

our winning approach

MANITOBA LOTTERIES CORPORATION | ANNUAL REPORT 2006/2007





letter of transmittal

Honourable Greg Selinger
Minister responsible for Lotteries
Room 358, Legislative Building
450 Broadway - Winnipeg, MB
R3C 0V8

September 20, 2007

Dear Honourable Minister:

I have the honour to present you with the Annual Report of the Manitoba Lotteries Corporation for the fiscal year ended March 31, 2007.

Respectfully submitted,

Original signed by

TIM VALGARDSON

Chair, Board of Directors - Manitoba Lotteries Corporation



The Manitoba Lotteries Corporation (MLC), with offices in Winnipeg, Morris and Brandon, is a Crown corporation of the Province of Manitoba responsible for the conduct and management of gaming in the province including First Nations Casinos and VLTs. MLC is operated as a government business and reports to the Minister responsible for the Manitoba Lotteries Corporation Act.

The Corporation owns and operates Club Regent Casino (CRC) and McPhillips Street Station Casino (MSSC) in Winnipeg; owns and operates the province's Video Lottery Terminal (VLT) network from offices in Morris; is the exclusive supplier of breakopen tickets and bingo paper in Manitoba; and distributes and sells tickets for lotteries operated by the Western Canada Lottery Corporation and the Interprovincial Lottery Corporation.

Net revenue from gaming operations and lottery ticket sales is directed back to the Province of Manitoba to support government programs in health care, education, community and social services, and economic development.

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message from our Chair



“Our Winning Approach” extends far beyond the theme of this Annual Report. It encompasses the positive nature of our business strategy and defines the inherent attitude of the people who make it happen. In fact, “Our Winning Approach” exemplifies why 2006/2007 was yet another successful year for Manitoba Lotteries Corporation (MLC).

In 2007, MLC completed one of its three-year strategic planning cycles. Through strategies driven by our mission, mandate, vision and core values, we realized significant improvements in customer services and products, productivity and operational excellence. Various honours were bestowed upon us to recognize these achievements, but none more meaningful than improving our overall staff satisfaction rating and earning a position amongst the Top 10 Employers in Manitoba as chosen by Maclean’s Magazine.

I take pride in acknowledging the leadership of our President and CEO and the Executive Management team, and offer my congratulations on a job well done. As a result of their guidance, and the commitment of our employees, MLC also received the 2006 Lieutenant Governor of Manitoba Award recognizing an outstanding contribution to our community. This honour reflects a multitude of achievements within our organization — including our unique employee-driven Employees Care by Helping Others (ECHO) program, involvement with major events such as the Grey Cup, Manitoba Marathon and Special Olympics, and our annual support of over 400 events in Manitoba through our Community Support program.

Our leading edge commitment to Responsible Gaming remains as strong as ever, with a particular focus this past year on Lottery Retailer Training. We continue to advocate the responsible use of our products and services, and along with the Addictions Foundation of Manitoba, were instrumental in helping reach the youth market with this message through implementation of the Responsible Gambling Council’s “Know the Score” educational program in three Manitoba universities.

This year, our Corporate Social Responsibility (CSR) Policy was adopted to guide our commitment to supporting the principles of social responsibility. This policy formalizes the way we have been doing business for many years, ensuring that all matters of corporate social responsibility are considered and supported in our operations and administration, consistent with the best interests of our stakeholders.

Our relationships with both South Beach Casino and Aseneskak Casino continued to progress over the past 12 months. Now that all VLT, Lottery and First Nations Casino activities have been amalgamated into one Commercial Gaming department, we are better positioned to share our expertise and provide ongoing assistance to these properties as they support the economic development of First Nations communities.

Over the past year, Canadian lottery jurisdictions experienced some challenges with the integrity of prize payout procedures. In cooperation with the Western Canada Lottery Corporation (WCLC), we embraced this opportunity to review our processes to ensure that Manitoba consumers are protected and well informed. Our plans to address this issue include installing new lottery terminals by the end of 2007. These terminals are equipped with Customer Display Units that will not only provide a message to the consumer if they are a winner, but will also emit a sound confirming that the customer is a winner. A thorough review of all WCLC prize payout processes will also be undertaken by an independent consultant.

On behalf of the Board, I salute each and every MLC employee for their valued contribution to “Our Winning Approach”.

Original signed by

TIM VALGARDSON

Board Chair



message from our President & CEO

In business, one of the most influential factors for success is knowing your customer. At Manitoba Lotteries Corporation (MLC), *Our Customers Take Centre Stage* as we make knowing their preferences and fulfilling their desires our top priority. It is this fundamental belief that drives “Our Winning Approach”.

Looking back, we can proudly reflect on a year filled with accomplishments. Strategic improvements at the Casinos of Winnipeg in customer service, food and beverage offerings, new menus, food quality and consistency, all proved to be worthwhile investments. Our guest opinion survey results were outstanding, contributing to a boost in customer service scores. In addition, the Casinos’ Customer Satisfaction Survey results showed marked increases in food and beverage service, meal value, selection and promptness. Congratulations to all!

To remain competitive in a demanding marketplace, we have completed a multi-year plan that identifies Casinos of Winnipeg property improvements. The plan includes continued interest into a linked hotel for McPhillips Street Station Casino, as well as development of a new restaurant to be attached to Club Regent Casino. Part of this redevelopment included the relocation of slot machines, poker and table games from the lower level of Club Regent to accommodate the new Jaguars Dance Club and entertainment facility.

Our French Language Services (FLS) program has matured immensely under the leadership of the FLS Steering Committee, and is becoming an integral part of all corporate strategies. Meetings have taken place with leading organizations in the Francophone community to identify areas of opportunity for us to develop future partnerships.

Through the guidance of our Board of Directors and the combined efforts of our entire staff, the Corporation achieved another successful financial year. Our net income of \$282.7 million for 2006/2007 supports provincial government health care, education, community and social services, and economic development programs. In recognition of our commitment to adhering to the highest principles of governmental budgeting, we were honoured to receive the Government Finance Officers Association of the United States and Canada Distinguished Budget Presentation Award for the third consecutive year.

“Our Winning Approach” is truly a team effort, and our team is abundant with talent and dedication. I extend much appreciation to the Minister responsible for Lotteries and MLC’s Board of Directors for their ongoing support and trusted advice. I am also very fortunate to work with a very skilled and dedicated Executive Management team. Their commitment and exemplary leadership has played a major role in the success of the Corporation. I would like to thank each of them for their contribution to a very successful year. And, to the employees of MLC for the sterling reputation you have earned both inside and outside the Corporation, I am proud to be on your team and share in the numerous successes of “Our Winning Approach”.

Original signed by
WINSTON HODGINS
 President & CEO

corporate framework



MISSION

The mission of the Manitoba Lotteries Corporation (MLC) is to provide a fun and entertaining gaming experience in a socially responsible manner to generate benefits for all Manitobans.

MANDATE

- To generate revenue and economic benefit for the province of Manitoba.
- To provide gaming services in an efficient and socially responsible manner.
- To support programs and services for the benefit of all Manitobans.
- To conduct and manage responsible gaming with integrity and fiscal accountability within the Criminal Code and Acts.
- To ensure and maintain a respectful workplace for all employees, suppliers and guests.

VISION

- To be a world-class gaming organization that provides products and services that meet or exceed our customers' and guests' expectations in a socially responsible manner.
- To be a flexible, innovative and learning-focused organization.
- To have an excellent work environment, characterized by respectful relationships and a well-trained and productive staff.
- To be a stable organization with strong management, predictable results and measurable goals.
- To operate on sound business principles and practices.
- To have a presence and image that demonstrate that MLC contributes to the Province and mitigates the potentially adverse consequences of gaming.
- To have successful First Nations casinos that contribute to the economic development of First Nations communities.

CORE VALUES

- The MLC is fair and respectful. Equity and fairness are the cornerstones of the Corporation's philosophy and practices in dealing with employees.
- The MLC is responsible. We are responsible for the assets entrusted to our care, maintaining the integrity of the gaming industry and for carrying out our mandate with creativity, honesty and social responsibility.
- The MLC is progressive. We aim to provide proven state-of-the-art products, services and facilities to our customers and employees.
- The MLC is responsive. We respond to the requirements of our customers, the Minister, the Government and to Manitobans.
- The MLC is results-oriented. We state our objectives clearly, strive hard to achieve them and continually measure our performance.
- The MLC is reliable. We are a good company to do business with and a good partner.
- The MLC is supportive. We are a good corporate citizen who supports our communities to improve the quality of life for all Manitobans.

corporate governance



Corporate Governance is a system of policies and structures that guide the long-term goals and strategic plans of the Manitoba Lotteries Corporation (MLC). It also clearly outlines authority and accountability, best practices and guiding principles to help us make corporate decisions to the best of our ability. Our governance structure specifies the distribution of authority and accountability at the Corporation, particularly at the Government, Board of Directors, and Executive Management levels.

Corporate Governance drives our commitment to be a responsible corporate citizen, ensuring sound, ethical, conscientious, and transparent business practices in all that we do. It also provides a mechanism for accurately measuring our performance.

The legislative authority of the Corporation is set out in the Manitoba Lotteries Corporation Act. The Corporation has a major shareholder — the Government of Manitoba — and reports to the Minister responsible for the Manitoba Lotteries Act through its Board of Directors.

The Board sets corporate policy for the Corporation and provides strategic direction to the CEO and senior executives, who are responsible for our business operations.

The function of the Board is carried out by the work of several committees.

- Governance
- Planning and Policy
- Finance & Operations
- Audit & Risk Management
- Human Resources & Compensation
- First Nations Gaming

BOARD GOVERNANCE PRINCIPLES

Leadership and Stewardship: Oversees business conduct, provides strategic leadership and direction to management, and provides policy direction.

Empowerment and Accountability: Delegates authority levels to ensure the Corporation is operated effectively, accepts strategic responsibilities and is held accountable for carrying out those responsibilities.

Communication and Transparency: Ensures comprehensive corporate communication, speaks with one voice, and evaluates and shares information needs of the Board.

Service and Fairness: Ensures fairness in service to shareholders, customers, employees and stakeholders.

Accomplishment and Measurement: Responsible for the results of corporate performance through the use of performance measures.

Learning and Development: Ensures that continuous development is a corporate reality; improves MLC's ability to learn, which will result in higher individual and organizational productivity.

BOARD OF DIRECTORS

above:
Tim Valgardson Chair, Winnipeg

below from left to right:
Gerald Kolesar Winnipeg

Lisa Settee Winnipeg

Karen Botting Winnipeg

Gerald Rosenby Winnipeg

Nicole Campbell Portage la Prairie

Bev Romanik Brandon

Carolyn Wray Winnipeg

Lloyd LeVan Hall Vice-Chair, Winnipeg

CORPORATE GOVERNANCE PROVIDES OUR GAME PLAN WITH CHECKS AND BALANCES TO ENSURE FUTURE SUCCESS AND CONTINUED BENEFITS FOR ALL MANITOBANS.

