RISING TO THE top 100

Manitoba Lotteries

2011-2012 **annual report**

Manitoba Lotteries Habitat for Humanity Legacy Build

RISING to the expectations of those we serve, Manitoba Lotteries has managed a successful year of growth and opportunity. We have been named one of Canada's Top 100 Employers and are investing in our products and venues to give our customers the most exciting and responsible gaming experience possible. Our dedication to Manitobans has led to successful new community partnerships alongside established relationships across the province.

ABOUT MANITOBA LOTTERIES

Who we are

Manitoba Lotteries, with offices in Winnipeg, Morris and Brandon, is a Crown corporation of the Province of Manitoba responsible for the conduct and management of gaming in the province, with the exception of licensed charitable gaming. We report to the Minister responsible for *The Manitoba Lotteries Corporation Act* through our Board of Directors.

What we do

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

Honourable Steve Ashton
Minister responsible for Lotteries
Room 203, Legislative Building
450 Broadway
Winnipeg, MB R3C 0V8

September 21, 2012

Dear Honourable Minister:

I have the honour to present you with the annual report of the Manitoba Lotteries Corporation for the fiscal year ended March 31, 2012.

Respectfully submitted,

Tannis Mindell

Tannis Mindell

2012/13 CHAIR, BOARD OF DIRECTORS

The amalgamation of the Manitoba Lotteries Corporation and the Manitoba Liquor Control Commission

In April 2012, the Province of Manitoba announced the amalgamation of the Manitoba Lotteries Corporation (MLC) and the Manitoba Liquor Control Commission (MLCC). In May 2012, the Province of Manitoba announced the appointment of a new Board of Directors. The new Board was charged with the task of overseeing both the MLCC and the MLC. Winston Hodgins, President & CEO of Manitoba Lotteries was also appointed as President & CEO of the new corporation.

TOP

CORPORATE FRAMEWORK

Our Vision

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

Our Mission

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

Our Core Values

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

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

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

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

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

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

WHERE THE MONEY GOES

For the year ended March 31, 2012 (in millions of dollars)

Public Benefits (Allocation to the Province of Manitoba)	$ 342.9
Contributions Paid to Siteholders	$ 108.9
Salaries & Benefits	$ 92.4
Other Cost of Sales & Expenses	$ 75.7
Payments to Other Levels of Government	$ 6.9
Supporting Our Communities	$ 5.9
Responsible Gaming Initiatives	$ 4.3
Total Revenue and Other Income (Includes revenue, share of profit of Western Canada Lottery Corporation and interest income)	$ 637.0

Education, Health & Other Government Programs Allocated to priority provincial government programs that provide health care, education, community and social services and economic development	$ 270.5
Community Development Dedicated to community and economic development projects through the Rural Economic Development Initiative (REDI) and Urban Development Initiatives (UDI)	$ 46.0
Municipalities Paid as unconditional grants to support Manitoba's municipalities	$ 16.5
Winnipeg Police Service Allocated to the City of Winnipeg Police Service	$ 9.9

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

MESSAGE FROM THE CHAIR

As the gaming industry evolves globally and here at home, over the past year the Board of Directors has maintained a focus on our strategic direction and core values.

We have provided oversight and support to senior management of Manitoba Lotteries in adapting to product innovations to meet changing customer preferences. The ability to honour our core values through such a dynamic time is evidence of how those values were crafted to be forward-looking. They allow Manitoba Lotteries to not only accommodate progress, but embrace it.

Manitoba Lotteries places great value on Corporate Social Responsibility. We learn and improve through our daily exchanges with customers, business partners, employees and the greater community.

Last year, we significantly enhanced our support of research into responsible gaming and the prevention and treatment of problem gambling. Launched in 2011, the Manitoba Gambling Research Program will provide up to $1 million annually to Canadian researchers through a variety of grant opportunities. Our new program is overseen by a Research Council consisting of community and academic representatives. This funding will expand the gambling research capacity in our province and will also increase Manitoba-based research.

As part of our commitment to Manitobans, we continued to engage in new and established community partnerships. Habitat for Humanity is gearing up for a busy 2012 summer as the successful Manitoba Lotteries Legacy Build program enters its fifth year. This program has created a self-sustaining fund from which new homes can be built annually by the non-profit organization, with $3.5 million raised to date.

As an environmentally responsible corporation, Manitoba Lotteries continues to support the improvement of the Lake Winnipeg watershed. We became a partner in a new program that involves the harvesting and processing of a certain type of marsh grass, which helps to reduce the nutrient load on Lake Winnipeg and which also creates other environmental and economic benefits for the region.

In closing, on behalf of the Board of Directors, I would like to sincerely thank Winston Hodgins, President & CEO, and all the employees of Manitoba Lotteries for their valued efforts in 2011/12. You have worked diligently in meeting the goals of providing high quality products and excellence in customer service within a framework of corporate social responsibility over the past several years. It has been an honour and pleasure to serve as the Chair of Manitoba Lotteries.

Tim Valgardson
2011/12 CHAIR, BOARD OF DIRECTORS

MESSAGE FROM THE PRESIDENT & CEO

This past year has been significant for Manitoba Lotteries, from achieving the most successful year financially in the history of the corporation, to achieving national recognition as a top employer, to building more community relationships, to extending Manitoba's responsible gaming research capacity and continuing to provide customers with excellence in service.

Over the last year, we have been introducing or developing enhancements to all of our product lines. Renovations continue at Club Regent Casino and McPhillips Station Casino, with some of the results already visible to guests, and more to come in the near future. We are preparing to replace our VLT network across the province, enabling us to introduce new games and build a foundation for enhanced responsible gaming features. Meanwhile, we have been working on an exciting new Winnipeg Blue Bombers branded lottery product that is expected to be a touchdown with sports fans. And Manitoba Lotteries will be partnering with British Columbia Lottery Corporation (BCLC) to deliver a Manitoba online gambling site based on BCLC's established platform, PlayNow.com.

The Manitoba Lotteries Flight Deck program was launched in 2011. This very popular program provides amateur sports teams the chance to attend Winnipeg Jets home games. Hundreds of youth and their volunteer coaches from across the province were provided with the opportunity to experience the excitement by seeing our home team in action.

Our employees also demonstrated a strong spirit of volunteerism over the past year. Thousands of hours of employees' own time supported many organizations and events. On numerous occasions, their efforts dovetailed with our community partnerships, allowing us to accomplish some truly great things together.

Manitoba Lotteries is honoured to have earned a place among Canada's Top 100 Employers. This recognition follows years of being a Top 25 Employer in Manitoba and a leading national employer for new Canadians and for a diverse workforce. It is a pleasure to work with such positive and knowledgeable employees, who are motivated by human resources practices that are inclusive and progressive.

Employee perspectives are gathered through a comprehensive survey conducted every two years. The latest results, from 2012, show employees are very positive about our business direction, our commitment to social responsibility, advancement opportunities and their overall work experience. Manitoba Lotteries employees are also proud of the high level of customer service that they are able to provide, and the environment that enables them to do so.

Before I close, I am pleased to report that Manitoba Lotteries met its financial targets for 2011/12, with revenue of $569.0 million. $342.9 million was allocated to the Province to support priority provincial government programs such as health care, education, community and social services and economic development. I commend and thank our 1,900 employees and our Board of Directors on another year of progress. We look forward to next year as we serve our customers and Manitoba's communities.

Winston Hodgins
PRESIDENT & CEO

STRATEGIC PLANNING & KEY PERFORMANCE INDICATORS*

Goal	Objective	Performance Indicator	2009/10	2010/11	2011/12 Target	2011/12 Results	Results & Trend	Calculation and Data Source
QUALITY PRODUCTS: A SATISFIED CUSTOMER	Increase overall customer satisfaction rating	1. Casino customer satisfaction	87%	86%	85%	85%	An overall customer satisfaction score of 85% for 2011/12 not only represents an improvement throughout the fiscal year, but also an achievement of our target. Manitoba Lotteries strives to improve customer service through the introduction of new initiatives.	The Casino Customer Satisfaction Study is conducted on a quarterly basis at each casino. Respondents are requested to rate products and services on a seven-point scale.
	Increase revenues	2. Revenue (millions)	$558.6	$562.4	$595.0	$569.0	The target was not achieved due to static VLT revenue, resulting from a deferral of the VLT network replacement. Casino revenue increased 3% from the previous year as a result of improved electronic game options through the slot replacement and conversion program.	This indicator measures total revenue as reported in the consolidated financial statements and budgets.
RESPONSIBILITY TO COMMUNITY: BE RECOGNIZED AS A VALUED MEMBER OF THE COMMUNITY	Increase public awareness of Manitoba Lotteries' Corporate Social Responsibility	3. Public awareness of Manitoba Lotteries sponsored events, programs and charities**	15%	22%	–	22%	While there was a slight increase in public awareness of Manitoba Lotteries sponsored events in Q3, overall this score has remained consistent.	The Corporate Image Study is conducted quarterly, and indicates public awareness and recall of events, programs and charities sponsored by Manitoba Lotteries.
	Improve Manitoba Lotteries' reputation as a responsible member of the community	4. Percent of public who report a favourable impression of Manitoba Lotteries***	48%	52%	56%	54%	The favourable impression of Manitoba Lotteries has remained consistent.	The Corporate Image Study, conducted quarterly, measures the percentage of respondents who hold a favourable opinion of Manitoba Lotteries using a five-point scale.
OPERATIONAL EXCELLENCE: BE EFFICIENT AND EFFECTIVE	Contain operating expenses	5. Operating expenses as a percentage of revenue	23.4%	24.2%	22.5% – 24%	21.8%	Operating expenses have declined primarily due to decreased equipment maintenance costs.	$\frac{\text{Operating expenses (including salaries and benefits)}}{\text{Revenue}}$
		6. Allocation to the Province of Manitoba (millions)****	$306.7	$332.1	$348.3	$342.9	Growth can be attributed to increased casino revenue and the expense management program.	Allocation to the Province = revenue + other income - cost of sales - expenses - allocations and payments + contributed surplus allocation
NEW BUSINESS DEVELOPMENT: RETAIN AND GROW OUR CUSTOMER BASE	Increase participation in Manitoba Lotteries' products and services	7. Number of active Club Card members	117,741	115,131	130,000	120,308	2011/12 saw a growth in active memberships.	Active Club Card members are the number of participants who have used their Club Cards throughout the casinos within the last 18 months.
		8. Percent of public who are Manitoba Lotteries customers	55%	56%	59%	54%	The decrease was primarily due to fewer Lotto Max jackpot rolls.	The Gaming Market Tracking Study measures the percentage of the public who use Manitoba Lotteries products and services within a selected four-week period. The score on this measure is significantly influenced by lottery participation.
	Increase attendance at the Casinos of Winnipeg	9. Percent of out-of-town visitors	21%	17%	22%	22%	2011/12 saw an increase of out-of-town visitors.	The Casino Customer Satisfaction Survey identifies the number of casino visitors outside city limits.
PEOPLE AND SERVICES: DEVELOP A KNOWLEDGEABLE WORKFORCE OF HIGHLY SATISFIED EMPLOYEES	Increase employee engagement	10. Employee engagement	72% 2008 survey	74% 2010 survey	75% 2012 survey	81% 2012 survey	Employee engagement matches the Canadian hospitality norm. Notable increases were seen in Corporate Social Responsibility, Customer Service and personal Growth and Development. With respect to Corporate Social Responsibility, employees feel that Manitoba Lotteries encourages the public to play responsibly and that it is committed to sound environmental practices.	The Employee Excellence survey measures employee satisfaction with employment, the desire to provide discretionary effort and pride in the organization. Combined these measures contribute to a measureable score of Employee Engagement. The survey is conducted every two years.

