DIGNITAS INTERNATIONAL

FINANCIAL STATEMENTS

DECEMBER 31, 2012

HILBORN LLP

HILBORN LLP

Independent Auditor's Report

To the Members of
Dignitas International

We have audited the accompanying financial statements of Dignitas International, which comprise the statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 organization'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 organization'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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Dignitas International as at December 31, 2012, December 31, 2011 and January 1, 2011, and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

Hilborn LLP

Toronto, Ontario
June 18, 2013

Chartered Accountants
Licensed Public Accountants

Statements of Financial Position

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
ASSETS			
Current assets			
Cash	**881,459**	860,402	594,378
Short-term investments	**9,171**	29,507	5,277
Accounts receivable (note 5)	**371,679**	310,586	28,181
Excise tax receivable	**52,051**	98,665	38,081
Prepaid expenses	**29,651**	15,221	45,662
	1,344,011	1,314,381	711,579
Long-term assets			
Capital assets (note 7)	**237,019**	235,705	284,159
	1,581,030	1,550,086	995,738
LIABILITIES			
Current liabilities			
Operating credit facility (note 12)	**83,992**	-	-
Accounts payable and accrued liabilities (note 8)	**543,451**	522,021	534,217
	627,443	522,021	534,217
Long-term liabilities			
Long-term accounts payable (note 9)	**112,928**	328,586	-
NET ASSETS			
Invested in capital assets	**237,019**	235,705	284,159
Unrestricted	**2,684**	95,905	(171,035)
Restricted (note 6)	**600,956**	367,869	348,397
	840,659	699,479	461,521
	1,581,030	1,550,086	995,738

Approved on behalf of the Board:

Director

Director

DIGNITAS INTERNATIONAL

Statements of Operations

Years ended December 31	2012 $	2011 $
Revenues		
Canada		
Dignitas USA	**434,251**	1,306,160
Fundraising events	**603,270**	1,045,154
Individual giving	**295,248**	787,078
CIDA contributions	**67,076**	108,532
Institutional grants	**632,978**	175,388
Foundations	**462,818**	277,302
Corporations	**21,713**	38,750
Giving groups	**74,366**	181,357
Other	**58,445**	803
	2,650,165	3,920,524
Malawi		
USAID	**1,140,508**	1,347,380
International Union Against Tuberculosis and Lung Disease	**69,755**	101,981
Medical Research Council - LabLite	**156,832**	71,076
Institutional grants	**23,905**	81,674
Other	**685**	259
	1,391,685	1,602,370
Global Fund - Ministry of Health (drugs in kind) (note 10)	**778,102**	1,436,921
	4,819,952	6,959,815
Expenditures		
Program		
Program delivery - Malawi	**2,938,685**	3,545,822
Global Fund - Ministry of Health (drugs in kind) (note 10)	**778,102**	1,436,921
	3,716,787	4,982,743
Supporting activities		
Management and general	**316,767**	373,352
Fundraising	**362,651**	720,279
Fundraising - Events	**72,544**	645,483
	751,962	1,739,114
Restructuring costs	**210,023**	-
	4,678,772	6,721,857
Excess of revenues over expenditures for year	**141,180**	237,958

Statements of Changes in Net Assets

Years ended December 31

2012

	Invested in Capital Assets $	Unrestricted $	Restricted (note 6) $	Total $ (note 1)
Balance, beginning of year	235,705	95,905	367,869	**699,479**
Excess of revenues over expenditures (expenditures over revenues)	(84,595)	(7,312)	233,087	**141,180**
Investment in capital assets	85,909	(85,909)	-	**-**
Balance, end of year	237,019	2,684	600,956	**840,659**

2011

	Invested in Capital Assets $	Unrestricted $	Restricted (note 6) $	Total $ (note 1)
Balance, beginning of year	284,159	(171,035)	348,397	461,521
Excess of revenues over expenditures	(96,540)	315,026	19,472	237,958
Investment in capital assets	48,086	(48,086)	-	-
Balance, end of year	235,705	95,905	367,869	699,479

2010

	Invested in Capital Assets $	Unrestricted $	Restricted (note 6) $	Total $ (note 1)
Balance, beginning of year	229,426	(32,590)	381,770	578,606
Excess of revenues over expenditures	(96,067)	12,355	(33,373)	(117,085)
Investment in capital assets	150,800	(150,800)	-	-
Balance, end of year	284,159	(171,035)	348,397	461,521

