Financial Statements of

Newfoundland Labrador Liquor Corporation

April 2, 2016

Building a better working world

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Newfoundland Labrador Liquor Corporation

We have audited the accompanying financial statements of **Newfoundland Labrador Liquor Corporation**, which comprise the statement of financial position as at April 2, 2016 and the statements of comprehensive income, changes in net assets and cash flows for the period then ended 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 International Financial Reporting Standards, 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.

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 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 auditors' 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 auditors consider 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 **Newfoundland Labrador Liquor Corporation** as at April 2, 2016 and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards.

Ernst + Young LLP

St. John's, Canada
June 22, 2016

Chartered Professional Accountants

Newfoundland Labrador Liquor Corporation

STATEMENT OF FINANCIAL POSITION

As at
[in thousands]

	April 2, 2016	April 4, 2015
	$	$
ASSETS		
Non-current		
Property, plant and equipment *[note 6]*	**25,076**	26,587
Intangible assets *[note 7]*	**6,997**	7,028
	32,073	33,615
Current		
Cash and cash equivalents	**29,429**	17,332
Accounts receivable *[note 8]*	**13,135**	14,019
Inventories *[note 9]*	**40,567**	42,578
Prepaid expenses	**1,940**	2,047
	85,071	75,976
TOTAL ASSETS	**117,144**	109,591
LIABILITIES AND NET ASSETS		
Non-current		
Obligations under finance lease *[note 16]*	**167**	236
Employee benefits *[note 10]*	**7,287**	7,598
	7,454	7,834
Current		
Accounts payable and accrued liabilities *[note 11]*	**30,554**	31,225
Accrued vacation pay	**3,536**	3,222
	34,090	34,447
	41,544	42,281
Net assets	**75,600**	67,310
TOTAL LIABILITIES AND NET ASSETS	**117,144**	109,591

See accompanying notes

On behalf of the Board:

Director

Director

Newfoundland Labrador Liquor Corporation

STATEMENT OF COMPREHENSIVE INCOME

Period ended
[in thousands]

	April 2, 2016 $	April 4, 2015 $
Sales *[note 12]*	**264,135**	256,043
Commission revenue on sale of beer	**62,303**	61,393
	326,438	317,436
Cost of sales	**114,096**	112,414
Gross profit	**212,342**	205,022
Administrative and operating expenses *[note 13]*	**49,999**	48,581
Earnings from operations	**162,343**	156,441
Other income		
Finance income	**239**	413
Miscellaneous income	**4,360**	4,241
	4,599	4,654
Net earnings for the period	**166,942**	161,095
Other comprehensive loss		
Remeasurement of employee benefits *[note 10]*	**(152)**	(355)
Comprehensive income for the period	**166,790**	160,740

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CHANGES IN NET ASSETS

Period ended
[in thousands]

	April 2, 2016	April 4, 2015
	$	$
Balance, beginning of period	**67,310**	77,070
Net earnings for the period	**166,942**	161,095
Other comprehensive loss for the period	**(152)**	(355)
Comprehensive income for the period	**166,790**	160,740
	234,100	237,810
Distributions to the Province of Newfoundland and Labrador	**(158,500)**	(170,500)
Balance, end of year	**75,600**	67,310

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CASH FLOWS

Period ended
[in thousands]

	April 2, 2016 $	April 4, 2015 $
OPERATING ACTIVITIES		
Comprehensive income for the period	**166,790**	160,740
Adjustments for non-cash effects		
Depreciation and amortization	**3,934**	4,114
Loss (gain) on disposal of property, plant and equipment	**5**	(2)
Accrued vacation pay	**314**	288
Employee benefits	**206**	1,394
	171,249	166,534
Employee benefit payments	**(517)**	(554)
Changes in non-cash working capital balances		
Decrease/(increase) in accounts receivable	**884**	(2,753)
Decrease/(increase) in inventories	**2,011**	(6,478)
Decrease in prepaid expenses	**107**	712
(Increase)/decrease in accounts payable and accrued liabilities	**(671)**	4,587
Cash provided by operating activities	**173,063**	162,048
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	—	6
Purchase of property, plant and equipment	**(1,243)**	(2,177)
Purchase of intangible assets	**(1,155)**	(1,809)
Cash used in investing activities	**(2,398)**	(3,980)
FINANCING ACTIVITIES		
Decrease in obligations under finance lease	**(69)**	(76)
Distributions to the Province of Newfoundland and Labrador	**(158,500)**	(170,500)
Cash used in financing activities	**(158,569)**	(170,576)
Net increase/(decrease) in cash during the period	**12,096**	(12,508)
Cash and cash equivalents, beginning of period	**17,332**	29,840
Cash and cash equivalents, end of period	**29,428**	17,332