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

** Survey instrument was modified 2009/10.

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

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

Our casino guests have come to expect a visit that seamlessly integrates games, live performances, dining and other services.

Roulette at Club Regent Casino

QUALITY PRODUCTS

A SATISFIED CUSTOMER | In casinos, at lottery ticket centres and in Video Lottery Terminal sites, our customers across the province enjoy a wide range of quality gaming products that are delivered with integrity and social responsibility.

This past year, Club Regent Casino and McPhillips Station Casino introduced several product enhancements. The casinos' table games environments now feature a progressive jackpot for a variety of side wagers and mystery progressive games. Widescreen televisions and upgrades to the highly popular electronic roulette introduced last year have also added to a broader entertainment experience at the tables.

Bingo players are enjoying several new games and features on our award-winning Pick 'N Play bingo and slot machines. Claiming a world-first, we integrated live audio of bingo callers right on Pick 'N Play for the convenience and comfort of our players. Two-cent games have been added to the game mix. Food and non-alcoholic beverage service was also extended to our bingo floors.

Music fans have had plenty to cheer about with a dynamic range of live casino entertainment. In the past year, McPhillips Station Casino has hosted many successful concerts including the likes of The Midtown Men – four stars of the original Jersey Boys, The Bacon Brothers, and Default.

Our casino guests have come to expect a visit that seamlessly integrates games, live performances, dining and other services. Over the past year, Manitoba Lotteries has offered concert events in combination with options such as dinner and valet service. Now our customers can purchase and print tickets for entertainment packages via the Internet.

The province's VLT network has exceeded its lifespan and is being replaced over the next year. Players will enjoy new games and features that can be updated more frequently thanks to new network technology. Responsible gaming features will also be included.

Next year, Manitoba Lotteries will partner with British Columbia Lottery Corporation (BCLC) to deliver a Manitoba online gambling site based on BCLC's established platform, PlayNow.com. Manitobans will be able to play on a site that offers a comprehensive set of responsible play tools and information, where they can have confidence in game integrity and personal information security.

Over a thousand young athletes and their coaches cheered on the Winnipeg Jets at their 2011/12 home games, thanks to a partnership with True North and Sport Manitoba that promotes coaching excellence and youth in sport.

Manitoba Lotteries Flight Deck participants, Stonewall Strikerz U18 Soccer

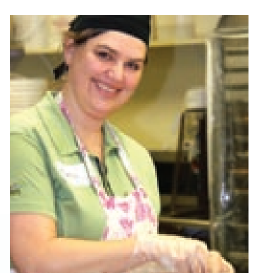
RESPONSIBILITY TO COMMUNITY

BE RECOGNIZED AS A VALUED MEMBER OF THE COMMUNITY | Based on our Corporate Social Responsibility policy, Manitoba Lotteries is a leader in offering socially responsible products, in contributing to the community through meaningful and long-term partnerships, and in conducting business in an environmentally sustainable manner.

COMMUNITY SUPPORT

Manitoba Lotteries supports hundreds of organizations each year through the Bingo Volunteer Program and through our community support program. A particularly successful relationship has been established with Habitat for Humanity through the Manitoba Lotteries Legacy Build program. Entering its fifth year in 2012/13, the program has so far generated $3.5 million to build homes for Manitobans, in addition to many hours volunteered on construction sites by our employees on their own time.

Over a thousand young athletes and their coaches cheered on the Winnipeg Jets at their 2011/12 home games, thanks to a partnership with True North and Sport Manitoba that promotes coaching excellence and youth in sport. The Manitoba Lotteries Flight Deck program offers Jets tickets to amateur sports teams. Almost 90 teams from across the province – representing curling, hockey, ringette, soccer, synchronized swimming, judo and more – scored tickets out of hundreds of applications.


Siloam Mission volunteer

Manitoba Lotteries also supported the expansion of a notable program offered by the Canadian Red Cross in Manitoba. The SmartStart program teaches new immigrants about water safety, road safety, accessing emergency services, and other essential living skills.

RESPONSIBLE GAMING

This year marked a major step forward with the launch of the Manitoba Gambling Research Program. Built from the ground up to expand Manitoba's research capacity, the program offers $1 million annually for research into responsible gaming, as well as the prevention and treatment of problem gambling. Open to researchers across Canada, the program provides grants for a wide range of gambling-related studies. All funded research is peer-reviewed and overseen by a research council. More information on this important program can be found at www.manitobagamblingresearch.com.

The launch of the Manitoba Gambling Research Program coincides with the completion of a separate, major study that tracks the gambling behaviour of participants over five years. The data collected from the Manitoba Longitudinal Study of Young Adults is now being made available to researchers for analysis and use in supporting their further research. This study was an initiative of the Manitoba Gaming Control Commission, the Addictions Foundation of Manitoba and Manitoba Lotteries.

manitoba gambling research PROGRAM

SUSTAINABLE DEVELOPMENT

For years our casinos and facilities have been maintained using environmentally friendly products and methods. We furthered this approach in early 2011 by committing to the Lake Friendly campaign introduced by the Province of Manitoba. As a result, Manitoba Lotteries has now completed its first full year of supporting business practices that protect Lake Winnipeg and its watershed.

As part of this commitment, we transitioned from being a carbon neutral organization (through tree plantings) to supporting this province's first carbon offset trial program. In April 2011, we partnered with the International Institute for Sustainable Development (IISD) for a project south of Lake Winnipeg on the Netley-Libau Marsh. Along with several other partners, IISD is demonstrating the environmental and economic benefits of harvesting and processing cattail marsh plants. Cattails are known to absorb phosphorus from marshes, so among the many benefits of harvesting them is the reduction of the nutrient load on Lake Winnipeg. The harvested cattails can be made into a biofuel product, offering the opportunity to establish a new carbon offset program for the province.

Netley-Libau Marsh

Recognized for excellence in budget presentation

AWARDS AND RANKINGS

Achievements

- Canada's Top 100 Employers (2012)
- Manitoba's Top Employers (2007-2012)
- PAR Gold Level (2008-2012)
- Lake Friendly (2010-2012)
- BOMA BESt (2010-2012)
- Certification of Club Regent Casino aquarium by the Canadian Association of Zoos and Aquariums (2011)
- Imagine Canada (2009-2012)
- Human Resource Management Association of Manitoba (2003-2012)
- Government Finance Officers Association – Distinguished Budget Recognition (2005-2012)

OPERATIONAL EXCELLENCE

BE EFFICIENT AND EFFECTIVE | Over the summer of 2011, Winnipeg's casinos consolidated two related departments, separately known as Countroom Operations and Banking Operations. The combined department manages most of the cash handling functions, including patron services like currency exchanges and prize payouts.

Casino slots games were updated to accept Canada's new polymer bank notes. In the next year, they will be further upgraded to automatically calculate cash inserted, thereby simplifying the cash count process at the end of each business day.

As a customer service enhancement, players will soon be able to conveniently claim jackpots at ticket redemption terminals instead of requiring a visit to the casino bank wicket.

Different types of market research help us identify how we can best deliver our products and provide high customer satisfaction. A lottery retailer survey, conducted every two years, was completed in 2011 for this purpose. Food and beverage tracking studies are now done every two weeks, allowing our restaurants to make faster adjustments, based on customer feedback. And focus groups with casino guests led to improvements like the introduction of our new online Club Card Rewards catalogue. Launched November 2011, the catalogue offers an entirely new way for Club Card members to redeem their points, conveniently from home, from a wide array of attractive items.

Lottery gaming underwent a significant change this year. The Manitoba Gaming Control Commission (MGCC) assumed responsibility for lottery retailer compliance inspections previously conducted by Manitoba Lotteries. The inspections ensure that retailers are following correct procedures such as only selling lottery products to adults. The inspections align well with the MGCC's regulatory duties.

Video Lottery also implemented improvements this year. We updated the application process for businesses interested in hosting VLTs. The new process simplifies the preliminary steps required by applicants. Additionally, the allocation of VLTs to a business is now centered on local market demand. These new processes ensure that the network provides the most benefit to the greatest number of rural and urban businesses, and that machines are located according to customer demand.

Different types of market research help us identify how we can best deliver our products and provide high customer satisfaction.

The customer experience is evolving at Winnipeg's casinos.

The Midtown Men – Four stars of the original Jersey Boys

NEW BUSINESS DEVELOPMENT

RETAIN AND GROW OUR CUSTOMER BASE | Our customers have many choices when it comes to selecting their entertainment. In 2011/12, we continued to make sure our products and casino environments delivered fun and excitement to new and returning customers.

McPhillips Station Casino Hotel concept

One of the most significant developments at McPhillips Station Casino will begin in 2013. Canad Inns will start construction of a neighbouring hotel, with a scheduled opening in 2014. Sure to become an instant landmark for the area, this hotel is a response to research showing that customers desire an all-inclusive entertainment destination.

The customer experience is evolving at Winnipeg's casinos. Guests at McPhillips Station Casino are enjoying new bingo, poker and table games areas. All-new paper bingo and bingo caller rooms allow for uninterrupted games, even when the concert bowl – where bingo has traditionally been located – is being used for a live performance.

Guests continue to show a strong interest in poker, as demonstrated at the casino's two new major annual tournaments. The spring and fall tournaments will return in 2012 and we expect to deliver even more excitement thanks to player feedback from this past year.

To make way for a new concert and event area at Club Regent Casino, all concerts were relocated to McPhillips Station Casino. For the same reason, all Pick 'N Play bingo and slot machines were relocated within Club Regent Casino. The popular Royal Palms restaurant merged with Jaguars Dance Club to create Jaguars Restaurant & Lounge. This new space offers a dynamic experience throughout the evening, shifting from a comfortable buffet to a cool lounge featuring live entertainment.

PEOPLE AND SERVICES

DEVELOP A KNOWLEDGEABLE WORKFORCE OF HIGHLY SATISFIED EMPLOYEES | We were proud to have been named one of Canada's Top 100 Employers as announced in *The Globe and Mail* and are very much committed to maintaining this level of excellence.

We earned this recognition by maintaining progressive hiring practices, by listening to employees, and by offering a wide range of employee programs that support and promote skills development, healthy work environments, employee benefits, workplace diversity and community involvement.

New for 2011/12, we partnered with the Manitoba Metis Federation to launch the Aboriginal Hospitality Program. This is an opportunity for individuals to be selected to receive three months of hospitality industry training, followed by a six-month internship at either Club Regent Casino or McPhillips Station Casino. The program provides these individuals valuable experience in the hospitality industry, through the casinos' food and beverage departments.

The hospitality program is just one example of our positive relationship with First Nations communities in our province. Manitoba Lotteries maintains a Gold Level status under the Progressive Aboriginal Relations program of the Canadian Council for Aboriginal Business. The Gold Level status recognizes our extensive approach towards including Aboriginal peoples in all aspects of our business, including business opportunities and employee recruitment and retention.

Our federally-supported pilot project, Developing Essential Skills for the Gaming/Casino Industry in Canada (DESIGI), feeds into the Aboriginal Hospitality Program. The curriculum developed over the past several years under DESIGI will now be used in training the two dozen successful program applicants. The same training material is being adopted by gaming operators in Ontario and Saskatchewan, and is available to other jurisdictions. Manitoba Lotteries delivers the programming through the Canadian Gaming Centre of Excellence (CGCE).

