



2014/2015 Annual Report **Making an Impact.**



# LETTER OF TRANSMISSION

Honourable Ron Lemieux  
Minister responsible for the  
Manitoba Liquor and Lotteries Corporation  
Room 203, Legislative Building  
450 Broadway  
Winnipeg, MB R3C 0V8

September 22, 2015

Dear Honourable Minister:

I have the honour to present you with the annual report of the Manitoba Liquor and Lotteries Corporation for the fiscal year ended March 31, 2015.

Respectfully submitted,  
Tannis Mindell  
Chair, Board of Directors

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## Making an Impact.

Manitoba Liquor & Lotteries is proud to play a leading role in the social and economic growth of our province. From creating jobs to enhancing our cultural scene, we touch Manitoba communities on a daily basis. Watch for this handprint throughout the report to see what we mean.

## ABOUT US

Manitoba Liquor & Lotteries operates all Liquor Mart and Liquor Mart Express stores, Club Regent Casino, McPhillips Station Casino, Video Lotto, and [PlayNow.com](http://PlayNow.com). We distribute and sell beverage alcohol and are the exclusive supplier of breakopen tickets plus bingo paper in Manitoba. We also distribute and sell tickets for lotteries operated by the Western Canada Lottery Corporation and the Interprovincial Lottery Corporation.

## STRATEGIC DIRECTION

### 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.

### STRATEGIC PILLARS

#### **Customers**

Maintaining satisfied customers and increasing our customer base.

#### **Effectiveness**

Delivering profitable growth and quality products while embracing innovation.

#### **Responsibility**

Committed to business integrity, community investment, environmental sustainability practices, and encouraging the responsible use of our products and services.

#### **Employees**

Building a new shared culture with an engaged and diverse workforce that is knowledgeable, in a respectful and safe workplace.

# Our Handprint on Manitoba

## ECONOMIC



**\$596M**

Allocation to the Province



**900**

Lottery retailers

**500**

Video lottery venues



**\$96.8M**

Commissions, contributions, & support for the hotel & restaurant industry

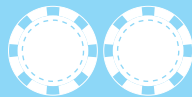
**\$50.6M**

Other VLT commissions & contributions



**3,200**

Employees



**2** Casinos



**1** Gaming centre



**431**

Private wine, beer, liquor & duty free stores

**59**

Liquor Mart & Liquor Mart Express stores

## SOCIAL



**\$11.5M**

Promoting healthy choices (funding for research, customer education, & addictions treatment)



**400**

Groups funded via bingo volunteer program



**1,395**

Youth & coaches awarded Flight Deck tickets to Winnipeg Jets, Winnipeg Blue Bomber home games



**\$9.7M**

Other community sponsorships

**33** Small Capital sponsorships



**8,664**

Volunteer hours (employees, alumni, & their family & friends)



**24**

Organizations received gently used assets



**66** Community festivals sponsored



**129** IMPACT Team community events

Some figures rounded

# Tannis Mindell

Chair,  
Board of Directors



On behalf of the Board of Directors, I am pleased to present the inaugural annual report of the Manitoba Liquor and Lotteries Corporation. The start of the 2014/15 fiscal year formally ushered in our new Crown corporation, a culmination of the dedication and input of many stakeholders as the regulatory and operating environments for gaming and alcohol were reshaped in the province.

A new streamlined organizational structure has been implemented that has reduced costs and enabled us to meet the future challenges of the liquor, gaming, and entertainment industries. The integration process has been substantially completed and employees are working together, finding synergies, savings, and efficiencies. In September 2014, an independently produced report was released by the Province that lists merger savings of over \$36 million as of March 31, 2015 including a one-time \$26.1 million pension adjustment, and annual recurrent savings of \$3.8 million.

Aspiring and established craft brewers are now better served to grow their local businesses thanks to the Supporting Manitoba-based Craft Brewing Industry strategy announced by the Province. Building on the highly successful growler bar pilot in autumn 2014, work began on a coordinated strategy to foster our craft beer industry and in the process, create local jobs and opportunities in the agriculture, hospitality, and tourism industries.

In terms of the business, social, and environmental values that are central to who we are as a Crown corporation, the Board of Directors has approved a three-year corporate social responsibility strategy, which will serve as a foundation for our organization. The strategy provides the framework and direction for all areas of Manitoba

Liquor and Lotteries Corporation to redefine what it means to be a consumer-focused Crown corporation with a social purpose.

In the latter half of the year Winston Hodgins stepped down as CEO, remaining President to assume responsibility for a number of important business development initiatives for the corporation. In June 2014, Mr. Hodgins received an Industry Leadership and Contribution Award at the Canadian Gaming Summit, which is a well-earned honour and one that attests to Mr. Hodgins' numerous leadership successes over the years.

Mr. Hodgins was the President & CEO of Manitoba Lotteries Corporation from 2000 to 2012 and then named President & CEO for Manitoba Liquor and Lotteries Corporation, ably leading the new organization through the first few years of the merger process. His leadership, dedication, and commitment to excellence over those 14 years was an inspiration to both the Board and the members of the executive leadership team. On behalf of the Board, I extend my sincerest appreciation to Winston for his exceptional service in those roles.

In early 2015, the Board welcomed Mr. John Stinson in the role of CEO for Manitoba Liquor and Lotteries Corporation. John is a seasoned and creative leader with experience in community engagement and consensus building and held leadership positions for two provincial health authorities the last several years. I am very pleased to be working with John, and on behalf of the Board we look forward to many years of dynamic leadership in his role at the helm of Manitoba Liquor and Lotteries Corporation.



## Winston Hodgins

President & CEO  
(to February 15, 2015)



It is a pleasure, in my final message as the former President & CEO, to report that Manitoba Liquor and Lotteries Corporation has delivered \$596 million to the Province of Manitoba in the Crown corporation's first official year of operations. This represents six percent growth when compared with the combined results of Manitoba Lotteries Corporation and the Manitoba Liquor Control Commission in 2013/14.

I am also proud to note that the Club Regent Event Centre opened near the start of the fiscal year and performed very well during its debut. We welcomed over 60 concerts, banquets, and private events that in total drew approximately 54,000 people to this beautiful venue. The pride that our employees have in welcoming guests and hosting special events at the Club Regent Event Centre is satisfying to witness because it is their hard work and dedication to customer service excellence that makes these occasions truly shine.

It is also worth noting that during its construction, the Club Regent Event Centre and associated amenities contributed to the over 435-person years of employment across approximately 40 trades that will be realized during Club Regent's overall renewal. Projects like the Event Centre create significant economic spinoffs well before the doors open for the first guest.

Manitobans are experiencing another kind of revitalization in terms of how liquor is available to consumers. Additional Liquor Mart Express locations were created bringing the total number of these convenient shopping options to six locations in Winnipeg and

Brandon. Additionally, many existing Liquor Marts underwent major renovations or re-openings, with Northdale Liquor Mart welcoming a second Bottle & Cork facility to our retail offerings.

There is no doubt that public interest was high with respect to the pilot of beer growlers in Manitoba this past fiscal year. These refillable beer containers were introduced in autumn 2014 and resonated with Manitobans keen for another means to explore the world of craft beers and bring home the freshest product possible. Sales of growlers far exceeded expectations and it is safe to say that beer enthusiasts can look forward to even greater growler selection and availability in the future.

In closing, I would like to sincerely thank my executive team for their individual and combined accomplishments over the years as we worked diligently to make a positive contribution to the communities within Manitoba. Further, I would like to thank the Board of Directors for their support and advice. I have found it rewarding to work with our various stakeholders and to learn and share knowledge along the way.

It has also been my genuine pleasure to work with the thousands of committed and passionate people that make up Manitoba Liquor and Lotteries Corporation and to see our corporate vision come alive daily. I thank all of the highly talented and dedicated staff, past and present, who together have delivered – and continue to deliver – exceptional service to our customers all while supporting our communities.



## John Stinson

Chief Executive Officer  
(as of February 16, 2015)



It is my pleasure to take this opportunity to formally introduce myself to my fellow Manitobans as the new Chief Executive Officer of the Manitoba Liquor and Lotteries Corporation. I started my new role in mid-February 2015 after spending the last 30 years working in health care in a variety of roles ranging from community outreach and HIV/AIDS program development to being an Assistant Deputy Minister and the CEO of two regional health authorities. These roles have given me a strong foundation in managing complex organizations, engaging diverse stakeholders, and encouraging strong and often opposing views to focus on what they have in common so that pragmatic and sustainable solutions can be found.

Job number one for the CEO of Manitoba Liquor and Lotteries Corporation is to create a business environment where liquor and gaming operations in Manitoba can grow responsibly so that the net revenue generated continues to support programs and initiatives in health care, education, infrastructure, social services, and economic development across our great province. To complement this, it is also my job to build on the corporation's existing management and operations foundation to facilitate the development of a renewed corporate culture that is framed within the principles of progressive retail practice, empowering our dedicated and customer service oriented work force, ensuring accountability for all our business endeavours, and promoting corporate transparency. To this end:

- Manitoba Liquor & Lotteries will always pursue the best business practices to seek retail growth opportunities that are based on data and evidence.

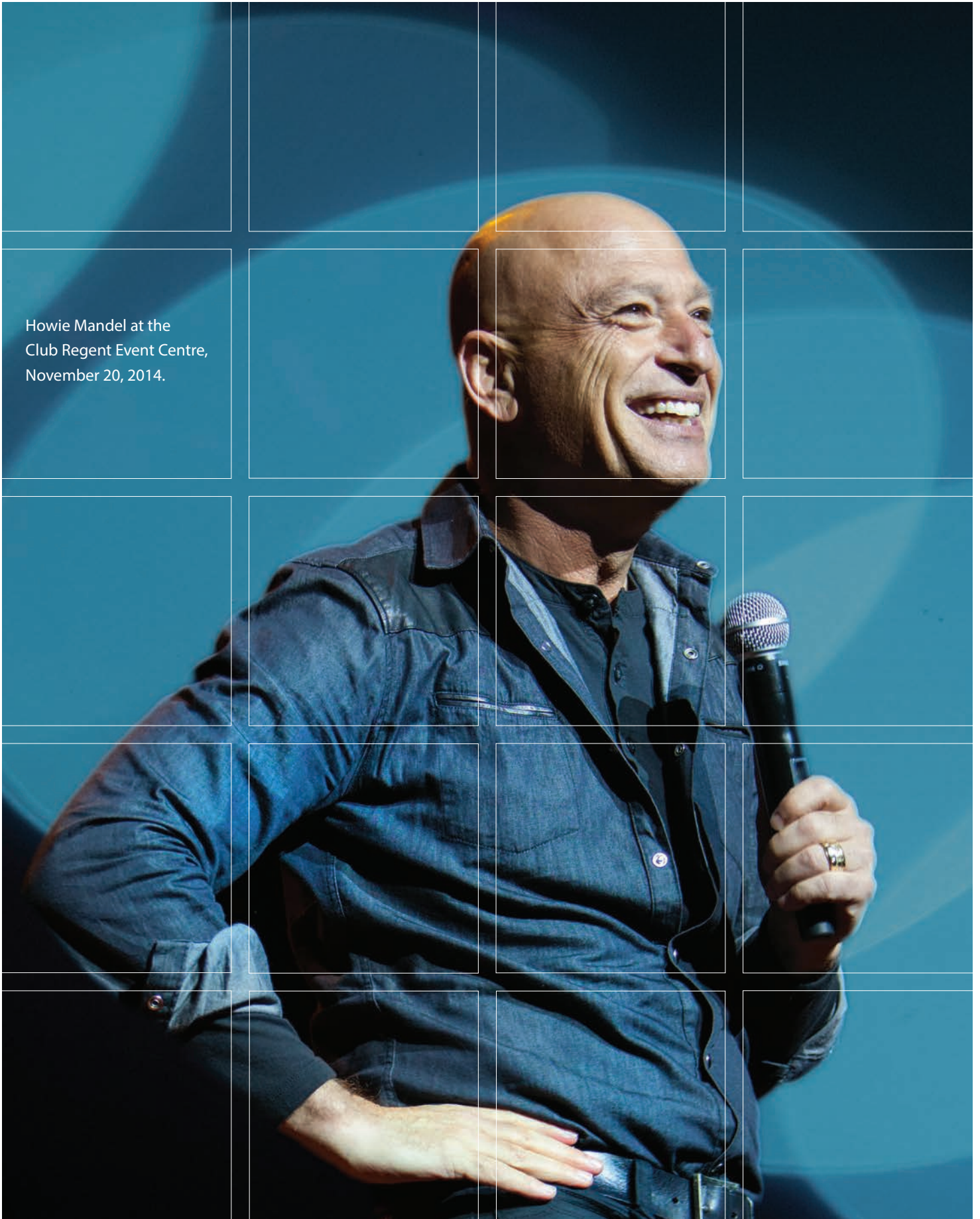
- Manitoba Liquor & Lotteries is committed to effective communication with all our stakeholders including customers, business partners, community partners, government, and our staff.
- Manitoba Liquor & Lotteries encourages all of our employees to be ambassadors for the corporation. We hold ourselves accountable to the highest standards of customer service and social responsibility, including supporting organizations and agencies that are best positioned to assist those who live with problem gambling or problem drinking challenges.
- Manitoba Liquor & Lotteries values the importance of being as transparent as possible and we will share all information related to our programs, initiatives, and projects as soon as that information can be shared.

