



2012/13  
**ANNUAL REPORT**

**EXCEL. INNOVATE. PROGRESS.**

Manitoba  
**Lotteries**

# Transition. Growth.



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In a year that brought significant change to our corporation, Manitoba Lotteries excelled at responsibly delivering new and exciting products.

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## About Manitoba Lotteries

### Who we are

Manitoba Lotteries, 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, with the exception of licensed charitable gaming. We report to the Minister responsible for *The Manitoba Lotteries Corporation Act* through our Board of Directors.

### What we do

Manitoba Lotteries operates Club Regent Casino and McPhillips Station Casino in Winnipeg, as well as Video Lotto and PlayNow.com in Manitoba. We are the exclusive supplier of breakopen tickets and bingo paper in the province and distribute and sell tickets for lotteries operated by the Western Canada Lottery Corporation and the Interprovincial Lottery Corporation. To accomplish this, we have formed successful partnerships with the lottery retail industry, the hospitality industry, Veterans' organizations and First Nations communities throughout Manitoba.



Wynonna Judd played McPhillips Station Casino.

**Honourable Steve Ashton**

MINISTER RESPONSIBLE FOR LOTTERIES  
 Room 203, Legislative Building  
 450 Broadway  
 Winnipeg, MB R3C 0V8

September 21, 2013

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, 2013.

Respectfully submitted,

*(originally signed by)*

**Tannis Mindell**

CHAIR, BOARD OF DIRECTORS

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## Where the Money Goes

FOR THE YEAR ENDED MARCH 31, 2013 (IN MILLIONS OF DOLLARS)



## MESSAGE FROM THE CHAIR

In my first full year as Chair I am pleased to report on this significant and exciting period as a Crown corporation. In April 2012, the Province of Manitoba announced that Manitoba Lotteries would merge with the Manitoba Liquor Control Commission (MLCC) to become the Manitoba Liquor & Lotteries Corporation. Soon thereafter, a new Board of Directors was appointed to oversee both organizations and their integration.



Over the past year, we progressed in merging the daily operations of both organizations, based on the recommendations made in a third-party report. Under a newly developed organizational structure we have

begun the process of consolidating departments. An integration team was formed to guide and direct this complex task. Annual savings from the merger will be accomplished through the consolidation of two boards, reductions found in a combined senior management, and through operational efficiencies.

In the fall of 2012, a strategic direction for Manitoba Liquor & Lotteries was created. Over the course of the next year the new corporation will determine related business objectives and performance indicators that best serve this strategy.

Legislation is being drafted for the new organization. We anticipate this new legislation will come into effect in late 2013, creating one Crown corporation responsible for the sale of lottery/gaming products and beverage alcohol products.

Legislative amendments will also combine the regulatory side of the MLCC with the Manitoba Gaming Control Commission. This will create the Liquor and Gaming Authority of Manitoba – one regulatory body for gaming and beverage alcohol.

Manitoba Lotteries makes significant contributions to our communities by returning revenues to the Province of Manitoba and through job creation, economic spinoffs, community partnerships, employee volunteerism, programs that support responsible play, and funding for problem gambling treatment and research. Over the next year, these community benefits will be enhanced as we continue with the merging of both organizations.

In closing, on behalf of the Board of Directors, I would like to sincerely thank President & CEO Winston Hodgins, the employees of Manitoba Lotteries and the employees of the MLCC for their dedication and effort this past year. I am excited about the future which looks very promising for Manitoba Liquor & Lotteries.

*(originally signed by)*

**Tannis Mindell**

2012/13 CHAIR, BOARD OF DIRECTORS

## MESSAGE FROM THE PRESIDENT & CEO

It is my pleasure to report on a year of significant transition for Manitoba Lotteries as we guide the corporation in its merger with the MLCC. It is a time of tremendous opportunities as employees and stakeholders adapt to the emerging Manitoba Liquor & Lotteries Corporation. Much progress has already been achieved in bringing together the two corporations, thanks to our dedicated staff from both Crowns.



The new Manitoba Liquor & Lotteries will be a blended workforce of more than 3,000 employees. I thank our employees from all areas for their contributions, especially our change ambassadors who have

served to help bridge the cultural differences between the two organizations. The key to a successful merger will continue to rely on the full participation and engagement of all staff.

In 2012/13 we began establishing a new brand identity for Manitoba Liquor & Lotteries by introducing the new logo through our community support and social responsibility programs. Internally, a new organizational structure was introduced, with integration teams and ambassadors helping to shape, guide and communicate corporate change to all internal stakeholders. A Vice President of Integration was introduced to lead this work.

By last November a new three-year corporate direction was developed, which will be reflected in the 2013/14 annual report. In the spring of 2013, we completed a major staff relocation combining related departments from the two organizations in each of the head office locations.

We also maintained our focus on business performance and on community building during this past year. The new PlayNow.com gaming site was introduced to Manitobans. This is the province's first regulated online site for live poker, video poker, slots, live sports betting and more. We are pleased to offer customers a reputable and safe online gambling site featuring extensive responsible gaming measures and safety measures to protect personal information, bets and deposits.

Our province-wide Video Lottery Terminal (VLT) network received a full upgrade and represents another major milestone. Multiple vendors were selected to provide VLTs and the supporting network and central system in order to fully modernize this part of our business.

We also built upon our extensive community presence by welcoming Olympian Janine Hanson as our new community ambassador. A silver medalist at the 2012 Summer Olympics, Janine will be sharing stories of her inspiring journey to the Olympic podium with community groups, youth and sports teams.

Our Flight Deck program, which gives young athletes and their coaches a chance to attend Winnipeg Jets home games, was extended this year to include the Winnipeg Blue Bombers. This exciting program encourages youth participation in sport and recognizes the volunteer efforts of their coaches.

I am pleased to report that in 2012/13 Manitoba Lotteries allocated \$297.5 million to the Province to support priority provincial government programs such as health care, education, community and social services and economic development.

I commend the many teams and working groups from numerous departments who worked diligently on the above projects as well as others we completed. More broadly, I thank the employees of Manitoba Lotteries and of the MLCC for their contributions and ongoing commitment to the merger.

*(originally signed by)*

**Winston Hodgins**

PRESIDENT & CEO

# Strategic Planning & Key Performance Indicators\*

Goal	Objective	Performance Indicator	2009/10	2010/11	2011/12	2012/13 Target	2012/13 Results	Results & Trend	Calculation and Data Source
<b>A SATISFIED CUSTOMER</b>	Increase overall customer satisfaction rating	1. Casino customer satisfaction	87%	86%	85%	85%	86%	A satisfaction score of 86% exceeds our target. Manitoba Lotteries will continue its efforts to maintain and improve its customers' level of satisfaction.	The Casino Customer Satisfaction Study is conducted on a quarterly basis at each casino. Respondents are requested to rate products and services on a seven-point scale.
	Increase revenues	2. Revenue (millions)	\$558.6	\$562.4	\$569.0	\$622.1	\$540.4	The target was not achieved primarily due to a delay in the launch of the VLT network replacement, and declining VLT and casino revenue; trends which are similar to those being experienced by other Canadian gaming jurisdictions.	This indicator measures total revenue as reported in the consolidated financial statements and budgets.
<b>BE RECOGNIZED AS A VALUED MEMBER OF THE COMMUNITY</b>	Increase public awareness of Manitoba Lotteries' Corporate Social Responsibility	3. Public awareness of Manitoba Lotteries sponsored events, programs and charities**	15%	22%	22%	–	21%	This score has remained consistent over the past 3 years. Manitoba Lotteries continues to support hundreds of organizations each year with sponsorship funds and employee volunteer hours.	The Corporate Image Study is conducted quarterly and indicates public awareness and recall of events, programs and charities sponsored by Manitoba Lotteries.
	Improve Manitoba Lotteries' reputation as a responsible member of the community	4. Percent of public who report a favourable impression of Manitoba Lotteries***	48%	52%	54%	56%	52%	The overall score for favourable impression of Manitoba Lotteries had a slight decrease from fiscal 2011/12 but overall remains in a consistent range.	The Corporate Image Study, conducted quarterly, measures the percentage of respondents who hold a favourable opinion of Manitoba Lotteries using a five-point scale.
<b>BE EFFICIENT AND EFFECTIVE</b>	Contain operating expenses	5. Operating expenses as a percentage of revenue	23.4%	24.2%	21.8%	22.5%-24%	25.4%	The target was not achieved due to VLT and casino revenue declines similar to that experienced by other Canadian gaming jurisdictions. There were slight increases in expenses related to the VLT network replacement program and promotions.	$\frac{\text{Operating expenses (including salaries and benefits)}}{\text{Revenue}}$
		6. Allocation to the Province of Manitoba (millions)****	\$306.7	\$332.1	\$342.9	\$346.0	\$297.5	The 2012/13 target was not achieved as net income declined mainly due to the revenue trends noted above and the delay in the launch of the VLT network replacement program.	Allocation to the Province = revenue + other income - cost of sales - expenses - allocations and payments + contributed surplus allocation
<b>RETAIN AND GROW OUR CUSTOMER BASE</b>	Increase participation in Manitoba Lotteries' products and services	7. Number of active Club Card members	117,741	115,131	120,308	130,000	118,192	2012/13 saw a small decrease in active memberships as of March 31, 2013.	Active Club Card members are the number of participants who have used their Club Cards throughout the casinos within the last 18 months. This fluctuated between the values of 118,192 – 122,621 as the inactive members are removed from the database.
		8. Percent of public who are Manitoba Lotteries customers	55%	56%	54%	59%	51%	The decrease in percentage of customers was primarily due to fewer Lotto Max and Western Max jackpot rolls.	The Gaming Market Tracking Study measures the percentage of the public who use Manitoba Lotteries products and services within a selected four week period. The score on this measure is significantly influenced by lottery participation.
		9. Percent of out-of-town visitors	21%	17%	22%	22%	22%	The percent of out-of-town visitors remained consistent in 2012/13.	The Casino Customer Satisfaction Survey identifies the number of casino visitors outside city limits.
<b>A KNOWLEDGEABLE WORKFORCE OF HIGHLY SATISFIED EMPLOYEES</b>	Increase employee engagement	10. Employee engagement	72% 2008 survey	74% 2010 survey	81% 2012 survey	n/a	n/a	Employee engagement was surveyed in Feb 2012, (fiscal 2011/12). The survey is scheduled to occur every two years.	The Employee Excellence survey measures employee satisfaction with employment, the desire to provide discretionary effort and pride in the organization. Combined these measures contribute to a measurable score of Employee Engagement.

\* For comparison purposes, please note that prior annual reports were based on different calculation formulas.

\*\* Survey instrument was modified 2009/10.

\*\*\* Survey instrument was modified 2010/11 to be consistent with other jurisdictions.

\*\*\*\* The net income KPI has been restated as allocation to the Province of Manitoba due to changes in financial reporting standards from Canadian Generally Accepted Accounting Principles (Canadian GAAP) to International Financial Reporting Standards (IFRS).

# Integrity

## 2012/13 Corporate Framework

### VISION

We are recognized as an enterprising and progressive business inspired to be the best at understanding and exceeding your entertainment expectations.

### MISSION

To create an exciting entertainment experience in a socially responsible manner to generate benefits for all Manitobans.

### CORE VALUES

#### Integrity

We are fair, honest, respectful, transparent and trustworthy.

#### Social Responsibility

We are committed to business, social, responsible gaming and environmental practices which are sustainable and add lasting value to our communities.

#### Innovation

We embrace change and encourage innovation. We seek out and pursue opportunities that contribute to personal and business growth.

#### Learning Focused

We learn from our experiences, and acquire knowledge and talent to continually progress.

#### Leadership

We are committed to excellence in everything we do and are dedicated to achieving results that exceed expectations.

#### Diversity

We value the skills, strengths and perspectives of our team members, providing an environment where all individuals can develop and perform to their full potential.



Habitat for Humanity Legacy Build (see page 12)

## Amalgamation of Manitoba Lotteries with the Manitoba Liquor Control Commission

In April 2012 the Manitoba government announced the amalgamation of the MLCC with Manitoba Lotteries to form Manitoba Liquor & Lotteries. In addition to this merger, the province announced that regulatory activities of the MLCC would transfer to the Manitoba Gaming Control Commission to create a new regulatory agency, the Liquor and Gaming Authority of Manitoba.

Following the provincial announcement, a review of the three organizations was conducted by MNP to determine recommendations for integration. The mergers are expected to increase efficiencies, modernize procedures, reduce red tape and achieve cost savings while maintaining high levels of customer service.