The CGCE has also collaborated with Athabasca University to develop and offer the Gaming Leadership Certificate Program. This milestone program is the first national gaming curriculum in Canada. The program is designed as distance education, allowing working candidates to earn their MBA online.

Manitoba Lotteries has revised its responsible gaming training for casino front line staff and managers. The new training is based on adult learning techniques and will further help employees understand their role within our responsible gaming environment.

Other training offered by Manitoba Lotteries can often be department-specific to support the unique professional demands of a specific operational role. For instance, we have partnered with the Canadian Police Knowledge Network — which is used by police forces across Canada — in providing our casino security officers with online training. This specialized training improves incident handling and customer response abilities. All training offered by Manitoba Lotteries shares the same goals: to support the development of our employees and our business, and deliver total customer excellence.

Gender Comparison

51.0%	Men
49.0%	Women

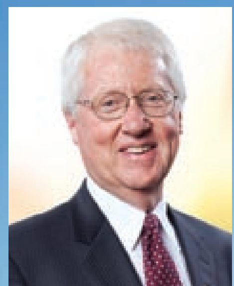
Equity Participation Rates

52.9%	Other
34.6%	Visible Minority
10.4%	Aboriginal
2.1%	Disabled

Training is based on adult learning techniques and will further help employees understand their role within our responsible gaming environment.

Training opportunities exist in many forms for employees

EXECUTIVE MANAGEMENT TEAM



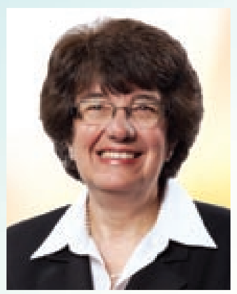
Winston Hodgins
PRESIDENT & CEO

Tracy Graham
EXECUTIVE VICE PRESIDENT,
FINANCE & CHIEF FINANCIAL OFFICER

Peter Hak
EXECUTIVE VICE PRESIDENT,
CORPORATE SERVICES

Susan Olynik
VICE PRESIDENT, CORPORATE
COMMUNICATIONS &
SOCIAL RESPONSIBILITY

Wayne Perfumo
VICE PRESIDENT, HOSPITALITY &
ENTERTAINMENT SERVICES



Marilyn Robinson
VICE PRESIDENT,
PEOPLE SERVICES &
BUSINESS TRANSFORMATION

Dan Sanscartier
VICE PRESIDENT,
GAMING OPERATIONS

Larry Wandowich
VICE PRESIDENT,
COMMUNITY RELATIONS &
CORPORATE SECURITY

Carolin Taubensee
EXECUTIVE GENERAL MANAGER,
eGAMING

Walter Nykolyszyn
EXECUTIVE GENERAL MANAGER,
INTERNAL AUDIT &
CORPORATE COMPLIANCE

2011/12 BOARD OF DIRECTORS

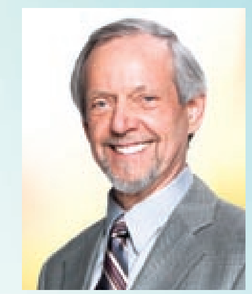
Tim Valgardson
CHAIR, WINNIPEG

Karen Botting
VICE CHAIR, WINNIPEG

Nicole Campbell
PORTAGE LA PRAIRIE

William Crawford
WINNIPEG

Jean-Paul Gobeil
WINNIPEG



Gerald Kolesar
WINNIPEG

Walter Kolisnyk
MINITONAS

Bev Romanik
BRANDON

Gerald Rosenby
WINNIPEG

Lisa Settee
WINNIPEG

Carolyn Wray
WINNIPEG

MANAGEMENT DISCUSSION AND ANALYSIS

of financial condition and results of operations as at March 31, 2012

The Management Discussion and Analysis reviews the consolidated financial results of the operation of Manitoba Lotteries Corporation for the fiscal year ended March 31, 2012. This report should be read in conjunction with Manitoba Lotteries' audited consolidated financial statements and accompanying notes.

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

OVERVIEW AND RESULTS OF OPERATIONS

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

Advances made toward achieving this goal within the past 12 months have resulted in an increase in financial performance as Manitoba Lotteries' allocation to the Province of Manitoba of $342.9 million for the fiscal year 2011/12 increased by $10.8 million or 3.3% as compared to the 2010/11 allocation to the Province of Manitoba of $332.1 million.

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

In addition, for reporting purposes within the management discussion and analysis, the administrative costs associated with corporate support services, including human resources, finance and administration, marketing, facilities, technology, audit, security, communications and public affairs, have been allocated to each of the operating segments outlined on pages 26 and 27.

Revenue of $569.0 million increased $6.6 million or 1.2% from the previous year's level of $562.4 million. This increase can be attributed to increased revenues in the Casinos offset by slight decreases in Lottery and Video Lotto revenues. As part of a long-range strategic goal of increasing overall customer satisfaction, Manitoba Lotteries continually reviews existing product offerings in order to enhance customers' overall experiences.

Revenue, net of direct expenses was $521.7 million in 2011/12 compared to $514.5 million in the previous year, an increase of $7.2 million. Operating expenses of $124.0 million were $12.0 million less than the previous year's $136.0 million, and include payroll and other costs directly related to the generation of gaming and lottery revenues. This is primarily a result of increases in salaries and benefits under the collective agreements and decreased maintenance costs related to equipment.

Depreciation and amortization of $30.7 million in 2011/12 decreased $5.6 million from $36.3 million in 2010/11. The decrease was primarily a result of equipment reaching the end of its useful life during the fiscal year.

MD&A

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

2011 (in thousands)	Video Lotto	Casinos	Lottery	Total
Revenue	$ 330,118	$ 229,274	$ 3,015	$ 562,407
Direct expenses	33,766	12,802	1,316	47,884
	296,352	216,472	1,699	514,523
Operating expenses	26,275	99,477	10,199	135,951
Depreciation and amortization	8,678	27,604	–	36,282
Goods and Services Tax	2,612	1,900	237	4,749
	37,565	128,981	10,436	176,982
Operating Income	258,787	87,491	(8,737)	337,541
Share of profit of Western Canada Lottery Corporation	–	–	77,022	77,022
Interest expense on long-term debt	(2,124)	(6,108)	(203)	(8,435)
Interest income	364	99	38	501
Income Before Allocations and Payments	257,027	81,482	68,120	406,629
Allocations and payments	78,313	6,002	635	84,950
Net Income and Comprehensive Income	178,714	75,480	67,485	321,679
Contributed surplus allocation	10,422	–	–	10,422
Total Allocation to the Province of Manitoba	**$ 189,136**	**$ 75,480**	**$ 67,485**	**$ 332,101**

VIDEO LOTTO

Located in Morris, Manitoba, Video Lotto is responsible for the operation and maintenance of VLTs. VLTs are located at Manitoba Liquor Control Commission (MLCC) licensed beverage rooms, Veterans organizations, First Nations communities, Assiniboia Downs and the MTS Centre. The operation of VLTs contributed over 55.9% of Manitoba Lotteries' net income and provided annual commissions and contributions of $108.9 million to all VLT siteholders who operate equipment on their premises.

Video Lotto operations generated revenue of $329.7 million in 2011/12, a slight decrease of $0.4 million or 0.1% from the revenue of $330.1 million in the previous year. Net income of $189.2 million increased $10.5 million or 5.9% from the net income of $178.7 million in the previous year. During the 2011/12 fiscal year, Manitoba Lotteries redistributed VLTs from low performing sites to higher performing sites; however, revenues continued to decline due to obsolete equipment and other factors.

Despite the revenue decrease, net income for the business line increased as a result of decreased depreciation and amortization as the VLTs have reached the end of their useful life and are scheduled to be replaced in the 2012/13 fiscal year.

Assiniboia Downs

During the fiscal year, Manitoba Lotteries entered into a new funding agreement with the Manitoba Jockey Club (MJC) which enhances the share of VLT revenues that are received by the MJC by providing up to $6.5 million in revenue, plus an additional 20% commission if VLT revenues reach higher than expected thresholds. Under this new funding arrangement, 10% of the net win represents the actual service component provided to Manitoba Lotteries for hosting the terminals and the balance is considered a contribution to support the horse racing industry in Manitoba.

First Nations

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

Commercial

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

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

Video Lotto			
Dollars Deposited	$ 1,427		
Dollars Played		$ 4,632	
Dollars Won		$ 4,304	
Dollars Cashed Out	$ 1,099		
Revenue	$ 328	$ 328	
Dollars Won (Prizes)	$ 4,304		92.9%
Dollars Played	$ 4,632		

CASINOS

Manitoba Lotteries owns and operates two casinos in the City of Winnipeg – Club Regent Casino and McPhillips Station Casino. Casino operations generated revenues of $236.4 million in 2011/12, an increase of $7.1 million or 3.1% more than the revenues of $229.3 million of the previous year.

Casino net income of $88.6 million increased from the previous year's net income of $75.5 million by $13.1 million or 17.4%. In 2011/12, there was a continued focus on the casinos as a total entertainment destination, resulting in increased visitor traffic for non-gaming related amenities. Throughout the fiscal year, there was a focus on improving the gaming offerings by updating certain games and also by introducing new games. The Club Card program which allows patrons to accumulate points redeemable for non-gaming goods and services continues to be favourably received by customers and contributed to the successful operations of the casinos in 2011/12. During the year, Manitoba Lotteries launched an online Club Card Rewards catalogue to provide members with additional opportunities for point redemption.

Efforts related to renewal of the casino properties began in earnest in 2012 with the start of construction of a new Entertainment Centre at Club Regent Casino. In order to accommodate the construction, the gaming floor was reconfigured and all entertainment offerings were moved to McPhillips Station Casino. In addition to the construction underway at Club Regent, Canad Inns announced their intention to develop a new hotel on land adjacent to the McPhillips Station Casino. It is anticipated the hotel will be completed in 2014.

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

Casinos

Dollars Deposited	$ 1,338	
Dollars Played		$ 2,682
Dollars Won		$ 2,482
Dollars Cashed Out	$ 1,138	
Revenue	$ 200	$ 200
Dollars Won (Prizes)	$ 2,482	92.5%
Dollars Played	$ 2,682	

LOTTERY

The Province of Manitoba is a member of the WCLC, a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities in the prairie provinces and the territories. Manitoba Lotteries distributes and sells tickets for national lotteries operated by the Interprovincial Lottery Corporation (ILC) and lottery gaming products operated by the WCLC. As the province's sole distributor of lottery products, Manitoba Lotteries is responsible for the development and maintenance of a retailer network of over 850 outlets across Manitoba and to market a selection of breakopen tickets through lottery retail outlets, charitable organizations and casinos across the province. Manitoba Lotteries also continues to be the exclusive supplier of bingo paper to Manitoba's charitable and non-profit licensed bingo operators.

In 2011/12, Manitoba Lotteries' share of the profit of WCLC of $67.7 million decreased from the previous year's share of the profit of WCLC of $77.0 million by $9.3 million or 12.1%. This decrease is attributed to decreased sales of Lotto Max and Lotto 6/49 due to a lower number of roll-overs to high jackpot levels. Net income of $60.5 million decreased from the previous year's net income of $67.5 million by $7.0 million or 10.4%. Manitoba Lotteries continued to strengthen its processes over this past fiscal year by continuing to enhance and enforce the procedures that require retailers to return all tickets to customers and by continuing to provide lottery retailers with the necessary tools, including training and technology, to enhance customer service.