Our organization has gone through considerable changes since the merger of liquor and lottery was announced in 2012 and I look forward to helping guide us through the remainder of our merger journey and to developing an ongoing business culture that is change savvy. Change, as so many experts continue to point out, is now the one constant you can count on in the business world. As Charles Darwin said:

*It is not the strongest of the species that survives, nor the most intelligent that survives.*

*It is the one that is most adaptable to change.*

Howie Mandel at the  
Club Regent Event Centre,  
November 20, 2014.





# Making an Impact.

## CUSTOMERS

### LIQUOR MART

Several Liquor Mart locations were renovated, built or expanded this year, including in Steinbach, Minnedosa, and Winnipeg's Spring Meadow Square. Winnipeg's Northdale location was also fully renovated and added a Bottle & Cork facility. Construction on Sage Creek Village Centre began late in the year and is scheduled to open in June 2015.

### LIQUOR MART EXPRESS

Liquor Mart Express stores, introduced in late 2011, are smaller retail locations that offer enhanced customer convenience. Liquor Mart Express stores carry some of the most popular selling wines, spirits, and beers in the province and are located to provide enhanced customer convenience.

This year, Liquor Mart Express stores opened at the Gateway Superstore and at the Sargent Avenue Superstore. These new Winnipeg stores are the fifth and sixth Liquor Mart Express locations to open in the province, in addition to those at the Winnipeg James A. Richardson International Airport, the Pembina Village Safeway in Winnipeg, the Brandon West End Sobeys, and Park West Shopping Centre in Charleswood.

Two stores are scheduled to open in fiscal 2015/16, one within the Safeway at the corner of McPhillips and Jefferson in Winnipeg, and the other within the Sobeys at Reenders Avenue in Winnipeg. An additional two city locations are in the planning stage.



#### Impact:

- Creation of rural jobs
- Increased selection for consumers
- Support for local breweries

### GROWLER BAR PILOT

Popularity in craft beer is growing rapidly in Manitoba and we're doing our part to support local innovation and foster new start-ups. A six-month pilot project introduced refillable "growler" bottles to select Liquor Marts (Kenaston Crossing, St. Vital Square, Northdale Shopping Centre, Spring Meadow Square, and Brandon Victoria) and beer vendor locations (Assiniboine Gordon Inn and Keystone Motor Inn). Beer at the growler stations featured two Winnipeg-based breweries. Sales exceeded expectations and we look forward to expanding the program further.

### CASINOS OF WINNIPEG

The Club Regent Event Centre proved highly popular in its first year of operation with an expanded range of entertainment including comedians such as Howie Mandel, Lewis Black, and Trailer Park Boys. We continued our partnership with the Winnipeg Symphony Orchestra, hosting them onstage alongside Lea Salonga, The Midtown Men, and others. The Club Regent Event Centre also welcomed the Western Canadian Music Awards, the World Trade Centre Winnipeg conference, and the inaugural Centrallia Manitoba.

Local flavour has made its way onto the slots floor at the Casinos of Winnipeg with the introduction of our very own River City Gold mystery progressive. An instant favourite of locals and visitors alike, River City Gold features videos and images of our province. This is our first self-branded mystery progressive, offering patrons a truly unique playing experience while reducing our cost of traditional leased games.



Sheila Nash, Product Ambassador

Finding River City Gold or any other game on our always-changing gaming floor has become easier thanks to new touch-screen kiosks. These displays help guests quickly identify new and favourite games that may have moved since their last visit.

Club Card members discovered great new membership benefits including concert pre-sale opportunities for the hottest shows at the Club Regent Event Centre. Members who connect with us by email

receive monthly concert announcements, ensuring they do not miss out on their favourite performers. Members and non-members alike have shown great enthusiasm for our various in-casino promotions that include free entertainment, giveaways, and more.

#### VIDEO LOTTO

Our third-generation Video Lottery Terminal (VLT) network offers a broad variety of game titles. New ones arrive every year on all VLTs, and we saw the introduction of several titles beginning in January 2015, through to the start of the new fiscal year. Based on player feedback we shifted our terminal mix in favour of the most popular version in order to meet consumer demand. And as part of the continuing process of enhancing our focus on customer experience, the hours of operation for VLTs were aligned with liquor service hours.

#### LOTTERY

Lottery players have more time to consider their ticket selections thanks to a simple new addition to the lottery retail environment. Vertical merchandising displays positioned near some checkouts allow players to see current games at a glance, even while they are waiting in line. This customer-friendly display speeds up service by giving people time to make their product choices in advance. As always, lottery ticket centre clerks are well trained to provide friendly and knowledgeable service.

#### [PLAYNOW.COM](http://PLAYNOW.COM)

The classic game of bingo arrived on [PlayNow.com](http://PlayNow.com) in May 2014 with two exciting virtual rooms. The Stardust Room brings together players from Manitoba and British Columbia, and the Coast to Coast Room adds Quebec to the mix.

Almost 200 other games are available on [PlayNow.com](http://PlayNow.com), which overall saw an increase in registered players during the year.

#### SHARK CLUB GAMING CENTRE

The Shark Club Gaming Centre offers a mix of table games and slots adjacent to a lounge and restaurant. We are pleased to be supporters of the Sports, Hospitality and Entertainment District by complementing other activities in the heart of Winnipeg, in part by establishing a stay-and-play promotion with participating downtown hotels as another reason to visit and enjoy Winnipeg's downtown hospitality offerings.



**692** Products discontinued

**717** Products added

**4,325** Total listings

913 Spirits

2,344 Wine

97 Refreshment Beverages

971 Beer



Kelly Berehulka,  
Senior Manager, Entertainment

## EFFECTIVENESS

### LIQUOR PRODUCT EDUCATION

Nearly 3,000 people attended 84 different product tasting and education sessions including wine appreciation, spirits and beer seminars, and food pairing events. Winnipeg events took place at the Madison Square and Grant Park Liquor Marts, and the Tasting Room at our Buffalo Place office. Rural courses were held in various locations.

Liquor Mart employees are trained to be knowledgeable in all product areas. A basic Product Knowledge Course and a Higher Certificate Course were among 23 sessions offered to staff. Employees also gained access to over 30 *Liquor Logic* video vignettes, a new online education tool.

*Great Tastes of Manitoba*, the top-rated cooking show in Manitoba, continued to be sponsored by Manitoba Liquor Marts and featured our own product experts recommending beverage pairings. Liquor

Marts also launched a new awareness program that helps customers identify products suitable to a particular season. The program included *Satisfying Your Thirst for Summer*, *Look What the Harvest Brought In*, and *Your Holiday List Ends Here*.

### CASINO RESTAURANTS

Quarterly promotional menus provided variety for our loyal casino patrons this year. Guests are trending towards à la carte dining and so our restaurants have responded with enhanced menu offerings. We source local ingredients for our food service operations in support of our regional producers, and we've now begun to make this a priority in our food supplier contracts.

These new and exciting dining options were balanced against several new tools to drive efficiency and savings in our Food and Beverage department. An electronic scheduling and reporting system is optimizing our workforce time and productivity based on detailed

#### Impact:

- Urban and rural access to product education
- Support of local food producers





restaurant traffic forecasts throughout each day. Liquor & Lotteries works with its contracted supplier in controlling raw product costs and tracking market fluctuations. Electronic management of recipes and associated costs help us deliver the best possible menu at the best possible prices.

### TOURISM AND LOCAL COMMERCE

Many of the events, sponsorships, and partnerships that we engage in are directly beneficial to Manitoba's tourism industry. Similarly our venues, including the new Club Regent Event Centre, support the province's ability to draw leisure and business travelers. To this end, we work in a deliberate and collaborative fashion with the business community.

We're a partner of Travel Manitoba's Invest in Tourism program, supporting their national and international marketing plans including the *Manitoba, Canada's Heart...Beats* campaign. In the capital region, Liquor & Lotteries is helping to bring meetings and conventions to Winnipeg through our association with Team Winnipeg, as part of our sponsorship of Tourism Winnipeg.

This committee focuses on encouraging out-of-province businesses and associations to host their meetings in the city.

And we support the growth of the Winnipeg Chamber of Commerce by participating in the Chamber's Ambassador program, which hosts events that introduce potential members to the benefits of joining.

#### Impact:

- Promoted Winnipeg and Manitoba internationally
- Helped position Winnipeg as a business destination
- Strengthened local business community



The new GameSense Information Centre, Club Regent Casino.



Ben Rusch, Manager, Product Education

## RESPONSIBILITY

We work with our customers and business partners to inspire healthy choices around liquor and gambling and to realize the many benefits that result from the sale of our products. A new three-year corporate social responsibility strategy identifies practices and initiatives our company will undertake and further integrates the company's

business values with social and environmental values. The 2015-2018 CSR Strategy outlines eleven goals across six areas: governance, environment, employees, community, customers, and industry. Within each of these areas are a multitude of initiatives to deliver measurable results.



Photo: Reid Valmestad

Manitoba Liquor & Lotteries Folklorama Kick-Off Event, The Forks.

**HEALTHY CHOICES**

Club Regent Casino’s Responsible Gaming Information Centre has been given a new permanent home and increased visibility as the GameSense Info Centre. This welcoming space is located adjacent to the gaming floor and close to both casino main entrances. Friendly, knowledgeable staff from service provider Morneau Shepell at the GameSense Info Centre help our guests understand how gambling works, and how to keep it a game.

Manitoba has been a leader nationally and internationally in Fetal Alcohol Spectrum Disorder (FASD) research and diagnosis for several years. In 2014 we announced new funding of \$1.35 million over three years for research on FASD conducted by the Canada-Israel

Fetal Alcohol Consortium, which is affiliated with the University of Manitoba.

The research will analyze links between genetics, nutrition, and socioeconomic risk factors to increase our understanding of FASD in order to inform prevention strategies, and to discover new tools for diagnosis and early intervention.

The Manitoba Gambling Research Program funds relevant research to inform responsible gambling programs and problem gambling prevention and treatment. The program also builds gambling research capacity in the province by supporting the work of local

**Impact:**

- Enabled local researchers to expand work on FASD
- Provided information to customers to support healthy choices
- Enhanced local research capacity in gaming-related topics





researchers and students. Now in its fourth year, the program has made almost \$2 million in awards to researchers.

For those who have chosen to take a break from gambling, our Voluntary Self-Exclusion Program can be an important first step. Enrollment is offered through several convenient channels. Ending a voluntary self-exclusion requires several steps, including the completion of an educational course. We have extended this course beyond the in-person session and now offer an online version, providing access for anyone, anywhere, at any time.

To help counter underage drinking we train all Liquor Mart employees to ask for proof of age from customers who appear under 25 years of age. Professional shoppers visit store locations and if a Liquor Mart does not achieve a perfect compliance score, staff retraining occurs.

#### **ECONOMIC PROSPERITY**

A new province-wide Small Capital Sponsorship program has been added to our portfolio of community-focused initiatives. Small Capital Sponsorships provide support to charitable and nonprofit organizations for projects that focus on benefiting the community through sustainable growth, healthy lifestyles, access to arts and culture, and more. This year alone, more than 30 projects have been sponsored with values ranging from \$2,500 to \$25,000 with a total of \$500,000 per year available within the program.

Our highly successful partnership with Habitat for Humanity, the Manitoba Liquor & Lotteries Legacy Build Program, has helped to build over 60 homes in the province to date. We've renewed our commitment to this program for another five years.

Through our Asset Donation Program, we donate functioning used equipment as well as our time and expertise to community organizations with specific needs. This year, we worked with Marymount, Siloam Mission, Teen Stop Jeunesse, and ComSpan to supply and install video camera and security equipment in support of their safety and security needs.

In 2014, we were literally centre stage for Manitoba's Year of Music, hosting the Western Canadian Music Awards, Juno Awards, and Break Out West. The Club Regent Event Centre opened in time to play a leading role in this provincial celebration of musical arts.