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

The Newfoundland Labrador Liquor Corporation [the "Corporation" or "NLC"] is a Provincial Crown Corporation responsible for managing the importation, sale and distribution of beverage alcohol throughout the Province of Newfoundland and Labrador [the "Province"] through its own Liquor Store locations and through Liquor Express operators. As a Crown Corporation, the NLC is not subject to any Provincial or Federal taxation in relation to its income.

The fiscal year of the Corporation ends on the first Saturday of April. As a result, the Corporation's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The periods ended April 2, 2016 and April 4, 2015 both contained 52 weeks.

The corporate office is located at 90 Kenmount Road in St. John's, Newfoundland and Labrador.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

Going concern and basis of measurement

These financial statements were prepared on a going concern basis, under the historical cost convention. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand except when otherwise indicated. The financial statements provide comparative information in respect of the previous period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received (or receivable), excluding returns, rebates, and sales taxes or duty. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation has concluded that it is acting as a principal in all of its revenue arrangements. The Corporation's major revenue streams include sales to retail and wholesale customers and commission revenue on the sale of beer. The following specific recognition criteria apply before revenue is recognized:

Sales of goods

The Corporation generates and recognizes net sales to retail and licensee customers at the point of sale in its stores and upon delivery of products to Liquor Express operators. The commission paid to the Liquor Express operators is deducted from the selling price of the products delivered. The commission paid to Liquor Express operators for the period ended April 2, 2016 was $5.4 million [period ended April 4, 2015 – $5.4 million].

Sales of gift cards are deferred and included in accounts payable and accrued liabilities as part of other payables on the statement of financial position at the time of the sale and subsequently recognized in the statement of comprehensive income when redeemed.

Sales exclude HST and other taxes due.

Commission revenue on sale of beer
The Corporation earns a commission on the sale of beer products in the Province sold through Liquor Express outlets and brewer's agent stores. Commissions are recognized on an accrual basis, based upon beer products distributed during the reporting period. The commission earned is presented within revenue as it is earned through the ordinary business activities of the Corporation.

Miscellaneous income
Miscellaneous income contains income related to merchandising and marketing of the Corporation's products. It is earned as promotions are executed and the related expenses are incurred.

Foreign currency translation

Transactions in foreign currencies are initially recorded by the Corporation at rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary assets are valued at the historical amount.

Current versus non-current classification

The Corporation presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Corporation classifies all other liabilities as non-current.

NOTES TO FINANCIAL STATEMENTS

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any impairment. The cost includes expenditures that are directly attributable to the acquisition of the items. Repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

Building components	10 – 50 years
Leasehold improvements	5 – 20 years
Office furniture and equipment	5 – 10 years
Computer hardware	5 – 6 years
Plant and warehouse equipment	5 – 20 years
Store equipment and fixtures	5 – 20 years
Motor vehicles	3 years

Building components include building structure (50 years), building exterior (20 years), mechanical and electrical (20 years), roofing and paving (20 years), and interior finishes (10 years). These components are combined and presented in these financial statements as building components.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset. The Corporation analyzes its lease agreements to assess whether they are finance or operating leases, using the lease term, useful life of the underlying asset, the present value of lease payments and other relevant factors.

Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Property under finance lease is recorded as an asset. The corresponding obligation is recorded as a liability at the lower of the fair value of the asset and the present value of the minimum lease payments. Assets are amortized over the shorter of the lease term or the life of the asset.

NOTES TO FINANCIAL STATEMENTS

Intangible assets

Intangible assets consist of trademarks and computer software assets not considered integral to the operation of the related hardware. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any impairment losses. The Corporation capitalizes internally generated intangible assets that meet capitalization criteria. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Intangible assets with finite lives (including computer software) are amortized over periods of 5-9 years. New product research and development costs are expensed as incurred.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit ["CGU"] level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. The Corporation considers the capitalized trademarks to have an indefinite life.

Impairment of non-financial assets

The Corporation assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

Cash and cash equivalents

Cash and cash equivalents are defined as short-term deposits with original maturities of three months or less. The Corporation holds a guaranteed investment certificate of $5.0 million (April 4, 2015 - $5.0 million) along with cash held in an interest bearing bank account. The interest income earned on these deposits is recorded as finance income.

