FINANCIAL STATEMENTS

THE SMILE TRAIN CANADA

June 30, 2013

CAMPBELL LAWLESS
PROFESSIONAL CORPORATION
CHARTERED ACCOUNTANTS

The Smile Train Canada

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June 30, 2013

CAMPBELL LAWLESS
PROFESSIONAL CORPORATION
CHARTERED ACCOUNTANTS

Brian J. Quinlan, CA
Ann M. Donohue, CA
Ryan Knight, CA

INDEPENDENT AUDITOR'S REPORT

To the members of
The Smile Train Canada:

We have audited the accompanying financial statements of **The Smile Train Canada**, which comprise the statement of financial position as at June 30, 2013, June 30, 2012 and July 1, 2011 and the statements of operations, changes in net assets and cash flows for the years ended June 30, 2013 and June 30, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation 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 an 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 judgement, 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 entity'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 entity'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.

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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 The Smile Train Canada as at June 30, 2013, June 30, 2012 and July 1, 2011 and its financial performance and its cash flows for the years ended June 30, 2013 and June 30, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the financial statements which indicates the conditions and events that may cast doubt about the organization's ability to continue as a going concern.

Campbell Lawless

Toronto, Ontario
October 9, 2013

Professional Corporation, Chartered Accountants
Authorized to practise public accounting by
The Institute of Chartered Accountants of Ontario

The Smile Train Canada

STATEMENT OF FINANCIAL POSITION

	June 30, 2013 $	June 30, 2012 $	July 1, 2011 $
ASSETS			
Current			
Cash	**43,320**	301,455	10,436
Donations receivable	**159**	28,847	4,245
Prepaid expenses	**9,988**	187,900	
	53,467	518,202	14,681
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**15,757**	24,904	10,221
Due to related party [note 5]		472,700	
	15,757	497,604	10,221
NET ASSETS			
Unrestricted	**37,710**	20,598	4,460
	53,467	518,202	14,681

see accompanying notes

On behalf of the Board:

Director Director

The Smile Train Canada

STATEMENT OF OPERATIONS

Year ended June 30	2013 $	2012 $
Revenue		
Donations	**2,457,566**	4,300,605
Interest income	**142**	127
	2,457,708	4,300,732
Expenses		
Program: Treatment	**1,016,997**	882,700
Program: Public Education	**761,001**	2,327,508
Fundraising and promotion	**618,473**	1,016,776
Professional fees	**30,479**	37,543
Administration	**13,646**	20,067
	2,440,596	4,284,594
Excess of revenue over expenses for the year	**17,112**	16,138

STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30	2013 $	2012 $
Balance, beginning of year	**20,598**	4,460
Excess of revenue over expenses for the year	**17,112**	16,138
Balance, end of year	**37,710**	20,598

see accompanying notes

The Smile Train Canada

STATEMENT OF CASH FLOWS

Year ended June 30	**2013** **$**	2012 $
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**17,112**	16,138
Changes in non-cash working capital balances -		
(Increase) decrease in donations receivable	**28,689**	(24,602)
(Increase) decrease in prepaid expenses	**177,912**	(187,900)
Increase (decrease) in accounts payable and accrued liabilities	**(9,148)**	14,683
Increase (decrease) in amount due to related party	**(472,700)**	472,700
Net change in cash during the year	**(258,135)**	291,019
Cash, beginning of year	**301,455**	10,436
Cash, end of year	**43,320**	301,455

see accompanying notes

June 30, 2013

1. GOING CONCERN

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations on a going concern basis. Under the going concern assumption, the organization is viewed as being able to continue its operations in the foreseeable future and realize its assets and discharge its liabilities in the normal course of operations.

A number of unfavourable conditions and events have left some doubt as to the appropriateness of this assumption. There has been limited oversight and direction by those charged with governance of the organization, thereby inhibiting the organization's ability to actively continue operating. In December 2012, the organization suspended its donor acquisition and retention programs which have been the primary revenue generating activities for the organization. As a result, the organization has experienced a significant decrease in revenue. The organization's working capital is primarily being funded by the related party, Smile Train, Inc. (note 5).