EXECUTIVE MANAGEMENT TEAM

1st row from left to right:

Winston Hodgins
President & CEO

Cheryl Eason
Executive Vice President
& Chief Financial Officer

Max Dressler
Executive Vice President,
Gaming Operations

2nd row from left to right:

Marilyn Robinson
Vice President,
Corporate Marketing &
People Services

Gerald N. Boose
Vice President,
Corporate Security &
Corporate Secretary

Susan Olynik
Vice President,
Communications &
Public Affairs

Peter Hak
Vice President,
Corporate Services

Ron Riopka
Associate Vice President,
Corporate Marketing &
Business Development

Wayne Perfumo
Executive General Manager,
Club Regent Casino

3rd row from left to right:

Larry Wandowich
Executive General Manager,
McPhillips Street Station Casino

Walter Nykolyszyn
Executive Director,
Internal Audit &
Corporate Compliance

CORPORATE GOVERNANCE POLICIES

These policies articulate corporate roles and responsibilities, providing the framework for everything we do.

- Corporate Governance
- Board/Executive Management Relationship
- CEO Responsibility
- Corporate Strategic Planning
- Corporate Performance Management
- Internal Audit
- Conflict of Interest
- Board of Directors and CEO Expenses
- Risk Management
- Corporate Social Responsibility

STRATEGIC & BUSINESS PLANNING

The Business Planning process has been refined to incorporate the performance measures of risk management, including sensitivity analysis and departmental performance.



EXECUTIVE GOVERNANCE EXCELLENCE

A new Executive Governance Committee Structure was introduced for MLC's Executive Management Team and has demonstrated its effectiveness by providing greater strategic coordination, comprehensive strategy development and direction. It allows management to more easily monitor progress of activities, projects and initiatives with the knowledge that such activity contributes to achieving corporate goals. The extensive effort and creative development invested in MLC's new Executive Governance Model is already paying off as this innovative model provides a structure that supports stronger leadership through decision-making, strategy discussions and priority setting activities.

EXECUTIVE GOVERNANCE STANDING COMMITTEES

- Planning and Performance
- Corporate Business Development
- Technology
- Quality Service & Employee Development
- Corporate Social Responsibility
- Enterprise Risk Management

Our strategic planning process continues to evolve, as does development of Key Performance Indicators (KPI) to support long-term strategic planning and decision making.

strategic direction

2006/2007

For 2006/2007, Manitoba Lotteries Corporation focused on advancing key strategies and initiatives in the following areas:

- Customer Products & Services
- Responsibility to Community
- People Services
- Operational Excellence
- Innovation

Our goals and highlights of our accomplishments in each of these areas are outlined in the following pages.



our customers take centre stage

SETTING THE STAGE: GOALS

- Enhance our gaming facilities through a series of place and product improvements.
- Improve the quality of service to our customers and clients.
- Enhance our casino environments as fun and exciting entertainment experiences.

SPOTLIGHT ON SUCCESS ACCOMPLISHMENTS

FOCUS ON CUSTOMER SERVICE

Our Quality Service Initiative (QSI) was originally designed to encourage excellence in our employees, and subsequently create experiences for our customers. This year, customer service graduated to a whole new level through our Customer Service Training Program and Casino Host Program.

Built on the premise that “*our customers take centre stage*”, there is a welcome attitude prevalent from the moment a guest enters our doors at the Casinos of Winnipeg. Extensive

training for Customer Service staff and Casino Hosts is evident in both the strong atmosphere of teamwork in the Casinos and in recent Customer Satisfaction Survey results.

Increased enrollment in the new Club Card launched last year further demonstrates the success of the Casino Host program. Challenged to enroll 10,000 new members over an eight-month period, this enthusiastic group exceeded this goal by over 25 per cent, enrolling over 12,000 new members and bringing the total to more than 80,000.



GAMING IMPROVEMENTS

Remaining competitive in an ever-changing business environment allows us many opportunities to offer the most exciting products to our customers. As such, MLC is constantly responding to customer preferences and industry innovations. The Casinos have begun a 12 to 15 month replacement initiative for the electronic bingo system. Ticket-In-Ticket-Out (TITO) installation was finalized last year on our slot machines, and user-friendly self-serve ticket redemption terminals were installed in each Casino. "Top Gun", "Monopoly", and "Fort Knox" are just some of the new games added last year, replacing obsolete equipment and offering the latest in gaming technology.

The widespread popularity of Poker continues to grow, and Poker tournaments were so well attended every Tuesday evening at Club Regent Casino that more tables were introduced. This adds to the entertainment mix and responds to consumer demand. Another Celebrity Blackjack Tournament was held in conjunction with the 2006 Grey Cup Festival, raising \$10,000 for several local charities.

SERVING UP FOOD & BEVERAGE SALES

New à la carte menus. New catering menus. New lounge/cocktail/wine menus. Enhanced buffet offerings and improved consistency. Significant service staff improvements. The results of the ambitious 2006 Food & Beverage rejuvenation plan were nothing short of extraordinary.

As of January 2007, business was up over the previous year:

- Restaurant and lounge 9%
- Multi-Purpose Room 23%
- Floor Service 71%

These Food & Beverage improvements dished up even more positive results through increases of 15 to 20 per cent over the previous year in Casino Customer Satisfaction Surveys in the areas of services, meal value, selection, and service promptness.

THAT'S ENTERTAINMENT

With acts like Dennis Quaid and the Sharks, Randy Travis and Tommy Hunter gracing the Casino main stages last year, our goal of enhancing our Casino environments as fun and exciting entertainment experiences was achieved. Over 350 acts were booked last year alone, offering a diverse selection of value-added entertainment in our Casino concert bowls, lounges, and in our new dance and entertainment venue, Jaguars, as well as on-the-floor and open curtain performances. The Casinos of Winnipeg Entertainment Program is a major source of employment and support for the local entertainment industry.

LOTTERY

"Millionaire Life" and "Payday" are two new on-line games that were launched this past year and proved to be very popular with customers. The \$17 million winner of Millionaire Life was a Manitoba resident, adding to the province's recent winning streak. The new Payday game was

also lucky for two more Manitobans, both top prize winners of \$675,000. This year as well, we celebrated our province's 100th \$1 million plus lottery winner with a special media event at McPhillips Street Station Casino.

For the first time, MLC also participated in two Internet-based lottery promotions, offering exciting prizes for our lottery customers.

COMING ATTRACTIONS

Our plans for the coming year in the area of Customer Products & Services include continued implementation of our Food & Beverage Strategy, more dinner-and-a-show promotional offers, and attracting higher-end performers for improved entertainment options, while exploring partnership opportunities with the Manitoba tourism industry. We will continue to develop and implement a Quality Service Feedback Framework to help us design innovative programs to enhance customer service, and pursue improvements such as continued slot replacement, introduction of new table games, and new digital signage for both Casinos.

Advances in lottery validation will also be made next year with the installation of new lottery terminals, equipped with Customer Display Units. These state-of-the-art terminals will provide a winning message visible to the consumer, accompanied by a winning sound effect to give customers a more interactive response. As well, Ticket Checkers will be installed at all remaining locations.

MLC SERVICE STANDARDS
CUSTOMERS CAN EXPECT THE SAME HIGH LEVEL OF
SERVICE WHEREVER THEY ARE IN OUR CASINOS:

- We provide friendly, respectful and prompt service.
- We always promote responsible gaming.
- We create a fun & exciting experience for customers.
- We resolve problems quickly, fairly & sensitively.

“ IN ORDER TO STAY CURRENT WITH TRENDS AND DEMANDS IN A VERY COMPETITIVE, FAST GROWING INDUSTRY, PRODUCTS AND SERVICES MUST BE BETTER THAN EVER BEFORE.

MARIOLA KRAMARCZUK, TABLE GAMES INSPECTOR, CRC



Dennis Quaid and The Sharks

helping build **winning** communities

SETTING THE STAGE: GOALS

- Continue to be a leader in Responsible Gaming.
- Ensure the application of Sustainable Development practices to all we do.
- Explore innovative new approaches to supporting our community and promoting voluntarism within MLC.

SPOTLIGHT ON SUCCESS ACCOMPLISHMENTS

LEADING EDGE LOTTERY RETAILER TRAINING

In November 2006, MLC and the Addictions Foundation of Manitoba (AFM) implemented an innovative training initiative aimed at providing lottery retailers with practical information about responsible gaming. Believed to be the only such project of its kind in Canada, the training enables retailers to provide accurate information to lottery players, raise awareness of resources available for assistance, and increase understanding of the importance of age restrictions. The Lottery Retailer Responsible Gaming Awareness training program is delivered by AFM staff, and all of the nearly 840 lottery retailers in Manitoba are expected to receive the training by the end of 2007.

EARLY ACCESS WITH “KNOW THE SCORE”

Research has identified 18 to 24 year olds among the highest risk groups for developing gambling problems. As such, Manitoba university students were invited to learn more about ways of avoiding gambling-related problems by participating in “Know the Score” — a youth-oriented program developed by the Responsible Gambling Council (Ontario) and brought to Manitoba by MLC and the AFM. This interactive awareness program addresses some common myths regarding randomness, outlines signs of problem gambling, identifies resources for gambling-related problems, and suggests ways of limiting risks.



photo courtesy of Ruth Bonneville - Winnipeg Free Press - Feb 27/07, reproduced with permission

\$4 MILLION BINGO

Volunteer Bingo operations at Club Regent Casino and McPhillips Street Station Casino provide an excellent opportunity for non-profit groups to raise funds. In fact, approximately \$4 million in funding is provided annually to over 400 non-profit organizations throughout the province. **JUST ONE MORE WAY MLC IS HELPING BUILD WINNING COMMUNITIES!**

RESPONSIBLE GAMING RESEARCH

Extensive developmental work has been completed, and the five-year Manitoba Longitudinal Study of Young Adults (MLSYA) will begin data collection in the fall of 2007. This study will follow a sample of Manitobans ages 18 to 20 over a five-year span to provide a picture of their changing gambling behaviours and attitudes. Through this ground-breaking research, social and psychological factors linked to these changes will be identified.

SPECIALIZED IN-HOUSE SECURITY TRAINING

Our leading-edge Responsible Gaming focus, and in particular our Responsible Gaming Information Centres at the Casinos, led to a need for specialized training for Security Supervisors to work in conjunction with Casino Shift Managers on potentially sensitive guest situations. This successful in-house program, built on the foundation of MLC's Responsible Gaming policy, was customized and shared with other jurisdictions to forward the Responsible Gaming message across Canada.

SHARING SUSTAINABLE DEVELOPMENT

Our leadership position in Sustainable Development can be credited to efforts such as our Carbon Neutral Program, offsetting annual facility greenhouse gas emissions by planting 10,000 trees in each of the past two years. This kind of forward thinking led to organizing a Green Procurement Information Session with other Provincial Crown representatives last October. Over 120 local vendors and

purchasing agents attended this unique event at McPhillips Street Station Casino, working together to develop green specifications in bid documents and strongly support the growing green procurement trend in Manitoba.

COMMITTED TO OUR COMMUNITIES

MLC supports over 400 non-profit organizations each year through sponsorship and promotional gifting programs, as well as another 400 through the volunteer bingo program at the Casinos of Winnipeg. Our core values include a commitment to corporate citizenship, demonstrating a concern for our society and the future of our province. This includes donating corporate resources and encouraging employees to participate actively in their communities. More than 300 MLC employees volunteered over 3,600 hours for community events and activities last year.