NOTES TO FINANCIAL STATEMENTS

Inventories

Inventories are measured at the lower of cost and net realizable value and include raw materials and finished goods. Inventories held in the distribution centres, in transit and in retail stores are measured at landed cost, consisting of acquisition costs, freight and customs and excise duties. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Periodically, NLC reviews its inventory to investigate whether an inventory reserve is required, to reduce the carrying value of inventory for obsolescence and amounts required to value inventory at the lower of cost or net realizable value.

General provisions

General provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employee benefits

Refer to note 10 for additional details regarding employee benefits.

Severance

The Corporation provides a severance payment to employees upon resignation, retirement or termination subject to certain vesting and other conditions of employment. The obligation is actuarially determined using assumptions based on management's best estimates of the probability of employees meeting the eligibility requirements for severance, salary changes, mortality, and expectations on retention along with other relevant assumptions. Discount rates are based on the yield on high quality corporate bonds with cash flows similar to those of this liability. Actuarial gains or losses are recognized in other comprehensive income ["OCI"] in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Sick leave

Certain employees of the Corporation are entitled to sick leave benefits that accumulate but do not vest. In accordance with IFRS, the Corporation recognizes the liability for the future use of these benefits in the period in which the employee renders the service. The obligation is actuarially determined using assumptions based on management's best estimates of the probability of use of accrued sick leave, salary changes, mortality, and expectations on retention along with other relevant assumptions. Discount rates are based on the yield on high quality corporate bonds with cash flows similar to those of this liability. Actuarial gains or losses are recognized immediately in the statement of financial position with a corresponding debit or credit to net assets through profit or loss in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

NOTES TO FINANCIAL STATEMENTS

Pension

The Corporation and its employees participate in the Province's Public Service Pensions Plan ["PSPP"], a multi-employer defined benefit plan. The Corporation is however not able to obtain sufficient information from the plan administrator to account for the plan as a defined benefit plan and therefore applies defined contribution accounting guidelines. The Corporation's contributions are expensed as incurred. The Corporation is neither obligated for any unfunded liability, nor entitled to any surplus that may arise in this plan. NLC share of future contributions are dependent upon the funded position of the PSPP.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible by the Corporation.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Corporation determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

Financial instruments

Financial assets

Financial assets within the scope of *IAS 39 Financial Instruments: Recognition and Measurement* ["IAS 39"] are classified at initial recognition as financial assets at fair value through profit or loss ["FVTPL"], loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value through profit or loss.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition and all financial liabilities are recognized initially at fair value.

The Corporation has classified and subsequently measures financial assets/liabilities as follows:

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Financial assets at FVTPL	Fair value through profit or loss
Accounts receivable	Loans and receivables	Amortized cost using Effective Interest Rate Method ["EIR"]
Accounts payable and accrued liabilities	Loans and borrowings	Amortized cost using EIR

The carrying value of the Corporation's financial instruments approximates fair value due to their immediate or short-term maturity and normal credit terms.

Impairment of financial assets

The Corporation assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, the Corporation first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

NOTES TO FINANCIAL STATEMENTS

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss.

Significant accounting judgments, estimates and assumptions

The preparation of the Corporation's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates and assumptions were made as part of the severance and sick leave account balances. The Corporation made assumptions regarding the discount rate, salary increases, and retention rates to estimate the amount of severance and sick leave accrued as of the reporting date. There were no significant judgments used in the preparation of these financial statements.

4. CHANGES IN ACCOUNTING POLICIES

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment did not have any impact on the Corporation, since it has no defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the Corporation during the current period.

NOTES TO FINANCIAL STATEMENTS

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Corporation has applied these amendments for the first time in these financial statements. They include:

IFRS 13 Fair Value Measurement
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Corporation does not apply the portfolio exception in IFRS 13.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Corporation monitors the activities of the IASB and considers the impact that changes in the standards may have on the Corporation's financial reporting. Some of the ongoing projects which may impact the Corporation are as follows:

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is required but providing comparative information is not compulsory.

The adoption of IFRS 9 will have no material impact on the classification and measurement of the Corporation's financial assets and liabilities.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Corporation is currently evaluating the impact arising from the adoption of this standard.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and is effective for periods beginning on or after 1 January 2019. An organization can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers.

