enrich the lives of Manitobans

MANITOBA LIQUOR & LOTTERIES

ANNUAL REPORT

2018/19

MANITOBA LIQUOR & LOTTERIES

enrich the lives of Manitobans
2018/19

VALUES

We aspire to live these values in all that we do to enrich the lives of Manitobans.

CARING

Everyone Matters – We care about each other, our communities and the environment by being genuine, responsible and considerate.

COLLABORATIVE

Better Together – We work together in an open, respectful way to produce and deliver outstanding results.

CUSTOMER FOCUSED

Great Experiences – We listen to our internal and external customers so we can anticipate, understand and respond to their needs.

CREATIVE

Courage to Explore – We foster an environment of idea sharing, continuous learning and improvement, and push beyond what we have today to what is possible tomorrow.

COMMITTED

Keep Promises – We take pride and ownership in making and meeting our commitments.

LETTER OF TRANSMISSION

Minister of Crown Services
Room 314, Legislative Building
450 Broadway
Winnipeg, MB R3C 0V8

July 31, 2019

Dear Honourable Minister:

It is my pleasure to present you with the annual report of Manitoba Liquor and Lotteries Corporation for the fiscal year ended March 31, 2019.

Respectfully submitted,

Randy Williams
Chair, Board of Directors

BOARD OF DIRECTORS

(as at March 31, 2019)

Randy Williams, Chair
Patricia Solman , Vice-Chair
Tracey Maconachie
Stuart Murray
Marshall Ring
Randall Swanson
Mavis Taillieu
Gary Timlick
Christine Van Cauwenberghe
Jonathan Webber

purpose and elements

PURPOSE

ENRICH THE LIVES OF MANITOBANS
Manitoba Liquor & Lotteries strives to make the greatest possible contribution to the economic and social well-being of our province.

ELEMENTS

PERFORM PROFITABLY AND SUSTAINABLY
Sound business practices that strengthen our profitability – allowing us to maximize funding available for healthcare, education and other services Manitobans rely on.

CHAMPION INNOVATION
A vibrant ownership culture that celebrates innovation – supporting and challenging our employees to continuously improve all aspects of our operations.

BE PROGRESSIVE
Products and experiences that keep pace with evolving preferences and market trends – ensuring Manitobans' expectations for choice, quality, value and social responsibility are consistently exceeded.

ENGAGE MANITOBANS
Meaningful relationships with Manitobans – engaging Manitobans both as customers and citizens to ensure all aspects of Manitoba Liquor & Lotteries operations reflect the needs, expectations and interests of those to whom we are ultimately accountable.

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MESSAGE FROM THE CHAIR

The liquor and gaming industry has changed dramatically since I first joined Manitoba Lotteries over 25 years ago. Today, the pace of change and customer expectations are greater than ever as technology and product options evolve faster than ever before.

As a Board, our role is making sure Liquor & Lotteries continues to meet Manitobans' expectations for quality, service, price and selection while maximizing the corporation's contribution to important programs and services.

Our vision is to see Liquor & Lotteries grow as a modern, adaptive and accountable organization while having the largest possible impact on our province's well-being. Every dollar we generate in profit is a dollar that can be invested in provincial programs.

EFFECTIVE GOVERNANCE AND EFFICIENT OPERATIONS

Our Board is committed to the concept of continual efficiency — a focus on ensuring that efforts to reduce costs and improve operations are an ongoing process. We are committed to continually refining how we do business, with both the bottom line and the needs of our customers in mind.

We view our dedicated employees as important partners in this process. During my years in management with Manitoba Lotteries it was our front-line employees who often had the most insight into the day-to-day facets of our operations — and where we could most improve. Our Board will continue to seek employee input and support a culture of innovation in all areas of our business.

LISTENING TO OUR CUSTOMERS

Keeping up with changing consumer preferences is good business and also what our customers expect from us. Increasingly, keeping up with consumer preferences not only means refreshing our product, gaming and entertainment options, but also keeping pace with the changing ways our customers wish to access the products and services we provide.

Today, a majority of customers patronize our casinos and Liquor Marts in person, although a growing number of Manitobans use LiquorMarts.ca to learn about their favourite liquor products, enroll in courses and order for home delivery. Still others patronize our online gaming site, PlayNow.com; which delivers safe and secure on-line gaming. We remain focused on ensuring our customers always have the best possible experience, both today and as technology continues to bring us new options and opportunities.

SUPPORTING LOCAL INDUSTRY

Our customers can find everything from vodka infused with Manitoba rhubarb at their local Liquor Mart to chicken raised by local farmers at our restaurants. We're proud to support local industry, both to meet growing consumer demand for Manitoba-made products and to support the increased economic activity that buying local delivers. Manitobans can expect the number of locally produced products we offer to continue to grow.

ENGAGING OUR CHANNEL PARTNERS

In communities across the province, our products reach Manitobans thanks to a network of valued partners, including hotel beer vendors; rural liquor vendors; our Indigenous partners both at on-reserve VLT gaming centres and in First Nations casinos; beverage rooms, cocktail lounges and legions; independent wine stores; liquor licensees; lottery ticket sellers and cannabis retailers. Liquor & Lotteries will continue to work directly with our partners, both to support their continued success and to ensure they have the support they need to meet Manitobans' expectations for selection, service and value.

CLEAR PRIORITIES FOR THE COMING YEAR

As Liquor & Lotteries' newly appointed Board chair, I look forward to continuing to work with our management team and partners to build on past successes and maximize the value we bring to Manitobans. Our Board is united in our commitment to strengthen our operations, grow our income and manage costs. I look forward to a successful year ahead.

RANDY WILLIAMS
Chair, Board of Directors

our message

MESSAGE FROM THE PRESIDENT & CEO

Manitoba Liquor & Lotteries plays a vital role in funding the programs and services Manitobans count on. I'm pleased to report that Liquor & Lotteries returned a record $616.1 million in profits to the Province of Manitoba in fiscal 2018/19 — a $5.7 million increase over the previous year.

Our economic performance is especially notable given the external factors that impacted consumer spending over the past 12 months, including rising mortgage rates, higher gas prices and the coldest winter in decades. Our financial results for 2018/19 cap off three consecutive years of record profits.

EFFICIENCIES AND FISCAL PRUDENCE

Working with our management team and employees, we continued to find ways to lower expenses and operate more efficiently. Efforts to reduce costs and empower employees to improve our processes continued to pay off, such that operating expenses were $11.3 million lower than budget. We continued to reduce staffing levels in 2018/19 in line with the direction provided by government.

RESPONDING TO MANITOBANS' PRIORITIES

Manitobans' satisfaction with their experience in our casinos and Liquor Marts has eclipsed 80% and 90% respectively in the past several years, reflecting our commitment to keep pace with consumers' evolving expectations for product selection, gaming and entertainment. We've listened and responded to customer demand for new offerings, including meeting Manitobans' growing interest in craft, specialty and locally produced products.

NEW RESPONSIBILITIES, NEW CHALLENGES

The federal legalization of non-medical cannabis created new responsibilities for Liquor & Lotteries over the past year. Liquor & Lotteries is responsible for central ordering of all cannabis products sold by licensed retailers, and also manages agreements with licensed retailers on the Province's behalf. Manitoba had minimal supply issues relative to other jurisdictions in the past year, and we continue to work with our partners to effectively manage the supply of legal cannabis while ensuring consumer safety.

We were also challenged last year by a marked increase in thefts from our Liquor Marts, including a spike in more brazen daytime thefts. A coordinated theft reduction plan in partnership with the Winnipeg Police Service is showing early promise: the volume of thefts has decreased, with a corresponding reduction in shrinkage since our enhanced anti-theft strategy was implemented in March 2019.

LEADING BY EXAMPLE

As a Crown Corporation, Manitobans expect our business practices to be ethical and sustainable, while also supporting local industry. The number of Fairtrade certified products sold in our Liquor Marts and casinos continued to grow in 2018/19, while over 25% of the food purchased by our restaurants was sourced from within Manitoba.