Here are just some of the events MLC supported throughout Manitoba last year:

- First Annual Manito Ahbee Manitoba Aboriginal Festival, including Aboriginal Peoples Choice Music Awards
- 2006 Grey Cup Festival, including Cheerleader Extravaganza & Celebrity Blackjack Tournament
- Canada Senior Games
- Manitoba Marathon
- Festival du Voyageur
- Manitoba Theatre Centre Regional Tour
- BDO Classic Canadian Open of Curling
- Cancer Relay for Life

AWARDS & ACCOLADES

Our positive impact on local communities was recognized last year by these two distinctive honours:

- Manitoba Chamber of Commerce 2006 Lieutenant Governor's Award for Outstanding Contribution to the Community
- Winnipeg Chamber of Commerce Community Contribution Award

COMING ATTRACTIONS

Our plans for the coming year in the area of Responsibility to Community include completion of VLT features research, new interactive touch screens at Responsible Gaming Information Centres in both Casinos, and a new awareness campaign for Responsible Gaming. We will continue to work with non-profit organizations in supporting community needs, share in high profile events that offer Casino main stage presence such as the Canadian Country Music Awards, and reach out with increased support to Manitoba's rural and northern regions through joint sponsorship and partnership opportunities.

MLC is also pleased to announce an exciting partnership in 2007 with Habitat for Humanity Winnipeg. With our financial investment and the strength of our volunteers, we will contribute to neighbourhood revitalization through the construction of a home in Winnipeg.



OUR RESPONSIBILITY INDIVIDUALLY AND AS A CORPORATION IS TO MAKE A POSITIVE CONTRIBUTION FOR A BETTER COMMUNITY FOR CURRENT AND FUTURE GENERATIONS.

**THERESA FEAL,
ADMINISTRATIVE ASSISTANT, CORPORATE SERVICES**





winners at work

SETTING THE STAGE: GOALS

- Position MLC as a “Career Destination” in the province.
- Build and advance opportunities to recognize and reward our employees for exceptional contributions to the workplace.
- Ensure our employees are knowledgeable, informed and involved in our directions, our activities and our support of Manitoba’s communities.
- Continue to build exceptional management and supervisory skills.

SPOTLIGHT ON SUCCESS ACCOMPLISHMENTS

PROUDLY NAMED TOP 10 EMPLOYER

From the physical workplace atmosphere to financial and family benefits. From vacation and discretionary time to performance management and training. And from comprehensive employee communications to extensive community involvement. Considering all these and many more criteria, MLC was named as one of the Top 10 Employers in Manitoba by Maclean’s Magazine for 2007.

This honour reflects our desire to be a “Career Destination”, helping our employees maximize their full potential, and advance their careers with MLC. We work to provide a safe, healthy, positive workplace for every employee, and provide a nurturing environment that encourages both professional and personal growth. The result is more satisfied employees, increased productivity and overall business success.

OUR WINNING ATTRIBUTES

HERE ARE SOME OF THE REASONS WE EARNED TOP 10 EMPLOYER STATUS:

- Many career opportunities
- Exciting, unique and stimulating environment
- Staff Cafés at Casinos of Winnipeg
- Mentoring programs
- Talk 2Us program
- Take Your Kids to Work Day
- Carbon Neutral status
- Lunch with the President
- Staff discounts
- Community involvement and volunteer opportunities
- Wellness programs
- MLC fitness facility
- Educational assistance
- Scholarships
- Sustainable development commitment
- DLT (Discretionary Leave Time)
- Diversity Week
- Family involvement
- Interest-free computer purchase loans
- Pension plan and Employer paid health benefits
- Recognition programs



MLC EMPLOYS MORE THAN 1,800 PEOPLE IN OVER 370 DIFFERENT POSITIONS.

AWARDS & ACCOLADES

For the fifth consecutive year, the Human Resource Management Association of Manitoba (HRMAM) recognized MLC's leadership in enhancing HR practices within our organization with a Silver Excellence in Leadership Award.

This year, the HRMAM award honoured MLC's new Employee Reward and Recognition Program (ERRP). Employees across the province participated in all stages of design, development and delivery of this program which is linked to our corporate goals and vision. The program rewards employee efforts that impact corporate success, such as outstanding performance, exemplary teamwork, new ideas, volunteering, dedicated service and more. Within the first six months of the program, over 1,600 rewards and recognition transactions were recorded, demonstrating tremendous success in engaging employees and creating an inspiring workplace culture.

Manitoba Lotteries was also recognized for achieving Silver Level Status in the Progressive Aboriginal Relations (PAR) Program for our commitment to sustainable Aboriginal employment, business development and community support. This represents our second PAR award, furthering our goal of Employment Equity initiatives and diversity in the workplace.

ECHO ACHIEVEMENT

Employees Care by Helping Others — ECHO — is a glowing example of MLC employee ingenuity and innovation. After 18 dedicated months of fundraising, this employee-driven charitable giving program presented a cheque for \$100,000 to the Children's Hospital Foundation of Manitoba to purchase equipment for transporting critically ill children out-of-province for heart surgery. Funds were raised through voluntarism, donations, canvassing and corporate contributions.

TRAINING FOR SUCCESS

Providing the skills necessary to achieve our high standards makes all the difference in job performance. And at MLC, we are committed to training for success. Our Office Professionals Program was offered to administrative staff to ensure consistency of skills, allow cross-training opportunities, and create teamwork and networking experiences. Our four-year Apprentice Program is another example, designed to provide internal training and ensure that we have the hands-on skills required for trade areas.

BIDDING INNOVATION

An innovative recruiting process was introduced this year for selected positions in the casino environment. Through Classification Bidding, interviews determine qualified people for certain positions. As a position opens, the next qualified person on the list is offered the job which streamlines the process. In addition, employees who don't qualify through the initial interview process are given the opportunity to receive development training so they may become a successful candidate at a future date.

COMING ATTRACTIONS

Our plans for the coming year in the area of People Services include implementing Talent Management Strategies to identify, develop and retain talented employees to meet future workforce needs based on our overall strategic objectives. We will also focus on Workforce Planning Strategies, involving the analysis of the current workforce and identifying future needs.

In the coming year, we will also venture to develop and implement a recognition program for MLC management and employees to use to recognize excellent daily workplace behaviours and attitudes.



A RESPECTFUL SAFE ENVIRONMENT WITH FREEDOM TO GROW AND LEARN.
VAL FRANCO, SUPERVISOR BINGO/KENO, CRC



EMPLOYER OF CHOICE MEANS THAT A CORPORATION REALLY CARES ABOUT ITS EMPLOYEES. NOT ONLY THROUGH THE BENEFITS IT OFFERS, BUT IN COMPENSATION, ABILITY TO CONTINUE TO GROW WITH THE COMPANY, AND ALLOWING EMPLOYEES THE FLEXIBILITY TO ENJOY A HEALTHY WORK-LIFE BALANCE.
CAROL LARSON, RETAIL DEVELOPMENT SUPERVISOR, LOTTERY



WORKING FOR AN EMPLOYER THAT HAS THE BEST INTENTIONS FOR EMPLOYEES WHEN MAKING DECISIONS.
TRAVIS SMITH,
UNIFORM ROOM SUPERVISOR, MSSC



AN EMPLOYER THAT PEOPLE WANT TO WORK FOR. SUZI TANG, DEALER, CRC



MLC IS A COMPANY THAT PEOPLE WANT TO BE A PART OF, SIMPLY BECAUSE THEY ARE TREATED FAIRLY, THEY HAVE OPPORTUNITIES FOR TRAINING AND CAREER ADVANCEMENT, AND THE EMPLOYEES ARE ENCOURAGED IN THEIR ATTEMPTS TO SUPPORT THEIR COMMUNITIES.
CATHY MACKENZIE, ADMINISTRATIVE ASSISTANT, MSSC



EMPLOYER OF CHOICE MEANS BEING GIVEN THE OPPORTUNITY AND SUPPORT TO EXCEL BOTH PERSONALLY AND AS A DEPARTMENT, WHICH IN TURN ALLOWS US TO MAKE A POSITIVE CONTRIBUTION TO THE SUCCESS OF MLC.
PAUL BRANDFORD, SENIOR MANAGER, POLICIES AND PROCEDURES



AN EMPLOYER WHO VALUES DIVERSITY, FAMILIES AND INDIVIDUALS.
CARRIE WASSING, SECURITY OFFICER, CRC



creating a **winning** formula

SETTING THE STAGE: GOALS

- Ensure that we advance current technology and systems to support our operations and gaming facilities.
- Ensure our internal processes are customer and employee-friendly.

SPOTLIGHT ON SUCCESS ACCOMPLISHMENTS

CORPORATE SOCIAL RESPONSIBILITY

We have adopted a new Board policy and embraced Corporate Social Responsibility (CSR) to guide every aspect of our business and to help fulfill our commitments to the communities we serve. Our principles of Corporate Social Responsibility include:

- Corporate Governance
- Sustainable Development
- Responsible Gaming
- Community Support
- People Services
- Business Relationships

To share the benefits of this policy with organizations beyond MLC, a comprehensive CSR kit entitled “Our Winning Approach” was developed. The package includes a folder and six booklets explaining how Corporate Social Responsibility impacts each area of our business, and how this benefits Manitoba. The material will be delivered to external audiences through a new Speakers Bureau and an accompanying video.





OPERATIONAL EXCELLENCE IS A HIGH STANDARD OF PERFORMANCE WITH EXCELLENT LEADERS AND HIGHLY ENGAGED EMPLOYEES.

JUDITH HAYES, DIRECTOR, EMPLOYEE SERVICES & ORGANIZATIONAL DEVELOPMENT

OPERATIONAL EXCELLENCE MEANS A CONTINUAL ANALYSIS OF THE BUSINESS OPERATION AND ALWAYS SEEKING IMPROVED METHODS OF DELIVERING THE BEST GOODS AND SERVICES YOUR CUSTOMER DESERVES AND EXPECTS, WHILE MEETING OR EXCEEDING COMPANY GOALS.

GARY LINCOLN, TABLE GAMES SUPERVISOR, MSSC

SETTING STANDARDS AND HAVING ALL PEOPLE WORKING TOGETHER TO MAKE THE WORK PLACE THE BEST IT CAN BE.

CONRAD BERGEN, SECURITY OFFICER, CRC

HAVING CONTINUOUS IMPROVEMENTS WITHIN THE CORPORATION WHICH INCLUDES THE QUALITY OF SERVICE, SAFETY, PROCEDURES, EQUIPMENT AND A RESPECTFUL WORKPLACE.

ROMMEL CONTRERAS, CASINO SERVICE ATTENDANT, MSSC

PROVIDING OUTSTANDING SERVICE AND AN EXCITING ENVIRONMENT FOR OUR GUESTS BOTH INTERNAL AND EXTERNAL.

CHRIS BIGFORD, CORPORATE PRODUCTION

VIDEO LOTTERY UPGRADES

To update the aging gaming technology that was in place since 1991, a new VLT Central Monitoring Computer (CMC) and validation terminals are being installed throughout the province. This allows the VLT network to operate in a Wide Area Network (WAN) and also allows for all monitoring and reporting of VLTs in the field. Activity such as games played, games won, dollars in and dollars cashed, can all be monitored to ensure every VLT is functioning within prescribed parameters. The CMC also offers enhanced security features. Installation of this new equipment began in March 2007 and should be completed by the end of the fiscal year.

WORKPLACE SAFETY AND HEALTH PROGRAMS

New legislation for Manitoba Workplace Safety and Health was effective February 1, 2007, and as a result, a new MLC Workplace Safety and Health Program was developed. This workplace specific safety and health management system is designed to prevent occupational incidents and disease, and provide a safer environment for our employees and guests. Active committees at MLC ensure that employee knowledge and awareness of our own internal program is available through orientation and training programs.