When completed, the merger between MLCC and Manitoba Lotteries will result in a workforce of approximately 3,000 employees. Over the course of 2012/13, several significant milestones were achieved including the:

- ▶ Appointment of Winston Hodgins (President & CEO of Manitoba Lotteries) to President & CEO of the Manitoba Liquor & Lotteries Corporation;
- ▶ Appointment of a new Board of Directors, chaired by Tannis Mindell;
- ▶ Establishment of an executive management team;
- ▶ Creation of a new, streamlined organizational structure to increase overall efficiency;
- ▶ Merging of common functional areas.

This past year also saw the creation of vision, mission and values statements that will serve to guide and direct the new corporation beginning 2013/14.



### VISION

- ▶ To exceed customer expectations while supporting our communities.

### MISSION

- ▶ Innovative and responsible delivery of quality products and entertainment, generating revenue for Manitoba.

### VALUES

#### Importance of People

- ▶ Foster a positive and diverse workplace and work together towards our common goals.

#### Responsibility

- ▶ Demonstrate responsible business, social, and environmental practices.

#### Integrity and Fairness

- ▶ Be respectful, ethical and fully accountable for our actions and decisions.

#### Service Excellence

- ▶ Provide superior service to our customers, partners and co-workers.

#### Innovation

- ▶ Learn from our experiences, embrace change and encourage innovation.



Conceptual image of the new main entrance for Club Regent Casino and Event Centre

## Quality Products: A Satisfied Customer

### LAUNCHING AN ALL-NEW VIDEO LOTTERY TERMINAL NETWORK

Manitobans were introduced to new VLTs in 2013, supported by an all-new network system that offers distinct benefits over the past system. Fresh games can now be delivered to customers more efficiently thanks to improved uploading capabilities. Moving away from the traditional single-supplier model of VLTs to three suppliers opens up more opportunities for game variety.

Our VLTs retain a full suite of features that encourage responsible play, primarily by helping players monitor the amount of time and money they spend. For instance, players see a clock on-screen and receive mandatory cash out time limits. There are also many forms of information found on VLTs to encourage responsible play, from myth-busting facts to a listing of the Program Gambling Helpline.

### DELIVERING THE BEST IN FOOD AND ENTERTAINMENT

Over the past year, we have helped Manitobans rediscover the wide array of quality food products grown and produced right here in our province, thanks to our partnership with the Manitoba Food Processors Association. Our casino restaurants support Made in Manitoba suppliers by serving their products to our discerning customers.

Our kitchens are also environmentally-minded in their selections, as evidenced by a commitment this year to serve only sustainably-sourced seafood. This is in addition to other existing sustainable practices, such as minimizing food waste.

The casino weekly brunches were re-launched at McPhillips Station Casino and Club Regent Casino with such tantalizing fare as buttery crepes with warm Grand Marnier strawberries, in part of a wider effort to further develop the food and beverage experience. Food and alcohol service was extended to casino gaming floors, delivering on our guests' expectation for a seamless entertainment experience.

### OPENING SOON

Looking to the year ahead, ground breaking will begin on the new McPhillips Station Casino Hotel, opening in 2015. This will follow the construction of a casino parkade begun this past fiscal year and slated for completion in 2014.

We are also particularly excited about the upcoming grand opening of the new Club Regent Event Centre. Replacing the previous concert bowl, this new facility features a floor system that allows for customized seating for banquets, trade shows, weddings and concerts with capacity for up to 1,400 people. Stunning audio and visuals will complete the experience within this must-see venue.

## Operational Excellence: Be Efficient and Effective

### SERVING OUR GUESTS EFFICIENTLY

Part of the excitement of a casino outing is finding an appealing new game alongside classic favourites. When players have questions about a game, they can simply push the service button on their slot machine. Slot attendants receive an automated text message notifying them of the service request. No matter how busy the casino might be at the time, our staff will be alerted and can promptly deliver assistance. It's just one example of the many small ways we aim to ensure we exceed customer expectations in effective, meaningful ways.

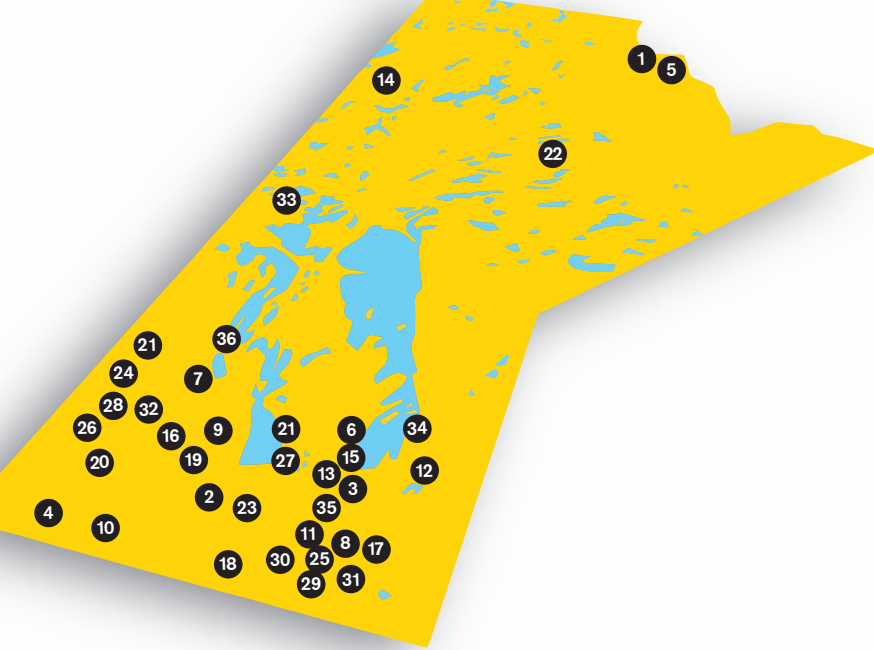
A larger scale example of how we find efficient ways to deliver our services can be found with Manitoba's new PlayNow.com. This online platform was cost-effectively adapted from a similar site that serves British Columbians. With its similar gambling regulatory framework and robust commitment to social responsibility, British Columbia's existing platform was already well-suited to our own market and offered the opportunity to bypass major development costs.

### MAKING EFFECTIVE BUSINESS DECISIONS

Manitoba Lotteries has been very active in an area known as enterprise business analytics, which is all about finding ways to use data and statistical tools to develop new insights into business performance. Our development and adoption of business analytics is a multi-year process, but we have already seen promising results. Analyzing the performance of casino games, which used to take hours, now takes minutes. The success of lottery promotions can now be precisely measured using detailed sales and expense data by location. We continue to expand our business analytics across our operations.

When players have questions about a game, they can simply push the service button on their slot machine.





### COMMUNITY SUPPORT FESTIVAL PROGRAM

- 1 **Aurora:** Aurora Winterfest
- 2 **Austin:** Threshermen's Reunion and Stampede
- 3 **Beausejour:** Double B Rodeo & Country Fair
- 4 **Boissevain:** Canada Day Celebration
- 5 **Churchill:** Celebrate Canada
- 6 **Dauphin:** Canada's National Ukrainian Festival, Dauphin Ag Fair
- 7 **Gimli:** Icelandic Festival of Manitoba, Gimli Film Festival
- 8 **Grunthal:** Hanover Ag Fair
- 9 **Kelwood:** Harvest Sun Music Festival
- 10 **Killarney:** Killarney Ag Fair, Metisfest
- 11 **La Broquerie:** St. Jean Baptiste Days
- 12 **Lac du Bonnet:** Fire 'n Water Festival
- 13 **Lockport:** Lockport Dam Family Festival
- 14 **Lynn Lake:** Lynn Lake Winter Carnival
- 15 **Matlock:** Matlock Festival of Music Art & Nature
- 16 **Minnedosa:** Rockin' the Fields of Minnedosa
- 17 **Mitchell:** Mitchell & Area Fun Days
- 18 **Morden:** Winterfest
- 19 **Neepawa:** Neepawa & Area Lily Festival
- 20 **Oak Lake:** Oak Lake Ag Fair
- 21 **Oak Point:** Oak Point Music Festival
- 22 **Opaskwayak Cree Nation:** Opaskwayak Indian Days
- 23 **Portage la Prairie:** Portage la Prairie Potato Festival
- 24 **Roblin:** Keystone Pioneers, Museum Show Day
- 25 **Rosenort:** Rosenort Summer Festival
- 26 **Russell:** Russell Beef & Barley Festival
- 27 **Saint-Laurent:** Festival Manipogo
- 28 **Shoal Lake:** Shoal Lake Ag Fair
- 29 **St-Pierre-Jolys:** St-Pierre-Jolys Frog Follies and Agricultural Fair
- 30 **Ste. Agathe:** Journées Cheyennes Days Festival
- 31 **Steinbach:** Summer in the City
- 32 **Strathclair:** Strathclair Agricultural Fair
- 33 **The Pas:** The Pas 100th Centennial Celebration, Northern Trapper's Festival
- 34 **Victoria Beach:** Summer Winds Family Music Festival
- 35 **Winnipeg:** Agassiz Chamber Music Festival
- 36 **Winnipegosis:** Winnipegosis Family Fun Weekend

# Responsibility to Community: Be Recognized as a Valued Member of the Community

## SUPPORTING OUR COMMUNITIES

Manitoba Lotteries supports hundreds of organizations each year in the areas of arts and culture, sports, health, environment, education and tourism. This year alone Manitoba communities received \$5.9 million by partnering with us through the Casino Bingo Volunteer Program, event sponsorships and other partnerships.

Shortly after our merger with the MLCC was announced, we combined both organizations' community support programming. With a shared vision focused on responsibility to community, collaborative opportunities to support a variety of charitable events, initiatives and programs throughout the province were initiated.

The Manitoba Lotteries Legacy Build program, begun in 2009, is a partnership with Habitat for Humanity that uses a self-sustaining funding model to provide affordable homes for low-income families. Over the past five years we have helped generate \$5 million in matched funding to build homes for Manitobans. We are proud to announce that 28 homes have been built during our original five year program, and that we have extended this agreement for an additional year. Next year will also see the first home funded entirely from mortgage payments made into the Legacy Build Fund.

The Manitoba Lotteries Flight Deck program, which in its first year sent amateur youth sports teams and their coaches to Winnipeg Jets home games, was expanded in 2012 to include Winnipeg Blue Bomber home games. More than 300 young athletes and their coaches, representing 29 teams, cheered on the Blue and Gold at Canad Inns Stadium. Despite a shortened NHL season in 2012, over 500 athletes and coaches representing 42 amateur sports teams received Flight Deck tickets for Winnipeg Jets home games.

Janine Hanson, Canadian silver medalist at the 2012 Summer Olympics, has joined us as our community ambassador for the new IMPACT Team. As part of this team, Janine will attend sponsored community events and rural festivals, speaking with Manitobans and inspiring their involvement in sport and community activities. She joined Manitoba Lotteries in time for the province's festival season, beginning April 2013.



## Janine Hanson, Canadian silver medalist at the 2012 Summer Olympics, has joined us as our Community Ambassador for the new IMPACT Team.

## ENCOURAGING RESPONSIBLE GAMBLING

The new PlayNow.com integrates many tools that are based on individualized player account settings. PlayNow.com verifies the legal age of the account holder, while giving that customer the ability to more easily track time and money spent when gambling online.

Because being an informed player is essential to making healthy gambling decisions, there is also a wealth of easy-to-understand information on PlayNow.com, such as a myth-busting section that dispels common gambling misconceptions.



### FEATURES ON PLAYNOW.COM

- ▶ Player registration and verification prevents underage access
- ▶ Real-time display of time and cash spent playing
- ▶ Play history reports to help players track spending
- ▶ Total weekly deposit limit
- ▶ 24-hour cooling off period to increase deposit limit
- ▶ Additional limit setting (e.g. daily/weekly/monthly betting limit in poker)
- ▶ Information, tips and links for responsible play and problem gambling support
- ▶ Voluntary self-exclusion



## RESEARCHING RESPONSIBLE GAMBLING

The Manitoba Gambling Research Program, launched in December 2011, awarded its first grants this past year. Over \$821,000 was invested into the research community to support the development of quality research that is of relevance to Manitoba in improving our ability to prevent and treat problem gambling. Each project supports the work of local researchers and students, and provides them a vehicle to collaborate with other world-renowned gambling research experts. Learn more about research currently underway at [ManitobaGamblingResearch.com](http://ManitobaGamblingResearch.com).