#### **Impact:**

"The Small Capital Sponsorship Program from Manitoba Liquor & Lotteries has saved curling in our community. The program was timely and allowed us to complete needed capital upgrades required to provide artificial ice at the curling club. These upgrades allowed the Teulon Curling Club to celebrate its 90th anniversary this past season and we are looking forward to the coming 100th."

- Chris Hornby, Recreation Director for Teulon Rockwood Recreation Commission

People are increasingly aware of the benefits of shopping for local, fair trade, and organic products. We support all of these consumer choices in various ways throughout our business. In our casino restaurants, local and sustainable options are used whenever possible – from wine and coffee to meat and seafood. At Liquor Marts, organic and fair trade wines are highlighted through specific shelf labeling.

#### **Impact:**

- Funded community projects throughout Manitoba
- Supported non profits through asset donations
- Enhanced cultural scene in Manitoba





**Impact:**

- Ethical and environmentally responsible supply chains
- Reduced costs while improving environmental impact
- Improved safety for staff

**ENVIRONMENTAL INNOVATION**

As a large organization we conduct business with a considerable number of suppliers and vendors, extending our environmental footprint along the value chain. That’s why we have added a supplier code of conduct into our procurement processes. The code sets out the ethical performance expectations for our goods and services suppliers. The goal is to ensure that certain standards are met in terms of health, safety, labour, environment, and other ethical considerations.

With their many restaurants, lounges, and services, casinos have a high environmental impact. So we have continued our firm commitment towards waste reduction including composting and the recycling of metals, paper, plastics, tin, cardboard, light bulbs, electronics, and cooking oil. These efforts extend into our corporate offices where composting and recycling are also offered.

Opportunities for environmental savings also exist within our retail operations. A pilot was run to assess the benefits of centralizing the collection and management of cardboard packaging from Winnipeg Liquor Marts. The pilot showed reduced service costs and increased value for this recyclable commodity. As a result, activities are underway to adopt this process that reflects yet another win-win in terms of business practices that create environmental and economic savings.

A GPS fleet vehicle tracking solution was implemented that helps ensure employee safety, enabling safety services to be quickly summoned in case of an accident. Additionally, the GPS system allows us to manage sustainability by measuring such behaviours as speeding, excessive idling, and hard braking that result in increased fuel consumption and greenhouse gas emissions.

**Impact:**

- Improved the work lives of employees
- Increased knowledge and capabilities for staff
- Two lives saved due to training and professionalism



**EMPLOYEES**

Manitoba Liquor & Lotteries has successfully updated and combined several major employee programs and practices as a result of our merger. This effort has led to increased employee engagement and efficiencies, and has earned our new corporation the honour of being one of Manitoba’s Top Employers as featured in the *Winnipeg Free Press*.

A revamped employee reward and recognition program engages and recognizes staff throughout all of our operations. It focuses on areas such as safety, innovation, customer service, volunteerism, and social responsibility. Other systems that were updated include an online performance management system, our safety and health program, recruitment and staffing practices, and a new employee and family assistance program available 24/7.

We continue to be an organization committed to investing in our employees through their development with the ultimate goal of enhancing the customer experience. This past year saw a wide range of training programs for our staff delivered in classroom settings or as online courses. They include, among others, security training, product knowledge sessions, leadership development, and a personal privacy program for staff who are required to manage customer and employee information.

This year, eight casino security officers received resuscitation awards from Heart & Stroke Manitoba for their rapid response to customers during two incidents at Club Regent Casino. Both customers received life-saving care from our staff thanks to rigorous training and top-notch professionalism under high-stress situations.



**51.3%**

Women

**13.0%**

Visible Minority

**6.8%**

Aboriginal

**2.4%**

Persons with Disabilities



## Board of Directors



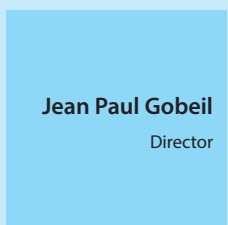
**Tannis Mindell**  
Chair



**Leslie Turnbull**  
Vice-Chair



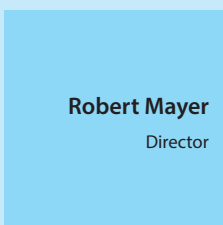
**Fran Frederickson**  
Director



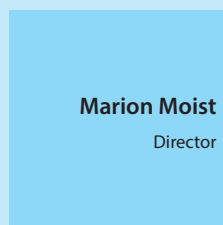
**Jean Paul Gobeil**  
Director



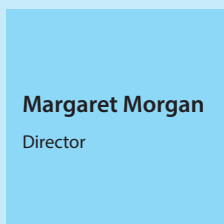
**Robert Mayer**  
Director



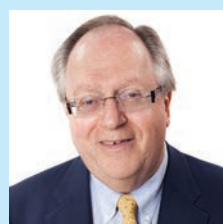
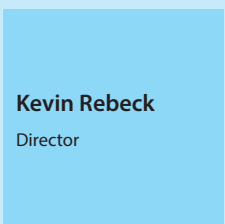
**Marion Moist**  
Director



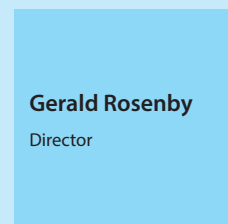
**Margaret Morgan**  
Director



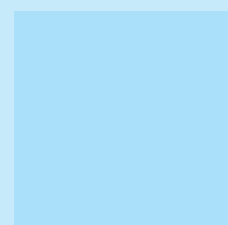
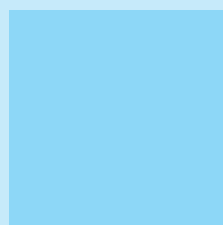
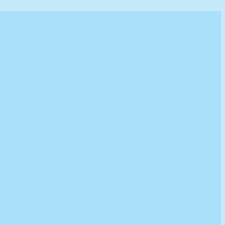
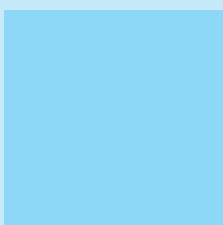
**Kevin Rebeck**  
Director



**Gerald Rosenby**  
Director



**Dave Schioler**  
Director

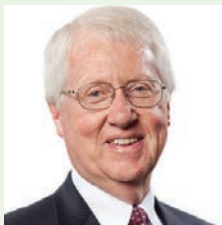


## Executive Management



**John Stinson**

Chief Executive Officer  
(as of February 16,  
2015)



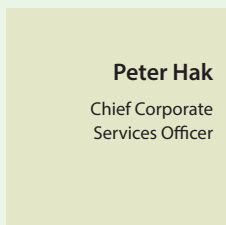
**Winston Hodgins**

President & CEO  
(to February 15, 2015)



**Tracy Graham**

Chief Financial Officer



**Peter Hak**

Chief Corporate  
Services Officer



**Larry Wandowich**

Chief Community  
Relations &  
Marketing Officer



**Robert Holmberg**

Vice President,  
Liquor Operations



**Susan Olynik**

Vice President, Corporate  
Communications & Social  
Responsibility



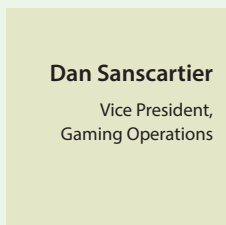
**Wayne Perfumo**

Vice President,  
Entertainment  
& Hospitality



**Marilyn Robinson**

Vice President,  
Integration



**Dan Sanscartier**

Vice President,  
Gaming Operations



**Signy Shaw**

Senior Executive  
Director, Internal Audit &  
Corporate Compliance



# Management Discussion and Analysis

of Financial Condition and Results of Operations

As at March 31, 2015



The Management Discussion and Analysis reviews the consolidated financial results of the operation of Manitoba Liquor & Lotteries for the fiscal year ended March 31, 2015. This report should be read in conjunction with Manitoba Liquor & 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 Liquor & Lotteries.



## OVERVIEW AND RESULTS OF OPERATIONS

Manitoba Liquor & Lotteries strives to exceed customer expectations through the innovative and socially responsible delivery of quality products and entertainment.

In its first year as a merged entity, Manitoba Liquor &

Lotteries continued the efforts of its predecessor organizations in focusing on activities to support future growth. In 2014/15, the Club Regent Event Centre opened its doors as efforts continue to present the casinos as a total entertainment destination. Gaming operations were enhanced as the first full year of operations of the upgraded VLT network has brought new games to VLT customers, and the addition of new online gaming offerings through the [PlayNow.com](http://PlayNow.com) site now provides Manitoba players the opportunity to access the full suite of available online gaming products.

Liquor operations expanded with the opening and renovation of several Liquor Mart and Liquor Mart Express locations and the introduction of the growler bar pilot program at four Liquor Marts and one beer vendor location in Winnipeg, and one Liquor Mart and one beer vendor location in Brandon.

In the 2014/15 year, Manitoba Liquor & Lotteries' allocation to the Province of Manitoba was \$596.0 million, an increase of \$33.9 million or 6.0% as compared to the 2013/14 allocation to the Province of Manitoba of \$562.1 million.

The four operating segments of Manitoba Liquor & Lotteries are Casinos, Liquor Operations, Lottery, and Video Lotto. In accordance with International Financial Reporting Standards (IFRS), Manitoba Liquor & 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.



For reporting purposes within the management discussion and analysis, the administrative costs associated with corporate support services – including human resources, finance,



## Management Discussion and Analysis

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As at March 31, 2015

marketing, facilities, technology, audit, security, corporate communications, and social responsibility – have been allocated to each of the operating segments.

Comparative operating segment allocations have been reclassified where appropriate to best reflect the reality of the merged entity requirements. The current year settlement of pension liability is considered an item outside normal business operations and therefore has not been allocated to any operating segment.

	2015 (in thousands)					Total
	Casinos	Liquor Operations	Lottery	Video Lotto	Settlement of Pension Liability	
Revenue	\$ 228,959	\$ 722,123	\$ 2,433	\$ 323,489		\$ 1,277,004
Cost of sales	15,460	347,952	1,068	31,401		395,881
	<b>213,499</b>	<b>374,171</b>	<b>1,365</b>	<b>292,088</b>	<b>-</b>	<b>881,123</b>
Operating expenses	111,249	79,319	8,712	22,632		221,912
Depreciation and amortization	23,327	5,016	-	18,873		47,216
Goods and Services Tax	975	-	78	2,332		3,385
	<b>135,551</b>	<b>84,335</b>	<b>8,790</b>	<b>43,837</b>	<b>-</b>	<b>272,513</b>
<b>Operating Income</b>	<b>77,948</b>	<b>289,836</b>	<b>(7,425)</b>	<b>248,251</b>	<b>-</b>	<b>608,610</b>
Share of profit of Western Canada Lottery Corporation	-	-	56,808	-		56,808
Interest expense on long-term debt	(6,287)	-	(141)	(3,646)		(10,074)
Interest income	393	67	10	362		832
<b>Income Before Allocations and Payments</b>	<b>72,054</b>	<b>289,903</b>	<b>49,252</b>	<b>244,967</b>	<b>-</b>	<b>656,176</b>
Allocation and payments	6,702	8,128	795	70,011		85,636
<b>Net Income Before Settlement of Pension Liability</b>	<b>65,352</b>	<b>281,775</b>	<b>48,457</b>	<b>174,956</b>	<b>-</b>	<b>570,540</b>
Settlement of pension liability	-	-	-	-	26,121	26,121
<b>Net Income</b>	<b>65,352</b>	<b>281,775</b>	<b>48,457</b>	<b>174,956</b>	<b>26,121</b>	<b>596,661</b>
Other comprehensive income (loss)	(432)	(171)	(25)	(55)		(683)
<b>Total Comprehensive Income and Allocation to the Province of Manitoba</b>	<b>\$ 64,920</b>	<b>\$ 281,604</b>	<b>\$ 48,432</b>	<b>\$ 174,901</b>	<b>\$ 26,121</b>	<b>\$ 595,978</b>

## Management Discussion and Analysis

of Financial Condition and Results of Operations

As at March 31, 2015

	2014 (in thousands)				
	Casinos	Liquor Operations	Lottery	Video Lotto	Total
Revenue	\$ 225,516	\$ 696,219	\$ 2,713	\$ 309,270	\$ 1,233,718
Cost of sales	13,315	334,374	1,248	30,568	379,505
	<b>212,201</b>	<b>361,845</b>	<b>1,465</b>	<b>278,702</b>	<b>854,213</b>
Operating expenses	103,400	74,905	9,950	27,198	215,453
Depreciation and amortization	22,492	4,999	-	18,839	46,330
Goods and Services Tax	1,701	-	196	2,869	4,766
	<b>127,593</b>	<b>79,904</b>	<b>10,146</b>	<b>48,906</b>	<b>266,549</b>
<b>Operating Income</b>	<b>84,608</b>	<b>281,941</b>	<b>(8,681)</b>	<b>229,796</b>	<b>587,664</b>
Share of profit of Western Canada Lottery Corporation	-	-	61,674	-	61,674
Interest expense on long-term debt	(5,539)	-	(150)	(2,973)	(8,662)
Interest income	68	51	11	374	504
	<b>79,137</b>	<b>281,992</b>	<b>52,854</b>	<b>227,197</b>	<b>641,180</b>
Income Before Allocations and Payments					
Allocation and payments	6,929	5,625	841	72,811	86,206
	<b>72,208</b>	<b>276,367</b>	<b>52,013</b>	<b>154,386</b>	<b>554,974</b>
<b>Net Income</b>					
Other comprehensive income (loss)	(432)	7,720	(37)	(80)	7,171
<b>Total Comprehensive Income and Allocation to the Province of Manitoba</b>	<b>\$ 71,776</b>	<b>\$ 284,087</b>	<b>\$ 51,976</b>	<b>\$ 154,306</b>	<b>\$ 562,145</b>

Revenue of \$1,277.0 million increased \$43.3 million or 3.5% from the previous year's revenue of \$1,233.7 million. Casino revenues increased \$3.5 million over last year due to increased play on the [PlayNow.com](http://PlayNow.com) online gaming site and higher entertainment & hospitality revenues with the opening of the Club Regent Event Centre in May 2014. Liquor operations revenues increased \$25.9 million over last year due to increased volume sales in the spirits, wine, and refreshment beverages categories. Continued focus on promoting premium-priced and innovative new products has resulted in overall product sales revenue increases exceeding volume growth in all product categories. Video Lotto revenues increased \$14.2 million during the first full year of operation on the upgraded VLT network as new and improved game offerings and the installation of additional machines have received customer acceptance.