EMERGENCY RESPONSE AND INVESTIGATION PROGRAMS

MLC has implemented new programs designed to improve our ability to protect our guests and staff in case of fire, as well as designing new crisis response plans. A new centralized investigative process has also been implemented by Corporate Security, proving very streamlined and effective.

COMING ATTRACTIONS

Our plans for the coming year in the area of Operational Excellence are to improve our security systems, improve our environmental safety for both employees and guests and advance corporate-wide risk management and disaster recovery models.

The year ahead will also include developing an overall CSR Strategy to continue to meet the needs of the future, and ensure CSR remains a corporate priority.



- Healthy
- Living
- Exercise
- Running
- Relax
- Wellness
- Week

discovering new **winning** ways

SETTING THE STAGE: GOALS

- Continue to advance applied research to better understand our customers, gaming industry and product trends, our competition and our opportunities and challenges.

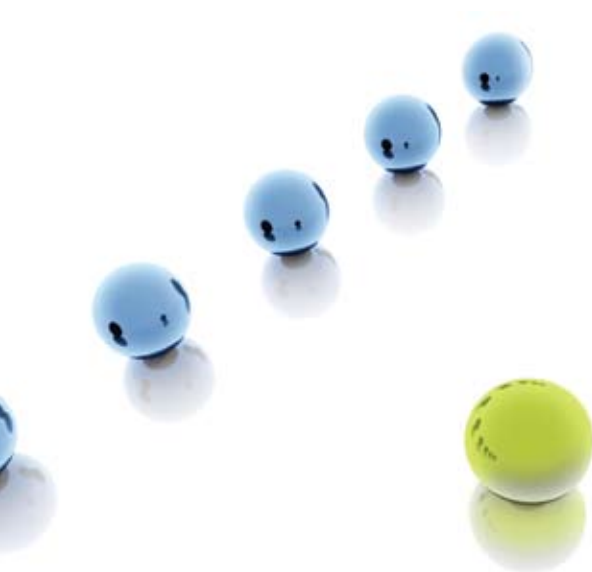
SPOTLIGHT ON SUCCESS ACCOMPLISHMENTS

RESPONDING TO RESEARCH

Tracking studies in the gaming market, casino customer satisfaction and food & beverage satisfaction continue to be conducted with casino patrons. Focus groups are ongoing for topics such as slots, entertainment and customer service. Research results like this guide our planning and decision making with an eye for innovation.

DANCE SENSATION AT JAGUARS

In February 2007, Winnipeg's newest dance and entertainment venue opened with style at Club Regent Casino. "Jaguars" features a variety of live, musically-themed bands from salsa to swing, bringing a new dimension to our entertainment offering. Response to date has been very positive, with Casino guests enjoying the added attraction of dancing to their gaming and dining experience.





“**INNOVATION MEANS ALWAYS CONSIDERING PROCESSES AND HOW TO IMPROVE THEM – WILLING TO TAKE A MEASURED CHANCE FOR THE OPPORTUNITY TO ADVANCE.**

SEAN CHEOP, MANAGER, SECURITY PROGRAMS

CORPORATE BUSINESS DEVELOPMENT

The creation of this new area of an expanded Corporate Marketing & Business Development Department will provide new focus and opportunities in gaming and business development as well as long-term planning for the Corporation. It is responsible for the corporate strategic planning process and plan, comprehensive short and long-term gaming strategies and related initiatives as well as assessing opportunities and challenges within the gaming industry. The area will also plan and guide long-term renewal of the Casino properties and build new partnerships and opportunities with Manitoba businesses and organizations. Corporate Business Development will foster the growth and development of long-term strategic initiatives that will continue to ensure that the Corporation provides a quality gaming experience and environment for our customers.

COMING ATTRACTIONS

Our plans for the coming year in the area of Innovation include building on our comprehensive research program on our customers, markets, competition and industry. The Corporation will advance our research into innovative new programs, products, services, initiatives and improvements and will continue to tap into the ideas generated by a workforce of over 1800 people. This will become part of a new Innovation Plan for MLC.

Renewing the MLC Strategic Plan

We have recently completed MLC's first long-term strategic plan and are extremely proud of this achievement. As our focus now shifts to building and adapting this plan for the future, we are confident that the strategic planning process will reinforce our mission, vision, mandate and values.

Our Executive Standing Committees are working together to consolidate the key strategic priority areas from seven to five. This process, combined with the advent of the Corporate Project Management Office, will effectively complete the annual planning cycle.

Five Key Strategic Areas

To maintain our overall commitment to providing a fun and entertaining option for customers in our regional marketplace, we will focus on these five key strategic areas:

Customer Products and Services

Overseen by the Corporate Business Development Standing Committee.

- Continuing focus on ensuring that our facilities, products, services and amenities meet the need of a dynamic gaming and entertainment market, meet best practices and strive for innovative next practices.
 - Advancing renewal of Casino properties.
 - Continuing to improve the quality of entertainment and exploring new types of entertainment venues at the Casinos.
 - Providing a quality food and beverage product that meets and exceeds the expectations of our customers.
 - Building business partnership opportunities in such areas as the MSSC Hotel and the CRC Restaurant.

strategic direction 2007/2008

- Ensuring that our directions are supported by comprehensive customer and gaming industry research (trends, market and competition, customer profiles).
- Maintaining our role in supporting gaming in First Nations communities.

Market Opportunities

Overseen by the Corporate Business Development Standing Committee.

- Ensuring a responsible and integrated approach to marketing all of MLC's products and services, exploring new market opportunities and retaining and growing our existing markets.
- Promoting our facilities as a destination in partnership with Manitoba tourism industry and developing other mutually beneficial business and organization marketing and sponsorship partnerships.
- Identifying opportunities to provide services and expertise in the gaming industry.

Operational Excellence

Overseen by the Technology Standing Committee and Enterprise Risk Management Standing Committee.

- Advancing long-term technology strategies for MLC.
- Continuing to improve MLC's security systems and a safe environment for our customers and employees.
- Continuing to ensure regulatory compliance and gaming protection and integrity.
- Focusing on improving our internal processes.
- Continuing to advance corporate-wide risk management and disaster recovery models.

Responsibility to Community

Overseen by the Corporate Social Responsibility Standing Committee.

- Continuing to build on our commitment to our community by defining and advancing an overall CSR Strategy.
- Communicating the benefits of our people and operations in Manitoba.
- Ensuring a Sustainable Development approach to all of our facilities, products and services.
- Continuing to be a leader in Responsible Gaming.
- Maintaining partnerships and respectful relationships with First Nation communities and organizations.

People and Service

Overseen by the Quality Service and Employee Development Standing Committee.

- Creating and promoting career and employment opportunities for Manitobans.
- Continuing to advance workforce planning and talent management programs, quality recruitment and retention initiatives, leadership development and succession planning and continuous learning.
- Ensuring that our employees are empowered and celebrated for their achievements.
- Continuing to provide exceptional customer service.
- Ensuring that our employees continue to be informed.

MLC will continue to advance an environment and workplace that promotes innovation, efficiency and effectiveness. These strategic directions and priorities are supported by the Planning and Performance Standing Committee to ensure sound and progressive planning processes, financial management, policy, standards and procedures, and performance measurement.

management discussion and analysis

OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
AS AT MARCH 31, 2007

The Management Discussion and Analysis reviews the financial results of the operation of Manitoba Lotteries Corporation (MLC) for the fiscal year ended March 31, 2007, and should be read in conjunction with the Corporation's audited financial statements and accompanying notes.

Management is responsible for the reliability and timeliness of the information disclosed in the Management Discussion and Analysis and does so by ensuring the appropriate existence and effectiveness of the systems, controls and procedures used by MLC.

The Board of Directors of MLC oversee management to ensure the integrity of the reported information by taking the necessary steps to satisfy themselves that management has implemented the systems, controls and procedures required to ensure the reliability and timeliness of the information presented in the Management Discussion and Analysis.

Overview and Company Vision

Part of MLC's vision is to be a world-class gaming organization that provides products and services that meet or exceed customers' and guests' expectations in a socially responsible manner. Working towards this vision has resulted in a modest increase in financial performance for MLC as the Corporation's net income of \$282.7 million for the fiscal year 2006/2007 increased \$5.6 million or 2.0% as compared to the prior year's net income of \$277.1 million.

Revenues of \$699.5 million grew by \$30.2 million or 4.5% from the previous year's level of \$669.3 million. This increase is attributable to a number of factors including increased lottery and casino revenues. MLC continually assesses existing product offerings as part of a long range strategic goal of providing quality customer products and services to create full service customer satisfaction.

Revenue, net of cost of sales and operating expenditures was \$345.0 million in 2006/2007 compared to \$343.8 million in the previous year, a slight increase of \$1.2 million. Operating expenses of \$113.2 million were higher than the previous year's \$104.0 million and includes payroll and other costs directly related to the generation of gaming and lottery revenues. The increase can be attributed to increases in salaries and benefits related to collective bargaining, an increased focus on promotions and the introduction of a higher level for capitalization of assets.

Amortization of \$29.2 million for 2006/2007 decreased \$2.8 million from \$32.0 million in the previous year. The decrease primarily resulted from the retroactive adjustments made in 2005/2006 for the change in estimated useful life of the casino stages, gaming equipment and MLC corporate headquarters building offset by management's change in the estimated useful lives of computer equipment from 5 to 4 years in 2006/2007.

Results of Operations

Video Lotto, the Casinos of Winnipeg and Lottery represent the three operating segments of the Corporation. Administrative costs associated with corporate support services, including human resources, finance and administration, marketing, facilities, technology, audit, security, and communications and public affairs have been allocated to the operating segments for reporting purposes.

Video Lotto

The Video Lotto Division is located in Morris, Manitoba and is responsible for the operation and maintenance of video lottery terminals (VLTs). VLTs are located at Manitoba Liquor Control Commission licensed beverage rooms, Veterans organizations, First Nations locations, the Assiniboia Downs race track and Winnipeg's MTS Centre. VLT operations contributed 67.7% of MLC's net income and provided annual commissions of \$97.7 million to all VLT siteholders operating equipment on their premises.



Revenue, before cost of sales, of \$324.7 million in 2006/2007 was in line with revenue of \$325.0 million in the previous year. Net income of \$191.3 million decreased \$1.4 million from the net income of \$192.7 million in the previous year.

Casinos of Winnipeg

MLC operates two casinos in the City of Winnipeg, the Club Regent Casino and the McPhillips Street Station Casino. Casino operations generated revenues, before cost of sales, of \$172.2 million in 2006/2007, an increase of \$10.5 million or 6.5% more than the revenues of \$161.7 million of the previous year.

Casino net income of \$32.0 million increased from the previous year's net income of \$30.2 million by \$1.8 million or 5.9% resulting primarily from increased visitor traffic in response to new programs introduced by MLC during the year to address the increased competition in the marketplace.

Lottery

The Province of Manitoba is a member of the Western Canada Lottery Corporation (WCLC), a regional marketing organization responsible for the development and conduct of lotteries in the Prairie Provinces and Territories. MLC assists the WCLC with the distribution of gaming products for Manitoba. As the sole distributor of lottery products, MLC is responsible for the development and maintenance of a retailer network of nearly 840 outlets across Manitoba and markets a selection of breakopen games through lottery retail outlets, charitable organizations and MLC casinos across Manitoba. MLC is also the sole distributor of bingo paper products to charitable and non-profit licensed bingo operators throughout Manitoba.

