

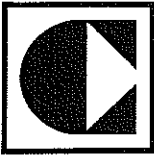
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

EARTHRIGHTS INTERNATIONAL, INC.

January 31, 2007

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
EarthRights International, Inc.

We have audited the accompanying balance sheet of EarthRights International, Inc. (a nonprofit organization) as of January 31, 2007, and the related statements of activities, cash flows and functional expenses 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EarthRights International, Inc. as of January 31, 2007, and the changes in its net assets, its cash flows and its functional expenses for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Douglas Corey & Associates, P.C.

June 4, 2007

EarthRights International, Inc.

Balance Sheet

January 31, 2007

(See Independent Auditor's Report and notes to financial statements)

Assets

Current Assets	
Cash	\$ 2,511,026
Grants receivable	100,000
Other receivables	7,204
Prepaid expenses	<u>7,745</u>
Total current assets	2,625,975
Property and equipment, net of accumulated depreciation of \$39,534	24,553
Other Assets	
Investment in marketable equity securities	137,610
Deposits	<u>6,459</u>
	<u>144,069</u>
	<u>\$ 2,794,597</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 33,340
Net Assets	
Unrestricted	709,766
Temporarily restricted	<u>2,051,491</u>
Total net assets	<u>2,761,257</u>
	<u>\$ 2,794,597</u>

EarthRights International, Inc.
Statement of Activities

For the year ended January 31, 2007

(See Independent Auditor's Report and notes to financial statements)

	Unrestricted		Temporarily Restricted		Total
	Unrestricted	Board Designated	Temporarily Restricted	Memorial Fund	
Revenues and Other Support:					
Foundation and corporate contributions and fees	\$ 734,050	\$ -	\$ 245,000	\$ 20,000	\$ 999,050
Gifts from individuals	166,000	-	-	-	166,000
Non-cash contributions	17,032	-	-	-	17,032
In-kind contributions	12,865	-	11,034	-	23,899
Interest and dividends	67,770	-	-	7,362	75,132
Gain (loss) on investment	(19)	-	-	-	(19)
Unrealized gain (loss) on securities	-	-	-	3,014	3,014
Miscellaneous	5,583	-	-	-	5,583
Net assets released from restrictions:					
Satisfaction of program restrictions	598,716	-	(575,124)	(23,592)	-
Satisfaction of time restrictions					
Total Revenues and Other Support	1,601,997	-	(319,090)	6,784	1,289,691
Expenses:					
Program expenses					
Legal	352,672	-	-	-	352,672
Campaigns	356,976	-	-	-	356,976
EarthRights schools	267,615	-	-	-	267,615
Clark memorial	23,592	-	-	-	23,592
Management and general Development	176,548	-	-	-	176,548
	143,593	-	-	-	143,593
Total Expenses	1,320,996	-	-	-	1,320,996
Change in Net Assets	281,001	-	(319,090)	6,784	(31,305)
Net Assets, beginning of year	373,598	55,167	2,252,458	111,339	2,792,562
Net Assets, end of year	\$ 654,599	\$ 55,167	\$ 1,933,368	\$ 118,123	\$ 2,761,257

EarthRights International, Inc.
Statement of Cash Flows
For the year ended January 31, 2007
(See Independent Auditor's Report and notes to financial statements)

Cash flows from operating activities:	
Change in net assets	\$ (31,305)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,144
Net unrealized gain on securities	(3,014)
Realized loss on sale of securities	19
Non-cash contributions	(17,032)
(Increase) decrease in miscellaneous receivable	100,000
(Increase) decrease in miscellaneous receivable	8,366
(Increase) decrease in prepaid expense	3,807
Increase (decrease) in accounts payable	<u>13,594</u>
Net cash provided by operating activities	82,579
Cash flows from investing activities:	
Purchase of fixed assets	(10,446)
Proceeds from sale of securities	47,617
Purchase of marketable securities	<u>(44,791)</u>
Net cash used by investing activities	<u>(7,620)</u>
Net increase in cash and cash equivalents	74,959
Cash, beginning of year	<u>2,436,067</u>
Cash, end of year	<u><u>\$ 2,511,026</u></u>