The organization will continue to streamline all operations until a plan is developed to restore and maintain operations by resolving the governance-related matters. There is no assurance that the organization will be successful in implementing this plan. Until a plan is implemented, the organization's ability to continue as a going concern depends on the continued support from Smile Train, Inc.

2. PURPOSE OF THE ORGANIZATION

The mission of The Smile Train Canada (the "organization") is to provide free cleft surgery and related treatment for hundreds of thousands of poor children in developing countries and to provide free cleft-related training for doctors and medical professionals.

The organization was incorporated on July 3, 2008 as a corporation without share capital under the Canada Corporations Act. Under the provisions of the Income Tax Act (Canada) [the "Act"], the organization is classified as a registered charity as defined in paragraph 149(1)(f) of the Act and, therefore, is exempt from income taxes providing that it complies with donation and certain other requirements as specified by the Act.

3. FIRST TIME ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

Effective July 1, 2012, the organization adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting and has elected to adopt Canadian accounting standards for not-for-profit organizations (ASNPO). These are the organization's first financial statements prepared in accordance with this new framework which has been applied retrospectively. The accounting policies set out in the summary of significant accounting policies note have been applied in preparing the financial statements for the year ended June 30, 2013, the comparative information presented in these financial statements for the year ended June 30, 2012 and in the preparation of an opening statement of financial position at July 1, 2011, which is the organization's date of transition.

The organization issued financial statements for the year ended June 30, 2012 using Canadian generally accepted accounting principles (GAAP) prescribed by the CICA Handbook - Accounting XFI. The adoption of ASNPO had no impact on the previously reported assets, liabilities and fund balances of the organization, and accordingly, no adjustments have been recorded in the comparative statement of financial position and the statements of changes in fund balances, revenue and expenses and cash flows. Certain of the organization's presentation and disclosures included in these financial statements reflect the new presentation and disclosure requirements of ASNPO.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition
The organization follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Endowment contributions are recognized as direct increases in net assets.

Financial instruments
The organization initially measures its financial assets and liabilities at fair value except for certain non-arm's length transactions. The organization subsequently measures all its financial assets and liabilities at amortized cost.

Financial assets and liabilities measured at amortized cost include cash, donations receivable, accounts payable and accrued liabilities and amounts due to the related party.

The organization has no financial assets or liabilities measured at fair value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

Financial assets measured at amortized cost are assessed for indicators of impairment. When there is indication of an impairment, the carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the reduction is recognized in the statement of revenue and expenses. A previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the statement of revenue and expenses.

Functional allocation

The costs of providing various programs and other activities of the organization have been summarized on a functional basis and included in the statement of operations, which includes all expenses incurred for the year. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management in accordance with grant provisions and/or other equitable bases.

5. RELATED PARTY TRANSACTIONS

The organization has an agency agreement with Smile Train, Inc., an established charitable organization headquartered in the United States with congruent mission and objectives, which assists in the administration of the charitable activities and programs of the organization.

During the year ended June 30, 2013, $1,016,997 was allocated to Smile Train, Inc. to administer specific charitable activities and programs on behalf of the organization under the terms of the agency agreement. Donation revenue includes $943,752 in contributions from Smile Train, Inc. to the organization. These were contributions to support public education and fundraising activities. These transactions are in the normal course of operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties.

6. ALLOCATION OF JOINT COST

The organization conducted media space and direct mail advertising that included a program component of public education on cleft lip and palate along with the request for contributions. The costs of conducting these joint activities were allocated as follows:

	2013 **$**	2012 $
Program (Public Education)	**761,001**	2,327,508
Fundraising and promotion	**618,473**	1,016,776
	1,379,474	3,344,284

7. FINANCIAL INSTRUMENTS RISK EXPOSURE

The organization is exposed to various risks through its financial instruments including credit risk and liquidity risk. The organization is not exposed to market risk.

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization is exposed to credit risk primarily on its cash.

Cash is on deposit with a Canadian chartered bank.

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 forecasts of cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash.