

**CENTRO MEXICANO DE
DERECHO AMBIENTAL, A. C.**

Financial Statements

December 31, 2008 and 2007

(With Independent Auditor's Report Thereon)

(Translation from Spanish Language Original)

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Balance Sheets

December 31, 2008 and 2007

(Mexican pesos-note 4)

Assets	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 3,822,522	6,217,588
Other debtors	<u>5,000</u>	<u>5,000</u>
Total current assets	3,827,522	6,222,588
Furniture, equipment and leasehold improvements, net (note 6)	184,515	160,985
Other assets, net (note 7)	<u>490,620</u>	<u>121,385</u>
	\$ <u><u>4,502,657</u></u>	<u><u>6,504,958</u></u>
Liabilities and net Assets		
Current liabilities:		
Accrued expenses	\$ 59,673	12,020
Taxes payable (note 11)	269,134	190,831
Accounts payable to related party (note 8)	<u>300,000</u>	<u>810,366</u>
Total current liabilities	<u>628,807</u>	<u>1,013,217</u>
Net assets - Unrestricted (note 3(f))	3,873,850	5,491,741
Commitment (note 12)	<u> </u>	<u> </u>
	\$ <u><u>4,502,657</u></u>	<u><u>6,504,958</u></u>

See accompanying notes to financial statements.

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Statements of Activities

Years ended December 31, 2008 and 2007

(Mexican pesos-note 4)

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets:		
Revenues:		
Cash contributions and in-kind contributions (note 9)	\$ 17,457,924	20,641,252
Other	9,043	12,108
	17,466,967	20,653,360
Interest income	152,401	51,214
Exchange gain, net	456,027	41,450
Total revenues	18,075,395	20,746,024
Expenses:		
Activities programs (note 10)	19,047,990	15,020,592
Administrative expenses	615,772	546,132
Interest expense	29,524	25,683
Monetary position loss	-	54,510
Total expenses	19,693,286	15,646,917
(Decrease) increase in unrestricted net assets	(1,617,891)	5,099,107
Net assets at beginning of year	5,491,741	392,634
Net assets at end of year	\$ 3,873,850	5,491,741

See accompanying notes to financial statements.

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Statement of Cash Flows

Year ended December 31, 2008

(Mexican pesos-note 4)

Cash flows from operating activities:	
Decrease in net assets	\$ (1,617,891)
Items relating to investing activities:	
Depreciation and amortization	<u>242,794</u>
Subtotal	(1,375,097)
Accrued expenses and taxes payable	125,956
Accounts payable to related party	<u>(510,366)</u>
Net cash provided by operating activities	<u>(1,759,507)</u>
Cash flows from investing activities:	
Acquisition of furniture and equipment	(146,246)
Increase in other non-current assets	<u>(489,313)</u>
Net cash used in investing activities	<u>(635,559)</u>
Decrease of cash and cash equivalents	(2,395,066)
Cash and cash equivalents:	
At beginning of year	<u>6,217,588</u>
At end of year	\$ <u><u>3,822,522</u></u>

See accompanying notes to financial statements.

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Statement of Changes in Financial Position

Year ended December 31, 2007

(Mexican pesos-note 4)

Operating activities:	
Increase in net assets	\$ 5,099,107
Add charges to operations not requiring funds:	
Depreciation and amortization	<u>96,340</u>
Resources provided by operations	5,195,447
Net financing from (investment in) operating activities:	
Accounts receivable	38,749
Guarantee deposit	(99,198)
Accrued expenses	(153,527)
Taxes payable	37,617
Accounts payable to related party	<u>412,625</u>
Resources provided by operating activities	5,431,713
Investing activities - Acquisitions of computer equipment	<u>(38,174)</u>
Increase of cash and cash equivalents	5,393,539
Cash and cash equivalents:	
At beginning of year	<u>824,049</u>
At end of year	\$ <u><u>6,217,588</u></u>

See accompanying notes to financial statements.

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

December 31, 2008 and 2007

(Mexican pesos-note 4)

These financial statements have been translated from the Spanish language original only for convenience of foreign/English-speaking readers.

(1) Financial statements authorization and presentation-

On April 24, 2009, Mr. Gustavo Alanis Ortega, President of the Association, authorized the issuance of the accompanying financial statements and related footnotes.

In accordance with the Federal Civil Code (FCC) and the Association's bylaws, the associates are empowered to modify the financial statements after issuance. The accompanying financial statements will be submitted to the next Associates' Meeting for approval.