Supplemental disclosures:

During the year the Organization had the following noncash transactions:

Net unrealized gain on marketable equity securities and corresponding adjustment of securities to fair market value	\$ <u>3,014</u>
In-kind contributions of goods and services and corresponding expenses	\$ <u>23,899</u>
Non-cash contribution of stock	\$ <u>17,032</u>

Cash paid during the year for:

Income taxes	\$ <u>-</u>
Interest expense	\$ <u>-</u>

EarthRights International, Inc.
Statement of Functional Expenses
For the year ended January 31, 2007
(See Independent Auditor's Report and notes to financial statements)

	<u>Program Services</u>					<u>Supporting Services</u>			
	<u>Legal</u>	<u>Campaigns</u>	<u>EarthRights Schools</u>	<u>Daniel Clark Memorial</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Development</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>
International									
Salaries	\$ 18,781	\$ 31,697	\$ 9,444	\$ -	\$ 59,922	\$ 74,506	\$ 100,178	\$ 174,684	\$ 234,606
Payroll taxes	1,523	3,112	764	-	5,399	5,952	8,011	13,963	19,362
Employee benefits	721	1,815	811	-	3,347	5,461	9,728	15,189	18,536
Consultants	-	-	-	-	-	4,750	-	4,750	4,750
Accounting	-	-	-	-	-	14,984	-	14,984	14,984
Outside services	-	-	-	-	-	1,566	-	1,566	1,566
Board meetings	-	-	-	-	-	12,865	-	12,865	12,865
Bank service charges	-	-	-	1,852	1,852	1,474	-	1,474	3,326
Overhead	-	-	-	-	-	59	165	224	224
Rent/utilities	-	-	-	-	-	6,585	-	6,585	6,585
Office supplies and expense	-	-	-	-	-	7,930	5,178	13,108	13,108
Insurance	-	-	-	-	-	9,999	-	9,999	9,999
Communications	-	23	-	-	23	4,361	1,626	5,987	6,010
Outreach/conferences	-	-	-	-	-	260	1,709	1,969	1,969
Travel	1,334	-	-	-	1,334	10,841	3,510	14,351	15,685
Publications	-	19,980	-	-	19,980	2,820	66	2,886	22,866
Trainings/grants	-	-	-	21,713	21,713	6,027	152	6,179	27,892
Planning	-	-	-	-	-	1,289	150	1,439	1,439
	<u>22,359</u>	<u>56,627</u>	<u>11,019</u>	<u>23,565</u>	<u>113,570</u>	<u>171,729</u>	<u>130,473</u>	<u>302,202</u>	<u>415,772</u>
United States									
Salaries	203,972	75,512	3,333	-	282,817	-	-	-	282,817
Payroll taxes	16,238	5,486	289	-	22,013	-	-	-	22,013
Employee benefits	10,568	7,340	-	-	17,908	335	-	335	18,243
Consultants	6,811	7,435	-	-	14,246	-	-	-	14,246
Rent/utilities	19,755	27,634	6,585	-	53,974	-	-	-	53,974
Office supplies and expense	6,003	13,583	16	-	19,602	999	865	1,864	21,466
Depreciation	609	2,815	-	-	3,424	1,567	174	1,741	5,165
Communications	5,645	16,919	-	27	22,591	434	59	493	23,084
Fieldwork/research	1,216	12	-	-	1,228	-	-	-	1,228
Litigation	12,172	-	-	-	12,172	-	-	-	12,172
Outreach/conferences	1,353	13,026	-	-	14,379	40	8,400	8,440	22,819
Travel	27,321	15,735	-	-	43,056	190	3,600	3,790	46,846
Publications	-	7,689	20	-	7,709	15	-	15	7,724
Trainings	1,353	93	-	-	1,446	-	-	-	1,446
Planning	265	1,350	-	-	1,615	-	22	22	1,637
	<u>313,281</u>	<u>194,629</u>	<u>10,243</u>	<u>27</u>	<u>518,180</u>	<u>3,580</u>	<u>13,120</u>	<u>16,700</u>	<u>534,880</u>
SE Asia									
Salaries	13,847	30,828	75,986	-	120,661	-	-	-	120,661
Employee benefits	-	4,313	7,279	-	11,592	-	-	-	11,592
Consultants	-	670	12,983	-	13,653	-	-	-	13,653
Board expenses	-	148	-	-	148	-	-	-	148
Overhead	300	626	1,777	-	2,703	-	-	-	2,703
Currency fluctuation	-	1,995	-635	-	1,360	-	-	-	1,360
Rent/utilities	-	8,360	19,375	-	27,735	-	-	-	27,735
Office supplies and expense	-	8,136	18,418	-	26,554	-	-	-	26,554
Depreciation	-	-	2,979	-	2,979	-	-	-	2,979
Communications	-	4,590	5,374	-	9,964	-	-	-	9,964
Fieldwork/research	543	16,529	14,643	-	31,715	662	-	662	32,377
Outreach/conferences	1,711	9,198	1,530	-	12,439	-	-	-	12,439
Travel	631	6,733	30,313	-	37,677	577	-	577	38,254
Publications	-	4,834	2,654	-	7,488	-	-	-	7,488
Trainings	-	4,930	52,887	-	57,817	-	-	-	57,817
Planning	-	3,830	790	-	4,620	-	-	-	4,620
	<u>17,032</u>	<u>105,720</u>	<u>246,353</u>	<u>-</u>	<u>369,105</u>	<u>1,239</u>	<u>-</u>	<u>1,239</u>	<u>370,344</u>
	<u>\$ 352,672</u>	<u>\$ 356,976</u>	<u>\$ 267,615</u>	<u>\$ 23,592</u>	<u>\$ 1,000,855</u>	<u>\$ 176,548</u>	<u>\$ 143,593</u>	<u>\$ 320,141</u>	<u>\$ 1,320,996</u>