Revenue, net of cost of sales in 2014/15 was \$881.1 million compared to \$854.2 million in the previous year, an increase of \$26.9 million. Operating expenses of \$221.9 million were \$6.4 million greater than the previous year's \$215.5 million, and include payroll and other costs directly related to the generation of liquor, gaming, and lottery revenues. The increase in operating expenses is primarily a result of increases in salaries and benefits under the collective agreements, increased marketing and public awareness costs to support initiatives launched in the year such as the Club Regent Event Centre, new offerings on [PlayNow.com](http://PlayNow.com), and the growler bars at the Liquor Mart locations, and costs to support Liquor Mart store development. The majority of other operating expenses were carefully managed to maintain levels consistent with the prior year.

## Management Discussion and Analysis

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Depreciation and amortization of \$47.2 million in the 2014/15 year increased \$0.9 million from the \$46.3 million recorded in 2013/14. The increase was primarily a result of capital investment into property and equipment over the preceding years to enhance the overall customer experience including the upgraded VLT network, the introduction of the [PlayNow.com](http://PlayNow.com) online gaming site, the newly opened Club Regent Event Centre, ongoing renewal of the two casino properties, as well as the opening of new Liquor Mart and Liquor Mart Express locations.

### CASINOS

Manitoba Liquor & Lotteries owns and operates two casinos in the city of Winnipeg - Club Regent Casino and McPhillips Station Casino. In addition, Manitoba Liquor & Lotteries provides Manitoba players with online gaming through the [PlayNow.com](http://PlayNow.com) site. [PlayNow.com](http://PlayNow.com) is the province's only regulated site for online gaming and offers customers a safe and reputable site featuring extensive responsible gaming measures. The online platform was developed by British Columbia Lottery Corporation (BCLC) and Manitoba Liquor & Lotteries has partnered with BCLC to provide Manitoba players casino games, lottery products, bingo, poker, and live sports betting opportunities.

Casino operations, which include the results of online gaming, generated revenues of \$229.0 million in the 2014/15 year, an increase of \$3.5 million or 1.6% from the revenues of \$225.5 million of the previous year.

Casino comprehensive income of \$64.9 million decreased from the previous year's comprehensive income of \$71.8 million by \$6.9 million or 9.6%. Increased operating expenses were directly related to Manitoba Liquor & Lotteries' continued focus on efforts to be seen as a total entertainment destination. On the gaming side, these efforts include regularly improving gaming offerings by updating certain games and by introducing new games, both at the casino locations as well as through the [PlayNow.com](http://PlayNow.com) gaming site. In addition to the gaming offerings, Manitoba Liquor & Lotteries strives to provide premier hospitality and entertainment services at its casinos through food and beverage offerings to meet the varied appetites of customers and through entertainment offerings at the multiple venues found at both properties. The most recent

enhancement to these services was the opening of the Club Regent Event Centre which has state-of-the-art technology, lighting, and sound; and offers not only a unique concert experience, but also opportunities for banquets, meetings, and special events.

Casinos	Payout Percentage Based on Dollars Won and Played (in millions)	
Dollars Deposited	\$ 1,239	
Dollars Played		\$ 2,290
Dollars Won		\$ 2,105
Dollars Cashed Out	\$ 1,054	
Revenue	\$ 185	\$ 185
Dollars Won (Prizes)	\$ 2,105	} 91.9%
Dollars Played	\$ 2,290	

### LIQUOR OPERATIONS

Manitoba Liquor & Lotteries is mandated with distributing and selling beverage alcohol in the Province of Manitoba. In addition to the Liquor Mart and Liquor Mart Express locations operated by Manitoba Liquor & Lotteries, the retail network in the province includes privately owned liquor vendors located throughout rural Manitoba, duty-free stores, privately owned beer vendors, and specialty wine stores. This model provides a balance of private and public retailers while ensuring Manitoba consumers enjoy uniform pricing throughout the province.

Liquor operations generated revenues of \$722.1 million in the 2014/15 year, an increase of \$25.9 million or 3.7% from the revenues of \$696.2 million of the previous year.

In the 2014/15 year, liquor sales and gross profit increased across all product categories. Volume sales increased in the spirits, wine, and refreshment beverages categories. Beer volumes decreased modestly when compared to last year, however, the impact on dollar sales was somewhat mitigated by increasing customer preference for premium beer options. This is being proven by the preliminary success of the in-store growler bar pilot program introduced to meet the Manitoba customer's growing appetite for craft beers.

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Liquor operations comprehensive income of \$281.6 million decreased from the previous year's comprehensive income of \$284.1 million by \$2.5 million or 0.9%. Increased operating expenses to support Liquor Mart development were consistent with Manitoba Liquor & Lotteries' commitment to providing

customers a convenient and modern shopping experience and the 2014/15 year saw increased allocations and payments to support organizations that provide research and programming promoting responsible liquor consumption.

	2015 (in thousands)				
	Beer	Refreshment Beverages	Spirits	Wine	Total
Stores	\$ 62,958	\$ 17,231	\$ 170,834	\$ 118,094	\$ 369,117
Liquor Vendors	9,168	4,024	35,391	10,872	59,455
Licensees	242,258	7,773	20,263	4,720	275,014
Specialty Wine Stores	-	23	81	16,083	16,187
<b>Total Sales</b>	<b>314,384</b>	<b>29,051</b>	<b>226,569</b>	<b>149,769</b>	<b>719,773</b>
Cost of Sales	177,065	13,725	86,671	70,241	347,702
<b>Gross Profit</b>	<b>\$ 137,319</b>	<b>\$ 15,326</b>	<b>\$ 139,898</b>	<b>\$ 79,528</b>	<b>\$ 372,071</b>

	2014 (in thousands)				
	Beer	Refreshment Beverages	Spirits	Wine	Total
Stores	\$ 59,960	\$ 15,139	\$ 166,980	\$ 110,832	\$ 352,911
Liquor Vendors	8,819	3,602	34,898	10,286	57,605
Licensees	238,193	6,007	19,766	4,655	268,621
Specialty Wine Stores	-	62	65	14,924	15,051
<b>Total Sales</b>	<b>306,972</b>	<b>24,810</b>	<b>221,709</b>	<b>140,697</b>	<b>694,188</b>
Cost of Sales	171,936	11,669	84,975	65,812	344,392
<b>Gross Profit</b>	<b>\$ 135,036</b>	<b>\$ 13,141</b>	<b>\$ 136,734</b>	<b>\$ 74,885</b>	<b>\$ 359,796</b>

	Volume Sales (in millions of litres)			
	Beer	Refreshment Beverages	Spirits	Wine
<b>2015</b>	<b>76.8</b>	<b>4.3</b>	<b>7.0</b>	<b>11.1</b>
2014	77.1	3.8	6.9	10.6
2013	80.9	3.4	7.1	10.4
2012	83.3	2.9	7.0	10.0
2011	81.0	2.7	6.9	9.7

## Management Discussion and Analysis

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### 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 Liquor & 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 Liquor & Lotteries is responsible for the development and maintenance of a retailer network of over 900 outlets across Manitoba and to market a selection of breakopen tickets through lottery retail outlets, charitable organizations, and casinos across the province. Manitoba Liquor & Lotteries also continues to be the exclusive supplier of bingo paper to Manitoba's charitable and non-profit licensed bingo operators.

In the 2014/15 year, Manitoba Liquor & Lotteries' share of the profit of WCLC of \$56.8 million decreased from the previous year's share of the profit of WCLC of \$61.7 million by \$4.9 million or 7.9%. Comprehensive income of \$48.4 million decreased from the previous year's comprehensive income of \$52.0 million by \$3.6 million or 6.9%. Sales of lottery products in the year were lower in several major categories, including LOTTO MAX, LOTTO 6/49, WESTERN MAX, and EXTRA.

### VIDEO LOTTO

Located in Morris, Manitoba, Video Lotto is responsible for the operation and maintenance of VLTs. VLTs are located at licensed beverage rooms, veterans organizations, First Nations communities, and Assiniboia Downs. The operation of VLTs contributed 29.3% of Manitoba Liquor & Lotteries' net income and provided annual commissions and contributions of \$98.7 million to all VLT siteholders who operate equipment on their premises.

#### VLT Commissions & Contributions (in millions)

	VLT Commissions & Contributions (in millions)			Total
	First Nations	City Siteholders	Rural Siteholders	
2015	46.4	28.8	23.5	98.7
2014	44.2	33.0	23.6	100.8
2013	43.5	35.9	22.6	102.0
2012	46.4	38.5	24.0	108.9
2011	46.2	38.0	23.8	108.0

Video Lotto operations generated revenue of \$323.5 million in the 2014/15 year, an increase of \$14.2 million or 4.6% from the revenue of \$309.3 million in the previous year. Comprehensive income of \$174.9 million increased \$20.6 million or 13.4% from the comprehensive income of \$154.3 million in the previous year. Customer increased awareness and acceptance of the new and improved game offerings has resulted in the increased revenues in the first full year of operations on the new VLT network. Operating expenses have decreased as the completion of the implementation of the network has resulted in a return to more stable operational requirements.

Video Lotto	Payout Percentage Based on Dollars Won and Played (in millions)	
	Dollars	Dollars
Dollars Deposited	\$ 1,524	
Dollars Played		\$ 4,576
Dollars Won		\$ 4,255
Dollars Cashed Out	\$ 1,203	
Revenue	\$ 321	\$ 321
Dollars Won (Prizes)	\$ 4,255	} 93.0%
Dollars Played	\$ 4,576	

### FIRST NATIONS CASINOS AND SHARK CLUB GAMING CENTRE

In the 2014/15 year, Manitoba Liquor & Lotteries continued to provide support to the First Nations casino operators in Manitoba. As authorized by the Gaming Agreements, all costs



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of gaming supplies are recovered on an annual basis and capital costs of gaming equipment are funded by Manitoba Liquor & Lotteries and are recovered over a five (5) year term.

During the fiscal year, Manitoba Liquor & Lotteries purchased gaming equipment in the amount of \$0.7 million for the continuation of Aseneskak Casino's slot floor refurbishment program. South Beach Casino continued their gaming floor refresh project in the 2014/15 year for which Manitoba Liquor & Lotteries purchased gaming equipment in the amount of \$0.1 million.

The third First Nations casino in Manitoba, Sand Hills Casino, opened in June 2014. Manitoba Liquor & Lotteries purchased gaming equipment in the amount of \$10.1 million required for the start-up of the new casino.

In 2013/14, the Government of Manitoba authorized the establishment of the Shark Club Gaming Centre over which Manitoba Liquor & Lotteries maintains conduct and management authority as the agent appointed to act as such for the gaming regime of the province. As authorized by the Gaming Agreement, all costs of gaming supplies are recovered on an annual basis and capital costs of gaming equipment are funded by Manitoba Liquor & Lotteries and recovered over a five (5) year term. No purchases of gaming equipment were required by the Shark Club Gaming Centre in the 2014/15 year.