CHANGING LEADERSHIP

This Annual Report message marks my last as President & CEO, as I will retire in June following 35 years with the corporation. Liquor & Lotteries' continued growth and strong financial performance reflects the dedication and talent of our employees, and I'm appreciative of all those who have made my career so rewarding. I thank Manitobans for the opportunity to serve our province, and wish the corporation's next President & CEO every success in the years ahead.

PETER HAK
President &
Chief Executive Officer

ABOUT US

Manitoba Liquor & Lotteries is a provincial Crown corporation with a core mandate to provide revenue to the Province of Manitoba to support provincial programs and initiatives such as healthcare, education, social services, housing and infrastructure.

We are responsible for the sale of liquor and gambling in Manitoba in partnership with over 3,300 private businesses. Using a sustainable and socially responsible approach, we strive to reduce the risks associated with our products and to work with customers and business partners to inspire healthy choices around liquor and gaming.

We operate all Liquor Marts, Club Regent Casino, Club Regent Event Centre, McPhillips Station Casino, Video Lotto, and PlayNow.com. We distribute and sell beverage alcohol, as well as manage the distribution of cannabis from Health Canada licensed producers to retailers.

We are the exclusive supplier of breakopen tickets and bingo paper in Manitoba, and we distribute and sell lottery tickets in partnership with the Western Canada Lottery Corporation (WCLC) and the Interprovincial Lottery Corporation (ILC).

MANITOBA LIQUOR & LOTTERIES

ENRICHING THE LIVES OF MANITOBANS

Throughout the decades, Manitobans have trusted Manitoba Liquor & Lotteries with the sale and distribution of liquor, gaming and entertainment experiences and more recently, the supply and distribution of non-medical cannabis. While products and services may have changed over the years, the one thing that remains constant is our commitment to making a positive impact in the lives of Manitobans.

Our profits are returned to Manitobans through the Province of Manitoba's general revenues to fund essential services like healthcare, education and infrastructure. Enjoying our products responsibly keeps your entertainment dollars in the local economy and supports the services we all depend on.

There are many other ways we enrich the lives of Manitobans beyond generating revenues for government programs. Hundreds of private businesses — manufacturers, service providers, suppliers, logistics providers, retailers and licensed establishments are involved in our supply chains and help to create economic benefits throughout the province. The corporation also maintains procurement practices that support fair trade and encourages vendors to adopt sustainable environmental practices — all of which benefit Manitoba.

The corporation also supports hundreds of charitable, non-profit and community fundraisers, festivals and events around the province. Manitoba Liquor & Lotteries employees can often be found volunteering at these sponsored events or other events in the community. They also support the Employee Charity of Choice program that raises funds for employee-chosen non-profit organizations. Liquor Marts offer a coin-box program for local and provincial charities and the corporation donates used assets to organizations that have a need for them.

Underpinning all of this, of course, is our steadfast commitment to addressing the risks that are inherent in consuming liquor, cannabis and participating in gaming. For this reason, 2% of annual anticipated consolidated net income is committed to social responsibility initiatives, from educating consumers on how to enjoy our products responsibly to funding addiction recovery programs.

Together, these efforts contribute to the economic and social capacity of our province, enriching the lives of Manitobans. To learn more, check out the Manitoba Liquor & Lotteries 2018/19 Corporate Responsibility Report, available on our website.

ECONOMIC CONTRIBUTIONS

Our economic contributions stay in the province and are used to support provincial programs and initiatives that benefit all Manitobans. Here's a snapshot of 2018/19:

Allocation to the Province of Manitoba	**$**	**616.1 million**
Support to our business partners through commissions, contributions, margins or handling fees:		
Manitoba Hotel and Restaurant Industry	$	98.0 million
First Nations VLT Siteholders	$	61.8 million
Private Liquor Retailers	$	18.3 million
Lottery Retailers	$	18.9 million
Amounts committed to community support programs and social responsibility initiatives:		
Community Sponsorships	$	2.2 million
Social Responsibility	$	12.6 million

we don't do it alone

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2019

The Management Discussion and Analysis reviews the consolidated financial results of the operations of Manitoba Liquor and Lotteries Corporation (the Corporation) for the fiscal year ended March 31, 2019. This report should be read in conjunction with the Corporation's 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 the Corporation.

OVERVIEW AND RESULTS OF OPERATIONS

The Corporation strives to make the greatest possible contribution to the economic and social well-being of the province of Manitoba by focusing on the four key elements of performing profitably and sustainably; championing innovation; being progressive through products and experiences and engaging Manitobans. These key elements are the themes upon which the Corporation's goals and objectives have been developed; and form the basis of corporate strategic planning. At the centre of these elements is the Corporation's stakeholders — the people, communities, and businesses across Manitoba who benefit from the Corporation's economic contributions. The Corporation remains committed to achieving its purpose in a socially responsible manner.

Cannabis operations successfully launched in the year, with the Corporation securing and coordinating distribution of a safe supply of non-medical cannabis to private sector retailers for sale to the general public. During the year, cannabis operations worked with its partners to develop a catalogue of available products, with all sales monitored through the national Cannabis Tracking and Licensing System.

Liquor operations continued to focus on the customer experience in its stores. During the year, a new Liquor Mart location opened in Portage la Prairie and renovation projects continued at several rural and city Liquor Mart locations, with an aim at providing customers a more convenient, modern shopping environment. In addition, liquor operations reached a solution to the space constraints in its current warehouse location by entering a long-term lease for a new distribution centre facility. Work began in 2018/19 to prepare the facility for occupancy in 2019/20. As well, the liquor operations partner analytics tool was implemented during the year which will allow for the sharing of accurate and timely sales, inventory, and purchase data to promote faster decision making. Liquor operations also launched an enhanced strategy to combat rising Liquor Mart thefts. Some of the new security measures were rolled out during the year and are structured to strengthen theft prevention while maintaining a high-quality shopping experience for all Manitobans.

Gaming operations continued to focus on improving offerings to match the changing needs of its customers. New Bingo Gaming System terminals were installed, replacing obsolete machines and providing players with enhanced functionality and features.

At Club Regent Casino, a new poker room opened on the lower level providing a comfortable, dedicated space for poker enthusiasts. At McPhillips Station Casino, Loft 180 opened and offers interactive gaming, live music, and globally-influenced food selections in an exciting, contemporary environment. In the early part of the year, Video Lotto began a phased replacement of its aging video lottery terminals in order to continue meeting customer demands for modern game offerings. PlayNow.com experienced further customer growth by offering a full suite of safe and secure online gaming products.

In the 2018/19 year, the Corporation's allocation to the Province of Manitoba was $616.1 million, an increase of $5.7 million or 0.9% when compared to the 2017/18 amount of $610.4 million. The Corporation's allocation to the Province of Manitoba in the prior year included a one-time gain of $5.8 million recorded on the disposal of the downtown head office property. The Corporation's 2018/19 allocation to the Province of Manitoba increased $11.5 million or 1.9% when compared to the 2017/18 amount of $604.6 million from normal operations before the one-time gain on disposal. The 2018/19 year represents the third consecutive year of net income growth for the Corporation.

