FREE THE CHILDREN

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April 14th, 2014

Dear Friends,

On behalf of myself, Free The Children's Board of Directors and Free The Children's International Finance Committee, I thank you for your interest in better understanding the operational and financial structure of the organization. This letter is meant to provide additional information with respect to the Audited Financial Statement of 2013.

Free The Children is unique among Canadian charities in that it operates programs both domestically and internationally, in a manner that is intended to be interrelated and mutually reinforcing. Our overarching mandate is to help children and youth fulfill their potential to be agents of change. Typically, most organizations in Canada would serve primarily a domestic or international mandate. We serve both.

In fulfilling its dual mission, Free The Children received distinct funding for both our domestic youth empowerment programming and our international development programming, and invested those funds in the respective programs as designated by our supporters.

Free The Children has a strong Board of Directors which oversees the organization. The role of the Board is, in part, to provide legal and financial oversight of the organization. This role includes, but is not limited to, the approval and review of the annual budget, overseeing and approving independent audits, the ongoing review of Free The Children's financial wellbeing, and providing independent review and guidance of Free The Children's domestic and international projects.

In the following document you will find the Audited Financial Statements for Free The Children Canada's most current fiscal year. Free The Children is committed to posting full financial information to reflect our organization's commitment to transparency and accountability.

We are proud that we again have received an unqualified audit report, which means following a comprehensive audit of our financial and accounting systems and operations, our auditors have given their full approval of what is represented in the Audited Financial Statements.

In 2013 Free The Children, upon approval of the Board of Directors, changed the fiscal year of the organization. Consequently, these Audited Financial Statements are for the nine month

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period from April 1st, 2013 to December 31st, 2013. As you review the document, please do note that most recent 2013 information is for only nine months.

2013 was a hallmark year for Free The Children with the expansion of our programming across Canada. Our Audited Financial Statements reflect the impact and support needed for the expansion of our programming across the country.

I would like to thank our Board of Directors and the International Finance Committee for their continued guidance and leadership in ensuring Free The Children remains a trusted and accountable organization.

Sincerely

Scott Baker
Executive Director
Free The Children

FINANCIAL STATEMENTS

FREE THE CHILDREN
(FORMERLY KIDS CAN FREE THE CHILDREN)

FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2013

FREE THE CHILDREN
(FORMERLY KIDS CAN FREE THE CHILDREN)

FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Members of
Free The Children
(Formerly Kids Can Free the Children)
Toronto, Ontario

We have audited the accompanying financial statements of **Free The Children (Formerly Kids Can Free The Children)**, which comprise the statement of financial position as at December 31, 2013 and the statements of operations, changes in net assets and cash flows for the nine month period, 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 misstatement, whether due to fraud or error.

Auditors' 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 the ethical requirements and plan and perform the audit to obtain reasonable assurance 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 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.

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 organization as at December 31, 2013, and the results of its operations and its cash flows for the nine month period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Toronto, Canada
April 3, 2014

Kestenberg . Rabinowicz . Partners LLP

Chartered Accountants
Licensed Public Accountants

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FREE THE CHILDREN
(FORMERLY KIDS CAN FREE THE CHILDREN)

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013
(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED MARCH 31, 2013)

	December 31, 2013 $ (9 Months)	March 31, 2013 $ (12 Months)
ASSETS		
CURRENT		
Cash (note 4)	2,031,590	2,974,498
Restricted cash (note 4)	250,000	250,000
Marketable securities	638,630	788,136
Accounts receivable (note 5)	1,463,485	1,262,666
Sales taxes recoverable	398,365	455,531
Prepaid expenses and other assets	271,808	290,023
	5,053,878	6,020,854
PROPERTY AND EQUIPMENT (note 6)	10,055,484	8,179,587
	15,109,362	14,200,441
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	972,959	124,038
Deferred contributions (note 7)	2,305,089	3,395,374
Mortgage payable - current portion (note 8)	327,697	-
	3,605,745	3,519,412
MORTGAGE PAYABLE (note 8)	538,607	-
	4,144,352	3,519,412
NET ASSETS		
Net investment in capital assets	10,055,484	8,179,587
Unrestricted	909,526	2,501,442
	10,965,010	10,681,029
	15,109,362	14,200,441

Lease commitments (note 11)

ON BEHALF OF THE BOARD:

Member M. Douglas . (M. DOUGLAS; CHAIR).

Member K. Harsarden

See accompanying notes.