### MLC HOLDINGS INC.

Manitoba Liquor & Lotteries' consolidated financial statements include the results of MLC Holdings Inc., a controlled entity established to purchase certain capital assets for lease to Manitoba Liquor & Lotteries at cost. The management and oversight of MLC Holdings Inc. is consolidated within Manitoba Liquor & Lotteries' operations and the Board reviews and approves capital purchases through the annual business planning and budget process. The 2014/15 year was a period of significant capital investment to support Manitoba Liquor & Lotteries initiatives including continued renewal activities at the two casino properties, and Liquor Mart and Liquor Mart Express store development. To support these activities, MLC Holdings Inc. acquired \$54.9 million in capital assets for lease to Manitoba Liquor & Lotteries.

### LIQUIDITY AND CAPITAL RESOURCES

Operating activities during the 2014/15 year provided Manitoba Liquor & Lotteries with \$602.6 million in cash flows compared to \$583.4 million in the previous year, an increase of \$19.2 million or 3.3%. The increase was primarily due to operating results, which increased by \$33.9 million; offset by an increase in non-cash working capital item requirements of \$8.6 million.

Manitoba Liquor & Lotteries continues to be progressive by providing proven, state-of-the-art products, services, and facilities to all customers and employees. To this end, Manitoba Liquor & Lotteries focuses on capital investments which support its vision to exceed customer expectations. This includes renovation and expansion of its Liquor Mart retail stores, renewal of the casino sites, and replacing or upgrading gaming and security equipment and technology necessary to support the business.

In order to support these goals, cash expended on property and equipment totaled \$58.5 million as compared to the \$87.1 million expended in the previous year. In addition to the regular process of upgrading existing equipment and technology to support ongoing operations, the 2014/15 year saw continued investment associated with casino construction projects as well as the opening of one new Liquor Mart and two new Liquor Mart Express locations, and the major renovation of three Liquor Mart locations.

Manitoba Liquor & Lotteries finances capital expenditures through a combination of working capital and long-term debt. All long-term debt is payable to the Province of Manitoba at rates established by the Minister of Finance at the time of issue. Borrowing is authorized under *The Manitoba Liquor and Lotteries Corporation Act* and *The Loan Act*. Manitoba Liquor & Lotteries submits annual requests for necessary borrowing authority under *The Loan Act* to fund new capital projects related to its operations as well as to provide funding to acquire capital assets related to the conduct and management agreements with the First Nations Casinos. Debt service costs on advances drawn to purchase gaming equipment for the First Nations Casinos are fully recovered over a five (5) year term, consistent with the recovery of the capital costs of the gaming equipment purchased.

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In the 2014/15 year, total proceeds of long-term debt received were \$92.9 million as compared to the \$66.2 million of proceeds received in the previous year. Of the total proceeds received, \$10.9 million was received to purchase gaming equipment for the First Nations Casinos as compared to \$2.4 million 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 2014/15 year resulted in a cash outflow of \$601.1 million compared to the previous year's \$550.2 million.

### COMMUNITY SUPPORT AND CORPORATE IMPACT

Under the Board-approved Corporate Social Responsibility (CSR) strategy, Manitoba Liquor & Lotteries embeds CSR in all processes including governance, customer engagement, social responsibility, support to communities, industry partnerships, employee engagement, and environmental innovation. The strategy recognizes corporate decisions can affect society and that Manitoba Liquor & Lotteries must continually demonstrate responsible practices in a respectful, ethical, and fully accountable manner, keeping in mind the best interest of its stakeholders.

Manitoba Liquor & Lotteries continually strives to have a positive impact on the Province of Manitoba through its initiatives, community support and commitment to social responsibility.

#### Community Support

Manitoba Liquor & Lotteries is committed to fostering partnerships that build strong, vibrant communities within the province. The community support program seeks to contribute to economic development while improving the quality of life in the workplace and in Manitoba communities.

Manitoba Liquor & Lotteries fulfills its commitment to community support in several ways. The bingo volunteer program provides just under 400 charitable and non-profit organizations the opportunity to raise funds by assisting in the bingo events held at the two Winnipeg casinos. The community relations program provides sponsorship support for events

and charitable organizations not only through funding but also through the volunteer efforts of Manitoba Liquor & Lotteries employees, alumni, family, and friends. These and other community support initiatives are supported by the dedicated team of employees who operate within the corporation.

In the 2014/15 year, Manitoba Liquor & Lotteries spent \$9.7 million on these community support initiatives, an increase of \$0.5 million or 5.4% over the \$9.2 million of the prior year.

	(in thousands)	
	2015	2014
Bingo volunteer program	\$ 3,827	\$ 3,889
Community relations program	3,808	3,458
Operating and other funding	2,039	1,888
	<b>\$ 9,674</b>	<b>\$ 9,235</b>

#### First Nations

Manitoba Liquor & Lotteries provides support to First Nations communities through VLT commissions earned and allocations of VLT revenue. First Nations VLT siteholders retain 90% of net win from the VLTs. Of that 90%, 5% represents the actual service component provided to Manitoba Liquor & Lotteries for hosting the terminals and the other 85% is provided as a contribution to promote sustainable social and economic benefits and opportunities within First Nations communities. In the 2014/15 year, this resulted in \$46.4 million in commissions and contributions paid to First Nations siteholders, an increase of \$2.2 million or 5.0% over the \$44.2 million paid in the prior year.

#### Commercial Support

In the 2014/15 year, Manitoba Liquor & Lotteries provided support to the Manitoba hotel and restaurant industry through VLT commissions and contributions and various hotel beer vendor programs and initiatives. In the 2014/15 year, this support totaled \$96.8 million, an increase of \$1.6 million or 1.7% over the \$95.2 million of support provided in the prior year.

Licensed beverage room VLT siteholders operate under a tiered

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structure whereby they retain between 17.5% and 22.0% of the net win from VLTs. Of this amount, 10% represents the actual service component provided by the siteholders to Manitoba Liquor & Lotteries for hosting the terminals and the other 7.5% to 12% is provided as a contribution to promote tourism in the province. In the 2014/15 year, this support totaled \$49.3 million, an increase of \$0.6 million or 1.2% over the \$48.7 million paid in the prior year.

Hotel beer vendors earn a margin of 14% on the sale of beer for off-premises consumption as well as receiving a handling fee to collect empty beer containers from public consumers. Tiered sales discounts are also provided to assist beer vendors who are experiencing low sales volumes. These measures resulted in \$47.5 million of support provided to hotel beer vendors in the 2014/15 year, an increase of \$1.0 million or 2.2% over the \$46.5 million paid in the 2013/14 year.

The VLTs located at the Assiniboia Downs operate under the same tiered structure as licensed beverage room VLT siteholders and the contribution provided is to support the horse racing industry in Manitoba. In the 2014/15 year, this resulted in \$1.1 million in commissions earned and allocations of VLT revenue paid to the Manitoba Jockey Club.

### Social Responsibility

Manitoba Liquor & Lotteries is committed to encouraging the responsible use of its products and services and under *The Manitoba Liquor and Lotteries Corporation Act*, is required to allocate 2% of annual anticipated consolidated net income and comprehensive income to social responsibility initiatives.

Manitoba Liquor & Lotteries fulfills its commitment to social responsibility in several ways. Funding support is provided to organizations such as the Addictions Foundation of Manitoba and Marymount who provide programs related to liquor and gambling prevention, awareness, and treatment as well as to organizations involved in research in areas such as FASD. The Manitoba Gambling Research Program provides internal research

and program evaluation support to local researchers and students in the development of research into ways to improve the ability to prevent and treat problem gambling in the province. These and other social responsibility public awareness efforts at Manitoba Liquor & Lotteries are supported by the dedicated team of employees who operate within the corporation.

Of the 2014/15 committed amount, \$0.9 million was unspent and carried forward, reserved for social responsibility initiatives in the 2015/16 year.

	(in thousands)	
	2015	2014
Funding support	\$ 8,088	\$ 7,290
Internal research and program evaluation	813	888
Operating and public awareness	1,771	1,259
Funding carried forward to future years	869	-
	<b>\$ 11,541</b>	<b>\$ 9,437</b>

### CORPORATE GOVERNANCE

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

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

- Audit, Technology & Risk Management
- Finance & Operations
- Human Resources & Compensation
- Planning, Policy & Governance

## Management Discussion and Analysis

of Financial Condition and Results of Operations

As at March 31, 2015

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

- Board of Directors' and CEO's Expenses Policy
- Board of Directors Charter
- Board of Directors Code of Conduct
- CEO Charter and Delegation of Authority
- Chair of the Board Charter
- Communications Protocol
- Conflict of Interest Policy
- Corporate Governance Policy and Principles
- Corporate Social Responsibility Policy
- Grants Policy
- Risk Governance and Management Policy

### RISK MANAGEMENT

Manitoba Liquor & 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 Liquor & 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 Liquor & Lotteries is exposed to a number of risks. These risks and the actions taken to mitigate them are discussed below.

#### Strategic Risks

Strategic risks include external environment factors and events, 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, and risks to reputation.

Manitoba Liquor & Lotteries remains committed to researching, recognizing, and understanding changes to 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 Liquor & Lotteries is committed to being a good corporate citizen through its various corporate social responsibility programs and initiatives.

### Technological Developments

As Manitoba Liquor & Lotteries continues to increase the reliance 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 future direction.

Technological change assists Manitoba Liquor & Lotteries to 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 Liquor & Lotteries with new levels of efficiency and methods of exploring new opportunities for revenue growth.

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 Liquor & 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 Liquor & Lotteries also continues to refine its business processes to optimize the efficiency and effectiveness of the new opportunities being presented.

## Management Discussion and Analysis

of Financial Condition and Results of Operations

As at March 31, 2015

### Operations Risks

Operations risks include risks that the operations of Manitoba Liquor & Lotteries are not efficient, do not meet customer needs, do not effectively manage product quality, do not protect game integrity, and do not protect the corporation's significant monetary assets.

Manitoba Liquor & 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 decision making ability.

Manitoba Liquor & 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 Liquor & Lotteries' centralized credit management and collection practices.

### Governance & Compliance Risks

Governance & compliance risks include the risks of acts of fraud or corruption; the failure to comply with regulatory or contractual requirements; and that business objectives are being pursued in an unmanaged environment that does not encourage integrity, ethical values, and competence.

Manitoba Liquor & 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

Prior to adoption of the new Manitoba Liquor & Lotteries legislation, Manitoba Lotteries Corporation (Manitoba Lotteries) voluntarily adopted a program to evaluate internal controls over financial reporting consistent with the guidelines under Canadian Securities Administrator's National Instrument 52-109. As a best practice, it is the corporation's intent to voluntarily evaluate internal controls over financial reporting for Manitoba Liquor & Lotteries.

Prior to April 1, 2014, it was necessary to maintain two separate reportable entities with separate financial reporting processes. The process to amalgamate financial controls is underway. The most practical and efficient method to document and assess internal control design and operating effectiveness is to wait until full common amalgamated processes have been achieved. The newly merged corporation is taking a period of time to incorporate the controls of the Manitoba Liquor Control Commission (MLCC) into the evaluation of internal controls over financial reporting. It is the intent to disclose a full CEO/CFO certification in the 2015/16 annual report.

Internal controls over financial reporting have been designed by management, with the participation of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), to provide reasonable assurance regarding the reliability of the corporation's 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, 2015, the internal controls over financial reporting over processes original to Manitoba Lotteries are adequately

## Management Discussion and Analysis

of Financial Condition and Results of Operations

As at March 31, 2015

designed and effective for providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Based on a strong financial internal control environment, internal and external audit work performed, we are not aware of any internal control weaknesses of a material nature within processes original to the MLCC.

As well, the CEO and CFO, together with management, 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, 2015.

Other than the addition of controls specific to liquor operations resulting from the merger, 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.

For the past ten years, Manitoba Lotteries has received the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA), and this year Manitoba Liquor & Lotteries received the award for their budget presentation for the first time as a merged entity. The honour has been enhanced by special recognition in the following areas: outstanding as a financial plan, outstanding as an operations guide, outstanding as a communications device, special capital recognition, and special performance measures recognition. Manitoba Liquor & Lotteries is committed to meeting the highest principles of government budgeting.

### WHISTLEBLOWER REPORT

In response to the enactment of *The Public Interest Disclosure (Whistleblower Protection) Act* on September 26, 2007, Manitoba Liquor & 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 Liquor & Lotteries employees, no investigations were started, and no general inquiries were received.

