

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

FINANCIAL STATEMENTS

AUGUST 31, 2018

**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 | 14 |

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, 2018, 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 accounting standards for not-for-profit organizations, 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

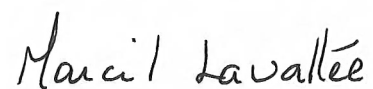
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

Opinion

In our opinion, 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, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
February 8, 2019

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED AUGUST 31, 2018

3

| | 2018 | 2017 |
|--|------------------|--------------------|
| REVENUE | | |
| Grants and contributions | | |
| - Project revenues (Schedule A) | \$ 710,660 | \$ 444,021 |
| - CS Fund - Core funding | 195,000 | 240,000 |
| Keyes Trust Fund - Core funding | 100,000 | - |
| - Heinrich Boell Foundation - Mexico | 37,224 | 30,752 |
| - Nell Newman Foundation | 13,000 | - |
| Consulting | 453 | 2,463 |
| Other (including donations of \$10,692; 2017: \$3,167) | 27,086 | 95,924 |
| | 372,763 | 369,139 |
| | 1,083,423 | 813,160 |
| OPERATING EXPENSES | | |
| Salaries and benefits | 611,620 | 513,498 |
| Meetings | 34,471 | 9,841 |
| Office | 32,164 | 20,860 |
| Rent | 25,633 | 39,418 |
| Consulting fees | 19,945 | 28,307 |
| Travel | 19,242 | 39,720 |
| Books, printing and distribution | 14,922 | 3,750 |
| Foreign exchange gain | 12,678 | 3,641 |
| Telecommunications | 11,585 | 17,530 |
| Maintenance and repairs | 8,402 | 1,777 |
| Insurance | 2,699 | 3,384 |
| Website management | 1,411 | 1,005 |
| Professional fees | 13,197 | 6,059 |
| Interest and service charges | 5,522 | 4,871 |
| Amortization of capital assets | 1,889 | 3,149 |
| Allocation of common costs to projects (Note 3) | (465,912) | (319,167) |
| | 349,468 | 377,643 |
| | 733,955 | 435,517 |
| PROJECT EXPENSES (Schedule B) | (721,493) | (446,350) |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | \$ 12,462 | \$ (10,833) |

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED AUGUST 31, 2018

4

| | Unrestricted | Six-month Operating Reserve | 2018 Total | 2017 Total |
|---|--------------|-----------------------------------|---------------|---------------|
| BALANCE, BEGINNING OF YEAR | \$ - | \$ 108,533 | \$ 108,533 | \$ 119,366 |
| Excess (deficiency) of revenue over expenses | 12,462 | - | 12,462 | (10,833) |
| Interfund transfer (Note 10) | (12,462) | 12,462 | - | - |
| BALANCE, END OF YEAR | \$ - | \$ 120,995 | \$ 120,995 | \$ 108,533 |

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2018

5

| | 2018 | 2017 |
|---|-------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 20,277 | \$ 279,229 |
| Guaranteed investment certificate | - | 50,115 |
| Funding receivable/payable from Friends of Action Group on Erosion, Technology and Concentration (Note 4) | - | 5,164 |
| Grants and contributions receivable (Note 5) | 289,929 | 30,478 |
| Other receivable (Note 6) | 16,668 | 17,793 |
| Prepaid expenses | 793 | 2,352 |
| | 327,667 | 385,131 |
| CAPITAL ASSETS (Note 7) | 3,783 | 5,672 |
| | \$ 331,450 | \$ 390,803 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 41,452 | \$ 18,525 |
| Due to Friends of Action Group on Erosion, Technology and Concentration (Note 4) | 11,381 | - |
| Deferred contributions (Note 9) | 157,622 | 263,745 |
| | 210,455 | 282,270 |
| NET ASSETS | | |
| Unrestricted | - | - |
| Internal restriction (Note 10) | - | - |
| Six-month Operating Reserve | 120,995 | 108,533 |
| | \$ 331,450 | \$ 390,803 |