FREE THE CHILDREN
(FORMERLY KIDS CAN FREE THE CHILDREN)

STATEMENT OF CHANGES IN NET ASSETS
FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2013
(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED MARCH 31, 2013)

	Unre-stricted $	Net investment in capital assets $ (Note 10)	December 31, 2013 $ (9 Months)	March 31, 2013 $ (12 Months)
NET ASSETS, beginning of period	2,501,442	8,179,587	10,681,029	10,322,370
Excess (deficiency) of revenue over expenditures	629,590	(345,609)	283,981	358,659
Investment in capital assets, net	(2,221,506)	2,221,506	-	-
NET ASSETS, end of period	909,526	10,055,484	10,965,010	10,681,029

See accompanying notes.

FREE THE CHILDREN
(FORMERLY KIDS CAN FREE THE CHILDREN)

STATEMENT OF OPERATIONS
FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2013
(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED MARCH 31, 2013)

	December 31, 2013 $ (9 Months)	March 31, 2013 $ (12 Months)
REVENUE		
Donations from the public		
- Donations	25,691,235	23,834,884
- Donated goods	2,950,954	5,087,074
Grants		
- Government	1,267,561	1,203,542
- Private	1,727,324	2,097,263
Other income	28,666	42,395
	31,665,740	32,265,158
EXPENDITURES		
Programs (note 12)		
- International projects	10,264,336	13,314,054
- Domestic projects	17,249,695	14,436,826
- Leadership education and public awareness	1,435,747	1,606,518
	28,949,778	29,357,398
Support (note 13)		
- Fundraising	520,175	532,846
- Administration	1,952,978	2,106,742
	2,473,153	2,639,588
	31,422,931	31,996,986
INVESTMENT INCOME AND EXPENSES		
Dividend and interest income	31,225	119,187
Interest on long-term debt	(11,468)	-
Foreign exchange gain (loss)	(60,186)	-
Unrealized gain (loss) on marketable securities	81,601	(28,700)
	41,172	90,487
EXCESS OF REVENUE OVER EXPENDITURES	283,981	358,659

See accompanying notes.

FREE THE CHILDREN
(FORMERLY KIDS CAN FREE THE CHILDREN)

STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2013
(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED MARCH 31, 2013)

	December 31, 2013 $ (9 Months)	March 31, 2013 $ (12 Months)
CASH FLOW FROM (USED BY)		
OPERATING ACTIVITIES		
Excess of revenue over expenditures for period	283,981	358,659
Adjustments for non-cash items:		
- Unrealized loss (gain) on marketable securities	(81,601)	28,700
- Amortization	345,609	366,014
	547,989	753,373
Changes in non-cash working capital		
- Marketable securities	231,108	(138,894)
- Accounts receivable	(200,819)	(456,431)
- Sales taxes recoverable	57,165	(36,147)
- Prepaid expenses and other assets	18,216	51,930
- Accounts payable and accrued liabilities	848,921	28,040
- Deferred contributions	(1,090,285)	773,863
	412,295	975,734
INVESTING ACTIVITIES		
Property and equipment additions	(2,221,506)	(950,337)
FINANCING ACTIVITIES		
Mortgage payable	866,304	-
INCREASE (DECREASE) IN CASH	(942,907)	25,397
CASH AND RESTRICTED CASH, BEGINNING OF PERIOD	3,224,497	3,199,100
CASH AND RESTRICTED CASH, END OF PERIOD (note 4)	2,281,590	3,224,497

See accompanying notes.

1/ PURPOSE OF ORGANIZATION

Free The Children is an organization which is committed to creating a network of children helping children through representation, leadership and action, and dedicated to reducing poverty and the exploitation of children around the world.

The organization is incorporated under the provision of Part II of the Canada Corporations Act as a non-profit corporation without share capital. It is a registered charity under the Income Tax Act, and as a result, the organization is exempt from income taxation under Section 149 of the Income Tax Act.

During the period, by the approval of the board, the organization changed its fiscal year end from March 31 to December 31. As a result, the financial statements cover a period of nine months of operations from April 1, 2013 to December 31, 2013. Comparative figures are presented for the year ended March 31, 2013.

On January 23, 2014, the organization changed its official name to Free the Children.

2/ BASIS OF ACCOUNTING

The financial statements are prepared in accordance with the accounting principles and standards set out in Part III of the CPA Canada Handbook - Accounting, Canadian Accounting Standards for Not-for-Profit Organizations (ASNPO).

