	10,333	-	-	-	10,333
	\$ 53,483	\$ 52,999	\$ -	\$ 138,936	\$ 53,483	\$ 69,226

4. FUNDING RECEIVABLE

	2011	2010
Friends of Action Group on Erosion, Technology and Concentration Inc.	\$ 79,161	\$ 339,532
HKH Foundation	214,007	245,523
	\$ 293,168	\$ 585,055

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	2011		2010	
Computer equipment	\$ 49,915	\$ 32,753	\$ 17,162	\$ -	\$ 20,541	\$ -
Furniture and fixtures	30,641	28,242	2,399	-	3,597	-
	\$ 80,556	\$ 60,995	\$ 19,561	\$ -	\$ 24,138	\$ -

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.

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

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7. DEFERRED REVENUE

	2011	2010
CS Fund	\$ 98,000	\$ 106,000
CS Fund/Travel support	60,887	-
CS Fund/Staff in Africa	86,240	-
Swedbio	27,210	-
Lillian Goldman Charitable Trust	-	86,543
Oxfam Novib	-	23,950
ForUM	-	6,350
	\$ 272,337	\$ 222,843

8. CASH FLOWS

Net change in non-cash working capital items

	2011	2010
Funding receivable	\$ 291,887	\$ (350,982)
Other receivable	3,726	(12,885)
Prepaid expenses	4,532	20,212
Accounts payable and accrued liabilities	(33,451)	17,228
Deferred revenue	49,494	(231,201)
	\$ 316,188	\$ (557,628)

Cash flows from interest

	2011	2010
Interest received	\$ 548	\$ 5,847

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.

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

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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. Funding receivable is to be received from two entities. The Organization considers that there is no significant credit risk arising from this situation.

Fair value

The carrying value of cash, short-term investment, funding receivable and other receivable, as well as bank loan and 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, 2011, assets include funding receivable of \$299,097 and a cash balance of \$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.

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

ADDITIONAL INFORMATION

FOR THE YEAR ENDED AUGUST 31, 2011

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	2011	2010
SCHEDULE A - REVENUE		
HKH Foundation matching grant	\$ 231,477	\$ 470,472
HKH Foundation/Tides Canada Foundation	106,000	109,000
Amy P. Goldman Foundation	212,000	-
CS Fund		
- Core funding	159,000	163,500
- Project/Travel support	30,602	-
Swedbio		
- Core funding	48,373	184,821
- Project	55,106	-
Lillian Goldman Charitable Trust	86,543	109,000
Wallace Global Fund	53,000	-
FPH/Fondation Charles Léopold Mayer	27,328	-
Oxfam Novib	23,950	10,788
Heinrich Boell Foundation	21,027	21,796
ForUM	13,837	2,145
Biodiversidad Magazine	6,359	5,466
Christensen Fund	-	54,500
Marin Community Foundation	-	37,173
Barbara Smith Fund	-	879
Other (including donations of \$2,866; 2010: \$1,567)	27,890	41,139
	\$ 1,102,492	\$ 1,210,679

SCHEDULE B - PROJECT EXPENSES

Swedbio	\$ 55,106	\$ -
Oxfam Novib	41,960	10,788
FPH/Fondation Charles Léopold Mayer	33,523	-
CS Fund		
- Project/Travel support	30,602	-
ForUM	23,141	2,145
Biodiversidad Magazine	6,422	5,704
Christensen Fund	-	62,224
Marin Community Foundation	-	38,003
Barbara Smith Fund	-	1,291
	\$ 190,754	\$ 120,155