ETC GROUP
ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

FINANCIAL STATEMENTS

AUGUST 31, 2013 AND 2012

ETC GROUP
ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

TABLE OF CONTENTS

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 statements of financial position as at August 31, 2013, August 31, 2012 and September 1, 2011, and the statements of operations, changes in net assets and cash flows for the years ended August 31, 2013 and August 31, 2012, 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 audits. We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.

Marcil Lavallée
Comptables agréés
Chartered Accountants

Tél. / Tel. : **613 745-8387**
Téléc./Fax: 613 745-9584
500-214, chemin Montréal Road
Ottawa ON K1L 8L8

www.marcil-lavallee.ca
info@marcil-lavallee.ca
BHD IAPA | Nos partenaires canadiens et internationaux
Our Canadian and International Partners

Basis for Qualified Opinion

In common with many registered charities, the Organization derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our audit 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 flows from operations for the years ended August 31, 2013 and 2012, current assets as at August 31, 2013 and 2012, and net assets as at August 31, 2013, August 31, 2012 and September 1, 2011. Our audit opinion on the financial statements for the year ended August 31, 2012 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, 2013, August 31, 2012 and September 1, 2011, and the results of its operations and its cash flows for the years ended August 31, 2013 and August 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Marcil Lavallée

Chartered Accountants, Licensed Public Accountants

Ottawa, Ontario
November 5, 2013

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

		2013		2012
REVENUE (Schedule A)	**$**	**705,066**	$	608,628
OPERATING EXPENSES				
Salaries and benefits		**499,320**		532,459
Travel		**61,151**		94,844
Rent		**37,929**		37,573
Consulting fees		**34,892**		60,993
Office		**23,766**		27,847
Telecommunications		**23,224**		22,322
Meetings		**11,619**		49,692
Books, printing and distribution		**11,521**		32,661
Website management		**7,240**		17,106
Insurance		**5,075**		4,242
Maintenance and repairs		**2,080**		2,206
Foreign exchange gain		**(9,078)**		(14,325)
Professional fees		**7,884**		11,100
Interest and service charges		**4,234**		6,049
Amortization of capital assets		**5,287**		6,764
Portion of salaries and benefits charged to projects (Note 4)		**(27,440)**		(22,961)
		698,704		868,572
PROJECT EXPENSES (Schedule B)		**100,685**		126,143
		799,389		994,715
DEFICIENCY OF REVENUE OVER EXPENSES	**$**	**(94,323)**	$	(386,087)

ETC GROUP: ACTION GROUP ON EROSION'TECHNOLOGY AND CONCENTRATION

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	Unrestricted	**Six-month Operating Reserve**	**2013 Total**	Unrestricted	Total Restricted Funds	2012 Total
BALANCE, BEGINNING OF YEAR	**$ -**	**$ 306,624**	**$ 306,624**	$ 42,711	$ 650,000	$ 692,711
Deficiency of revenue over expenses	**(94,323)**	-	**(94,323)**	(386,087)	-	(386,087)
Interfund transfers	**94,323**	**(94,323)**	-	343,376	(343,376)	-
BALANCE, END OF YEAR	**$ -**	**$ 212,301**	**$ 212,301**	$ -	$ 306,624	$ 306,624

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2013 AND 2012 AND SEPTEMBER 1, 2011

		2013		2012		September 1, 2011
ASSETS						
CURRENT ASSETS						
Cash	**$**	**159,564**	$	122,646	$	597,548
Short-term investment, 0.90%, maturing October 25, 2013		**50,502**		50,001		50,001
Funding receivable (Note 5)		**88,424**		79,425		293,168
Other receivable (Note 6)		**26,641**		195,592		27,102
Prepaid expenses		-		3,343		6,474
		325,131		451,007		974,293
CAPITAL ASSETS (Note 7)		**12,050**		14,298		19,561
	$	**337,181**	$	465,305	$	993,854
LIABILITIES						
CURRENT LIABILITIES						
Bank loan (Note 8)	**$**	-	$	-	$	5,000
Accounts payable and accrued liabilities		**10,605**		17,674		23,806
Deferred revenue (Note 9)		**114,275**		141,007		272,337
		124,880		158,681		301,143
NET ASSETS						
Unrestricted		-		-		42,711
Internal Restrictions						
- Six-month Operating Reserve		**212,301**		306,624		350,000
- Building Acquisition Reserve		-		-		300,000
		212,301		306,624		692,711
	$	**337,181**	$	465,305	$	993,854

Commitments (Note 12) *and Contingencies* (Note 13)

ON BEHALF OF THE BOARD OF DIRECTORS

______________________, Director

______________________, Director

ETC GROUP: ACTION GROUP ON EROSION, TECHNOLOGY AND CONCENTRATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

		2013		2012
OPERATING ACTIVITIES				
Deficiency of revenue over expenses	**$**	**(94,323)**	$	(386,087)
Adjustment for:				
Amortization of capital assets		**5,287**		6,764
		(89,036)		(379,323)
Net change in non-cash working capital items (Note 11)		**129,494**		(89,078)
		40,458		(468,401)
INVESTING ACTIVITY				
Acquisition of capital assets		**(3,039)**		(1,501)
FINANCING ACTIVITY				
Reimbursement of bank loan		**-**		(5,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**37,419**		(474,902)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**172,647**		647,549
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**210,066**	$	172,647

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

CASH AND CASH EQUIVALENTS				
Cash	**$**	**159,564**	$	122,646
Short-term investments		**50,502**		50,001
	$	**210,066**	$	172,647

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. The Organization 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 Part III of the Canadian Institute of Chartered Accountants (CICA) 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

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 the cost of 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.

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, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the excess of revenue over expenses.

