PARTNERS IN THE HORN OF AFRICA

FINANCIAL STATEMENTS

December 31, 2012

Rossworn Henderson LLP
Chartered Accountants

PARTNERS IN THE HORN OF AFRICA
December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Members of
Partners in the Horn of Africa

We have audited the accompanying financial statements of Partners in the Horn of Africa, which comprise the statement of financial position as at December 31, 2012, and the statements of changes in net assets, operations 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 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 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 is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion
Partners in the Horn of Africa derives a material amount of revenue from donations and fundraising activities. We were not able to obtain sufficient appropriate audit evidence about the completeness of the reported amounts for accounts receivable, donation and fundraising revenue, revenue in excess of expenditure and changes to net assets because there is no direct relationship between assets or services given up in exchange for amounts received or receivable. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

INDEPENDENT AUDITOR'S REPORT, continued

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Partners in the Horn of Africa as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative Information
Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes that Partners in the Horn of Africa adopted Canadian accounting standards for not-for-profit organizations on January 1, 2012 with a transition date of January 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheets as at December 31, 2011 and January 1, 2011, and the statements of changes in net assets, operations and cash flows for the year ended December 31, 2011 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

Rosswurn Henderson LLP

Enderby, BC
April 22, 2013

Chartered Accountants

PARTNERS IN THE HORN OF AFRICA
Statement of Financial Position

As at December 31, 2012

	December 31, 2012	December 31, 2011	January 1, 2011
Assets			
Current			
Cash	**$ 223,786**	$ 251,832	$ 506,952
Marketable securities (Note 3)	**1,695,268**	1,731,014	1,475,583
	$ 1,919,054	$ 1,982,846	$ 1,982,535
Liabilities			
Current			
Accounts payable and accrued liabilities	**$ 2,226**	$ 14,292	$ 8,935
Funds held in trust	**141,641**	60,145	22,024
	143,867	74,437	30,959
Net assets	**1,775,187**	1,908,409	1,951,576
	$ 1,919,054	$ 1,982,846	$ 1,982,535

Approved by the Board

Members

Members

The accompanying notes form an integral part of these financial statements.

PARTNERS IN THE HORN OF AFRICA
Statement of Changes in Net Assets

Year ended December 31, 2012

	2012	2011
Balance, beginning of year	**$ 1,908,409**	$ 1,951,576
Deficiency of revenues over expenditures for the year	**(133,222)**	(43,167)
Balance, end of year	**$ 1,775,187**	$ 1,908,409

The accompanying notes form an integral part
of these financial statements.

PARTNERS IN THE HORN OF AFRICA

Statement of Operations

Year ended December 31, 2012

	2012	2011
Revenues		
Donations received	$ 645,275	$ 955,138
Investment income	43,464	41,594
	688,739	996,732
Expenditures		
Contributions to projects	816,262	824,726
Donations	-	200,000
Interest and bank charges	5,646	5,015
	821,908	1,029,741
Deficiency of revenues over expenditures before the following items	(133,169)	(33,009)
Other income (expense)		
Loss on foreign exchange	(53)	(12,806)
Gain on disposal of marketable securities	-	2,648
	(53)	(10,158)
Deficiency of revenues over expenditures for the year	$ (133,222)	$ (43,167)

The accompanying notes form an integral part of these financial statements.

PARTNERS IN THE HORN OF AFRICA

Statement of Cash Flows

Year ended December 31, 2012

	2012	2011
Operating		
Donations received for the year	$ 645,275	$ 955,138
Collection costs	(5,645)	(5,015)
Contributions to projects	(817,549)	(824,726)
Interest received	43,464	41,594
Foreign exchange gain or (loss)	(53)	(12,806)
Amounts payable on projects at end of year	(12,067)	5,358
Donation to Medecins Sans Frontieres	-	(200,000)
	(146,575)	(40,457)
Investing		
Purchase (disposal) of marketable securities	35,746	(255,431)
Gain on sale of investments	-	2,648
Funds received in trust	82,783	38,120
	118,529	(214,663)
Decrease in cash	(28,046)	(255,120)
Cash, beginning of year	251,832	506,952
Cash, end of year	$ 223,786	$ 251,832

The accompanying notes form an integral part of these financial statements.

Nature of operations

Partners in the Horn of Africa is a registered charity that solicits donations to be applied towards joint projects in Ethiopia.

1. Significant accounting policies

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

(a) **Revenue recognition**

The Organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. 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. Endowment contributions are recognized as direct increases in net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

(b) **Financial instruments**

(i) **Measurement of financial instruments**

The Organization initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument. Amounts due to and from related parties are measured at the exchange amount, being the amount agreed upon by the related parties.

The Organization subsequently measures its financial assets and financial liabilities at amortized cost, except for derivatives and equity securities quoted in an active market, which are subsequently measured at fair value. Forward exchange contracts and interest rate swaps that are not hedging items are measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash, accounts receivable and loans receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and long-term debt..