In 2006/2007 lottery revenues, before cost of sales, of \$202.7 million increased from the previous year revenue of \$182.6 million by \$20.1 million or 11%. This increase is primarily due to record jackpots during the year for both the Lotto 6/49 and Super 7 games, several of which were won in Manitoba, combined with increased sales of instant tickets and the introduction of new products such as the Millionaire for Life. Net income of \$59.5 million was more than the previous year's net income of \$54.2 million by \$5.3 million or 9.7%.

Payout Percentages based on Dollars Won and Played

| | Casinos of Winnipeg | | Video Lotto | |
|--|---------------------|----------|-------------|----------|
| Dollars Deposited | \$ 701 | | \$ 1,287 | |
| Dollars Played | | \$ 1,671 | | \$ 4,538 |
| Dollars Won | | \$ 1,533 | | \$ 4,218 |
| Dollars Cashed Out | \$ 563 | | \$ 967 | |
| Revenue | \$ 138 | \$ 138 | \$ 320 | \$ 320 |
| Average Prize Payout = $\frac{\text{Dollars Won (Prizes)}}{\text{Dollars Played}}$ | \$ 1,533 | 91.7% | \$ 4,218 | 92.9% |
| | \$ 1,671 | | \$ 4,538 | |

First Nations

The Government of Manitoba is responsible for gaming in Manitoba in accordance with the requirements of the Criminal Code of Canada. MLC has been appointed to act as its agent in the Conduct and Management of all gaming in the province.

Part of MLC's vision is to support the development of successful First Nations casinos that contribute to the economic development of First Nations communities. To help meet this goal, in 2002 MLC entered into agreements with the Aseneskak Company Inc.

and the Brokenhead River Casino Resort Limited Partnership. Effective December 2005, MLC received approval from its Board of Directors to discontinue the recovery of general administrative and compliance costs from First Nations Casinos and to provide services upon request on a fee for service basis. The Corporation will continue to recover all direct and/or gaming related expenses.

In February 2002, the Aseneskak Casino opened at The Pas. MLC provided assistance in the start-up of the casino and purchased the gaming equipment to be used in the casino. Costs for these assets, which totaled \$4.8 million, are being amortized and recovered over the term of the Conduct and Management Agreement.

The Brokenhead River Casino Resort subsequently renamed the South Beach Casino opened in May 2005. MLC provided assistance in the start-up of the casino and purchased the gaming equipment to be used in the casino. Costs for these assets, which totaled \$7.0 million, are being amortized and recovered over the term of the Conduct and Management Agreement.

MLC Holdings Inc.

During the 2006/2007 year, MLC Holdings Inc. was established to purchase capital assets that are leased to MLC at cost. Assets other than land and those under existing capital leases were transferred to MLC Holdings Inc. on June 30th, 2006. The accounts of MLC Holdings Inc. have been included with those of MLC.

Liquidity and Capital Resources

Cash provided by operating activities during 2006/2007 was \$312.9 million compared to \$306.5 million in the previous year, an increase of \$6.4 million or 2.1%. Increased operating results and decreased amortization contributed \$2.9 million to this increase along with decreases in non-cash working capital items of \$3.5 million.

Cash expended on property and equipment for 2006/2007 totaled \$18.3 million, down from \$20.6 million in the previous year. Proceeds from the recovery of GST in the amount of \$22.1 million were received during the year and applied against outstanding debt.

One of MLC's core values is to be progressive by aiming to provide proven state-of-the-art products, services and facilities to customers and employees. Continued investments in the replacement of gaming and security equipment were made to support this value with the intention of improving service, reliability and gaming integrity.

Cash distributions to the Province of Manitoba resulted in a cash outflow of \$278.1 million compared to the previous year's \$274.0 million, representing a 1.5% increase.

Risk Management

MLC continues to implement its integrated Enterprise Risk Management Framework for assessing and managing risks at all levels across the Corporation. Enterprise risk management provides a consistent approach for addressing MLC's business risks at the strategic and business planning, project management, and business process levels by raising employee awareness and responsibility for managing these risks.

MLC is exposed to a number of risks in the normal course of its business. These risks, and the actions taken to mitigate them, are discussed below.

Operating Risk

Operating risk is the risk associated with processes, technology and people. It addresses the risk of loss resulting from such events as system failures, a breakdown in internal controls, human error and criminal activity. Losses such as a loss of client confidence, gaming integrity and corporate image can be as significant for the organization as a direct financial loss.

MLC management is committed to actions that will strengthen the existing system of internal controls and minimize operational risk to the extent practical. This has been addressed partially through the performance of risk assessments on operating units, large scale projects as well as specific business processes. Four areas of concentration are disaster recovery and business continuity, planning, policies and procedures, and process improvements based on industry best practices. Throughout



the 2006/2007 year, MLC continued the updating and documentation of operating procedures for their gaming units and support units.

In recognition of the quality of the business planning processes at MLC, the Corporation was awarded the Distinguished Budget Presentation Award from the North American Government Finance Officers Association for the third year running. The budget document received the award based on its merits as a Policy Document, Financial Plan, Operations Guide and a Communications Device.

In the 2006/2007 year MLC proceeded with sub-certification to further strengthen CEO and CFO Certification over their financial statements (MI 52-109 compliant). Sub-certification is designed to complement current disclosure controls and procedures and internal controls over financial reporting. Sub-certification provides for commentary from management on their awareness of significant control weaknesses or fraudulent activities that can have a material effect on the integrity of financial reporting from their respective areas of responsibility. It is intended that sub-certification will become an ongoing process that builds on the previous submissions which will assist in providing the CEO and CFO with reasonable assurance of the reliability and accuracy of financial information and that the organization's assets are properly safeguarded.

Technological Developments

MLC operates in an industry that is experiencing rapid technological change, changing customer needs, and shorter game life cycles. A long-term strategic goal of MLC is to continually improve systems and processes in order to attain operational excellence. One way MLC does this is by continually researching, assessing and implementing new technology to enable effective and efficient operations. MLC's success will depend in large part on how well advancements in technology are leveraged to reduce operating costs and meet or exceed customer entertainment needs by offering increased entertainment value.

Financial Risks

The Corporation's exposure to interest rate risk is substantially limited through the use of fixed-rate, long-term debt. Credit risk due to the inability or unwillingness of a counter party to fulfill its payment obligations, while low, is mitigated through MLC's credit management and collection practices. The financial impact from property losses or third party liability claims is mitigated through traditional risk management activities of ensuring adequate insurance coverage and coordinating loss mitigation strategies across the Corporation.

Outlook

The Corporation is continuing to reinvest in its facilities and in new gaming technology to ensure long-term sustainability of revenues and income. MLC as part of its continuous improvement process embarked on a change to the casino gaming operations which included replacing aging slot equipment as well as the slot management system. This initiative will continue throughout the 2007/2008 year with planned developments to the other gaming areas.

In order to address the increased competition at the casino operations, MLC is looking at alternative ways to increase revenues in a responsible manner, and has embarked on a review of the properties and operations to determine where improvements can be made. MLC has committed to replacing the aging Video King system during the upcoming year, while continuing with further upgrades to other gaming systems. Some of the improvements being considered at this time include different options such as reconfiguring the casino floor to make the best use of the space, changes to the food and beverage operation, and improvements to the entertainment areas.

MLC also continues to expand their focus on customers whether they are guests at the casinos or users of the various products and services, through the implementation of service promises and standards.

The Corporation maintains its commitment to responsible gaming research and programming through the ongoing development of the Responsible Gaming Research and Program Development Fund.

management report

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with the accounting policies stated in the consolidated financial statements. These accounting policies have been applied on a basis consistent with the prior year. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Corporation. Management maintains internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and that the assets of the Corporation are properly safeguarded. As part of the financial statement audit performed by Ernst & Young LLP, they reviewed the Corporations' internal controls to the extent that they considered necessary and reported their findings to management and the Board of Directors.

The responsibility of Ernst & Young LLP is to express an independent opinion on whether the consolidated financial statements are fairly stated in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

The Audit Committee of the Board meets with management and Ernst & Young LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the consolidated financial statements before approving them. The Board has reviewed and approved the consolidated financial statements for the fiscal year ended March 31, 2007.

Original signed by

Winston Hodgins

President and CEO

Original signed by

Cheryl Eason

Executive Vice-President & CFO



auditor's report

To the Board of Directors of
Manitoba Lotteries Corporation

We have audited the consolidated balance sheet of Manitoba Lotteries Corporation as at March 31, 2007 and the consolidated statements of net income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Ernst & Young LLP
Chartered Accountants
Winnipeg, Canada,
May 11, 2007

consolidated balance sheet

MARCH 31, 2007 (IN THOUSANDS)

| | NOTES | 2007 | 2006 |
|--|-------|-------------------|------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash | | \$ 30,094 | \$ 30,936 |
| Accounts receivable | 3 | 18,104 | 12,820 |
| Inventories | 4 | 2,127 | 2,921 |
| Prepaid expenses | 5 | 3,670 | 3,087 |
| | | 53,995 | 49,764 |
| Property and Equipment | 6 | 183,938 | 218,430 |
| Other Assets | 7 | 5,532 | 5,778 |
| | | \$ 243,465 | \$ 273,972 |
| LIABILITIES AND RETAINED EARNINGS | | | |
| Current Liabilities | | | |
| Accounts payable and accruals | 8 | \$ 29,570 | \$ 25,064 |
| Payable to the Province of Manitoba | | 10,720 | 6,060 |
| Current portion of long-term debt | 9 | 17,003 | 19,068 |
| | | 57,293 | 50,192 |
| Long-Term Debt | 9 | 180,848 | 218,502 |
| Provision for Employee Pension Benefits | 10 | 324 | 278 |
| | | 238,465 | 268,972 |
| Total Liabilities | | | |
| Commitments and contingencies | 14 | | |
| Retained Earnings | | 5,000 | 5,000 |
| | | \$ 243,465 | \$ 273,972 |

(see accompanying notes to the consolidated financial statements)

On behalf of the Board,

Original signed by Tim Valgardson
Director & Chair of the Board

Original signed by Gerald Rosenby
Director & Chair of the Audit Committee

consolidated statement of net income & retained earnings

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

| | NOTES | 2007 | 2006 |
|---|-------|-----------------|-----------------|
| Revenue | | | |
| Revenue | | \$ 699,545 | \$ 669,294 |
| Cost of sales | | 241,288 | 221,446 |
| | | <u>458,257</u> | <u>447,848</u> |
| Expenses | | | |
| Operating expenditures | | 113,225 | 104,069 |
| Amortization | | 29,236 | 32,006 |
| Interest expense - long-term | | 13,013 | 13,491 |
| Goods and services tax | | 4,622 | 6,694 |
| | | <u>160,096</u> | <u>156,260</u> |
| Income before Allocations and Payments | | 298,161 | 291,588 |
| Allocations and Payments | 12 | | |
| Provinces of Alberta and Saskatchewan | | 2,816 | 2,794 |
| Government of Canada | | 2,292 | 2,278 |
| Gaming commission fees & Crown levy | | 2,366 | 2,327 |
| Responsible gaming funding | | 2,781 | 2,696 |
| Charitable and community organizations | | 5,186 | 4,433 |
| | | <u>15,441</u> | <u>14,528</u> |
| Net Income | | 282,720 | 277,060 |
| Retained Earnings, beginning of the year | | 5,000 | 5,000 |
| Allocation to the Province of Manitoba | | (282,720) | (277,060) |
| Retained Earnings, end of the year | | <u>\$ 5,000</u> | <u>\$ 5,000</u> |

