Farmers' Mutual Insurance Agency Limited

Financial statements

(Unaudited)

December 31, 2015

Contents

Review Engagement Report

Grant Thornton LLP
Suite 204
220 Main Street
Antigonish, NS
B2G 2C2

T (902) 863-4587
F (902) 863-0917
www.GrantThornton.ca

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, 2015 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 23, 2016

Chartered Accountants

Farmers' Mutual Insurance Agency Limited
Statement of financial position

(Unaudited)

December 31		2015		2014
Assets				
Current				
Cash and cash equivalents	**$**	**18,081**	$	27,303
Receivables		**57,088**		121,020
Income taxes receivable		**13,140**		-
Trust fund assets (note 8)				
Cash		**253,401**		206,916
Premiums receivable		**13,941**		39,731
		355,651		394,970
Intangibles (note 4)		**1**		1
Computer equipment (note 5)		**29,976**		-
Deferred tax		**-**		5,620
	$	**385,628**	$	400,591
Liabilities				
Current				
Payables and accruals	**$**	**5,581**	$	24,692
Income taxes payable		**-**		5,009
Payable to Antigonish Farmers' Mutual Insurance Company, non-interest bearing, no set terms of repayment		**-**		61,000
Trust fund liabilities (note 8)		**47,312**		46,288
		52,893		136,989
Deferred tax		**2,118**		-
		55,011		136,989
Shareholder equity				
Capital stock (note 6)		**2**		2
Retained earnings		**330,615**		263,600
		330,617		263,602
	$	**385,628**	$	400,591

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		2015		2014
Revenues				
Commission income - insurance	$	**462,677**	$	434,485
Agency bill income		**47,020**		50,862
Profit sharing		**24,806**		95,418
Other		**27**		25
		534,530		580,790
Expenses				
Advertising		**859**		32
Amortization		**1,779**		-
Bank charges		**1,312**		573
Commissions		**220,967**		210,400
Dues and fees		**9,440**		8,571
Information technology		**31,546**		29,557
Office		**1,710**		803
Professional fees		**2,775**		7,015
Provision for doubtful accounts		**3,174**		852
Rent		**6,900**		6,900
Wages and benefits		**171,205**		164,445
		451,667		429,148
Income before income taxes		**82,863**		151,642
Income taxes				
Current		**8,110**		20,024
Deferred		**7,738**		2,820
		15,848		22,844
Net income	$	**67,015**	$	128,798

Retained Earnings, beginning of year	$	**263,600**	$	134,802
Net income		**67,015**		128,798
Retained earnings, end of year	$	**330,615**	$	263,600

See accompanying notes to the financial statements

Farmers' Mutual Insurance Agency Limited
Statement of cash flows

(Unaudited)

Year ended December 31		2015		2014
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net income	$	**67,015**	$	128,798
Amortization		**1,779**		-
Deferred tax		**7,738**		2,820
Change in non-cash operating working capital (note 7)		**26,672**		(39,319)
		103,204		92,299
Financing activities				
Change in trust fund assets		**(19,671)**		(82,324)
Investing activities				
Purchase of computer equipment		**(31,755)**		-
Payable to Antigonish Farmers' Mutual Insurance Company		**(61,000)**		(46,015)
		(92,755)		(46,015)
Decrease in cash and cash equivalents		**(9,222)**		(36,040)
Cash and cash equivalents				
Beginning of year		**27,303**		63,343
End of year	$	**18,081**	$	27,303

Supplemental cash flow information:

Income taxes paid	$	**26,259**	$	15,015
Interest paid	$	**Nil**	$	Nil

See accompanying notes to the financial statements

Farmers' Mutual Insurance Agency Limited
Notes to the financial statements

(Unaudited)
December 31, 2015

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 23, 2016.

(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
Note 3	Computer equipment – amortization

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.

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.

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.

3. Summary of significant accounting policies (continued)

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.

Computer equipment
Computer equipment is recorded at cost less accumulated amortization and any recognized impairment loss. Amortization is charged so as to write off the cost or valuation of computer equipment over its estimated useful life using the following method and rate:

Computer equipment	5 yrs, straight-line

The assets' residual value, useful life and method of amortization are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. If an asset is impaired, the carrying amount is reduced to the asset's recoverable amount with an offsetting charge recorded in the statement of operations. If events or changes in circumstances indicate that a previously recognized impairment loss has decreased or no longer exists, the reversal is recognized in the statement of operations to the extent that the carrying amount of the asset after reversal does not exceed the carrying amount that would have been had no impairment taken place.

3. Summary of significant accounting policies (continued)

Computer equipment (continued)
Gains and losses arising from the disposition of the computer equipment asset are measured as the difference between the net disposal proceeds and the carrying value of the asset and are reported in the statement of operations.

Any item of computer equipment is derecognized upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statement of operations in the year the asset is derecognized.

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.

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.

3. Summary of significant accounting policies (continued)

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.