NOTES TO FINANCIAL STATEMENTS

The new standard changes the classification of leases. All leases result in an organization 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, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize:

a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and

b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

The Corporation is currently analyzing the impact this new standards will have on its financial statements.

Annual improvements 2012-2014 Cycle
These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Corporation. They include:

IFRS 7 Financial Instruments: Disclosures
The amendment clarifies whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required.

IAS 19 Employee Benefits
The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Corporation given that the Corporation has not used a revenue-based method to depreciate its non-current assets.

NOTES TO FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT

	April 2, 2016			April 4, 2015
	Cost $	Accumulated depreciation $	Net book value $	Net book value $
Land	**3,194**	—	**3,194**	3,194
Building components	**15,793**	**3,312**	**12,481**	12,850
Leasehold improvements	**13,892**	**10,255**	**3,637**	4,280
Office furniture and equipment	**1,278**	**1,154**	**124**	191
Computer hardware	**6,030**	**3,884**	**2,146**	2,121
Plant and warehouse equipment	**5,651**	**3,178**	**2,473**	2,684
Store equipment and fixtures	**4,610**	**3,684**	**926**	1,116
Motor vehicles	**316**	**221**	**95**	151
Total	**50,764**	**25,688**	**25,076**	26,587

	Period ending April 2, 2016			
	Opening balance $	Additions $	Disposals $	Closing balance $
Cost				
Land	**3,194**	—	—	**3,194**
Building components	**15,601**	**192**	—	**15,793**
Leasehold improvements	**13,827**	**65**	—	**13,892**
Office furniture and equipment	**1,356**	—	**(78)**	**1,278**
Computer hardware	**5,624**	**701**	**(295)**	**6,030**
Plant and warehouse equipment	**5,621**	**30**	—	**5,651**
Store equipment and fixtures	**5,099**	**255**	**(744)**	**4,610**
Motor vehicles	**316**	—	—	**316**
Total	**50,638**	**1,243**	**(1,117)**	**50,764**

	Period ending April 4, 2015			
	Opening balance $	Additions $	Disposals $	Closing balance $
Cost				
Land	3,194	—	—	3,194
Building components	15,414	196	(9)	15,601
Leasehold improvements	14,203	152	(528)	13,827
Office furniture and equipment	1,404	19	(67)	1,356
Computer hardware	4,735	895	(6)	5,624
Plant and warehouse equipment	5,151	492	(22)	5,621
Store equipment and fixtures	4,946	241	(88)	5,099
Motor vehicles	180	182	(46)	316
Total	49,227	2,177	(766)	50,638

NOTES TO FINANCIAL STATEMENTS

	Period ending April 2, 2016			
	Opening balance $	Depreciation $	Disposals $	Closing balance $
Accumulated depreciation				
Building components	**2,751**	**561**	—	**3,312**
Leasehold improvements	**9,547**	**708**	—	**10,255**
Office furniture and equipment	**1,165**	**66**	**(77)**	**1,154**
Computer hardware	**3,503**	**672**	**(291)**	**3,884**
Plant and warehouse equipment	**2,937**	**241**	—	**3,178**
Store equipment and fixtures	**3,983**	**445**	**(744)**	**3,684**
Motor vehicles	**165**	**56**	—	**221**
Total	**24,051**	**2,749**	**(1,112)**	**25,688**
Net book value	**26,587**	**(1,506)**	**(5)**	**25,076**

	Period ending April 4, 2015			
	Opening balance $	Depreciation $	Disposals $	Closing balance $
Accumulated depreciation				
Building components	2,215	545	(9)	2,751
Leasehold improvements	9,284	790	(527)	9,547
Office furniture and equipment	1,159	70	(64)	1,165
Computer hardware	2,986	524	(7)	3,503
Plant and warehouse equipment	2,704	255	(22)	2,937
Store equipment and fixtures	3,553	519	(89)	3,983
Motor vehicles	149	60	(44)	165
Total	22,050	2,763	(762)	24,051
Net book value	27,177	(586)	(4)	26,587

7. INTANGIBLE ASSETS

	April 2, 2016			April 4, 2015
	Cost $	Accumulated amortization $	Net book value $	Net book value $
Trademark	**254**	—	**254**	254
Computer software	**16,316**	**9,573**	**6,743**	6,774
	16,570	**9,573**	**6,997**	7,028

