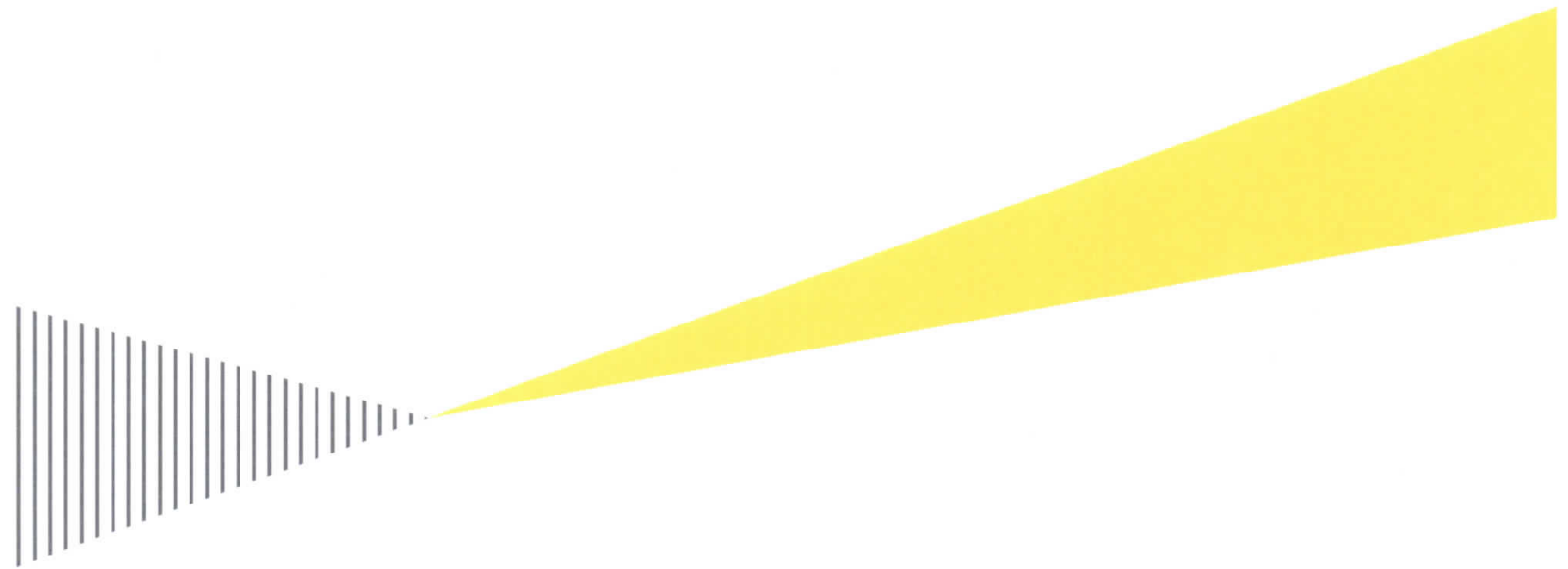


Financial statements

Newfoundland Labrador Liquor Corporation

April 1, 2017



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 1, 2017 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 1, 2017 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 26, 2017

Chartered Professional Accountants



Newfoundland Labrador Liquor Corporation

Statement of financial position

[in thousands]

As at

	April 1, 2017	April 2, 2016
	\$	\$
Assets		
Current		
Cash and cash equivalents	16,596	29,429
Accounts receivable <i>[note 8]</i>	12,516	13,135
Inventories <i>[note 9]</i>	36,043	40,567
Prepaid expenses	1,928	1,940
Total current assets	67,083	85,071
Property, plant and equipment <i>[note 6]</i>	23,143	25,076
Intangible assets <i>[note 7]</i>	6,502	6,997
	96,728	117,144
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities <i>[note 11]</i>	31,415	30,554
Accrued vacation pay	3,725	3,536
Total current liabilities	35,140	34,090
Obligations under finance lease <i>[note 16]</i>	98	167
Employee benefits <i>[note 10]</i>	7,702	7,287
Total liabilities	42,940	41,544
Net assets	53,788	75,600
	96,728	117,144