The accompanying financial statements have been prepared in accordance with Mexican Financial Reporting Standards (FRS) applicable to not-for-profit organizations, in effect as of the balance sheet date (see note 4).

(2) Description of business-

The purpose of Centro Mexicano de Derecho Ambiental, A. C. (the Association) is to promote awareness of environmental law and environmental education in general, as well as to foster the conservation of biodiversity and sustained development of the quality of life in Mexico and other countries.

The Association carries out different programs that contribute to the development and application of environmental laws and regulations.

The Association applies all contributions received to the activities for which it was created.

(3) Summary of significant accounting policies-

The preparation of the financial statements requires that management of the Association make certain estimates and use certain assumptions that affect the amounts reported in financial statements and the accompanying notes. Although these estimates are based on management's best knowledge of currently available information, actual results may differ. The most important financial statement items subject to estimates and assumptions are the carrying values of furniture, equipment and leasehold improvements.

(Continued)

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Mexican pesos-note 4)

For purposes of disclosure, the term "pesos" or the symbol "\$" means Mexican pesos.

Significant accounting policies applied in the preparation of the accompanying financial statements follow:

(a) Recognition of the effects of inflation-

The accompanying financial statements have been prepared in accordance with Mexican Financial Reporting Standards (FRS) in effect as of the balance sheet date and include the recognition of the effects of inflation on the financial information through December 31, 2007, based on the Mexican National Consumer Price Index (NCPI) published by Banco de México (central bank) (see note 4). Cumulative inflation percentage of the three preceding years and the indexes used in recognizing inflation through such year are as follows:

<u>December 31,</u>	<u>NCPI</u>	<u>Inflation</u>	
		<u>Yearly</u>	<u>Cumulative</u>
2008	133.761	6.52%	14.99%
2007	125.564	3.75%	7.95%
2006	121.015	4.05%	4.05%

(b) Cash equivalents-

Cash equivalents consist of checking accounts, foreign currencies and other highly liquid instruments. At the date of the financial statements interest income and foreign exchange gains and losses are included in the statement of activities.

(c) Furniture, equipment and leasehold improvements-

Furniture, equipment and leasehold improvements are initially recorded at acquisition cost and through December 31, 2007, adjusted for inflation by using factors derived from the NCPI.

Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets, determined by management. The annual depreciation and amortization rates of the principal asset classes are as shown in the next page.

(Continued)

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Mexican pesos-note 4)

	<u>Rates</u>
Transportation equipment	25%
Furniture and office equipment	10%
Computer equipment	30%
Video equipment	10%
Leasehold improvements	5%

Minor repairs and maintenance costs are expensed as incurred.

(d) Other assets-

Other assets include mainly software licenses and are recorded at acquisition cost. Amortization is computed on adjusted asset-values using the straight-line method over two years.

(e) Employee benefits-

At December 31, 2008 the Association had not recognized accrued seniority premium and severance pay liabilities. The amounts not recognized are deemed to be insignificant considering the number of employees and their seniority.

(f) Unrestricted net assets-

The Associations' unrestricted net assets comprise principally contributions and donations received from foundations, individuals, companies and other groups and institutions, less expenses incurred by the Association.

Through December 31, 2007, the inflation adjustment of unrestricted net assets, was determined by multiplying the annual net increases or reductions in unrestricted net assets by factors derived from the NCPI, which measure accumulated inflation from the dates of the annual net increases or reductions in unrestricted net assets through December 31, 2007, date on which the change was effected to a non-inflationary economy in accordance with FRS B-10 "Effects of Inflation". The resulting amounts represented the constant value of unrestricted net assets.

(Continued)

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Mexican pesos-note 4)

(g) Recognition of revenues and program expenses-

Contributions are recorded when collected and program expenses are recorded when incurred.

(h) Contingencies-

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the financial statements. Contingent revenues, earnings or assets are not recognized until realization is assured.

(4) Accounting changes-

The Mexican Board for Research and Development of Financial Reporting Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* or CINIF) has issued the following FRS effective for years beginning after December 31, 2007. Early application is not permitted.