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

For reporting purposes within the management discussion and analysis, the administrative costs associated with corporate support services – including human resources, finance, marketing & communications, facilities, technology, internal audit, corporate governance, security and corporate responsibility – have been allocated to each of the operating segments.

net income

2019 *(in thousands)*

	CANNABIS OPERATIONS	CASINOS	LIQUOR OPERATIONS	LOTTERY	VIDEO LOTTO	TOTAL
Revenue	$ 26,991	$ 255,233	$ 794,597	$ 2,086	$ 355,882	$ 1,434,789
Cost of sales	22,434	19,196	391,898	1,173	116,080	550,781
	4,557	**236,037**	**402,699**	**913**	**239,802**	**884,008**
Operating expenses	1,146	125,378	110,273	6,687	14,643	258,127
Depreciation and amortization	-	26,781	6,630	-	19,960	53,371
Goods and Services Tax	-	956	-	39	1,830	2,825
	1,146	**153,115**	**116,903**	**6,726**	**36,433**	**314,323**
Operating Income	**3,411**	**82,922**	**285,796**	**(5,813)**	**203,369**	**569,685**
Share of profit of Western Canada Lottery Corporation	-	1,656	-	67,993	-	69,649
Interest expense on long-term debt	-	(7,563)	(653)	(110)	(2,626)	(10,952)
Interest income	-	460	193	33	469	1,155
Income Before Allocations and Payments	**3,411**	**77,475**	**285,336**	**62,103**	**201,212**	**629,537**
Allocations and payments	50	3,307	7,172	724	2,209	13,462
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	**$ 3,361**	**$ 74,168**	**$ 278,164**	**$ 61,379**	**$ 199,003**	**$ 616,075**

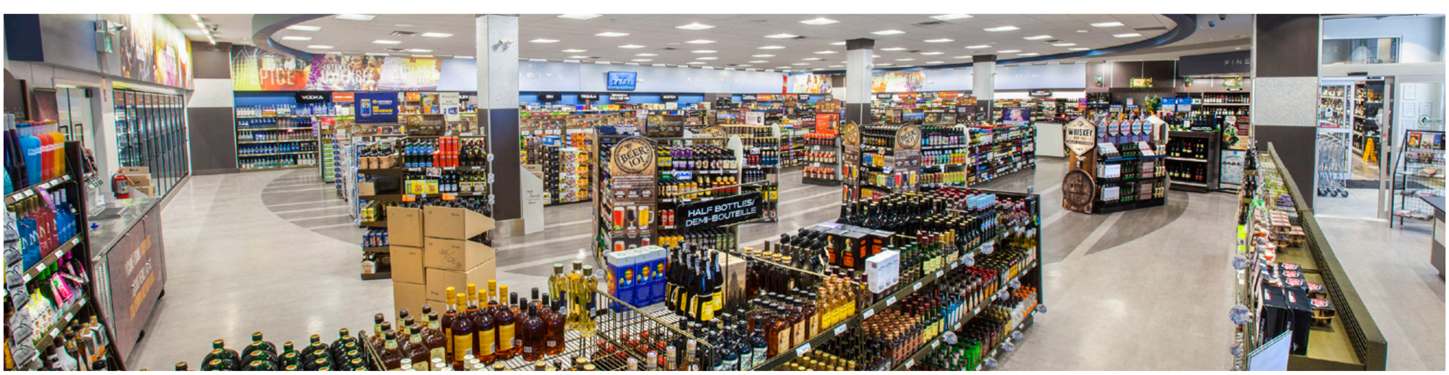
2018 *(in thousands)*

	CASINOS	LIQUOR OPERATIONS	LOTTERY	VIDEO LOTTO	TOTAL
Revenue	$ 253,580	$ 800,366	$ 2,679	$ 361,124	$ 1,417,749
Cost of sales	17,340	392,555	1,319	117,835	529,049
	236,240	**407,811**	**1,360**	**243,289**	**888,700**
Operating expenses	121,758	108,845	6,817	17,127	254,547
Depreciation and amortization	24,454	6,844	-	21,108	52,406
Goods and Services Tax	982	-	67	2,305	3,354
	147,194	**115,689**	**6,884**	**40,540**	**310,307**
Operating Income	**89,046**	**292,122**	**(5,524)**	**202,749**	**578,393**
Share of profit of Western Canada Lottery Corporation	1,202	-	59,707	-	60,909
Interest expense on long-term debt	(7,606)	(580)	(119)	(3,149)	(11,454)
Interest income	401	77	12	447	937
Income Before Allocations and Payments	**83,043**	**291,619**	**54,076**	**200,047**	**628,785**
Allocations and payments	7,055	7,885	771	2,712	18,423
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	**$ 75,988**	**$ 283,734**	**$ 53,305**	**$ 197,335**	**$ 610,362**

Revenue of $1,434.8 million increased $17.1 million or 1.2% from the previous year's revenue of $1,417.7 million. Cannabis operations revenues were $27.0 million after the sale of non-medical cannabis was legalized in October 2018. Casino revenues increased $1.6 million over the prior year due to the launch of Loft 180 at McPhillips Station Casino and increased play on the PlayNow.com online gaming site. Video Lotto revenues decreased $5.2 million during the year as aging video lottery terminals have reached the decline phase of their lifecycles. All gaming offerings experienced strong competition for Manitoban's discretionary entertainment spend due to the sustained hockey playoff run experienced in early 2018/19. Liquor operations revenues decreased $5.8 million from 2017/18 as lower growth in disposable income had a negative impact on liquor sales across all retail channels. This negative impact, coupled with other factors such as changing consumer behavior, was more acutely experienced by licensees in the 2018/19 year.

Revenue, net of cost of sales of $884.0 million decreased $4.7 million or 0.5% from $888.7 million in 2017/18. Operating expenses of $258.1 million were higher by $3.6 million or 1.4% compared to $254.5 million last year, and include employee and other costs directly related to the generation of revenues. Employee costs increased in the year to support the launch of the cannabis operations line of business, the introduction of Loft 180 at McPhillips Station Casino, and the addition of food services to the extended casino weekend hours in response to customer demand. Other operating expenses were carefully managed to levels that were lower than the prior year.

Non-operating expenses of the Corporation include depreciation and amortization, Goods and Services Tax related to gaming expenditures, interest expense net of interest income, and allocations and payments. Total non-operating expenses of $79.5 million in the 2018/19 year decreased $5.2 million or 6.1% from the $84.7 million recorded in 2017/18.



CANNABIS OPERATIONS

The sale and consumption of non-medical cannabis became legal in Canada on October 17, 2018. The Corporation is mandated to secure a safe supply of cannabis, and to coordinate the distribution of cannabis to private sector retailers for sale to the general public.

In its first partial year, cannabis operations generated revenues of $27.0 million and comprehensive income of $3.4 million. During the year, 21 private retailers opened in the province under five retail banners with 13 in the city of Winnipeg, 3 in the city of Brandon, and 5 serving other communities. All licensed retailers are also eligible to offer online sales. Cannabis operations supports these private retailers as the provincial distributor, maintaining a catalogue of available products which includes dried cannabis as well as cannabis-infused edible oils. Supply shortages throughout the country negatively impacted sales during the year, with the Corporation receiving approximately 30% of expected product volumes since the date of legalization. The Corporation has worked with the private retail partners to meet the requirements of the federal government's Cannabis Tracking and Licensing System, developed to track the flow of cannabis as a means of preventing the illegal inversion and diversion of cannabis into and out of the legal market.