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, 2018

6

| | 2018 | 2017 |
|---|------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Excess (deficiency) of revenue over expenses | \$ 12,462 | \$ (10,833) |
| Adjustment for: | | |
| Amortization of capital assets | 1,889 | 3,149 |
| | 14,351 | (7,684) |
| Net change in non-cash working capital items: | | |
| Funding receivable - Friends of Action Group on Erosion, Technology and Concentration | 5,164 | 221,904 |
| Other receivable | 1,125 | (4,853) |
| Grants and contributions receivable | (259,451) | 3,196 |
| Prepaid expenses | 1,559 | 8,584 |
| Accounts payable and accrued liabilities | 22,927 | 3,924 |
| Due to Friends of Action Group on Erosion, Technology and Concentration | 11,381 | - |
| Deferred contributions | (106,123) | (49,153) |
| | (323,418) | 183,602 |
| | (309,067) | 175,918 |
| INVESTING ACTIVITY | | |
| Variation of guarantee investment certificate | 50,115 | 187 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (258,952) | 176,105 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 279,229 | 103,124 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 20,277 | \$ 279,229 |

Cash and cash equivalents consist of cash.

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

7

1. STATUTE AND NATURE OF OPERATIONS

ETC Group: action on erosion, technology and concentration is a not-for-profit organization incorporated without share capital under the Canada Not-for-profit Corporations Act. The Organization is a registered charity for income tax purposes and therefore, is exempt from income tax.

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

The Organization applies Canadian accounting standards for not-for-profit organizations (ASNFPO) in accordance with Part III of the CPA Canada Handbook – Accounting.

Use of estimates

The preparation of financial statements in compliance with the ASNFPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the periods covered.

Grants and contributions receivable

A contribution receivable is recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Revenue recognition

The Organization follows the deferral method of accounting for grants and contributions. Restricted grants and contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted grants and 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 reasonably assured.

Donation revenues are recognized when received.

Allocation of common costs to projects

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

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

8

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation of foreign currency transactions and financial statement items

The Organization uses the temporal method to translate its foreign currency transactions.

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated at the exchange rate in effect at the transaction date. Items appearing in the current year's statement of operations, except for cost of inventories and depreciation translated at historic rate, are translated at average year rates. Exchange gains and losses are included in the statement of operations.

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.

Cash and cash equivalents

The Organization's policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that can fluctuate from being positive to overdrawn.

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

Measurement of financial instruments

The Organization initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions.

The Organization subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash, guaranteed investment certificate, funding receivable from Friends of Action Group on Erosion, Technology and Concentration, contributions receivable and other receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and due to Friends of Action Group on Erosion, Technology and Concentration.

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

9

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. The Organization determines whether a significant adverse change has occurred in the expected timing or amount of future cash flows from the financial asset. If this is the case, the carrying amount of the asset is reduced directly to the higher of the present value of the cash flows expected to be generated by holding the asset, and the amount that could be realized by selling the asset at the balance sheet date. The amount of the write-down is recognized in operations. The previously recognized impairment loss may be reversed to the extent of the improvement, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in operations.

Transaction costs

Transaction costs related to financial instruments subsequently measured at amortized cost adjust the carrying amount of the financial asset or liability and are accounted for in the statement of operations using the straight-line method.

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

10

3. ALLOCATION OF COMMON COSTS TO PROJECTS

A portion of salaries and benefits as well as operating costs, totaling \$465,912 (2017: \$319,167), are allocated to the projects as follows:

| | Salaries and benefits | | Operating costs | |
|-------------------------------|-----------------------|------------|-----------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| VKRF | \$ 114,685 | \$ 90,001 | \$ - | \$ - |
| Oxfam Novib SD=HS | 52,345 | 101,972 | 2,013 | 2,502 |
| Syn-Energene | 34,684 | 11,027 | - | - |
| 11th Hour Project - Afritaps | 31,984 | - | - | - |
| Bread for the world | 64,356 | 13,217 | - | - |
| Heinrich Boell Foundation | | | | |
| Project - Big Bad Fix | 10,221 | 13,000 | - | - |
| CS Fund - TAPAP | 27,030 | 904 | - | 347 |
| Threshold Foundation | 28,459 | 672 | - | - |
| Frontier Co-op | 24,363 | 30,769 | - | - |
| Bicsbag | 17,250 | - | - | - |
| CS Fund - TAPLA | 17,248 | 8,634 | - | - |
| Agro Ecology Fund | 12,012 | - | - | - |
| Asean Centre for Biodiversity | 10,100 | 4,800 | - | - |
| Rosa Luxembourg Foundation | 8,005 | - | - | - |
| Third World Network | 4,605 | - | 692 | - |
| Heinrich Boell Foundation | | | | |
| Project - Geoengineering | 4,067 | - | - | - |
| Heinrich Boell Foundation | | | | |
| Project - Blog posts | 1,793 | - | - | - |
| 11th Hour Project | - | 25,771 | - | - |
| Biofuelwatch | - | 8,000 | - | 4,167 |
| Misereor | - | 3,384 | - | - |
| | \$ 463,207 | \$ 312,151 | \$ 2,705 | \$ 7,016 |