DIGNITAS INTERNATIONAL

Statements of Cash Flows

Years ended December 31	2012 $	2011 $
Cash flows from operating activities		
Excess of revenues over expenditures for year	**141,180**	237,958
Item not affecting cash		
Amortization	**84,595**	96,540
	225,775	334,498
Change in non-cash working capital items		
Decrease (increase) in short-term investments	**20,336**	(24,230)
Increase in accounts receivable	**(61,093)**	(282,405)
Decrease (increase) in excise tax receivable	**46,614**	(60,584)
Decrease (increase) in prepaid expenses	**(14,430)**	30,441
Increase (decrease) in accounts payable and accrued liabilities	**21,430**	(12,196)
	238,632	(14,476)
Cash flows from investing activities		
Purchase of capital assets	**(95,790)**	(48,086)
Proceeds on disposal of capital assets	**9,881**	-
	(85,909)	(48,086)
Cash flows from financing activities		
Increase in operating credit facility	**83,992**	-
Increase (decrease) in long-term accounts payable	**(215,658)**	328,586
	(131,666)	328,586
Increase in cash	**21,057**	266,024
Cash, beginning of year	**860,402**	594,378
Cash, end of year	**881,459**	860,402

Nature of operations

Dignitas International was incorporated on January 17, 2003 under the Canada Corporations Act as a corporation without share capital. The organization is a registered charity in Canada and is exempt from income taxes.

Dignitas International is a humanitarian organization founded by a group of international health experts to respond to global pandemics including HIV, TB and other priority diseases. Our mission is to provide a quality of life with dignity for children, youth and families in the developing world by:

- implementing community based care programs that increase access to comprehensive prevention, treatment, care and support for people infected and affected by HIV, TB and Malaria.
- conducting intervention research to monitor and evaluate our programs and to answer specific research questions that will allow us to learn how to best implement programming in diverse cultural and economic settings, and
- sharing knowledge acquired with other organizations, governments and citizens, to inform and improve the international response to global health.

1. **Change in accounting policy**

(a) **Restricted fund method**

The organization has changed its accounting policy for accounting for restricted contributions from the deferral method to the restricted fund method. In the opinion of management the restricted fund method more clearly identifies the surplus funds available for continuing programs. The application of the new policy has been made with retroactive restatement of prior years. As a result of the restatement the opening restricted fund surplus for January 1, 2011 was increased by $348,397 and deferred contributions was reduced by the same amount. Revenues for 2011 were increased by $19,472 and deferred contributions decreased by the same amount.

2. **Significant accounting policies**

The organization applies the Canadian accounting standards for not-for-profit enterprises.

(a) **Fund accounting**

The organization follows the restricted fund method of accounting for contributions whereby all contributions are recognized as revenue when received or receivable and collection is reasonably assured.

i) **Invested in Capital Assets Fund**
This fund holds the capital assets of the organization.

ii) **Unrestricted Fund**
These unrestricted funds account for all the organization's activities other than those funds received for restricted use programs.

iii) **Restricted Fund**
These funds are externally restricted and are received from various sources for restricted use programs.

2. **Significant accounting policies (continued)**

(b) **Short-term investments**

Investments are recorded at fair value. Unrealized gains and losses as a result of fair value adjustments at year end are included in investment income for the year.

(c) **Capital assets**

The costs of capital assets are capitalized upon meeting the criteria for recognition as a capital asset; otherwise, costs are expensed as incurred. The cost of a capital asset comprises its purchase price and any directly attributable cost of preparing the asset for its intended use.

A capital asset is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized in the statements of operations when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the capital asset exceeds its fair value.

An impairment loss is not reversed if the fair value of the capital asset subsequently increases.

Capital assets are measured at cost less accumulated amortization and accumulated impairment losses.

The organization provides for amortization using the declining balance method at rates designed to amortize the cost of the capital assets over their estimated useful lives. The annual amortization rates are as follows:

Equipment	20%
Automobiles	30%
Furniture and fixtures	20%
Computer equipment	45%

(d) **Revenue recognition**

Donations are recognized as revenue when received or receivable and collection is reasonably assured.

Restricted contributions are recognized as revenue when received or receivable and collection is reasonably assured.

2. **Significant accounting policies (continued)**

(e) **Financial instruments**

(i) Measurement of financial instruments

The organization initially measures its financial assets and financial liabilities at fair value adjusted by transaction costs in the case where a financial asset or financial liability is subsequently measured at amortized cost.

Financial assets measured at amortized cost include cash, short-term investments and, accounts receivable.

Financial liabilities measured at amortized cost include operating credit facility, accounts payable and accrued liabilities and long-term accounts payable.

