DIGNITAS INTERNATIONAL

FINANCIAL STATEMENTS

DECEMBER 31, 2011

Hilborn Ellis Grant LLP
Chartered Accountants
Toronto, Ontario

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Chartered Accountants

Independent Auditor's Report

To the Members of
Dignitas International

We have audited the accompanying financial statements of **Dignitas International**, which comprise the statement of financial position as at December 31, 2011, and the statements of operations, changes in net assets and cash flows for the year then ended, 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 generally accepted accounting principles, 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 audit. We conducted our audit 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 in our audit 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, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Hilborn Ellis Grant LLP

Toronto, Ontario
June 25, 2012

Chartered Accountants
Licensed Public Accountants

DIGNITAS INTERNATIONAL

Statement of Financial Position

December 31	2011 $	2010 $
ASSETS		
Current assets		
Cash	**492,533**	158,593
Restricted cash (note 4)	**367,869**	435,785
Short-term investment	**29,507**	5,277
Accounts receivable	**310,586**	28,181
Excise tax receivable	**98,665**	38,081
Prepaid expenses	**15,221**	45,662
	1,314,381	711,579
Capital assets (note 5)	**235,705**	284,159
	1,550,086	995,738
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**522,021**	534,217
Deferred contributions (note 4)	**367,869**	348,397
	889,890	882,614
Long-term liabilities		
Long-term accounts payable (note 6)	**328,586**	-
NET ASSETS		
Invested in capital assets	**235,705**	284,159
Unrestricted	**95,905**	(171,035)
	331,610	113,124
	1,550,086	995,738

Approved on behalf of the Board:

Director

Director

Statement of Operations

Year ended December 31

	2011 $	2010 $
Revenues		
Canada		
Dignitas USA	**1,306,160**	1,001,136
Fundraising events	**1,045,154**	1,287,641
Individual giving	**787,078**	233,916
CIDA contributions	**413,322**	280,129
Institutional	**75,388**	93,730
Foundations	**277,302**	281,244
Corporations	**38,750**	210,366
Giving groups	**181,357**	249,329
Other	**803**	10,487
	4,125,314	3,639,041
Malawi		
USAID	**1,159,990**	515,847
International Union Against Tuberculosis and Lung Disease	**71,384**	75,125
Medical Research Council - LabLite	**64,801**	-
Institutional	**81,674**	48,677
Other	**259**	7,317
	1,378,108	646,966
Global Fund - Ministry of Health (drugs in kind) (note 8)	**1,436,921**	1,106,750
	6,940,343	5,392,757
Expenditures		
Program		
Program delivery - Malawi	**3,545,822**	2,762,261
Global Fund - Ministry of Health (drugs in kind) (note 8)	**1,436,921**	1,106,750
	4,982,743	3,869,011
Supporting activities		
Management and general	**373,352**	273,109
Fundraising	**720,279**	584,520
Fundraising events	**645,483**	749,829
	1,739,114	1,607,458
	6,721,857	5,476,469
Excess of revenues over expenditures (expenditures over revenues) for year	**218,486**	(83,712)

Statement of Changes in Net Assets

Year ended December 31 2011

	Invested in Capital Assets $	Unrestricted $	Total 2011 $	Total 2010 $
Balance, beginning of year	284,159	(171,035)	**113,124**	196,836
Excess of revenues over expenditures (expenditures over revenues)	(96,540)	315,026	**218,486**	(83,712)
Investment in capital assets	48,086	(48,086)	**-**	-
Balance, end of year	235,705	95,905	**331,610**	113,124

Statement of Cash Flows

Year ended December 31	2011 $	2010 $
Cash flows from operating activities		
Excess of revenues over expenditures (expenditures over revenues) for year	**218,486**	(83,712)
Item not affecting cash		
Amortization	**96,540**	96,067
	315,026	12,355
Change in non-cash working capital items		
Increase in short-term investment	**(24,230)**	(5,277)
Increase in accounts receivable	**(282,405)**	(35,034)
Increase in excise tax receivable	**(60,584)**	-
Decrease (increase) in prepaid expenses	**30,441**	(14,049)
Increase (decrease) in accounts payable and accrued liabilities	**(12,196)**	251,100
Increase (decrease) in deferred contributions (note 4)	**19,472**	(33,373)
Decrease (increase) in restricted cash	**67,916**	(7,665)
	53,440	168,057
Cash flows from investing activities		
Purchase of capital assets	**(48,086)**	(150,800)
Cash flows from financing activities		
Increase in long-term accounts payable	**328,586**	-
Decrease in operating credit facility	**-**	(156,986)
	328,586	(156,986)
Increase (decrease) in cash	**333,940**	(139,729)
Cash, beginning of year	**158,593**	298,322
Cash, end of year	**492,533**	158,593

December 31, 2011

1. 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.