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

11

4. FUNDING RECEIVABLE/PAYABLE FROM FRIENDS OF ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

| | 2018 | 2017 |
|---|-------------|----------|
| Funding receivable (payable) - Friends of Action Group on Erosion, Technology and Concentration | \$ (11,381) | \$ 5,164 |

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. GRANTS AND CONTRIBUTIONS RECEIVABLE

| | 2018 | 2017 |
|------------------------------|------------|-----------|
| Keyes Trust Fund | \$ 100,000 | \$ - |
| CS Fund | 101,875 | - |
| 11th Hour Project - Afritaps | 27,950 | - |
| Third World Network | 21,697 | - |
| Heinrich Boell Foundation | 13,000 | 13,000 |
| Other | 25,407 | 17,478 |
| | \$ 289,929 | \$ 30,478 |

6. OTHER RECEIVABLE

| | 2018 | 2017 |
|---------------------------------|-----------|-----------|
| Harmonized Sales Tax receivable | \$ 5,249 | \$ 7,083 |
| Other | 11,419 | 10,710 |
| | \$ 16,668 | \$ 17,793 |

7. CAPITAL ASSETS

| | Cost | Accumulated amortization | 2018 | 2017 |
|------------------------|-----------|--------------------------|----------|----------|
| Computer equipment | \$ 62,543 | \$ 58,760 | \$ 3,783 | \$ 5,672 |
| Furniture and fixtures | 30,641 | 30,641 | - | - |
| | \$ 93,184 | \$ 89,401 | \$ 3,783 | \$ 5,672 |

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

12

8. LINE OF CREDIT

The Organization has an authorized line of credit of \$50,000, renewable annually, at prime lending rate plus 2.73%. This line of credit, which is secured by a general security agreement, is unused at year-end.

9. DEFERRED CONTRIBUTIONS

Changes in deferred contributions during the year is as follows:

| | 2018 | 2017 |
|--|------------|------------|
| Balance, beginning of year | \$ 263,052 | \$ 312,898 |
| Plus: Amount received during the year | 205,532 | 554,120 |
| Less: Amount recognized as revenue during the year | (310,962) | (603,966) |
| Balance, end of year | \$ 157,622 | \$ 263,052 |

The details of deferred contributions is as follows:

| | 2018 | 2017 |
|------------------------------|------------|------------|
| 11th Hour Project - Afritaps | \$ 84,400 | \$ - |
| VKRF | 25,905 | 35,905 |
| Agro Ecology Fund | 22,625 | - |
| CS Fund - TAPAP | 19,000 | 49,370 |
| Frontier Co-op | 5,500 | 3,254 |
| Fibershed | 192 | - |
| CS Fund - Core funding | - | 93,125 |
| Oxfam Novib SD=HS | - | 36,494 |
| CS Fund - Project/TAPLA | - | 20,890 |
| 11th Hour Project | - | 13,459 |
| Bread for the world | - | 11,248 |
| | \$ 157,622 | \$ 263,745 |

10. INTERNAL RESTRICTION

The Organization maintains an internally restricted fund which is entitled the Six-month Operating Reserve. During the year, the Board approved a transfer from the Unrestricted Fund to the Six-month Operating Reserve for an amount of \$12,462.

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

13

11. FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Organization's main credit risks relate to its accounts receivable.