RESULTS

FIRST NATIONS

In 2011/12 Manitoba Lotteries continued to provide support to the First Nations casino operators in Manitoba. During the fiscal year, Manitoba Lotteries provided assistance and capital financing in the amount of $0.5 million to Aseneskak Casino who completed the next phase of their Slot Floor Refurbishment program. The capital funding will be recovered over the five (5) year life of the equipment as authorized under the Gaming Agreement.

South Beach Casino continues to enjoy their expanded gaming operations, and plans to initiate a gaming floor refresh project in the 2012/13 fiscal year. All costs of gaming equipment and supplies are funded by Manitoba Lotteries and are being recovered over a five (5) to seven (7) year term as authorized by the Gaming Agreement.

MLC HOLDINGS INC.

Manitoba Lotteries' consolidated financial statements include the results of MLC Holdings Inc., a controlled entity established to purchase capital assets for lease to Manitoba Lotteries at cost. The management and oversight of MLC Holdings Inc. is consolidated within Manitoba Lotteries' operations and the Board reviews and approves capital purchases through the annual business planning and budget process. During the 2011/12 fiscal year, MLC Holdings Inc. acquired $32.5 million in capital assets for lease to Manitoba Lotteries.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities during 2011/12 provided Manitoba Lotteries with $357.3 million in cash flows compared to $368.3 million in the previous year, a decrease of $11.0 million or 3.0%. Net change in non-cash working capital items increased by $22.3 million. This was offset by increases in operating results of $16.6 million and decreases in depreciation and amortization of $5.5 million.

Cash expended on property and equipment totaled $40.1 million as compared to the $41.7 million expended in 2010/11. In 2011/12, Manitoba Lotteries purchased land adjacent to Club Regent Casino for redevelopment, as well as a warehouse in Morris. Discussions continue to purchase additional parcels of land adjacent to Club Regent Casino which will offer opportunities for improvements to the casino and surrounding areas.

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

Cash distributions to the Province of Manitoba resulted in a cash outflow of $343.0 million compared to the previous year's $314.4 million, representing an increase of 9.1%.

CORPORATE GOVERNANCE

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

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

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

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

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

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

RISK MANAGEMENT

Manitoba Lotteries continues to use and enhance its integrated Enterprise Risk Management Framework for assessing and managing risks at all levels across the corporation. This provides a consistent approach for addressing business risks at the strategic and business planning, project management and business process levels by:

- providing a common understanding of risks across business functions and units;
- providing management with an on-going assessment of potential risks to facilitate improved priority setting and decision making; and
- raising employee awareness and responsibility for managing these risks.

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

Operating Risks

Operating risk associated with processes, technology and people addresses the risk of loss resulting from events such as system failures, breakdown in internal controls, human error and criminal activity. It has been proven that losses such as a measurable decline in client confidence, gaming integrity and corporate image can be as damaging for an organization as a direct financial loss.

Manitoba Lotteries management remains committed to strengthening the existing system of internal controls and minimizing operational risk as much as possible. This has already been partially addressed by assessing the amount of risk present in operating units, large scale projects as well as specific business processes.

Technological Developments

The adoption of new technologies within the gaming industry continues, including the acceptance of industry-wide standards leading to increased convergence and integration across many systems, product lines and related processes. Manitoba Lotteries continues to work with other jurisdictions to develop common requirements and standards across Canada to streamline development and procurement of systems and devices. This will enable Manitoba Lotteries to continue to progress on the long-range VLT Product Refresh Strategy which will keep product offerings current and support enhanced responsible gaming functionality. Manitoba Lotteries also continues to refine its business processes to optimize the efficiency and effectiveness of the new opportunities being presented.

Technological change is also helping Manitoba 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. Finally, new technologies are providing management with better information, which will allow for more informed decision making. The Enterprise Business Analytics and System Convergence initiatives have been initiated to provide the tools to enable interoperability between various software applications, allow sharing of data across applications and lines of business for an enterprise view, and to provide Manitoba Lotteries with new levels of efficiency and methods of exploring new opportunities for revenue growth.

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

Financial Risks

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

For the eighth consecutive year, Manitoba Lotteries has been recognized for excellence in government budgeting. The honour has been enhanced by special recognition in three (3) judging categories: effectiveness as a policy document, capital plan and performance measures. Manitoba Lotteries is the only organization in Manitoba to receive this recognition for 2011/12 and the only organization in North America to achieve this award in the gaming industry. Manitoba Lotteries is committed to meeting the highest principles of government budgeting.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed all publicly accountable enterprises were required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Manitoba Lotteries adopted IFRS effective April 1, 2010 and has prepared consolidated financial statements for the year ended March 31, 2012 which comply with IFRS and comparative results for the year ended March 31, 2011, previously prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP), have been restated based on IFRS. The corporation's accounting policies are disclosed in note 2 of the audited consolidated financial statements.

IFRS employs a conceptual framework that is similar to Canadian GAAP; however significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS did not change the actual cash flows of the corporation adopting certain accounting and valuation methods resulted in changes to the consolidated statements of financial position and consolidated statements of net income, comprehensive income and equity.

In order to allow the users of the consolidated financial statements to better understand these changes, Manitoba Lotteries has prepared reconciliations between Canadian GAAP and IFRS in note 19 of the audited consolidated financial statements. In preparing the reconciliations, the corporation applied the principles, elections and exemption of IFRS 1 – *First-time Adoption of International Financial Reporting Standards* with a transition date of April 1, 2010.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

Based on that assessment, the CEO and CFO have concluded that, as at March 31, 2012, Manitoba Lotteries' internal controls over financial reporting are adequately designed and effective for providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

The CEO and CFO, together with management, after evaluating the effectiveness of Manitoba Lotteries' disclosure controls and procedures as at March 31, 2012, have concluded that the disclosure controls and procedures were proven to be adequate and effective.

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 during the year ending March 31, 2012.

WHISTLEBLOWER REPORT

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

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

OUTLOOK

Manitoba Lotteries' greatest opportunity to manage current operations is through revenue generation and cost containment. To ensure the long-term sustainability of revenues and income streams, Manitoba Lotteries continues to reinvest in its facilities, non-gaming amenities and in new gaming technology. This is demonstrated by the initiative to replace the aging VLTs with new state-of-the-art machines during the last quarter of the 2012/13 fiscal year. The replacement of these terminals also includes the implementation of a wide-area network to facilitate the communication between the machines located in the siteholders facilities and Manitoba Lotteries' new centralized gaming management system. In addition, Manitoba Lotteries is researching the availability of Player Services Experience software in a wide-area environment, which will provide the ability to offer services to customers through a player interface. These services may include enhanced responsible gaming services, player account management and other products and services such as lottery ticket sales and progressive games.

The corporation continues to focus on positioning the casinos as a total entertainment experience, by improving its entertainment facilities as evidenced by the construction of the Entertainment Centre at Club Regent Casino which is expected to open in the 2013/14 fiscal year. The construction of a hotel adjacent to the McPhillips Station Casino by Canad Inns will commence in the 2012/13 fiscal year, with an anticipated opening in 2014, and will result in an upgrade to the casino facilities itself, including the addition of a parkade to supplement parking available to the casino customers. Manitoba Lotteries will also continue to introduce exciting gaming options to the casino customers through replacement of aging slot machines with a variety of new leased, purchased and networked games and by introducing new table games.

Manitoba Lotteries continues to work on enhancing the lottery ticket offerings in the province which is evidenced by the recent release of the CFL's first scratch lottery program. Manitoba Lotteries has partnered with the Winnipeg Blue Bombers, WCLC, Pollard Banknote Limited and Splashdot, to develop an exciting new program to benefit Winnipeg's CFL team.

Talks continue with the Assembly of Manitoba Chiefs regarding the development of a third First Nations casino. Manitoba Lotteries will provide the conduct and manage oversight to this casino as well as the two existing First Nations casinos. In addition, Manitoba Lotteries will provide the capital funding for the acquisition of the gaming equipment and supplies required for the start-up of any new First Nations casino.

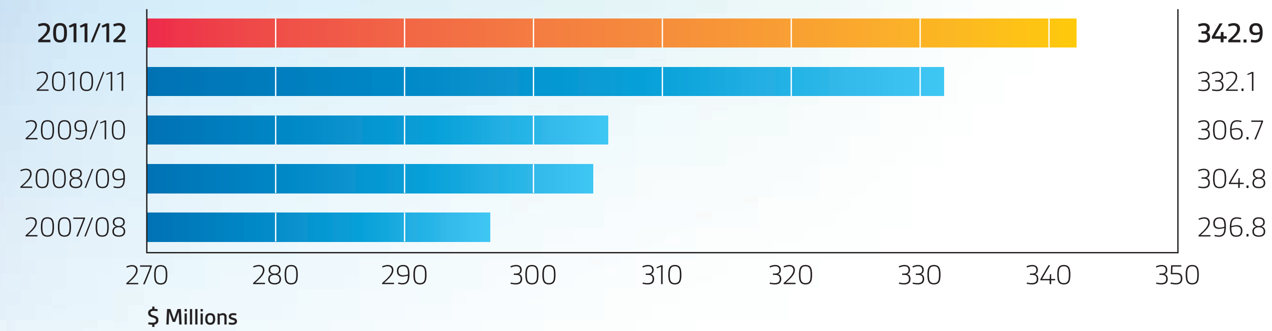
Manitoba Lotteries' support for the community is outlined within a governing Corporate Social Responsibility (CSR) Policy. Financial business planning processes are used so all matters of CSR including community support, French language services, responsible gaming, sustainable development and people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

In April of 2012, Manitoba Lotteries announced their intention to partner with British Columbia Lotteries Corporation (BCLC) to deliver online gambling to Manitobans on a Manitoba site, based on BCLC's online platform. It is expected that both partners will benefit from economies of scale and a larger player base for games such as poker, as well as increase their ability to combat thousands of illegal off-shore websites. Manitoba Lotteries expects to have online gambling operational in the fourth quarter of 2012/13.

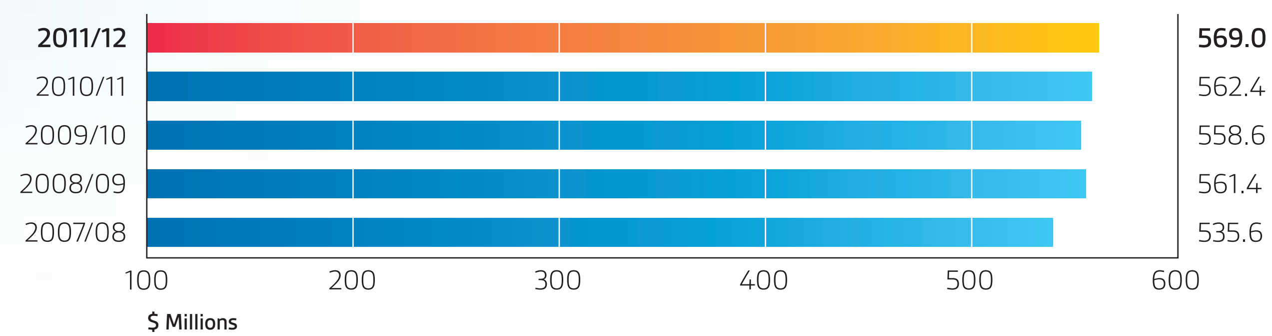
On April 17, 2012, the Province announced that the MLCC and Manitoba Lotteries Corporation would be merged into a single entity and the regulatory oversight for liquor control, currently managed by MLCC would be merged with the Manitoba Gaming Control Commission (MGCC). Each Crown Corporation operates under a separate Act and will continue to function as a separate legal entity until they are combined under common legislation, which is anticipated to occur in 2013. In the interim, Manitoba Lotteries and MLCC are working closely together to identify common areas and synergies which will facilitate this transition.

