

etc Group

action group on erosion, technology and concentration

FINANCIAL STATEMENTS

AS AT AUGUST 31, 2005

etc Group

action group on erosion, technology and concentration

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AUDITORS' REPORT

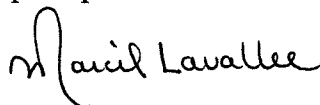
To the Board of Directors
etc Group: action group on erosion, technology and concentration

We have audited the balance sheet of etc Group: action group on erosion, technology and concentration as at August 31, 2005 and the statements of revenue and expenses, changes in net assets and cash flow for the year then ended. The 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 amount recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to revenue from donations, excess of expenses over revenue, assets and net assets.

In our opinion, except for the effect of the adjustments, if any, which we may have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenue from donations 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, 2005, and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.



Marcil Lavallée

Chartered Accountants

Ottawa, Ontario

September 29, 2005

COMPTABLES AGRÉÉS | CHARTERED ACCOUNTANTS

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BALANCE SHEET

AS AT AUGUST 31, 2005

ASSETS

	2005	2004
CURRENT ASSETS		
Cash	\$ 226,226	310,260
Short-term investments	154,208	297,392
Funding receivable (note 3)	459,008	118,454
Other receivables	31,450	17,325
Prepaid expenses	-	1,460
	870,892	744,891
FIXED ASSETS (note 4)	21,696	13,709
	\$ 892,588	758,600

LIABILITIES

CURRENT LIABILITIES

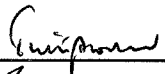
Accounts payable and accrued liabilities	\$ 16,722	9,566
Deferred revenue (note 5)	199,127	22,861
	215,849	32,427

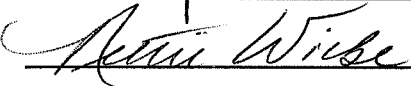
NET ASSETS

Unrestricted	5,043	62,464
Invested in fixed assets	21,696	13,709
Internally restricted net assets		
- Six month operating reserve	350,000	350,000
- Building acquisition reserve	300,000	300,000
	676,739	726,173
	\$ 892,588	758,600

Commitment (note 10)

ON BEHALF OF THE BOARD


_____, Director


_____, Director

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CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2005

			<u>Internally restricted net assets</u>			Total 2005	Total 2004
	Unrestricted net assets	Invested in fixed assets	Six month operating reserve	Building acquisition reserve			
NET ASSETS, BEGINNING OF YEAR	\$ 62,464	13,709	350,000	300,000	726,173	737,345	
Excess of expenses over revenue	(42,359)	(7,075)	-	-	(49,434)	(11,172)	
Investment in fixed assets	(15,062)	15,062	-	-	-	-	
NET ASSETS, END OF YEAR	\$ 5,043	21,696	350,000	300,000	676,739	726,173	

III. MARCII LAVALLÉE

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REVENUE AND EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2005

	2005	2004
REVENUE (note 6)	\$ 910,437	762,013
OPERATING EXPENSES		
Salaries and benefits	463,594	437,797
Rent	38,271	32,871
Travel expenses	52,432	59,787
Meetings	50,204	45,521
Consulting fees	76,784	31,736
Telephone	22,850	27,663
Books, printing and distribution	11,953	22,767
Professional fees	4,269	5,182
Maintenance and repairs	6,332	3,359
Relocation expense	5,142	17,767
Insurance	4,005	3,939
Office expenses	16,427	15,255
Foreign exchange loss	36,414	57,177
Interest and bank charges	4,380	6,940
Depreciation of fixed assets	7,075	5,424
Portion of operating expenses charged to projects	(87,983)	-
	712,149	773,185
PROJECT EXPENSES (note 7)	247,722	-
	959,871	773,185
EXCESS OF EXPENSES OVER REVENUE	\$ (49,434)	(11,172)