**Dr. Vance MacLaren of Brandon University is among the expert researchers looking into how people approach gambling.**

## ENSURING SUSTAINABILITY

A project spearheaded by the International Institute for Sustainable Development (IISD) with the financial support of Manitoba Lotteries and others, was recognized internationally in 2012 as one of the world's best 100 sustainable development solutions. The project involves harvesting a common wetland plant, the cattail, to achieve several positive outcomes for the Lake Winnipeg watershed such as capturing phosphorous from waterways, producing low cost bioenergy, and enhancing wetland habitat. Through this and other projects we are committed to ensuring our operations are lake-friendly and achieve a reduced carbon footprint.

In 2012 we conducted a comprehensive waste audit of daily operations at Winnipeg's casinos. First conducted five years ago to establish benchmarks, the latest audit confirmed that we have successfully reduced the amount of waste being sent to landfill. Progress can be attributed to many programs launched within that time frame that have encouraged composting and recycling. In 2012 our casinos alone recycled over 250,000 kg of material and composted almost 150,000 kg of organic waste in daily operations. Together, that's the weight of about 300 passenger vehicles kept out of landfill. This is in addition to other corporate-wide recycling of everything from construction materials to electronics.

In 2012 our casinos alone recycled over 250,000 kg of material and composted almost 150,000 kg of organic waste in daily operations.



## ACHIEVEMENTS

- ▶ Canada's Top 100 Employers (2012-2013)
- ▶ Manitoba's Top Employers (2007-2013)
- ▶ Canadian Council for Aboriginal Business – PAR Gold Level (2008-2013)
- ▶ It's Lake Friendly – Associate Partner (2010-2013)
- ▶ Sustania 100 – We are a funding partner of a project at Lake Winnipeg, led by the International Institute for Sustainable Development, that was named one of the best 100 sustainable development solutions in the world (2012)
- ▶ BOMA BESt certification for Winnipeg's casinos (2010-2013)
- ▶ Certification of Club Regent Casino aquarium by the Canadian Association of Zoos and Aquariums (2011)
- ▶ Imagine Canada – Caring Company Designation (2009-2013)
- ▶ Philanthropic Organization of the Year, 2012 Heroes of Mental Health Awards, hosted by the Canadian Mental Health Association – Our employees earned this honour for their support of the Children's Rehabilitation Foundation through the employee-driven program, Employees Care by Helping Others (ECHO)
- ▶ Human Resource Management Association of Manitoba – Organizational Development and Strategic Initiatives Award (2012)
- ▶ Government Finance Officers Association – Distinguished Budget Recognition (2005-2013)



## WE RECYCLE/COMPOST:

- ▶ Cardboard
  - ▶ Paper
  - ▶ Mixed plastic containers
  - ▶ Metals
  - ▶ Pens and markers
  - ▶ Slot machines
  - ▶ Light bulbs
  - ▶ Batteries
  - ▶ Cell phones
  - ▶ Other electronics
  - ▶ Food waste
  - ▶ Cooking oil
- We also manage our construction and renovation waste.



# New Business Development: Retain and Grow Our Customer Base

## INTRODUCING PLAYNOW.COM

Manitoba Lotteries launched PlayNow.com in January 2013. The online platform, developed by British Columbia Lottery Corporation (BCLC), provides a safe, secure and regulated alternative to other online gambling. Manitobans can play with complete confidence in the integrity of the games and in the security of their personal and financial information.

PlayNow.com offers a range of games that are both new and familiar to Manitobans, including live poker, video poker, slots, Blackjack and roulette, as well as live sports betting on a variety of leagues, tournaments and events. Live peer-to-peer poker connects players from Manitoba with others in British Columbia and Quebec.

Guests register to play using an account based system. This provides an excellent environment to encourage responsible play, with customized responsible gambling tools and information. Only Manitoba residents who are 18 years or older may register on the site.



## KICKING OFF NEW LOTTERY PRODUCTS

Football fans celebrated a new Winnipeg Blue Bomber Scratch 'n Win ticket introduced in spring 2012. Innovative prizes went beyond cash jackpots and offered experiences such as a VIP Grey Cup trip, an ultimate Bomber road trip, and more. Open only to true blue Manitobans, this popular lottery product – the first of its kind in Canadian Football League history – will return to the field for the 2013 football season.

Western Max launched in March 2013, offering a top prize of \$2 million along with seven Max Million draws, which offer a \$1 million prize for an exact match. Western Max is available only in Manitoba, Saskatchewan, Alberta and the territories.



# People and Services: Develop a Knowledgeable Workforce of Highly Satisfied Employees

Our corporate values – integrity, social responsibility, diversity, leadership and innovation – intersect in our employee training programs. We encourage a learning focused environment that is true to these values, and this past year provides a snapshot of this approach in action.

In consultation with the Manitoba Human Rights Commission we introduced an exceptional training session for all of our staff that focuses on human rights in the workplace. This invaluable training shows our commitment to a workplace and entertainment environment that is respectful of the rights of all people.

Our casino employees receive additional customer service training including a new module that is integrated into the beginning of their shift. A structured team discussion encourages staff to consider how to best engage customers and to build positive relationships with the public and each other. They also learn how to manage the many unique challenges and opportunities that are common to the service sector and to a casino environment.

We recognize that the casino is a unique environment and this especially extends to food and beverage service in our lounges, restaurants, concert areas and gaming floors. That's why all new employees in Food and Beverage receive training for one full week before they begin service. As a result, our guests are assured of a consistent and quality experience. The program is a success: independent evaluations, which measure different aspects of overall service, have verified that service quality levels achieved the targets set for the year and are continuing to improve.

## EQUITY PARTICIPATION RATES

- ▶ 55.2% Other
- ▶ 32.7% Visible Minority
- ▶ 10.2% Aboriginal
- ▶ 1.9% Disabled

## GENDER COMPARISON

- ▶ 50% Men
- ▶ 50% Women

## EXECUTIVE MANAGEMENT



**Winston Hodgins**  
PRESIDENT & CEO



**Peter Hak**  
CHIEF CORPORATE SERVICES OFFICER



**Peter Kenyon**  
CHIEF OPERATING OFFICER



**Tracy Graham**  
CHIEF FINANCIAL OFFICER



**Larry Wandowich**  
CHIEF COMMUNITY RELATIONS & MARKETING OFFICER



**Dan Sanscartier**  
VICE PRESIDENT, GAMING OPERATIONS



**Marilyn Robinson**  
VICE PRESIDENT, INTEGRATION



**Susan Olynik**  
VICE PRESIDENT, CORPORATE COMMUNICATIONS & SOCIAL RESPONSIBILITY



**Wayne Perfumo**  
VICE PRESIDENT, ENTERTAINMENT & HOSPITALITY



**Signy Shaw**  
SENIOR EXECUTIVE DIRECTOR, INTERNAL AUDIT & CORPORATE COMPLIANCE



**Robert Holmberg**  
VICE PRESIDENT, LIQUOR OPERATIONS

## BOARD OF DIRECTORS



**Tannis Mindell**  
CHAIR



**Leslie Turnbull**  
VICE-CHAIR



**Fran Frederickson**



**Jean Paul Gobeil**



**Robert Mayer**



**Marion Moist**



**Arnold Ouskan**



**Kevin Rebeck**



**Gerald Rosenby**



**David Schioler**

## Management Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS AS AT MARCH 31, 2013

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The Management Discussion and Analysis reviews the consolidated financial results of the operation of Manitoba Lotteries Corporation (Manitoba Lotteries) for the fiscal year ended March 31, 2013. This report should be read in conjunction with Manitoba Lotteries' audited consolidated 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 implementing and monitoring the appropriate existence and effectiveness of systems, controls and procedures used by Manitoba Lotteries.

### OVERVIEW AND RESULTS OF OPERATIONS

Manitoba Lotteries strives to provide its customers and guests with world-class products and services that meet or exceed expectations in a socially responsible manner.

The past 12 months have been a period of significant transition for Manitoba Lotteries with efforts focused on activities to support growth in the future as an entity merged with the Manitoba Liquor Control Commission (MLCC). In the 2012/13 year, Manitoba Lotteries' allocation to the Province of Manitoba was \$297.5 million, a decrease of \$45.4 million or 13.2% as compared to the 2011/12 allocation to the Province of Manitoba of \$342.9 million.

The three operating segments of Manitoba Lotteries are Video Lotto, Casinos and Lottery. In accordance with International Financial Reporting Standards (IFRS), Manitoba Lotteries accounts for the Western Canada Lottery Corporation (WCLC) using the equity method and therefore presents its share of the profit of WCLC as one line in the consolidated statement of net income, comprehensive income and equity of the audited consolidated financial statements.

In addition, for reporting purposes within the management discussion and analysis, the administrative costs associated with corporate support services, including human resources, finance and administration, marketing, facilities, technology, audit, security, corporate communications and social responsibility, have been allocated to each of the operating segments outlined on pages 22 and 23.

Revenue of \$540.4 million decreased \$28.6 million or 5.0% from the previous year's level of \$569.0 million. Revenue trends across the country indicate all jurisdictions which have VLTs are experiencing declining revenues as well as declining casino revenues for most jurisdictions east of the province. As part of its long-range strategic goal of increasing overall customer satisfaction, Manitoba Lotteries continually reviews existing product offerings in order to enhance the customer's overall experience. The VLT network was recognized as having reached the end of its useful life and that game fatigue has been a factor in the declining Video Lotto revenues. To address this, in 2012/13 Manitoba Lotteries initiated an upgrade to the province-wide VLT network to replace the aging VLTs, the supporting network and the centralized gaming management system with the majority of the implementation to be complete by the end of the first quarter of 2013/14.

2013 (in thousands)				
	Video Lotto	Casinos	Lottery	Total
Revenue	\$ 308,288	\$ 229,302	\$ 2,762	\$ 540,352
Direct expenses	31,667	12,576	1,193	45,436
	276,621	216,726	1,569	494,916
Operating expenses	28,403	98,198	10,837	137,438
Depreciation and amortization	4,027	27,638	–	31,665
Goods and Services Tax	2,009	1,569	122	3,700
	34,439	127,405	10,959	172,803
Operating Income	242,182	89,321	(9,390)	322,113
Share of profit of Western Canada Lottery Corporation	–	–	63,723	63,723
Interest expense on long-term debt	(1,321)	(5,073)	(159)	(6,553)
Interest income	195	61	18	274
Income Before Allocations and Payments	241,056	84,309	54,192	379,557
Allocations and payments	74,955	6,312	748	82,015
<b>Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba</b>	<b>\$ 166,101</b>	<b>\$ 77,997</b>	<b>\$ 53,444</b>	<b>\$ 297,542</b>

Revenue, net of direct expenses in 2012/13 was \$494.9 million compared to \$521.7 million in the previous year, a decrease of \$26.8 million. Operating expenses of \$137.4 million were \$13.4 million greater than the previous year's \$124.0 million, and include payroll and other costs directly related to the generation of gaming and lottery revenues. This is primarily a result of increases in salaries and benefits under the collective agreements and increased maintenance costs related to equipment.

Depreciation and amortization of \$31.7 million in the 2012/13 year increased \$1.0 million from the \$30.7 million recorded in 2011/12. The increase was primarily a result of capital investment into property and equipment during the fiscal year to enhance the overall customer experience including the introduction of the PlayNow.com online gaming site, the launch of the upgraded VLT network and continued renewal activities at the two casino properties.

## VIDEO LOTTO

Located in Morris, Manitoba, Video Lotto is responsible for the operation and maintenance of VLTs. VLTs are located at MLCC licensed beverage rooms, Veterans organizations, First Nations communities, Assiniboia Downs and the MTS Centre. The operation of VLTs contributed over 55.8% of Manitoba Lotteries' net income and provided annual commissions and contributions of \$102.0 million to all VLT siteholders who operate equipment on their premises.

Video Lotto operations generated revenue of \$308.3 million in the 2012/13 year, a decrease of \$21.4 million or 6.5% from the revenue of \$329.7 million in the previous year. Net income of \$166.1 million decreased \$23.1 million or 12.2% from the net income of \$189.2 million in the previous year. Operating expenses for the business line increased to support the upgrade to the VLT network.