See accompanying notes

On behalf of the Board:


Director


Director

Newfoundland Labrador Liquor Corporation

Statement of comprehensive income

[in thousands]

Period ended

	April 1, 2017	April 2, 2016
	\$	\$
Sales <i>[note 12]</i>	267,123	264,135
Commission revenue on sale of beer	64,961	62,303
	332,084	326,438
Cost of sales	112,719	114,096
Gross profit	219,365	212,342
Administrative and operating expenses <i>[note 13]</i>	48,734	50,303
Earnings from operations	170,631	162,039
Other income		
Finance income	342	239
Miscellaneous income	5,161	4,360
	5,503	4,599
Net earnings for the period	176,134	166,638
Other comprehensive income		
Remeasurement of employee benefits <i>[note 10]</i>	54	152
Comprehensive income for the period	176,188	166,790

See accompanying notes

Newfoundland Labrador Liquor Corporation

Statement of changes in net assets

[in thousands]

Period ended

	April 1, 2017 \$	April 2, 2016 \$
Balance, beginning of period	75,600	67,310
Net earnings for the period	176,134	166,638
Other comprehensive income for the period	54	152
Comprehensive income for the period	176,188	166,790
	251,788	234,100
Distributions to the Province of Newfoundland and Labrador	(198,000)	(158,500)
Balance, end of period	53,788	75,600

See accompanying notes

Newfoundland Labrador Liquor Corporation

Statement of cash flows

[in thousands]

Period ended

	April 1, 2017	April 2, 2016
	\$	\$
Operating activities		
Comprehensive income for the period	176,188	166,790
Add (deduct) items not affecting cash		
Depreciation and amortization	3,942	3,935
(Gain) loss on disposal of property, plant and equipment	(9)	5
Accrued vacation pay	189	314
Increase (decrease) in employee benefits	415	(311)
	<u>180,725</u>	<u>170,733</u>
Changes in non-cash working capital balances related to operations		
Decrease in accounts receivable	619	884
Decrease in inventories	4,524	2,011
Decrease in prepaid expenses	12	107
Increase (decrease) in accounts payable and accrued liabilities	861	(671)
Cash provided by operating activities	<u>186,741</u>	<u>173,064</u>
Investing activities		
Proceeds on disposal of property, plant and equipment	9	—
Purchase of property, plant and equipment	(628)	(1,243)
Purchase of intangible assets	(886)	(1,155)
Cash used in investing activities	<u>(1,505)</u>	<u>(2,398)</u>
Financing activities		
Decrease in obligations under finance lease	(69)	(69)
Distributions to the Province of Newfoundland and Labrador	(198,000)	(158,500)
Cash used in financing activities	<u>(198,069)</u>	<u>(158,569)</u>
Net (decrease) increase in cash during the period	<u>(12,833)</u>	<u>12,097</u>
Cash and cash equivalents, beginning of period	29,429	17,332
Cash and cash equivalents, end of period	<u>16,596</u>	<u>29,429</u>

See accompanying notes

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

1. Nature of operations

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

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 1, 2017 and April 2, 2016 both contained 52 weeks. The next fiscal year ending April 7, 2018 will contain 53 weeks.

These financial statements were authorized for issue in accordance with a resolution of the Corporation's Board of Directors on June 26, 2017.

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, regardless of when the payment is received. 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 outlets. 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 1, 2017 was \$5.6 million [period ended April 2, 2016 – \$5.4 million].

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

The Corporation classifies all other liabilities as non-current.

Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation and accumulated impairment losses, if any. 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, useful lives and methods of depreciation 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 fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement. 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.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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 are 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 cash in an interest-bearing bank account. The interest income earned on these deposits is recorded as finance income. For the period ended April 1, 2017, the Corporation did not hold a guaranteed investment certificate [April 2, 2016 – \$5.0 million].