(ii) Impairment

At the end of each reporting period, the organization assesses whether there are any indications that a financial asset measured at amortized cost may be impaired. Objective evidence of impairment includes observable data that comes to the attention of the organization, including but not limited to the following events: significant financial difficulty of the issuer; a breach of contract, such as a default or delinquency in interest or principal payments; or bankruptcy or other financial reorganization proceedings.

When there is an indication of impairment, the organization determines whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset.

2. **Significant accounting policies (continued)**

When the organization identifies a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it reduces the carrying amount of the asset to the highest of the following:

- the present value of the cash flows expected to be generated by holding the asset, discounted using a current market rate of interest appropriate to the asset;

- the amount that could be realized by selling the asset at the statement of financial position date; and

- the amount the organization expects to realize by exercising its rights to any collateral held to secure repayment of the asset net of all costs necessary to exercise those rights.

The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the reduction is recognized as an impairment loss in the statements of operations.

When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent of the improvement, directly or by adjusting the allowance account. The amount of the reversal is recognized in the statements of operations in the period the reversal occurs.

(f) **Foreign currency translation**

Monetary assets and liabilities which are denominated in foreign currencies are translated at year end exchange rates. Non-monetary assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the average exchange rate for the year. The resulting gains or losses are included in income in the period realized.

(g) **Management estimates**

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The key area where management has made estimates is in the determination of in kind donations and the amortization of capital assets. Actual results could differ from this and other estimates, the impact of which would be recorded in future periods.

2. **Significant accounting policies (continued)**

(h) **Contributed services**

The organization receives services as contributions which are used mainly for organizing events and fundraising purposes. The activities are assisted by a large number of volunteers. The value of these contributed services are not reflected within these financial statements.

(i) **Accounts receivable**

The organization receives pledges for donations. Donations are recognized when the amount to be received can be reasonably estimated and collection is reasonably assured.

3. **Adoption of accounting standards for not-for-profit organizations**

These financial statements were prepared in accordance with Part III of the CICA Handbook - Accounting Standards for Not-for-Profit organizations ("Part III").

The organization's first reporting period using Part III is for the year ended December 31, 2012. As a result, the date of transition to Part III is January 1, 2011. The organization presented its financial statements under in accordance with Canadian generally accepted accounting principles annually to December 31st of each fiscal year up to, and including, December 31, 2011.

As these financial statements are the first financial statements for which the organization has applied Part III, the financial statements have been prepared in accordance with the provisions set out in Section 1501 of Part III, First-time Adoption by Not-for-profit Organizations.

The organization is required to apply Part III effective for periods ending on December 31, 2012 in:

a) Preparing and presenting its opening statement of financial position at January 1, 2011;

b) Preparing and presenting its statement of financial position for December 31, 2012 and December 31, 2011, statements of operations, statements of changes in net assets, and statements of cash flows for the year ended December 31, 2012 and December 31, 2011 and disclosures (including comparative information for 2011).

The organization issued financial statements for the year ended December 31, 2011 using generally accepted accounting principles prescribed by Part V of the CICA Handbook-Accounting. The adoption of Part III had no impact on the previously reported assets, liabilities and net assets of the organization, and accordingly, no adjustments have been recorded in the comparative balance sheet, statement of operations, statement of net assets and the cash flow statement. Certain of the organization's presentation and disclosures included in these financial statements reflect the new presentation and disclosure requirements of Part III.

4. **Financial instruments**

The organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the organization's risk exposure and concentrations at December 31, 2012, December 31, 2011 and January 1, 2011.

The financial instruments of the organization and the nature of the risks to which it may be subject are as follows:

	Risks				
			Market risk		
Financial instrument	Credit	Liquidity	Currency	Interest rate	Other price
Cash	X		X	X	
Short-term investments	X	X		X	
Accounts receivable	X		X		
Accounts payable		X	X		
Long-term accounts payable		X	X		

(a) **Credit risk**

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss.

The maximum exposures of the organization to credit risk at December 31, 2012, December 31, 2011 and January 1, 2011 are as follows:

	December 31, 2012 **$**	**December 31, 2011** **$**	**January 1, 2011** **$**
Cash	881,459	860,402	594,378
Short-term investments	9,171	29,507	5,277
Accounts receivable	371,679	310,586	28,181
	1,262,309	1,200,495	627,836

Cash and short-term investments: Credit risk associated with cash and short-term investments is minimized substantially by ensuring that these assets are liquidated to cash within a few days .

Accounts receivable: The organization has minimal exposure to credit risk in its receivables as they are primarily donations receivable from known donors.

(b) **Liquidity risk**

Liquidity risk is the risk that the organization will not be able to meet a demand for cash or fund its obligations as they come due.

