

Farmers' Mutual Insurance Agency Limited

Financial statements

(Unaudited)

December 31, 2016

Contents

	Page
Review engagement report	1
Statement of financial position	2
Statements of operations and retained earnings	3
Statement of cash flows	4
Notes to the financial statements	5 – 14

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, 2016 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 21, 2017

Chartered Professional Accountants
Licensed Public Accountants

Farmers' Mutual Insurance Agency Limited

Statement of financial position

(Unaudited)

December 31

2016

2015

Assets

Current

Cash and cash equivalents	\$	63,593	\$	18,081
Receivables		65,369		57,088
Income taxes receivable		5,641		13,140
Trust fund assets (note 8)				
Cash		275,698		253,401
Premiums receivable		51,350		13,941

461,651 355,651

Intangibles (note 4)

1 1

Computer equipment (note 5)

23,625 29,976

\$ 485,277 \$ 385,628

Liabilities

Current

Payables and accruals	\$	4,357	\$	5,581
Trust fund liabilities (note 8)		71,627		47,312

75,984 52,893

Deferred tax

4,072 2,118

80,056 55,011

Shareholder equity

Capital stock (note 6)

2 2

Retained earnings

405,219 330,615

405,221 330,617

\$ 485,277 \$ 385,628

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

2016

2015

	2016	2015
Revenues		
Commission income - insurance	\$ 473,527	\$ 462,677
Agency bill income	59,684	47,020
Profit sharing	31,465	24,806
Other	<u>20</u>	<u>27</u>
	<u>564,696</u>	<u>534,530</u>
Expenses		
Advertising	-	859
Amortization	6,351	1,779
Bank charges	935	1,312
Commissions	226,753	220,967
Dues and fees	10,833	9,440
Information technology	31,398	31,546
Office	550	1,710
Professional fees	5,175	2,775
Provision for doubtful accounts	272	3,174
Rent	6,900	6,900
Wages and benefits	<u>175,496</u>	<u>171,205</u>
	<u>464,663</u>	<u>451,667</u>
Income before income taxes	<u>100,033</u>	<u>82,863</u>
Income taxes		
Current	23,476	8,110
Deferred	<u>1,953</u>	<u>7,738</u>
	<u>25,429</u>	<u>15,848</u>
Net income	<u>\$ 74,604</u>	<u>\$ 67,015</u>
<hr/>		
Retained Earnings, beginning of year	\$ 330,615	\$ 263,600
Net income	<u>74,604</u>	<u>67,015</u>
Retained earnings, end of year	<u>\$ 405,219</u>	<u>\$ 330,615</u>

See accompanying notes to the financial statements

Farmers' Mutual Insurance Agency Limited

Statement of cash flows

(Unaudited)

Year ended December 31

2016

2015

Increase (decrease) in cash and cash equivalents

Operating activities

Net income	\$	74,604	\$	67,015
Amortization		6,351		1,779
Deferred tax		1,953		7,738
Change in non-cash operating working capital (note 7)		<u>(2,006)</u>		<u>26,672</u>
		<u>80,902</u>		<u>103,204</u>

Financing activities

Change in trust fund items		<u>(35,390)</u>		<u>(19,671)</u>
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Investing activities

Purchase of computer equipment		-		(31,755)
Payable to Antigonish Farmers' Mutual Insurance Company		<u>-</u>		<u>(61,000)</u>
		<u>-</u>		<u>(92,755)</u>

Increase in cash and cash equivalents **45,512** (9,222)

Cash and cash equivalents

Beginning of year 18,081 27,303

End of year \$ 63,593 \$ 18,081

Supplemental cash flow information:

Income taxes paid \$ 15,977 \$ 26,259

Interest paid \$ Nil \$ Nil

See accompanying notes to the financial statements

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

(Unaudited)

December 31, 2016

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 21, 2017.

(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
Note 3

Income taxes
Computer equipment – amortization

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

(Unaudited)

December 31, 2016

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.

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

(Unaudited)

December 31, 2016

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 years, straight-line
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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.

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

(Unaudited)

December 31, 2016

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.

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

(Unaudited)

December 31, 2016

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

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.

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

(Unaudited)

December 31, 2016

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.

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

(Unaudited)

December 31, 2016

4. Intangible assets

The Company's intangible assets represent customer list. The customer list is recorded at the nominal value of \$1.

	<u>2016</u>	<u>2015</u>
Customer list	\$ <u>1</u>	\$ <u>1</u>

5. Computer equipment

	<u>2016</u>	<u>2015</u>
Gross carrying amount		
Balance, December 31, 2015	\$ 31,755	\$ -
Additions	-	31,755
Disposals	<u>-</u>	<u>-</u>
	<u>31,755</u>	<u>31,755</u>
Amortization and impairment		
Balance, December 31, 2015	1,779	-
Amortization	6,351	1,779
Disposals	<u>-</u>	<u>-</u>
	<u>8,130</u>	<u>1,779</u>
At December 31, 2016	\$ <u>23,625</u>	\$ <u>29,976</u>

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

6. Capital stock

	<u>2016</u>	<u>2015</u>
Authorized:		
One common share with no par value		
Issued:		
1 common share	\$ <u>2</u>	\$ <u>2</u>

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

(Unaudited)

December 31, 2016

7. Supplemental cash flow information	<u>2016</u>	<u>2015</u>
Changes in non-cash operating working capital		
Receivables	\$ (8,281)	\$ 63,932
Income taxes	7,499	(18,149)
Payables and accruals	<u>(1,224)</u>	<u>(19,111)</u>
	<u>\$ (2,006)</u>	<u>\$ 26,672</u>

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 \$4,820 (2015 - \$4,282) 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 \$85,254.

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 unexpectedly 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.

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

(Unaudited)

December 31, 2016

11. Related party transactions

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

	<u>2016</u>	<u>2015</u>
Key management personnel		
Salaries, commissions and benefits	\$ <u>108,813</u>	\$ <u>64,812</u>

During the year, the Company paid rental income to a related party of \$6,000 (2015 - \$6,000) as well as expenses of \$82,147 (2015 - \$80,479) 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 25.05% (2015 - 14.00%) to income before income taxes as a result of the following:

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

	<u>2016</u>	<u>2015</u>
Income before income taxes	\$ <u>100,033</u>	\$ <u>82,863</u>
Income tax expense at the statutory rate	\$ <u>25,058</u>	\$ <u>11,601</u>
Changes in income taxes		
Other	<u>371</u>	<u>4,247</u>
	\$ <u>25,429</u>	\$ <u>15,848</u>

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

<i>Deferred tax (liability) asset</i>	<u>2016</u>	<u>2015</u>
Intangible assets	\$ <u>39</u>	\$ <u>42</u>
Equipment	<u>(4,111)</u>	<u>(2,160)</u>
	\$ <u>(4,072)</u>	\$ <u>(2,118)</u>

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

(Unaudited)

December 31, 2016

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.