ETC GROUP
ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

FINANCIAL STATEMENTS

AUGUST 31, 2008

MARCIL LAVALLÉE

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, 2008 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 donations, excess (deficiency) of revenue 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Marcil Lavallée

Chartered Accountants, Licensed Public Accountants

Ottawa, Ontario
October 9, 2008

COMPTABLES AGRÉÉS | CHARTERED ACCOUNTANTS

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ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED AUGUST 31, 2008

	2008	2007
REVENUE (Schedule A)	$ **926,156**	$ 800,076
OPERATING EXPENSES		
Salaries and benefits	**521,472**	469,591
Consulting fees	**28,174**	24,768
Rent	**37,920**	33,915
Insurance	**3,825**	3,844
Interest and bank charges	**4,580**	3,688
Meetings	**40,964**	61,493
Professional fees	**6,186**	32,580
Telecommunications	**16,764**	14,616
Website management	**3,142**	8,104
Travel	**75,738**	52,796
Office	**19,048**	21,064
Maintenance and repairs	**6,450**	5,853
Regional coordinators	**43,587**	-
Books, printing and distribution	**18,781**	24,532
Foreign exchange loss	**4,857**	25,507
Amortization of capital assets	**8,435**	8,479
Portion of operating expenses charged to projects	**(114,666)**	(21,691)
	725,257	769,139
PROJECT EXPENSES (Schedule B)	**201,667**	46,424
	926,924	815,563
DEFICIENCY OF REVENUE OVER EXPENSES	$ **(768)**	$ (15,487)

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED AUGUST 31, 2008

			Internally restricted net assets			
	Unrestricted	Invested in capital assets	Six month operating reserve	Building acquisition reserve	2008 Total	2007 Total
BALANCE, BEGINNING OF YEAR	$ 18,361	$ 21,721	$ 350,000	$ 300,000	$ 690,082	$ 705,569
Excess (deficiency) of revenue over expenses	7,667	(8,435)	-	-	(768)	(15,487)
Investment in capital assets	(9,882)	9,882	-	-	-	-
BALANCE, END OF YEAR	$ 16,146	$ 23,168	$ 350,000	$ 300,000	$ 689,314	$ 690,082

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENT OF FINANCIAL POSITION

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash	$ **91,406**	$ 54,544
Short-term investment, 1.95%, maturing October 27, 2008	**106,000**	209,500
Funding receivable (note 4)	**732,107**	505,178
Other receivables	**18,229**	26,623
Prepaid expenses	**5,634**	-
	953,376	795,845
CAPITAL ASSETS (note 5)	**23,168**	21,721
	$ **976,544**	$ 817,566
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ **18,079**	$ 11,415
Deferred revenue (note 6)	**269,151**	116,069
	287,230	127,484
NET ASSETS		
Unrestricted	**16,146**	18,361
Invested in capital assets	**23,168**	21,721
Internally restricted		
- Six month operating reserve	**350,000**	350,000
- Building acquisition reserve	**300,000**	300,000
	689,314	690,082
	$ **976,544**	$ 817,566

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, 2008

		2008		2007
OPERATING ACTIVITIES (note 7)				
Deficiency of revenue over expenses	$	**(768)**	$	(15,487)
Adjustments for:				
Amortization of capital assets		**8,435**		8,479
Loss on disposal of capital assets		**948**		917
		8,615		(6,091)
Net change in non-cash working capital items (note 7)		**(64,423)**		(174,622)
		(55,808)		(180,713)
INVESTING ACTIVITIES				
Acquisition of capital assets		**(12,564)**		(5,962)
Proceeds from disposal of capital assets		**1,734**		100
		(10,830)		(5,862)
DECREASE IN CASH AND CASH EQUIVALENTS		**(66,638)**		(186,575)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**264,044**		450,619
CASH AND CASH EQUIVALENTS, END OF YEAR	$	**197,406**	$	264,044

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 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.

The Organization is exempt from income taxes.

2. CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS

Accounting changes

The Canadian Institute of Chartered Accountants issued Section 1506 entitled "Accounting Changes" that includes changes to the previous standard. Entities will only be permitted to change an accounting policy when it is required by a primary source of Canadian generally accepted accounting principles, or when it results in a more reliable and relevant presentation in the financial statements. Also, changes in accounting policy should be applied retroactively and additional information should be disclosed. This Section applies to financial years beginning on or after January 1, 2007. The adoption of this standard did not have an impact on the financial statements.