### FUTURE OUTLOOK

Manitoba Liquor & Lotteries' allocation to the Province of Manitoba is forecast to be \$581.5 million in the 2015/16 year, an increase of \$11.6 million or 2.0% as compared to the \$569.9 million allocation to the Province of Manitoba (prior to the one-time settlement of pension liability) in the 2014/15 year.

Planned initiatives for Manitoba Liquor & Lotteries address revenue trends and reflect strategic priorities. To ensure the long-term sustainability of revenues and income streams; continued reinvestment in facilities, retail locations, gaming and non-gaming amenities at the casinos, and new technology is essential. This is demonstrated by the investment in initiatives to support operations that occurred in the 2014/15 year and which will continue in the 2015/16 year.

Investment in gaming initiatives include the continued enhancement of the VLT experience through the release of fresh, new games as well as continued construction activities at both casino properties to provide customers with a modern and relevant gaming experience. Manitoba Liquor & 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.

Liquor Mart and Liquor Mart Express store development activities will continue in the 2015/16 year through the investment into additional or expanded retail locations and Manitoba Liquor & Lotteries will also focus on taking the beverage alcohol business into the future by supporting the Province of Manitoba's craft brewing strategy; by recognizing the trend towards increased demand for premium products in all liquor categories, notably spirits; and by working to satisfy the growing demand for refreshment beverages in the Manitoba market.



# Consolidated Financial Statements

Manitoba Liquor and Lotteries Corporation  
March 31, 2015

## 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 Manitoba Liquor and Lotteries 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 Manitoba Liquor and Lotteries 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, Technology & 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, 2015.

**John Stinson**  
Chief Executive Officer

**Tracy Graham**  
Chief Financial Officer



## Independent Auditors' Report

To the Board of Directors of

### **Manitoba Liquor and Lotteries Corporation**

We have audited the accompanying consolidated financial statements of Manitoba Liquor and Lotteries Corporation, which comprise the consolidated statement of financial position as at March 31, 2015, 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.

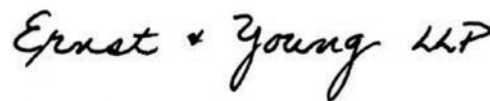
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of

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 Liquor and Lotteries Corporation as at March 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

Winnipeg, Canada

June 10, 2015

## Consolidated Statement of Financial Position

As at March 31

(In thousands of Canadian dollars)

	Notes	2015	2014
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 41,448	\$ 39,881
Trade and other receivables	5	51,792	46,136
Inventories	6	49,982	42,195
Prepayments	7	4,535	4,040
		<b>147,757</b>	132,252
<b>Non-Current Assets</b>			
Property and equipment, net	8	374,956	365,151
Intangible assets, net	9	16,457	18,100
		<b>391,413</b>	383,251
<b>TOTAL ASSETS</b>		<b>\$ 539,170</b>	\$ 515,503
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	\$ 121,750	\$ 134,613
Payable to the Province of Manitoba		69,978	75,145
Current portion of long-term debt	11	41,871	32,117
		<b>233,599</b>	241,875
<b>Non-Current Liabilities</b>			
Long-term debt	11	300,216	251,346
Provision for employee pension benefits	13	355	17,282
		<b>300,571</b>	268,628
Commitments and contingencies	17		
<b>Equity</b>			
Retained Earnings		5,000	5,000
		<b>5,000</b>	5,000
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 539,170</b>	\$ 515,503

(see accompanying notes to the consolidated financial statements)

On behalf of the Board

**Tannis Mindell**

Director & Chair of the Board of Directors

**Gerald Rosenby**

Director & Chair of the Audit, Technology  
& Risk Management Committee

## Consolidated Statement of Net Income, Comprehensive Income and Equity

For the year ended March 31

(In thousands of Canadian dollars)

	Notes	2015	2014
<b>Revenue</b>	14	<b>\$1,277,004</b>	\$ 1,233,718
<b>Cost of Sales</b>	14	<b>395,881</b>	379,505
		<b>881,123</b>	854,213
Operating expenses	14	<b>221,912</b>	215,453
Depreciation and amortization		<b>47,216</b>	46,330
Goods and Services Tax		<b>3,385</b>	4,766
		<b>272,513</b>	266,549
<b>Operating Income</b>		<b>608,610</b>	587,664
Share of profit of Western Canada Lottery Corporation	15	<b>56,808</b>	61,674
Interest expense on long-term debt		<b>(10,074)</b>	(8,662)
Interest income		<b>832</b>	504
<b>Income Before Allocations and Payments</b>		<b>656,176</b>	641,180
Allocations and payments	16	<b>85,636</b>	86,206
<b>Net Income Before Settlement of Pension Liability</b>		<b>570,540</b>	554,974
Settlement of pension liability	12	<b>26,121</b>	-
<b>Net Income</b>		<b>596,661</b>	554,974
Other comprehensive income (loss)	13	<b>(683)</b>	7,171
<b>Total Comprehensive Income</b>		<b>595,978</b>	562,145
<b>Equity, beginning of the year</b>		<b>5,000</b>	5,000
Allocation to the Province of Manitoba		<b>(595,978)</b>	(562,145)
<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)

	2015	2014
<b>Operating activities</b>		
Net income and comprehensive income	\$ 595,978	\$ 562,145
Add (deduct) items not involving cash:		
Depreciation related to property and equipment	43,331	42,590
Depreciation on assets related to Conduct and Management agreements	3,349	1,618
Amortization related to intangible assets	3,885	3,740
Gain on disposal of property and equipment	(191)	(224)
Recovery of employee pension benefits	(16,927)	(8,269)
	<b>629,425</b>	601,600
Net change in non-cash working capital items:		
Increase in trade and other receivables	(5,656)	(10,534)
Decrease (increase) in inventories	(7,787)	1,173
Decrease (increase) in prepayments	(495)	456
Decrease in trade and other payables	(12,863)	(9,334)
<b>Cash provided by operating activities</b>	<b>602,624</b>	583,361
<b>Investing activities</b>		
Purchase of property and equipment	(57,007)	(80,878)
Purchase of intangible assets	(2,242)	(6,661)
Proceeds from disposal of property and equipment	713	456
<b>Cash used in investing activities</b>	<b>(58,536)</b>	(87,083)
<b>Financing activities</b>		
Cash distributions to the Province of Manitoba:		
Current year	(541,000)	(502,000)
Prior year	(60,145)	(48,151)
Proceeds from long-term debt	92,894	66,162
Repayment of long-term debt	(34,270)	(24,222)
<b>Cash used in financing activities</b>	<b>(542,521)</b>	(508,211)
<b>Net increase (decrease) in cash during the year</b>	<b>1,567</b>	(11,933)
<b>Cash, beginning of the year</b>	<b>39,881</b>	51,814
<b>Cash, end of the year</b>	<b>\$ 41,448</b>	\$ 39,881
<b>Supplemental cash flow information</b>		
Interest paid	\$ 10,261	\$ 9,466

(see accompanying notes to the consolidated financial statements)

## Notes to Consolidated Financial Statements

For the year ended March 31, 2015

(In thousands of Canadian dollars)

### 1. Background

By consent of the Legislative Assembly of Manitoba, *The Manitoba Liquor and Lotteries Corporation Act* and *The Liquor and Gaming Control Act* were enacted on December 5, 2013 and came into force on April 1, 2014. Under *The Manitoba Liquor and Lotteries Corporation Act*, Manitoba Lotteries Corporation (Manitoba Lotteries) and The Liquor Control Commission (MLCC) are amalgamated and continue operations as a Crown corporation under the name Manitoba Liquor and Lotteries Corporation (Manitoba Liquor & Lotteries). Under *The Liquor and Gaming Control Act*, regulatory oversight for liquor control, previously managed by the MLCC, was transferred to the Manitoba Gaming Control Commission (MGCC) which continues its operations as the Liquor and Gaming Authority of Manitoba (LGA).

The registered office of Manitoba Liquor & Lotteries is located at 830 Empress Street, Winnipeg, Manitoba.

### 2. Significant Accounting Policies

#### (a) Basis of presentation

The consolidated financial statements of Manitoba Liquor & Lotteries for the year ended March 31, 2015 were authorized for issue by the Board of Directors on June 10, 2015.

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 Manitoba Liquor & Lotteries, and all values are rounded to the nearest thousand dollars (\$000) except where otherwise indicated.

#### (b) Statement of compliance

The consolidated financial statements of Manitoba Liquor & Lotteries 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

The consolidated financial statements combine the accounts of Manitoba Liquor & Lotteries and MLC Holdings Inc. This

controlled entity was established to purchase capital assets, which are leased to Manitoba Liquor & 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 Liquor & Lotteries using consistent accounting policies. All intercompany transactions and accounts have been eliminated on consolidation.

#### (d) Basis of business combination

Manitoba Lotteries, MLCC and MGCC were under the common control of the Province of Manitoba. Manitoba Liquor & Lotteries and the LGA continue to be under the control of the Province of Manitoba.

The business combination of Manitoba Lotteries and the MLCC; and the transfer of regulatory oversight for liquor control to the LGA, as entities under the common control of the Province of Manitoba, have been prepared using the pooling-of-interests method. Assets, liabilities, revenue and expenses have been combined or transferred at their carrying amounts and no adjustments have been made to reflect fair value. The comparative consolidated financial statements represent the combined financial statement balances and results of Manitoba Lotteries and MLCC as if the entities had always been combined and as if the assets, liabilities, revenue and expenses related to the regulatory oversight for liquor control had always been transferred to the LGA.

#### (e) 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 Liquor & Lotteries for the Province of Manitoba).

## Notes to Consolidated Financial Statements

For the year ended March 31, 2015

(In thousands of Canadian dollars)

Manitoba Liquor & Lotteries 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 Manitoba Liquor & Lotteries' share of the profits calculated based on relative sales levels by jurisdiction is disclosed in note 15.

### (f) First Nations Casinos and Shark Club Gaming Centre

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 Liquor & Lotteries to act as its agent in the Conduct and Management (C&M) of the gaming regime.

Through a selection process, the Government has provided certain First Nations the opportunity to operate casinos, with Manitoba Liquor & Lotteries maintaining the C&M authority over these casinos. Effective December 1, 2005, Manitoba Liquor & Lotteries 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. Manitoba Liquor & Lotteries will continue to recover all direct and/or gaming related expenses.

The Government has provided the TN Arena Limited Partnership the opportunity to establish the Shark Club Gaming Centre, with Manitoba Liquor & Lotteries maintaining the C&M authority over this gaming centre. As part of this authority, Manitoba Liquor & Lotteries recovers all direct gaming related expenses. In addition, Manitoba Liquor & Lotteries has entered into an agreement with the owner to perform management services on their behalf with respect to the gaming activity of the gaming centre.

### (g) Foreign currency translation

Functional currency is the currency of the primary economic environment in which Manitoba Liquor & Lotteries operates and is normally the currency in which Manitoba Liquor & Lotteries 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 functional currency and presentation currency of Manitoba Liquor & Lotteries 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date the fair value is determined.

### (h) Financial instruments

Financial instruments are recognized in the statement of financial position when Manitoba Liquor & Lotteries becomes a party to the contractual terms of the instrument, which represents its trade date. Upon initial recognition Manitoba Liquor & Lotteries 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 financial assets of Manitoba Liquor & Lotteries include cash and trade and other receivables. The financial liabilities of Manitoba Liquor & Lotteries 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

## Notes to Consolidated Financial Statements

For the year ended March 31, 2015

(In thousands of Canadian dollars)

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 Manitoba Liquor & Lotteries 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.

### (i) 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 Manitoba Liquor & Lotteries 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	3-40 years
Gaming equipment	5-8 years
Assets related to C&M agreements	5-7 years
Parking lots and roads	15-25 years
Leasehold improvements	Straight-line basis over the remaining term of the lease
Major building components	10-50 years
Building structures	40-50 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.

### (j) 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 Manitoba Liquor & Lotteries 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

## Notes to Consolidated Financial Statements

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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.

Property leases are analyzed into separate components for land and buildings and tested to establish whether the components are operating leases or finance leases. Premiums paid for land are treated as a prepayment of an operating lease rental and recognized on a straight-line basis over the life of the lease.

Other leases are classified as operating leases and the leased assets are not recognized on the 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. Any predetermined, fixed rental increases contained in a lease are recognized over the life of the lease.

### (k) Intangible assets

Acquired intangible assets of Manitoba Liquor & Lotteries 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	3-15 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.

### (l) Inventories

Inventories consist of goods for resale and consumable supplies and are valued at the lower of average 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 and are comprised of the purchase price, import duties and freight. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Inventory write-downs are reversed if the estimated calculations of the recoverable amount change. Write-downs are reversed only to the extent that the carrying value does not exceed the carrying value that would have been determined if no write-down had been recognized.

### (m) Impairment

#### (i) Financial assets

Manitoba Liquor & Lotteries 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

Manitoba Liquor & Lotteries assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated. For the purposes of impairment testing,



## Notes to Consolidated Financial Statements

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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, Manitoba Liquor & Lotteries 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 (CSSA)*, employees of Manitoba Liquor & Lotteries 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. Manitoba Liquor & Lotteries is required to match contributions contributed to the Fund by the employees at prescribed rates, which is recorded as an operating expense. Under the CSSA, Manitoba Liquor & Lotteries has no further pension liability. Based on limited information available from the Fund, Manitoba Liquor & Lotteries 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, Manitoba Liquor & Lotteries 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 immediately in the statement of financial position with a corresponding debit or credit to other comprehensive income (loss) in the period in which they occur.

Manitoba Liquor & Lotteries also makes contributions for certain 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 Manitoba Liquor & Lotteries and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes.

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Manitoba Liquor & Lotteries assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent and has concluded that it is acting as principal in all of its revenue arrangements, with the exception of the third-party AIR MILES® program in which Manitoba Liquor & Lotteries participates. The AIR MILES® program allows customers to earn AIR MILES® points when they purchase products in Manitoba Liquor & Lotteries' retail liquor stores. The redemption of points by customers is the responsibility of the third-party AIR MILES® program. Consideration received is recorded net of related expenses as Manitoba Liquor & Lotteries is acting as an agent for the AIR MILES® program.

Revenue from product sales is recognized when the significant rewards of ownership of the products have passed to the buyer, usually on the delivery of products. Lottery revenue is recognized 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 are recognized at the time of play, net of prizes paid.

### (q) Promotional allowances

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

Manitoba Liquor & Lotteries 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 Manitoba Liquor & Lotteries 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, Manitoba Liquor & Lotteries 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.

Manitoba Liquor & Lotteries collects GST on liquor sales and an input tax credit is claimed for GST paid on non-gaming expenditures.

### (s) Changes in accounting policies

During the year, Manitoba Liquor & Lotteries chose to adopt the following standards:

(i) IFRIC 21 – *Levies* was issued by the IASB in May 2013 and provides guidance on the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what obligating events give rise to a liability to pay a levy and when that liability should be recognized. The adoption of IFRIC 21 did not have any impact on Manitoba Liquor & Lotteries' consolidated financial statements.

(ii) IAS 32 – *Financial Instruments: Presentation* was amended in December 2011 to clarify the requirements when an entity has a current legally enforceable right of offset of financial assets and financial liabilities on the statement of financial position. The adoption of the amendments to IAS 32 did not have any impact on Manitoba Liquor & Lotteries' consolidated financial statements.

(iii) IAS 36 – *Impairment of Assets* was amended in May 2013 to clarify the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed and to introduce additional disclosure requirements about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The adoption of the amendments to IAS 36 did not have any impact on Manitoba Liquor & Lotteries' consolidated financial statements.

## 3. Significant Accounting Estimates and Assumptions

The preparation of financial statements requires management

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to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities as 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 Manitoba Liquor & Lotteries are discussed below.

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

Manitoba Liquor & Lotteries has based the determination of the useful lives of tangible and intangible assets on a detailed review of all empirical data for the different asset classes. Manitoba Liquor & Lotteries 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 Manitoba Liquor & Lotteries' environment which may indicate the requirement to reconsider these useful lives.

### (b) Loyalty points program

Manitoba Liquor & Lotteries 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 \$3,510 (2014 - \$3,478) is included in trade and other payables and is based on an assessment of anticipated point redemptions and point value. Manitoba Liquor & Lotteries 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 Manitoba Liquor & Lotteries have been issued but were not yet effective at the date of issuance of the consolidated financial statements.

(i) IAS 1 – *Presentation of Financial Statements* was amended in December 2014 as part of the IASB's major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016 and Manitoba Liquor & Lotteries is currently evaluating the impact of adoption of the amended standard.

(ii) IFRS 15 – *Revenue from Contracts with Customers* was issued in May 2014 and supersedes existing standards and related interpretations including IAS 18 – *Revenue* and IFRIC 13 – *Customer Loyalty Programmes*. IFRS 15 introduces a single model for recognizing revenue from contracts with customers in a manner that depicts the transfer of goods or services to customers in amounts that reflect the consideration to which the entity is expected to be entitled in exchange for those goods or services. The new standard is intended to enhance disclosures about revenue, provide guidance for transactions not previously addressed and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on or after January 1, 2017 and Manitoba Liquor & Lotteries is currently evaluating the impact of adoption of the new standard.

(iii) IFRS 9 – *Financial Instruments* introduces new requirements for the classification and measurement of financial instruments. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 – *Financial Instruments: Recognition and Measurement*, to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Requirements for the classification and measurement of financial liabilities are largely carried forward from existing IAS 39 requirements with the exception that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 also includes guidance on hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions. Manitoba Liquor & Lotteries is currently evaluating the impact of adoption of the new standard.

## Notes to Consolidated Financial Statements

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### 5. Trade and Other Receivables

	2015	2014
Trade	\$ 44,579	\$ 40,266
Goods and Services Tax	4,151	3,309
Western Canada Lottery Corporation	3,062	2,561
	<b>\$ 51,792</b>	<b>\$ 46,136</b>

Manitoba Liquor & Lotteries' exposure to credit risks related to trade and other receivables is disclosed in note 18 (d).

### 6. Inventories

	2015	2014
Warehouse	\$ 34,174	\$ 28,138
Retail locations	15,640	13,846
Consumable supplies	168	211
	<b>\$ 49,982</b>	<b>\$ 42,195</b>

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is approximately \$5,114 at the end of the 2015 fiscal year (2014 - \$4,597).

### 7. Prepayments

	2015	2014
Maintenance contracts	\$ 2,361	\$ 2,171
Rent	928	865
Deposits and other	682	550
Insurance	564	454
	<b>\$ 4,535</b>	<b>\$ 4,040</b>

## Notes to Consolidated Financial Statements

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### 8. Property and Equipment

	Land	Buildings and parking lots	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
<b>Cost</b>								
<b>April 1, 2013</b>	\$ 25,427	\$ 195,090	\$ 22,050	\$ 171,142	\$ 127,146	\$ 19,135	\$ 145,191	\$ 705,181
Additions	-	21,782	2,266	7,588	5,130	2,430	41,682	80,878
Transfers from WIP	-	6,496	70	98,653	380	3,969	(109,568)	-
Disposals	-	(443)	(1,806)	(76,227)	(3,514)	(928)	-	(82,918)
<b>March 31, 2014</b>	25,427	222,925	22,580	201,156	129,142	24,606	77,305	703,141
Additions	-	17,943	2,702	8,629	6,720	9,757	11,256	57,007
Transfers from WIP	-	41,768	-	-	8,757	52	(50,577)	-
Disposals	-	(3,285)	(6)	(5,529)	(3,705)	(656)	-	(13,181)
<b>March 31, 2015</b>	<b>\$ 25,427</b>	<b>\$ 279,351</b>	<b>\$ 25,276</b>	<b>\$ 204,256</b>	<b>\$ 140,914</b>	<b>\$ 33,759</b>	<b>\$ 37,984</b>	<b>\$ 746,967</b>
<b>Depreciation</b>								
<b>April 1, 2013</b>	\$ -	\$ 97,120	\$ 9,553	\$ 153,765	\$ 99,416	\$ 16,614	\$ -	\$ 376,468
Depreciation	-	8,591	1,695	22,849	9,454	1,618	-	44,207
Disposals	-	(416)	(1,801)	(76,227)	(3,335)	(906)	-	(82,685)
<b>March 31, 2014</b>	-	105,295	9,447	100,387	105,535	17,326	-	337,990
Depreciation	-	10,354	1,921	21,227	9,829	3,349	-	46,680
Disposals	-	(3,498)	(3)	(5,170)	(3,332)	(656)	-	(12,659)
<b>March 31, 2015</b>	<b>\$ -</b>	<b>\$ 112,151</b>	<b>\$ 11,365</b>	<b>\$ 116,444</b>	<b>\$ 112,032</b>	<b>\$ 20,019</b>	<b>\$ -</b>	<b>\$ 372,011</b>
<b>Net book value</b>								
<b>March 31, 2015</b>	<b>\$ 25,427</b>	<b>\$ 167,200</b>	<b>\$ 13,911</b>	<b>\$ 87,812</b>	<b>\$ 28,882</b>	<b>\$ 13,740</b>	<b>\$ 37,984</b>	<b>\$ 374,956</b>
<b>March 31, 2014</b>	25,427	117,630	13,133	100,769	23,607	7,280	77,305	365,151

Capital assets related to C&M agreements consist primarily of the cost of the gaming equipment and related computer equipment for the First Nations Casinos and Shark Club Gaming Centre.

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 2015 fiscal year was \$180 (2014 - \$813). The rate used to determine the amount of borrowing costs eligible for capitalization was 2.100%, 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 2015 fiscal year is \$3,634 (2014 - \$3,912) and consists of land being used for parking facilities at the McPhillips Station Casino and the Video Lotto office building located in Morris, Manitoba.

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### 9. Intangible Assets

	Computer software - acquired
<b>Cost</b>	
<b>April 1, 2013</b>	\$ 31,768
Additions	6,661
Disposals	(503)
<b>March 31, 2014</b>	37,926
Additions	2,242
Disposals	-
<b>March 31, 2015</b>	<b>\$ 40,168</b>
<b>Amortization</b>	
<b>April 1, 2013</b>	\$ 16,589
Amortization	3,740
Disposals	(503)
<b>March 31, 2014</b>	19,826
Amortization	3,885
Disposals	-
<b>March 31, 2015</b>	<b>\$ 23,711</b>
<b>Net book value</b>	
<b>March 31, 2015</b>	<b>\$ 16,457</b>
<b>March 31, 2014</b>	18,100

### 10. Trade and Other Payables

	2015	2014
Trade	<b>\$ 89,064</b>	\$ 107,104
Employee benefits	<b>27,067</b>	22,560
Province of Manitoba taxes	<b>3,115</b>	2,613
Jackpot liability	<b>2,504</b>	2,336
	<b>\$ 121,750</b>	\$ 134,613

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### 11. Long-term Debt

	2015	2014
Province of Manitoba, bearing interest at rates ranging from 1.750% to 5.050%, repayable in monthly principal installments ranging from \$6 to \$685 plus interest with maturity dates ranging from February 26, 2015 to August 31, 2030.	<b>\$ 330,889</b>	\$ 264,011
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, 2015 was 1.900%.	<b>1,100</b>	3,300
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, 2015 was 2.100%.	<b>10,000</b>	16,000
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>98</b>	152
	<b>342,087</b>	283,463
Less current portion of long-term debt	<b>41,871</b>	32,117
	<b>\$ 300,216</b>	\$ 251,346

All long-term debt is unsecured and the fair market value at March 31, 2015 is \$361,875.

Manitoba Liquor & Lotteries' exposure to liquidity risks related to long-term debt is disclosed in note 18 (c).

### 12. Settlement of Pension Liability

The predecessor entities Manitoba Lotteries and MLCC each maintained a defined benefit pension plan in accordance with the provisions of the CSSA administered by the Civil Service Superannuation Board. While Manitoba Lotteries was required to match contributions contributed to the Civil Service Superannuation Fund at prescribed rates, MLCC did not have a similar requirement. MLCC calculated the net defined benefit asset or liability as the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds) less the fair value of plan assets out of which obligations were to be settled. The cost of providing benefits under the MLCC defined benefit plan was actuarially determined on an annual basis using the projected unit credit method. Actuarial and experience gains and losses and the return on plan assets (excluding net interest)

were recognized immediately in the statement of financial position with a corresponding debit or credit to other comprehensive income (loss) in the period in which they occurred.

Upon amalgamation, Manitoba Liquor & Lotteries has been designated as a matching employer for the purposes of the CSSA.

In accordance with the CSSA, Manitoba Liquor & Lotteries and the Civil Service Superannuation Board were given approval to settle the MLCC defined benefit obligation. The settlement was based on the actuarial valuation as at March 31, 2014 of the MLCC's share of benefits in respect of service during the period the MLCC was not required to make matching contributions. The payment of this actuarially measured liability deems the MLCC to have made matching contributions in respect of its employees for that period.

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The gain on settlement of the defined benefit obligation that occurred October 1, 2014 is calculated as follows:

MLCC defined benefit obligation, April 1, 2014	\$ 86,556
Net interest to date of settlement	317
Actuarially measured amount of plan assets required to settle pension liability	(59,649)
Pension liability remaining, October 1, 2014	(1,103)
Gain on settlement of pension liability	\$ 26,121

The pension liability remaining upon settlement represents the amount established for MLCC employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund.

