Farmers’ Mutual Insurance Agency Limited

Financial statements

(Unaudited)

December 31, 2012

Contents

Review Engagement Report

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To the Shareholder of
Farmers' Mutual Insurance Agency Limited

We have reviewed the statement of financial position of Farmers' Mutual Insurance Agency Limited as at December 31, 2012 and the statements of operations and retained earnings, and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and, consequently, we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Antigonish, Canada

February 22, 2013 Chartered Accountants

Farmers' Mutual Insurance Agency Limited
Statement of financial position
(Unaudited)

		2012		2011
Assets				
Current				
Cash and cash equivalents	$	**76,801**	$	71,552
Receivables		**111,270**		74,335
Trust fund assets (note 7)				
Cash		**37,353**		-
Premiums receivable		**414**		25,425
		225,838		171,312
Intangibles (note 4)		**17,474**		1
Deferred tax		**11,272**		11,272
	$	**254,584**	$	182,585

Liabilities				
Current				
Payables and accruals	$	**47,801**	$	53,874
Income taxes payable		**12,982**		132
Payable to Antigonish Farmers' Mutual Insurance Company, non-interest bearing, no set terms of repayment		**134,200**		134,200
Trust fund liabilities (note 7)		**11,293**		19,388
		206,276		207,594
Shareholder equity (deficiency)				
Capital stock (note 5)		**2**		2
Retained earnings (deficit)		**48,306**		(25,011)
		48,308		(25,009)
	$	**254,584**	$	182,585

Approved on behalf of the Board

________________________ Director ________________________ Director

See accompanying notes to the financial statements

Farmers’ Mutual Insurance Agency Limited
Statements of operations and retained earnings

(Unaudited)

Year ended December 31		**2012**		2011
Revenues				
Commission income - insurance	**$**	**343,548**	$	311,175
Agency bill income		**46,767**		49,872
Profit sharing		**77,785**		47,175
Other		**75**		207
		468,175		408,429
Expenses				
Advertising		**1,185**		1,148
Amortization		**17,473**		-
Bank charges		**1,931**		1,314
Commissions		**161,183**		214,359
Dues and fees		**6,900**		15,888
Information technology		**22,421**		33,991
Office		**1,365**		1,791
Professional fees		**9,589**		9,950
Provision for doubtful accounts		**294**		1,139
Rent		**6,900**		2,530
Training		**-**		638
Wages and benefits		**152,635**		146,368
		381,876		429,116
Income (loss) before income taxes		**86,299**		(20,687)
Income taxes (recoverable)				
Current		**12,982**		(27)
Deferred		**-**		(6,246)
		12,982		(6,273)
Net income (loss)	**$**	**73,317**	$	(14,414)

Deficit, beginning of year	**$**	**(25,011)**	$	(10,597)
Net income (loss)		**73,317**		(14,414)
Retained earnings (deficit), end of year	**$**	**48,306**	$	(25,011)

See accompanying notes to the financial statements

Farmers' Mutual Insurance Agency Limited
Statement of cash flows

(Unaudited)

Year ended December 31	2012	2011
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net income (loss)	**$ 73,317**	$ (14,414)
Amortization	**17,473**	-
Deferred tax	**-**	(6,246)
Change in non-cash operating working capital (note 6)	**(30,158)**	39,880
	60,632	19,220
Financing activities		
Deficiency in trust fund assets	**(20,437)**	(14,375)
Investing activities		
Purchase of computer software	**(34,946)**	-
Increase in cash and cash equivalents	**5,249**	4,845
Cash and cash equivalents		
Beginning of year	**71,552**	66,707
End of year	**$ 76,801**	$ 71,552

Supplemental cash flow information:

Income taxes paid	**$ 132**	$ Nil
Interest paid	**$ Nil**	$ Nil

See accompanying notes to the financial statements

1. Nature of business

The Company was incorporated on June 17, 2010 under the laws of the Province of Nova Scotia after previously operating as a division of its parent, Antigonish Farmers' Mutual Insurance Company. The address of Company's registered office is 188 Main Street, Antigonish, NS B2G 2B9. The Company operates an insurance brokerage business.

2. Basis for presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS"), as issued by the International Accounting Standards Board ("IASB").The financial statements were authorized for issue by the Board of Directors on February 22, 2013.

(b) Basis of measurement

The financial statements have been prepared on a going concern basis under the historical cost basis, except for those financial assets and financial liabilities that have been measured at a fair value as described in Note 3.

(c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgement

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 3	Income taxes

2. Basis for presentation (continued)

(e) Critical judgements in applying the Company's accounting policies.

Management has not made any critical judgements apart from those involving estimations in the process of applying the Company's accounting policies that have a significant effect on the amounts recognized in these financial statements.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Cash and cash equivalents
Cash and cash equivalents are comprised of cash on hand, balances with banks which are subject to an insignificant risk of changes in value.

The estimated fair value of cash and cash equivalents approximate carrying values due to the relatively short term nature of the instruments.

Intangibles
Intangible assets arise on the purchase of a new business and the purchase of new software. Intangible assets are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Useful lives are reviewed annually and are subject to impairment testing. The following useful lives are applied to intangible assets:

Software	2 years

Amortization of intangibles has been included within amortization expense.

Financial assets
The non-derivative financial assets of the Company are receivables and trust fund assets. The Company initially recognized receivables and trust fund assets on the date that they are originated at fair value. All other financial assets are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights of the cash flows from the asset expires or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Receivables and trust fund assets are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables and trust fund assets are measured at amortized cost using the effective interest rate method, less any impairment losses.