EarthRights International, Inc.
Notes to Financial Statements
January 31, 2007
(See Independent Auditor's Report)

Note A - Nature of Organization

EarthRights International, Inc. (ERI) is a non-governmental, non-profit organization founded in 1995 that combines the power of law and the power of people to protect earth rights. ERI specializes in fact-finding, legal actions against perpetrators of earth rights abuses, training for grassroots and community leaders, and advocacy campaigns. Through these cutting edge strategies, ERI seeks to end earth rights abuses, to provide real solutions for real people, and to promote and protect human rights and the environment in the communities where we work.

ERI maintains the following programs to carry out the above goals:

Legal – ERI’s legal program seeks to bring the power of the legal system to bear directly on earth rights abusers and thereby change the way that governments and corporations conduct business. To do so, we use a variety of legal tools-especially litigation-to attach real costs to human rights and environmental abuses; thus encouraging public and private actors to respect earth rights everywhere.

We are advancing the law in unique ways as no other organization has done; best exemplified by our historic settlement against Unocal for human rights abuses in Burma. We currently represent human rights victims in groundbreaking cases against Chevron, Shell, and Union Carbide/Dow Chemical, and are considering other cases that further develop and enforce international human rights and environmental law in various fora.

Advocacy and Campaigns - ERI's Advocacy and Campaigns program seeks to raise awareness and build broad support for earth rights issues. Our goal is to ensure that there are strong legal mechanisms for corporate accountability with regard to human rights and environmental abuses, and to prevent abuses in the first place by showing public and private actors that there are heavy costs associated with those violations. ERI's campaigns organize public support for earth rights issues and aim to hold corporate and government human rights and environmental offenders accountable in the "court of public opinion".