2012 (in thousands)				
	Video Lotto	Casinos	Lottery	Total
Revenue	\$ 329,745	\$ 236,418	\$ 2,864	\$ 569,027
Direct expenses	33,707	12,418	1,225	47,350
	296,038	224,000	1,639	521,677
Operating expenses	18,725	97,428	7,860	124,013
Depreciation and amortization	5,521	25,222	–	30,743
Goods and Services Tax	2,109	1,557	141	3,807
	26,355	124,207	8,001	158,563
Operating Income	269,683	99,793	(6,362)	363,114
Share of profit of Western Canada Lottery Corporation	–	–	67,675	67,675
Interest expense on long-term debt	(1,452)	(5,193)	(168)	(6,813)
Interest income	226	60	20	306
Income Before Allocations and Payments	268,457	94,660	61,165	424,282
Allocations and payments	79,245	6,078	664	85,987
Net Income and Comprehensive Income	189,212	88,582	60,501	338,295
Contributed surplus allocation	4,578	–	–	4,578
<b>Total Allocation to the Province of Manitoba</b>	<b>\$ 193,790</b>	<b>\$ 88,582</b>	<b>\$ 60,501</b>	<b>\$ 342,873</b>

## Assiniboia Downs

Manitoba Lotteries operates under a funding agreement with the Manitoba Jockey Club (MJC) which provides up to \$6.5 million in revenue, plus an additional 20% commission if VLT revenues reach higher than expected thresholds. Under this funding arrangement, 10% of the net win represents the actual service component provided to Manitoba Lotteries for hosting the terminals and the balance is considered a contribution to support the horse racing industry in Manitoba.

## First Nations

First Nations siteholders retain 90% of net win from the VLTs. Of that 90%, 5% represents the actual service component provided to Manitoba Lotteries for hosting the terminals and the other 85% is provided as a contribution to promote sustainable social and economic benefits and opportunities with the First Nations communities.

## Commercial

Commercial siteholders retain 20% of the net win from VLTs. Of this 20%, 10% represents the actual service component provided by the siteholders to Manitoba Lotteries for hosting the terminals and the other 10% is provided as a contribution to promote tourism in the province.

### PAYOUT PERCENTAGE BASED ON DOLLARS WON AND PLAYED (IN MILLIONS)

#### VIDEO LOTTO

Dollars Deposited	\$ 1,335	
Dollars Played		\$ 4,328
Dollars Won		\$ 4,021
Dollars Cashed Out	\$ 1,028	
Revenue	\$ 307	\$ 307
Dollars Won (Prizes)	\$ 4,021	{ 92.9%
Dollars Played	\$ 4,328	

## CASINOS

Manitoba Lotteries owns and operates two casinos in the City of Winnipeg – Club Regent Casino and McPhillips Station Casino. Casino operations generated revenues of \$229.3 million in the 2012/13 year, a decrease of \$7.1 million or 3.0% from the revenues of \$236.4 million of the previous year.

Casino net income of \$78.0 million decreased from the previous year's net income of \$88.6 million by \$10.6 million or 12.0%. Efforts continued to focus on presenting the casinos as a total entertainment destination. Manitoba Lotteries regularly improves the gaming offerings by updating certain games and by introducing new games. In 2012/13, the gaming experience was further enhanced by the launch of the PlayNow.com online gaming site.

Manitoba Lotteries continues to focus attention on non-gaming amenities in the form of enhanced food and beverage offerings and the soon to be opened Club Regent Casino event centre. The Club Card program which allows patrons to accumulate points redeemable for non-gaming goods and services either on-site at the casinos or through the online Club Card Rewards catalogue continues to be favorably received by customers, adding to the overall customer experience.

Efforts related to renewal of the casino properties continued in the 2012/13 year with ongoing construction of the new Entertainment Centre at Club Regent Casino and the commencement of construction of a new parkade at McPhillips Station Casino. Canad Inns continues to work on the development of a new hotel on land adjacent to the McPhillips Station Casino with the anticipated start of construction in 2013.

### PAYOUT PERCENTAGE BASED ON DOLLARS WON AND PLAYED (IN MILLIONS)

#### CASINOS

Dollars Deposited	\$	1,249	
Dollars Played			\$ 2,408
Dollars Won			\$ 2,212
Dollars Cashed Out	\$	1,053	
Revenue	\$	196	\$ 196
Dollars Won (Prizes)	\$	2,212	} 91.9%
Dollars Played	\$	2,408	

## LOTTERY

The Province of Manitoba is a member of the WCLC, a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities in the prairie provinces and the territories. Manitoba Lotteries distributes and sells tickets for national lotteries operated by the Interprovincial Lottery Corporation (ILC) and lottery gaming products operated by the WCLC. As the province's sole distributor of lottery products, Manitoba Lotteries is responsible for the development and maintenance of a retailer network of about 900 outlets across Manitoba and to market a selection of breakopen tickets through lottery retail outlets, charitable organizations and casinos across the province. Manitoba Lotteries also continues to be the exclusive supplier of bingo paper to Manitoba's charitable and non-profit licensed bingo operators.

In the 2012/13 year, Manitoba Lotteries' share of the profit of WCLC of \$63.7 million decreased from the previous year's share of the profit of WCLC of \$67.7 million by \$4.0 million or 5.9%. Net income of \$53.4 million decreased from the previous year's net income of \$60.5 million by \$7.1 million or 11.7%. Sales of lottery products in the year were consistent with the prior year as increases in Lotto Max and the Extra were offset by decreases in Lotto 6/49 and Instant ticket sales. Operating expenses for the business line have increased in part to support the introduction of the new Western Max lottery product.

## FIRST NATIONS

In 2012/13 Manitoba Lotteries continued to provide support to the First Nations Casino operators in Manitoba. As authorized by the Gaming Agreements, all costs of gaming equipment and supplies are funded by Manitoba Lotteries and are being recovered over a five (5) to seven (7) year term.

During the fiscal year, Manitoba Lotteries provided assistance and capital financing in the amount of \$0.3 million to Aseneskak Casino who completed the next phase of their slot floor refurbishment program. The capital funding will be recovered over the five (5) year life of the equipment as authorized under the Gaming Agreement.

South Beach Casino initiated a gaming floor refresh project in the 2012/13 year and Manitoba Lotteries provided assistance and capital financing in the amount of \$1.6 million to support this project. The capital funding will be recovered over the five (5) year life of the equipment as authorized under the Gaming Agreement.

## MLC HOLDINGS INC.

Manitoba Lotteries' consolidated financial statements include the results of MLC Holdings Inc., a controlled entity established to purchase capital assets for lease to Manitoba Lotteries at cost. The management and oversight of MLC Holdings Inc. is consolidated within Manitoba Lotteries' operations and the Board reviews and approves capital purchases through the annual business planning and budget process. The 2012/13 year was a period of significant capital investment to support Manitoba Lotteries initiatives such as the introduction of PlayNow.com, the launch of the upgraded VLT network and continued renewal activities at the two casino properties. To support these activities, MLC Holdings Inc. acquired \$142.5 million in capital assets for lease to Manitoba Lotteries.

## LIQUIDITY AND CAPITAL RESOURCES

Operating activities during the 2012/13 year provided Manitoba Lotteries with \$382.4 million in cash flows compared to \$357.3 million in the previous year, an increase of \$25.1 million or 7.0%. The increase was primarily found in non-cash working capital items which increased by \$65.3 million; offset by decreases in operating results of \$40.8 million.

Manitoba Lotteries continues to be progressive by providing proven, state-of-the-art products, services and facilities to all customers and employees through the ongoing process of replacing gaming and security equipment. Not only does this support Manitoba Lotteries' corporate goals, it enhances service, safety, reliability and gaming integrity.

In order to support these goals, cash expended on property and equipment totaled \$144.9 million as compared to the \$40.1 million expended in the previous year. In addition to the regular process of upgrading existing equipment and technology to support ongoing operations, the 2012/13 year saw major investments associated with the launch of PlayNow.com, the upgrade to the province-wide VLT network and the casino construction projects.

Manitoba Lotteries finances capital expenditures through a combination of working capital and long-term debt. In the 2012/13 year, total proceeds of long-term debt received were \$78.1 million as compared to the \$42.0 million of proceeds received in the previous year. The majority of long-term debt has fixed interest rates and is repayable in either quarterly or monthly installments.

Cash distributions to the Province of Manitoba in the 2012/13 year resulted in a cash outflow of \$295.8 million compared to the previous year's \$343.0 million.

# EXCE

## CORPORATE GOVERNANCE

Corporate governance guides the long-term goals and strategic plans of Manitoba Lotteries and sets out the practices and guiding principles to assist decision making. The corporate governance model outlines the authority and accountability among the different levels of Manitoba Lotteries, particularly at the Government, Board and Executive Management levels.

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

The function of the Board is assisted by the work of the following committees:

- ▶ Audit and Risk Management
- ▶ Finance and Operations
- ▶ Human Resources and Compensation
- ▶ Legislation
- ▶ Planning, Policy and Governance

The following corporate governance policies and terms articulate corporate roles and responsibilities:

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

## RISK MANAGEMENT

Manitoba Lotteries continues to use and enhance its Enterprise Risk Management Framework to effectively embed risk management practices into key organizational processes.

By establishing a consistent approach for assessing and managing its business risks, Manitoba Lotteries can effectively address the impact of internal and external factors and events on the achievement of its business goals and objectives.

In the normal course of business, Manitoba Lotteries is exposed to a number of risks. These risks and the actions taken to lessen, and in some cases mitigate them are discussed below.

### Strategic Risks

Strategic risks include external environment factors and events that can impact the corporation's ability to meet its strategic goals and objectives, risks impacting the effective allocation of resources, risks that major initiatives are not aligned with the corporation's goals and objectives and are not being carried out effectively, risks of ineffective relationships with key stakeholders, as well as risks to reputation.

Manitoba Lotteries remains committed to researching, recognizing and understanding changes in its external environment through market research and formalized strategic planning processes for key products and functions. Management engages in a rigorous annual business planning process for which it has received recognition for excellence in government budgeting. Management has established a formal project methodology and is committed to developing and maintaining effective communication processes with its key stakeholders. Manitoba Lotteries is committed to being a good corporate citizen through its various social responsibility programs and initiatives.

### Technological Developments

The adoption of new technologies within the gaming industry continues, including the acceptance of industry-wide standards leading to increased convergence and integration across many systems, product lines and related processes. Manitoba Lotteries continues to work with other jurisdictions to develop common requirements and standards across Canada to streamline development and procurement of systems and devices. Manitoba Lotteries also continues to refine its business processes to optimize the efficiency and effectiveness of the new opportunities being presented.

Technological change assists Manitoba Lotteries improve its customer service and enhance the overall guest experience, and will eventually provide an increased level of personalization across its many product lines. New technologies are providing management with better information, which will allow for more informed decision making. The Enterprise Business Analytics and System Convergence initiatives are being leveraged to provide the tools to enable interoperability between various software applications, allow sharing of data across applications and lines of business for an enterprise view, and to provide Manitoba Lotteries with new levels of efficiency and methods of exploring new opportunities for revenue growth.

As Manitoba Lotteries continues to become more reliant on technology to support its business, various strategies have been developed to manage the risks associated with new technologies. These include the development of formal technology strategies, architectures and roadmaps to help guide the corporation's future direction.

### Operations Risks

Operations risks include risks that the corporation's operations are not efficient, do not meet customer needs, do not protect game integrity, and do not protect the corporation's significant monetary assets.

Manitoba Lotteries has established appropriate functional areas and developed processes to effectively provide, promote and deliver products and services to customers; recruit, develop and retain resources to meet current and future operational needs; manage hazards; and manage information technology operations in order to achieve its goals and objectives. Management regularly reviews and assesses the amount of risk present in operating units, large scale projects, and specific business processes and develops action plans to support continuous improvement.

### Financial Risks

Financial risks include risks that cash flows and financial information are not efficiently and effectively managed which can compromise the corporation's decision making ability.

Manitoba Lotteries' exposure to interest-rate risk is substantially limited due to the use of fixed-rate, long-term debt. Credit risk due to the inability or unwillingness of a counterparty to fulfill its payment obligations, while low, is mitigated through Manitoba Lotteries' credit management and collection practices. The financial impact resulting from property losses or third-party liability claims are allayed through traditional risk management practices, such as maintaining adequate insurance coverage and coordinating loss mitigation strategies across the corporation.

For the ninth consecutive year, Manitoba Lotteries has been recognized for excellence in government budgeting. The honour has been enhanced by special recognition in the performance measures judging category. Manitoba Lotteries is the only organization in Manitoba to receive this recognition for 2012/13 and the only organization in North America to achieve this award in the gaming industry. Manitoba Lotteries is committed to meeting the highest principles of government budgeting.

# Innovate

## Compliance Risks

Compliance risks include risks that the corporation is not effectively led, employees do not know what is expected of them or they are exceeding the boundaries of their assigned authority, acts of fraud or corruption, and the failure to comply with regulatory or contractual requirements.

Manitoba Lotteries is committed to having an effective control environment through the establishment and maintenance of its corporate governance model, policies and procedures, and regulatory compliance programs. Management regularly reviews the appropriateness and effectiveness of control activities embedded within processes and takes corrective action to strengthen its system of internal controls.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

Manitoba Lotteries' management has proactively and voluntarily adopted a program to evaluate internal controls over financial reporting consistent with the guidelines under Canadian Securities Administrator's National Instrument 52-109.

Internal controls over financial reporting have been designed by management, with the participation of the President & CEO (CEO) and the Chief Financial Officer (CFO), to provide reasonable assurance regarding the reliability of Manitoba Lotteries' financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

In making its assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

Based on that assessment, the CEO and CFO have concluded that, as at March 31, 2013, Manitoba Lotteries' internal controls over financial reporting are adequately designed and effective for providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

As well, the CEO and CFO, together with management, after evaluating the effectiveness of Manitoba Lotteries' disclosure controls and procedures, have concluded that the disclosure controls and procedures are adequately designed and effective for providing reasonable assurance that material information relating to the corporation would have been made known to them as at March 31, 2013.

There was neither a material weakness nor a change in the corporation's disclosure controls and procedures or its internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, these controls.

## WHISTLEBLOWER REPORT

In response to the enactment of *The Public Interest Disclosure (Whistleblower Protection) Act* on September 26, 2007, Manitoba Lotteries implemented the Whistleblower Protection Policy and put into place a process through which employees can report serious and significant wrongdoings observed in the workplace without fear of reprisal.

Since the implementation of the Whistleblower Protection Policy and the related disclosure process in September 2007, no disclosures have been received from Manitoba Lotteries employees, no investigations were started and no general inquiries were received.

## OUTLOOK

Manitoba Lotteries is moving into another year of significant transition as activities associated with the merger with MLCC progress towards the goals of increasing efficiencies, modernizing procedures and achieving cost savings while maintaining high levels of customer service. Merger activities encompass all departments and will be completed with the common goal of ensuring the new entity, Manitoba Liquor & Lotteries, continues to manage current operations through revenue generation and cost containment.

Manitoba Lotteries' support for the community is outlined within a governing Corporate Social Responsibility (CSR) Policy. Financial business planning processes are used so all matters of CSR including community support, French language services, responsible gaming, sustainable development and people services are considered and supported across Manitoba Lotteries' operations. This approach augments the value of the business decisions Manitoba Lotteries makes to be consistent with the best interest of its stakeholders.

Manitoba Lotteries has long believed that to ensure the long-term sustainability of revenues and income streams, continued reinvestment in its facilities, non-gaming amenities and in new gaming technology is essential. This is demonstrated by the significant investment in initiatives to support operations that occurred in the 2012/13 year and which will continue in the 2013/14 year.

The upgrade to the province-wide VLT network which includes the replacement of aged VLTs and the centralized gaming management system that supports those VLTs and the implementation of a wide-area network to facilitate the communication between the machines and the system will be substantially completed in the first quarter of the 2013/14 year. Once in place, Manitoba Lotteries' focus will turn to the consideration of Player Services Experience software which will provide the ability to offer services to customers through a player interface. These services may include enhanced responsible gaming services, player account management and other products and services such as lottery ticket sales and progressive games.

Construction activities continue at both casino properties to enhance the customer's total entertainment experience. The Club Regent Casino event centre is expected to open in the 2013/14 year and will offer flexible seating and hosting capacities and a state-of-the-art sound and visual system. The construction of a casino parkade at the McPhillips Station Casino is expected to be completed in 2014 and the construction of the new McPhillips Station Casino Hotel by Canad Inns will commence in 2013, with an anticipated opening in late 2014 or early 2015. Manitoba Lotteries will also continue to introduce exciting gaming options to the casino customers through replacement of aging slot machines with a variety of new leased, purchased and networked games and by introducing new table games where appropriate.

The Assembly of Manitoba Chiefs has announced that construction of a third First Nations casino will commence in the spring of 2013 and will be located in southwestern Manitoba. Manitoba Lotteries will provide the conduct and manage oversight to this casino as well as the two existing First Nations casinos. In addition, Manitoba Lotteries will provide the capital funding for the acquisition of the gaming equipment and supplies required for the start-up of the new First Nations casino.

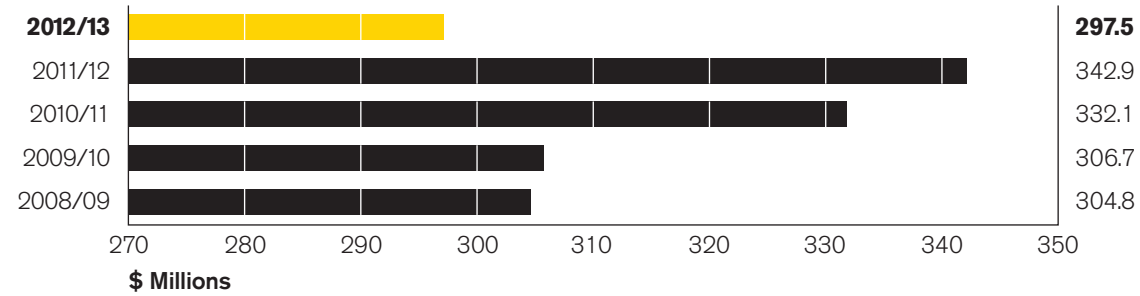
As anticipated, Manitoba Lotteries launched PlayNow.com in the fourth quarter of 2012/13 and offers live poker, video poker, slots and live sports betting to Manitobans through the only provincially regulated online site. In 2013/14, Manitoba Lotteries will continue to partner with British Columbia Lottery Corporation (BCLC) in the development of additional offerings on the PlayNow.com site in the areas of lottery products and bingo.

# Progress

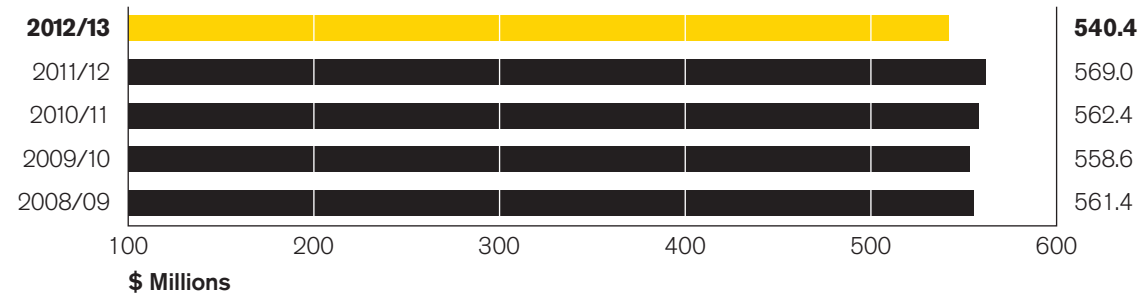


# Highlights

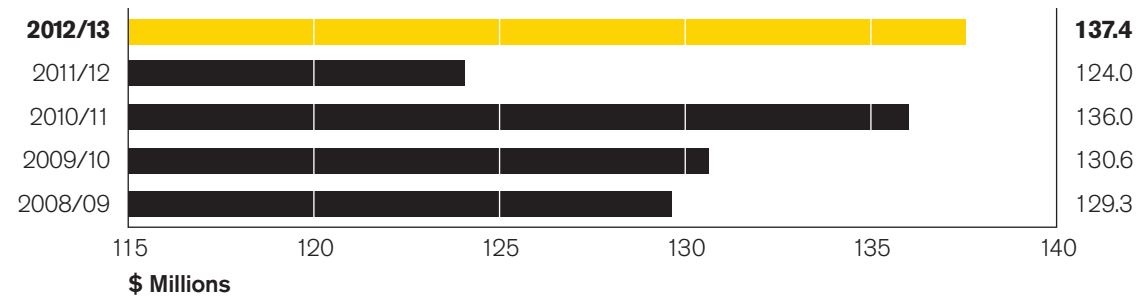
## ALLOCATION TO THE PROVINCE OF MANITOBA



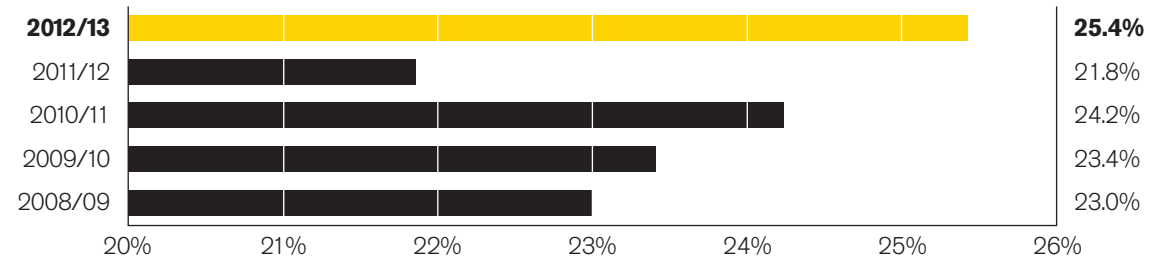
## REVENUE



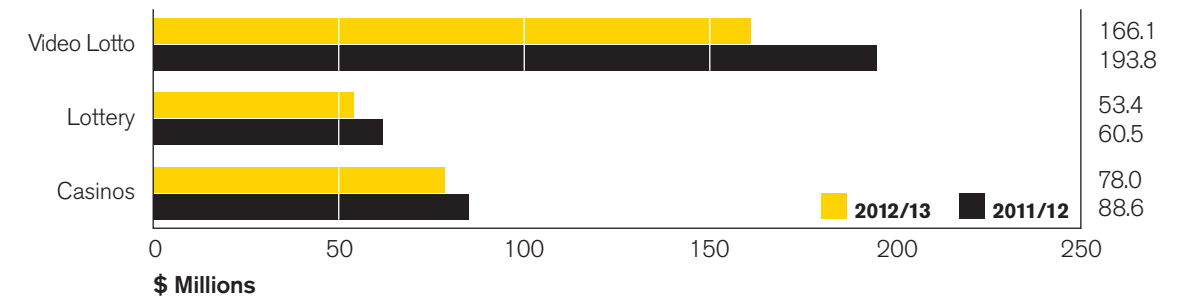
## OPERATING EXPENSES



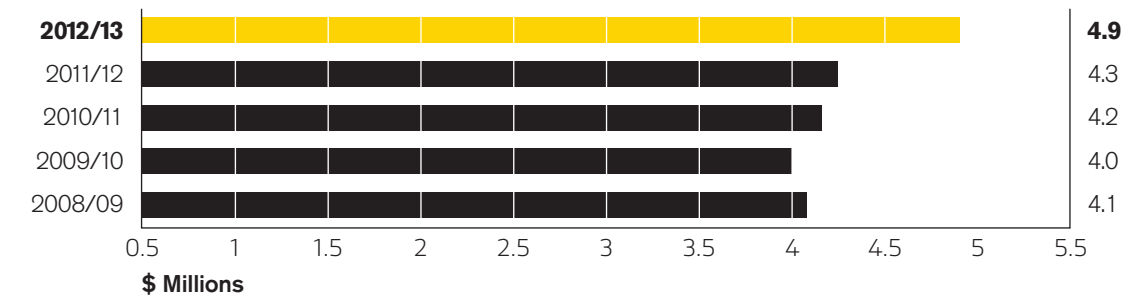
## OPERATING EXPENSES AS A PERCENTAGE OF REVENUE



## ALLOCATION TO THE PROVINCE OF MANITOBA BY PRODUCT SEGMENT

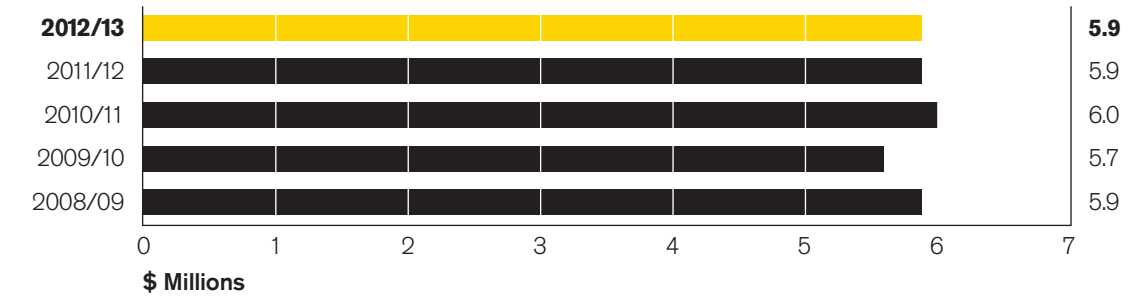


## RESPONSIBLE GAMING

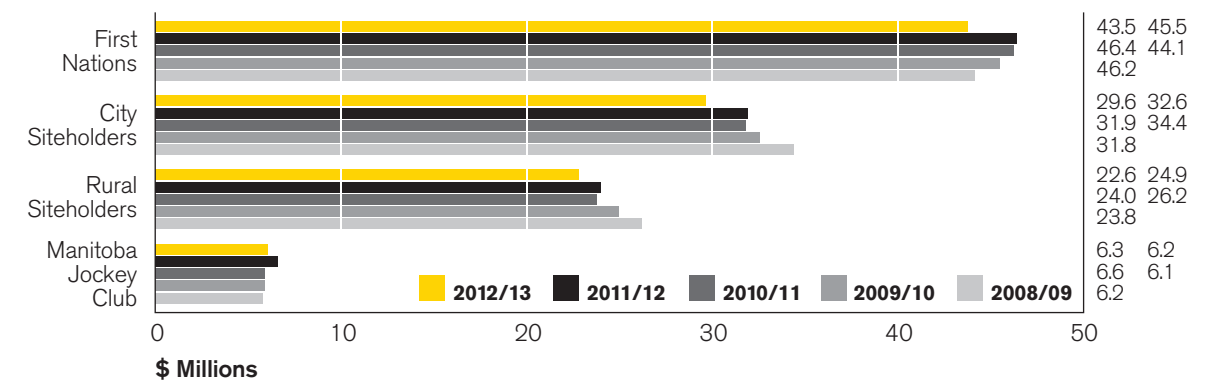


## COMMUNITY SUPPORT

Corporate sponsorship and charitable/community organization funding



## VLT COMMISSIONS & CONTRIBUTIONS



# Consolidated Financial Statements

MANITOBA LOTTERIES CORPORATION  
MARCH 31, 2013

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## 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. Management has prepared the consolidated financial statements in accordance with International Financial Reporting Standards. 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 unless otherwise stated.

Management is responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Corporation. Management designed such internal controls, or caused them to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards.

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 Corporation's 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 International Financial Reporting Standards. The Independent Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

The Audit and Risk Management 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, 2013.

*(originally signed by)*

**Winston Hodgins**  
PRESIDENT & CEO

*(originally signed by)*

**Tracy Graham**  
CHIEF FINANCIAL OFFICER

## INDEPENDENT AUDITORS' REPORT

### To the Board of Directors of Manitoba Lotteries Corporation

We have audited the accompanying consolidated financial statements of Manitoba Lotteries Corporation, which comprise the consolidated statement of financial position as at March 31, 2013, and the consolidated statements of net income, comprehensive income and equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manitoba Lotteries Corporation as at March 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*(originally signed by)*

**Ernst & Young LLP**

CHARTERED ACCOUNTANTS  
WINNIPEG, CANADA,  
JUNE 14, 2013.

## Manitoba Lotteries Corporation

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31  
(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	2013	2012
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 36,908	\$ 30,850
Trade and other receivables	5	17,494	15,929
Inventories	6	1,471	1,310
Prepayments	7	3,104	3,042
		<b>58,977</b>	51,131
<b>Non-Current Assets</b>			
Property and equipment, net	8	291,386	184,209
Intangible assets, net	9	8,037	4,122
		<b>299,423</b>	188,331
		<b>\$ 358,400</b>	\$ 239,462
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	\$ 89,592	\$ 36,712
Payable to the Province of Manitoba		21,042	19,273
Current portion of long-term debt	11	22,575	13,614
		<b>133,209</b>	69,599
<b>Non-Current Liabilities</b>			
Long-term debt	11	218,948	163,583
Provision for employee pension benefits	12	1,243	1,280
		<b>220,191</b>	164,863
Commitments and contingencies	16		
<b>Equity</b>			
Retained Earnings		5,000	5,000
		<b>5,000</b>	5,000
		<b>\$ 358,400</b>	\$ 239,462

(see accompanying notes to the consolidated financial statements)

On behalf of the Board,

*(originally signed by)*

**Tannis Mindell**

DIRECTOR & CHAIR OF THE  
BOARD OF DIRECTORS

*(originally signed by)*

**Gerald Rosenby**

DIRECTOR & CHAIR OF THE AUDIT AND  
RISK MANAGEMENT COMMITTEE

## CONSOLIDATED STATEMENT OF NET INCOME, COMPREHENSIVE INCOME AND EQUITY

FOR THE YEAR ENDED MARCH 31  
(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	2013	2012
<b>Revenue</b>		\$ 540,352	\$ 569,027
<b>Direct Expenses</b>			
VLT commissions		31,667	33,707
Gaming direct expenses	13	6,048	5,459
Non-gaming cost of sales	13	7,721	8,184
		<b>494,916</b>	521,677
Operating expenses	13	137,438	124,013
Depreciation and amortization		31,665	30,743
Goods and Services Tax		3,700	3,807
		<b>172,803</b>	158,563
<b>Operating Income</b>		<b>322,113</b>	363,114
Share of profit of Western Canada Lottery Corporation	14	63,723	67,675
Interest expense on long-term debt		(6,553)	(6,813)
Interest income		274	306
<b>Income Before Allocations and Payments</b>		<b>379,557</b>	424,282
<b>Allocations and Payments</b>			
Gaming Commission fees and Crown levy		3,304	3,142
First Nations allocation		41,066	43,775
Manitoba Jockey Club Inc. contribution		5,671	5,991
Tourism contribution		23,632	25,377
Responsible gaming funding		4,391	3,763
Casino bingo volunteer program		3,951	3,939
	15	<b>82,015</b>	85,987
<b>NET INCOME AND COMPREHENSIVE INCOME</b>		<b>297,542</b>	338,295
<b>EQUITY, BEGINNING OF THE YEAR</b>		<b>5,000</b>	9,578
Allocation to the Province of Manitoba		(297,542)	(338,295)
Allocation to the Province of Manitoba – Contributed Surplus		-	(4,578)
Total Allocation to the Province of Manitoba		<b>(297,542)</b>	(342,873)
<b>EQUITY, END OF THE YEAR</b>		<b>\$ 5,000</b>	\$ 5,000

(see accompanying notes to the consolidated financial statements)

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31  
(IN THOUSANDS OF CANADIAN DOLLARS)

	2013	2012
<b>Operating activities</b>		
Net income and comprehensive income	\$ 297,542	\$ 338,295
Add (deduct) items not involving cash:		
Depreciation related to property and equipment	30,330	29,517
Depreciation on assets related to First Nations Casinos	2,410	2,682
Amortization related to intangible assets	1,335	1,226
Gain on disposal of property and equipment	(240)	(745)
Provision for (recovery of) employee pension benefits	(37)	496
	<b>331,340</b>	371,471
Net change in non-cash working capital items:		
Decrease (increase) in trade and other receivables	(1,565)	(3,892)
Decrease (increase) in inventories	(161)	291
Decrease (increase) in prepayments	(62)	(860)
Increase (decrease) in trade and other payables	52,880	(9,723)
<b>Cash provided by operating activities</b>	<b>382,432</b>	357,287
<b>Investing activities</b>		
Purchase of property and equipment	(139,925)	(40,635)
Purchase of intangible assets	(5,250)	(371)
Proceeds from disposal of property and equipment	248	882
<b>Cash used in investing activities</b>	<b>(144,927)</b>	(40,124)
<b>Financing activities</b>		
Cash distributions to the Province of Manitoba:		
Current year	(291,500)	(338,600)
Prior year	(4,273)	(4,401)
Proceeds from long-term debt	78,122	41,950
Repayment of long-term debt	(13,796)	(17,274)
<b>Cash used in financing activities</b>	<b>(231,447)</b>	(318,325)
<b>Net increase (decrease) in cash during the year</b>	<b>6,058</b>	(1,162)
<b>Cash, beginning of the year</b>	<b>30,850</b>	32,012
<b>Cash, end of the year</b>	<b>\$ 36,908</b>	\$ 30,850
<b>Supplemental cash flow information</b>		
Interest paid	\$ 7,870	\$ 7,108

(see accompanying notes to the consolidated financial statements)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2013  
(IN THOUSANDS OF CANADIAN DOLLARS)

## 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 (Manitoba Lotteries) or the Corporation. The registered office of the Corporation is located at 830 Empress Street, Winnipeg, Manitoba.

On April 17, 2012, the Province announced that The Liquor Control Commission (MLCC) and Manitoba Lotteries would be merged into a single entity and the regulatory oversight for liquor control, currently managed by the MLCC would be merged with the Manitoba Gaming Control Commission (MGCC). Each Crown corporation operates under a separate Act and will continue to function as a separate legal entity until they are combined under a common legislation.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of presentation

The consolidated financial statements of the Corporation for the year ended March 31, 2013 were authorized for issue by the Board of Directors on June 14, 2013.

These consolidated financial statements were prepared on a going concern basis, using historical cost except for certain financial instruments which are reported at fair value. The consolidated financial statements are presented in Canadian dollars, the functional currency of the Corporation, and all values are rounded to the nearest thousand dollars (\$000) except where otherwise indicated.

### (b) Statement of compliance

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations as issued by the International Accounting Standards Board (IASB).

### (c) Basis of consolidation

These consolidated financial statements combine the accounts of Manitoba Lotteries and MLC Holdings Inc. This controlled entity was established to purchase capital assets, which are leased to Manitoba Lotteries at cost.

MLC Holdings Inc. has been fully consolidated since the date of inception and will continue to be consolidated until the date when control ceases. The financial statements of MLC Holdings Inc. are prepared for the same reporting period as Manitoba Lotteries using consistent accounting policies. All intercompany transactions and accounts have been eliminated on consolidation.

FOR THE YEAR ENDED MARCH 31, 2013  
(IN THOUSANDS OF CANADIAN DOLLARS)

### (d) Western Canada Lottery Corporation

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 WCLC, 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 (Manitoba Lotteries for the Province of Manitoba).

The Corporation has significant influence, but not control, over the financial and operating policies of the WCLC and therefore accounts for its share of the results of the operations of the WCLC (considered an associate) using the equity method. The financial statements of the WCLC are prepared for the same reporting period and the Corporation's share of the profits calculated based on relative sales levels by jurisdiction is disclosed in note 14.

### (e) 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 Manitoba Lotteries 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 Manitoba Lotteries maintaining the Conduct and Management authority over these casinos. Effective December 1, 2005, the Corporation received approval from its 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.

### (f) Foreign currency translation

Functional currency is the currency of the primary economic environment in which the Corporation operates and is normally the currency in which the Corporation generates and expends cash. Each entity determines its own functional currency and items included in the financial statements are measured using that functional currency. The Corporation's functional currency and presentation currency is Canadian dollars (CAD).

Foreign currency transactions are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate at the reporting date and all differences are recorded in the consolidated statement of net income, comprehensive income and equity. Non-monetary assets and liabilities and revenue and expenses that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions.

### (g) Financial instruments

Upon initial recognition the Corporation designates its financial assets as fair value through profit and loss or loans and receivables and its financial liabilities as other financial liabilities. All financial instruments are initially measured at fair value plus directly attributable transaction costs.

The Corporation's financial assets include cash and trade and other receivables. The Corporation's financial liabilities include trade and other payables, payable to the Province of Manitoba and long-term debt.

#### (i) Fair value through profit and loss

Cash is classified as fair value through profit and loss and is measured at fair value. Any gains or losses arising on the revaluation to fair value are recorded in the consolidated statement of net income, comprehensive income and equity.

#### (ii) Loans and receivables

Trade and other receivables are classified as loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment.

Any gains or losses and any losses arising from impairment are recognized in the consolidated statement of net income, comprehensive income and equity.

#### (iii) Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Any gains or losses are recognized in the consolidated statement of net income, comprehensive income and equity.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Corporation has transferred its rights to receive cash flows from the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. Any difference in the respective carrying amounts of the financial liability is recognized in the consolidated statement of net income, comprehensive income and equity.

### (h) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment losses. Cost includes expenditures directly attributable to the acquisition of the assets. Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be reliably measured. If the costs of a certain component of property and equipment are significant in relation to the total cost of the asset, these are accounted for and depreciated separately. All other repairs and maintenance costs are charged to the consolidated statement of net income, comprehensive income and equity as incurred.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs associated with the borrowing of funds.

Depreciation is charged to the consolidated statement of net income, comprehensive income and equity based on cost, less estimated residual value, on a straight-line basis over the estimated useful life of the asset as follows:

Furniture and equipment	3-8 years
Gaming equipment	5-8 years
Assets related to First Nations Casinos	5-7 years
Parking lots and roads	15 years
Major building components	10-50 years
Building structures	50 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each fiscal year-end and are adjusted prospectively, if appropriate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of net income, comprehensive income and equity when the asset is derecognized.

### (i) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date based on whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases which transfer to the Corporation substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statement of net income, comprehensive income and equity.