The Organization establishes allowances for doubtful accounts while keeping in mind the specific credit risk of clients, their historic tendencies and economic situation. There is no existing account receivable that represents a substantial risk for the Organization.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at August 31, 2018, assets include cash of \$15,738 (2017: \$164,710) in US dollars and cash of \$10,788 and Nil (2017: \$1,031) respectively in Philippines Pesos, which have been converted into Canadian dollars.

12. CONTRACTUAL OBLIGATIONS

The commitments of the Organization under lease agreements maturing in January 2020 aggregate to \$12,559. The instalments over the next two years are the following:

| | | |
|------|----|--------|
| 2019 | \$ | 10,999 |
| 2020 | \$ | 1,560 |

13. CONTINGENCIES

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

ADDITIONAL INFORMATION

FOR THE YEAR ENDED AUGUST 31, 2018

14

| | 2018 | 2017 |
|--|-------------------|-------------------|
| SCHEDULE A - PROJECT REVENUES | | |
| VKRF | \$ 140,000 | \$ 94,095 |
| Bread for the world | 100,835 | 18,687 |
| 11th Hour Project - Afritaps | 73,550 | - |
| Oxfam Novib SD=HS | 57,388 | 104,773 |
| Bicsbag | 53,328 | - |
| Heinrich Boell Foundation Project - Big Bad Fix | 29,873 | 13,000 |
| Frontier Co-op | 36,754 | 56,902 |
| Syn-Energene | 34,684 | 24,523 |
| Threshold Foundation | 32,500 | 6,500 |
| CS Fund - Project/TAPLA | 32,049 | 25,691 |
| CS Fund - TAPAP | 30,370 | - |
| Agro Ecology Fund | 20,275 | - |
| 11th Hour Project - WWFU | 13,459 | 62,055 |
| Heinrich Boell Foundation Project - Geoengineering Website | 10,364 | - |
| Heinrich Boell Foundation Project - Blog posts | 10,221 | - |
| Asean Centre for Biodiversity | 10,150 | 4,800 |
| Fibershed | 10,013 | - |
| Rosa Luxembourg Foundation | 8,997 | - |
| Small Planet Fund | 5,850 | - |
| Biofuelwatch | - | 15,148 |
| Biodiversidad Magazine | - | 6,760 |
| New Venture Fund (IFAAES) | - | 6,633 |
| Misereor | - | 3,384 |
| IPES - Food | - | 1,070 |
| | \$ 710,660 | \$ 444,021 |

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

ADDITIONAL INFORMATION

FOR THE YEAR ENDED AUGUST 31, 2018

15

| | 2018 | 2017 |
|--|-------------------|-------------------|
| SCHEDULE B - PROJECT EXPENSES | | |
| VKRF | \$ 140,000 | \$ 94,095 |
| 11th Hour Project - Afritaps | 73,550 | - |
| Bread for the world | 100,835 | 18,687 |
| Oxfam Novib SD=HS | 59,978 | 104,773 |
| Bicsbag | 56,741 | - |
| Heinrich Boell Foundation Project - Big Bad Fix | 29,924 | 13,546 |
| Frontier Co-op | 37,191 | 56,902 |
| Syn-Energene | 34,684 | 25,001 |
| Threshold Foundation | 32,500 | 6,505 |
| CS Fund - Project/TAPLA | 32,047 | 25,691 |
| CS Fund - TAPAP | 30,370 | 1,070 |
| Agro Ecology Fund | 20,275 | - |
| 11th Hour Project - WWFU | 17,597 | 62,055 |
| Heinrich Boell Foundation Project - Geoengineering Website | 10,547 | - |
| Heinrich Boell Foundation Project - Blog posts | 10,221 | - |
| Asean Centre for Biodiversity | 10,173 | 4,800 |
| Fibershed | 10,013 | - |
| Rosa Luxembourg Foundation | 8,997 | - |
| Small Planet Fund | 5,850 | - |
| Biofuelwatch | - | 15,148 |
| Biodiversidad Magazine | - | 7,008 |
| New Venture Fund (IFAAES) | - | 6,633 |
| Misereor | - | 3,384 |
| IPES - Food | - | 1,052 |
| | \$ 721,493 | \$ 446,350 |