EarthRight's Schools - ERI's EarthRights Schools equip the next generation of grassroots human rights and environmental defenders with the necessary skills to defend human rights and protect natural resources from unsustainable development. At our EarthRights Schools, local leaders develop the experience and knowledge they need to work at the community level and to advocate nationally or internationally on behalf of their own communities. When members of affected communities raise their own voices, they can directly communicate the effects of a particular development project and protect natural resources from unsustainable extraction processes and exploitation. We currently have EarthRights Schools for Burma and in 2006 established an EarthRights School for the Mekong region, which brings together persons from the six countries of the Mekong watershed, and focuses on sustainable water resource management and funding of projects by international financial institutions.

EarthRights International, Inc.
Notes to Financial Statements
January 31, 2007
(See Independent Auditor's Report)

Note A - Nature of Organization, continued

The Daniel C. Clark Memorial Fund – The fund was officially established by ERI on March 28, 2001, with funding provided by Daniel Clark and his friends and family. The fund provides resources to help empower students from the EarthRights School, which educates and trains human rights and environmental activists in Southeast Asia. Each year, a portion of the Fund's principal is granted to one or more graduates of the school. The Daniel C. Clark Memorial Fund will help support these graduates in their work to protect human rights and the environment.

Note B - Summary of Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Method of Accounting

ERI's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Consequently, revenues are recognized when earned and expenses are recognized when incurred.

2. Financial Statement Presentation

ERI has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, ERI is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, ERI is required to present a statement of cash flows. For the year ended January 31, 2007, ERI had no permanently restricted net assets.

Unrestricted net assets - consists of assets, grants, contributions, program revenues, and other income that are available and used for operations and programs. Grants and contributions are considered available for unrestricted use unless specifically restricted by the donor. On behalf of the Organization, the board voted to designate \$55,167 for use in an emergency situation only.

EarthRights International, Inc.
Notes to Financial Statements
January 31, 2007
(See Independent Auditor's Report)

Note B - Summary of Accounting Policies, continued

Temporarily restricted net assets – includes funds with donor-imposed or legal restrictions that permit the donee organization to expend the assets as specified and is satisfied either by the passage of time or by actions of the organization. Resources of this nature originate from grants and fees from foundations or corporations and gifts from individuals.

3. Recognition of Donor-Restricted Contributions

Support that is restricted by the donor is reported as an increase in temporarily restricted net assets until the restriction expires, at which time temporarily restricted net assets are reclassified to unrestricted net assets.

4. Functional Expenses

ERI allocates its expenses on a functional basis among its various programs and management and general. Expenses that can be identified with a specific program, management and general, or development are allocated directly according to their natural expenditure classification. Other expenses that are common to program functions and management and general are allocated based on management's estimate of time and expense spent in each of the categories.

5. Miscellaneous Receivables

Miscellaneous receivables consist of amounts due to the Organization for reimbursements of various expenses and advances. Management periodically reviews those receivables to verify that they are collectible. Accordingly, no reserve for doubtful accounts has been established.

6. Property and Equipment

Furniture and equipment are recorded at cost at the date of acquisition. Donations of property and equipment are recorded as support at their estimated fair value at the date of the gift. The assets are depreciated on a straight-line basis over their estimated useful lives.

7. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses on investments are included in the change in net assets.

EarthRights International, Inc.
Notes to Financial Statements
January 31, 2007
(See Independent Auditor's Report)

Note B - Summary of Accounting Policies, continued

8. Income Taxes

ERI is exempt from income taxes under the Internal Revenue Service Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in these financial statements

9. Cash and cash equivalents

For purposes of the statement of cash flows, ERI considers all highly liquid instruments purchased with a maturity of three months or less to be cash and cash equivalents.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note C – Fair Value of Investments