Subsequent to initial recognition, the leased asset is accounted for in accordance with the accounting policy applicable to that asset. Leased assets are depreciated over the shorter of the estimated useful life and the lease term.

Other leases are classified as operating leases and the leased assets are not recognized on the Corporation's consolidated statement of financial position. Operating lease payments are recognized as an expense in the consolidated statement of net income, comprehensive income and equity on a straight-line basis over the term of the lease.

### (j) Intangible assets

Acquired intangible assets of the Corporation consist of finite life computer software. Intangible assets acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is charged to the consolidated statement of net income, comprehensive income and equity on a straight-line basis over the estimated useful life of the asset as follows:

Computer software	5-10 years
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The assets' useful lives and methods of amortization are reviewed at each fiscal year-end and adjusted prospectively, if appropriate.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of net income, comprehensive income and equity when the asset is derecognized.

### (k) Cash

For the purpose of the consolidated statement of cash flows, cash consists of cash on hand and bank balances. Cash at banks earn interest at floating rates based on daily bank deposit rates.

### (l) Inventories

Inventories consist of bingo paper, breakopen tickets, and consumables. Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as the purchase cost assigned on a weighted average basis.

### (m) Impairment

#### (i) Financial assets

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have occurred after initial recognition that have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

If there is objective evidence that an impairment loss has occurred, the amount of the loss measured at amortized cost is calculated as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the current effective interest rate.

#### (ii) Non-financial assets

The Corporation assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Corporation estimates the asset's recoverable amount. For the purposes of impairment testing, non-financial assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the cash-generating unit (CGU).

The recoverable amount of a non-financial asset or CGU is the greater of its fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses, if applicable, are recognized in the consolidated statement of net income, comprehensive income and equity.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment loss reversals are recognized in the consolidated statement of net income, comprehensive income and equity in a manner consistent with the originally recognized impairment loss.

#### (n) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. The expense relating to any provision is presented in the consolidated statement of net income, comprehensive income and equity net of any reimbursement and, if the effect of the time value of money is material, is discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase to the provision due to the passage of time is recognized as a finance cost.

#### (o) Pension plans

In accordance with the provisions of the Civil Service Superannuation Act (Act), employees of the Corporation are eligible for pension benefits. Plan members are required to contribute to the multi-employer Civil Service Superannuation Fund (Fund) at prescribed rates for defined benefits and will receive benefits based on the length of service 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. Based on limited information available from the Fund, the Corporation has judged this information to be insufficient to properly allocate any potential pension plan deficits and is therefore not able to reliably determine its participation in any potential future deficit. As a result, the Corporation expenses contributions made to the pension plan as if the plan was a defined contribution plan.

For employees whose annual earnings exceed the limit under the Fund, a pension liability is established. This liability is determined actuarially on an annual basis.

Actuarial gains and losses are recognized in the statement of net income, comprehensive income and equity immediately.

The Corporation also makes contributions for employees and officers to a money purchase pension plan at prescribed rates, which are recorded as an operating expense.

#### (p) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation has concluded that it is acting as principal in all of its revenue arrangements.

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 online accounting system for sale to customers. Video lottery and other gaming revenue is recorded at the time of play, net of prizes paid. Administration fees related to First Nations are recorded at the time services are rendered.

#### (q) Promotional allowances

Promotional allowances include the value of food, beverages and other items provided on a complimentary basis to patrons. The value of these complimentary items is included in gross revenue and then deducted as a promotional allowance to arrive at net revenue.

The Corporation also operates a loyalty points program whereby patrons can earn points based upon their level of play on certain casino games. Points can be redeemed for certain goods and services provided by the casinos. Where a revenue transaction includes points awarded under the program, the revenue allocated to the points is deferred based on the fair value of the awards, which is assigned as \$0.01 per point earned, and recognized as revenue when the points are redeemed and the Corporation fulfills its obligation to supply the awards.

#### (r) 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 5% GST on gaming expenditures, including retailer commissions. This additional 5% is reported as GST expense in the consolidated statement of net income, comprehensive income and equity.

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

#### (s) Changes in accounting policies

During the year, the Corporation chose to adopt the following standards:

- (i) IFRS 7 – *Financial Instruments: Disclosures* and IAS 32 – *Financial Instruments: Presentation* were amended in December 2011 to clarify the requirements for offsetting financial instruments and to incorporate new disclosure requirements on the effect of offsetting arrangements on an entity's financial statements. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively with earlier adoption permitted. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively with earlier adoption permitted. The adoption of the amendments to IFRS 7 and IAS 32 did not have any impact on the Corporation's financial statements.

### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts recognized in the consolidated financial statements of the Corporation are discussed below.

#### (a) Determination of useful lives for tangible and intangible assets

The Corporation has based the determination of the useful lives for their tangible and intangible assets on a detailed review of all empirical data for the different asset classes. The Corporation annually reviews the validity of the useful lives applied to the different asset classes based on current circumstances and considers the impact of any external or internal changes in the Corporation's environment which may indicate the requirement to reconsider these useful lives.

#### (b) Loyalty points program

The Corporation operates a program whereby patrons can earn points based upon their level of play on certain casino games. Points can be redeemed for certain goods and services provided by the casinos.

The future redemption liability of \$3,498 (2012 – \$3,233) is included in trade and other payables and is based on an assessment of anticipated point redemptions and point value. The Corporation adjusts the estimated liability based on redemption experience and additional points earned and any adjustments will be recorded in the consolidated statement of net income, comprehensive income and equity.



#### 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following standards which are reasonably expected to be applicable to the Corporation have been issued but were not yet effective at the date of issuance of the Corporation's consolidated financial statements.

- (i) IAS 1 – *Presentation of Financial Statements* was amended in June 2011 to improve the consistency and clarity of the presentation of items of other comprehensive income by requiring items to be grouped on the basis of whether or not they may be subsequently reclassified to profit or loss. The amendments are effective for annual periods beginning on or after July 1, 2012 and their adoption is not expected to have an impact on the Corporation's consolidated financial statements.
- (ii) IAS 1 – *Presentation of Financial Statements* was further amended in May 2012 to clarify the requirements for providing comparative information when an entity provides financial statements beyond the minimum comparative information requirements. The amendments are effective for annual periods beginning on or after January 1, 2013. The Corporation is currently assessing the impact of the amendments on its consolidated financial statements.
- (iii) IFRS 9 – *Financial Instruments* reflects the first phase of the IASB's work on replacing the existing standard for financial instruments, IAS 39 – *Financial Instruments: Recognition and Measurement*, and applies to the classification and measurement of financial instruments as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Corporation's financial assets. The Corporation will quantify the effect in conjunction with the other phases when issued, to present a comprehensive picture.
- (iv) IFRS 13 – *Fair Value Measurement* does not change the circumstances under which an entity is required to use fair value, but rather provides guidance on how to measure the fair value of financial or non-financial assets and liabilities when required or permitted by IFRS. While the underlying concepts in IFRS 13 are consistent with current practice, the application of certain principles and the disclosure requirements could have a significant impact on an entity's financial statements. The standard is effective for annual periods beginning on or after January 1, 2013 and the Corporation is currently evaluating the impact of adoption of the new standard.

#### 5. TRADE AND OTHER RECEIVABLES

	2013	2012
Western Canada Lottery Corporation	\$ 3,170	\$ 7,259
Trade	12,166	8,454
Goods and Services Tax	1,858	3
Employee computer program	300	213
	<b>\$ 17,494</b>	<b>\$ 15,929</b>

The Corporation's exposure to credit risks related to trade and other receivables is disclosed in note 17 (c).

#### 6. INVENTORIES

	2013	2012
Bingo paper	\$ 391	\$ 359
Breakopen tickets	451	372
Consumable supplies	247	227
Restaurant	190	157
Store merchandise	192	195
	<b>\$ 1,471</b>	<b>\$ 1,310</b>

#### 7. PREPAYMENTS

	2013	2012
Maintenance contracts	\$ 2,065	\$ 1,996
Insurance	450	465
Entertainer and sponsorship deposits	138	124
Rent	100	127
Other	351	330
	<b>\$ 3,104</b>	<b>\$ 3,042</b>

## 8. PROPERTY AND EQUIPMENT

	Land	Buildings and parking lots	Gaming equipment	Furniture and equipment	Assets related to First Nations Casinos	Work in progress (WIP)	Total
<b>COST</b>							
April 1, 2011	\$ 17,135	\$ 176,727	\$ 164,681	\$ 93,767	\$ 19,317	\$ 12,241	\$ 483,868
Additions	6,883	1,003	6,930	3,388	266	22,165	40,635
Transfers from WIP	–	2,068	578	4,736	116	(7,498)	–
Disposals	–	(171)	(4,873)	(236)	(2,731)	–	(8,011)
March 31, 2012	24,018	179,627	167,316	101,655	16,968	26,908	516,492
Additions	1,288	87	6,116	5,992	2,167	124,275	139,925
Transfers from WIP	–	2,113	740	3,139	–	(5,992)	–
Disposals	–	(8,785)	(3,030)	(597)	–	–	(12,412)
<b>March 31, 2013</b>	<b>\$ 25,306</b>	<b>\$ 173,042</b>	<b>\$ 171,142</b>	<b>\$ 110,189</b>	<b>\$ 19,135</b>	<b>\$ 145,191</b>	<b>\$ 644,005</b>
<b>DEPRECIATION</b>							
April 1, 2011	\$ –	\$ 89,825	\$ 127,600	\$ 76,280	\$ 14,253	\$ –	\$ 307,958
Depreciation	–	9,375	12,483	7,659	2,682	–	32,199
Disposals	–	(71)	(4,843)	(229)	(2,731)	–	(7,874)
March 31, 2012	–	99,129	135,240	83,710	14,204	–	332,283
Depreciation	–	1,143	21,548	7,639	2,410	–	32,740
Disposals	–	(8,785)	(3,023)	(596)	–	–	(12,404)
<b>March 31, 2013</b>	<b>\$ –</b>	<b>\$ 91,487</b>	<b>\$ 153,765</b>	<b>\$ 90,753</b>	<b>\$ 16,614</b>	<b>\$ –</b>	<b>\$ 352,619</b>
<b>NET BOOK VALUE</b>							
<b>March 31, 2013</b>	<b>\$ 25,306</b>	<b>\$ 81,555</b>	<b>\$ 17,377</b>	<b>\$ 19,436</b>	<b>\$ 2,521</b>	<b>\$ 145,191</b>	<b>\$ 291,386</b>
March 31, 2012	24,018	80,498	32,076	17,945	2,764	26,908	184,209
April 1, 2011	17,135	86,902	37,081	17,487	5,064	12,241	175,910

Capital assets related to First Nations Casinos under the Conduct and Management Agreement consist primarily of the cost of the gaming equipment and related computer equipment.

Property and equipment not yet in use is classified as work in progress and is stated at cost. No depreciation is recorded for these assets.

The amount of borrowing costs capitalized during the 2013 fiscal year was \$1,310 (2012 – \$286). The rate used to determine the amount of borrowing costs eligible for capitalization was 2.250%, the effective interest rate of the specific borrowing.

The net book value of buildings and parking lots held under finance leases at the end of the 2013 fiscal year is \$4,191 (2012 – \$4,469) and consists of land being used for parking facilities at the McPhillips Station Casino and the Video Lotto office building located in Morris, Manitoba.

