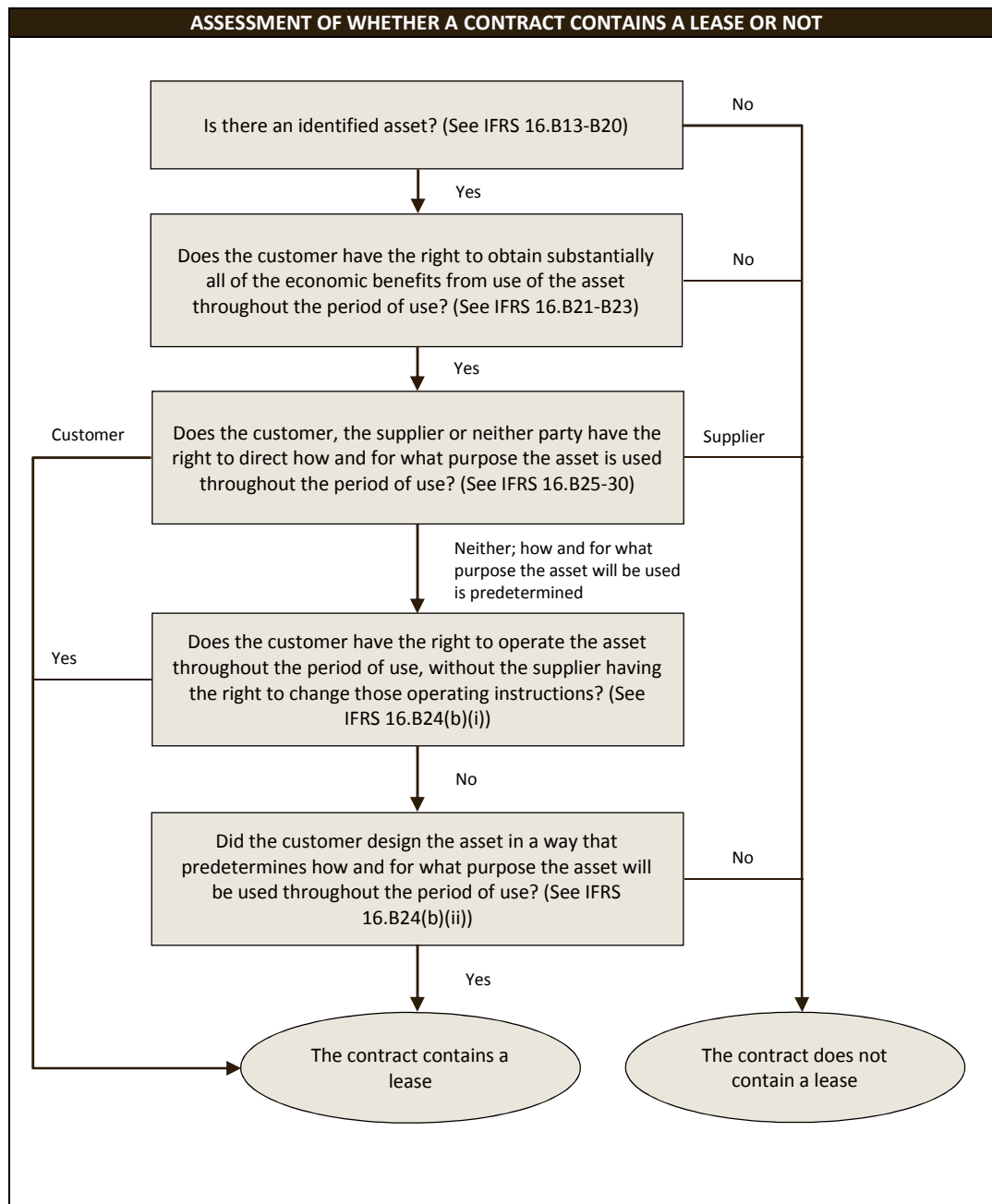


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SCOPE
<p>Applies to ALL leases, EXCEPT for:</p> <ul style="list-style-type: none"> ▪ Leases to explore for non-regenerative resources (e.g. oil & gas, minerals, etc.). ▪ Leases of biological assets (IAS 41 <i>Agriculture</i>) held by a lessee. ▪ Service concession arrangements (IFRIC 12 <i>Service Concession Arrangements</i>). ▪ Intellectual property licenses granted by a lessor (IFRS 15 <i>Revenue from Contracts with Customers</i>). <p>Rights held by a lessee under licensing agreements (IAS 38 <i>Intangible Assets</i>; e.g. films, video recordings, patents, etc.).</p>
DEFINITIONS
<ul style="list-style-type: none"> ▪ Lease: contract, or part of a contract, that conveys the right to use an asset (<i>ROU asset</i>) for a period of time in exchange for consideration. ▪ Lease payments (LPs): payments made by lessee to lessor relating to <i>ROU asset</i> during lease term, comprising the following: <ul style="list-style-type: none"> • Fixed payments less any lease incentives; • Variable LPs that depend on an index or rate; • Exercise price of a reasonably certain purchase option; • Lease termination penalties, if lease term reflects lessee exercising termination option; and • Amounts payable by the lessee under residual value guarantees. ▪ Lease term: non-cancellable period that the lessee has the right to use the asset, including periods covered by a(n): <ul style="list-style-type: none"> (a) Extension option where it is reasonably certain to be exercised; and (b) Termination option where it is reasonably certain not to be exercised. ▪ Gross investment in the lease (GITL): LPs under finance lease PLUS any unguaranteed residual value (<i>URV</i>) accruing to lessor. ▪ Net investment in the lease (NITL): <i>GITL</i> discounted @ interest rate implicit in the lease. ▪ Commencement date: date that a lessor makes an asset available for use by a lessee. ▪ Inception date: the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease. ▪ Economic life: the period which an asset is expected to be used or the number of production units expected to be obtained from an asset. ▪ Interest rate implicit in the lease (IRIL): the rate that causes the present value (<i>PV</i>) of (a) the LPs and (b) the <i>URV</i> to equal the sum of (i) the <i>FV</i> of the asset and (ii) any initial direct costs of the lessor. ▪ Incremental borrowing rate (IRB): the rate that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the <i>ROU asset</i> in a similar economic environment. ▪ Residual value guarantee (RVG): a guarantee made to a lessor by an unrelated party that the value (or part of the value) of an asset at the end of a lease will be at least a specified amount. ▪ Unguaranteed residual value (URV): That portion of the residual value of the underlying asset, the realization of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.



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RECOGNITION AND MEASUREMENT	