NOTES TO FINANCIAL STATEMENTS

	Period ending April 2, 2016			
	Opening balance $	Additions/ amortization $	Disposals $	Closing balance $
Cost				
Trademark	**254**	**—**	**—**	**254**
Computer software	**15,184**	**1,155**	**(23)**	**16,316**
Total	**15,438**	**1,155**	**(23)**	**16,570**
Accumulated amortization				
Computer software	**8,410**	**1,186**	**(23)**	**9,573**
Net book value	**7,028**	**(31)**	**—**	**6,997**

	Period ending April 4, 2015			
	Opening balance $	Additions/ amortization $	Disposals $	Closing balance $
Cost				
Trademark	254	—	—	254
Computer software	13,386	1,809	(11)	15,184
Total	13,640	1,809	(11)	15,438
Accumulated amortization				
Computer software	7,070	1,351	(11)	8,410
Net book value	6,570	458	—	7,028

8. ACCOUNTS RECEIVABLE

Accounts receivable include the following:

	April 2, 2016 $	April 4, 2015 $
Accounts receivable	**7,294**	8,798
Beer commissions receivable	**5,841**	5,221
	13,135	14,019

Accounts receivable and beer commissions receivable are non-interest bearing and are generally on terms of 7 to 30 days.

As at April 2, 2016, approximately 97% [April 4, 2015 – 96%] of the accounts receivable balance is current. An allowance for doubtful accounts has been recorded in respect of certain non-current receivables in the amount of $0.04 million [April 4, 2015 - $0.08 million].

NOTES TO FINANCIAL STATEMENTS

9. INVENTORIES

	April 2, 2016 $	April 4, 2015 $
Distribution centres	**25,381**	28,363
Branch stores	**9,967**	10,637
Stock in transit	**3,948**	2,312
Raw materials	**1,271**	1,266
	40,567	42,578

The total value of inventory expensed to cost of sales for the period ended April 2, 2016 was $110.2 million [April 4, 2015 – $108.6 million]. The inventory value includes a reserve of $0.9 million [April 4, 2015 – $1.0 million]. Residual amounts included in cost of sales include manufacturing labour and overhead, and foreign exchange gains/losses.

10. EMPLOYEE BENEFITS

Employee benefits include the following:

	April 2, 2016 $	April 4, 2015 $
Accrued severance obligation, beginning of period	**4,207**	3,611
Current service cost	**363**	293
Interest cost	**148**	156
Actuarial loss (gain)[1] due to		
Experience Adjustment	**(49)**	—
Changes in demographic assumptions	—	(1)
Changes in financial assumptions	**(103)**	356
	4,566	4,415
Benefits paid	**(229)**	(208)
Accrued severance obligation, end of period	**4,337**	4,207

[1] Actuarial losses/gains due to changes in assumptions on the severance obligation are recorded in OCI.

NOTES TO FINANCIAL STATEMENTS

	April 2, 2016 $	April 4, 2015 $
Accrued sick leave obligation, beginning of period	**3,391**	3,147
Current service cost	**306**	307
Interest cost	**85**	117
Actuarial loss (gain)[2] due to		
Experience adjustments	**(466)**	—
Changes in demographic assumptions	—	(8)
Changes in financial assumptions	**(78)**	174
	3,238	3,737
Benefits paid	**(288)**	(346)
Accrued sick leave obligation, end of period	**2,950**	3,391
Total employee benefits, end of period	**7,287**	7,598

The significant assumptions used by the Corporation in calculating the provisions are as follows:

	April 2, 2016 %	April 4, 2015 %
Salary increases	**3.25**	3.25
Discount rate – severance liability	**3.55**	3.35
Discount rate – sick leave liability	**3.10**	2.75

Employee retention rates used vary depending on age and length of service.

The table below shows the sensitivities of the total employee benefits to a change in the key assumptions:

	Sick leave obligation		Severance obligation	
	$	%	$	%
Discount Rate				
1% decrease	233	7.9	556	12.8
1% increase	(202)	(6.9)	(464)	(10.7)
Salary increase				
1% decrease	(232)	(7.9)	(508)	(11.7)
1% increase	263	8.9	600	13.8
Sick leave usage				
10% decrease in hours	(276)	(9.4)	—	—
10% increase in hours	271	9.2	—	—

An actuarial valuation was performed during the year. Membership data as at April 5, 2015 was used for the valuation and extrapolated to April 2, 2016.

[2] Actuarial losses/gains due to changes in assumptions on the sick leave obligation are recorded in P&L.