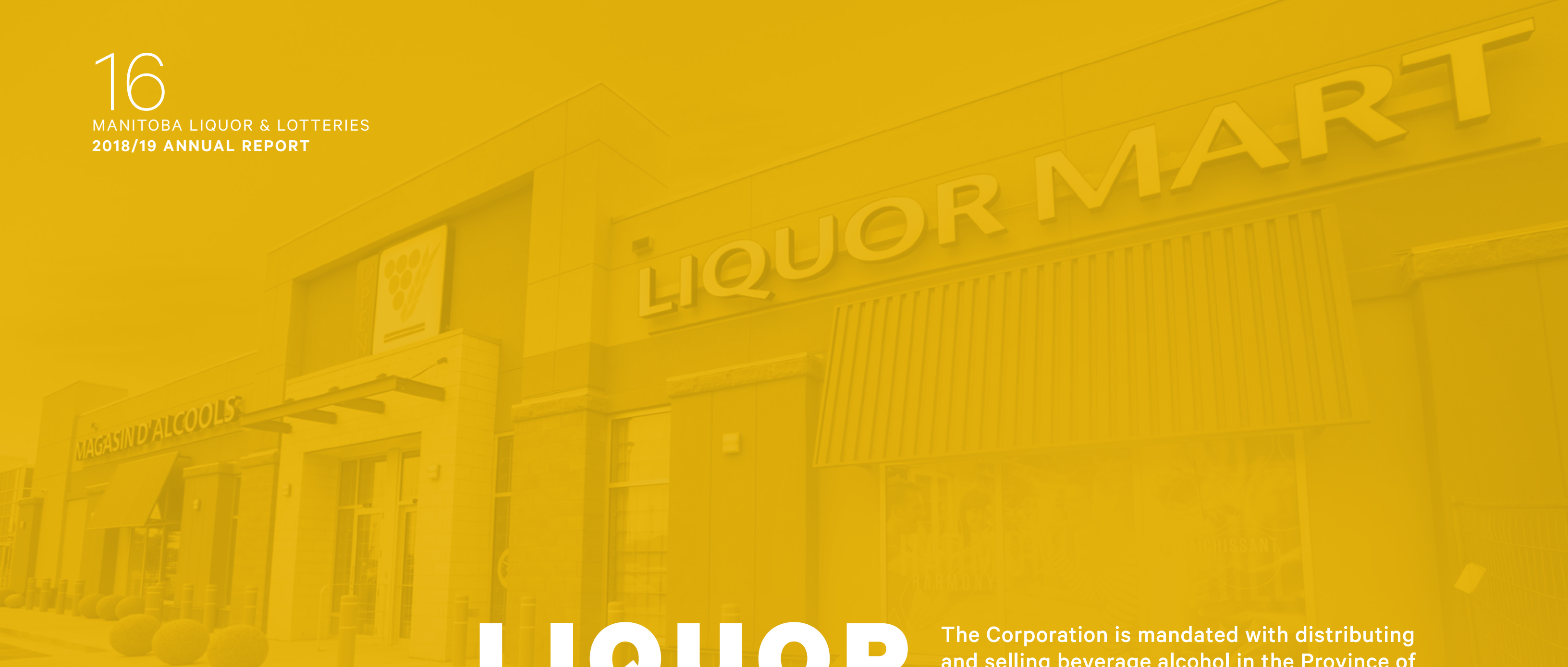
CASINOS

The Corporation owns and operates two casinos in the City of Winnipeg - Club Regent Casino and McPhillips Station Casino. Both casinos offer a full range of gaming services including slots, table games, bingo, and the ability to purchase lottery tickets and partake in off-track horse racing. In addition to its gaming offerings, the Corporation strives to provide premier hospitality and entertainment services at its casinos through food and beverage offerings to meet the varied appetites of customers and through entertainment offerings at venues such as the Club Regent Event Centre and Loft 180 which opened at McPhillips Station Casino in the 2018/19 year.

In addition to the gaming experience provided by the casinos, the Corporation provides Manitoba players with online gaming through the PlayNow.com site. PlayNow.com is the province's only regulated offering of online gaming and provides customers a safe and reputable site featuring extensive responsible gaming measures. The online platform was developed by the British Columbia Lottery Corporation (BCLC) and the Corporation has partnered with BCLC to provide Manitoba players with casino games, lottery products, bingo, poker and live sports betting opportunities.

Casino operations, which include the results of online gaming, generated comprehensive income of $74.2 million in the year, a decrease of $1.8 million or 2.4% from last year's comprehensive income of $76.0 million.

Revenue increased $1.6 million or 0.6% from the prior year; the result of the new initiatives implemented during the year. Electronic gaming at McPhillips Station Casino saw an increase in play during the year due to increased traffic associated with the opening of Loft 180, Club Regent Casino experienced an increase in table games play with the opening of the new poker room, and the new Bingo Gaming System terminals which offer enhanced functionality and features have been well received by customers. The PlayNow.com online gaming site continued to experience revenue growth as the Live Casino experience launched in the latter part of 2017/18 continued to exceed customer expectations. Casino cost of sales increased $1.9 million in 2018/19 and include gaming direct expenses associated with the operation and maintenance of electronic gaming equipment, table games equipment and the online gaming site as well as costs associated with the non-gaming offerings in the food & beverage and entertainment areas. Other expenses increased $2.1 million or 1.3% when compared to the prior year. The increase includes employee and other costs to support the initiatives implemented during 2018/19, and an increase in public awareness costs which form part of the Corporation's legislated requirement to allocate 2% of annual anticipated consolidated net income and comprehensive income to social responsibility initiatives.



LIQUOR OPERATIONS

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

Liquor operations earned comprehensive income of $278.2 million in 2018/19, a decrease of $5.5 million or 1.9% from the $283.7 million earned in 2017/18.

Revenues generated by liquor operations were $794.6 million in 2018/19, a decrease of $5.8 million or 0.7% from the revenues of $800.4 million in the previous year. During the 2018/19 year, liquor sales (both in dollars and in volume) as well as gross profit increased in the refreshment beverages category, with the increase in dollar sales outpacing the volume growth. Declines were experienced in the beer and wine categories while spirits remained flat compared to the prior year. The softening of disposable income growth in 2018/19 when compared to prior years had a significant impact on revenue across all retail channels however the majority of the revenue decline was experienced by the licensee category. Changing consumer patterns to favour socializing at home as compared to attending licensed establishments and a growing interest in low/no alcohol products have negatively impacted beverage alcohol sales at licensed establishments.

2019 *(in thousands)*

	Beer	Refreshment Beverages	Spirits	Wine	Total
Stores	$ 80,576	$ 25,054	$ 191,102	$ 132,243	$ 428,975
Liquor Vendors	12,154	5,914	36,374	12,274	66,716
Licensees	240,684	13,675	20,215	5,014	279,588
Specialty Wine Stores	-	80	35	16,940	17,055
Total Sales	**333,414**	**44,723**	**247,726**	**166,471**	**792,334**
Cost of Sales	195,237	21,471	95,696	79,137	391,541
Gross Profit	**$ 138,177**	**$ 23,252**	**$ 152,030**	**$ 87,334**	**$ 400,793**

2018 *(in thousands)*

	Beer	Refreshment Beverages	Spirits	Wine	Total
Stores	$ 79,465	$ 22,273	$ 189,440	$ 135,884	$ 427,062
Liquor Vendors	11,099	5,436	36,357	12,329	65,221
Licensees	246,038	12,954	20,799	5,289	285,080
Specialty Wine Stores	-	65	31	17,771	17,867
Total Sales	**336,602**	**40,728**	**246,627**	**171,273**	**795,230**
Cost of Sales	196,613	19,430	94,643	81,518	392,204
Gross Profit	**$ 139,989**	**$ 21,298**	**$ 151,984**	**$ 89,755**	**$ 403,026**

VOLUME SALES *(in millions of litres)*

	Beer	Refreshment Beverages	Spirits	Wine
2019	**74.3**	**6.9**	**7.3**	**11.7**
2018	76.1	6.3	7.3	12.1
2017	76.4	5.7	7.2	11.8
2016	77.5	5.1	7.1	11.5
2015	76.8	4.3	7.0	11.1

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. The Corporation distributes and sells tickets for national lotteries operated by the ILC and lottery gaming products operated by the WCLC. As the province's sole distributor of lottery products, the Corporation is responsible for the development and maintenance of a retailer network of over 900 outlets across Manitoba and to market a selection of breakopen tickets through lottery retail outlets, charitable organizations and casinos across the province. The Corporation also continues to be the exclusive supplier of bingo paper to Manitoba's charitable and non-profit licensed bingo operators.

In the 2018/19 year, the Corporation's share of the profit of WCLC of $69.6 million increased by $8.7 million or 14.3% over the previous year's share of the profit of WCLC of $60.9 million. Lottery comprehensive income of $61.4 million increased from the previous year's comprehensive income of $53.3 million by $8.1 million or 15.2%. Sales of lottery products in the year were higher in several major categories with the increases being most prominent in the LOTTO MAX product. There is a strong link between jackpot levels and the sale of lottery products and the LOTTO MAX product saw a year-over-year increase in large jackpots, as there were 26 weeks with a jackpot of $50 million or more in 2018/19, compared to only 14 weeks in 2017/18. Additionally, during the year a record amount in MAXMILLIONS prizes were available, totaling $694 million compared to the $114 million available in the prior year.