3/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

The organization follows the deferral method of accounting for contributions, which are mainly comprised of general donations, donated goods, and government and private grants. 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.

Program expenditures

Program expenditures are incurred on international projects, domestic projects and on leadership education and public awareness initiatives. They are recognized as expenditures when the funds are disbursed by the organization.

3/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed goods and services

Contributions of goods are recognized when a fair value can be reasonably estimated and when the goods are used in the normal course of the organization’s operation and would otherwise have been purchased. While the organization also benefits from volunteer time, due to the difficulty in determining its fair value, the value of this volunteer time has not been reflected in these statements.

Marketable securities

The organization's investments in marketable securities are recorded at fair value based on the quoted price in the active market. Investment income is recorded on the accrual basis and recognized in the statement of operations of the current period. It includes interest income, dividends, net gain or loss on sale of investments and change in unrealized gains and losses on investments.

Property and equipment

Property and equipment are recorded at cost and amortized on the declining-balance basis using the following annual rates:

Buildings	-	4%
Computer equipment	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	20% straight line
Vehicles	-	30%

Impairment of long-lived assets

The organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 long-lived asset exceeds its fair value.

3/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Translation of foreign currencies

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. Monetary assets and liabilities, which are denominated in foreign currencies, are translated into Canadian dollars at the year end exchange rates. Exchange gains and losses are taken into income in the current year.

Allocation of expenses

Expenses are recorded and reported by programs and support services. Certain officers and employees perform a combination of programs, fundraising and administrative activities; as a result, salaries are allocated based on time dedicated to each activity. Other operating and general costs, such as postage, printing and copying costs have been allocated based on the actual utilization of such expenses. Allocations are reviewed annually, updated and applied on a prospective basis.

Measurement of uncertainty

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reported year. Such estimates include the useful lives of property and equipment, allowance for bad debts, accounts payable and accrued liabilities, deferred contributions, and allocation of expenses. Actual results could differ from these estimates.

Financial instruments

Measurement

The organization initially measures its financial assets and liabilities at fair value and subsequently measures all its financial assets and liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net results.

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

Financial liabilities measured at amortized cost include accounts payable, accrued liabilities and mortgage payable.

The organization's financial assets measured at fair value include investments in marketable securities.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of such. The amount of write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of a recovery in value, directly or by adjusting the allowance account. The amount of the reversal is recognized in net results.

4/ CASH AND RESTRICTED CASH

Included in cash and restricted cash are the following balances:

	December 31, 2013 $	March 31, 2013 $
	(9 Months)	(12 Months)
Cash on hand and balances with banks	1,781,590	2,724,498
Term deposit - Restricted	250,000	250,000
	2,031,590	2,974,498

The term deposit bears interest at 0.80% per annum (March 31, 2013 - 1.00%) and is held as cash collateral for the credit facilities and mortgage of the organization (note 8 and 9).

5/ ACCOUNTS RECEIVABLE

Accounts receivable are donations receivable from various major corporate donors. As all amounts are considered collectible, no allowance has been provided.

6/ PROPERTY AND EQUIPMENT

			Net Book Value	
	Cost $	Accumulated Amortization $	December 31, 2013 $	March 31, 2013 $
			(9 Months)	(12 Months)
Land	3,250,000	-	3,250,000	2,250,000
Buildings	7,541,918	1,215,256	6,326,662	5,536,385
Computer equipment	350,919	152,196	198,723	172,148
Furniture and fixtures				
- Office	461,943	295,867	166,076	177,409
- Residential buildings	38,835	31,618	7,217	8,490
Leasehold improvements	80,651	8,065	72,586	-
Vehicles	189,178	154,958	34,220	35,155
	11,913,444	1,857,960	10,055,484	8,179,587

7/ DEFERRED CONTRIBUTIONS

Deferred contributions are comprised of amounts restricted for the funding of expenses to be incurred in the future. The continuity of deferred contributions is as follows:

	December 31, 2013 $ (9 Months)	March 31, 2013 $ (12 Months)
Balance - beginning of period	3,395,374	2,621,512
Restricted contributions received during the period	29,434,115	29,072,809
	32,829,489	31,694,321
Less: amount recognized as revenue during the period	30,524,400	28,298,947
	2,305,089	3,395,374

8/ MORTGAGE PAYABLE

	December 31, 2013 $ (9 Months)	March 31, 2013 $ (12 Months)
Mortgage payable	866,304	-
Less: Current portion	327,697	-
	538,607	-

Future principal repayment obligations are as follows:

Year ending December 31, 2014	327,697
Year ending December 31, 2015	337,294
Year ending December 31, 2016	201,313
	866,304

The mortgage with a major commercial bank bears interest at 2.89% per annum and is repayable in monthly blended payments of $29,033 until maturity in July, 2015. It is secured by the land and improvements at 213 Carlton Street, Toronto, Ontario, which have a carrying cost of $1,909,488.