LESSEE	
RECOGNITION EXEMPTION	SEPARATING COMPONENTS OF A LEASE
<p>Lessee may elect to recognize <i>LPs</i> as an expense on a straight-line basis over lease term or another systematic basis (if more appropriate) for:</p> <ul style="list-style-type: none"> ▪ Short-term leases (i.e., lease term of 12 months or less and does not contain a purchase option); or ▪ Leases with a low value asset, assessed when asset is new. 	<p>An entity accounts for each lease component separately from the non-lease components of the contract, unless the entity elects to apply the practical expedient to account for each lease component and related non-lease components as a single lease component.</p> <ul style="list-style-type: none"> ▪ The contract consideration is allocated to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components. ▪ Separate non-lease components are accounted for in accordance with other applicable standards unless the practical expedient is applied.
INITIAL MEASUREMENT	SUBSEQUENT MEASUREMENT
<ul style="list-style-type: none"> ▪ Recognize lease liability at <i>PV</i> of <i>LPs</i> not paid at that date, discounted using the <i>IRIL</i> if readily determinable, or if not, the lessee's <i>IRB</i>. ▪ Recognize <i>ROU asset</i> at cost, comprising: <ul style="list-style-type: none"> • Amount of lease liability recognized; • <i>LPs</i> made at or before commencement date, less any lease incentives; • Initial direct costs incurred by lessee; and • Estimated future costs to dismantle/remove asset and restore site/asset to conditions required by the terms of the lease, if obligation for these costs incurred at inception of lease. 	<ul style="list-style-type: none"> ▪ Lease liability measured by: <ul style="list-style-type: none"> • Increasing the carrying value (<i>CV</i>) to reflect interest on the lease liability; • Reducing the <i>CV</i> to reflect <i>LPs</i> made; and • Remeasuring <i>CV</i> to reflect any reassessment, lease modification or revised in-substance fixed <i>LPs</i>. ▪ Measure <i>ROU asset</i> using cost model except: <ul style="list-style-type: none"> • If lessee applies the fair value (<i>FV</i>) model to investment properties (<i>IAS 40 Investment Property</i>), then it will also apply the <i>FV</i> model to <i>ROU assets</i> meeting the definition of investment property. • If lessee applies the revaluation model (<i>IAS 16 Property, Plant and Equipment</i>) to a class of property, plant and equipment (<i>PP&E</i>), then it may elect to also apply this model to <i>ROU assets</i> related to that class of <i>PP&E</i>. ▪ Apply <i>IAS 16</i> & <i>IAS 36 Impairment of Assets</i> to calculate depreciation & impairment of <i>ROU asset</i>. <ul style="list-style-type: none"> • If lease transfers ownership of asset to lessee by end of lease term or lessee will exercise a purchase option, depreciate asset from commencement date to end of useful life. • Otherwise, depreciate asset from commencement date to earlier of end of asset's useful life and lease term.