VIDEO LOTTO

Located in Morris, Manitoba, Video Lotto is responsible for the operation and maintenance of Video Lottery Terminals (VLTs). VLTs are located at licensed beverage rooms, veterans organizations, and First Nations communities. The operation of VLTs contributed 32.3% of the Corporation's net income and provided annual commissions and contributions of $116.1 million to all VLT siteholders who operate equipment on their premises. Included in this amount is $61.8 million of support to First Nations communities. First Nations VLT siteholders retain 90% of net win from the VLTs. Of that 90%, 5% represents the actual service component provided to the Corporation for hosting the terminals and the other 85% is provided as a contribution to promote sustainable social and economic benefits and opportunities within First Nations communities. This support has decreased $1.0 million from the $62.8 million provided in the prior year. Licensed beverage room VLT siteholders operate under a tiered structure whereby they retain between 17.5% and 22.0% of the net win from VLTs. Of this amount, 10% represents the actual service component provided by the siteholders to the Corporation for hosting the terminals and the other 7.5% to 12% is provided as a contribution to promote tourism in the province. In the current year, this support totaled $51.2 million, a decrease of $0.6 million from the $51.8 million paid in 2017/18.

Video Lotto comprehensive income of $199.0 million increased $1.7 million or 0.9% from the comprehensive income of $197.3 million in the previous year. This increase was despite a decrease in revenues associated with Video Lotto operations to $355.9 million in 2018/19, which was $5.2 million or 1.4% lower than the $361.1 million of revenue generated in the prior year. In 2017/18, Video Lotto revenues reached their highest levels since the video lottery network upgrade in 2013/14. As the machines grow older, game fatigue increases among players and results in decreased play. To this end, Video Lotto began a phased replacement of old and obsolete video lottery terminals in the early part of the year. To support the gaming review announced in the provincial 2018 Speech from the Throne, these replacement activities were paused in the 2018/19 year.

VLT COMMISSIONS & CONTRIBUTIONS *(in millions)*

	First Nations	City Siteholders	Rural Siteholders	Total
2019	**61.8**	**30.6**	**23.7**	**116.1**
2018	62.8	31.1	23.9	117.8
2017	58.6	30.4	23.6	112.6
2016	51.5	29.7	23.9	105.1
2015	46.4	28.8	23.5	98.7

FIRST NATIONS CASINOS AND SHARK CLUB GAMING CENTRE

The Corporation maintains conduct and management authority over First Nations Casinos and the Shark Club Gaming Centre as the agent appointed to act as such for the gaming regime of the province. As authorized by the Gaming Agreements, all costs of gaming supplies are recovered on an annual basis and capital costs of gaming equipment are funded by the Corporation and are recovered over a five year term.

During the 2018/19 year, the Corporation provided assistance and capital financing in the amount of $1.5 million for the continuation of South Beach Casino's gaming floor refresh project. Aseneskak Casino completed a gaming floor refresh project for which the Corporation purchased gaming equipment in the amount of $0.3 million. The Corporation also purchased gaming equipment totaling $0.8 million to support the Shark Club Gaming Centre's gaming floor refresh project. No purchases of gaming equipment were made for Sand Hills Casino in the 2018/19 year.

MLC HOLDINGS INC.

The Corporation's consolidated financial statements include the results of MLC Holdings Inc., a controlled entity established to purchase certain capital assets for lease to the Corporation at cost. The management and oversight of MLC Holdings Inc. is consolidated within the Corporation's operations and the Board reviews and approves capital purchases through the annual business planning and budget process. To support capital initiatives in the 2018/19 year, MLC Holdings Inc. acquired $50.2 million in capital assets for lease to the Corporation.

SOCIAL RESPONSIBILITY

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

The Corporation fulfills its commitment to social responsibility in several ways. Social responsibility perspectives are incorporated into many corporate, gambling, liquor, and marketing initiatives annually. Funding support is provided to organizations such as the Addictions Foundation of Manitoba that provide support and treatment for issues related to liquor and gambling consumption. Consumer information is developed and promoted to contribute to sensible, responsible use of the Corporation's products and to contribute to maintaining and growing a sustainable customer base. The Corporation also provides funding for research aimed at the evidence-based evaluation and improvement of social responsibility programs related to prevention, harm minimization, product risk, and treatment of problems related to gambling and alcohol. Social responsibility initiatives related to the responsible use of cannabis will be included in future years.

Of the 2018/19 committed amount, $2.0 million was unspent and carried forward, reserved for social responsibility initiatives in the 2019/20 year.

(in thousands)	**2019**	**2018**
Funding support	$ 8,189	$ 8,109
Internal research and program evaluation	954	959
Operating and consumer awareness	4,450	2,136
Prior year funding spent in current year	(2,917)	(2,106)
Funding carried forward to future years	1,965	2,917
	$ 12,641	**$ 12,015**

For more information on the Corporation's commitment to the responsible use of its products and services; its support of communities, local charities, and non-profit organizations; and the mutually beneficial relationships developed with its various partners, please see the Corporation's 2018/19 Corporate Responsibility Report.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities during the 2018/19 year provided the Corporation with $674.6 million in cash flows compared to $679.7 million in the prior year, a decrease of $5.1 million or 0.8%.

The Corporation focuses on capital investments which support strategies to manage its core operations for the purpose of making the greatest possible contribution to the economic and social well-being of the province. To support these strategies, cash spent on property and equipment in the 2018/19 year totaled $54.6 million as compared to the $41.5 million spent in the previous year. In addition to the regular process of upgrading existing equipment, facilities and technology to support ongoing operations, the 2018/19 year saw the final stages of certain casino renewal construction projects as well as the construction of new, and renovations of existing, Liquor Mart locations as part of the store development program approved for the year.

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

In the 2018/19 year, total proceeds of long-term debt received were $65.7 million as compared to the $40.4 million of proceeds received in the previous year. Of the total proceeds received, $1.8 million was received to purchase gaming equipment for the First Nations Casinos as compared to $0.4 million in the previous year. All long-term debt has fixed interest rates and is repayable in monthly installments.

Cash distributions to the Province of Manitoba during the current year resulted in a cash outflow of $620.4 million compared to the previous year's $619.7 million.

CORPORATE GOVERNANCE

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

As part of its corporate governance model, the Corporation reports its activities to the government on an annual basis. This reporting encompasses the Corporation's Annual Report which includes the externally audited consolidated financial statements and the Schedule of Compensation which is prepared in accordance with the requirements of the *Manitoba Public Sector Compensation Disclosure Act*.

RISK MANAGEMENT

The Corporation continues to use and enhance its enterprise risk management framework to effectively embed risk management practices into key organizational processes.

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

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

STRATEGIC RISKS

Strategic risks include external environment forces and events, risks impacting the effective allocation of resources, risks that major initiatives are not aligned with the Corporation's goals and objectives and are not being carried out effectively, risks of ineffective relationships with key stakeholders, and risks to reputation.

The Corporation researches, recognizes and understands changes to its external environment through market research and formalized strategic planning for its key lines of business and corporate functions. Management engages in rigorous annual business planning and budgeting activities. Management has established a formal project methodology and is dedicated to developing and maintaining effective communication processes with its key stakeholders. The Corporation is committed to being a good corporate citizen through its various corporate responsibility programs and initiatives.

OPERATIONS RISKS

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

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

As the Corporation continues to leverage technological opportunities to support its business, various tactics have been developed to manage the risks associated with new technologies. These include the development of formal technology strategies, architectures, and roadmaps to help guide future direction.

FINANCIAL RISKS

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

The Corporation's 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 the Corporation's centralized credit management and collection practices.