Financial assets measured at amortized cost include cash, funding receivable and other receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Financial assets measured at fair value include short-term investment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment

Financial assets measured at 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 the excess of revenue over expenses. 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 the excess of revenue over expenses.

Transaction costs

The Organization recognizes its transaction costs in the excess of revenue over expenses in the period incurred. However, transaction costs related to financial instruments subsequently measured at amortized cost reduce the carrying amount of the financial asset or liability and are accounted for in the statement of operations using the straight-line method.

Cash and cash equivalents

The Organization’s policy is to disclose bank balances and short-term investments with a maturity date of three months or less from the date of acquisition under cash and cash equivalents.

3. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING

The Organization has elected to apply the ASNFPO. These financial statements are the first financial statements for which the Organization has applied the ASNFPO.

The financial statements for the year ended August 31, 2013 were prepared in accordance with the ASNFPO and provisions set out in Section 1501, “First-time adoption by not-for-profit organizations”, for first-time adopters of this basis of accounting. Adopting these standards did not have any impact on the net assets at the date of transition of September 1, 2011.

4. ALLOCATION OF COMMON COSTS

A portion of salaries and benefits are allocated to projects as follows:

	2013	2012
CS Fund - Project/Staff in Africa	**$ 9,800**	$ 22,961
New Venture Fund	**17,640**	-
	$ 27,440	$ 22,961

5. FUNDING RECEIVABLE

	2013	2012	September 1, 2011
Friends of Action Group on Erosion, Technology and Concentration Inc.	**$ 88,424**	$ 79,425	$ 79,161
HKH Foundation	**-**	-	214,007
	$ 88,424	$ 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.

6. OTHER RECEIVABLE

	2013	2012	September 1, 2011
Harmonized Sales Tax receivable	**$ 8,110**	$ 10,721	$ 10,495
Other	**18,531**	184,871	16,607
	$ 26,641	$ 195,592	$ 27,102

7. CAPITAL ASSETS

	Cost	**Accumulated amortization**	**2013**	2012	September 1, 2011
Computer equipment	**$ 54,454**	**$ 43,472**	**$ 10,982**	$ 12,698	$ 17,162
Furniture and fixtures	**30,641**	**29,573**	**1,068**	1,600	2,399
	$ 85,095	**$ 73,045**	**$ 12,050**	$ 14,298	$ 19,561

8. BANK LOAN

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

9. DEFERRED REVENUE

		2013		2012		September 1, 2011
Balance, beginning of year	**$**	**141,007**	$	272,337	$	222,843
Less: Amounts recognized as revenue during the year		**(705,066)**		(608,628)		(1,102,492)
Plus: Amounts received during the year		**678,334**		477,298		1,151,986
Balance, end of year	**$**	**114,275**	$	141,007	$	272,337

The detail of deferred revenue is as follows:

		2013		2012		September 1, 2011
CS Fund/Core funding	**$**	**85,750**	$	98,000	$	98,000
CS Fund/Staffing in Africa		**25,883**		42,275		86,240
New Venture Fund		**2,642**		-		-
CS Fund/Project seeds		-		732		-
CS Fund/Travel support		**-**		-		60,887
Swedbio		-		-		27,210
	$	**114,275**	$	141,007	$	272,337

10. DESCRIPTION OF INTERNAL RESTRICTIONS

The Organization maintains two internally restricted funds. One is a future building acquisition reserve (with a balance of zero as at August 31, 2013 and 2012) and the other is a six-month operating reserve. During the year, an amount of $94,323 was transferred from the six-month operating reserve to the unrestricted fund.

11. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

		2013		2012
Funding receivable	**$**	**(8,999)**	$	213,743
Other receivable		**168,951**		(168,490)
Prepaid expenses		**3,343**		3,131
Accounts payable and accrued liabilities		**(7,069)**		(6,132)
Deferred revenue		**(26,732)**		(131,330)
	$	**129,494**	$	(89,078)

12. COMMITMENTS

The commitment of the Organization under a lease agreement maturing in 2014 aggregates to $18,000.

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.

14. 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 provides credit to its clients in the normal course of its operations.

Also, the Organization continuously reviews the financial situation of its clients and examines the credit history of all new 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 83% of the total trade accounts is to be received from one entity. The Organization considers that no risk arises from that situation.

14. FINANCIAL INSTRUMENTS (continued)

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, 2013, assets include funding receivable of $88,424 (2012: $79,425) and a cash balance of $49,769 (2012: $102,357) in US dollars, which have been converted into Canadian dollars.

		2013		2012
SCHEDULE A - REVENUE				
Lillian Goldman Charitable Trust	**$**	**196,000**	$	196,000
CS Fund				
- Core funding		**149,450**		147,000
- Project/Travel support		**-**		60,887
- Project/Staff in Africa		**16,393**		43,965
- Project/Seeds		**59,263**		4,168
Oxfam Novib		**129,630**		-
Swedbio				
- Core funding		**36,625**		69,800
Heinrich Boell Foundation		**35,082**		12,399
Biodiversidad Magazine		**3,175**		2,384
Other (including donations of $22,003; 2012: $3,073)		**57,118**		70,432
New Venture Fund (IFAAES)		**22,330**		-
HKH Foundation matching grant		**-**		1,593
	$	**705,066**	$	608,628

SCHEDULE B - PROJECT EXPENSES				
CS Fund				
- Project/Travel support	**$**	**-**	$	74,972
- Project/Staff in Africa		**16,393**		43,965
- Project/Seeds		**59,263**		4,168
Biodiversidad Magazine		**3,171**		3,038
New Venture Fund (IFAAES)		**21,858**		-
	$	**100,685**	$	126,143