The Organization's investments are stated at fair value and are comprised of marketable equity securities, as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized gain (loss)</u>
Mutual funds	\$ 80,355	\$ 97,610	\$ 17,255
Fixed income securities	<u>40,000</u>	<u>40,000</u>	_____ -
	<u>\$120,355</u>	<u>\$ 137,610</u>	<u>\$ 17,255</u>

EarthRights International, Inc.
Notes to Financial Statements
January 31, 2007
(See Independent Auditor's Report)

Note C – Fair Value of Investments, continued

The following schedule summarizes the investment return and its classification in the Statement of Activities:

Dividends and interest	\$ 71,472
Capital gains	<u>3,660</u>
Total investment income	<u>\$ 75,132</u>
Proceeds from sale of securities	\$47,617
Cost basis	<u>47,636</u>
Realized gain on sale of securities	<u>\$ (19)</u>

Note D – Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. At January 31, 2007, pledges receivable totaled \$100,000. Management believes that amounts will be received when due, therefore no allowance for uncollectible pledges receivable has been provided. Pledges receivable are recorded as temporarily restricted net assets until they are received.

Note E – Property and Equipment

Property and equipment are as follows:

Computer equipment	\$44,105
Computer software	5,273
Other property	<u>14,709</u>
	64,087
Accumulated depreciation	<u>(39,534)</u>
Net book value	<u>\$24,553</u>

Depreciation expense for the year ended January 31, 2007 is \$8,144.

EarthRights International, Inc.
Notes to Financial Statements
January 31, 2007
(See Independent Auditor's Report)

Note F – Commitments and Contingencies

The Organization maintains operating leases for various office space and office equipment. In May 2002, the Organization entered into an operating lease for office space in Washington, D.C., which expires in May 2007. The organization has renewed the lease through May 2012. During the year ended January 31, 2007, part of this office space was sublet on a month-to-month basis. The Organization also maintains three operating leases on property in Thailand. One lease is on a month-to-month basis and the other two leases expire within one year. Rent expense charged to current operations was \$85,665 for the year ended January 31, 2007. Rent income from the sublet was \$1,807 for the year ended January 31, 2007.

In June 2005, the Organization entered into an operating lease for a copier. The lease expires in June 2010.

Following is a schedule by year of future minimum lease payments:

January 31, 2008	\$ 63,648
January 31, 2009	64,880
January 31, 2010	66,776
January 31, 2011	67,720
January 31, 2012	69,008
Thereafter	<u>22,428</u>
	<u>\$354,460</u>

Note G – Major Support

Amounts received from two sources comprised 32.3% of total revenue and support for the year ended January 31, 2007.

Note H – Concentration of Credit Risk – Cash Deposits

Total cash held by ERI at January 31, 2007 includes \$2,230,557 that is in excess of the \$100,000 insured by the Federal Deposit Insurance Corporation. It is the opinion of management that the solvency of the referenced financial institution is not of particular concern at this time.

EarthRights International, Inc.
Notes to Financial Statements
January 31, 2007
(See Independent Auditor's Report)

Note I – In-kind and Non-cash Contributions

In-kind contributions consist of non-cash assets, which the organization would have to purchase if they were not donated. They are recorded at their fair market value in the period received. In-kind contributions of \$23,899 were recorded for the year ended January 31, 2007.

Contributions of donated non-cash assets are recorded at their fair market values in the period received. For the year ended January 31, 2007, ERI received stock with a fair value of \$17,032.

Note J – Temporarily Restricted Net Assets

Temporarily restricted net assets at January 31, 2007 were available for the following purposes:

Legal Service	\$ 1,769,920
Periods after January 31, 2007	100,000
EarthRights Schools (Mekong)	43,448
Peru Mobile Training	20,000
Memorial Fund	<u>118,123</u>
	<u>\$ 2,051,491</u>

Note K – Retirement Plan

ERI maintains a defined contribution 403(b) plan covering substantially all full time employees. Under the plan, ERI may, at its discretion, make matching contributions as a percentage of employee contributions. There were no matching contributions for the year ended January 31, 2007.