GOVERNANCE & COMPLIANCE RISKS

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Corporation has 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 Chief Financial Officer (CFO), to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

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

Based on that assessment, the CEO and CFO have concluded that, as at March 31, 2019, the Corporation's internal controls over financial reporting are adequately designed and effective for providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

As well, the CEO and CFO, together with management, after evaluating the effectiveness of the Corporation's disclosure controls and procedures, have concluded that the disclosure controls and procedures are adequately designed and effective for providing reasonable assurance that material information relating to the Corporation would have been made known to them as at March 31, 2019.

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

WHISTLEBLOWER REPORT

In response to the enactment of *The Public Interest Disclosure (Whistleblower Protection) Act*, the Corporation 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.

A disclosure of alleged wrongdoing was submitted to the designated officer during the 2018/19 year. It was determined that the inquiry did not qualify as a wrongdoing as defined in the Corporation's Whistleblower Protection Policy.

management discussion and analysis

FUTURE OUTLOOK

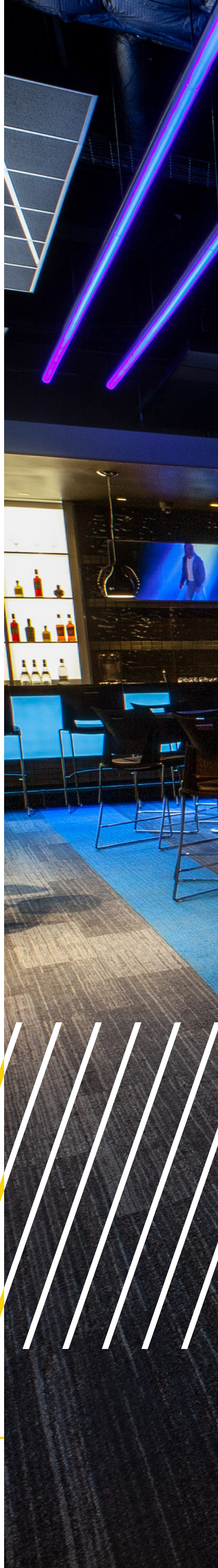
The Corporation's allocation to the Province of Manitoba is forecast to be $630.0 million in the 2019/20 year, an increase of $13.9 million or 2.3% as compared to the $616.1 million allocation to the Province of Manitoba in the 2018/19 year.

As the Corporation moves into 2019/20, the corporate strategy will be aligned with the current priorities outlined in the framework letter recently received from the Government of Manitoba. The Corporation continually strives to operate in an efficient and effective manner, and will carefully manage business operations to ensure the Corporation's allocation to the Province of Manitoba is maximized, while reducing red tape for Manitobans.

Cannabis operations will continue to develop its relationships with both retailers and suppliers to secure a safe supply of non-medical cannabis for sale to the public. Cannabis operations will work with the Liquor, Gaming and Cannabis Authority of Manitoba (LGCA) to manage the second phase of the non-medical cannabis retail strategy, as well as working towards implementing an open market approach to retail licensing. The Government of Canada has announced that the sale of three new classes of cannabis – edibles, extracts, and topicals – will become legal in Canada in 2019. The Corporation is preparing for the sale of these products in Manitoba.

In the coming year, gaming operations will support the provincial gaming review and carefully manage capital investment pending the outcome of this analysis. Activities within Video Lotto and the casinos will continue to be focused on providing customers with a modern gaming experience which meet their expectations for choice, quality and social responsibility. Necessary upgrades to gaming management systems will occur to ensure the continued integrity of the gaming environment. General maintenance construction activities at the casino properties to ensure the safety and security of casino patrons will be ongoing and include the completion of the structural refurbishment of the aquarium located at Club Regent Casino.

Liquor operations will continue with the implementation of new security measures associated with the enhanced strategy to combat Liquor Mart thefts. These measures are designed to ensure the safety of employees and customers while protecting assets. During 2019/20, several ongoing Liquor Mart renovations will be completed, a new Liquor Mart will open at the SEASONS shopping centre site in Winnipeg, and construction activities will continue at the new distribution centre facility. Liquor operations will also embark on initiatives in response to the priorities identified by the Government of Manitoba which include engaging with the private sector to identify opportunities for increased participation in the liquor retail and distribution sectors; exploring methods to reduce the Corporation's costs of acquisition of beverage alcohol; reviewing mark-up policies on liquor products to ensure current practices support economic development in Manitoba; and exploring the possibility of encouraging the expansion of local brew and distillery pubs in Manitoba.



Loft 180 (upper level) of McPhillips Station Casino

MANITOBA LIQUOR AND LOTTERIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT REPORT

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

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

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

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

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, 2019.

Original signed by

PETER HAK
President &
Chief Executive Officer

Original signed by

HEATHER MITCHELL
Chief Financial Officer

management report

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Manitoba Liquor and Lotteries Corporation

OPINION

We have audited the consolidated financial statements of Manitoba Liquor and Lotteries Corporation (the Corporation), which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statement of net income, comprehensive income and equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at March 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Corporation's Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Winnipeg, Canada
June 14, 2019

MANITOBA LIQUOR AND LOTTERIES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31 (in thousands of Canadian dollars)

	NOTES	2019	2018
ASSETS			
CURRENT ASSETS			
Cash		$ 45,760	$ 42,121
Trade and other receivables	**5**	53,584	51,300
Inventories	**6**	49,636	48,008
Prepayments	**7**	4,751	4,349
		153,731	145,778
NON-CURRENT ASSETS			
Property and equipment, net	**9**	385,283	384,227
Intangible assets, net	**10**	12,419	11,085
		397,702	395,312
TOTAL ASSETS		**$ 551,433**	**$ 541,090**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	**11**	$ 118,472	$ 115,302
Contract liabilities	**12**	7,686	5,584
Payable to the Province of Manitoba		50,075	54,362
Current portion of long-term debt	**13**	59,458	56,035
		235,691	231,283
NON-CURRENT LIABILITIES			
Long-term debt	**13**	310,742	304,807
Commitments and contingencies	**17**		
EQUITY			
Retained earnings		5,000	5,000
TOTAL LIABILITIES AND EQUITY		**$ 551,433**	**$ 541,090**

(see accompanying notes to the consolidated financial statements)

On behalf of the Board

Original signed by
RANDY WILLIAMS
Director & Chair of the Board of Directors

Original signed by
GARY TIMLICK
Director & Chair of the Audit & Finance Committee

CONSOLIDATED STATEMENT OF NET INCOME, COMPREHENSIVE INCOME AND EQUITY

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

	NOTES	2019	2018
REVENUE	**14**	$ 1,434,789	$ 1,417,749
COST OF SALES	**14**	550,781	529,049
		884,008	888,700
Operating expenses	**14**	258,127	254,547
Depreciation and amortization		53,371	52,406
Goods and Services Tax		2,825	3,354
		314,323	310,307
OPERATING INCOME		**569,685**	**578,393**
Share of profit of Western Canada Lottery Corporation	**15**	69,649	60,909
Interest expense on long-term debt		(10,952)	(11,454)
Interest income		1,155	937
INCOME BEFORE ALLOCATIONS AND PAYMENTS		**629,537**	**628,785**
Allocations and payments	**16**	13,462	18,423
NET INCOME AND COMPREHENSIVE INCOME		**616,075**	**610,362**
EQUITY, BEGINNING OF THE YEAR		5,000	5,000
Allocation to the Province of Manitoba		(616,075)	(610,362)
EQUITY, END OF THE YEAR		**$ 5,000**	**$ 5,000**

(see accompanying notes to the consolidated financial statements)