Financial instruments

On September 1, 2007, the Organization adopted the new Sections on financial instruments of the Canadian Institute of Chartered Accountants Handbook. These new Handbook Sections provide comprehensive requirements for the recognition, measurement, disclosure and presentation of financial instruments. The adoption of these new Handbook Sections did not have a significant impact on the financial statements of the Organization.

Future accounting changes - financial instruments

Financial instruments

The Canadian Institute of Chartered Accountants issued the following new accounting standards: Handbook Sections 3862, "Disclosure" and 3863, "Presentation". These new Handbook Sections, which apply to financial years beginning on or after October 1, 2008, will replace Section 3861, "Financial Instruments - Disclosure and Presentation", increasing the emphasis on disclosure about risks associated with both recognized and unrecognized financial instruments and how these risks are managed.

2. CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS (continued)

Capital disclosures

The Canadian Institute of Chartered Accountants issued a new accounting standard, Section 1535 "Capital Disclosures", which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital. This new Section will apply to financial years beginning on or after October 1, 2007.

3. 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, 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 amortization, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 receivables 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

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.

4. FUNDING RECEIVABLE

	2008	2007
Friends of Action Group on Erosion, Technology and Concentration Inc.	$ **662,128**	$ 505,178
HKH	**69,979**	-
	$ **732,107**	$ 505,178

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	2008	2007
Computer equipment	$ 30,000	$ 9,541	$ 20,459	$ 17,659
Furniture and fixtures	26,339	23,630	2,709	4,062
	$ 56,339	$ 33,171	$ 23,168	$ 21,721

6. DEFERRED REVENUE

	2008	2007
Ford Foundation	$ 80,548	$ 80,736
Marin Community Foundation	70,667	35,333
Lillian Goldman Charitable Trust	35,333	-
Christensen Fund	27,578	-
Barbara Smith Fund	4,844	-
Ben & Jerry Foundation	19,650	-
HKH	27,578	-
Other	2,953	-
	$ 269,151	$ 116,069

7. CASH FLOWS

Net change in non-cash working capital items

	2008	2007
Funding receivable	$ (226,929)	$ (170,196)
Other receivables	8,394	(9,305)
Prepaid expenses	(5,634)	16,866
Accounts payable and accrued liabilities	6,664	(1,845)
Deferred revenue	153,082	(10,142)
	$ (64,423)	$ (174,622)

Cash flows from interest

	2008	2007
Interest received	$ 6,055	$ 14,459

7. CASH FLOWS (continued)

Cash and cash equivalents

		2008		2007
Cash	$	**91,406**	$	54,544
Short-term investment		**106,000**		209,500
	$	**197,406**	$	264,044

8. COMMITMENTS

The commitment entered into by the Organization under a lease agreement totals $30,094. Payments for the next two years are as follows:

2009	$	19,964
2010	$	10,130

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 financial records of the Organization 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 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, 2008, assets include funding receivable of $690,667, short-term investment of $100,000 and a cash balance of $64,250 in US dollars, which have been converted into Canadian dollars.

10. FINANCIAL INSTRUMENTS (continued)

Fair value

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

		2008		2007
SCHEDULE A - REVENUE				
SwedBio	$	**254,061**	$	290,073
HKH				
- Core funding		**106,000**		111,000
- Matching grant		**148,400**		-
Lillian Goldman Charitable Trust		**70,667**		111,000
Marin Community Foundation		**70,667**		74,000
Ford Foundation		**106,188**		26,456
Christensen Fund		**78,421**		-
Barbara Smith Fund		**5,756**		-
Ben & Jerry Foundation		**11,302**		-
CS Fund		**-**		118,400
IDRC		**-**		19,968
Consulting		**-**		75
Other (including donations of $7,471)		**74,694**		49,104
	$	**926,156**	$	800,076

SCHEDULE B - PROJECT EXPENSES				
Ford Foundation	$	**106,188**	$	26,456
Ben & Jerry Foundation		**11,302**		-
Christensen Fund		**78,421**		-
Barbara Smith Fund		**5,756**		-
IDRC		**-**		19,968
	$	**201,667**	$	46,424