- **FRS B-10 "Effects of inflation"** - FRS B-10 supersedes Bulletin B-10 "*Recognition of the effects of inflation on the financial information*" and its five amendment documents, as well as the related circulars and Interpretation of Financial Reporting Standards (IFRS) 2. The principal considerations established by this FRS are:
 - (i) Recognition of the effects of inflation – An entity operates in a) an inflationary economic environment when cumulative inflation over the immediately preceding 3-year period is equal to or greater than 26%; and b) non-inflationary economic environment, when inflation over the aforementioned period is less than 26%.

(Continued)

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Mexican pesos-note 4)

For case a), the comprehensive recognition of the effects of inflation is required, (similarly to Bulletin B-10 being superseded). For case b), the effects of inflation are not recognized; however, at the effective date of this FRS and when an entity ceases to operate in an inflationary economic environment, the restatement effects determined through the last period in which the entity operated in an inflationary economic environment (in this case 2008), must be kept and shall be reclassified on the same date and using the same procedure as that of the corresponding assets, liabilities and stockholders' equity. Should the entity once more operate in an inflationary economic environment, the cumulative effects of inflation not recognized in the periods where the environment was deemed as non-inflationary should be recognized retrospectively.

- (ii) Price index – the use of the National Consumer Price Index (NCPI) or the change in the value of the Investment Unit (UDI) may be used for determining the inflation for a given period.

As a result of the adoption of this FRS on January 1, 2008, the 2007 financial statements are expressed in constant pesos at December 31, 2007, date on which the comprehensive method for recognizing the effects of inflation was last used.

- **FRS B-2 "Statement of cash flows"**- FRS B-2 supersedes Bulletin B-12 "**Statement of changes in financial position**" and paragraph 33 of Bulletin B-16. The principal considerations established by this FRS are:
 - (i) Instead of the statement of changes in financial position, the financial statements shall include the statements of cash flows for all the periods presented comparatively with those of the current year, except for financial statements of periods prior to 2008.
 - (ii) Cash inflows and cash outflows are reported in nominal currency units, thus not including the effects of inflation.
 - (iii) Two alternative preparation methods (direct and indirect) are established, without stating preference for either method. Furthermore, cash flows from operating activities are to be reported first, followed by cash flows from investing activities and lastly by cash flows from financing activities.

(Continued)

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Mexican pesos-note 4)

- (iv) Captions of principal items are to be reported gross, with certain exceptions and require disclosure of the composition of items considered cash equivalents.

Accordingly, the Association presents the statement of changes in financial position for 2007 as issued and the statement of cash flows for 2008 under the indirect method.

(5) Foreign currency exposure and translation-

Monetary assets and liabilities denominated in dollars translated into the reporting currency (Mexican pesos), as of December 31, 2008 and 2007 were \$1,432,989 and \$4,151,286, respectively, and correspond to bank accounts in dollars.

The exchange rate of the peso to the dollar, as of December 31, 2008 and 2007, was \$13.77 and \$10.87, respectively. At April 24, 2008, the exchange rate was \$13.30.

(6) Furniture, equipment and leasehold improvements-

Furniture, equipment and leasehold improvements comprise the following:

	<u>2008</u>	<u>2007</u>
Computer equipment	\$ 843,535	707,890
Furniture and office equipment	136,172	125,571
Video equipment	45,318	45,318
Transportation equipment	28,222	28,222
Leasehold improvements	<u>40,617</u>	<u>40,617</u>
	1,093,864	947,618
Less accumulated depreciation and amortization	<u>909,349</u>	<u>786,633</u>
	\$ <u>184,515</u>	<u>160,985</u>

(Continued)

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Mexican pesos-note 4)

(7) Other assets-

Other assets consist of the following:

	<u>2008</u>	<u>2007</u>
Software	\$ 480,313	-
Security deposits	<u>130,385</u>	<u>121,385</u>
—	610,698	121,385
Less accumulated amortization	<u>120,078</u>	<u>-</u>
	<u>\$ 490,620</u>	<u>121,385</u>

(8) Accounts payable to related party-

Accounts payable to related party of \$300,000 and \$810,366 at December 31, 2008 and 2007, respectively, relates to professional services rendered by Asesoria Juridico Ambiental, S. C. to the Association. The services are rendered in connection with the programs carried out by the Association and consist of legal, planning, supervision, communication, administration and personnel management services. The total amounts paid to Asesoria Juridico Ambiental, S. C. aggregated \$8,600,955 and \$7,812,466, during the years ended December 31, 2008 and 2007, respectively.