HIGHLIGHTS

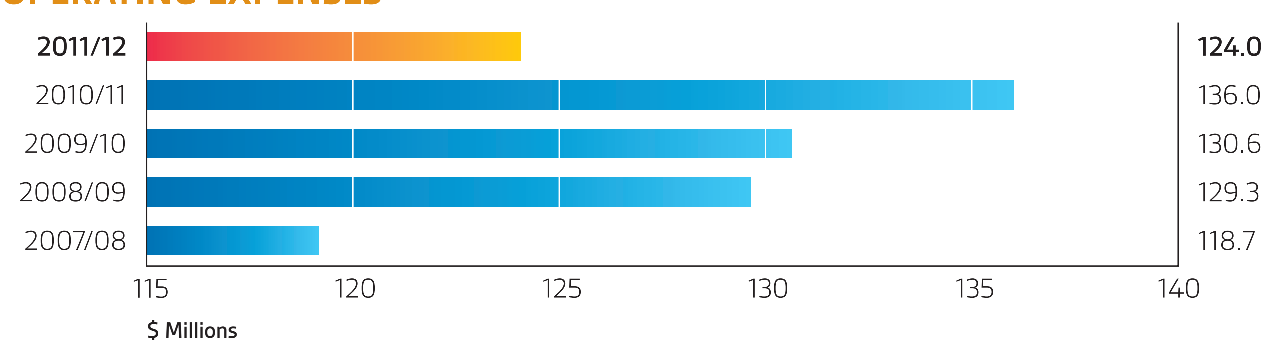
ALLOCATION TO THE PROVINCE OF MANITOBA



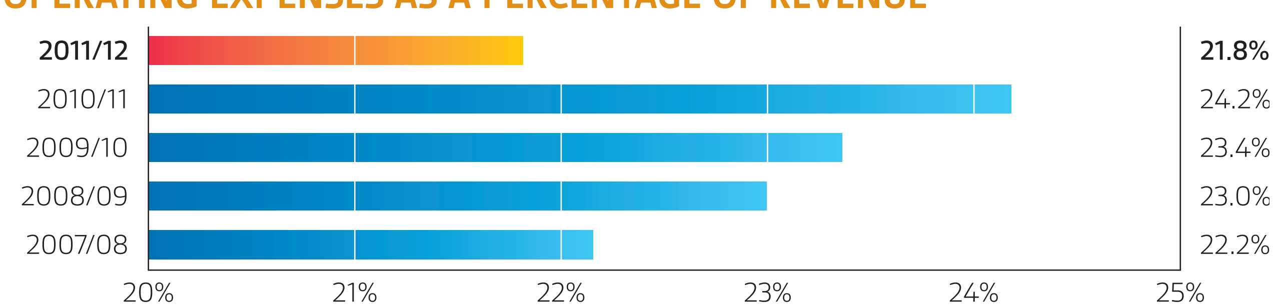
REVENUE



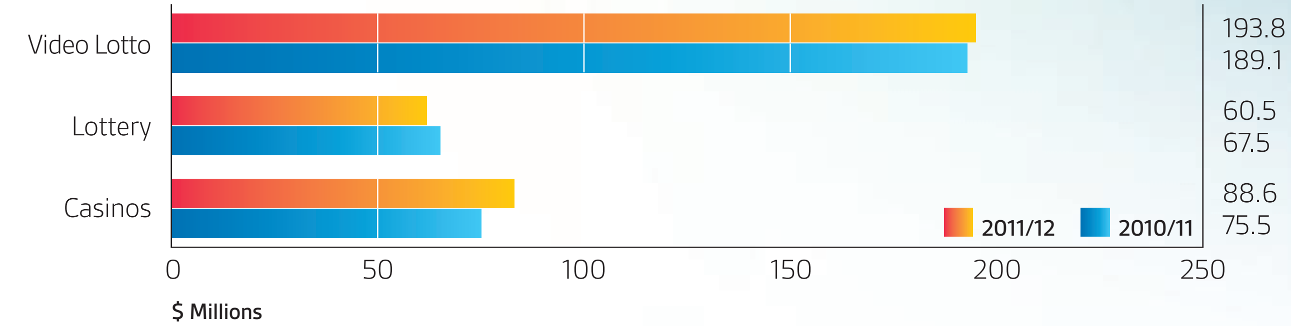
OPERATING EXPENSES



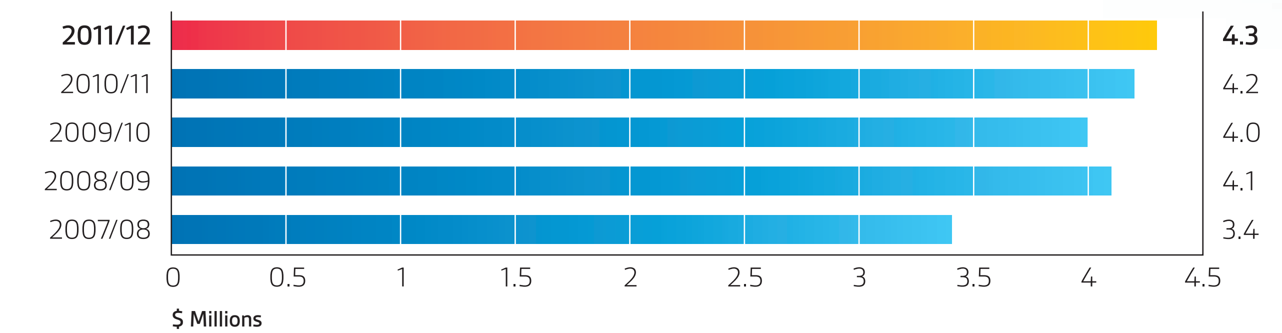
OPERATING EXPENSES AS A PERCENTAGE OF REVENUE



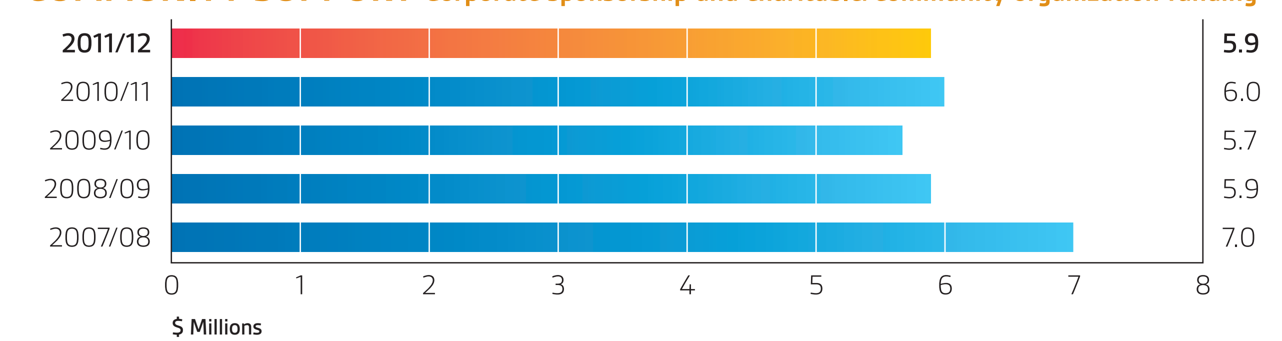
ALLOCATION TO THE PROVINCE OF MANITOBA BY PRODUCT SEGMENT



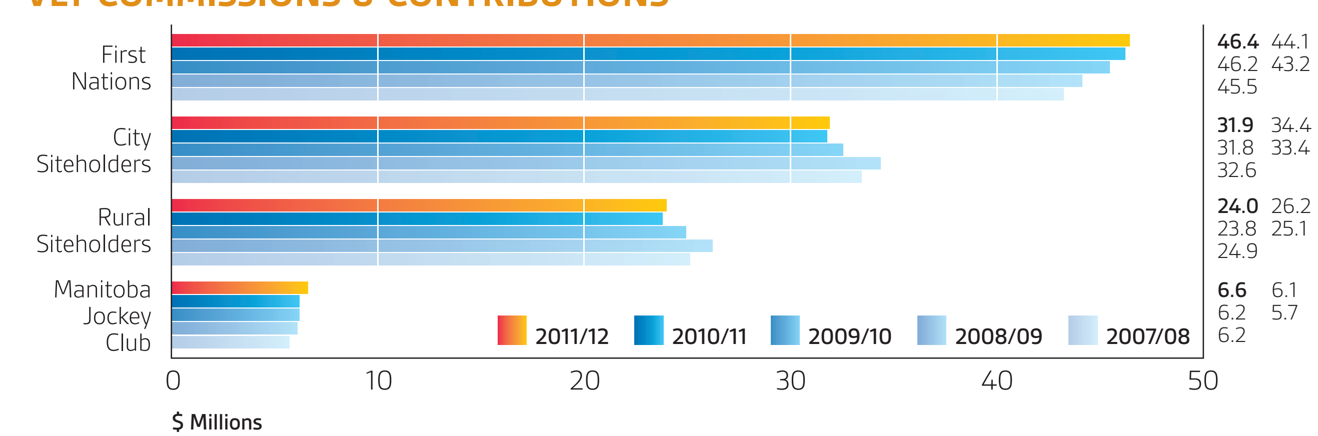
RESPONSIBLE GAMING



COMMUNITY SUPPORT Corporate sponsorship and charitable/community organization funding



VLT COMMISSIONS & CONTRIBUTIONS



CONSOLIDATED FINANCIAL STATEMENTS

Manitoba Lotteries Corporation
March 31, 2012 and 2011

STRENGTH

MANAGEMENT REPORT

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with the accounting policies stated in the consolidated financial statements. Management has prepared the consolidated financial statements in accordance with International Financial Reporting Standards. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements unless otherwise stated.

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

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

The responsibility of Ernst & Young LLP is to express an independent opinion on whether the consolidated financial statements are fairly stated in accordance with International Financial Reporting Standards. The Independent Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

The Audit and Risk Management Committee of the Board meets with management and Ernst & Young LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the consolidated financial statements before approving them. The Board has reviewed and approved the consolidated financial statements for the fiscal year ended March 31, 2012.