New and revised International Financial Reporting Standards in issue but not yet effective

Presentation of Financial Statements (Amendments to IAS 1)
The IASB issued Disclosure Initiative – Amendments to IAS 1 Presentation of Financial Statements' which is amended to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. It also clarifies that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures, effective January 2016. The key features of the new standard are as follows:
- clarify the materiality requirements in IAS 1, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information;
- clarify that IAS 1's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated;
- add additional requirements for how an entity should present subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position;
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasizes that understandability and comparability should be considered by an entity when deciding that order; and
- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

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

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
The IASB published amendments to IFRS 11 - Joint Arrangements which provide guidance on accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. The amendments state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 - Business Combinations, should:
- apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs apart from principles that conflict with the guidance of IFRS 11. This requirement also applies to the acquisition of additional interests in an existing joint operation and to the acquisition of an interest in a joint operation on its formation; and
- provide disclosures for business combinations as required by IFRS 3 and other IFRSs.

The amendments to IFRS 11 apply prospectively for annual periods beginning on or after January 1, 2016.

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

3. Summary of significant accounting policies (continued)

New and revised International Financial Reporting Standards in issue but not yet effective (continued)

Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)
The IASB published Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets to address depreciation and amortization methods which are based on revenue. Both standards currently require that a depreciation or amortization method reflect the expected pattern of consumption of the future economic benefits of the asset.
The amendments to IAS 16 prohibit the use of a revenue-based depreciation method for property, plant and equipment because a depreciation method which is based on revenue allocates the asset's depreciable amount based on revenue generated in an accounting period as a proportion of total expected revenue during the asset's useful life and revenue reflects a pattern of economic benefits that are generated from operating the business rather than the economic benefits that are being consumed through use of the asset.
The amendments to IAS 38 present a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reasons set out above. This rebuttable presumption can be overcome (i.e., a revenue-based amortization method might be appropriate), only in two limited circumstances:

- The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold, or
- When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

In addition, the IASB has taken the opportunity to expand on the guidance on applying the diminishing balance method to property, plant and equipment and to intangible assets.
The amendments to IAS 16 and IAS 38 apply prospectively for annual periods beginning on or after January 1, 2016.

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

IFRS 9 – Financial instruments
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 beginning on or after January 1, 2018.

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

3. Summary of significant accounting policies (continued)

New and revised International Financial Reporting Standards in issue but not yet effective (continued)

IFRS 15 Revenue from contracts with customers

The IASB has published IFRS 15 Revenue from Contracts with Customers which establishes a new control-based revenue recognition model and provides additional guidance on multiple deliverable arrangements, variable pricing, customer refund rights, supplier repurchase options and other complexities, effective January 2018. The key features of the new standard are as follows:

- contracts involving the delivery of two or more goods and services—when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts,
- timing – when revenue is required to be recognized (over time or at a point in time),
- variable pricing and credit risk – how to treat arrangements with variable (e.g., performance-based) pricing, and how revenue can be constraint,
- time value of money – when to adjust a contract price for a financing component,
- specific issues, including: non-cash consideration and asset exchanges; contract costs; rights of return and other customer options; supplier repurchase options; warranties; principal versus agent; licensing; breakage; non-refundable upfront fees; and consignment and bill-and-hold arrangements.

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

IFRS 16 Leases

The IASB released IFRS 16 Leases, completing its long-running project on lease accounting. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor).

All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 Leases and, instead, introduces a single lessee accounting model. When applying that model, a lessee is required to recognize:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

From the perspective of the lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

In addition, IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements; and introduces new disclosure requirements.

IFRS 16 Leases is required for annual periods beginning on or after January 1, 2019.

The Company is currently evaluating the impact of the new standard 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 customer list. The customer list is recorded at the nominal value of $1.

		2015		2014
Customer list	**$**	**1**	$	1

5. Computer equipment

		2015		2014
Gross carrying amount				
Balance, December 31, 2014	**$**	**-**	$	-
Additions		**31,755**		-
Disposals		**-**		-
		31,775		-
Amortization and impairment				
Balance, December 31, 2014		**-**		-
Amortization		**1,779**		-
Disposals		**-**		-
		1,779		-
At December 31, 2015	**$**	**29,976**	$	-

The Company did not record any impairment charges or reversals during the year.

6. Capital stock

		2015		2014
Authorized:				
One common share with no par value				
Issued:				
1 common share	**$**	**2**	$	2

7. Supplemental cash flow information		**2015**		2014
Changes in non-cash operating working capital				
Receivables	**$**	**63,932**	$	(21,987)
Income taxes		**(18,149)**		(8,130)
Payables and accruals		**(19,111)**		(9,202)
	$	**26,672**	$	(39,319)

8. 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.

9. Future employee benefits

Included in expenditures is $4,282 (2014 - $4,108) in contributions the company made on behalf of its employees under a defined contribution pension plan.

10. 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 $46,223.

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.

11. Related party transactions

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

		2015		2014
Key management personnel				
Salaries, commissions and benefits	**$**	**64,812**	$	60,383

During the year, the Company paid rental income to a related party of $6,000 (2014 - $6,000) as well as expenses of $80,479 (2014 - $77,950) related to salaries of employees.

12. 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 14.00% (2014 - 14.00%) to income before income taxes as a result of the following:

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

		2015		2014
Income before income taxes	**$**	**82,863**	$	151,642
Income tax expense at the statutory rate	**$**	**11,601**	$	21,230
Changes in income taxes				
Other		**4,247**		1,614
	$	**15,848**	$	22,844

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

Deferred tax (liability) asset		**2015**		2014
Intangible assets	**$**	**42**	$	40
Equipment		**(2,160)**		-
Non-deductible reserve		**-**		5,580
	$	**(2,118)**	$	5,620

13. 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.

14. Post reporting date events

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