(ii) **Impairment**

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in net income. The write down reflects the difference between the carrying amount and the higher of:

- the present value of the cash flows expected to be generated by the asset or group of assets;
- the amount that could be realized by selling the assets or group of assets;

1. Significant accounting policies, continued

(b) Financial instruments, continued

- the net realizable value of any collateral held to secure repayment of the assets or group of assets.

When the events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized in net income up to the amount of the previously recognized impairment.

(c) Marketable securities

Investments in temporary marketable securities are classified as available for sale, and as such, unrealized gains and losses are recorded as an adjustment to net assets.

(d) Use of estimates

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. This requires management to make estimates and assumptions concerning assets, liabilities, revenues and expenses reported upon in the fiscal period. For instance, management may have to assess the value of receivables in advance of their collection. Similarly, management may have to estimate amounts payable in advance of receipt of suppliers' invoices. These procedures are necessary in order to prepare financial statements within an appropriate time period. Consequently, actual amounts could differ from these estimates.

2. Impact of the change in the basis of accounting

Effective January 1, 2012, the Organization elected to apply the standards in Part III of the CICA Accounting Handbook for not-for-profit organizations in accordance with Canadian Accounting Standards for Not-for-profit organizations.

These are the first financial statements prepared in accordance with this new framework which has been applied retrospectively. The accounting policies set out below have been applied in preparing the financial statements for the year ended December 31, 2012, the comparative information for the year ended December 31, 2011 and in the preparation of an opening balance sheet as at January 1, 2011, which is the organization's date of transition.

The Organization previously issued financial statements for the year ended December 31, 2011 using generally accepted accounting principles prescribed by Part V of the CICA Handbook.

The adoption of ASNPO has 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 statements of financial position, statement of operations and statement of cash flow. Certain of the organization's presentation and disclosures included in these financial statements reflect the new presentation and disclosure requirements of ASNPO.

3. Marketable securities

	December 31, 2012	December 31, 2011	January 1, 2011
Portfolio investments	$ -	$ -	$ 25,000
GIC's	**1,695,268**	1,731,014	1,450,583
	$ 1,695,268	$ 1,731,014	$ 1,475,583

4. Contractual obligation

The organization has entered into a number of partnerships with various organizations within Africa to do various projects. As at December 31, 2012, there were 81 unfinished projects (2011 - 59). Financial obligations upon completion of all these contracts amount to Ethiopian Birr 16,590,145 or approximately $917,089 Canadian (2011 - 7,383,229 Birr or approximately $441,581 Canadian).

5. Related party transactions

A charitable foundation, "Friends of the Horn of Africa" (Friends) has been established to support the organization's mandate, and to pay for costs to manage and administer the organization. Funding for this organization is derived from contributions by the directors of Partners in the Horn of Africa and other parties.

6. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

(a) Fair value

The fair value of current financial assets and current financial liabilities approximates their carrying value due to their short-term maturity dates. The fair value of long-term financial liabilities approximates their carrying value based on the presumption that the Organization is a going concern and thus expects to fully repay the outstanding amounts.

(b) Foreign exchange risk

The Organization is exposed to foreign exchange risk in United States dollars and Ethiopian BIRR. Foreign exchange risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the Organization by a customer, or that an obligation in a foreign currency was made to the Organization to a supplier, is different at the time of settlement than it was at time that the obligation was determined. The Organization reduces its exposure to foreign exchange risk by carefully monitoring exchange rates on obligations that are made to the Organization and engaging in hedges when there is a significant risk of exchange rate movement. The Organization did not have any hedges at the time that the financial statements were issued. The Organization does not utilize financial instruments to manage its foreign exchange risk. The Organization maintains adequate foreign currency balances in its bank provided by its customers that discharged their obligations to the Organization in the related currency, to discharge its related foreign currency obligations. In the opinion of management the foreign exchange risk exposure to the company low and is not material.

(c) 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 Organization is exposed to this risk as a result of transferring Canadian funds quarterly into Ethiopian BIRR in order to fund projects in Ethiopia.

(d) Liquidity risk

The Organization does have a liquidity risk in the accounts payable and accrued liabilities of $2,226 (2011 - $14,292). Liquidity risk is the risk that the Organization cannot repay its obligations when they become due to its creditors. The Organization reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Organization is low and is not material.

(e) Price risk

The Organization is exposed to price risk. Price risk is the risk that the commodity prices that the Organization charges are significantly influenced by its competitors and the commodity prices that the Organization must charge to meet its competitors may not be sufficient to meet its expenses. The Organization reduces its exposure to price risk by ensuring that it obtains information regarding the commodity prices that are set by the competitors in the region to ensure that its prices are appropriate. In addition, management closely monitors expenses and matches capital outlays to its revenue stream. In the opinion of management the price risk exposure to the Organization is low and is not material.