MANITOBA LIQUOR AND LOTTERIES CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2019	2018
OPERATING ACTIVITIES		
Net income and comprehensive income	$ 616,075	$ 610,362
Add (deduct) items not involving cash:		
Depreciation related to property and equipment	49,135	46,735
Depreciation on assets related to Conduct and Management agreements	4,151	4,900
Amortization related to intangible assets	4,236	5,671
Loss (gain) on disposal of property and equipment	33	(231)
Gain on disposal of assets held for sale	-	(5,769)
	673,630	661,668
Changes in non-cash working capital items:		
Increase in trade and other receivables	(2,284)	(995)
Decrease (increase) in inventories	(1,628)	3,592
Decrease (increase) in prepayments	(402)	841
Increase in trade and other payables	3,170	15,000
Increase (decrease) in contract liabilities	2,102	(438)
CASH PROVIDED BY OPERATING ACTIVITIES	**674,588**	**679,668**
INVESTING ACTIVITIES		
Purchase of property and equipment	(54,614)	(41,485)
Purchase of intangible assets	(5,570)	(5,146)
Proceeds from disposal of property and equipment	239	348
Proceeds from disposal of assets held for sale	-	15,050
CASH USED IN INVESTING ACTIVITIES	**(59,945)**	**(31,233)**
FINANCING ACTIVITIES		
Cash distributions to the Province of Manitoba:		
Current year	(616,000)	(611,000)
Prior year	(4,362)	(8,725)
Proceeds from long-term debt	65,690	40,360
Repayment of long-term debt	(56,332)	(60,117)
CASH USED IN FINANCING ACTIVITIES	**(611,004)**	**(639,482)**
NET INCREASE IN CASH DURING THE YEAR	3,639	8,953
CASH, BEGINNING OF THE YEAR	42,121	33,168
CASH, END OF THE YEAR	**$ 45,760**	**$ 42,121**
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 11,706	$ 11,900

(see accompanying notes to the consolidated financial statements)

1. BACKGROUND

By consent of the Legislative Assembly of Manitoba, *The Manitoba Liquor and Lotteries Corporation Act* was enacted on December 5, 2013 and came into force on April 1, 2014. Under *The Manitoba Liquor and Lotteries Corporation Act*, Manitoba Liquor and Lotteries Corporation (the Corporation) was established as a Crown corporation.

The registered office of the Corporation is located at 830 Empress Street, Winnipeg, Manitoba.

2. SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

The consolidated financial statements of the Corporation for the year ended March 31, 2019 were authorized for issue by the Board of Directors on June 14, 2019.

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

(B) STATEMENT OF COMPLIANCE

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

(C) BASIS OF CONSOLIDATION

The consolidated financial statements combine the accounts of the Corporation and MLC Holdings Inc. This controlled entity was established to purchase capital assets, which are leased to the Corporation 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 the Corporation 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 (the Corporation 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 15.

(E) FIRST NATIONS CASINOS AND SHARK CLUB GAMING CENTRE

The Government of Manitoba has overall control over gaming in Manitoba in accordance with the requirements of the Criminal Code of Canada, and has appointed the Corporation to act as its agent in the Conduct and Management (C&M) of the gaming regime.

Through a selection process, the Government of Manitoba has provided certain First Nations the opportunity to operate casinos, with the Corporation maintaining the C&M authority over these casinos. The Corporation recovers all direct gaming related expenses from First Nations Casinos and provides general administrative and compliance services upon request on a fee for service basis.

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

(F) FOREIGN CURRENCY TRANSLATION

The 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 functional currency and presentation currency of the Corporation is the Canadian dollar (CAD).

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

(G) FINANCIAL INSTRUMENTS

Financial instruments are recognized in the consolidated statement of financial position when the Corporation becomes a party to the contractual terms of the instrument, which represents its trade date. With the exception of trade receivables that do not contain a significant financing component or for which the Corporation has applied the practical expedient, all financial instruments are initially measured at fair value adjusted for directly attributable transaction costs. Trade receivables that do not contain a significant financing component or for which the Corporation has applied the practical expedient are measured at the transaction price. Upon initial recognition, the Corporation designates its financial instruments as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

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

(i) Fair value through profit or loss

Cash is classified as fair value through profit or 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) Amortized cost

Trade and other receivables are subsequently measured at amortized cost using the effective interest rate method, less impairment as they are held to collect contractual cash flows of principal and interest on specified dates. Any gains or losses and any losses arising from impairment are recognized in the consolidated statement of net income, comprehensive income and equity.

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

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

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

(H) PROPERTY AND EQUIPMENT

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

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

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

Furniture and equipment	**3 to 40 years**
Gaming equipment	**5 to 8 years**
Assets related to C&M agreements	**5 to 7 years**
Parking lots and roads	**15 to 25 years**
Leasehold improvements	Over the remaining term of the lease
Major building components	**5 to 50 years**
Building structures	**40 to 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.

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

Other leases are classified as operating leases and the leased assets are not recognized on the consolidated statement of financial position. Operating lease payments are recognized as an expense in the consolidated statement of net income, comprehensive income and equity on a straight-line basis over the term of the lease. Any predetermined, fixed rental increases contained in a lease are recognized over the life of the lease.

(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	**3 to 15 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) INVENTORIES

Inventories consist of goods for resale and consumable supplies and are valued at the lower of average cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as the purchase cost assigned on a weighted average basis and are comprised of the purchase price, import duties and freight. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

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

(L) IMPAIRMENT

(i) Financial assets

The Corporation assesses at each reporting date whether to recognize a loss allowance for expected credit losses (ECL) for a financial asset or group of financial assets not held at fair value through profit or loss. If there is objective evidence that an ECL exists, the loss is recognized in the consolidated statement of net income, comprehensive income and equity. The ECL is estimated as the difference between the contractual cash flows due in accordance with the contract and all cash flows the Corporation expects to receive.

The Corporation applies a simplified approach in calculating ECLs where changes in credit risk are not tracked, and loss allowances are based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(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 asset's recoverable amount is estimated. 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.

(M) 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.

(N) PENSION PLANS

In accordance with the provisions of the *Civil Service Superannuation Act* (CSSA), 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 are recorded as an operating expense. Under the CSSA, 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 immediately in the consolidated statement of financial position with a corresponding debit or credit to operating expenses in the period in which they occur.

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

(O) REVENUE RECOGNITION

Revenue from contracts with customers is recognized at an amount equal to the transaction price allocated to the specific distinct performance obligation when the performance obligation is satisfied. Revenue from contracts with customers is evaluated and separated into distinct performance obligations when there is a distinct good or service to be transferred in the future. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent and has generally concluded that it is acting as principal in all of its revenue arrangements, with the exception of the agency relationships described below, as it typically controls the goods or services before transfer to the customer.

Revenue from product sales is recognized when the significant rewards of ownership of the products have passed to the buyer, usually on the delivery of products. Lottery revenue is recognized as of the date of the draw with the exception of instant game revenue which is recorded at the time the ticket is activated by the retailer via the online accounting system for sale to customers. Video lottery and other gaming revenue are recognized at the time of play, net of prizes paid. Other revenue sources are discussed below.

(i) Promotional allowances

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

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 gaming free play, and 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.

(ii) Third-party AIR MILES® program

The Corporation participates in the third-party AIR MILES® program which allows customers to earn AIR MILES® points when they purchase products in the Corporation's retail liquor stores. The redemption of points by customers is the responsibility of the third-party AIR MILES® program. Consideration received is recorded net of related expenses as the Corporation is acting as an agent for the AIR MILES® program.

(iii) Brewery, distillery and winery direct sales

The Corporation provides craft breweries, distilleries and wineries who manufacture product on-site in a Manitoba location the opportunity to sell their product directly to customers at the location where it is produced. Under this arrangement, the manufacturers remain the primary obligor responsible to fulfill the promise to deliver the goods upon completion of the sale transaction. Due to the economic substance of the arrangement, the Corporation is acting as agent for these direct sales and records revenue net of related expenses.

(iv) Contract balances

A contract asset is the right to consideration in exchange for goods or services transferred to the customer and a contract asset is recognized for the earned consideration that is conditional if performance is complete before payment is received or becomes due. A receivable represents the Corporation's right to an amount of consideration that is unconditional, meaning that only the passage of time is required before payment of the consideration is due.

A contract liability is the obligation to transfer goods or services to a customer for which the Corporation has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are recognized as revenue when the Corporation performs under the contract and are disclosed in note 12.