9/ CREDIT FACILITIES

In addition to the mortgage payable, the organization has a revolving demand facility in the amount of $500,000 from the same commercial bank. The facility bears interest rate at prime + 1% per annum. It is secured by a general security agreement over all assets of the organization and cash collateral security over the term deposit of $250,000 (note 4). As December 31, 2013, there are no borrowings under the facility.

10/ NET ASSETS

The segregated balance of investment in property and equipment represents the amortized cost of property and equipment.

11/ LEASE COMMITMENTS

The organization leases office space at several locations in Canada. Aggregate minimum rent payments per annum in the next five years are as follows:

	$
2014	166,583
2015	141,416
2016	97,200
2017	97,200
2018	97,200
	599,599

12/ PROGRAM EXPENDITURES

	December 31, 2013 $ (9 Months)	March 31, 2013 $ (12 Months)
International projects		
Asia	1,930,142	1,962,164
Africa	4,408,248	4,999,559
Latin America	3,925,946	6,352,331
	10,264,336	13,314,054
Domestic projects		
Program direct expenditures	13,960,869	11,309,755
Office expenses	939,531	936,211
Payroll	1,348,034	1,543,805
Travel	1,001,261	647,055
	17,249,695	14,436,826
Leadership education and public awareness		
Program direct expenditures	340,055	240,188
Office expenses	62,450	57,290
Payroll	1,021,181	1,306,188
Travel	12,061	2,852
	1,435,747	1,606,518

The international project expenditures are comprised of travel, payroll, office expenses and other expenses attributed to projects and directly related to their respective regions.

13/ SUPPORT EXPENDITURES

	December 31, 2013 $ (9 Months)	March 31, 2013 $ (12 Months)
Fundraising		
Office	3,070	6,372
Events	90,755	46,617
Wages and benefits	426,350	479,857
	520,175	532,846
Administration		
Office	790,769	1,022,481
Training	71,237	17,977
Wages and benefits	541,973	530,445
Consulting and other professional fees	163,999	144,775
Travel and transportation	39,391	25,050
Amortization	345,609	366,014
	1,952,978	2,106,742

14/ RELATED PARTY TRANSACTIONS

a/ The co-founders of the organization have a controlling interest in Me to We Social Enterprises Inc. and its subsidiaries (“Me to We”) through a holding company. The transactions during the period with the group of companies can be summarized as follows:

	December 31, 2013 $ (9 Months)	March 31, 2013 $ (12 Months)
Rental revenue	22,680	30,240
Donations received	535,873	673,644
	558,553	703,884
Purchase of promotional goods for domestic projects	163,738	403,633

b/ The purpose of the Me to We group is to help support the operation of Free the Children. The organization purchases books, other educational materials and promotional clothing from Me to We. These items are charged at cost, which are the agreed prices between the two parties. Annually, Me to We donates back 50% of any profits and retains 50% to provide for its own sustainability.

15/ FINANCIAL INSTRUMENTS

a/ Credit risk

Credit risk arises from the potential that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The organization's accounts receivable represents donations pledged by major corporate donors. These receivables bear minimal credit risk based on past experience. To manage its credit risk from cash and cash equivalents, the organization maintains its accounts with creditworthy financial institutions.

b/ Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The organization is exposed to the currency exchange risk on cash and investments held in U.S. dollars. As at December 31, 2013, the organization had a bank overdraft of $34,893 and marketable securities of $423,527 in U.S. dollars. The organization does not use derivative instruments to reduce its exposure to foreign currency risk.

c/ Liquidity risk

Liquidity risk is the risk the organization may not be able to meet its obligations. The organization has a comprehensive plan in place to meet its obligations as they become due, primarily from cash flow from operations.

16/ ALLOCATION OF EXPENSES

During the period, total administration expenses of $852,700 (March 31, 2013 - $861,000) relating to project and fundraising activities were identified and allocated as follows:

	December 31, 2013 $ (9 Months)	March 31, 2013 $ (12 Months)
Fundraising	426,350	497,928
Projects	426,350	363,072
	852,700	861,000