(Continued)

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Mexican pesos-note 4)

(9) Cash and in-kind contributions received-

Cash and in-kind contributions received from domestic and foreign donors during the years ended December 31, 2008 and 2007 were are follows:

Cash contributions-

	<u>2008</u>	<u>2007</u>
<u>Domestic donors:</u>		
The Ford Foundation	\$ 538,500	-
Fondo Mexicano para la Conservación de la Naturaleza, A. C.	256,359	448,850
Administradora de Conjuntos Hoteleros, S. A. de C. V.	120,000	-
Fondo Pro Cuenca Valle de Bravo, A. C.	105,000	60,000
Axiologic, S. C.	60,000	-
Presencia Ciudadana Mexicana, A. C.	23,472	172,927
Cultura Ecológica, A. C.	14,072	90,000
Fundación Heinrich Boll, E. V.	-	132,612
Fundación para el Desarrollo de la Libertad Ciudadana, A. C.	-	131,282
Desarrollo Arcano, S. A. de C. V.	-	60,000
Alfredo Suárez Ruiz	-	45,000
Others of less than \$50,000 each.	576,064	435,431
Effects of inflation	-	26,355
Carried forward	\$ <u>1,693,467</u>	<u>1,602,457</u>

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Mexican pesos-note 4)

	<u>2008</u>	<u>2007</u>
Brought forward	\$ <u>1,693,467</u>	<u>1,602,457</u>
<u>Foreign donors:</u>		
The William and Flora Hewlett Foundation	7,502,860	6,533,385
The Summit Foundation	2,642,712	2,682,295
The David and Lucille Packard Foundation	1,425,623	1,096,010
Environmental Law Institute	1,094,092	-
Asociación Interamericana para la Defensa del Medio ambiente (A.I.D.A)	685,773	404,335
Critical Ecosystem Partnership Foundation	590,976	-
International Community Foundation	438,088	4,253,273
World Resources Institute	266,989	1,622,114
The Angelica Foundation	248,000	508,185
Global Fund of Human Rights	102,047	326,685
Charles Stewart Mott Foundation	-	1,140,858
International Fund for Animal Welfare, Inc.	-	107,441
Others	286,984	51,085
Effects of inflation	-	<u>313,129</u>
	<u>16,977,611</u>	<u>20,641,252</u>
<u>In-kind contributions-</u>		
Software licenses	<u>480,313</u>	<u>-</u>
Total	\$ <u><u>17,457,924</u></u>	<u><u>20,641,252</u></u>

(10) Programs-

The Association carries out several programs that support the development and application of environmental laws and regulations. The amounts incurred in the programs during the years ended December 31, 2008 and 2007, respectively, are shown in the next page.

(Continued)

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Mexican pesos-note 4)

	<u>2008</u>	<u>2007</u>
<u>Programs:</u>		
La Paz	\$ 3,413,693	1,765,835
Strategic projects	3,265,872	1,235,769
Air and energy	3,203,088	2,654,399
Cancun	3,194,539	2,471,359
Institutional support	2,596,129	1,972,015
Legislation enforcement	2,005,027	1,049,982
Asociación Interamericana para la Defensa del Medio Ambiente (A.I.D.A.)	482,813	498,273
AI-MEX	423,975	-
Communications	354,048	809,125
Human rights and environment	82,709	-
Water	24,293	-
Biodiversity and human rights	1,804	1,225,293
Commerce and environment	-	775,701
Principle 10 Latin America	-	273,990
Effects of inflation	-	288,851
	<u>\$ 19,047,990</u>	<u>15,020,592</u>

(11) Income tax-**Taxes payables**

The Association is authorized by the Ministry of Finance and Public Credit (SHCP) to receive donations which are deductible from the taxable income of donors. The Association is not subject to Income Tax, Business Flat Tax (IETU) which became effective beginning on January 1, 2008, or Tax on Assets which was in effect through December 31, 2007.

(Continued)

CENTRO MEXICANO DE DERECHO AMBIENTAL, A. C.

Notes to Financial Statements

(Mexican pesos-note 4)

Taxes payable as of December 31, 2008 and 2007 include the following:

		<u>2008</u>	<u>2007</u>
Withheld income tax and value added tax	\$	149,604	109,236
Social security contributions		98,783	62,662
Payroll taxes		<u>20,747</u>	<u>18,933</u>
Total taxes payable	\$	<u>269,134</u>	<u>190,831</u>

(12) Commitment-

Pursuant to certain agreements with donors, the Association is obligated to report and demonstrate the use of contributions received.