W. Hodgins

Winston Hodgins
PRESIDENT & CEO

Tracy Graham

Tracy Graham
EXECUTIVE VICE PRESIDENT, FINANCE & CFO

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Manitoba Lotteries Corporation

We have audited the accompanying consolidated financial statements of Manitoba Lotteries Corporation, which comprise the consolidated statements of financial position as at March 31, 2012 and 2011 and April 1, 2010 and the consolidated statements of net income, comprehensive income and equity and cash flows for the years ended March 31, 2012 and 2011, 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 audits. We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manitoba Lotteries Corporation as at March 31, 2012 and 2011 and April 1, 2010 and the results of its operations and its cash flows for the years ended March 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Ernst & Young LLP

CHARTERED ACCOUNTANTS
WINNIPEG, CANADA,
JULY 6, 2012.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
ASSETS				
Current Assets				
Cash		**$ 30,850**	$ 32,012	$ 27,491
Trade and other receivables	5	**15,929**	12,037	9,600
Inventories	6	**1,310**	1,601	1,457
Prepayments	7	**3,042**	2,182	2,107
		51,131	47,832	40,655
Non-Current Assets				
Property and equipment, net	8	**184,209**	175,910	172,132
Intangible assets, net	9	**4,122**	4,977	5,568
		188,331	180,887	177,700
TOTAL ASSETS		**$ 239,462**	$ 228,719	$ 218,355
LIABILITIES AND EQUITY				
Current Liabilities				
Trade and other payables	10	**$ 36,712**	$ 46,435	$ 35,674
Payable to the Province of Manitoba		**19,273**	19,401	1,673
Current portion of long-term debt	11	**13,614**	17,221	17,562
		69,599	83,057	54,909
Non-Current Liabilities				
Long-term debt	11	**163,583**	135,300	142,621
Provision for employee pension benefits	12	**1,280**	784	825
		164,863	136,084	143,446
Commitments and contingencies	16			
Equity				
Contributed surplus		–	4,578	15,000
Retained earnings		**5,000**	5,000	5,000
		5,000	9,578	20,000
TOTAL LIABILITIES AND EQUITY		**$ 239,462**	$ 228,719	$ 218,355

(see accompanying notes to the consolidated financial statements)

On behalf of the Board,

Tannis Mindell

Tannis Mindell
DIRECTOR & CHAIR OF THE BOARD OF DIRECTORS

Gerald Rosenby
DIRECTOR & CHAIR OF THE AUDIT & RISK MANAGEMENT COMMITTEE

CONSOLIDATED STATEMENTS OF NET INCOME, COMPREHENSIVE INCOME AND EQUITY

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

	Notes	2012	2011
Revenue		**$ 569,027**	$ 562,407
Direct Expenses			
VLT commissions		**33,707**	33,766
Gaming direct expenses	13	**5,459**	5,851
Non-gaming cost of sales	13	**8,184**	8,267
		521,677	514,523
Operating expenses	13	**124,013**	135,951
Depreciation and amortization		**30,743**	36,282
Goods and Services Tax		**3,807**	4,749
		158,563	176,982
Operating Income		**363,114**	337,541
Share of profit of Western Canada Lottery Corporation	14	**67,675**	77,022
Interest expense on long-term debt		**(6,813)**	(8,435)
Interest income		**306**	501
Income Before Allocations and Payments		**424,282**	406,629
Allocations and Payments			
Gaming Commission fees and Crown levy		**3,142**	3,116
First Nations allocation		**43,775**	43,661
Manitoba Jockey Club Inc. contribution		**5,991**	5,457
Tourism contribution		**25,377**	25,141
Responsible gaming funding		**3,763**	3,634
Casino bingo volunteer program		**3,939**	3,941
	15	**85,987**	84,950
NET INCOME AND COMPREHENSIVE INCOME		**338,295**	321,679
EQUITY, BEGINNING OF THE YEAR		**9,578**	20,000
Allocation to the Province of Manitoba		**(338,295)**	(321,679)
Allocation to the Province of Manitoba – contributed surplus		**(4,578)**	(10,422)
Total Allocation to the Province of Manitoba		**(342,873)**	(332,101)
EQUITY, END OF THE YEAR		**$ 5,000**	$ 9,578

(see accompanying notes to the consolidated financial statements)

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2012	2011
Operating activities		
Net income and comprehensive income	**$ 338,295**	$ 321,679
Add (deduct) items not involving cash:		
Depreciation related to property and equipment	**29,517**	34,891
Depreciation on assets related to First Nations Casinos	**2,682**	2,673
Amortization related to intangible assets	**1,226**	1,391
Gain on disposal of property and equipment	**(745)**	(423)
Provision for employee pension benefits	**496**	(41)
	371,471	360,170
Net change in non-cash working capital items:		
Decrease (increase) in trade and other receivables	**(3,892)**	(2,437)
Decrease (increase) in inventories	**291**	(144)
Decrease (increase) in prepayments	**(860)**	(75)
Increase (decrease) in trade and other payables	**(9,723)**	10,761
Cash provided by operating activities	**357,287**	368,275
Investing activities		
Purchase of property and equipment	**(40,635)**	(41,342)
Purchase of intangible assets	**(371)**	(800)
Proceeds from disposal of property and equipment	**882**	423
Cash used in investing activities	**(40,124)**	(41,719)
Financing activities		
Cash distributions to the Province of Manitoba:		
Current year	**(338,600)**	(312,700)
Prior year	**(4,401)**	(1,673)
Proceeds from long-term debt	**41,950**	11,000
Repayment of long-term debt	**(17,274)**	(18,662)
Cash used in financing activities	**(318,325)**	(322,035)
Net increase (decrease) in cash during the year	**(1,162)**	4,521
Cash, beginning of the year	**32,012**	27,491
Cash, end of the year	**$ 30,850**	$ 32,012
Supplemental cash flow information		
Interest paid	**$ 7,108**	$ 9,231

(see accompanying notes to the consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2012
(in thousands of Canadian dollars)

1. BACKGROUND

The Manitoba Lotteries Foundation was established by the *Manitoba Lotteries Foundation Act*. On July 27, 1993, the Act was amended and continued under the *Manitoba Lotteries Corporation Act*. By consent of the Legislative Assembly of Manitoba, the organization continues its operations as a Crown corporation under the name of the Manitoba Lotteries Corporation (Manitoba Lotteries) or the Corporation. The registered office of the Corporation is located at 830 Empress Street, Winnipeg, Manitoba.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Adoption of IFRS and basis of presentation

The consolidated financial statements of the Corporation for the year ended March 31, 2012 were authorized for issue by the Board of Directors on July 6, 2012.

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

(b) Statement of compliance

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations as issued by the International Accounting Standards Board (IASB). As these consolidated financial statements represent the Corporation's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IFRS 1 – *First-time Adoption of International Financial Reporting Standards.*

The Corporation's consolidated financial statements were previously prepared based on Canadian Generally Accepted Accounting Principles (Canadian GAAP). Canadian GAAP differs in some areas from IFRS; therefore, in preparing these consolidated financial statements, management has amended certain accounting and valuation methods previously applied to comply with IFRS. The comparative figures for the year ended March 31, 2011 were restated to reflect these adjustments. Any information considered material to the understanding of the Corporation's transition to IFRS, along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on the consolidated statement of financial position and the consolidated statement of net income, comprehensive income and equity, are included in note 19.

(c) Basis of consolidation

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

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

(d) Western Canada Lottery Corporation

The Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the *Canada Corporations Act* on May 13, 1974. The provincial governments of Manitoba, Saskatchewan and Alberta are members in the WCLC, and the Yukon Territory, the Northwest Territories and Nunavut participate with the provinces as associate members in the sale of gaming products. Each province and territory has appointed a lottery organization to assist the WCLC with the distribution of gaming products in its jurisdiction (Manitoba Lotteries for the Province of Manitoba).

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

(e) First Nations Casinos

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

(f) Foreign currency translation

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

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

(g) Financial instruments

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

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

(i) Fair value through profit and loss

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

(ii) Loans and receivables

Trade and other receivables are classified as loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Any gains or losses and any losses arising from impairment are recognized in the consolidated statement of net income, comprehensive income and equity.

(iii) Other financial liabilities

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

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

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

(h) Property and equipment

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

MANITOBA LOTTERIES CORPORATION – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2012
(IN THOUSANDS OF CANADIAN DOLLARS)

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. The Corporation capitalized borrowing costs for all qualifying assets where construction commenced on or after the IFRS opening consolidated statement of financial position of April 1, 2010.

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

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

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

(i) Leases

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

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

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

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

(j) Intangible assets

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

Computer software	5-10 years

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

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

(k) Cash

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

(l) Inventories

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

(m) Impairment

(i) Financial assets

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

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

MANITOBA LOTTERIES CORPORATION – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2012
(IN THOUSANDS OF CANADIAN DOLLARS)

(ii) Non-financial assets

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

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

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

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

(n) Provisions

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

(o) Pension plans

In accordance with the provisions of the *Civil Service Superannuation Act* (Act), employees of the Corporation are eligible for pension benefits. Plan members are required to contribute to the multi-employer Civil Service Superannuation Fund (Fund) at prescribed rates for defined benefits and will receive benefits based on the length of service and on the average of annualized earnings calculated on the best five years prior to retirement, termination or death that provides the highest earnings. The Corporation is required to match contributions contributed to the Fund by the employees at prescribed rates, which is recorded as an operating expense. Under this Act, the Corporation has no further pension liability. Based on limited information available from the Fund, the Corporation has judged this information to be insufficient to properly allocate any potential pension plan deficits and is therefore not able to reliably determine its participation in any potential future deficit. As a result, the Corporation expenses contributions made to the pension plan as if the plan was a defined contribution plan.

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

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

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

(p) Revenue recognition

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

Lottery revenue is recorded as of the date of the draw with the exception of instant game revenue which is recorded at the time the ticket is activated by the retailer via the online accounting system for sale to customers. Video lottery and other gaming revenue is recorded at the time of play, net of prizes paid. Administration fees related to First Nations are recorded at the time services are rendered.

(q) Promotional allowances

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

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

(r) Goods and Services Tax

In lieu of Goods and Services Tax (GST) on lottery and gaming revenue, the Corporation foregoes claiming input tax credits and pays an additional 5% GST on gaming expenditures, including retailer commissions. This additional 5% is reported as GST expense in the consolidated statement of net income, comprehensive income and equity.

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

MANITOBA LOTTERIES CORPORATION — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2012
(IN THOUSANDS OF CANADIAN DOLLARS)

(s) Changes in accounting policies

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

(i) IAS 24 – *Related Party Disclosures* has been revised to clarify and simplify the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard is mandatory for annual periods beginning on or after January 1, 2011, with earlier adoption permitted. The adoption of this standard by the Corporation is included in note 18 of these consolidated financial statements.

(ii) The IASB issued IFRS 10 – *Consolidated Financial Statements*, which defines the principal of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements; IFRS 11 – *Joint Arrangements*, which requires a party to a joint arrangement to determine the type of the joint arrangement by assessing its rights and obligations arising from the arrangement and IFRS 12 – *Disclosures of Interests in Other Entities*, which sets out disclosure requirements of an entity's interests in other entities. In addition, IAS 27 – *Separate Financial Statements* and IAS 28 – *Investments in Associates and Joint Ventures* have been amended to reflect the issuance of these new standards. The new standards are mandatory for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The adoption of these standards by the Corporation is reflected in the consolidated statement of net income, comprehensive income and equity and note 14 of these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

(b) Loyalty points program

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

The future redemption liability of $3,233 (2011 — $2,817) is included in trade and other payables and is based on an assessment of anticipated point redemptions and point value. The Corporation adjusts the estimated liability based on redemption experience and additional points earned and any adjustments will be recorded in the consolidated statement of net income, comprehensive income and equity.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

(i) IAS 1 — *Presentation of Financial Statements* was amended in June 2011 to improve the consistency and clarity of the presentation of items of other comprehensive income by requiring items to be grouped on the basis of whether or not they may be subsequently reclassified to profit or loss. The amendments are effective for annual periods beginning on or after July 1, 2012 and their adoption is not expected to have an impact on the Corporation's consolidated financial statements.

(ii) IFRS 9 — *Financial Instruments* applies to the classification and measurement of financial instruments as defined in IAS 39 — *Financial Instruments: Recognition and Measurement.* The standard is effective for annual periods beginning on or after January 1, 2013 and the Corporation is currently evaluating the impact adoption will have on the classification and measurement of its financial instruments.