## 9. INTANGIBLE ASSETS

	Computer software – acquired
<b>COST</b>	
April 1, 2011	\$ 13,235
Additions	371
March 31, 2012	13,606
Additions	5,250
<b>March 31, 2013</b>	<b>\$ 18,856</b>
<b>AMORTIZATION</b>	
April 1, 2011	\$ 8,258
Amortization	1,226
March 31, 2012	9,484
Amortization	1,335
<b>March 31, 2013</b>	<b>\$ 10,819</b>
<b>NET BOOK VALUE</b>	
<b>March 31, 2013</b>	<b>\$ 8,037</b>
March 31, 2012	4,122
April 1, 2011	4,977

## 10. TRADE AND OTHER PAYABLES

	2013	2012
Trade	\$ 77,062	\$ 24,780
Vacation	9,652	8,962
Interest	10	17
Jackpot liability	2,551	2,611
Province of Manitoba taxes	317	342
	<b>\$ 89,592</b>	<b>\$ 36,712</b>

## 11. LONG-TERM DEBT

	2013	2012
Province of Manitoba, bearing interest at 5.050%, repayable in monthly principal installments of \$563 plus interest until August 31, 2030.	<b>\$ 117,562</b>	\$ 124,313
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.	-	679
Province of Manitoba, bearing interest at 4.050%, repayable in monthly principal installments of \$84 plus interest until August 31, 2012.	-	421
Province of Manitoba, bearing interest at 4.150%, repayable in monthly principal installments of \$96 plus interest until July 31, 2013.	<b>383</b>	1,530
Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of \$12 plus interest until February 26, 2015.	<b>268</b>	408
Province of Manitoba, bearing interest at the prevailing Canadian Dealer Offered Rate plus 0.90%, repayable in quarterly principal installments of \$550 plus interest until August 31, 2015. The interest rate on the debt at March 31, 2013 was 2.120%.	<b>5,500</b>	7,700
Province of Manitoba, bearing interest at the prevailing Royal Bank Prime Rate less 0.75%, interest only payable quarterly. No fixed repayment schedule and maturity date. The interest rate on the debt at March 31, 2013 was 2.250%.	<b>34,000</b>	30,800
Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of \$70 plus interest until March 31, 2017.	<b>3,360</b>	4,200
Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of \$108 plus interest until March 31, 2017.	<b>5,200</b>	6,500
Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of \$8 plus interest until August 31, 2016.	<b>308</b>	398
Province of Manitoba, bearing interest at 2.625%, repayable in monthly principal installments of \$685 plus interest until March 31, 2020.	<b>57,540</b>	-
Province of Manitoba, bearing interest at 2.350%, repayable in monthly principal installments of \$182 plus interest until February 28, 2020.	<b>15,118</b>	-
Province of Manitoba, bearing interest at 2.125%, repayable in monthly principal installments of \$35 plus interest until March 31, 2018.	<b>2,082</b>	-
Finance lease obligation to the Province of Manitoba, with a 7.630% implicit interest rate and annual minimum lease payments of \$64 until July 13, 2017.	<b>202</b>	248
	<b>241,523</b>	177,197
Less current portion of long-term debt	<b>22,575</b>	13,614
	<b>\$ 218,948</b>	\$ 163,583

All long-term debt is unsecured and the fair market value at March 31, 2013 is \$255,001. Subsequent to year-end, the Corporation has borrowed an additional \$23,000 in long-term debt.

The Corporation's exposure to liquidity risks related to long-term debt is disclosed in note 17 (b).

## 12. PROVISION FOR EMPLOYEE PENSION BENEFITS

The Corporation has a defined contribution money purchase pension plan and is a member of the multi-employer Civil Service Superannuation Fund. These pension plans cover substantially all employees and both require contributions to be made to separately administered funds.

The pension expense related to the Corporation's contributions to the money purchase plan is \$175 (2012 – \$147) and is recorded in operating expenses.

The pension expense related to the Corporation's contributions to the multi-employer Civil Service Superannuation Fund is \$4,141 (2012 – \$4,073). Based on limited information available from the Fund, the Corporation has judged this information to be insufficient to properly allocate any potential pension plan deficits and is therefore not able to reliably determine its participation in any potential future deficit. As a result, the Corporation's contribution to the Fund is recorded in operating expenses. The Corporation's share of the multi-employer plan accrued benefit obligation has been actuarially measured for accounting purposes as at March 31, 2013 using the accumulated benefit cost method prorated based on service, a discount rate of 4.20% (2012 – 4.50%) and management's best estimate of expected plan performance, salary escalation and retirement ages of employees.

A pension liability of \$1,243 (2012 – \$1,280) has been established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund. A gain of \$37 was experienced in the current year based on the most recently available actuarial assessment of pension obligations as at March 31, 2013 and is included in the above pension expense.

## 13. EXPENSES BY NATURE

Gaming direct expenses consist primarily of costs associated with the operation and maintenance of the Corporation's electronic gaming equipment, table games equipment and online gaming site. Non-gaming cost of sales consist primarily of costs associated with the Corporation's entertainment, food & beverage and retail store operations.

The Corporation's operating expenses by their nature are as follows:

	2013	2012
Employee benefits	<b>\$ 96,274</b>	\$ 93,187
Community support	<b>1,965</b>	1,921
Consultant and professional fees	<b>3,354</b>	2,936
Maintenance	<b>13,592</b>	5,915
Marketing	<b>6,984</b>	6,105
Property taxes	<b>3,057</b>	3,140
Sundry	<b>2,370</b>	2,433
Supplies and equipment	<b>3,750</b>	3,197
Telecommunications	<b>1,967</b>	1,222
Transportation and vehicles	<b>1,756</b>	1,603
Utilities	<b>2,369</b>	2,354
	<b>\$ 137,438</b>	\$ 124,013

## 14. SHARE OF PROFIT OF WCLC

	2013	2012
Revenue	\$ 225,576	\$ 223,422
Prizes, commissions & other cost of sales	155,799	149,820
WCLC partner equalization	3,808	3,598
Payment to Government of Canada	2,246	2,329
Profit	\$ 63,723	\$ 67,675

The WCLC earned revenue in the 2013 fiscal year in the amount of \$1,266,762 (2012 – \$1,183,804), of which the Corporation's share calculated based on relative sales levels by jurisdiction is 18% (2012 – 19%). The WCLC's total profit for the 2013 fiscal year was \$424,541 (2012 – \$400,725) of which the Corporation's share is 15% (2012 – 17%).

The Province of Manitoba is a member in the WCLC. An agreement is in place with the Provinces of Alberta and Saskatchewan where Manitoba Lotteries provides economic benefit equalization specific to salary costs of head office employees residing in Manitoba.

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.

## 15. ALLOCATIONS AND PAYMENTS

	2013	2012
Gaming Commission fees and Crown levy	\$ 3,304	\$ 3,142
First Nations allocation	41,066	43,775
Manitoba Jockey Club Inc. contribution	5,671	5,991
Tourism contribution	23,632	25,377
Responsible gaming funding	4,391	3,763
Casino bingo volunteer program	3,951	3,939
	\$ 82,015	\$ 85,987

The Corporation provides funding to the 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.

First Nations VLT siteholders receive an allocation of VLT revenue to provide sustainable social and economic benefits and opportunities within the siteholders' communities in Manitoba.

The Corporation pays the Manitoba Jockey Club Inc. a portion of the revenue generated by the VLTs at Assiniboia Downs as a contribution to support horse racing in the province.

The Corporation provides contributions towards supporting tourism in Manitoba through the VLT program.

Responsible gaming funding includes amounts paid to the Addictions Foundation of Manitoba and other organizations for their responsible gaming research and programming.

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.

## 16. COMMITMENTS AND CONTINGENCIES

### (a) Lease obligations

The Corporation has entered into commercial leases on certain buildings and parking lots which have an average remaining term of 1 to 9 years with options for renewal after that date. In addition, the Corporation has entered into commercial leases on certain motor vehicles which have a remaining term ranging between 1 to 6 years with no renewal option included in the contracts. The future minimum rental payments relating to operating leases are as follows:

2014	\$ 981
2015	767
2016	425
2017	141
2018	132
Subsequent years	319
	\$ 2,765

### (b) Legal claims

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

In addition to the legal actions and claims indicated above, the Corporation was named as a party to a lawsuit related to Scratch 'n Win lottery tickets in March 2009. No steps have been taken to proceed with the claim since it was filed and the possibility of a payout related to this action cannot be determined at this time; therefore no provision for any liability has been made in the consolidated financial statements. In addition, subsequent to year-end, the Corporation was named as a party to a lawsuit being brought forward by the Manitoba Jockey Club Inc. The details of this claim are disclosed in note 19.

### (c) Purchase commitments

At the end of the 2013 fiscal year the Corporation had purchase commitments of \$52,289 related to casino construction projects.

## 17. FINANCIAL INSTRUMENTS

The Corporation is exposed to interest rate, liquidity and credit risks arising from financial assets and liabilities. The Corporation's objectives in managing these risks are to protect from volatility and to minimize exposure from fluctuations in market rates.

Risk management policies have been established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Corporation's management oversees the management of these risks in accordance with the risk management policies and framework approved by the Board of Directors.

### (a) Interest rate risk

Interest rate risk is the risk to the Corporation's income 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 rate risk, though risks associated with interest rate fluctuations are mitigated based on 84% (2012 – 78%) of long-term debt having a fixed interest rate. The impact on the Corporation's income associated with the variable interest rate long-term debt is not considered significant.

### (b) Liquidity risk

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation mitigates this risk through cash and long-term debt management. Trade payables are due within one year and a significant portion of the long-term debt is repayable in either quarterly or monthly installments.

The table below summarizes the maturity profile of the Corporation's financial liabilities as at year-end based on contractual undiscounted payments.

2013	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	>5 years
Trade and other payables	\$ 2,551	\$ 87,041	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payable to the Province of Manitoba	-	21,042	-	-	-	-	-	-
Long-term debt	-	22,575	22,184	20,960	19,790	17,572	17,156	121,286
	\$ 2,551	\$ 130,658	\$ 22,184	\$ 20,960	\$ 19,790	\$ 17,572	\$ 17,156	\$ 121,286

2012	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	>5 years
Trade and other payables	\$ 2,611	\$ 34,101	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payable to the Province of Manitoba	-	19,273	-	-	-	-	-	-
Long-term debt	-	13,614	11,753	11,362	10,138	8,968	6,750	114,612
	\$ 2,611	\$ 66,988	\$ 11,753	\$ 11,362	\$ 10,138	\$ 8,968	\$ 6,750	\$ 114,612

### (c) Credit risk

Credit risk is the risk to the Corporation that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. The Corporation mitigates this risk through centralized credit management and collection practices and, where applicable, the establishment of a reasonable allowance for non-collectible amounts which is netted against trade and other receivables. The requirement for impairment is analyzed at each reporting date for every customer on an individual basis. The maximum credit risk exposure is the carrying value of each class of financial asset disclosed in note 5 and it is management's opinion that the Corporation does not have significant concentration risk.

The aging of trade and other receivables at the end of the 2013 fiscal year is as follows:

Neither impaired nor past due	\$ 17,470
Not impaired and past due as follows:	
Within 30 days	24
31 to 60 days	5
61 to 90 days	2
Over 90 days	1
Allowance for doubtful accounts	(8)
	\$ 17,494

### (d) Capital management

The Corporation's capital is comprised of long-term debt and equity. The Corporation's objectives when managing its capital structure are to continue its ability to meet its financial obligations and to finance growth and capital expenditures. These objectives have remained unchanged over the fiscal years presented.

The Corporation is subject to capital growth restrictions as the result of the requirement to allocate 100% of annual consolidated net income to the Province of Manitoba.

### (e) Fair value

The fair value of the Corporation's financial instruments on initial recognition is the transaction price, which is the value of the consideration given or received. Financial instruments recognized at fair value must be classified in one of the following three fair value hierarchy levels:

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – measurement based on inputs other than quoted prices included in level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) and that are significant to the fair value of the assets or liabilities.

MANITOBA LOTTERIES CORPORATION – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED MARCH 31, 2013  
(IN THOUSANDS OF CANADIAN DOLLARS)

The Corporation's financial instruments consist of cash, trade and other receivables, trade and other payables, payable to the Province of Manitoba and long-term debt. Unless otherwise stated, the fair value of the Corporation's financial instruments approximates their carrying value.

Financial instruments recorded at fair values, classified using the fair value hierarchy, are as follows:

2013	Level 1	Level 2	Level 3	Total
Cash	\$ 36,908	\$ -	\$ -	\$ 36,908
	\$ 36,908	\$ -	\$ -	\$ 36,908

2012	Level 1	Level 2	Level 3	Total
Cash	\$ 30,850	\$ -	\$ -	\$ 30,850
	\$ 30,850	\$ -	\$ -	\$ 30,850

## 18. RELATED PARTY DISCLOSURES

The Corporation is related to various other government agencies, ministries and Crown corporations under the common control of the Government of Manitoba. All transactions with these related parties are in the normal course of operations and are measured at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured and settlement occurs in cash. These transactions include long-term debt with the Province of Manitoba as disclosed in note 11 of these consolidated financial statements.

Compensation of key management personnel of the Corporation, which is recognized as an operating expense during the year, is as follows:

	2013	2012
Short-term employee benefits	\$ 1,811	\$ 1,613
Post-employment pension and medical benefits	77	67
	\$ 1,888	\$ 1,680

## 19. EVENTS AFTER THE REPORTING PERIOD

On May 23, 2013, a statement of claim was filed naming the Corporation as one of the parties in an action being brought forward by the Manitoba Jockey Club Inc. This matter is in its preliminary stages and the possibility of a payout related to this action cannot be determined at this time; therefore no provision for any liability has been made in the consolidated financial statements.

## 20. COMPARATIVE FIGURES

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

Le rapport annuel est  
disponible en français  
sur le site Web  
[manitobalotteries.com](http://manitobalotteries.com)