(see accompanying notes to the consolidated financial statements)

consolidated statement of cash flows

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

| | NOTES | 2007 | 2006 |
|---|-------|------------------|------------|
| Operating activities | | | |
| Net income | | \$ 282,720 | \$ 277,060 |
| Non-cash charges (credits) to income: | | | |
| Amortization | | 28,990 | 31,760 |
| Amortization on assets related to First Nations Casinos | | 1,568 | 1,542 |
| Amortization related to other assets | | 246 | 246 |
| Gain on disposal of property and equipment | | (55) | (57) |
| Provision for employee pension benefits | | 46 | (28) |
| | | 313,515 | 310,523 |
| Net changes in non-cash working capital items | 15 | (567) | (4,030) |
| Cash provided by operating activities | | 312,948 | 306,493 |
| Investing activities | | | |
| Purchase of property and equipment | | (18,267) | (20,580) |
| Proceeds from disposal of property and equipment | | 144 | 306 |
| Proceeds from recovery of goods and services tax | | 22,112 | - |
| Cash provided by (used in) investing activities | | 3,989 | (20,274) |
| Financing activities | | | |
| Cash distributions to the Province of Manitoba: | | | |
| Current year | | (272,000) | (271,000) |
| Prior year | | (6,060) | (3,038) |
| Proceeds from long-term debt | | - | 7,900 |
| Repayment of long-term debt | | (39,719) | (16,918) |
| Cash used in financing activities | | (317,779) | (283,056) |
| Increase (decrease) in cash during the year | | (842) | 3,163 |
| Cash, beginning of the year | | 30,936 | 27,773 |
| Cash, end of the year | | \$ 30,094 | \$ 30,936 |
| Supplemental cash flow information | | | |
| Interest paid | | \$ 13,550 | \$ 13,656 |

(see accompanying notes to the consolidated financial statements)

notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

1. Background

The Manitoba Lotteries Foundation was established by the Manitoba Lotteries Foundation Act. On July 27, 1993, the Act was amended and continued under the Manitoba Lotteries Corporation Act. By consent of the Legislative Assembly of Manitoba, the organization continues its operations as a Crown corporation under the name of the Manitoba Lotteries Corporation (MLC) or the "Corporation".

2. Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements combine the accounts of Manitoba Lotteries Corporation and MLC Holdings Inc. This controlled entity was established to purchase capital assets, which are leased to MLC at cost. All intercompany transactions and accounts have been eliminated on consolidation.

(b) Western Canada Lottery Corporation (WCLC)

The Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the Canada Corporations Act on May 13, 1974. The Provincial Governments of Manitoba, Saskatchewan and Alberta are members in the Corporation, and the Yukon Territory, the Northwest Territories and Nunavut participate with the provinces as associate members in the sale of gaming products. Each province and territory has appointed a lottery organization to assist the WCLC with the distribution of gaming products in its jurisdiction (MLC for the province of Manitoba). The proportionate share of WCLC's sales and cost of sales is included in the financial statements based on relative sales levels by jurisdiction.

(c) Revenue and expense recognition

Revenue and expenses are recorded on an accrual basis except for lottery revenue. Lottery revenue is recorded as of the date of the draw with the exception of instant game revenue which is recorded at the time the ticket is activated by the retailer via the on-line accounting system for sale to customers. Video lottery and other gaming revenue is recorded net of prizes paid. Administration fees related to First Nations are taken into income as earned.

(d) Property, equipment and amortization

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and amortized on a straight-line basis according to their estimated useful lives. A half-year amortization is taken in the year of acquisition on assets under \$1 million. For assets over \$1 million amortization is taken at date of implementation.

| | |
|---|--------------------|
| Furniture and equipment | 4-5 years |
| Gaming equipment | 5-7 years |
| Casino stages | 10 years |
| Buildings and parking lots | 30 years |
| Leasehold improvements | Over term of lease |
| Capital lease – building | 25 years |
| Assets related to First Nations Casinos | 7 years |
| Other Assets – (see note 7) | 26 years |

Capital assets related to First Nations Casinos under the Conduct and Management Agreement consists primarily of the cost of the gaming equipment and related hardware and software. The cost of the assets and related financing costs are amortized and recovered over the seven-year term of the Conduct and Management Agreement.

notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

(e) Goods and Services Tax

In lieu of Goods and Services Tax (GST) on lottery and gaming revenue, the Corporation foregoes claiming input tax credits and pays an additional 6% GST on gaming expenditures, including retailer commissions. This additional 6% is reported as GST expense.

An input tax credit is claimed for GST paid on non-gaming expenditures.

(f) Inventories

Inventories are valued at the lower of cost and replacement value for replacement parts and the lower of cost and net realizable value for all other inventory.

(g) Pension Plans

In accordance with the provisions of the Civil Service Superannuation Act (Act), employees of the Corporation are eligible for pension benefits in accordance with the Civil Service Superannuation Act. Plan members are required to contribute to the Civil Service Superannuation Fund (Fund) at prescribed rates for defined benefits and will receive benefits based on the lengths of services and on the average of annualized earnings calculated on the best five years prior to retirement, termination or death that provides the highest earnings. The Corporation is required to match contributions contributed to the Fund by the employees at prescribed rates, which is recorded as an operating expense. Under this Act, the Corporation has no further pension liability.

For employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund, a pension liability is established. This liability is determined actuarially every three years with the balances for the intervening years being determined by a formula provided by the actuary. Actuarial gains and losses are recognized in income immediately.

The Corporation also makes contributions for employees and officers to a money purchase pension plan at prescribed rates.

(h) Financial instruments

Financial risk

Financial risk is the risk to the Corporation's earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to interest, though risks associated with interest rate fluctuations are mitigated through the use of fixed-rate long-term debt.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Corporation mitigates this risk through its credit management and collection practices.

Currency risk

Currency risk is the risk to the Corporation's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Corporation mitigates this risk through its contract and purchasing practices.

The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and accruals, payable to the Province of Manitoba, and long-term debt. It is management's opinion that the Corporation is not exposed to significant interest, credit or currency risks. Unless otherwise stated, the fair value of these financial instruments approximates their carrying values.



notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

(i) Foreign currency translation

Monetary assets and liabilities are translated at the year-end exchange rate while non-monetary assets and liabilities and revenues and expenses are translated at the exchange rate prevailing on the transaction date. All exchange gains and losses are reflected in earnings during the period they occurred.

(j) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect

the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(k) Promotional allowances

The retail value of food, beverages and other items provided on a complimentary basis to customers has been included in gross revenue and a corresponding amount has been deducted as promotional allowances. Costs of providing promotional allowances have been included in operating expenses.

3. Accounts Receivable

Western Canada Lottery Corporation
Trade
First Nations
Goods and services tax
Employee computer program
Lottery retailers

| | 2007 | | 2006 |
|--|------------------|--|------------------|
| | \$ 9,011 | | \$ 5,603 |
| | 6,371 | | 5,453 |
| | 2,001 | | 1,199 |
| | 412 | | 272 |
| | 204 | | 188 |
| | 105 | | 105 |
| | <u>\$ 18,104</u> | | <u>\$ 12,820</u> |

4. Inventories

Replacement parts
Bingo paper
Breakopen tickets
Restaurant
Store merchandise

| | 2007 | | 2006 |
|--|-----------------|--|-----------------|
| | \$ 1,414 | | \$ 1,855 |
| | 306 | | 524 |
| | 208 | | 365 |
| | 107 | | 91 |
| | 92 | | 86 |
| | <u>\$ 2,127</u> | | <u>\$ 2,921</u> |

notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

5. Prepaid Expenses

| |
|---|
| Manitoba Gaming Control Commission fees |
| Maintenance contracts |
| Insurance |
| Entertainer & sponsorship deposits |
| Rent |
| Other |

| | | | |
|--|-----------------|--|----------|
| | 2007 | | 2006 |
| | \$ 1,617 | | \$ 1,608 |
| | 1,119 | | 709 |
| | 428 | | 437 |
| | 338 | | 186 |
| | 86 | | 73 |
| | 82 | | 74 |
| | \$ 3,670 | | \$ 3,087 |

6. Property and Equipment

| | |
|--|-----------------|
| Land | \$ 5,798 |
| Furniture and equipment | 86,069 |
| Gaming equipment | 121,187 |
| Casino stages | 5,972 |
| Buildings and parking lots | 151,210 |
| Leasehold improvements | 5,643 |
| Capital lease – building | 688 |
| Assets related to First Nations Casino [see note 13] | 10,869 |

| | | | |
|--|-------------------|---------------------|-------------------|
| | Cost | 2007 | Net |
| | \$ 5,798 | Accumulated | Book Value |
| | 86,069 | Amortization | \$ 5,798 |
| | 121,187 | \$ - | 24,261 |
| | 5,972 | 61,808 | 52,527 |
| | 151,210 | 68,660 | - |
| | 5,643 | 5,972 | 94,696 |
| | 688 | 56,514 | 414 |
| | 10,869 | 5,229 | 465 |
| | \$ 387,436 | 223 | 5,777 |
| | | 5,092 | \$ 183,938 |
| | | \$ 203,498 | |

| | |
|--|----------|
| Land | \$ 5,798 |
| Furniture and equipment | 73,024 |
| Gaming equipment | 126,961 |
| Casino stages | 5,972 |
| Buildings and parking lots | 162,864 |
| Leasehold improvements | 5,643 |
| Capital lease – building | 688 |
| Assets related to First Nations Casino [see note 13] | 11,765 |

| | | | |
|--|-------------------|---------------------|-------------------|
| | Cost | 2006 | Net |
| | \$ 5,798 | Accumulated | Book Value |
| | 73,024 | Amortization | \$ 5,798 |
| | 126,961 | \$ - | 16,948 |
| | 5,972 | 56,076 | 73,316 |
| | 162,864 | 53,645 | 2,150 |
| | 5,643 | 3,822 | 111,031 |
| | 688 | 51,833 | 454 |
| | 11,765 | 5,189 | 491 |
| | \$ 392,715 | 197 | 8,242 |
| | | 3,523 | \$ 218,430 |
| | | \$ 174,285 | |



notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

7. Other Assets

The Corporation has entered into an agreement for the right to use 22.28 acres of land for 200 years. The land is being used for parking facilities at the McPhillips Street Station Casino. The facilities became available for use during the 2004 fiscal year, at which time the Corporation began amortizing the asset over the life of the adjacent Casino. The asset is presented net of accumulated amortization of \$849 (2006 - \$603) [see note 2 (d)].