(iii) IFRS 13 — *Fair Value Measurement* provides guidance on the measurement of the fair value of financial or non-financial assets and liabilities when required or permitted by IFRS. While the underlying concepts in IFRS 13 are consistent with current practice, the application of certain principles and the disclosure requirements could have a significant impact on an entity's financial statements. The standard is effective for annual periods beginning on or after January 1, 2013 and the Corporation is currently evaluating the impact of adoption of the new standard.

MANITOBA LOTTERIES CORPORATION — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2012
(IN THOUSANDS OF CANADIAN DOLLARS)

5. TRADE AND OTHER RECEIVABLES

		2012		2011		April 1, 2010
Western Canada Lottery Corporation	$	**7,259**	$	7,517	$	5,140
Trade		**8,162**		3,791		3,048
First Nations		**292**		467		906
Goods and Services Tax		**3**		23		250
Employee computer program		**213**		239		256
	$	**15,929**	$	12,037	$	9,600

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

6. INVENTORIES

		2012		2011		April 1, 2010
Bingo paper	$	**359**	$	417	$	462
Breakopen tickets		**372**		511		345
Consumable supplies		**227**		202		291
Restaurant		**157**		169		148
Store merchandise		**195**		302		211
	$	**1,310**	$	1,601	$	1,457

7. PREPAYMENTS

		2012		2011		April 1, 2010
Maintenance contracts	$	**1,996**	$	1,101	$	1,105
Insurance		**465**		455		461
Entertainer and sponsorship deposits		**124**		157		109
Rent		**127**		131		85
Other		**330**		338		347
	$	**3,042**	$	2,182	$	2,107

(IN THOUSANDS OF CANADIAN DOLLARS)

8. PROPERTY AND EQUIPMENT

	Land	Buildings and parking lots	Gaming equipment	Furniture and equipment	Assets related to First Nations Casinos	Work in progress (WIP)	Total
COST							
April 1, 2010	$ 5,798	$ 167,958	$ 158,922	$ 83,191	$ 19,028	$ 10,500	$ 445,397
Additions	11,337	4,946	7,837	5,119	289	11,814	41,342
Transfers from WIP	–	3,823	228	6,022	–	(10,073)	–
Disposals	–	–	(2,306)	(565)	–	–	(2,871)
March 31, 2011	17,135	176,727	164,681	93,767	19,317	12,241	483,868
Additions	6,883	1,003	6,930	3,388	266	22,165	40,635
Transfers from WIP	–	2,068	578	4,736	116	(7,498)	–
Disposals	–	(171)	(4,873)	(236)	(2,731)	–	(8,011)
March 31, 2012	**$ 24,018**	**$ 179,627**	**$ 167,316**	**$ 101,655**	**$ 16,968**	**$ 26,908**	**$ 516,492**
DEPRECIATION							
April 1, 2010	$ –	$ 83,217	$ 109,284	$ 69,184	$ 11,580	$ –	$ 273,265
Depreciation	–	6,608	20,622	7,661	2,673	–	37,564
Disposals	–	–	(2,306)	(565)	–	–	(2,871)
March 31, 2011	–	89,825	127,600	76,280	14,253	–	307,958
Depreciation	–	9,375	12,483	7,659	2,682	–	32,199
Disposals	–	(71)	(4,843)	(229)	(2,731)	–	(7,874)
March 31, 2012	**$ –**	**$ 99,129**	**$ 135,240**	**$ 83,710**	**$ 14,204**	**$ –**	**$ 332,283**
NET BOOK VALUE							
March 31, 2012	**$ 24,018**	**$ 80,498**	**$ 32,076**	**$ 17,945**	**$ 2,764**	**$ 26,908**	**$ 184,209**
March 31, 2011	17,135	86,902	37,081	17,487	5,064	12,241	175,910
April 1, 2010	5,798	84,741	49,638	14,007	7,448	10,500	172,132

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

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

The amount of borrowing costs capitalized during the 2012 fiscal year was $286 (2011 – nil). The rate used to determine the amount of borrowing costs eligible for capitalization was 2.250%, the effective interest rate of the specific borrowing.

The net book value of buildings and parking lots held under finance leases at the end of the 2012 fiscal year is $4,469 (2011 – $4,748) and consists of land being used for parking facilities at the McPhillips Station Casino and the Video Lotto office building located in Morris, Manitoba.

9. INTANGIBLE ASSETS

	Computer Software – Acquired
COST	
April 1, 2010	$ 12,435
Additions	800
March 31, 2011	13,235
Additions	371
March 31, 2012	**$ 13,606**
AMORTIZATION	
April 1, 2010	$ 6,867
Amortization	1,391
March 31, 2011	8,258
Amortization	1,226
March 31, 2012	**$ 9,484**
NET BOOK VALUE	
March 31, 2012	**$ 4,122**
March 31, 2011	4,977
April 1, 2010	5,568

10. TRADE AND OTHER PAYABLES

	2012	2011	April 1, 2010
Trade	**$ 24,780**	$ 35,015	$ 24,467
Vacation	**8,962**	8,556	8,051
Interest	**17**	26	822
Jackpot liability	**2,611**	2,481	1,973
Province of Manitoba taxes	**342**	357	361
	$ 36,712	$ 46,435	$ 35,674

(IN THOUSANDS OF CANADIAN DOLLARS)

11. LONG-TERM DEBT

	2012	2011	April 1, 2010
Province of Manitoba, bearing interest at 6.950%, interest only payable semi–annually, with all principal due at maturity on August 30, 2010.	**$ –**	$ –	$ 135,000
Province of Manitoba, bearing interest at 5.050%, repayable in monthly principal installments of $563 plus interest until August 31, 2030.	**124,313**	131,063	–
Province of Manitoba, bearing interest at 5.250%, repayable in quarterly principal installments of $1,071 plus interest until June 30, 2011.	**–**	1,071	5,357
Province of Manitoba, bearing interest at 4.625%, repayable in quarterly principal installments of $1,071 plus interest until September 30, 2011.	**–**	2,143	6,429
Province of Manitoba, bearing interest at the prevailing Bankers Acceptance Rate plus ¼ of 1%, repayable in quarterly principal installments of $679 plus interest until May 10, 2012. The interest rate on the debt at March 31, 2012 was 1.531%.	**679**	3,393	6,107
Province of Manitoba, bearing interest at 4.050%, repayable in monthly principal installments of $84 plus interest until August 31, 2012.	**421**	1,433	2,444
Province of Manitoba, bearing interest at 4.150%, repayable in monthly principal installments of $96 plus interest until July 31, 2013.	**1,530**	2,678	3,826
Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of $12 plus interest until February 26, 2015.	**408**	548	688
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, 2012 was 2.177%.	**7,700**	9,900	–
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, 2012 was 2.250%.	**30,800**	–	–
Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of $70 plus interest until March 31, 2017.	**4,200**	–	–
Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of $108 plus interest until March 31, 2017.	**6,500**	–	–
Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of $8 plus interest until August 31, 2016.	**398**	–	–
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.	**248**	292	332
	177,197	152,521	160,183
Less current portion of long-term debt	**13,614**	17,221	17,562
	$ 163,583	$ 135,300	$ 142,621

All long-term debt is unsecured and the fair market value at March 31, 2012 is $194,644. The Corporation's exposure to liquidity risks related to long-term debt is disclosed in note 17.

12. PROVISION FOR EMPLOYEE PENSION BENEFITS

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

The pension expense related to the Corporation's contributions to the multi-employer Civil Service Superannuation Fund is $4,073 (2011 – $3,430). Based on limited information available from the Fund, the Corporation has judged this information to be insufficient to properly allocate any potential pension plan deficits and is therefore not able to reliably determine its participation in any potential future deficit. As a result, the Corporation's contribution to the Fund is recorded in operating expenses. The Corporation's share of the multi-employer plan accrued benefit obligation has been actuarially measured for accounting purposes as at March 31, 2012 using the accumulated benefit cost method prorated based on service, a discount rate of 4.50% (2011 – 5.00%) and management's best estimate of expected plan performance, salary escalation and retirement ages of employees.

A pension liability of $1,280 (2011 – $784) has been established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund. A loss of $495 was experienced in the current year based on the most recently available actuarial assessment of pension obligations as at March 31, 2012 and is included in the above pension expense.

The pension expense related to the Corporation's contributions to the money purchase plan is $147 (2011 – $146) and is recorded in operating expenses.

13. EXPENSES BY NATURE

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

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

	2012	2011
Employee benefits	**$ 92,413**	$ 90,618
Community support	**1,921**	2,097
Consultant and professional fees	**2,936**	3,609
Maintenance	**6,030**	15,966
Marketing	**6,105**	6,761
Property taxes	**3,140**	3,050
Sundry	**3,250**	4,789
Supplies and equipment	**3,197**	3,776
Telecommunications	**1,222**	1,362
Transportation and vehicles	**1,445**	1,503
Utilities	**2,354**	2,420
	$ 124,013	$ 135,951

(IN THOUSANDS OF CANADIAN DOLLARS)

14. SHARE OF PROFIT OF WCLC

		2012		2011
Revenue	$	**223,422**	$	242,131
Prizes, commissions & other cost of sales		**149,820**		159,367
WCLC partner equalization		**3,598**		3,459
Payment to Government of Canada		**2,329**		2,283
Profit	$	**67,675**	$	77,022

The WCLC earned revenue in the 2012 fiscal year in the amount of $1,183,804 (2011 – $1,268,947), of which the Corporation's share calculated based on relative sales levels by jurisdiction is 19% (2011 – 19%). The WCLC's total profit for the 2012 fiscal year was $400,725 (2011 – $440,295) of which the Corporation's share is 17% (2011 – 17%).

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

Effective January 1, 1980 the Government of Canada terminated its involvement in lotteries. In return, the ten provinces are to contribute an annual sum of $24,000, adjusted for inflation, to the Federal Government.

15. ALLOCATIONS AND PAYMENTS

		2012		2011
Gaming Commission fees and Crown levy	$	**3,142**	$	3,116
First Nations allocation		**43,775**		43,661
Manitoba Jockey Club Inc. contribution		**5,991**		5,457
Tourism contribution		**25,377**		25,141
Responsible gaming funding		**3,763**		3,634
Casino bingo volunteer program		**3,939**		3,941
	$	**85,987**	$	84,950

The Corporation provides funding to the Manitoba Gaming Control Commission (MGCC) through payment of annual registration fees for electronic gaming machines and employees. The Corporation also provides funding to the Crown Corporations Council through the payment of an annual levy.

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

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

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

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

The Corporation provides over four hundred charitable and community organizations the opportunity to raise funds for their organizations by assisting the Corporation in the bingo events held at its casinos and providing funding to various community groups throughout Manitoba.

16. COMMITMENTS AND CONTINGENCIES

(a) Lease obligations

The Corporation has entered into commercial leases on certain buildings and parking lots which have an average remaining term of 2 to 10 years with options for renewal after that date. In addition, the Corporation has entered into commercial leases on certain motor vehicles which have a remaining term ranging between 1 to 7 years with no renewal option included in the contracts. The future minimum rental payments relating to operating leases are as follows:

2013	$	1,036
2014		616
2015		217
2016		149
2017		141
Subsequent years		450
	$	2,609

(b) Legal claims

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

The Corporation was named as a party to a lawsuit related to Scratch 'n Win lottery tickets in March 2009. No steps have been taken to proceed with the claim since it was filed and the possibility of a payout related to this action cannot be determined at this time; therefore no provision for any liability has been made in the consolidated financial statements.