NOTES TO FINANCIAL STATEMENTS

Pension plan

The Corporation's share of pension expense paid to the PSPP for the 52 weeks ended April 2, 2016 is $2.3 million [April 4, 2015 – $1.8 million]. The anticipated contributions for the fiscal year ending April 1, 2017 are $2.4 million.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 2, 2016 $	April 4, 2015 $
Excise duties	**10,348**	11,080
Accrued liabilities	**6,835**	7,695
Trade payables	**5,684**	6,221
HST payable	**2,550**	2,141
Other payables	**5,137**	4,088
	30,554	31,225

12. SALES

Sales include the following:

	April 2, 2016 $	April 4, 2015 $
Sales of beverage alcohol	**258,320**	249,992
Other	**5,815**	6,051
	264,135	256,043

13. ADMINISTRATIVE AND OPERATING EXPENSES

	April 2, 2016 $	April 4, 2015 $
Salaries and employee benefits	**30,845**	29,321
Depreciation and amortization	**3,936**	4,114
Rent and municipal taxes	**2,659**	2,536
Marketing	**2,648**	3,292
Interest and bank charges	**2,407**	2,313
Other	**7,504**	7,005
	49,999	48,581

NOTES TO FINANCIAL STATEMENTS

14. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as net assets. Due to its nature as a Crown Corporation, NLC's capital management is strongly influenced by the liquidity forecasts of the Province, and although the Corporation prepares its own budget, including proposed distributions, the Province may at any time decide to request an additional distribution or to increase the distributions as included in the budget. Generally, the Corporation aims at maintaining a net assets balance that ensures that the Corporation is able to fund its obligations as they fall due and has available a reserve to allow for unexpected expenditures. Annual budgets and distribution plans are set to accommodate the Corporation's expenditures in relation to planned investments in property, plant and equipment and intangible assets.

No changes were made in the objective, policies, or processes for managing capital during the periods ended April 2, 2016 and April 4, 2015.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Corporation's principal financial liabilities comprise trade and other payables. The Corporation's principal financial assets include trade and other receivables and cash and cash equivalents that derive directly from its operations. The primary risk to the Corporation is credit risk.

Credit risk

The Corporation is exposed to credit risk with respect to accounts receivable from customers. The Corporation provides products to a large customer base, which minimizes the concentration of credit risk. There were two customers that accounted for 10% or more of the Corporation's accounts receivable as at April 2, 2016 [April 4, 2015 – two customers]. The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and utilizes internal and third-party collections processes for overdue accounts.

Accounts receivable balances related to Liquor Express store operations are subject to general security agreements. The Corporation also maintains provisions for potential credit losses that are assessed on an ongoing basis.

NOTES TO FINANCIAL STATEMENTS

16. COMMITMENTS

The Corporation has entered into rental leases covering most of its corporate stores and has concluded that all of its retail store leases are operating leases.

Annual operating lease obligations are as follows:

	April 2, 2016 $	April 4, 2015 $
Within one year	**2,525**	2,343
After one year but no more than five years	**6,488**	5,984
More than five years	**4,441**	987

The Corporation has one finance lease with the following lease obligations:

	April 2, 2016 $	April 4, 2015 $
Within one year	**70**	69
After one year but no more than five years	**97**	167

17. RELATED PARTY TRANSACTIONS

The Corporation uses office and warehouse space in St. John's that is owned by the Department of Works, Services and Transportation of the Province. The Corporation is not required to make any payments to the Department of Works, Services and Transportation; no amount has been recorded in these financial statements. All operating, leasehold and maintenance costs related to the buildings are the responsibility of the Corporation.

During the period ended April 2, 2016, the Corporation made distributions of $158.5 million [period ended April 4, 2015 - $170.5 million] to the Province.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of NLC, being the members of the Executive Management (CEO/President, Senior Vice President & CFO, Vice President of Sales, Vice President of Supply Chain Management, Vice President of Human Resources and Corporate Administration, and Chief Information Officer). The total compensation (including salary and benefits) paid to key management personnel for the 52 weeks ended April 4, 2015 was $0.9 million [April 4, 2015 – $0.9 million].

18. COMPARATIVE FINANCIAL STATEMENTS

The comparative notes to the financial statements have been reclassified to conform to the presentation adopted for the current year.

NOTES TO FINANCIAL STATEMENTS

19. SUBSEQUENT EVENTS

The financial statements of the Corporation for the 52 weeks ended April 2, 2016 were authorized for issue in accordance with a resolution of the Board of Directors on June 22, 2016.