8. Accounts Payable and Accruals

Trade
Vacation
Interest
Jackpot provision
Province of Manitoba taxes

| | 2007 | 2006 |
|----|---------------|-----------|
| \$ | 21,935 | \$ 17,670 |
| | 5,391 | 5,103 |
| | 939 | 1,143 |
| | 680 | 942 |
| | 625 | 206 |
| \$ | 29,570 | \$ 25,064 |

notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

9. Long-Term Debt

Province of Manitoba, bearing interest at 6.95%, interest only payable semi-annually, with all principal due at maturity on August 30, 2010.

| | 2007 | 2006 |
|--|-------------------|------------|
| | \$ 135,000 | \$ 135,000 |
| Province of Manitoba, bearing interest at the prevailing Bankers Acceptance rate plus ¼ of 1%, repayable in quarterly principal installments of \$1,500 plus interest until October 17, 2007. The interest rate on the debt at March 31, 2007 was 4.57%. | 4,159 | 30,000 |
| Province of Manitoba, bearing interest at 5.25%, repayable in quarterly principal installments of \$1,071 plus interest until June 30, 2011. | 18,214 | 22,500 |
| Province of Manitoba, bearing interest at 4.625%, repayable in quarterly principal installments of \$1,071 plus interest until September 30, 2011. | 19,286 | 23,571 |
| Province of Manitoba, bearing interest at the prevailing Bankers Acceptance rate plus ¼ of 1%, repayable in quarterly principal installments of \$679 plus interest until May 10, 2012. The interest rate on the debt at March 31, 2007 was 4.57%. | 14,250 | 16,964 |
| Province of Manitoba, bearing interest at 4.875%, repayable in monthly principal installments of \$43 plus interest until March 31, 2009. | 1,029 | 1,828 |
| Province of Manitoba, bearing interest at 4.050%, repayable in monthly principal installments of \$84 plus interest until August 31, 2012. | 5,478 | 7,242 |
| Capital lease obligation to the Province of Manitoba, with a 7.63% implicit interest rate and annual minimum lease payments of \$64 until July 13, 2017. | 435 | 465 |
| | 197,851 | 237,570 |
| Less current portion of long-term debt and capital lease obligation | 17,003 | 19,068 |
| | \$ 180,848 | \$ 218,502 |

Province of Manitoba, bearing interest at the prevailing Bankers Acceptance rate plus ¼ of 1%, repayable in quarterly principal installments of \$1,500 plus interest until October 17, 2007. The interest rate on the debt at March 31, 2007 was 4.57%.

Province of Manitoba, bearing interest at 5.25%, repayable in quarterly principal installments of \$1,071 plus interest until June 30, 2011.

Province of Manitoba, bearing interest at 4.625%, repayable in quarterly principal installments of \$1,071 plus interest until September 30, 2011.

Province of Manitoba, bearing interest at the prevailing Bankers Acceptance rate plus ¼ of 1%, repayable in quarterly principal installments of \$679 plus interest until May 10, 2012. The interest rate on the debt at March 31, 2007 was 4.57%.

Province of Manitoba, bearing interest at 4.875%, repayable in monthly principal installments of \$43 plus interest until March 31, 2009.

Province of Manitoba, bearing interest at 4.050%, repayable in monthly principal installments of \$84 plus interest until August 31, 2012.

Capital lease obligation to the Province of Manitoba, with a 7.63% implicit interest rate and annual minimum lease payments of \$64 until July 13, 2017.

Less current portion of long-term debt and capital lease obligation

notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

Annual payments in future years are as follows:

| | Loans | Principal | Capital Lease | Interest |
|------------------|-------------------|---------------|---------------|----------|
| 2008 | \$ 16,971 | \$ 32 | \$ 32 | |
| 2009 | 12,811 | 35 | 30 | |
| 2010 | 12,297 | 37 | 27 | |
| 2011 | 147,297 | 40 | 24 | |
| 2012 | 6,940 | 43 | 21 | |
| Subsequent years | 1,100 | 248 | 51 | |
| | <u>\$ 197,416</u> | <u>\$ 435</u> | <u>\$ 185</u> | |

The fair market value of long-term debt at March 31, 2007 is \$209,746.

10. Provision for Employee Pension Benefits

The pension expense related to the Corporation's contributions to the Civil Service Superannuation Fund is \$2,426 (2006 - \$2,004).

A pension liability of \$324 (2006 - \$278) has been established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund plan. A loss of \$18 was experienced in the current year based on the triennial actuarial report of pension obligations as at December 31, 2004, and is included in the above pension expense.

The pension expense related to the Corporation's contributions to the money purchase plan is \$353 (2006 - \$544).

notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

11. Segmented Information

The Corporation's management has designated the areas of Video Lotto, Casinos and Lottery as its operating segments. All indirect costs have been allocated to the operating segments. A summary of these operating segments is as follows:

| 2007 | Video Lotto | Casinos of Winnipeg | Lottery | Total |
|---|-------------------|---------------------|------------------|-------------------|
| Revenue | | | | |
| Revenue | \$ 324,675 | \$ 172,178 | \$ 202,692 | \$ 699,545 |
| Cost of sales | 97,662 | 10,650 | 132,976 | 241,288 |
| | 227,013 | 161,528 | 69,716 | 458,257 |
| Expenses | | | | |
| Operating expenses | 9,840 | 98,884 | 4,501 | 113,225 |
| Amortization | 12,767 | 16,469 | - | 29,236 |
| Interest expense - long-term | 4,816 | 7,956 | 241 | 13,013 |
| Goods and services tax | 4,062 | 452 | 108 | 4,622 |
| | 31,485 | 123,761 | 4,850 | 160,096 |
| Income before Allocations and Payments | 195,528 | 37,767 | 64,866 | 298,161 |
| Allocations and Payments | 4,265 | 5,800 | 5,376 | 15,441 |
| Net Income | \$ 191,263 | \$ 31,967 | \$ 59,490 | \$ 282,720 |

notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

| 2006 | Video Lotto | Casinos of Winnipeg | Lottery | Total |
|---|-------------|---------------------|------------|------------|
| Revenue | | | | |
| Revenue | \$ 325,041 | \$ 161,692 | \$ 182,561 | \$ 669,294 |
| Cost of sales | 95,614 | 7,975 | 117,857 | 221,446 |
| | 229,427 | 153,717 | 64,704 | 447,848 |
| Expenses | | | | |
| Operating expenses | 9,870 | 89,831 | 4,368 | 104,069 |
| Amortization | 12,359 | 19,647 | - | 32,006 |
| Interest expense - long-term | 5,119 | 8,132 | 240 | 13,491 |
| Goods and services tax | 5,837 | 313 | 544 | 6,694 |
| | 33,185 | 117,923 | 5,152 | 156,260 |
| Income before Allocations and Payments | 196,242 | 35,794 | 59,552 | 291,588 |
| Allocations and Payments | 3,578 | 5,612 | 5,338 | 14,528 |
| Net Income | \$ 192,664 | \$ 30,182 | \$ 54,214 | \$ 277,060 |

notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

12. Allocations and Payments

(a) Provinces of Alberta and Saskatchewan

The Province of Manitoba is a member in the Western Canada Lottery Corporation (WCLC). An agreement is in place with the other members to provide economic benefit equalization. The cost to the Corporation for this allocation for the 2007 fiscal year is \$2,816 (2006 - \$2,794).

(b) Payment to Government of Canada

Effective January 1, 1980 the Government of Canada terminated its involvement in lotteries. In return, the ten provinces are to contribute an annual sum of \$24,000, adjusted for inflation, to the Federal Government. The Province of Manitoba's share for the 2007 fiscal year is \$2,292 (2006 - \$2,278).

(c) Gaming Commission Fees & Crown Levy

The Corporation provides funding to the Manitoba Gaming Control Commission (MGCC) through payment of annual registration fees for electronic gaming machines and employees. The Corporation also provides funding to the Crown Corporations Council through the payment of an annual levy. Funding provided to MGCC and Crown Corporations Council in the 2007 fiscal year is \$2,366 (2006 - \$2,327).

(d) Responsible Gaming Funding

Funding to the Addictions Foundation of Manitoba (AFM) and other organizations for their responsible gaming research and programming for the 2007 fiscal year is \$2,781 (2006 - \$2,696).

(e) Charitable and Community Organizations

The Corporation provides over four hundred charitable and community organizations the opportunity to raise funds for their organizations by assisting the Corporation in the bingo events held at its casinos and providing funding to various community groups throughout Manitoba. Payments made to these organizations for the 2007 fiscal year amount to \$5,186 (2006 - \$4,433).

13. First Nations Casinos

The Government of Manitoba has overall control over gaming in Manitoba in accordance with the requirements of the Criminal Code of Canada, and has appointed MLC to act as its agent in the Conduct and Management of the gaming regime. Through a selection process, the Government has provided certain First Nations the opportunity to operate casinos, with MLC maintaining the Conduct and Management authority over these casinos. Effective December 1, 2005, the Corporation received approval from MLC's Board of Directors to discontinue the recovery of general administrative and compliance costs from First Nations Casinos and to provide these services only upon request on a fee for service basis. The Corporation will continue to recover all direct and/or gaming related expenses.



notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

14. Future Commitments and Contingencies

(a) Lease Obligations

The future minimum rental payments relating to operating leases are as follows:

| | | |
|------------------|----|--------------|
| 2008 | \$ | 1,150 |
| 2009 | | 896 |
| 2010 | | 566 |
| 2011 | | 340 |
| 2012 | | 301 |
| Subsequent years | | 1,541 |
| | \$ | <u>4,794</u> |

(b) Incident to the nature of its business, the Corporation is defending various legal actions and claims that are pending. While the outcome of these claims cannot be determined, management is of the opinion that the appropriate provisions have been made in the accounts, and the ultimate outcome will not have a material adverse effect on the Corporation's financial position.

(c) The Corporation entered into a VLT revenue sharing agreement with the Manitoba Jockey Club Inc., in the amount of \$14,750 that covered the period of January 1, 2004 to December 31, 2006. This agreement was amended in April 2005 to extend MLC's commitment by another two years to December 31, 2008. Manitoba Jockey Club Inc., will receive \$5,000 annually plus an additional 20% commission on net VLT revenues over \$5,000.

(d) During the year the Corporation maintains its commitment to spend 2% of its net income over five years for responsible gaming research and programming. It is anticipated that the commencement of expenditures will occur in the 2008 fiscal year.

(e) During the year the Corporation committed to replacing the aging Video King gaming system at the Casinos of Winnipeg. The estimated cost of this replacement is \$18,000.

notes to consolidated financial statements

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

15. Supplementary Cash Flow Information

Net decrease (increase) in current assets

Accounts receivable

Inventories

Prepaid expenses

Net increase (decrease) in current liabilities

Accounts payable and accruals

Net change in non-cash working capital

| | 2007 | | 2006 |
|----|----------------|----|----------------|
| \$ | (5,284) | \$ | (2,889) |
| | 794 | | 287 |
| | (583) | | (609) |
| | <u>(5,073)</u> | | <u>(3,211)</u> |
| | 4,506 | | (819) |
| | <u>4,506</u> | | <u>(819)</u> |
| \$ | <u>(567)</u> | \$ | <u>(4,030)</u> |

16. Comparative Figures

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year financial statements.