(c) Purchase commitments

At the end of the 2012 fiscal year the Corporation had purchase commitments of $25,704 including $8,957 related to casino construction projects and $16,747 related to VLT replacement activities.

17. FINANCIAL INSTRUMENTS

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

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

(IN THOUSANDS OF CANADIAN DOLLARS)

(a) Interest rate risk

Interest rate risk is the risk to the Corporation's income that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk, though risks associated with interest rate fluctuations are mitigated based on 78% (2011 — 91%) of long-term debt having a fixed interest rate. The impact on the Corporation's income associated with the variable interest rate long-term debt is not considered significant.

(b) Liquidity risk

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

The table below summarizes the maturity profile of the Corporation's financial liabilities based on contractual undiscounted payments.

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

2011	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	>5 years
Trade and other payables	$ 2,481	$ 43,954	$ –	$ –	$ –	$ –	$ –	$ –
Payable to the Province of Manitoba	–	19,401	–	–	–	–	–	–
Long-term debt	–	17,221	11,384	9,523	9,132	7,908	6,791	90,562
	$ 2,481	$ 80,576	$ 11,384	$ 9,523	$ 9,132	$ 7,908	$ 6,791	$ 90,562

(c) Credit risk

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

The aging of trade and other receivables at the end of the 2012 fiscal year is as follows:

Neither impaired nor past due	$ 15,896
Not impaired and past due as follows:	
Within 30 days	10
31 to 60 days	8
61 to 90 days	2
Over 90 days	13
Allowance for doubtful accounts	–
	$ 15,929

(d) Capital management

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

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

(e) Fair value

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

Level 1 — measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 — measurement based on inputs other than quoted prices included in level 1 that are observable for the asset or liability.

Level 3 — measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

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

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

	Level 1	Level 2	Level 3	Total
Cash	$ 30,850	$ –	$ –	$ 30,850
	$ 30,850	$ –	$ –	$ 30,850

18. RELATED PARTY DISCLOSURES

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

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

		2012		2011
Short-term employee benefits	**$**	**1,613**	$	1,471
Post-employment pension and medical benefits		**67**		68
	$	**1,680**	$	1,539

19. FIRST-TIME ADOPTION OF IFRS

Canadian publicly accountable enterprises, including the Corporation, are required to prepare their consolidated financial statements in accordance with IFRS for periods beginning on or after January 1, 2011. The consolidated financial statements included herein for the year ended March 31, 2012 have been prepared based on IFRS. Comparative results for the year ended March 31, 2011, previously prepared in accordance with Canadian GAAP, have been restated based on IFRS.

The Corporation has prepared consolidated financial statements which comply with IFRS applicable for periods beginning on or after April 1, 2010 as described in the significant accounting policies disclosed in note 2. In preparing these consolidated financial statements, the Corporation's opening consolidated statement of financial position was prepared as at April 1, 2010, the Corporation's date of transition to IFRS. This note explains the principal adjustments made by the Corporation in restating its Canadian GAAP consolidated statement of financial position as at April 1, 2010 and its previously reported Canadian GAAP consolidated financial statements for the year ended March 31, 2011.

In preparing the consolidated financial statements in accordance with IFRS 1 – *First-time Adoption of International Financial Reporting Standards*, retrospective application of IFRS to create or revise estimates is prohibited. Adjustments made to restate items previously prepared in accordance with Canadian GAAP to IFRS are presented in the tables below. No significant presentation differences have been made to the consolidated statement of cash flows upon transition to IFRS.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain standards. The Corporation has applied the following exemptions in preparing these consolidated financial statements:

(i) The Corporation has elected to apply the transitional provision in IFRIC 4 – *Determining Whether an Arrangement contains a Lease* and has assessed all arrangements as at the date of transition.

(ii) The Corporation has elected to apply the transitional provision in IAS 23 – *Borrowing Costs* and has assessed whether or not borrowing costs should be capitalized as at the date of transition.

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT APRIL 1, 2010

(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes		Canadian GAAP		IFRS Adjustments		IFRS
ASSETS							
Current Assets							
Cash		$	27,491	$	–	$	27,491
Trade and other receivables			9,600		–		9,600
Inventories	A		2,628		(1,171)		1,457
Prepayments			2,107		–		2,107
			41,826		(1,171)		40,655
Non-Current Assets							
Property and equipment, net	A – D		156,735		15,397		172,132
Intangible assets, net	C		–		5,568		5,568
Other assets	D		4,794		(4,794)		–
			161,529		16,171		177,700
TOTAL ASSETS		**$**	**203,355**	**$**	**15,000**	**$**	**218,355**
LIABILITIES AND EQUITY							
Current Liabilities							
Trade and other payables		$	35,674	$	–	$	35,674
Payable to the Province of Manitoba			1,673		–		1,673
Current portion of long-term debt			17,562		–		17,562
			54,909		–		54,909
Non-Current Liabilities							
Long-term debt			142,621		–		142,621
Provision for employee pension benefits			825		–		825
			143,446		–		143,446
Commitments and contingencies							
Equity							
Contributed surplus	B		–		15,000		15,000
Retained earnings			5,000		–		5,000
			5,000		15,000		20,000
TOTAL LIABILITIES AND EQUITY		**$**	**203,355**	**$**	**15,000**	**$**	**218,355**

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2011

(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	Canadian GAAP	IFRS Adjustments	IFRS
ASSETS				
Current Assets				
Cash		$ 32,012	$ –	$ 32,012
Trade and other receivables		12,037	–	12,037
Inventories	A	2,646	(1,045)	1,601
Prepayments		2,182	–	2,182
		48,877	(1,045)	47,832
Non-Current Assets				
Property and equipment, net	A – D	170,723	5,187	175,910
Intangible assets, net	C	–	4,977	4,977
Other assets	D	4,541	(4,541)	–
		175,264	5,623	180,887
TOTAL ASSETS		**$ 224,141**	**$ 4,578**	**$ 228,719**
LIABILITIES AND EQUITY				
Current Liabilities				
Trade and other payables		$ 46,435	$ –	$ 46,435
Payable to the Province of Manitoba		19,401	–	19,401
Current portion of long-term debt		17,221	–	17,221
		83,057	–	83,057
Non-Current Liabilities				
Long-term debt		135,300	–	135,300
Provision for employee pension benefits		784	–	784
		136,084	–	136,084
Commitments and contingencies				
Equity				
Contributed surplus	B	–	4,578	4,578
Retained earnings		5,000	–	5,000
		5,000	4,578	9,578
TOTAL LIABILITIES AND EQUITY		**$ 224,141**	**$ 4,578**	**$ 228,719**

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

FOR THE YEAR ENDED MARCH 31, 2011
(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	Canadian GAAP	IFRS Adjustments	IFRS
Revenue	E & F	$ 811,061	$ (248,654)	$ 562,407
Direct Expenses				
Cost of sales	E – G	209,650	(209,650)	–
VLT commissions	G	–	33,766	33,766
Gaming direct expenses	G	–	5,851	5,851
Non-gaming cost of sales	G	–	8,267	8,267
		601,411	(86,888)	514,523
Operating expenses	A & F	140,783	(4,832)	135,951
Depreciation and amortization	A & B	24,651	11,631	36,282
Goods and Services Tax		4,749	–	4,749
		170,183	6,799	176,982
Operating Income		431,228	(93,687)	337,541
Share of profit of Western Canada Lottery Corporation	E	–	77,022	77,022
Interest expense on long-term debt		(8,435)	–	(8,435)
Interest income	F	–	501	501
Income Before Allocations and Payments		422,793	(16,164)	406,629
Allocations and Payments				
WCLC partner equalization	E	3,459	(3,459)	–
Payment to Government of Canada	E	2,283	(2,283)	–
Gaming Commission fees and Crown levy		3,116	–	3,116
First Nations allocation		43,661	–	43,661
Manitoba Jockey Club Inc. contribution		5,457	–	5,457
Tourism contribution		25,141	–	25,141
Responsible gaming funding		3,634	–	3,634
Casino bingo volunteer program		3,941	–	3,941
		90,692	(5,742)	84,950
NET INCOME AND COMPREHENSIVE INCOME		332,101	(10,422)	321,679
EQUITY, BEGINNING OF THE YEAR		5,000	15,000	20,000
Allocation to the Province of Manitoba		(332,101)	10,422	(321,679)
Allocation to the Province of Manitoba – contributed surplus	B	–	(10,422)	(10,422)
Total Allocation to the Province of Manitoba		(332,101)	–	(332,101)
EQUITY, END OF THE YEAR		**$ 5,000**	**$ 4,578**	**$ 9,578**

Notes to the reconciliation of the consolidated statements of financial position as at April 1, 2010 and March 31, 2011 and the reconciliation of the consolidated statement of net income, comprehensive income and equity at March 31, 2011:

A. Under Canadian GAAP, the Corporation classified replacement parts related to property and equipment as inventory. Under IFRS, the replacement parts have been classified as property and equipment. This change has resulted in a reclassification adjustment on the consolidated statement of net income, comprehensive income and equity which had no impact on consolidated net income and comprehensive income.

B. Under IFRS, 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. This is known as the component approach. Upon transition to IFRS, the Corporation applied the component approach and determined that adjustments were required to the useful lives and depreciation rates of the components of certain items of property and equipment. These changes resulted in a net increase of $15,000 to the net book value of such assets and a corresponding increase in contributed surplus. For the year ended March 31, 2011, this adjustment resulted in the recognition of an additional expense of $10,422 and an adjustment to the allocation to the Province of Manitoba to the revised net income and contributed surplus in the amount of $10,422.

C. Upon transition to IFRS, computer software has been classified as intangible assets. This change had no impact on the consolidated statement of net income, comprehensive income and equity.

D. Under Canadian GAAP, the Corporation classified the parking lot held under a finance lease as other assets. Under IFRS, the parking lot has been classified as property and equipment. This change had no impact on the consolidated statement of net income, comprehensive income and equity.

E. Under Canadian GAAP, the Corporation proportionately consolidated its share of WCLC's profit. Under IFRS, the Corporation uses the equity method to account for its share of the profit of the WCLC. This change has resulted in a number of reclassification adjustments on the consolidated statement of net income, comprehensive income and equity, none of which had an impact on consolidated net income and comprehensive income.

F. The Corporation determined that in order to comply with IFRS a number of reclassifications were required on the consolidated statement of net income, comprehensive income and equity as follows: interest income has been reclassified from operating income to income before allocations and payments and certain promotional allowances previously included in cost of sales and operating expenses have been reclassified as a net decrease to revenue. These adjustments had no impact on consolidated net income and comprehensive income.

G. Upon transition to IFRS, the Corporation presents expenses on the consolidated statement of net income, comprehensive income and equity by their nature. As a result, items of cost of sales have been reclassified into more appropriate categories signifying the nature of the expenditure. This adjustment had no impact on consolidated net income and comprehensive income.

H. The transition from Canadian GAAP to IFRS has not had a material impact on the consolidated statement of cash flows.

20. EVENTS AFTER THE REPORTING PERIOD

On April 17, 2012, the Province announced that The Liquor Control Commission (MLCC) and Manitoba Lotteries Corporation would be merged into a single entity and the regulatory oversight for liquor control, currently managed by MLCC would be merged with the MGCC. Each Crown Corporation operates under a separate Act and will continue to function as a separate legal entity until they are combined under common legislation, which is anticipated to occur in 2013.

Manitoba Lotteries

www.manitobalotteries.com

Le rapport annuel est disponible en français sur le site Web manitobalotteries.com