3. Summary of significant accounting policies (continued)

Receivables and trust fund assets are comprised of amounts arising from the sale of insurance policies. The estimated fair value of receivables and trust fund assets approximates carrying values due to the relatively short term nature of the instruments.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each statement of financial position date. They are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and the loss is recognized in income (loss) for the year. Categories of financial assets, such as receivables carried at amortized cost that are deemed to not be impaired individually are subsequently assessed for impairment on a collective basis.

Financial liabilities
Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest rate method. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Financial liabilities are comprised of payables and accruals and trust fund liabilities. The estimated fair value of financial liabilities approximate carrying values due to the relatively short term nature of the instruments.

Revenue recognition
Insurance commission income is recognized as of the effective date of the insurance policy.

Income taxes
Tax expense represents the sum of tax currently payable and deferred tax.

Tax currently payable is based on taxable income for the year. Taxable income differs from net income as reported in the statement of operations because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

3. Summary of significant accounting policies (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of operations, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to sell off current tax assets against current tax liabilities and when the Company intends to settle its current tax assets and liabilities on a net basis.

Provisions
Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of a past transaction, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle at the reporting date.

Standards issued but not yet effective
In November 2009, the IASB issued **IFRS 9** – *Financial instruments.* This standard represents the completion of the first part of a three-part project to replace *IAS 39. - Financial Instruments:* Recognition and Measurement. The new standard reduces complexity by replacing the many different rules in *IAS 39.* The key features of the new standard are as follows:

- a business model test is applied first in determining whether a financial asset is eligible for amortized cost measurement. The business model objective is based on holding financial assets in order to collect contractual cash flows rather than realizing cash flows from the sale of the financial assets.

- in order to be eligible for amortized cost measurement an asset must have contractual cash flow characteristics representing principle and interest.

- all other financial assets are measured at fair value on the statement of financial position.

- an entity can elect on initial recognition to present the fair value changes on an equity investment that is not held for trading directly in other comprehensive income ("OCI"). The dividends on investments for which this election is made must be recognized in net income (loss) but gains and losses are not removed from OCI when the equity investment is disposed, and if a financial asset is eligible for amortized cost measurement an entity can elect to measure its fair value if it eliminates or significantly reduces an accounting mismatch. The standard is effective for years on or after January 1, 2015.

In May 2011 the IASB issued IFRS 13 "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. IFRS 13 is applicable for periods beginning on or after January 1, 2013.

The Company is currently evaluating the impact of these new standards and amendments on its financial statements but believes there will be no material change as a result of adoption.

4. Intangible assets

The Company's intangible assets represent computer software and customer list. The customer list is recorded at the nominal value of $1. The carrying amount of computer software can be summarized as follows:

		2012		2011
Gross carrying amount				
Balance at beginning of year	$	-	$	-
Additions		34,946		-
Balance at the end of year				
	$	34,946	$	-
Amortization				
Balance at beginning of year		-		-
Amortization		17,473		-
Accumulated amortization at end of year		17,473		-
Net carrying value at end of year	$	17,473	$	-
Net carrying value at December 31, 2012	$	17,473	$	-
Customer list		1		-
Total intangibles	$	17,474	$	-

5. Capital stock

		2012		2011
Authorized:				
One common share with no par value				
Issued:				
1 common share	$	2	$	2

6. Supplemental cash flow information

		2012		2011
Changes in non-cash operating working capital				
Receivables	$	(36,935)	$	9,556
Income taxes		12,850		132
Payables and accruals		(6,073)		30,192
	$	(30,158)	$	39,880

7. Trust funds

Under agreements with insurers, all premiums collected by the Company, less commissions and other deductions, are to be held in trust for these companies. These funds cannot be used or applied for other purposes and must be remitted to the insurer within a specific period after the effective date of the policies. Premiums receivable are not assignable.

8. Future employee benefits

Included in expenditures is $3,991 (2011- $3,822) in contributions the company made on behalf of its employees under a defined contribution pension plan.

9. Financial instrument management

Credit risk
Receivables and trust fund assets are short term in nature and are not subject to material credit risk. The company's maximum exposure to credit risk is $111,684.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company does not have material liabilities that can be called unexpectantly at the demand of a lender or client. There are no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

10. Related party transactions

Compensation for the Company's key management personnel is set out below:

	2012	2011
Key management personnel		
Salaries and commissions	**$ 86,128**	$ 90,406

During the year, the Company paid rental income to a related party of $6,000 (2011 - $2,200) as well as expenses of $71,992 (2011 - $45,587) related to salaries of employees.

11. Income taxes

Income tax expense attributable to taxable income differs from the amounts computed by applying the combined federal and provincial income tax rate of 15.0% (2011: 32.5%) to income before income taxes as a result of the following:

The provision for income tax (recovery) expense is as follows:

		2012		2011
Income (loss) before income taxes	**$**	**86,299**	$	(20,687)
Income tax (recovery) expense at the statutory rate	**$**	**12,935**	$	(6,723)
Changes in income taxes				
Other		**47**		450
	$	**12,982**	$	(6,273)

Deferred tax assets, arising from temporary differences and unused loss carry forwards are summarized as follows:

Deferred tax asset		2012		2011
Intangible assets	**$**	**110**	$	110
Non-deductible reserve		**11,162**		11,162
	$	**11,272**	$	11,272

12. Capital management

The Company's objectives when managing capital are: (i) to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans, (ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, and (iii) to maintain an optimal capital structure that provides necessary financial flexibility. No changes were made to these objectives in the current year.

The Company sets the amount of capital in proportion to its overall financing structure, its equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

13. Comparative figures

Certain of the prior year figures have been reclassified to conform with the financial statement presentation adopted for the current year.

14. Post reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.