The fair value of plan assets as at October 1, 2014 was \$73,147. Of this amount, \$59,649 was used to settle the MLCC defined benefit obligation and the remaining \$13,498 was transferred to Manitoba Liquor & Lotteries for its exclusive use.

Manitoba Liquor & Lotteries' provision for employee pension benefits as at March 31, 2015 is disclosed in note 13.

### 13. Provision for Employee Pension Benefits

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

The pension expense related to Manitoba Liquor & Lotteries' contributions to the money purchase plan is \$334 (2014 - \$190) and is recorded in operating expenses.

The pension expense related to Manitoba Liquor & Lotteries' contributions to the multi-employer Civil Service Superannuation Fund is \$7,942. Based on limited information available from the Civil Service Superannuation Fund, Manitoba Liquor & Lotteries

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, Manitoba Liquor & Lotteries' contribution to the Civil Service Superannuation Fund is recorded in operating expenses. Expected contributions for the 2016 fiscal year are \$8,652.

Manitoba Liquor & Lotteries' share of the multi-employer plan accrued benefit obligation has been actuarially measured for accounting purposes as at March 31, 2015 using the accumulated benefit cost method prorated based on service, a discount rate of 3.60% (2014 - 4.50%) and management's best estimate of expected plan performance, salary escalation and retirement ages of employees.

For the 2014 fiscal year, a net pension liability of \$17,282 was established and represented the cost of providing benefits under the MLCC defined benefit plan (\$86,556), the MLC pension liability established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund (\$1,568); net of the fair value of MLCC plan assets (\$70,842). A gain of \$7,171 was experienced in the 2014 fiscal year based on the actuarial assessment of pension obligations as at March 31, 2014 and was recognized in other comprehensive income (loss).

For the 2015 fiscal year, subsequent to the settlement of the pension liability disclosed in note 12, a net pension liability of \$355 (accrued benefit obligation of \$5,030, net of the fair value of assets of \$4,675) has been established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund. A loss of \$683 was experienced in the current year based on the most recently available actuarial assessment of pension obligations as at March 31, 2015 and is recognized in other comprehensive income (loss).



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### 14. Revenue, Cost of Sales and Expenses By Nature

Manitoba Liquor & Lotteries' revenue consists of the following:

	2015	2014
Liquor sales	\$ 719,773	\$ 694,188
VLT	320,881	306,659
Casino and online gaming	212,346	211,864
Non-gaming revenue	24,004	21,007
	<b>\$ 1,277,004</b>	<b>\$ 1,233,718</b>

Manitoba Liquor & Lotteries' cost of sales consists of the following:

	2015	2014
Liquor cost of sales	\$ 347,702	\$ 334,392
VLT commissions	31,401	30,527
Gaming direct expenses	7,945	7,412
Non-gaming cost of sales	8,833	7,174
	<b>\$ 395,881</b>	<b>\$ 379,505</b>

Gaming direct expenses consist primarily of costs associated with the operation and maintenance of the Manitoba Liquor & Lotteries electronic gaming equipment, table games equipment and online gaming site.

Non-gaming revenue and cost of sales consists primarily of revenue and costs associated with Manitoba Liquor & Lotteries' entertainment, food & beverage and casino retail store operations.

Manitoba Liquor & Lotteries' operating expenses by their nature are as follows:

	2015	2014
Employee benefits	\$ 147,374	\$ 145,503
Bank charges	3,540	3,412
Community support	3,808	3,458
Consultant and professional fees	3,400	3,454
Grants in lieu of taxes	5,488	5,348
Maintenance	19,222	18,776
Marketing and public awareness	11,727	9,462
Rents	7,306	6,895
Sundry	5,445	5,732
Supplies and equipment	5,811	4,632
Telecommunications	3,397	3,341
Transportation and vehicles	1,782	2,023
Utilities	3,612	3,417
	<b>\$ 221,912</b>	<b>\$ 215,453</b>

## Notes to Consolidated Financial Statements

For the year ended March 31, 2015

(In thousands of Canadian dollars)

### 15. Share of Profit of WCLC

	2015	2014
Revenue	\$ 213,532	\$ 227,344
Prizes, commissions and other cost of sales	149,813	159,621
WCLC partner equalization	4,605	3,808
Payment to Government of Canada	2,306	2,241
Profit	\$ 56,808	\$ 61,674

The WCLC earned revenue in the 2015 fiscal year in the amount of \$1,233,842 (2014 - \$1,313,834), of which Manitoba Liquor & Lotteries' share calculated based on relative sales levels by jurisdiction is 17% (2014 - 17%). The WCLC's total profit for the 2015 fiscal year was \$410,096 (2014 - \$433,798) of which Manitoba Liquor & Lotteries' share is 14% (2014 - 14%).

The Province of Manitoba is a member in the WCLC. An agreement is in place with the Provinces of Alberta and

Saskatchewan where Manitoba Liquor & 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.

### 16. Allocations and Payments

	2015	2014
LGA funding and Crown Corporations Council levy	\$ 4,552	\$ 3,847
First Nations allocation	43,825	41,736
Tourism contribution	23,436	28,525
Social responsibility funding	9,770	8,119
Casino bingo volunteer program and other community funding	4,053	3,979
	\$ 85,636	\$ 86,206

Manitoba Liquor & Lotteries provides funding to the LGA through the payment of annual licence fees for employees, electronic gaming devices and retail liquor locations; as well as additional amounts directed to be paid under *The Liquor and Gaming Control Act*. Manitoba Liquor & Lotteries 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.

Manitoba Liquor & Lotteries provides contributions towards supporting tourism in Manitoba through the VLT program.

Social responsibility funding includes amounts paid to the Addictions Foundation of Manitoba and other organizations for their research and programming that promote responsible gaming and responsible liquor consumption. Manitoba Liquor & Lotteries is required to allocate 2% of annual anticipated consolidated net income and comprehensive income to social responsibility initiatives. Any liability associated with this funding is included in trade and other payables.

Manitoba Liquor & Lotteries provides charitable and community organizations the opportunity to raise funds for their organizations by assisting in the bingo events held at its casinos and by providing funding to various community groups throughout Manitoba.

## Notes to Consolidated Financial Statements

For the year ended March 31, 2015

(In thousands of Canadian dollars)

### 17. Commitments and Contingencies

#### (a) Lease obligations

Manitoba Liquor & Lotteries has entered into commercial leases on certain buildings and parking lots which have an average remaining term of 1 to 19 years. In addition, Manitoba Liquor & Lotteries has entered into commercial leases on certain motor vehicles which have a remaining term ranging between 1 to 4 years. The future minimum rental payments relating to operating leases are as follows:

2016	\$	7,564
2017		6,798
2018		6,112
2019		5,880
2020		5,673
Subsequent years		34,924
	\$	66,951

#### (b) Legal claims

Incidental to the nature of its business, Manitoba Liquor & Lotteries 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 financial position of Manitoba Liquor & Lotteries.

#### (c) Purchase commitments

At the end of the 2015 fiscal year Manitoba Liquor & Lotteries had purchase commitments of \$21,009 related to casino and retail liquor store construction projects.

### 18. Financial Instruments

Manitoba Liquor & Lotteries is exposed to interest rate, currency, liquidity and credit risks arising from financial assets and liabilities. Manitoba Liquor & Lotteries' objectives in managing these risks are to protect from volatility and to minimize exposure from fluctuations in market rates and does so through a combination

of a system of internal and disclosure controls, effective cash management strategies and sound business practices.

Risk management policies have been established to identify and analyze the risks faced by Manitoba Liquor & Lotteries, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Manitoba Liquor & Lotteries' 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 Manitoba Liquor & Lotteries' income that arises from fluctuations in interest rates and the degree of volatility of these rates. Manitoba Liquor & Lotteries does not use derivative instruments to reduce its exposure to interest rate risk, though risks associated with interest rate fluctuations are mitigated based on 97% (2014 - 93%) of long-term debt having a fixed interest rate. The impact on Manitoba Liquor & Lotteries' income associated with the variable interest rate long-term debt is not considered significant.

#### (b) Currency risk

Manitoba Liquor & Lotteries is exposed to currency risk through liquor inventory purchase transactions that require settlement in foreign currencies. Exposure to fluctuations in exchange rates is mitigated by the policy of adjusting purchase or selling prices to maintain approved liquor profit margins. Purchases denominated in foreign currencies during the 2015 fiscal year were \$10,826 (2014 - \$9,850). Accordingly, a 10% increase or decrease in the exchange rate between Canadian and other foreign currencies would result in a total increase or decrease of \$1,083 (2014 - \$985) assuming the inventory purchased had been sold by the end of the year.

#### (c) Liquidity risk

Liquidity risk is the risk Manitoba Liquor & Lotteries will encounter difficulties in meeting its financial liability obligations. Manitoba Liquor & Lotteries manages this risk through effective cash and long-term debt management. Trade and other payables are due within one year and a significant portion of the long-term debt

## Notes to Consolidated Financial Statements

For the year ended March 31, 2015

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is repayable in either quarterly or monthly installments. Liquidity risk is further mitigated by collection terms on trade and other receivables being set at less than or equal to the payment terms of trade and other payables.

The table below summarizes the maturity profile of Manitoba Liquor & Lotteries' financial liabilities as at year-end based on contractual undiscounted payments.

	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	>5 years
<b>2015</b>								
Trade and other payables	\$ 2,504	\$ 119,246	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payable to the Province of Manitoba	-	69,978	-	-	-	-	-	-
Long-term debt	-	41,871	40,701	38,483	36,419	33,499	22,450	128,664
	\$ 2,504	\$ 231,095	\$ 40,701	\$ 38,483	\$ 36,419	\$ 33,499	\$ 22,450	\$ 128,664
<b>2014</b>								
Trade and other payables	\$ 2,336	\$ 132,277	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payable to the Province of Manitoba	-	75,145	-	-	-	-	-	-
Long-term debt	-	32,117	30,892	29,723	27,504	25,441	23,874	113,912
	\$ 2,336	\$ 239,539	\$ 30,892	\$ 29,723	\$ 27,504	\$ 25,441	\$ 23,874	\$ 113,912

### (d) Credit risk

Credit risk is the risk to Manitoba Liquor & Lotteries that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. Manitoba Liquor & Lotteries 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. Trade and other receivables are non-interest bearing and generally have 30 day terms. The requirement for impairment is analyzed at each reporting date for every customer on an individual basis and trade and other receivables are written off when management determines that they cannot be collected. 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 Manitoba Liquor & Lotteries does not have significant concentration risk.

The aging of trade and other receivables at the end of the 2015 fiscal year is as follows:

Neither impaired nor past due	\$ 51,066
Not impaired and past due as follows:	
Within 30 days	65
31 to 60 days	196
61 to 90 days	18
Over 90 days	458
Allowance for doubtful accounts	(11)
	\$ 51,792

## Notes to Consolidated Financial Statements

For the year ended March 31, 2015

(In thousands of Canadian dollars)

### (e) Capital management

Manitoba Liquor & Lotteries' capital is comprised of long-term debt and equity. Manitoba Liquor & Lotteries' 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 are considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget and have remained unchanged over the fiscal years presented.

Manitoba Liquor & Lotteries is subject to capital growth restrictions as the result of the requirement to allocate 100% of annual consolidated net income and comprehensive income to the Province of Manitoba.

### (f) Fair value

The fair value of Manitoba Liquor & Lotteries' 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 Liquor & Lotteries' 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 Manitoba Liquor & Lotteries' financial instruments approximates their carrying value.

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

	Level 1	Level 2	Level 3	Total
<b>2015</b>				
Cash	\$ 41,448	\$ -	\$ -	\$ 41,448
	\$ 41,448	\$ -	\$ -	\$ 41,448
<b>2014</b>				
Cash	\$ 39,881	\$ -	\$ -	\$ 39,881
	\$ 39,881	\$ -	\$ -	\$ 39,881

## Notes to Consolidated Financial Statements

For the year ended March 31, 2015

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### 19. Related Party Disclosures

Manitoba Liquor & Lotteries 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 Manitoba Liquor & Lotteries, which is recognized as an operating expense during the year, is as follows:

	2015	2014
Short-term employee benefits	\$ 2,134	\$ 2,376
Post-employment pension and medical benefits	127	166
Termination benefits	100	4
	<b>\$ 2,361</b>	<b>\$ 2,546</b>

### 20. Comparative Figures

Comparative figures are presented where available. 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 [www.mbl.ca](http://www.mbl.ca)

