

etc Group

action group on erosion, technology and concentration

FINANCIAL STATEMENTS

AS AT AUGUST 31, 2006

etc Group

action group on erosion, technology and concentration

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AUDITORS' REPORT

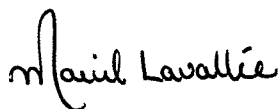
To the Board of Directors
etc Group: action group on erosion, technology and concentration

We have audited the balance sheet of etc Group: action group on erosion, technology and concentration as at August 31, 2006 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, excess of revenue over expenses, 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 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, 2006 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Ottawa, Ontario

October 5, 2006

COMPTABLES AGRÉÉS | CHARTERED ACCOUNTANTS

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BALANCE SHEET

AS AT AUGUST 31, 2006

ASSETS

| | 2006 | 2005 |
|--------------------------------|-------------------|----------------|
| CURRENT ASSETS | | |
| Cash | \$ 125,899 | 226,226 |
| Short-term investments | 324,720 | 154,208 |
| Funding receivable (note 3) | 334,982 | 459,008 |
| Other receivables | 17,318 | 31,450 |
| Prepaid expenses | 16,866 | - |
| | 819,785 | 870,892 |
| CAPITAL ASSETS (note 4) | 25,255 | 21,696 |
| | \$ 845,040 | 892,588 |

LIABILITIES

CURRENT LIABILITIES

| | | |
|--|----------------|----------------|
| Accounts payable and accrued liabilities | \$ 13,260 | 16,722 |
| Deferred revenue (note 5) | 126,211 | 199,127 |
| | 139,471 | 215,849 |

NET ASSETS

| | | |
|----------------------------------|-------------------|----------------|
| Unrestricted | 30,314 | 5,043 |
| Invested in capital assets | 25,255 | 21,696 |
| Internally restricted net assets | | |
| - Six month operating reserve | 350,000 | 350,000 |
| - Building acquisition reserve | 300,000 | 300,000 |
| | 705,569 | 676,739 |
| | \$ 845,040 | 892,588 |

Commitment (note 9)

ON BEHALF OF THE BOARD

_____, Director

_____, Director

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CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2006

| | Unrestricted net assets | Invested in capital assets | <u>Internally restricted net assets</u> | | Total 2006 | Total 2005 |
|--|----------------------------|-------------------------------|---|------------------------------------|---------------|---------------|
| | | | Six month operating reserve | Building acquisition reserve | | |
| BALANCE, BEGINNING OF YEAR | \$ 5,043 | 21,696 | 350,000 | 300,000 | 676,739 | 726,173 |
| Excess of revenue over expenses (expenses over revenue) | 38,210 | (9,380) | - | - | 28,830 | (49,434) |
| Investment in capital assets | (12,939) | 12,939 | - | - | - | - |
| BALANCE, END OF YEAR | \$ 30,314 | 25,255 | 350,000 | 300,000 | 705,569 | 676,739 |

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REVENUE AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2006

| | 2006 | 2005 |
|--|-------------------|-----------------|
| REVENUE (note 6) | \$ 949,592 | 910,437 |
| EXPENSES | | |
| Salaries and benefits | 499,835 | 463,594 |
| Consulting fees | 34,597 | 76,784 |
| Rent | 35,487 | 38,271 |
| Insurance | 3,836 | 4,005 |
| Interest and bank charges | 3,676 | 4,380 |
| Meetings | 7,754 | 50,204 |
| Professional fees | 5,155 | 4,269 |
| Telecommunications | 14,743 | 21,238 |
| Website management | 15,379 | 1,611 |
| Travel expenses | 25,174 | 52,432 |
| Office expenses | 24,103 | 16,427 |
| Maintenance and repairs | 6,162 | 6,332 |
| Relocation expense | - | 5,142 |
| Books, printing and distribution | 13,064 | 11,953 |
| Foreign exchange loss | 31,023 | 36,414 |
| Amortization of capital assets | 9,380 | 7,075 |
| Portion of operating expenses charged to projects | (91,926) | (87,983) |
| | 637,442 | 712,148 |
| PROJECT EXPENSES (note 7) | 283,320 | 247,723 |
| | 920,762 | 959,871 |
| EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE) | \$ 28,830 | (49,434) |

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CASH FLOW

FOR THE YEAR ENDED AUGUST 31, 2006

| | 2006 | 2005 |
|--|-------------------|------------------|
| OPERATING ACTIVITIES | | |
| Excess of revenue over expenses (expenses over revenue) | \$ 28,830 | (49,434) |
| Item not affecting funds: | | |
| Amortization of capital assets | 9,380 | 7,075 |
| | 38,210 | (42,359) |
| Changes in working capital items (note 8) | 44,914 | (169,797) |
| | 83,124 | (212,156) |
| INVESTING ACTIVITY | | |
| Purchases of capital assets | (12,939) | (15,062) |
| | 70,185 | (227,218) |
| INCREASE (DECREASE) IN FUNDS | 70,185 | (227,218) |
| FUNDS, BEGINNING OF YEAR | 380,434 | 607,652 |
| | \$ 450,619 | 380,434 |
| FUNDS, END OF YEAR | \$ 450,619 | 380,434 |
| FUNDS REPRESENTED BY | | |
| Cash | \$ 125,899 | 226,226 |
| Short-term investments | 324,720 | 154,208 |
| | \$ 450,619 | 380,434 |

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NOTES TO FINANCIAL STATEMENTS

AS AT AUGUST 31, 2006

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES

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.