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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. 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.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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's share of future contributions is 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 is 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; or
- 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.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

Financial instruments

Financial assets

Financial assets 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. All financial assets are recognized initially at fair value through profit or loss.

Financial liabilities

Financial liabilities 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. 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
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.

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 the statement of comprehensive income.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

Significant accounting judgments, estimates and assumptions

The preparation of the Corporation's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the accompanying disclosures, and disclosure of contingent liabilities. 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 increase, 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

Annual Improvements 2012-2014 Cycle

These improvements are effective from January 1, 2016 and the Corporation has applied these amendments for the first time in these financial statements. 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 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify the existing presentation and disclosure requirements in IAS 1, including the presentation of line items, subtotals and notes, and provide guidance to assist entities to apply judgment in determining what information to disclose, and how that information is presented in their financial statements. This amendment did not have a material impact on the annual financial statements of the Corporation.

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 that may impact the Corporation are as follows:

IFRS 9, Financial Instruments

In 2013, the IASB issued amendments to IFRS 9, *Financial Instruments* ["IFRS 9"], issued in 2010, which will ultimately replace IAS 39. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. IFRS 9 allows for early adoption, but the Corporation does not intend to do so at this time. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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.

In April 2016, the IASB published clarifications to IFRS 15 that address three topics [identifying performance obligations, principal versus agent considerations, and licensing] and provide some transition relief for modified contracts and completed contracts.

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 January 1, 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 January 1, 2019. An organization can choose to apply IFRS 16 before that date but only if it also applies IFRS 15.

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.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the asset. The Corporation is currently evaluating the impact arising from the adoption of this standard.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

6. Property, plant and equipment

	Land, buildings and leasehold improvements \$	Furniture and equipment \$	Computer equipment and vehicles \$	Total \$
Cost				
As at April 4, 2015	32,622	12,076	5,940	50,638
Additions	257	285	701	1,243
Disposals	—	(822)	(295)	(1,117)
As at April 2, 2016	32,879	11,539	6,346	50,764
Additions	65	265	298	628
Disposals	—	(154)	(211)	(365)
As at April 1, 2017	32,944	11,650	6,433	51,027
Accumulated depreciation				
As at April 4, 2015	(12,298)	(8,085)	(3,668)	(24,051)
Depreciation for the period	(1,269)	(752)	(728)	(2,749)
Disposals	—	821	291	1,112
As at April 2, 2016	(13,567)	(8,016)	(4,105)	(25,688)
Depreciation for the period	(1,258)	(651)	(652)	(2,561)
Disposals	—	154	211	365
As at April 1, 2017	(14,825)	(8,513)	(4,546)	(27,874)
Net book value				
As at April 2, 2016	19,312	3,523	2,241	25,076
As at April 1, 2017	18,119	3,137	1,887	23,143

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

7. Intangible assets

	Computer software \$	Trademark \$	Total \$
Cost			
As at April 4, 2015	15,184	254	15,438
Additions	1,155	—	1,155
Disposals	(23)	—	(23)
As at April 2, 2016	16,316	254	16,570
Additions	886	—	886
Disposals	(416)	—	(413)
As at April 1, 2017	16,789	254	17,043
Accumulated depreciation			
As at April 4, 2015	(8,410)	—	(8,410)
Amortization	(1,186)	—	(1,186)
Disposals	23	—	23
As at April 2, 2016	(9,573)	—	(9,573)
Amortization	(1,381)	—	(1,381)
Disposals	413	—	413
As at April 1, 2017	(10,541)	—	(10,541)
Net book value			
As at April 2, 2016	6,743	254	6,997
As at April 1, 2017	6,248	254	6,502

8. Accounts receivable

Accounts receivable include the following:

	April 1, 2017 \$	April 2, 2016 \$
Beer commission receivable	5,091	5,841
Trade accounts receivable	3,003	2,897
Other receivables	4,422	4,397
	12,516	13,135

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

As at April 1, 2017, approximately 99% [April 2, 2016 – 97%] of the trade 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 2, 2016 – \$0.04 million].