	<ul style="list-style-type: none"> ▪ Remeasure the lease liability & adjust the <i>ROU asset</i> (or profit or loss once <i>ROU asset</i> reduced to zero) accordingly when change in: <ul style="list-style-type: none"> • Lease term (use revised discount rate based on (i) <i>IRIL</i> for remainder of lease term, if readily determined; or (ii) <i>IRB</i> at reassessment date) • Assessment of option to purchase <i>ROU asset</i> (use revised discount rate as described in point above) • Amounts payable under <i>RVG</i> (use unchanged discount rate, unless change in <i>LPs</i> results from a change in floating interest rates then use revised discount rate) • Future <i>LPs</i> resulting from a change in index or rate used to determine the payments (use unchanged or revised discount rate as described in point above).
LESSOR	
<p>FINANCE LEASE = transfers substantially all risks and rewards of ownership</p>	
FINANCE LEASE INDICATORS	
<p>Situations that individually/in combination normally indicate finance lease classification:</p> <ul style="list-style-type: none"> ▪ Ownership transfers to lessee by end of lease term. ▪ Lessee has option to purchase asset @ price expected to be sufficiently < <i>FV</i> @ option exercise date. ▪ Term = major part of economic life of asset even if title is not transferred. ▪ At inception date, <i>PV</i> of <i>LPs</i> ≥ substantially all of the <i>FV</i> of asset. ▪ Leased asset is of a specialized nature that only the lessee can use it without major modifications. 	<p>Other situations that individually/in combination could indicate finance lease classification:</p> <ul style="list-style-type: none"> ▪ If lessee can cancel lease, lessor's losses on cancellation are borne by lessee. ▪ Gains/losses from the fluctuation in <i>FV</i> of the residual accrue to lessee. ▪ Lessee is able to continue lease for a secondary period @ a rate substantially < market rent.
INITIAL MEASUREMENT	SUBSEQUENT MEASUREMENT
<ul style="list-style-type: none"> ▪ Lessor allocates contract consideration to lease and non-lease components as per IFRS 15.73-90. ▪ Derecognize asset & recognize receivable equal to <i>NITL</i>. ▪ Initial direct costs (e.g. legal costs & commissions) are included in the initial measurement of the receivable through the use of the <i>IRIL</i> and reduce income recognized over lease term. ▪ Manufacturer/dealer lessors recognize: <ul style="list-style-type: none"> • Revenue = lower of <i>FV</i> of asset OR <i>PV</i> of <i>LPs</i> using a market rate of interest. • Cost of sale = <i>CV</i> of asset less <i>PV</i> of <i>URV</i>. • Costs to negotiate and arrange lease as an expense (NOT included in <i>NITL</i>). 	<ul style="list-style-type: none"> ▪ Recognize finance income over lease term based on a pattern reflecting a constant periodic rate of return on <i>NITL</i>. ▪ <i>LPs</i> applied against <i>GITL</i> to reduce both principal & unearned finance income. ▪ Revise income allocation for reduction in <i>URV</i>. ▪ The requirements of IFRS 9 <i>Financial Instruments</i> for derecognition and impairment should be applied to the <i>NITL</i>.
OPERATING LEASE = lease other than a finance lease	
<ul style="list-style-type: none"> ▪ Recognize <i>LPs</i> as income on straight-line basis or another systematic basis (if more appropriate). ▪ Costs incurred in earning lease income (including depreciation) are expensed. 	<ul style="list-style-type: none"> ▪ Initial direct costs added to <i>CV</i> of leased asset and amortized on same basis as lease income. ▪ Apply <i>IAS 16</i>, <i>IAS 36</i> & <i>IAS 38</i> to calculate depreciation and impairment of leased asset.

This communication contains a general overview of the topic and is current as of June 8, 2016. The application of the principles addressed will depend upon the particular facts and circumstances of each individual case. Accordingly, this publication is not a substitute for professional advice and we recommend that any decisions you take about the application or not of any of the information presented be made in consultation with a qualified professional, who can address any variance that may be required to reflect your circumstances. Please contact your local MNP representative for customized assistance with the application of this material. MNP LLP accepts no responsibility or liability for any loss related to any person's use of or reliance upon this material. © MNP LLP 2016. All rights reserved.