Capital assets

Capital assets are recorded at cost. Amortization of capital 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 amortized at one-half the stated rates.

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.

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NOTES TO FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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 revenue and expenses, except for cost of inventories and depreciation, are translated at average year rates. Exchange gains and losses are included in the statement of revenue and expenses.

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.

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AS AT AUGUST 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

| | 2006 | 2005 |
|--|------------|---------|
| Friends of Action Group on Erosion, Technology and Concentration Inc. | \$ 323,782 | 381,788 |
| IDRC | 11,200 | 33,798 |
| Educational Foundation of America | - | 4,958 |
| SwedBio | - | 38,464 |
| | \$ 334,982 | 459,008 |

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.

4. CAPITAL ASSETS

| | Cost | Accumulated amortization | 2006 | 2005 |
|------------------------|------------|-----------------------------|--------|--------|
| Computer equipment | \$ 138,092 | 118,927 | 19,165 | 20,600 |
| Furniture and fixtures | 26,339 | 20,249 | 6,090 | 1,096 |
| | \$ 164,431 | 139,176 | 25,255 | 21,696 |

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5. DEFERRED REVENUE

| | | 2006 | 2005 |
|----------------------------------|----|----------------|----------------|
| CS Fund | \$ | 74,000 | 79,333 |
| Swedbio | | 32,839 | - |
| IDRC | | 19,372 | - |
| Lillian Goldman Charitable Trust | | - | 99,167 |
| Ford Foundation | | - | 20,627 |
| | \$ | 126,211 | 199,127 |

6. REVENUE

| | | 2006 | 2005 |
|---|----|----------------|----------------|
| SwedBio | \$ | 203,929 | 302,275 |
| CS Fund | | 119,000 | 96,667 |
| Canadian International Development Agency | | 150,000 | 150,000 |
| IDRC | | 100,829 | 103,798 |
| IDRC - Translation | | 15,538 | - |
| Lillian Goldman Charitable Trust | | 99,167 | 71,917 |
| HKH | | 119,000 | - |
| Ford Foundation | | 20,627 | 61,443 |
| Educational Foundation of America | | 14,882 | 62,500 |
| CBDC | | - | 26,543 |
| Terminator Project - Canada | | 11,999 | - |
| Ban Terminator Campaign - International | | 59,580 | - |
| Consulting fees | | 6,359 | - |
| Other (including donations of \$ 1,171) | | 28,682 | 35,294 |
| | \$ | 949,592 | 910,437 |

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NOTES TO FINANCIAL STATEMENTS

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7. PROJECT EXPENSES

| | 2006 | 2005 |
|---------------------------------------|------------|---------|
| IDRC | \$ 100,829 | 103,798 |
| Ford Foundation | 16,872 | 61,443 |
| SwedBio | - | 38,465 |
| CBDC | - | 28,435 |
| PreVenter | 7,272 | 15,582 |
| IDRC - Translation | 15,538 | - |
| Terminator Project - Canada | 21,067 | - |
| Ban Terminator Campaign International | 121,742 | - |
| | \$ 283,320 | 247,723 |

8. CHANGES IN WORKING CAPITAL ITEMS

| | 2006 | 2005 |
|--|------------|-----------|
| Funding receivable | \$ 124,026 | (363,563) |
| Other receivables | 14,132 | 8,884 |
| Prepaid expenses | (16,866) | 1,460 |
| Accounts payable and accrued liabilities | (3,462) | 7,156 |
| Deferred revenue | (72,916) | 176,266 |
| | \$ 44,914 | (169,797) |

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9. LONG-TERM LEASE

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, 2006 totals \$ 35,487 (2005: \$ 38,271). The minimum annual basic rents for the next four years are as follows:

| | | |
|------|----|--------|
| 2007 | \$ | 19,477 |
| 2008 | | 20,061 |
| 2009 | | 20,663 |
| 2010 | | 10,484 |

10. FINANCIAL INSTRUMENTS

The organization's financial instruments include cash, short-term investments, accounts receivable, accounts payable and accrued liabilities, and long-term debt. Unless otherwise mentioned, the organization is not subject to any important interest rate risk or credit risk.

The fair value of the financial instruments is comparable to the recorded value in the financial statements, with the exception of the fair value of the short-term investments already mentioned in the financial statements.