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CASH FLOW

FOR THE YEAR ENDED AUGUST 31, 2005

	2005	2004
OPERATING ACTIVITIES		
Excess of expenses over revenue	\$ (49,434)	(11,172)
Item not affecting funds:		
Depreciation of fixed assets	7,075	5,424
	(42,359)	(5,748)
Changes in working capital items (note 8)	(169,797)	(87,809)
	(212,156)	(93,557)
INVESTING ACTIVITY (note 9)	(15,062)	(5,687)
	(227,218)	(99,244)
DECREASE IN FUNDS	(227,218)	(99,244)
FUNDS, BEGINNING OF YEAR	607,652	706,896
	(212,156)	(93,557)
FUNDS, END OF YEAR	\$ 380,434	607,652
REPRESENTED BY		
Cash	\$ 226,226	310,260
Short-term investments	154,208	297,392
	\$ 380,434	607,652

etc Group : action group on erosion, technology and concentration

NOTES TO FINANCIAL STATEMENTS

AS AT AUGUST 31, 2005

1. STATUTE AND NATURE OF OPERATIONS

etc Group: action on erosion, technology, and concentration (formerly Rural Advancement Foundation International (Canada)), is a non-profit 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Short-term investments

Investments are held in money market mutual funds, short-term notes and guaranteed investment certificates reported at fair market value, exchanged at the rate of exchange on the balance sheet date. Fair market value is equal to cost plus accrued interest to date.

Fixed assets

Fixed assets are recorded at cost. Depreciation of fixed assets is provided for over their estimated useful lives using the diminishing balance method at the following rates:

Computer equipment	33.3 %
Furniture and fixtures	33.3 %

Purchases during the year, net of disposals, are depreciated at one-half the stated rates.

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.

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.

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NOTES TO FINANCIAL STATEMENTS

AS AT AUGUST 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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 goods and services

Contributed goods and services provided by volunteers are not valued for financial statement purposes because the fair market value is not readily estimable by management.

3. FUNDING RECEIVABLE

	2005	2004
Friends of Action Group on Erosion, Technology and Concentration Inc.	\$ 381,788	95,445
Educational Foundation of America	4,958	-
IDRC	33,798	-
SwedBio	38,464	-
CBDC	-	23,009
	\$ 459,008	118,454

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

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NOTES TO FINANCIAL STATEMENTS

AS AT AUGUST 31, 2005

4. FIXED ASSETS

	Cost	Accumulated depreciation	2005	2004
Computer equipment	\$ 131,583	110,983	20,600	12,554
Furniture and fixtures	19,908	18,812	1,096	1,155
	\$ 151,491	129,795	21,696	13,709

5. DEFERRED REVENUE

	2005	2004
Lillian Goldman Charitable Trust	\$ 99,167	-
CS Fund	79,333	-
Ford Foundation	20,627	22,861
	\$ 199,127	22,861

6. REVENUE

	2005	2004
SwedBio	\$ 302,275	290,645
Canadian International Development Agency (CIDA)	150,000	-
IDRC	103,798	-
CS Fund	96,667	177,644
Lillian Goldman Charitable Trust	71,917	11,554
Educational Foundation of America	62,500	51,985
Ford Foundation	61,443	71,464
CBDC	26,543	89,295
Other	35,294	16,779
HKH	-	12,917
Albert A. List	-	27,730
Consulting fees	-	12,000
	\$ 910,437	762,013

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NOTES TO FINANCIAL STATEMENTS

AS AT AUGUST 31, 2005

7. PROJECT EXPENSES

	2005
IDRC	\$ 103,798
Ford Foundation	61,443
SwedBio	38,465
CBDC	28,435
PreVenter	15,581
	\$ 247,722

8. CHANGES IN WORKING CAPITAL ITEMS

	2005	2004
Funding receivable	\$ (340,554)	67,117
Other receivables	(14,125)	576
Prepaid expenses	1,460	2,581
Accounts payable and accrued liabilities	7,156	(43,027)
Deferred revenue	176,266	(115,056)
	\$ (169,797)	(87,809)

9. INVESTING ACTIVITY

	2005	2004
Purchases of fixed assets	\$ (15,062)	(5,687)

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10. COMMITMENT

The organization is committed under a long-term lease expiring February 28, 2010 to pay a total minimum basic rent of \$ 89,595 for the rental of its place of business. This lease contains an option to renew for a period of five years.

The rental expense for the year ended August 31, 2005 totals \$ 38,271 (2004: \$ 32,871). The minimum annual basic rent for the next five years is as follows:

2006	\$	18,910
2007		19,477
2008		20,061
2009		20,663
2010		10,484

11. COMPARATIVE FIGURES

The comparative figures were provided from financial statements audited by another firm of chartered accountants. Certain comparative figures have also been reclassified to conform to current year presentation.