The organization meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and financing activities.

4. **Financial instruments (continued)**

(c) **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

(d) **Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The functional currency of the organization is the Malawi Kwacha. The organization transacts in Canadian dollars, U.S. dollars and the Malawi Kwacha.

Cash, accounts receivable and accounts payable and accrued liabilities are exposed to currency risk in connection with Malawi Kwacha denominated balances, which at December 31, 2012 amounted to $287,000 (92,417,000 Malawi) (2011 - $323,000 (50,726,000 Malawi)) for cash, $30,000 (9,581,000 Malawi) (2011 - $29,500 (4,650,000 Malawi)) for accounts receivable and $21,000 (6,759,000 Malawi) (2011 - $76,000 (11,607,000 Malawi)) for accounts payable and accrued liabilities.

During the year, the organization recorded a foreign exchange loss in operations in the amount of $12,999 (2011 - $5,408).

The organization does not use forward foreign exchange contracts to manage its exposure to currency risk.

(e) **Interest rate risk**

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates.

In the opinion of management the organization is not exposed to significant interest rate risk.

(f) **Concentration risk**

Concentrations of risk relates to groups of counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. In the opinion of management the organization is not exposed to significant concentration risk.

(g) **Changes in risk**

There have been no significant changes in the organization's risk exposures from the prior year.

December 31, 2012 and 2011

5. **Accounts receivable**

Accounts receivable includes amounts relating to donations receivable in the amount of $250,000 (2011 - $134,940; 2010 - $nil) of which $250,000 (2011 - $134,940; 2010 - $nil) was recognized in revenue in the year.

6. **Restricted net assets**

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
CIDA contributions	-	27,245	332,035
USAID	284,897	203,752	16,362
International Union Against Tuberculosis and Lung Disease	7,345	30,597	-
Medical Research Council - LabLite	53,546	6,275	-
RBC Aboriginal Health Program	95,522	100,000	-
Canadian Institute of Health Research	48,953	-	-
Global Health Fellows	2,803	-	-
Open Society Initiative for Southern Africa	25,065	-	-
Paediatric AIDS Treatment for Africa	4,951	-	-
Canadian Auto Workers' Social Justice Fund	23,507	-	-
Lighthouse Trust	54,367	-	-
Total restricted net assets	600,956	367,869	348,397

7. **Capital assets**

	Cost $	Accumulated Amortization $	December 31, 2012 Net $
Equipment	16,818	8,657	8,161
Automobiles	487,019	286,751	200,268
Furniture and fixtures	42,252	26,952	15,300
Leasehold improvements	29,153	29,153	-
Computer equipment	170,029	156,739	13,290
	745,271	508,252	237,019

	Cost $	Accumulated Amortization $	December 31, 2011 Net $
Equipment	16,518	6,692	9,826
Automobiles	475,628	294,366	181,262
Furniture and fixtures	41,955	23,201	18,754
Leasehold improvements	29,153	29,153	-
Computer equipment	170,150	145,826	24,324
Computer software	18,356	16,817	1,539
	751,760	516,055	235,705

	Cost $	Accumulated Amortization $	January 1, 2011 Net $
Equipment	16,518	4,235	12,283
Automobiles	430,620	226,327	204,293
Furniture and fixtures	41,955	18,513	23,442
Leasehold improvements	29,153	29,153	-
Computer equipment	170,150	126,009	44,141
Computer software	15,277	15,277	-
	703,673	419,514	284,159

The amount of amortization recognized in the statement of operations for the year is $84,595 (2011 - $96,540; 2010 - $96,067).

8. **Accounts payable and accrued liabilities**

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
Accounts payable	525,339	495,752	534,147
Government remittances	18,112	26,269	70
	543,451	522,021	534,217

9. **Long-term accounts payable**

The organization has extended payment terms for certain accounts payable as follows:

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
2013	-	223,086	-
2014	112,928	105,500	-
	112,928	328,586	-

10. **In kind contributions**

The organization received antiretroviral drugs from the Global Fund - Malawi Ministry of Health. The value of the in kind contributions is based on a public sector cost of $11.52 U.S. (2011 - $12.50 U.S.) per patient per month.

11. **Allocated expenses**

The organization allocates a portion of administration salaries based on time spent to program expenses. The amount so allocated in 2012 was approximately $250,000 (2011 - $190,000).

12. **Credit facility**

The organization has in place a credit facility to a maximum of $300,000. The credit facility bears interest at prime plus 1.5% and is due on demand. The credit facility is secured by a general security agreement over all property. A covenant for the facility was the establishment of a $250,000 reserve fund by December 31, 2012.