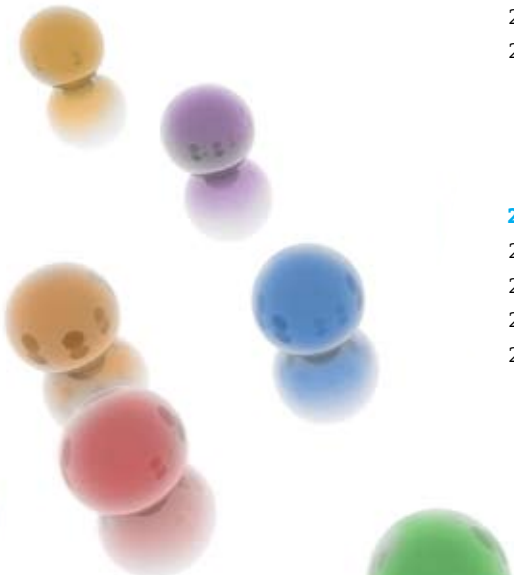
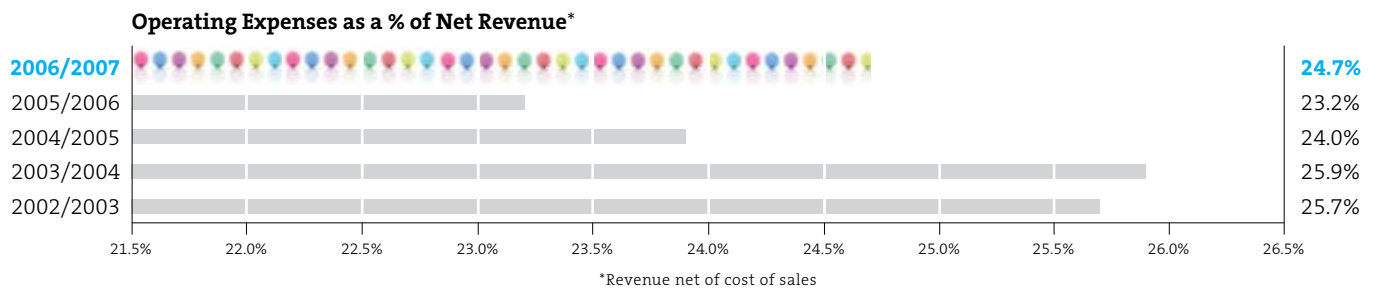
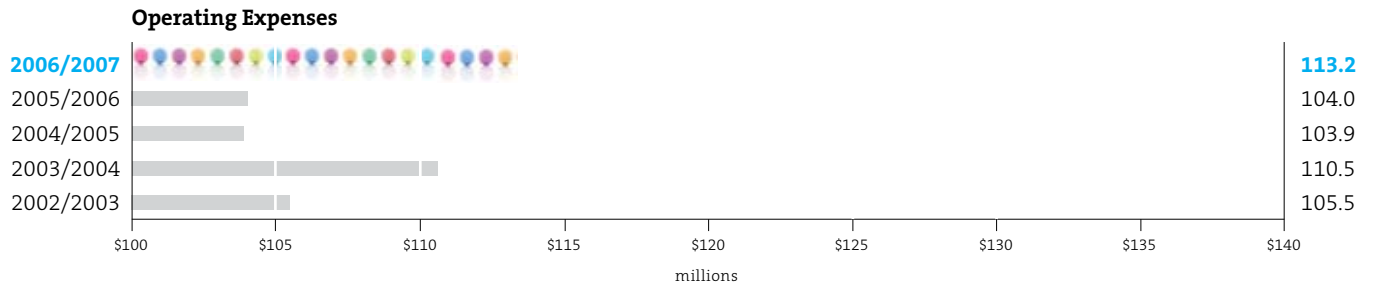
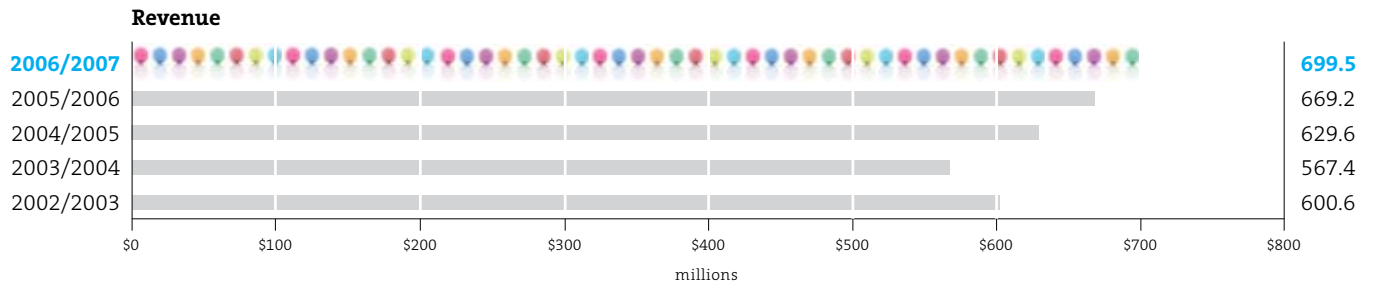
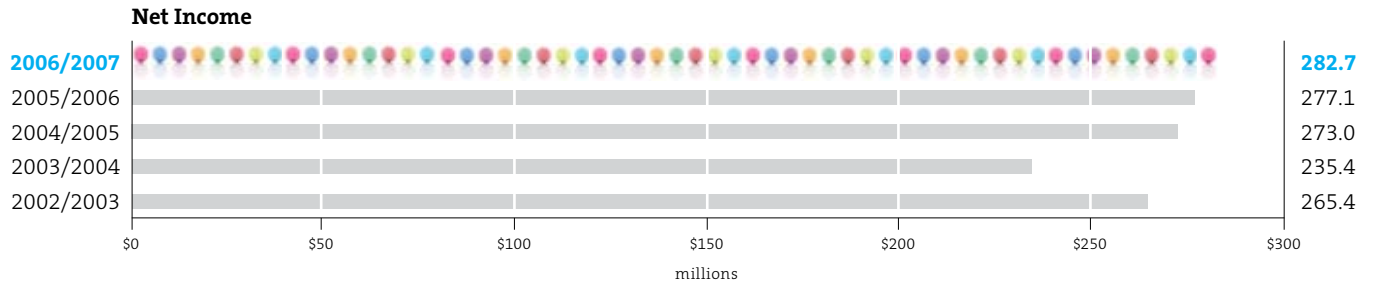
consolidated schedule of net income

FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

| | 2007 | 2006 |
|---|-------------------|------------|
| Revenue | | |
| Revenue | \$ 699,545 | \$ 669,294 |
| Cost of sales | 241,288 | 221,446 |
| | 458,257 | 447,848 |
| Expenses | | |
| Operating expenditures | | |
| Salaries and benefits | 75,687 | 72,290 |
| Maintenance equipment | 11,507 | 8,994 |
| Tourism marketing | 6,492 | 4,612 |
| Property taxes | 3,982 | 3,133 |
| Utilities | 2,314 | 2,386 |
| Postage, printing and supplies | 4,053 | 2,878 |
| Consulting and legal fees | 1,740 | 2,664 |
| Telecommunications | 1,786 | 1,631 |
| Transportation and vehicles | 1,575 | 1,529 |
| Community support | 1,499 | 1,275 |
| Sundry | 2,590 | 2,677 |
| | 113,225 | 104,069 |
| Amortization | 29,236 | 32,006 |
| Interest expense - long-term | 13,013 | 13,491 |
| Goods and services tax | 4,622 | 6,694 |
| | 160,096 | 156,260 |
| Income before Allocations and Payments | 298,161 | 291,588 |
| Allocations and Payments | 15,441 | 14,528 |
| Net Income | \$ 282,720 | \$ 277,060 |

(see accompanying notes to the consolidated financial statements)

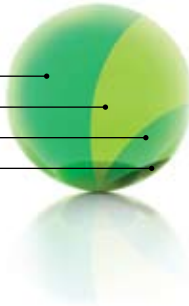
highlights



highlights

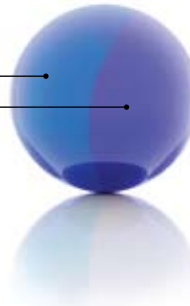
Equity Participation Rates

Other: 59.9%
 Visible Minority: 24.8%
 Aboriginal: 12.7%
 Disabled: 2.6%

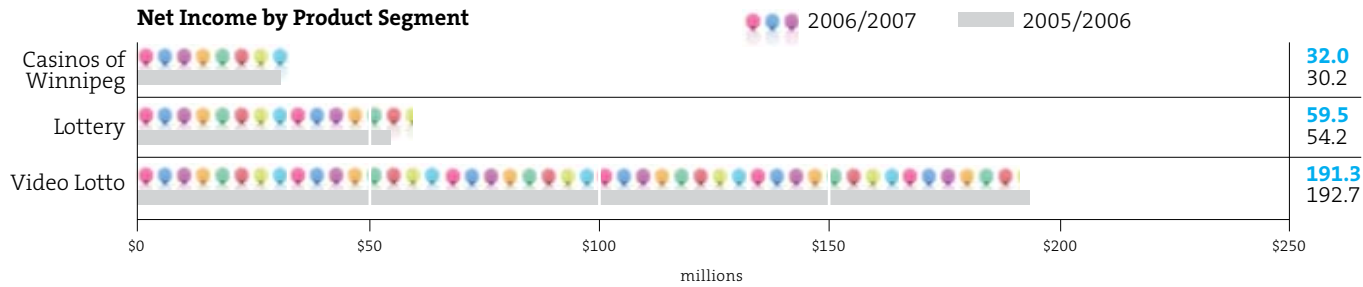


Gender Comparison

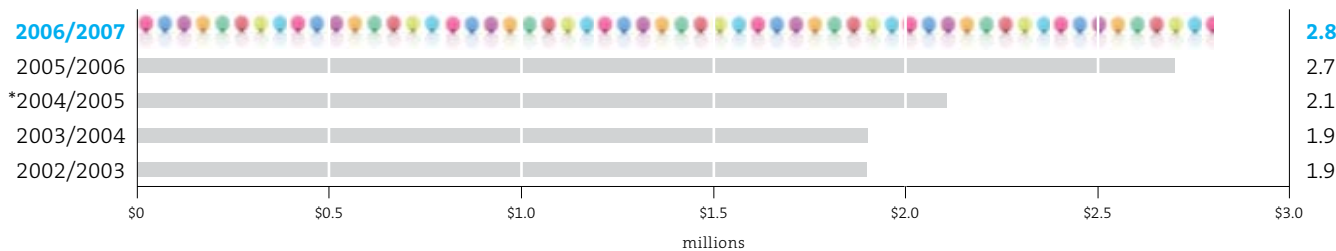
Females: 55.0%
 Males: 45.0%



Net Income by Product Segment

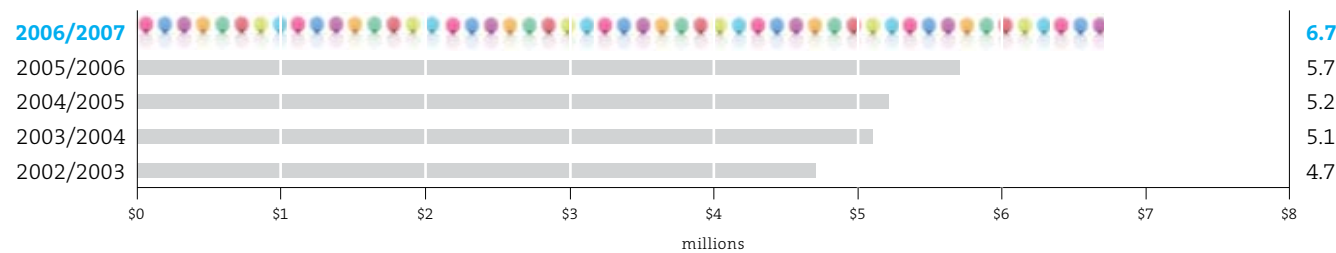


Responsible Gaming



Support to the Addictions Foundation of Manitoba. *In addition, MLC has expended \$1.6 million toward it's own responsible gaming programs.

Community Support



Corporate Sponsorship and Casino Volunteer Bingo Program funding