

# Reaching

ABOVE AND BEYOND



# Table of Contents

1	Message from our Chair
2	Message from our President & CEO
3	Corporate Framework
5	Strategic Direction 2005/2006
7	Corporate Governance
9	Quality Products & Services <i>Reaching Beyond Expectations</i>
13	Responsibility to Community <i>Reaching Out to our Communities</i>
17	Employer of Choice <i>Reaching our True Potential</i>
21	Strategic Direction 2006/2007
23	Management Discussion & Analysis
29	Management Report
30	Auditors' Report
31	Financial Statements
34	Notes to Financial Statements
45	Highlights



The Manitoba Lotteries Corporation (MLC), with offices in Winnipeg, Morris and Brandon, is a Crown corporation of the Province of Manitoba. MLC is operated as a government business and reports to the Minister responsible for the Manitoba Lotteries Corporation Act.

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

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

# Message from our Chair



At Manitoba Lotteries Corporation (MLC), our collective commitment to Quality Products and Customer Services is evident throughout the organization. As we reflect on the significant accomplishments of this past year it seems reaching above and beyond to deliver Quality Products and Customer Services is the way we do business.

Since 2000, our President and CEO, Winston Hodgins, has been leading by example. His numerous contributions to MLC were recognized this year with the Outstanding Contribution to the Canadian Gaming Industry Display of Excellence Award. In addition to his strong, dynamic leadership role, Winston was recognized for driving many substantial initiatives in the area of Corporate Social Responsibility, including Responsible Gaming. It is leadership recognition well-deserved and an honour for all employees to share.

Over the past 12 months, numerous corporate-wide achievements were also recognized at MLC. For a second year in a row, we received the Government Finance Officers Association (GFOA) of the United States and Canada Distinguished Budget Award, reflecting our highest principles of governmental budgeting. Another GFOA Award brought us international recognition for Integrating Sustainable Development into Business Decisions. The Tree Canada Foundation named us a "Carbon Neutral Organization" for our annual tree planting program, designed to offset the environmental effects of our operations. MLC was honoured for a second time by the Progressive Aboriginal Relations (PAR) Program, achieving Silver Level Status for our commitment to sustainable Aboriginal employment and business development. As well, for the fourth consecutive year, the Human Resource Management Association of Manitoba (HRMAM) has recognized

the leadership MLC has demonstrated in enhancing HR practices within the organization. This year, we also received the Bronze Leadership Award for the implementation of our French Language Service Program.

Our best practices approach toward Responsible Gaming continues, as does interest in our approach from other Canadian jurisdictions coast to coast. In partnership with the Addictions Foundation of Manitoba (AFM), we share our Responsible Gaming expertise in Casino Staff Training and our innovative Responsible Gaming Information Centres. We trained Responsible Gaming representatives of Casino Regina and provided advice to the Ontario Lottery & Gaming Corporation, Alberta Gaming & Liquor Commission and Nova Scotia Gaming Corporation in establishing their Responsible Gaming Information Centres. Provincial funding of \$2.7 million in 2005/2006 supported these efforts, with an additional \$2.5 million allocated to AFM for gambling treatment, prevention, Helpline, awareness and research.

With tremendous pride, we also continue sharing our experience with both South Beach Casino and Aseneskak Casino. We provide ongoing technical and business support to these Casinos who in turn, contribute to the economic development of First Nations communities.

Despite an increasingly competitive environment, our achievements in Quality Products and Customer Service were abundant this year. On behalf of the Board, I extend my congratulations and appreciation to all employees for reaching above and beyond for our continued success.

**Tim Valgardson**  
BOARD CHAIR

# Message from our President & CEO



Whether it is our corporate-wide commitment to Quality Products and Services, our Responsibility to Community, or our promise as Employer of Choice, the proud employees of Manitoba Lotteries Corporation (MLC) are dedicated to finding new and innovative ways of reaching our goals to ultimately satisfy our customers.

With a focus this year on Quality Customer Service, our success began by reaching within. We launched our Quality Service Initiative (QSI), a program for all MLC employees to help understand and meet the needs of our customers.

Reaching out to our guests remains as important as ever as we work to meet today's needs and anticipate the demands of tomorrow. Extensive customer surveys were conducted this year to identify priority areas for enhancing customer satisfaction. As a result, we planned and delivered a highly successful Customer Appreciation Event in January and February, introduced an enhanced Club Card Program, and completed our replacement of 340 slot machines so that they all offer Ticket In Ticket Out (TITO) technology. Recognizing that competition in our industry is increasing almost as rapidly as technology, we will continue to rise to these challenges. Ongoing initiatives include developing more new games and new choices for our guests with our slot conversion program and table games initiatives, as well as reviewing proposals for development of a hotel adjacent to McPhillips Street Station Casino.

Communications remain at the forefront of our business with the launch of a new internet site for enhanced information for our customers and a new intranet site for improved internal communications for our employees.

We also conducted our second Employee Excellence Survey and, with an impressive 83 per cent response rate, we are confident the results represent the majority of MLC staff. Improvements since the first survey were measured in all aspects of our workplace, indicating positive progress across the board.

I am particularly proud to report on the development of our new in-house charitable giving program – Employees Care by Helping Others (ECHO). ECHO was created and is managed by employees on a volunteer basis. It was formed to unite employees through common charitable giving and volunteer activities, to recognize employees for their philanthropic efforts, and to support and improve our communities.

Last year was another financially successful one, thanks to the strategic guidance of our Board of Directors, the Minister responsible for Lotteries – the Honourable Scott Smith – and the outstanding efforts of our management teams and staff. Our net income for 2005/2006 was \$277.1 million, supporting Provincial Government programs in the areas of health, education, community and social services, and economic development.

Striving for Quality Products and Customer Services is only possible by reaching within our organization before reaching out to our customers and communities. I personally appreciate and applaud the devotion and dedication of all MLC employees in pursuing this goal by reaching above and beyond in everything you do.

A handwritten signature in black ink that reads "W. Hodgins". The signature is written in a cursive, flowing style.

**Winston Hodgins**  
*PRESIDENT & CEO*



# Corporate Framework



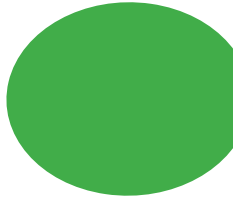
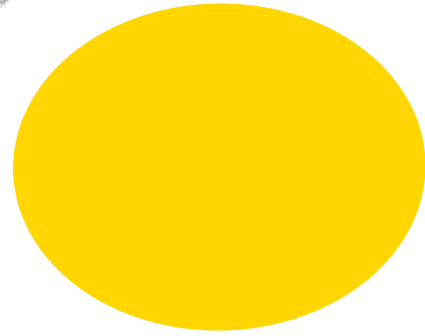
## Mission

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

## Mandate

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





## Vision

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

## Core Values

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

# Strategic Direction 2005/2006

## PRIORITY INITIATIVES



### **Quality Products & Customer Services**

Advance a Quality Service Initiative, a Food and Beverage Plan and an Entertainment Strategy.

---



### **Responsibility to Community**

Continue to be a leader in Responsible Gaming and finalize support in establishing the South Beach Casino.

---



### **Employer of Choice**

Develop and introduce an Employee Rewards and Recognition Program and an integrated Customer/Employee Appreciation Plan.

**“Our guests are the most important asset we have.”**

Dan Sanscartier ~ Executive Director, Security & Surveillance – Casinos of Winnipeg

### **Innovation**

Continue to roll out a Research and Development Strategy to better understand our customers, our employees and our market.

### **Productivity**

Continue to be effective and standardize processes for approving and managing projects.

### **Market Opportunities**

Continue to grow our tourism markets and build mutually beneficial alliances and initiatives with Manitoba-based businesses.

### **Operational Excellence**

Finalize installation of a new Casino Management System.

**“Great service builds great relationships, and in the service world, great relationships keep customers coming back.”**

Chrystal Robert ~ Senior Manager, Lottery

### **Quality Products & Customer Services Reaching above and beyond**

Quality Products and Customer Services are the essence of our business at Manitoba Lotteries Corporation (MLC). They are built into all the quality products we provide and are the foundation of all the superior services we deliver. They are inherent in the role we play supporting our communities throughout Manitoba. They are in the framework of the work we do internally and externally to fulfill our commitments.

Throughout our organization, Quality Products and Customer Services mean reaching above and beyond... every day.





# Corporate Governance



*from left to right:*

**Gerald Rosenby** *Winnipeg*  
**Lisa Settee** *Winnipeg*  
**Gerald Kolesar** *Winnipeg*  
**Nicole Campbell** *Portage la Prairie*  
**Tim Valgardson** *Chair, Winnipeg*  
**Karen Botting** *Winnipeg*  
**Bev Romanik** *Brandon*  
**Carolyn Wray** *Winnipeg*

*Absent from Photo*

**Lloyd LeVan Hall** *Vice-Chair, Winnipeg*

Corporate Governance is a system of policies and structures by which the long-term goals and strategic plans of Manitoba Lotteries Corporation (MLC) are guided. The governance structure specifies the authority and accountability among the different levels of MLC, particularly at the Government, Board of Directors, and Executive Management level. It spells out the best practices and guiding principles for making decisions on corporate affairs and provides a mechanism for accountability in relation to those decisions.

Corporate Governance refers to the commitment of MLC to sound management and business conduct — that we are ethical, conscientious, responsible, transparent and accountable in all of our business practices. The Board is responsible for the stewardship of the Corporation, and

represents the interests of our shareholders, the Province of Manitoba and the general public. Corporate Governance is instrumental in fulfilling our goals of enhancing/articulating corporate roles and responsibilities.

The function of the Board is assisted by the work of several committees, including but not limited to the following:

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

Reflecting the MLC's Board Governance Model, a new Executive Governance Model was also developed and took effect April 1, 2006, with the following objectives:

- To ensure efficient strategic planning is implemented at the executive level
- To enhance management accountability and establish a decision-making system that places appropriate authorities at appropriate levels
- To advance succession planning, management involvement in executive processes, improved decision-making model and efficiencies
- To clarify annual planning cycle.

The new Committees are defined by our core strategic building blocks and include:

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



from left to right:

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

**Eric Luke**  
Executive Vice President,  
Gaming Operations

**Wayne Perfumo**  
Executive General Manager,  
Club Regent Casino

**Marilyn Robinson**  
Vice President, Corporate Marketing & People Services

**Cheryl Eason**  
Executive Vice President & Chief Financial Officer

**Walter Nykolyszyn**  
Executive Director, Internal Audit & Corporate Compliance

**Winston Hodgins**  
President & CEO

**Susan Olynyk**  
Vice President,  
Communications & Public Affairs

**Larry Wandowich**  
Executive General Manager,  
McPhillips Street Station Casino

**Peter Hak**  
Vice President,  
Corporate Services

# Quality Products & Services

## Reaching Beyond Expectations

MLC delivers superior products through exemplary service, so our customers are satisfied and our guests return. Reaching beyond expectations is the result of a corporate-wide commitment to giving our best ... and more.



### Reaching our Goals

Throughout 2005/2006, many corporate goals in the area of Quality Products & Services were attained. The following highlights just some of these accomplishments at the Casinos of Winnipeg:

#### Quality Service Initiative (QSI)

##### *Customers Take Centre Stage*

As our enterprise-wide quality service program, QSI involves every MLC employee in a culture that puts customers first and keeps them coming back. QSI advances the following key strategic goals:

- *Provide quality products and services*
- *Ensure employees have the right skills for a productive workplace*
- *Be efficient and effective*
- *Continually improve systems and processes.*

QSI focuses on people and experiences, supports guest service and builds on our promotional promise "Go for the Fun of It!"

The QSI Office was established to roll out this long-term, continuous program, starting at the Casinos

of Winnipeg. Casino Service Standards, developed and voted on by employees, are designed to create a positive atmosphere for customers and staff. To better serve customers, the QSI Committee and Employee Services & Organizational Development Committee will continue working on a Customer Service & Public Relations training program, expected in the fall of 2006.





*“ We like everything about the Casino;  
the people and the atmosphere! ”* Emile & Gail Chassie ~ Casinos of Winnipeg guests

### Enhancing Customer Satisfaction

We went to the source to achieve this goal, conducting 600 in-person guest interviews and four focus groups on customer service to identify the following priorities:

- Promotions and events that create fun
- Product improvements
- Maintenance of MLC's high quality of cleanliness and guest safety
- Developing “customer friendly” policies and procedures.

Our overall customer satisfaction has increased since our last survey, with a particularly positive response to our Gold Card promotions, Hot Seats during Customer Appreciation Days, and Buddy Bingo. Understanding guest expectations is the first step toward enhancing their satisfaction and ensuring their continued support.

As we pursue our goal of providing a “Total Entertainment Experience” for our customers, MLC is focused on advancing a fun and exciting entertainment environment with quality products, exceptional service and great food and performances.

### Customer Appreciation Days

To recognize and honour our guests, Customer Appreciation Days were held at the Casinos of Winnipeg from January 16 to February 4, 2006. Free activities, merchandise discounts, contests and promotional offerings were well received by our guests, furthering our goal of delivering a world-class gaming and entertainment experience.

### Enhanced Club Card Launched

This enhanced scan and discount-based Club Card program also addresses our goal of increasing customer satisfaction. New offers are stronger and more competitive, and provide expanded customer privileges and prizing. Club Card member discounts now include restaurants, entertainment, casino gift store purchases, Millennium Express, valet service and multi-purpose room bookings, as well as special point-in-time promotions and offers. Hot Seat prizing with Club Card bonuses will also be offered, encouraging a “show us your card” atmosphere. As gaming technology continues to advance, new approaches to the Club Card will be explored.

*“ Taking every opportunity  
to enhance the  
guest's experience,  
any way you can. ”*

Ken Eng ~ Food and Beverage Manager, MSSC







*“Awesome and extremely informative employee - does a fantastic job explaining the aquarium.”*

Trent Carrière ~ *Casinos of Winnipeg* guest

### Successful Celebrity Tournaments

We added a fun and exciting spin to our attractions with a Celebrity Poker Tournament in September 2005 and a Celebrity Blackjack Tournament in March 2006, each offering \$10,000 in prize money for charity. Professional athletes and entertainers, local business owners and media personalities took the challenge and stepped up for their charity of choice in these two successful events. Hot 103 FM's Chrissy Troy won the Poker event with \$3,300 to the United Way of Winnipeg, while 99.9 BOB FM's Kelly Parker took the top Blackjack spot, winning \$3,500 for the Variety Club of Winnipeg. Subsequent celebrity prizes supported charities such as Children's Hospital, Canadian Diabetes Association and the Heart and Stroke Foundation. In addition, in response to our customers' heightened interest in gaming tournaments this past year, Poker, Blackjack and Slot tournaments were introduced on a regular basis at the Casinos of Winnipeg, enhancing the entertainment mix offered at the Casinos.

### Food & Beverage Plans

Food and refreshments add significantly to our guests' entertainment experience. Thanks to concentrated marketing, food and beverage sales were up last year. We continue to focus on increasing customer satisfaction with restaurant specials and buffets, expanding our multi-purpose room sales by capturing new business, as well as ongoing employee training





in delivering superior customer service. We have a vibrant new sales team in place, and to add to our world-class gaming experience, food and beverage efficiency plans are underway, with new restaurant menu designs in the works.

### Website Redevelopment

To help improve external communications and customer service in today's technology-rich environment, we redeveloped our Corporate and Casinos of Winnipeg websites to provide another opportunity to connect with customers.

### Improving our Properties

Long and short-term strategies to improve the layout, product mix and business linkages of the Casinos of Winnipeg are underway. Staff working groups from all Casino lines of business are actively addressing ideas related to aesthetics, services and cross-promotional opportunities for property enhancement. To further our goal of providing quality products and services, a multi-year plan will guide ongoing property improvements at both Club Regent Casino (CRC) and McPhillips Street Station Casino (MSSC).

*“ Quality customer service means genuine care for your customer. ”*

Laura Wesenberg ~ Food and Beverage, MSSC

*“ I enjoy coming here. I used to go out of town to game, but now I come here because it feels like home. ”*

Therese Peterson ~ Casinos of Winnipeg guest

# Responsibility to Community

## Reaching Out to our Communities

Success breeds success. When MLC supports communities throughout the province, our success grows exponentially. Sharing our resources, promoting economic development, supporting provincial government programs and reaching out to our communities strengthens that connection and enhances the quality of life for all Manitobans.



### Reaching our Goals

Throughout 2005/2006, many corporate goals in the area of Responsibility to Community were attained. The following highlights just some of these accomplishments:

#### Responsible Gaming Information Centres

In partnership with the Addictions Foundation of Manitoba (AFM), both McPhillips Street Station and Club Regent Casinos now offer permanent on-site Responsible Gaming Information Centres (RGIC) to provide accessible educational information to guests on the gaming floor.

We are proud to demonstrate our commitment to continuous improvement with these new and improved on-floor locations as nearly 8,000 guests have visited these centres since the first one opened in December 2002.

While over 90 per cent of information provided is educational, the number of visits is expected to increase now that the permanent locations are more accessible than ever.

Most guests are interested in information regarding electronic gaming and MLC is working with AFM to expand our range of interactive and other player education/information tools to be launched next year.





## Lottery Retailer Training Responsible Gaming & Player Information

MLC's commitment to Responsible Gaming practices extends far beyond the Corporation with a comprehensive Lottery Retailer Training Program and Player Information Booklet, set to launch in 2006. Partnering with the AFM, this innovative training initiative provides Manitoba's lottery retailers with practical information about Responsible Gaming and is believed to be the first such project of its kind in Canada. In addition to providing retailers with accurate information for lottery players, the program will also raise awareness of assistance resources and increase understanding of the importance of youth and age restrictions.

## Sharing Responsible Gaming Expertise with other Jurisdictions

Our leadership in Responsible Gaming continues, as does our commitment to share our experience with others. Together, MLC and AFM provided advice and training to representatives of the Responsible Gambling Council (Ontario) on the implementation and operation of Responsible Gaming Information Centres (RGIC).

We trained responsible gaming representatives of Casino Regina and offered advice and guidance to Ontario Lottery & Gaming Corporation, Alberta Gaming & Liquor Commission and Nova Scotia Gaming Corporation in the establishment of their Responsible Gaming Information Centres.

## VLT Responsible Gaming Features in French

In the spirit of the Provincial French Language Services Policy, approximately 600 VLTs in designated bilingual areas of the province will feature Responsible Gaming messages in both French and English by fall 2006. This further extends our Responsible Gaming commitment, and acknowledges Manitoba's Francophone communities.

## Studying Gambling Behaviours

As part of a larger study by the Alberta Gaming Research Institute, MLC, AFM and Manitoba Gaming Control Commission (MGCC) are working to develop a Memorandum of Understanding to guide a five-year Manitoba Longitudinal Study of Young Adults (MLS YA). The 18-20 year old age group is known to be at higher risk of developing gambling problems and the intent of this research is to identify risk factors, as well as tools and strategies to address them. The study will investigate influences in changing gambling behaviour over time and is scheduled to begin next year.





*“ Customer service is always going above and beyond in every situation. In short, treating people how you would like to be treated.”* Gord Nenka ~ Video Lotto Division Gaming Technician

### Sustainable Development Success

Building upon previous successes, MLC continues to make significant strides in implementing our Sustainable Development Policy by evaluating our business decisions and incorporating opportunities to:

- Reduce greenhouse gas emissions
- Reduce solid waste production
- Enhance green product selection
- Enhance fleet vehicle management
- Support procurement of goods and services from Aboriginal businesses, and
- Provide sustainable education and awareness to staff.

In September 2005, with support from the Manitoba Forestry Association, 10,000 trees (Scots Pine and White Spruce) were planted in an afforested area just east of Winnipeg in the Rural Municipality of Springfield. This activity was undertaken to offset the greenhouse gases emitted from our facility operations in the fiscal year. As a result of this effort, MLC became the first gaming company in Canada to be awarded “Carbon Neutral Organization” status by the Tree Canada Foundation. We will continue to reduce and monitor our greenhouse gases associated with facility operations, and offset emissions through additional tree planting in fiscal 2006/2007.

Our Purchasing Department continues to stimulate demand for environmentally friendly products by adding

environmental and social specifications into bid documents. Working with vendors, internal clients and the Sustainable Development Coordinator, significant social and environmental requirements have been added to purchasing documents for the wide range of goods and services we procure.





Last year, MLC also received international recognition for developing a practical approach to integrate Sustainable Development value into our corporate-wide business processes. The Award of Excellence received from the Government Finance Officers Association (GFOA) demonstrates that all MLC departments have embraced Sustainable Development principles and guidelines.

### **New Strategic Business Partnerships**

In March 2006, the Casinos of Winnipeg Air 680 Traffic Chopper took to the skies in the Winnipeg area. In partnership with radio stations CJOB and Power 97, this unique sponsorship opportunity not only benefits the public by providing up-to-the-minute traffic reports, but also offers MLC daily on-air title mentions, and promotional appearances at community events in the province.

A new electronic gaming agreement with the Manitoba Jockey Club was also secured in 2005 to help ensure the future viability of Assiniboia Downs. This agreement will strengthen the one signed last year by extending MLC's commitment by another two years to 2008. Hundreds of jobs in related tourism, agricultural and thoroughbred industries will be maintained as a result of this partnership.

### **Community Presence**

MLC continues to reach out to our communities with support and sponsorship of over 450 worthwhile events. This past year, our Bears on Broadway "Sun Bare" reflected climate change concerns and our interest in cancer risk reduction as part of this hugely successful event. We sponsored the "Superdogs" at the Royal Manitoba Winter Fair in Brandon, the Power Smart Manitoba Winter Games in Beausejour, the Manitoba Marathon, and supported the 2006/2007 Manitoba Theatre Centre's Regional Tour throughout Manitoba and northwestern Ontario.

Further commitments to 2006 events include Special Olympics Summer Games in Brandon, Canada Senior Games in Portage la Prairie, Dauphin's Countryfest, Morris Stampede & Exhibition, Aboriginal People's Choice Awards, Red River Exhibition Park's Red Barn, and the 2006/2007 Prairie Theatre Exchange Season.

Bingos at the Casinos of Winnipeg also contributed an incredible \$3.9 million to more than 400 non-profit organizations throughout the year.



# Employer Of Choice

## Reaching our True Potential

Creating significant employment opportunities in our communities. Offering safe, healthy, positive workplaces for employees to learn and advance their careers. Encouraging employee excellence and celebrating achievements. Reaching our true potential is the ultimate goal of our corporate culture, built on the strength of our people.



### Reaching our Goals

Throughout 2005/2006, many corporate goals in the area of Employer of Choice were attained. The following highlights just some of these accomplishments:

#### Corporate Learning Continues

Development of our corporate university remains a priority, investing in continued education for our employees at all levels of the Corporation. Through leadership training partnerships with MLC and the University of Nevada, Reno, we continue to focus on excellence in customer service. MLC hosted our second Canadian Gaming Education Forum in May 2005, providing world class gaming information for our employees and many Canadian colleagues.

Our innovative "Dimensions in Leadership" management training program evaluation techniques were recognized internationally at the Corporate University Best in Class (CUBIC) Awards. This is a significant honour as MLC was one of only two companies recognized in the evaluation category of this international forum, second only to giant electronic games developer Electronic Arts.





### Achieving PAR Silver

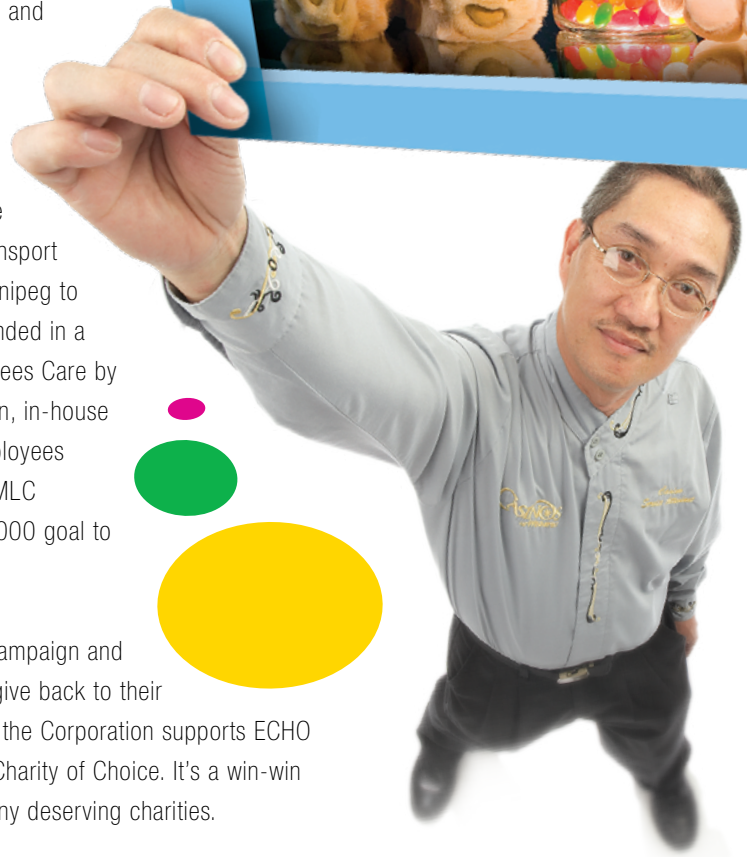
In February 2006, MLC was recognized for achieving Silver Level Status in the Progressive Aboriginal Relations (PAR) Program for our commitment to sustainable Aboriginal employment, business development and community support. This represents our second PAR award, furthering our goal of Employment Equity initiatives and diversity in the workplace.



### ECHO Resounding Success

In 2005, MLC employees read a newspaper article outlining the need for specialized equipment to transport critically ill children from Children's Hospital in Winnipeg to Edmonton for heart surgery. Our employees responded in a big way to this community need. ECHO or "Employees Care by Helping Others" was created as an employee driven, in-house charitable giving program, and is managed by employees on a volunteer basis. Within the first four months, MLC employees raised over 25 per cent of their \$100,000 goal to help the Children's Hospital Foundation.

ECHO also supports the Provincial "All Charities" Campaign and encourages and recognizes MLC employees who give back to their communities. For every hour employees volunteer, the Corporation supports ECHO by making a financial donation to the employees' Charity of Choice. It's a win-win relationship for employees and MLC as well as many deserving charities.



*" We want to go that extra mile to assist everyone at any time to make their visit positively memorable."*

Chris Stewart ~ House & Grounds Supervisor, CRC



*“ The Lottery Sales Representatives are a great support to help me with my business. Regular visits are helpful and if I ever need anything someone is always available to assist me. ”*

Eleanor Symchych ~ Owner/Operator - Lombard Lottery Kiosk



### Encouraging Excellence

The Quality Service Initiative (QSI) team has developed a new Employee Rewards and Recognition Program (ERRP) to be launched in 2006. “Encouraging Excellence” will reward and recognize employees with a comprehensive point system program, valid from initial employment through retirement – addressing everything from attendance to idea generation and voluntarism. Designed to enhance employee satisfaction, this program is sure to improve on-the-job performance, resulting in improved customer satisfaction as well.

### Workplace Enhancements

Throughout the course of the year, many more programs and initiatives continued to be offered to improve our workplace, including:

- Celebrating “Diversity Week”
- Wellness Week activities to support work/life balance
- Volunteer Appreciation Event
- Corporate-wide meetings (ie: Talk2Us program)
- “Lunch with the President” program
- Workplace Safety & Health Awareness presentations
- Mentoring Program
- Family Education Award Program



*“ We are always provided with consistent customer service and we appreciate the good relationship that exists between our hotel and the Video Lotto Division staff. ”*

Danny Trap ~ Manitou Motor Inn



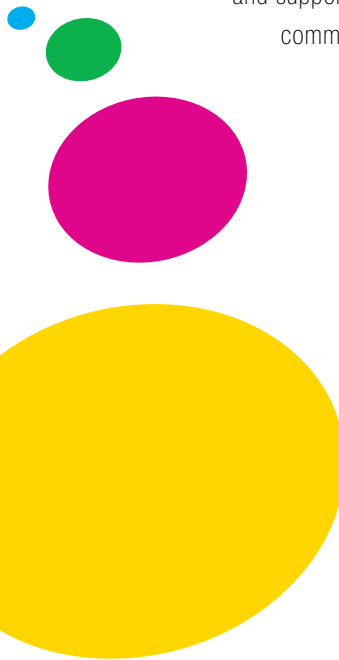
*“ Quality Customer Service is achieved when everyone works together and takes pride in contributing to the excellence of the final product – a fun and entertaining gaming experience. ”*

Mitch Boux ~ Slots Department, CRC

# Strategic Direction 2006/2007

In 2006/2007, the Corporation will continue to build on two priority strategic areas – Customer Products and Services and Employer of Choice.

Considering ongoing market evaluation, demographic shifts, competition and trends in the gaming industry, MLC has reviewed its progress and discussed its future direction through a corporate-wide 2006 strategic planning exercise. Through research, our customers and employees have provided us with valuable information on our products, services and our workplace. This will enable MLC to continue to focus on providing a healthy and progressive workplace and a competitive, fun and entertaining experience for our customers in a socially responsible environment. MLC is committed to serving as a major Manitoba employer and supporter of the people, organizations and communities of our province.





*“ Buffet meal was excellent. Thanks to our server who was busy but took the time to be pleasant and helpful.”* Marie Fowlie ~ Casinos of Winnipeg guest

*For 2006/2007, MLC will focus our efforts on advancing key strategies and initiatives in the following areas:*



### Customer Products and Services

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



### Employer of Choice

- Building and advancing opportunities to recognize and reward our employees for exceptional contributions to the workplace.
- Ensuring our employees are knowledgeable, informed and involved in our directions, our activities and our support of the Manitoba community.
- Positioning MLC as a Career Destination in the province.
- Continuing to build exceptional management and supervisory skills.



### Operational Excellence

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



### Responsibility to Community

- Ensuring that MLC continues to be recognized as a national leader in responsible gaming programs and services.
- Continuing to be a key player in our community in supporting and partnering with Manitoba organizations and businesses involved in sport, arts and culture, quality of life and the attraction of major regional and national events to our province.



### Innovation

- Continuing to ensure that our direction and decisions are based on a solid foundation of research.

# Management Discussion & Analysis

## of Financial Condition and Results of Operations as at March 31, 2006

The Management Discussion & Analysis reviews the financial results of the operation of Manitoba Lotteries Corporation (MLC) for the fiscal year ended March 31, 2006, and should be read in conjunction with the Corporation's audited financial statements and accompanying notes.

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

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

### Overview and Company Vision

Part of MLC's vision is to be a world-class gaming organization that provides products and services that meet or exceed customers' and guests' expectations in a socially responsible manner. Working towards this vision has resulted in a modest increase in financial performance for MLC as the Corporation's net income of \$277.1 million for the fiscal year 2005/2006 increased

\$4.1 million or 1.5 per cent as compared to the prior year's net income of \$273.0 million.

Revenues of \$669.2 grew by \$39.6 million or 6.3 per cent from the previous year's level of \$629.6 million. This increase is attributable to a number of factors including the previous year's replacement of obsolete VLT machines as well as increased lottery revenues.

MLC continually assesses existing product offerings as part of a long range strategic goal of providing quality customer products and services to create full service customer satisfaction.

Revenue, net of cost of sales and operating expenditures, was \$343.8 million in 2005/2006 compared to \$328.4 million in the previous

year, an increase of \$15.4 million or 4.7 per cent. Operating expenses of \$104.0 million were consistent with the previous year's \$103.9 million and includes payroll and other costs directly related to the generation of gaming and lottery revenues.

Amortization of \$32.0 million for 2005/2006 increased \$6.6 million from \$25.4 million in the previous year. The increase resulted primarily from management's change in the estimated useful lives of gaming equipment related to casino operations from seven to five years and casino stages from 30 to 10 years. These changes in estimates resulted in \$6.4 million of the current year's amortization increase over the previous year.



## Results of Operations

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

### Video Lotto

The Video Lotto Division is located in Morris, Manitoba and is responsible for the operation and maintenance of video lottery terminals (VLTs). VLTs are located at Manitoba Liquor Control Commission licensed beverage rooms, Veterans organizations, First Nations locations, the Assiniboia Downs race track and Winnipeg's MTS Centre. VLT operations contributed over 69 per cent of MLC's net income and provide annual commissions of \$95.6 million to commercial siteholders operating equipment on their premises.

Revenue (before cost of sales) of \$325.0 million in 2005/2006 increased \$35.3 million or 12.2 per cent, compared to \$289.7 million in the previous year. The replacement VLTs continued to be the major contributing factor to the increase in VLT revenues. Net income of \$192.7 million increased \$13.5 million or 7.5 per cent more than net income of \$179.2 million in the previous year.



### Payout Percentages based on Dollars Won and Played

	Electronic Gaming Casinos of Winnipeg		Video Lotto		
Dollars Deposited	\$ 581		\$ 1,296		
Dollars Played		\$ 1,561		\$ 4,572	
Dollars Won		\$ 1,432		\$ 4,250	
Dollars Cashed Out	\$ 452		\$ 974		
Revenue	<u>\$ 129</u>	<u>\$ 129</u>	<u>\$ 322</u>	<u>\$ 322</u>	
Average Prize Payout =	Dollars Won (Prizes)	1,432	91.7%	4,250	93.0%
	Dollars Played	1,561		4,572	



## Management Discussion & Analysis continued...

### Casinos of Winnipeg

MLC operates two casinos in the city of Winnipeg, the Club Regent Casino and the McPhillips Street Station Casino. Casino operations generated revenue (before cost of sales) of \$161.6 million in 2005/2006, a decrease of \$7.7 million or 4.5 per cent less than revenues of \$169.3 million in the previous year.

Casino net income of \$30.2 million decreased from the previous year's net income of \$41.1 million by \$10.9 million or 26.5 per cent due primarily to reduced visitor traffic, attributable to increased competition in the marketplace.

### Lottery

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

In fiscal 2005/2006, lottery revenue (before cost of sales) of \$182.6 million increased from the previous fiscal year revenue of \$170.6 million by \$12.0 million or 7.0 per cent. This increase is primarily due to record jackpots for both the Lotto 6/49 and Super 7 games during the year combined with increased sales of instant tickets



and Sport Select due to the resumption of professional hockey. Net income of \$54.2 million was more than the previous year's net income of \$52.8 million by \$1.4 million or 2.6 per cent.

The maintenance of future lottery market sales revenues will result in continued development and refinement of the lottery network and products.

### First Nations

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

Part of MLC's vision is to support the development of successful First Nations casinos that contribute to the economic development of First Nations communities. To help meet this goal, in 2002 MLC entered into agreements with the Aseneskak Company Inc. and the Brokenhead River Casino Resort Limited Partnership. MLC is allowed to recover its expenses in carrying out its responsibilities under these agreements. Effective December 2005, MLC received approval from its Board of Directors to discontinue the recovery of general administrative and compliance costs from

First Nations casinos and to provide these services only upon request on a fee for service basis. The Corporation will continue to recover all direct and/or gaming related expenses.

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

The Brokenhead River Casino Resort, subsequently renamed the South Beach Casino, opened May 28, 2005. MLC provided assistance in the start-up of the casino and purchased the gaming equipment to be used in the casino. Costs of the assets, which totaled \$7.0 million, are being amortized and recovered over the term of the Conduct and Management Agreement.

### Liquidity and Capital Resources

Cash provided by operating activities during 2005/2006 was \$306.5 million compared to \$290.7 million in the previous year, an increase of \$15.8 million or 5.4 per cent. Increased operating results and amortization contributed \$10.6 million to this increase along with decreases in non-cash working capital items of \$3.2 million.

Cash expended on property and equipment for 2005/2006 totaled \$20.6 million, down from \$88.8 million in the previous year.

One of MLC's core values is to be progressive by aiming to provide proven state-of-the-art products, services



and facilities to customers and employees. Continued investments in the replacement of gaming and security equipment were made to support this value with the intention of improving service, reliability and gaming integrity. In addition, MLC purchased the gaming equipment to be used in the South Beach Casino which opened May 28, 2005.

Cash distributions to the Government of Manitoba resulted in a cash outflow of \$274.0 million compared to the previous year's \$273.4 million, representing a nominal increase.

### Risk Management

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

### Operating Risk

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

MLC management is committed to actions that will strengthen the existing system of internal control and minimize operational risk to the extent practical. This has been addressed partially through the performance of risk assessments on operating units, large scale projects as well as specific business processes.





Four areas of concentration are disaster recovery and business continuity, planning, policies and procedures, and process improvements based on industry best practices. Throughout the 2005/2006 fiscal year, MLC continued the updating and documentation of operating procedures for their gaming units and support units.

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

### **Technological Developments**

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

meet or exceed customer entertainment needs by offering increased entertainment value.

### **Financial Risks**

The Corporation's exposure to interest rate risk is substantially limited through the use of fixed-rate, long-term debt. Credit risk due to the inability or unwillingness of a counter party to fulfill its payment obligations, while low, is mitigated through MLC's credit management and collection practices. The financial impact from property losses or third party liability claims are mitigated through conventional insurance coverage and each year the Corporation reviews the level of risk that will be retained.

MLC continues to implement its integrated Enterprise Risk Management Framework for assessing and managing risks across the entire corporation. Enterprise-wide risk management provides a way of addressing all the categories of risk throughout the various business units and raising employee awareness and responsibility for managing these risks. In addition, an increased focus on traditional risk management activities of ensuring adequate insurance coverage and coordinating loss mitigation strategies across the organization will continue.

### **Sustainable Development**

Since the Sustainable Development policy was developed and approved by our Board of Directors, the Corporation's Finance and Administration Department has taken a key role to ensure sustainable issues pertinent to Manitoba Lotteries are integrated into our business activities and are adequately evaluated and mitigated. By evaluating significant social, environmental and economic issues during strategic planning, business planning and purchasing processes, we are able to mitigate negative



impacts and increase the value of our operations to our many stakeholders.

The integration of sustainable development principles into strategic planning, business planning and purchasing processes also moves us towards full cost accounting. This balanced approach to economic growth ensures we remain accountable to our stakeholders, who deem social and environmental considerations essential during financial planning processes. In recognition of the Corporation's efforts to integrate sustainable development into its business decisions, the Corporation was awarded the Government Finance Officers Association (GFOA) Award of Excellence in May 2006.

### Outlook

The Corporation is continuing to reinvest in its facilities and in new gaming technology to ensure long-term sustainability of revenues and income, and meet the demands of our customers. MLC, as part of its continuous improvement process, embarked on a change to the casino gaming operations which included replacing aging slot equipment as well as the slot management system. This initiative will continue throughout the 2006/2007 fiscal year with planned developments to the other gaming areas. In addition, MLC has committed to the replacement of the central computer system for their VLT network in the 2006/2007 fiscal year. These changes are expected to introduce efficiencies in our ability to provide continued levels of service to our customers, as well as to enhance the reporting and analysis functions of the operations.

In order to address the increased competition at the casino operations, MLC is looking at alternative ways to increase revenues in a responsible manner, and has embarked on



a review of the properties and operations to determine where improvements can be made. Some of the improvements being

considered at this time include replacing the aging Video King system with newer technology, reconfiguring the casino gaming floor to make the best use of the space, changing the food and beverage operation, and improving the entertainment areas.

MLC also continues to expand its focus on customers, whether they are guests at our casinos or users of our various products and services, through the development of service promises. MLC is also continuing with the centralization of services at the Central Services facility. This facility became operational in the 2004/2005 fiscal year, and work continues to enhance the efficiencies gained by combining more functions.

The Corporation continues to demonstrate its commitment to responsible gaming research and programming, through the on-going development of the Responsible Gaming Research and Program Development Fund.

# Management Report

The accompanying financial statements are the responsibility of management and have been prepared in accordance with the accounting policies stated in the financial statements. These accounting policies have been applied on a basis consistent with the prior year. In management's opinion, the 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 financial statements.

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 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 financial statements are fairly stated in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

The Audit Committee of the Board meets with management and Ernst & Young LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the financial statements before approving them. The Board has reviewed and approved the financial statements for the fiscal year ended March 31, 2006.



**Winston Hodgins**

*President and CEO*



**Cheryl Eason**

*Executive Vice President & CFO*

# Auditors' Report

To the Board of Directors  
Manitoba Lotteries Corporation:

We have audited the balance sheet of Manitoba Lotteries Corporation as at March 31, 2006 and the statements of net income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Ernst & Young LLP*

*Chartered Accountants  
Winnipeg, Canada  
May 11, 2006*



# Balance Sheet

March 31, 2006 (in thousands)

	NOTES	2006	2005
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 30,936	\$ 27,773
Accounts receivable	3	12,820	9,931
Inventories	4	2,921	3,208
Prepaid expenses	5	3,087	2,478
		<u>49,764</u>	<u>43,390</u>
<b>Property and Equipment</b>	6	218,430	231,401
<b>Other Assets</b>	7	5,778	6,024
		<u>\$ 273,972</u>	<u>\$ 280,815</u>
<b>LIABILITIES AND RETAINED EARNINGS</b>			
<b>Current Liabilities</b>			
Accounts payable and accruals	8	\$ 25,064	\$ 25,883
Due to the Government of Manitoba		6,060	3,038
Current portion of long-term debt	9	19,068	16,259
		<u>50,192</u>	<u>45,180</u>
<b>Long-Term Debt</b>	9	218,502	230,329
<b>Accumulated Pension Benefits</b>	2(f)	278	306
<b>Total Liabilities</b>		<u>268,972</u>	<u>275,815</u>
Commitments and contingencies	13,14		
<b>Retained Earnings</b>		5,000	5,000
		<u>\$ 273,972</u>	<u>\$ 280,815</u>

(see accompanying notes to the financial statements)

On behalf of the Board,



Director & Chair of the Board



Director & Chair of the Audit Committee

# Statement of Net Income & Retained Earnings

for the year ended March 31, 2006 (in thousands)

	NOTES	2006	2005
<b>Revenue</b>			
Revenue		\$ 669,213	\$ 629,599
Cost of sales		221,446	197,256
		<u>447,767</u>	<u>432,343</u>
<b>Expenses</b>			
Operating expenditures		103,988	103,900
Amortization		32,006	25,424
Interest expense – long-term		13,491	12,072
Goods and services tax		6,694	4,459
		<u>156,179</u>	<u>145,855</u>
<b>Income before Allocations and Payments</b>		<b>291,588</b>	286,488
<b>Allocations and Payments</b>	11		
Provinces of Alberta and Saskatchewan		2,794	2,690
Government of Canada		2,278	2,255
Gaming Commission fees & Crown levy		2,327	2,351
Responsible Gaming funding		2,696	2,099
Charitable and community organizations		4,433	4,055
		<u>14,528</u>	<u>13,450</u>
<b>Net Income</b>		<b>277,060</b>	273,038
<b>Retained Earnings, beginning of the year</b>		<b>5,000</b>	5,000
Allocation to the Government of Manitoba		(277,060)	(273,038)
<b>Retained Earnings, end of the year</b>		<u>\$ 5,000</u>	<u>\$ 5,000</u>

(see accompanying notes to the financial statements)

# Statement of Cash Flows

for the year ended  
March 31, 2006 (in thousands)

	NOTES	2006	2005
<b>Operating activities</b>			
Net income		\$ 277,060	\$ 273,038
Non-cash charges (credits) to income:			
Amortization		31,760	25,184
Amortization on assets related to First Nations Casinos		1,542	674
Amortization related to other assets		246	241
(Gain) Loss on disposal of property and equipment		(57)	(1,275)
Accumulated pension benefits		(28)	35
		<u>310,523</u>	<u>297,897</u>
Net changes in non-cash working capital items	15	(4,030)	(7,229)
<b>Cash provided by operating activities</b>		<b>306,493</b>	<b>290,668</b>
<b>Investing activities</b>			
Purchase of property and equipment		(20,580)	(88,842)
Additions to other assets		–	(283)
Proceeds from disposal of property and equipment		306	1,606
<b>Cash used in investing activities</b>		<b>(20,274)</b>	<b>(87,519)</b>
<b>Financing activities</b>			
Cash distributions to the Government of Manitoba:			
Current year		(271,000)	(270,000)
Prior year		(3,038)	(3,419)
Proceeds from long-term debt		7,900	79,000
Repayment of long-term debt		(16,918)	(6,006)
<b>Cash used in financing activities</b>		<b>(283,056)</b>	<b>(200,425)</b>
<b>Increase in cash during the year</b>		<b>3,163</b>	<b>2,724</b>
<b>Cash, beginning of year</b>		<b>27,773</b>	<b>25,049</b>
<b>Cash, end of year</b>		<b>\$ 30,936</b>	<b>\$ 27,773</b>
<b>Supplemental cash flow information</b>			
Interest paid		\$ 13,656	\$ 12,187

(see accompanying notes to the financial statements)

# Notes to Financial Statements for the year ended March 31, 2006

## 1. Background

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

## 2. Significant Accounting Policies

### (a) Western Canada Lottery Corporation (WCLC)

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

### (b) Revenue and expense recognition

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

### (c) Property, equipment and amortization

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and amortized on a straight-line basis according to their estimated useful lives. A half-year amortization is taken in the year of acquisition on assets under \$1,000,000; for assets over \$1,000,000, amortization is taken at date of implementation.

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



# Notes to Financial Statements for the year ended March 31, 2006

## 2. Significant Accounting Policies *(continued)*

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

During the year, the useful life for gaming equipment related to casino operations was changed from a 7-year life to a 5-year life. This change was adopted prospectively for the fiscal year ended March 31, 2006. The impact of this change for the current year was a \$4,414,000 decrease in net income. VLT equipment will continue to be amortized over a useful life of 7 years. A change was also implemented to reduce the useful life of the casino stages from 30 years to 10 years. The impact of this change was a \$1,971,000 decrease in net income.

### (d) 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 7% GST on gaming expenditures, including retailer commissions. This additional 7% is reported as GST expense.

The foregone input tax credit and the additional 7% GST paid on capital expenditures are included in the cost of the asset.

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

### (e) Inventories

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

### (f) Pension costs

The Corporation makes contributions for employees and officers to a money purchase pension plan at prescribed rates. The pension expense related to this plan for the 2006 fiscal year is \$544,000 (2005 - \$958,000).

Effective October 1, 2004, existing MLC employees were given the opportunity to take part in the Civil Service Superannuation Fund (the Fund), a multi-employer and multi-union plan that also covers many non-unionized employees. Prior to October 1, 2004, certain other employees and officers of the Corporation were pensionable under the Fund. The Corporation funded \$4.4 million in total which was the actuarial present value of all prior accrued basic pension and indexing obligations as at December 31, 1997. Effective January 1, 1998, the Corporation began matching employee contributions to the Fund at prescribed rates. A reserve of \$278,000 (2005 - \$306,000) has been established as a pension liability for employees whose annual earnings exceed the limit under the Fund plan. A gain of \$28,000 was experienced in the current fiscal year based on the triennial actuarial report of pension obligations as at December 31, 2004.

Current service contributions to the fund are recorded as an operating expense. The pension expense related to MLC's contributions to the Fund, including all new employees enrolled since October 1, 2004, for the 2006 fiscal year is \$2,004,000 (2005 - \$1,419,000).

#### **(g) Financial instruments**

##### **Financial risk**

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

##### **Credit risk**

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

Unless otherwise stated, the book value of cash, accounts receivable, accounts payable and accruals, due to the Government of Manitoba, organizations, and long-term debt approximate fair value.

#### **(h) Foreign currency translation**

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

#### **(i) Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

#### **(j) Promotional allowances**

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

# Notes to Financial Statements

for the year ended  
March 31, 2006

<b>3. Accounts Receivable</b> (in thousands)		<b>2006</b>		<b>2005</b>
Trade	\$	5,160	\$	4,186
Western Canada Lottery Corporation		5,603		3,797
Miscellaneous		565		674
First Nations		1,199		984
Employee computer program		188		206
Lottery retailers		105		84
	\$	<b>12,820</b>	\$	<b>9,931</b>
<b>4. Inventories</b> (in thousands)		<b>2006</b>		<b>2005</b>
Replacement parts	\$	1,855	\$	2,334
Breakopen tickets		365		392
Bingo paper		524		335
Store merchandise		86		68
Restaurant		91		79
	\$	<b>2,921</b>	\$	<b>3,208</b>
<b>5. Prepaid Expenses</b> (in thousands)		<b>2006</b>		<b>2005</b>
Manitoba Gaming Control Commission fees	\$	1,608	\$	1,582
Insurance		437		465
Miscellaneous		969		266
Trade deposits		—		92
Rent		73		73
	\$	<b>3,087</b>	\$	<b>2,478</b>

**2006****6. Property and Equipment** (in thousands)

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land	\$ 5,798	\$ -	\$ 5,798
Furniture and equipment	73,024	56,076	16,948
Gaming equipment	126,961	53,645	73,316
Casino stages	5,972	3,822	2,150
Buildings and parking lots	162,864	51,833	111,031
Leasehold improvements	5,643	5,189	454
Capital lease – building	688	197	491
Assets related to First Nations Casinos	11,765	3,523	8,242
	<u>\$ 392,715</u>	<u>\$ 174,285</u>	<u>\$ 218,430</u>

**2005**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land	\$ 5,428	\$ -	\$ 5,428
Furniture and equipment	63,307	52,248	11,059
Gaming equipment	118,559	33,498	85,061
Casino stages	5,972	1,672	4,300
Buildings and parking lots	167,431	46,293	121,138
Leasehold improvements	5,643	5,150	493
Capital lease – building	688	170	518
Assets related to First Nations Casinos	5,385	1,981	3,404
	<u>\$ 372,413</u>	<u>\$ 141,012</u>	<u>\$ 231,401</u>

**7. Other Assets**

The Corporation has entered into an agreement for the right to use 22.28 acres of land for 200 years. The land is being used for parking facilities at the McPhillips Street Station Casino. The facilities became available for use during the 2004 fiscal year, at which time the Corporation began amortizing the asset. The asset is presented net of accumulated amortization of \$603,000 (2005 - \$358,000) [see note 2 (c)].

**8. Accounts Payable and Accruals** (in thousands)

	<b>2006</b>	<b>2005</b>
Trade	\$ 17,670	\$ 19,279
Vacation payable	5,103	4,622
Interest payable	1,143	1,024
Jackpot provision	942	686
Government of Manitoba	206	272
	<u>\$ 25,064</u>	<u>\$ 25,883</u>



# Notes to Financial Statements

for the year ended  
March 31, 2006

## 9. Long-Term Debt

	<b>2006</b> <i>(in thousands)</i>	<b>2005</b> <i>(in thousands)</i>
Province of Manitoba, bearing interest at 6.95%, interest only payable semi-annually, with all principal due at maturity on August 30, 2010.	<b>\$ 135,000</b>	\$ 135,000
Province of Manitoba, bearing interest at the prevailing Bankers Acceptance rate plus ¼ of 1%, repayable in quarterly principal installments of \$1,500,000 plus interest until January 17, 2011. The interest rate on the debt at March 31, 2006 was 4.29%.	<b>30,000</b>	30,000
Province of Manitoba, bearing interest at 5.25%, re-payable in quarterly principal installments of \$1,071,428 plus interest until June 30, 2011.	<b>22,500</b>	26,786
Province of Manitoba, bearing interest at 4.625%, re-payable in quarterly principal installments of \$1,071,428 plus interest until September 30, 2011.	<b>23,571</b>	27,857
Province of Manitoba, bearing interest at the prevailing Bankers Acceptance rate plus ¼ of 1%, re-payable in quarterly principal payments of \$678,571 plus interest, until May 10, 2012. The interest rate on the debt at March 31, 2006 was 4.29%.	<b>16,964</b>	19,000
Province of Manitoba, bearing interest at 4.875%, re-payable in monthly principal installments of \$52,000 plus interest until March 31, 2009.	<b>1,828</b>	2,452
Province of Manitoba, bearing interest at 4.050%, re-payable in monthly principal installments of \$94,047 plus interest until August 31, 2012.	<b>7,242</b>	–
Province of Manitoba advance, non-interest bearing, repaid in the 2006 fiscal year.	–	5,000
Capital lease obligation to the Province of Manitoba, with a 7.63% implicit interest rate and annual minimum lease payments of \$64,000 until July 13, 2017.	<b>465</b>	493
	<b>\$ 237,570</b>	\$ 246,588
Less current portion of long-term debt and capital lease obligation	<b>19,068</b>	16,259
	<b>\$ 218,502</b>	\$ 230,329

**Annual payments in future years are as follows** *(in thousands)*

	Loans	Capital Lease	
	Principal	Principal	Interest
2007	\$ 19,038	\$ 30	\$ 34
2008	19,038	32	32
2009	18,994	35	30
2010	18,414	37	27
2011	153,414	40	24
Subsequent years	8,207	291	72
	\$ 237,105	\$ 465	\$ 219

The fair market value of long-term debt at March 31, 2006 is \$251,857,000.

# Notes to Financial Statements

for the year ended  
March 31, 2006

## 10. Segmented Information (in thousands)

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

<b>2006</b>	<b>Video Lotto</b>	<b>Casinos of Winnipeg</b>	<b>Lottery</b>	<b>Total</b>
<b>Revenue</b>				
Revenue	\$ 325,041	\$ 161,611	\$ 182,561	\$ 669,213
Cost of sales	95,614	7,975	117,857	221,446
	<u>229,427</u>	<u>153,636</u>	<u>64,704</u>	<u>447,767</u>
<b>Expenses</b>				
Operating expenses	9,870	89,750	4,368	103,988
Amortization	12,359	19,647	–	32,006
Interest expense - long-term	5,119	8,132	240	13,491
Goods and services tax	5,837	313	544	6,694
	<u>33,185</u>	<u>117,842</u>	<u>5,152</u>	<u>156,179</u>
<b>Income before Allocations and Payments</b>	<u>196,242</u>	<u>35,794</u>	<u>59,552</u>	<u>291,588</u>
<b>Allocations and Payments</b>	<u>3,578</u>	<u>5,612</u>	<u>5,338</u>	<u>14,528</u>
<b>Net Income</b>	<u>\$ 192,664</u>	<u>\$ 30,182</u>	<u>\$ 54,214</u>	<u>\$ 277,060</u>
<b>2005</b>	<b>Video Lotto</b>	<b>Casinos of Winnipeg</b>	<b>Lottery</b>	<b>Total</b>
<b>Revenue</b>				
Revenue	\$ 289,715	\$ 169,254	\$ 170,630	\$ 629,599
Cost of sales	82,597	6,337	108,322	197,256
	<u>207,118</u>	<u>162,917</u>	<u>62,308</u>	<u>432,343</u>
<b>Expenses</b>				
Operating expenses	9,656	90,204	4,040	103,900
Amortization	7,042	18,374	8	25,424
Interest expense - long-term	3,888	7,943	241	12,072
Goods and services tax	4,353	44	62	4,459
	<u>24,939</u>	<u>116,565</u>	<u>4,351</u>	<u>145,855</u>
<b>Income before Allocations and Payments</b>	<u>182,179</u>	<u>46,352</u>	<u>57,957</u>	<u>286,488</u>
<b>Allocations and Payments</b>	<u>2,961</u>	<u>5,299</u>	<u>5,190</u>	<u>13,450</u>
<b>Net Income</b>	<u>\$ 179,218</u>	<u>\$ 41,053</u>	<u>\$ 52,767</u>	<u>\$ 273,038</u>

## 11. Allocations and Payments

### (a) Provinces of Alberta and Saskatchewan

The Province of Manitoba is a member in the Western Canada Lottery Corporation (WCLC). An agreement is in place with the other members to provide economic benefit equalization. The cost to the Corporation for this allocation for the 2006 fiscal year is \$2,794,000 (2005 - \$2,690,000).

### (b) Payment to Government of Canada

Effective January 1, 1980 the Government of Canada terminated its involvement in lotteries. In return, the ten provinces are to contribute an annual sum of \$24,000,000, adjusted for inflation, to the Federal Government. The Province of Manitoba's share for the 2006 fiscal year is \$2,278,000 (2005 - \$2,255,000).

### (c) Gaming Commission Fees & Crown Levy

The Corporation provides funding to the Manitoba Gaming Control Commission (MGCC) through payment of annual registration fees for electronic gaming machines and employees. The Corporation also provides funding to the Crown Corporations Council through the payment of an annual levy. Funding provided to MGCC and Crown Corporations Council in the 2006 fiscal year is \$2,327,000 (2005 - \$2,351,000).

### (d) Responsible Gaming Funding

Funding to the Addictions Foundation of Manitoba (AFM) and other organizations for their responsible gaming research and programming for the 2006 fiscal year is \$2,696,000 (2005 - \$2,099,000).

### (e) Charitable and Community Organizations

The Corporation provides over four hundred charitable and community organizations the opportunity to raise funds for their organizations by assisting the Corporation in the bingo events held at its casinos and providing funding to various community groups throughout Manitoba. Payments made to these organizations for the 2006 fiscal year amount to \$4,433,000 (2005 - \$4,055,000).

## 12. First Nations Casinos

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

## 13. Lease Obligations

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

	(in thousands)
2007	\$ 1,417
2008	969
2009	701
2010	556
2011	335
Subsequent years	1,842
	<hr/>
	\$ 5,820
	<hr/>



# Notes to Financial Statements

for the year ended  
March 31, 2006

## 14. Commitments and Contingencies

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

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

During the year the Corporation committed to spend 2% of its net income over five years for responsible gaming research and programming. It is anticipated that the commencement of expenditures will occur in the 2006/2007 fiscal year.

<b>15. Net Change in Non-cash Working Capital Items</b> <i>(in thousands)</i>	<b>2006</b>	<b>2005</b>
Net decrease (increase) in current assets		
Accounts receivable	\$ (2,889)	\$ (2,680)
Inventories	287	297
Prepaid expenses	(609)	153
	<u>(3,211)</u>	<u>(2,230)</u>
Net decrease in current liabilities		
Accounts payable and accruals	(819)	(4,999)
	<u>(819)</u>	<u>(4,999)</u>
Net change in non-cash working capital	<u>\$ (4,030)</u>	<u>\$ (7,229)</u>

## 16. Comparative Figures

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

## 17. Subsequent Event

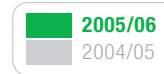
Subsequent to this year-end, Manitoba Lotteries Corporation has committed to the replacement of the Central Monitoring System for the video lottery network. The estimated cost of this replacement is \$11,500,000.

# Schedule of Net Income

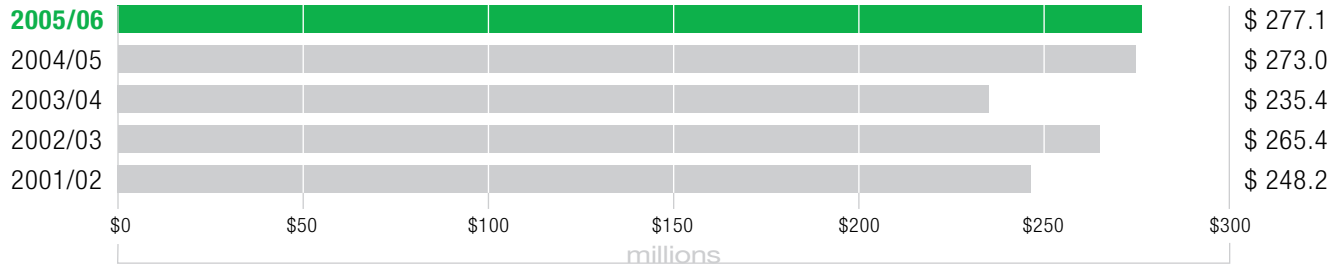
for the year ended  
March 31, 2006 (in thousands)

	<b>2006</b>	<b>2005</b>
<b>Revenue</b>		
Revenue	\$ 669,213	\$ 629,599
Cost of sales	221,446	197,256
	<u>447,767</u>	<u>432,343</u>
<b>Expenses</b>		
Operating expenditures		
Salaries and benefits	72,290	74,009
Maintenance equipment	8,994	8,814
Tourism marketing	4,531	3,233
Property taxes	3,133	3,913
Utilities	2,386	2,151
Postage, printing and supplies	2,878	2,472
Consultant fees	2,664	2,142
Telecommunications	1,631	1,638
Transportation and vehicles	1,529	1,515
Community support	1,275	1,184
Sundry	2,677	2,829
	<u>103,988</u>	<u>103,900</u>
Amortization	32,006	25,424
Interest expense – long-term	13,491	12,072
Goods and services tax	6,694	4,459
	<u>156,179</u>	<u>145,855</u>
<b>Income before Allocations and Payments</b>	<u>291,588</u>	286,488
<b>Allocations and Payments</b>	<u>14,528</u>	13,450
<b>Net Income</b>	<u>\$ 277,060</u>	<u>\$ 273,038</u>

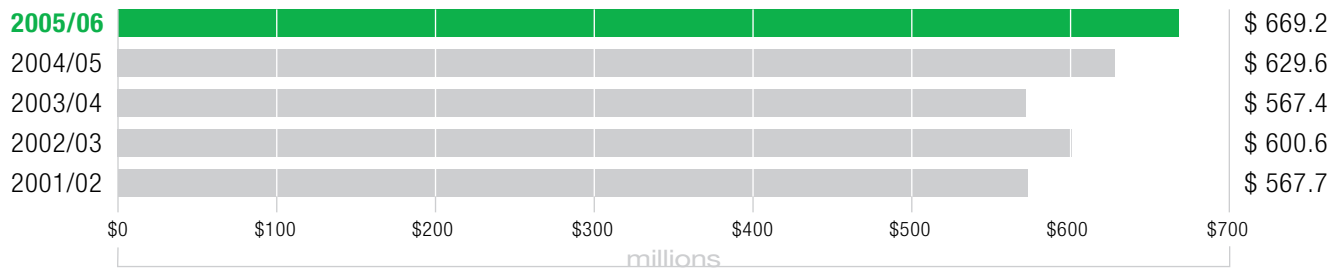
# Highlights



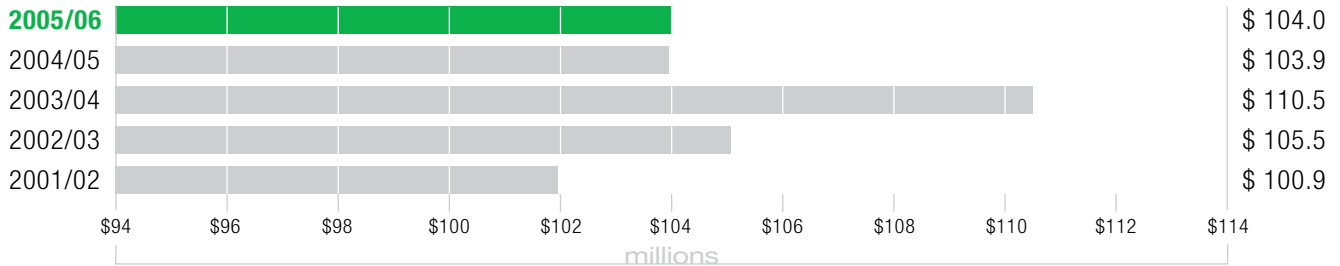
## Net Income



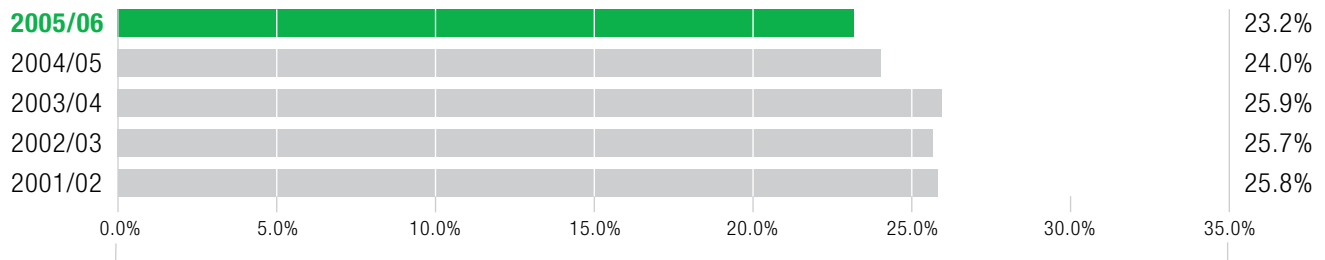
## Revenue



## Operating Expenses

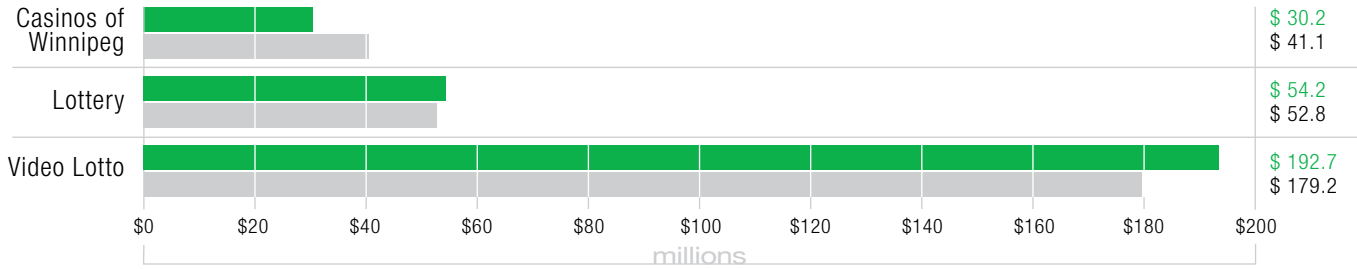


## Operating Expenses as a % of Net Revenue\*

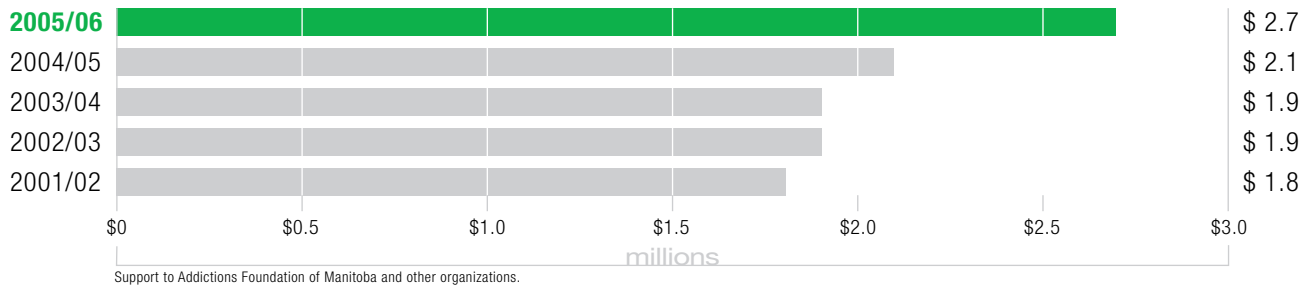


\* REVENUE NET OF COST OF SALES

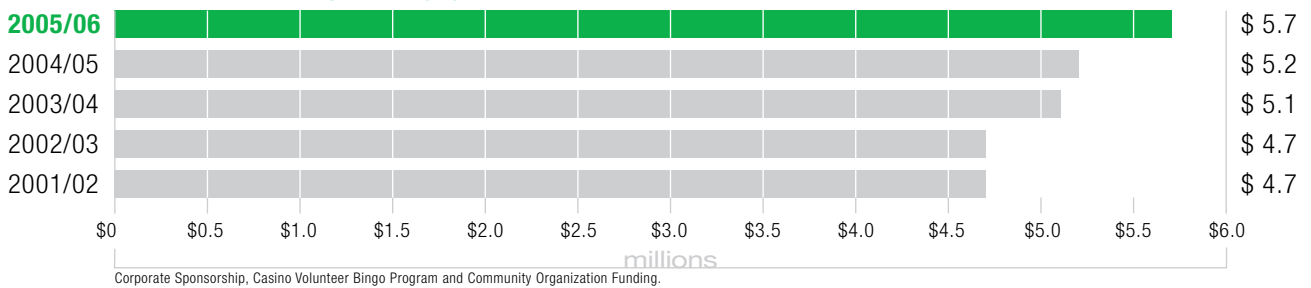
## Net Income by Product Segment



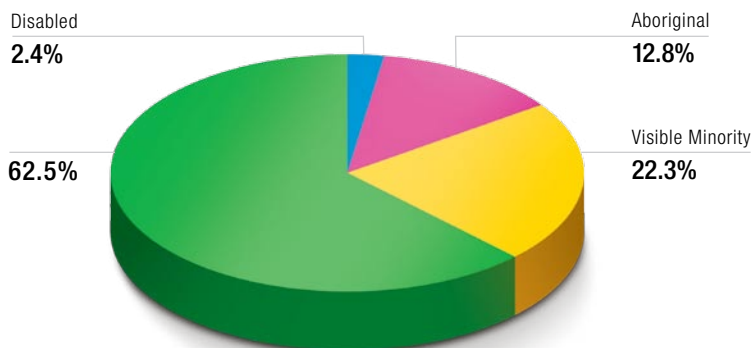
## Responsible Gaming



## Community Support



## Equity Participation Rates



## Gender Comparison