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

9. Inventories

	April 1, 2017 \$	April 2, 2016 \$
Distribution centres	21,471	25,381
Branch stores	10,016	9,967
Inventory in transit	3,507	3,948
Raw materials	1,049	1,271
	36,043	40,567

The total value of inventory expensed to cost of sales for the period ended April 1, 2017 was \$107.5 million [April 2, 2016 – \$108.6 million]. The inventory value includes a reserve of \$0.9 million [April 2, 2016 – \$0.9 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 1, 2017 \$	April 2, 2016 \$
Accrued severance obligation, beginning of period	4,337	4,207
Current service cost	363	363
Interest cost	164	148
Actuarial gain ¹ due to		
Experience adjustment	—	(49)
Changes in financial assumptions	(54)	(103)
	4,810	4,566
Benefits paid	(173)	(229)
Accrued severance obligation, end of period	4,637	4,337
Accrued sick leave obligation, beginning of period	2,950	3,391
Current service cost	305	306
Interest cost	96	85
Actuarial loss (gain) ² due to		
Experience adjustment	—	(466)
Changes in financial assumptions	11	(78)
	3,362	3,238
Benefits paid	(297)	(288)
Accrued sick leave obligation, end of period	3,065	2,950
Total employee benefits, end of period	7,702	7,287

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

² Actuarial losses/gains due to changes in assumptions on the sick leave obligation are recorded in profit or loss.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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

	April 1, 2017	April 2, 2016
	%	%
Salary increases	3.25	3.25
Discount rate – severance liability	3.65	3.55
Discount rate – sick leave liability	3.05	3.10

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	243	7.9	580	12.5
1% increase	(210)	(6.9)	(486)	(10.5)
Salary increase				
1% decrease	(272)	(8.9)	(576)	(12.4)
1% increase	310	10.1	682	14.7
Sick leave usage				
10% decrease in hours	(347)	(11.3)	—	—
10% increase in hours	342	11.2	—	—

Membership data as at April 5, 2015 was used for the valuation and extrapolated to April 1, 2017.

Pension plan

The Corporation's share of pension expense paid to the PSPP for the period ended April 1, 2017 is \$2.3 million [April 2, 2016 – \$2.3 million]. The anticipated contributions for the fiscal year ending April 7, 2018 are \$2.3 million.

11. Accounts payable and accrued liabilities

	April 1, 2017	April 2, 2016
	\$	\$
Excise duties	9,526	10,348
Trade payables	7,831	5,684
Accrued liabilities	5,808	6,835
HST payable	3,013	2,550
Other	5,237	5,137
	31,415	30,554

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

12. Sales

Sales include the following:

	April 1, 2017	April 2, 2016
	\$	\$
Sales of beverage alcohol	261,514	258,320
Other	5,609	5,815
	267,123	264,135

13. Administrative and operating expenses

	April 1, 2017	April 2, 2016
	\$	\$
Salaries and employee benefits	31,002	31,149
Depreciation and amortization	3,942	3,935
Rent and municipal taxes	2,743	2,659
Marketing and royalties	2,279	2,648
Interest and bank charges	2,475	2,414
Other	6,293	7,498
	48,734	50,303

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 1, 2017 and April 2, 2016.

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.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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 1, 2017 [April 2, 2016 – 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.

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 1, 2017 \$	April 2, 2016 \$
Within one year	2,336	2,525
After one year but no more than five years	4,885	6,488
More than five years	3,770	4,441

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

	April 1, 2017 \$	April 2, 2016 \$
Within one year	62	70
After one year but no more than five years	36	97

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 1, 2017, the Corporation made distributions of \$198.0 million [period ended April 2, 2016 – \$158.5 million] to the Province.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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 period ended April 1, 2017 was \$1.0 million [April 2, 2016 – \$0.9 million].

18. Comparative financial statements

Certain prior period amounts have been reclassified for consistency with the current period presentation. These re-classifications had no effect on the reported results of the Corporation.