ARTBEAT STUDIO INC. FINANCIAL STATEMENTS DECEMBER 31, 2012

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December 31, 2012

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AUDITORS' REPORT

To the Board of Directors of ARTBEAT STUDIO INC .:

We have audited the accompanying financial statements of ARTBEAT STUDIO INC., which comprise the statement 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 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 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 ARTBEAT STUDIO INC. as at December 31, 2012, December 31, 2011, and January 1, 2011, and its financial performance 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.

Winnipeg, Manitoba March 27, 2013

Runchey Miyazawa Abbott

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STATEMENT OF FINANCIAL POSITION

	Dec	ember 31, 2012	December 31, 2011	January 1, 2011	
	ASSETS				
CURRENT Cash and bank Accounts receivable GST receivable Short-term investment (note 4) Prepaid expenses	\$	60,454 92,724 1,966 2,578 2,675	46,608 69,955 1,913 2,675	51,534 58,417 1,701 2,459 2,675	
		160,397	121,151	116,786	
LONG-TERM INVESTMENTS (note 4)			2,515		
		160,397	123,666	116,786	
LIABILITIES					
CURRENT Accounts payable and accrued liabilities Deferred revenue (note 5)		3,583 77,442	5,321 52,445	3,582 62,117	
		81,025	57,766	65,699	
COMMITMENTS (note 6)					
	NET ASSE	TS			
UNRESTRICTED (page 4)		79,372	65,900	51,087	
	\$	160,397	123,666	116,786	

Approved on behalf of the Board

Gaith Green Member

Member

The accompanying notes are an integral part of these financial statements. $$\mathbf{2}$$

STATEMENT OF OPERATIONS

For the year ended December 31, 2012

REVENUE \$ 510 464 CNDC 2,000 2,262 Gonations 12,150 6,532 Graffil Art Programming Inc. 900 753 Government of Canada 89,213 86,882 GST recovery 1,312 1,913 Mantibab Arts Council 10,000 10,000 Mantibab Arts Council Inc. 8,333 Miscellaneous 440 224 Mantibab Arts Council Inc. 8,333 Miscellaneous 440 224 Miscellaneous 440 224 Prainic Rose School Division 1,000 10,000 Province of Manitoba - Manitoba Health 50,005 10,000 Province of Manitoba - Manitoba Health 50,000 10,000 Statior Central 1,673 1,670 5,860 The Winnipeg Foundation 1,000 16,999 2,850 10,000 United Way 37,496 4,075 2,860 10,800 United Way 3,2467 2,241 2,860 10,800		2012	2011
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260,648 237,189	Utilities	2,422	
			1,421
EXCESS OF REVENUE OVER EXPENDITURES FOR YEAR \$ 13,472 14,813		260,648	237,189
	EXCESS OF REVENUE OVER EXPENDITURES FOR YEAR	\$ 13,472	14,813

The accompanying notes are an integral part of these financial statements. $\ensuremath{\Im}$

STATEMENT OF CHANGES IN NET ASSETS

December 31, 2012

	2012	2011
NET ASSETS, beginning of year	\$ 65,900	51,087
EXCESS OF REVENUE OVER EXPENDITURES FOR YEAR	 13,472	14,813
NET ASSETS, end of year	\$ 79,372	65,900

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

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	2012	2011
OPERATING ACTIVITIES Excess of revenue over expenditures for year	\$ 13,472	14,813
Changes in non-cash working capital balances Accounts receivable GST receivable Bransid expanses	(22,769) (53)	(11,538) (212)
Prepaid expenses Accounts payable and accrued liabilities Deferred revenue	 (1,738) 24,997	1,739 (9,672)
	 13,909	(4,870)
INVESTING ACTIVITIES Change in investments	 (63)	(56)
NET INCREASE (DECREASE) IN CASH	13,846	(4,926)
CASH POSITION, beginning of year	 46,608	51,534
CASH POSITION, end of year	\$ 60,454	46,608

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. ENTITY DEFINITION

The organization is a registered charity incorporated as a non profit entity under the laws of Manitoba, providing studio space, community and opportunity for creative initiative to facilitate mental, spiritual, physical, emotional and economic health. Artbeat Studios Inc. enables consumers of mental health services to engage in artistic expression that promotes their recovery, empowerment and community. The organization is exempt from income taxes under Section 149(1) of The Income Tax Act.

2. CHANGE IN ACCOUNTING STANDARDS

The organization has adopted the Canadian accounting standards for not-for-profit organizations. These are the organization's first financial statements prepared in accordance with Canadian accounting standards for not-for-profit organizations which have been applied retrospectively.

Upon adoption of the new accounting framework, there have been no adjustments required to opening assets, liabilities, net assets, or excess of revenue over expenditures for the year.

3. ACCOUNTING POLICIES

Basis of Presentation

The organization follows the deferral method of accounting.

Unrestricted

This has been established to account for all revenue and expenditures relating to the operations of Artbeat Studio Inc.

Revenue Recognition

The organization follows the deferral method of accounting for contributions which include donations. Grant revenue is recorded in the period specified in the funding agreements entered into with funding agencies and other organizations. Assistance received in advance of making the related expenditures is deferred.

Capital Assets

Items of a capital nature are expensed in the year of acquisition.

Financial Instruments

The organization's financial instruments are recorded at fair value when acquired or issued. In subsequent periods, they are reported at cost or amortized cost less impairment, it applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Unless otherwise noted, it is management's opinion that the organization is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The organization's financial instruments consist of cash and bank, accounts receivable, GST receivable, short and long-term investments, and accounts payable and accrued liabilities.

Use of Estimates

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 amounts of assets and liabilities of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

Contributed Materials and Services

Contributed materials which are used in the normal course of the organization's operation and would otherwise have been purchased are recorded at their fair market value at the date of contribution if the fair market value can be reasonably determined. Due to the difficulty of determining their fair value, contributed labour and services are not recorded.

4. INVESTMENTS

The organization has a Guaranteed Investment Certificate with the Assiniboine Credit Union earning interest at 2.5% and maturing on November 7, 2013.

5. DEFERRED REVENUE

	C	2011 Deferred	Grant	Earned	2012 Deferred
Government of Canada Manitoba Culture, Heritage and Tourism Manitoba Housing and Community	\$	16,844	97,393 20,000	(80,689) (15,000)	33,548 5,000
Development Province of Manitoba - Manitoba Health The Winnipeg Foundation		12,500 23,101	32,939 50,000	(29,646) (50,000)	3,293 12,500 23,101
	\$	52,445	200,332	(175,335)	77,442

6. COMMITMENTS

The organization has an operating lease for its studio and office space with an average monthly rate of \$2,800 over the next two years. The lease expires in November of 2014.

The minimum annual lease payments for the next two years is as follows:

2013	\$ 33,375
2014	31,350

7. ENDOWMENT FUND

The organization is the income beneficiary of a designated endowment fund held by The Winnipeg Foundation. All contributions to the fund are held and managed by The Winnipeg Foundation and the organization is only entitled to the income earned on the fund. At December 31, 2012 the market value of the fund was \$57,774 (2011 - \$49,490).

8. COMPARATIVE FIGURES

Certain of the comparative figures have been changed to conform with the current year's financial statement presentation. Excess of revenues over expenditures remains as previously reported.