

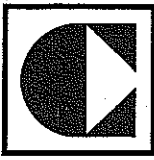
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

EARTHRIGHTS INTERNATIONAL, INC.

January 31, 2006

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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, 2006, 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, 2006, 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 1, 2006

EarthRights International, Inc.

Balance Sheet

January 31, 2006

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

Assets

Current Assets	
Cash	\$ 2,436,067
Grants receivable	200,000
Other receivables	15,570
Prepaid expenses	<u>11,552</u>
Total current assets	2,663,189
Property and equipment, net of accumulated depreciation of \$31,390	22,231
Other Assets	
Investment in marketable equity securities	120,429
Deposits	<u>6,459</u>
	<u>126,888</u>
	<u>\$ 2,812,308</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 19,746
Net Assets	
Unrestricted	428,765
Temporarily restricted	<u>2,363,797</u>
Total net assets	<u>2,792,562</u>
	<u>\$ 2,812,308</u>

EarthRights International, Inc.
Statement of Activities
For the year ended January 31, 2006
(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	\$ 414,194	\$ -	\$ 2,910,717	\$ -	\$ 3,324,911
Gifts from individuals	120,307	-	-	-	120,307
In-kind contributions	3,000	-	29,900	-	32,900
Interest	16,482	-	31,913	4,786	53,181
Gain (loss) on disposal of fixed assets	(245)	-	-	-	(245)
Gain (loss) on investment	-	-	-	(1,028)	(1,028)
Unrealized gain (loss) on securities	-	-	-	8,017	8,017
Miscellaneous	9,244	-	-	-	9,244
Net assets released from restrictions:					
Satisfaction of program restrictions	789,375	-	(772,507)	(16,868)	-
Total Revenues and Other Support	1,352,357	-	2,200,023	(5,093)	3,547,287
Expenses:					
Program expenses					
Legal	377,884	-	-	-	377,884
Campaigns	305,997	-	-	-	305,997
EarthRights schools	279,358	-	-	-	279,358
Clark memorial	16,868	-	-	-	16,868
Management and general Development	128,308	-	-	-	128,308
Special event	116,381	-	-	-	116,381
	18,980	-	-	-	18,980
Total Expenses	1,243,776	-	-	-	1,243,776
Change in Net Assets	108,581	-	2,200,023	(5,093)	2,303,511
Net Assets, beginning of year	265,017	55,167	52,435	116,432	489,051
Net Assets, end of year	\$ 373,598	\$ 55,167	\$ 2,252,458	\$ 111,339	\$ 2,792,562

EarthRights International, Inc.
Statement of Cash Flows
For the year ended January 31, 2006

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

Cash flows from operating activities:	
Change in net assets	\$ 2,303,511
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,934
Net unrealized gain on securities	(8,017)
Realized loss on sale of securities	1,028
Loss on disposal of fixed assets	245
(Increase) decrease in miscellaneous receivable	(200,000)
(Increase) decrease in miscellaneous receivable	(12,021)
(Increase) decrease in prepaid expense	(6,814)
Increase (decrease) in accounts payable	<u>1,509</u>
Net cash provided by operating activities	2,088,375
Cash flows from investing activities:	
Purchase of fixed assets	(11,592)
Proceeds from sale of securities	17,222
Purchase of marketable securities	<u>(9,308)</u>
Net cash used by investing activities	<u>(3,678)</u>
Net increase in cash and cash equivalents	2,084,697
Cash, beginning of year	<u>351,370</u>
Cash, end of year	<u>\$ 2,436,067</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>8,017</u>
In-kind contributions of goods and services and corresponding expenses	\$ <u>32,900</u>
Retirement of fixed assets: Original cost \$524, Accumulated depreciation \$279, Loss on disposition \$245	

Cash paid during the year for:

Income taxes	\$ <u>-</u>
Interest expense	\$ <u>15</u>

EarthRights International, Inc.
Statement of Functional Expenses
For the year ended January 31, 2006
(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>
International								
Salaries	\$ 12,037	\$ 20,000	\$ 15,283	\$ -	\$ 47,320	\$ 34,629	\$ 85,296	\$ 119,925
Payroll taxes	981	1,607	1,073	-	3,661	2,774	6,832	9,606
Employee benefits	-	1,112	457	-	1,569	3,823	7,624	11,447
Accounting	-	-	-	-	-	14,304	-	14,304
Outside services	-	-	-	-	-	1,272	-	1,272
Board meetings	-	-	-	-	-	5,204	-	5,204
Bank service charges	-	-	-	1,538	1,538	1,349	-	1,349
Overhead	14	-	-	-	14	-	-	-
Interest expense	-	-	-	-	-	15	-	15
Rent/utilities	-	-	-	-	-	6,721	-	6,721
Office supplies and expense	-	7	-	-	7	4,648	7,150	11,798
Insurance	-	-	-	-	-	7,927	-	7,927
Communications	72	-	-	-	72	2,244	2,102	4,346
Fieldwork/research	-	-	-	-	-	96	-	96
Outreach/conferences	-	-	-	-	-	1,400	46	1,446
Travel	-	-	34	-	34	13,641	5,560	19,201
Publications	-	-	-	-	-	7,864	1,457	9,321
Trainings	-	36	-	15,330	15,366	162	75	237
Planning	-	-	-	-	-	18,037	5	18,042
	<u>13,104</u>	<u>22,762</u>	<u>16,847</u>	<u>16,868</u>	<u>69,581</u>	<u>126,110</u>	<u>116,147</u>	<u>242,257</u>
United States								
Salaries	173,463	65,872	-	-	239,335	-	-	-
Payroll taxes	13,885	5,289	-	-	19,174	-	-	-
Employee benefits	9,393	6,893	70	-	16,356	-	-	-
Consultants	19,665	45,081	26,065	-	90,811	-	-	-
Overhead	7	-	-	-	7	-	-	-
Rent/utilities	20,163	26,885	6,721	-	53,769	-	-	-
Office supplies and expense	5,118	4,392	1,336	-	10,846	39	-	39
Depreciation	398	3,733	-	-	4,131	1,041	145	1,186
Communications	6,498	5,672	328	-	12,498	265	51	316
Fieldwork/research	253	3,150	103	-	3,506	-	-	-
Litigation	74,913	-	-	-	74,913	-	-	-
Outreach/conferences	2,796	2,694	2,168	-	7,658	36	6	42
Travel	31,975	5,656	7,700	-	45,331	682	32	714
Publications	903	10,240	412	-	11,555	11	-	11
Trainings	2,328	73	72,970	-	75,371	-	-	-
Planning	1,642	134	824	-	2,600	124	-	124
	<u>363,400</u>	<u>185,764</u>	<u>118,697</u>	<u>-</u>	<u>667,861</u>	<u>2,198</u>	<u>234</u>	<u>2,432</u>
SE Asia								
Salaries	-	34,234	53,208	-	87,442	-	-	-
Payroll taxes	-	395	157	-	552	-	-	-
Employee benefits	-	4,233	3,990	-	8,223	-	-	-
Consultants	-	4,037	6,638	-	10,675	-	-	-
Accounting	-	-	244	-	244	-	-	-
Bank service charges	-	15	140	-	155	-	-	-
Overhead	-	406	840	-	1,246	-	-	-
Currency fluctuation	-	517	226	-	743	-	-	-
Rent/utilities	-	5,423	10,027	-	15,450	-	-	-
Office supplies and expense	-	8,943	9,339	-	18,282	-	-	-
Depreciation	-	1,378	2,239	-	3,617	-	-	-
Communications	-	6,222	5,077	-	11,299	-	-	-
Fieldwork/research	1,380	10,948	216	-	12,544	-	-	-
Outreach/conferences	-	6,303	4,566	-	10,869	-	-	-
Travel	-	7,315	9,506	-	16,821	-	-	-
Publications	-	2,683	1,755	-	4,438	-	-	-
Trainings	-	4,026	35,357	-	39,383	-	-	-
Planning	-	393	289	-	682	-	-	-
	<u>1,380</u>	<u>97,471</u>	<u>143,814</u>	<u>-</u>	<u>242,665</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 377,884</u>	<u>\$ 305,997</u>	<u>\$ 279,358</u>	<u>\$ 16,868</u>	<u>\$ 980,107</u>	<u>\$ 128,308</u>	<u>\$ 116,381</u>	<u>\$ 244,689</u>

EarthRights International, Inc.
Notes to Financial Statements
January 31, 2006
(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 the Amazon. We are planning a new Mekong Regional EarthRights School for mid-2006, which will focus on protecting the Mekong watershed region by promoting sustainable water resource management and making sure that projects include the informed voices of the community.

EarthRights International, Inc.
Notes to Financial Statements
January 31, 2006
(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 at the EarthRights School, which educates and trains human rights and environmental activists in Southeast Asia. Each year, approximately five percent of the Fund's principal will be 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, 2006, 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, 2006
(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, 2006
(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	\$ 76,295	\$ 90,432	\$ 14,137
Fixed income securities	<u>31,231</u>	<u>29,997</u>	<u>(1,234)</u>
	<u>\$107,526</u>	<u>\$ 120,429</u>	<u>\$ 12,903</u>

Note D – Grants Receivable

Grants receivable consists of the remaining balances on two two-year grants to ERI. Both amounts are receivable in less than year.

EarthRights International, Inc.
Notes to Financial Statements
January 31, 2006
(See Independent Auditor's Report)

Note E – Property and Equipment

Property and equipment are as follows:

Computer equipment	\$34,482
Computer software	5,273
Other property	<u>13,866</u>
	53,621
Accumulated depreciation	<u>(31,390)</u>
Net book value	<u>\$22,231</u>

Depreciation expense for the year ended January 31, 2006 is \$8,934.

Note F – Related Party Transactions

During the year ended January 31, 2006, the board of directors consists of nine voting directors, one of whom is a full time employee of the Organization.

Note G – 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 the option of renewing the lease. Part of this office space is sublet on a month-to-month basis. The Organization also maintains two operating leases on property in Thailand. One lease is on a month-to-month basis and the other lease expires in November 2006. Rent expense charged to current operations was \$70,108 for the year ended January 31, 2006. Rent income from the sublet was \$6,133 for the year ended January 31, 2006.

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, 2007	\$ 69,356
January 31, 2008	22,368
January 31, 2009	1,728
January 31, 2010	1,728
January 31, 2011	<u>720</u>
	<u>\$ 95,900</u>

EarthRights International, Inc.
Notes to Financial Statements
January 31, 2006
(See Independent Auditor's Report)

Note H – Major Support

Amounts received from one entity comprised 57.9% of total revenue and support for the year ended January 31, 2006.

Note I – Concentration of Credit Risk – Cash Deposits

Total cash held by ERI at January 31, 2006 includes \$2,203,976 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.

Note J – 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 \$32,900 were recorded for the year ended January 31, 2006.

Contributions of donated non-cash assets are recorded at their fair market values in the period received.

Note K – Temporarily Restricted Net Assets

Temporarily restricted net assets at January 31, 2006 were available for the following purposes:

Legal Service	\$ 1,877,228
Periods after January 31, 2006	200,000
Litigation Support	91,828
EarthRights Schools (Mekong)	80,000
Amazon Campaign	3,402
Memorial Fund	<u>111,339</u>
	<u>\$ 2,363,797</u>

Note L – 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, 2006.