2. Significant accounting policies

(a) Capital assets

Capital assets are recorded at cost. 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%
Computer equipment	45%
Computer software	100%
Furniture and fixtures	20%

Amortization of leasehold improvements is recorded over the remaining term of the lease plus the first renewal option.

(b) Revenue recognition

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

The organization follows the deferral method of accounting for contributions. Restricted contributions are recognized in revenue in the year in which the related expenses are incurred.

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

(c) **Management estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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.

(d) **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.

December 31, 2011

3. **Financial instruments**

The financial assets and financial liabilities of the organization are classified and measured as follows:

Financial Asset/Liability	Category	Measurement
Cash	Available for sale	Fair value
Short-term investments	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Operating credit facility	Other financial liabilities	Amortized cost

Financial instruments measured at amortized cost are initially recognized at fair value and then subsequently at amortized cost with gains and losses recognized in the statement of operations in the period in which the gain or loss occurs.

The fair value of a financial instrument is the estimated amount that the organization would receive or pay to settle a financial asset or financial liability as at the reporting date.

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities, and operating loan approximate fair value due to the short-term nature of these financial instruments.

The organization is exposed to currency fluctuations between the Canadian dollar and the Malawi Kwacha on cash held in Malawi and for expenses incurred in Malawi in the local currency. The Malawi Kwacha has been devalued approximately 65% since the year end, however given that the majority of the organization's expenses in Malawi are in the local currency, the organization's holding of approximately 52,000,000 Kwacha ($322,587 Cdn.) at year end is not expected to significantly impact the organization's purchasing power.

It is management's opinion that, unless otherwise noted, the organization is not exposed to significant interest rate or credit risks arising from these financial instruments.

4. Restricted cash and deferred contributions

The balance of restricted cash, which is not available for use in the organization's current operations, is as follows:

	2011 $	2010 $
CIDA contributions	27,245	332,035
USAID	203,752	16,362
International Union Against Tuberculosis and Lung Disease	30,597	-
Medical Research Council - LabLite	6,275	-
RBC Aboriginal Health Program	100,000	-
Total deferred contributions	367,869	348,397
Staff terminal benefits (included in accounts payable and accrued liabilities)	-	87,388
Total restricted cash	367,869	435,785

5. Capital assets

	Cost $	Accumulated Amortization $	2011 Net $	2010 Net $
Equipment	16,518	6,692	9,826	12,283
Automobiles	475,628	294,366	181,262	204,293
Computer equipment	170,150	145,826	24,324	44,141
Leasehold improvements	29,153	29,153	-	-
Computer software	18,356	16,817	1,539	-
Furniture and fixtures	41,955	23,201	18,754	23,442
	751,760	516,055	235,705	284,159

6. Long-term accounts payable

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

	$
2013	223,086
2014	105,500
	328,586

December 31, 2011

7. **Capital disclosures**

The organization considers its net assets as capital. The organization's objectives in managing its capital is to maintain a sufficient level to provide for normal operating requirements on an ongoing basis and to continue its mission as disclosed in note 1. The organization monitors its capital in order to ensure it has sufficient revenue before committing to expenditures.

8. **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 $12.50 U.S. (2010 - $11.85 U.S.) per patient per month.

9. **Commitments**

The organization has entered into a contribution agreement with the Canadian International Development Agency. Under the terms of the agreement for a project to be completed by May 2012, the organization has committed to contribute cash to the project in the approximate amounts of $149,000. To December 31, 2011 the organization has contributed $120,481 to the project. In addition, the agency has entered into an agreement with USAID for a project to run to an estimated completion date of May 2014. Under the terms of this agreement the organization is committed to providing up to $4,640,356 U.S. in leveraged contributions with USAID's contributions. The organization is currently analyzing the calculation of its leveraged contributions to the project.

10. **Allocated expenses**

The organization allocates a portion of administration salaries based on time spent to program expenses. The amount so allocated in 2011was approximately $190,000 (2010 - $174,000).

11. **Credit facility**

The organization has obtained an operating line of credit to a maximum of $300,000 to cover cash flow needs as the organization expands its services. The due on demand facility bears interest at prime plus 1.50% and is secured by a general security agreement over all property. A further condition of the line of credit is that the organization establish a $250,000 reserve fund by December 31, 2012. There was no amount outstanding on the line of credit as at December 31, 2011.

December 31, 2011

12. Future accounting change

In December 2010 the Accounting Standards Board ("AcSB") issued Part III of the CICA Handbook - Accounting to provide Canadian private sector not-for-profit organizations with a new financial reporting framework for fiscal years beginning on or after January 1, 2012. Early adoption is permitted.

Until Part III of the Handbook is adopted, Dignitas International will continue to follow the pre-changeover accounting standards in Part V of the Handbook.

Management is currently evaluating the implications of Part III of the Handbook and is developing a plan to meet the timetable published by the AcSB for adoption.