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LEASE MODIFICATIONS	SALE & LEASEBACK TRANSACTIONS
LESSEE	
<p>Account for lease modification as a separate lease if:</p> <ul style="list-style-type: none"> ▪ Modification increases scope of lease by adding the right to use one or more assets; and ▪ Consideration for lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to the stand-alone price to reflect the circumstances of the particular contract. <p>When modification not accounted for as a separate lease:</p> <ul style="list-style-type: none"> ▪ Allocate the consideration to the additional lease or non-lease components as noted above; ▪ Determine modified lease term; and ▪ Remeasure lease liability by discounting revised <i>LPs</i> using a revised discount rate and make a corresponding adjustment to <i>ROU asset</i>. 	<ul style="list-style-type: none"> ▪ If entity transfers an asset to another entity and leases the asset back from the buyer-lessor, both the seller-lessee and buyer-lessor must assess whether transfer of the asset is a sale by applying the requirements for determining when a performance obligation is satisfied (IFRS 15). <p>If transfer of asset is a sale:</p> <ul style="list-style-type: none"> ▪ Seller-lessee measures <i>ROU asset</i> at proportion of previous <i>CV</i> of asset relating to right of use retained by seller-lessee & recognizes gain/loss that relates to rights transferred to buyer-lessor. ▪ Buyer-lessor accounts for asset purchase by applying applicable standards and for lease by applying requirements of IFRS 16. ▪ If <i>FV</i> of consideration \neq <i>FV</i> of asset OR <i>LPs</i> not @ market rates, entity must make the following adjustments* to measure sale proceeds at <i>FV</i>: <ul style="list-style-type: none"> • Below-market terms treated as prepayment of <i>LPs</i>; and • Above-market terms treated as additional financing provided by buyer-lessor to seller-lessee. <p>* Measure on basis of the more readily determinable of the difference between: (a) <i>FV</i> of consideration and <i>FV</i> of asset; and (b) <i>PV</i> of contractual <i>LPs</i> and <i>PV</i> of <i>LPs</i> at market rates.</p> <p>If transfer of asset is not a sale:</p> <ul style="list-style-type: none"> ▪ Seller-lessee continues to recognize asset and recognizes a financial liability (IFRS 9) equal to the transfer proceeds. ▪ Buyer-lessor doesn't recognize asset and recognizes a financial asset (IFRS 9) equal to the transfer proceeds.
LESSOR	
<p>OPERATING LEASE MODIFICATIONS: Account for as new lease from effective date of modification.</p> <p>FINANCE LEASE MODIFICATIONS:</p> <ul style="list-style-type: none"> ▪ Account for lease modification as a separate lease if: <ul style="list-style-type: none"> • Modification increases scope of lease by adding the right to use one or more assets; and • Consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to the stand-alone price to reflect the circumstances of the particular contract. ▪ When modification not accounted for as a separate lease, a lessor applies requirements of IFRS 9, unless: <ul style="list-style-type: none"> • Lease would have been classified as an operating lease had the modification been in effect at inception: <ul style="list-style-type: none"> ○ Account for lease modification as a new lease from effective date of modification; and ○ Measure <i>CV</i> of asset as <i>NITL</i> immediately before effective date of modification. 	
PRESENTATION AND DISCLOSURE	
LESSEE	
<ul style="list-style-type: none"> ▪ Present in either in the Statement of Financial Position or disclose in the notes: <ul style="list-style-type: none"> • <i>ROU</i> assets separately from other assets (except <i>ROU</i> assets meeting the definition of investment property should be presented as such). If not presented separately: <ul style="list-style-type: none"> ○ Include <i>ROU</i> assets within the same line item as the corresponding underlying assets would be presented in if they were owned; and ○ Disclose which line items include those <i>ROU</i> assets. • Lease liabilities separately from other liabilities. If not presented separately, disclose which line items include those liabilities. ▪ In the Statement of Profit or Loss and Other Comprehensive Income, interest expense on the lease liability (i.e., finance costs) is separately presented from the depreciation on the <i>ROU asset</i>. ▪ In the Statement of Cash Flows: <ul style="list-style-type: none"> • Cash payments for the principal portion of the lease liability are presented within financing activities; • Cash payments for the interest portion of the lease liability are presented as per the requirements in IAS 7 <i>Statement of Cash Flows</i> for interest paid; and • Short-term <i>LPs</i>, payments for low-value leases and variable <i>LPs</i> not included in the measurement of the lease liability are presented within operating activities. ▪ Objective of the disclosures is to allow financial statement users to assess the effect of leases on the financial position, financial performance and cash flows of the lessee. For a full list of disclosure requirements for lessees, refer to IFRS 16.51-60. 	
LESSOR	
<ul style="list-style-type: none"> ▪ Objective of the disclosures is to allow financial statement users to assess the effect of leases on the financial position, financial performance and cash flows of the lessor. Required disclosure of qualitative and quantitative information includes, but is not limited to, information that helps users of financial statements to assess: <ul style="list-style-type: none"> • The nature of the lessor's leasing activities; AND • How the lessor manages the risk associated with any rights it retains in underlying assets. <p>For a full list of disclosure requirements for lessors, refer to IFRS 16.89-97.</p>	