(P) 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.

The Corporation collects GST on liquor and cannabis sales, as well as applicable entertainment, food & beverage and casino retail store operations. An input tax credit is claimed for GST paid on non-gaming expenditures.

(Q) ASSETS HELD FOR SALE

Assets held for sale are presented separately in the consolidated statement of financial position when the Corporation is committed to selling the assets, an active plan of sale has commenced, and the sale is expected to be completed within 12 months. Immediately before the initial classification of the assets as held for sale, the carrying amounts of the assets are measured in accordance with the applicable accounting policy. Assets held for sale are subsequently measured at the lower of their carrying amount and fair value less cost to sell.

(R) CHANGES IN ACCOUNTING POLICIES

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

(i) *IFRS 9 Financial Instruments*

This standard replaced *IAS 39 Financial Instruments: Recognition and Measurement* and introduced amendments to classification and measurement for financial assets, a new expected loss impairment model and a new hedge accounting model. IFRS 9 became effective for annual periods beginning on or after January 1, 2018 and has been applied retrospectively. The adoption of IFRS 9 did not have a material impact on the Corporation's consolidated financial statements.

(ii) *IFRS 15 Revenue from Contracts with Customers*

This standard was issued in May 2014 and supersedes existing standards and related interpretations including *IAS 18 Revenue* and *IFRIC 13 Customer Loyalty Programmes*. IFRS 15 introduces a single model for recognizing revenue from contracts with customers in a manner that depicts the transfer of goods or services to customers in amounts that reflect the consideration to which the entity is expected to be entitled in exchange for those goods or services. IFRS 15 became effective for annual periods beginning on or after January 1, 2018 and has been applied retrospectively.

The Corporation provides craft breweries, distilleries and wineries who manufacture product on-site in a Manitoba location the opportunity to sell their product directly to customers at the location where it is produced. Prior to the adoption of IFRS 15, the Corporation had concluded that it was exposed to the significant risks and rewards associated with these direct sales and accounted for the revenue as if it were principal in the transaction. Upon adoption of IFRS 15, the Corporation determined it does not control the goods before they are transferred to customers and therefore is acting as agent for these direct sales. There was no impact to the consolidated statement of financial position related to this change. The 2018 consolidated statement of net income, comprehensive income and equity was restated, resulting in decreases to both revenue and cost of sales of $1,061.

Under IFRS 15, the Corporation recognizes its obligation to transfer goods or services to a customer for which the Corporation has received consideration (or an amount of consideration is due) from the customer as a contract liability. The consolidated statement of financial position has been restated to reclassify contract liabilities from trade and other payables.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts recognized in the consolidated financial statements of 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 of 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) REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) 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 gaming free play, and certain goods and services provided by the casinos. The future redemption liability of $2,527 (2018 – $3,061) is included in contract liabilities 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 are recorded in the consolidated statement of net income, comprehensive income and equity.

(ii) Principal versus agent considerations

The Corporation participates in the third-party AIR MILES® program which allows customers to earn AIR MILES® points when they purchase products in the Corporation's retail liquor stores. The redemption of points by customers is the responsibility of the third-party AIR MILES® program therefore no contract liability remains. The Corporation has concluded it is acting as agent under this arrangement and consideration received is recorded net of related expenses.

The Corporation has concluded it is acting as agent under an arrangement which allows craft breweries, distilleries and wineries who manufacture product on-site in a Manitoba location to sell product directly to customers at the location where it is produced. As a result, revenue is recorded net of related expenses under this agency relationship.

(iii) Other consideration and obligations

The Corporation is required to make several other estimates and judgements including the determination of the nature of performance obligations under its contracts, the assessment of the amount of variable consideration stemming from its performance obligations and whether a significant financing component exists in any of its contracts with customers.

In addition to the gaming loyalty points program, other distinct performance obligations have been identified where consideration has been received and a future obligation to be satisfied by the Corporation exists. The performance obligations relating to these revenues remain as an outstanding contract liability until the performance obligation has been satisfied. The majority of contracts with customers are settled immediately or through commercial sales with 30-day credit terms therefore the Corporation has concluded no significant financing components exist.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following standard, which is reasonably expected to be applicable to the Corporation, has been issued but was not yet effective at the date of issuance of the consolidated financial statements.

(A) *IFRS 16 LEASES*

This standard was issued in January 2016 and supersedes existing standard *IAS 17 Leases* and related interpretations. IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, referred to as the customer (lessee) and the supplier (lessor). IFRS 16 introduces a single lessee accounting model, eliminating the classification of leases as either finance or operating and will require lessees to recognize assets and liabilities for most leases. The new standard does not substantially change lessor accounting requirements therefore lessors will continue to classify leases as operating or finance. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and the Corporation is currently evaluating the impact of adoption of the new standard.

(in thousands of Canadian dollars)

5. TRADE AND OTHER RECEIVABLES

		2019		2018
Trade	$	50,245	$	47,423
Western Canada Lottery Corporation		3,339		3,877
	$	53,584	$	51,300

The Corporation's exposure to credit risk related to trade and other receivables is disclosed in note 18(d).

6. INVENTORIES

		2019		2018
Warehouse	$	32,965	$	32,515
Retail locations		16,349		15,246
Consumable supplies		322		247
	$	49,636	$	48,008

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is $5,221 at the end of the 2019 fiscal year (2018 – $4,173).

7. PREPAYMENTS

		2019		2018
Maintenance contracts	$	2,836	$	3,370
Deposits and other		1,570		831
Insurance		328		131
Rent		17		17
	$	4,751	$	4,349

8. ASSETS HELD FOR SALE

In January 2017, the Corporation offered for sale the land, building, and parkade at 233 Kennedy Street and 218 Edmonton Street in Winnipeg, Manitoba. Assets held for sale relating to this property totaled $9,281. On June 20, 2017, the sale of the assets was finalized for net proceeds of $15,050, resulting in a gain on disposal of $5,769.

9. PROPERTY AND EQUIPMENT

COST	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
April 1, 2017	$ 25,427	$ 297,238	$ 25,199	$ 208,430	$ 138,615	$ 39,662	$ 79,893	$ 814,464
Additions	-	21,316	396	11,083	4,658	609	3,423	41,485
Transfers from WIP	-	66,345	1,845	489	4,723	-	(73,402)	-
Reclassified as held for sale	-	(394)	-	-	-	-	-	(394)
Disposals	-	-	-	(3,767)	(6,160)	(654)	-	(10,581)
March 31, 2018	25,427	384,505	27,440	216,235	141,836	39,617	9,914	844,974
Additions	-	3,722	3,167	20,564	3,747	2,590	20,824	54,614
Transfers from WIP	-	1,540	2,080	845	817	108	(5,390)	-
Disposals	-	(776)	(405)	(3,360)	(18,421)	(119)	-	(23,081)
March 31, 2019	$ 25,427	$ 388,991	$ 32,282	$ 234,284	$ 127,979	$ 42,196	$ 25,348	$ 876,507

DEPRECIATION	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
April 1, 2017	$ -	$ 130,003	$ 13,204	$ 134,569	$ 113,550	$ 28,250	$ -	$ 419,576
Depreciation	-	10,582	1,966	24,649	9,538	4,900	-	51,635
Disposals	-	-	-	(3,661)	(6,149)	(654)	-	(10,464)
March 31, 2018	-	140,585	15,170	155,557	116,939	32,496	-	460,747
Depreciation	-	12,005	2,035	25,661	9,434	4,151	-	53,286
Disposals	-	(685)	(405)	(3,331)	(18,269)	(119)	-	(22,809)
March 31, 2019	$ -	$ 151,905	$ 16,800	$ 177,887	$ 108,104	$ 36,528	$ -	$ 491,224

NET BOOK VALUE								
March 31, 2019	$ 25,427	$ 237,086	$ 15,482	$ 56,397	$ 19,875	$ 5,668	$ 25,348	$ 385,283
March 31, 2018	25,427	243,920	12,270	60,678	24,897	7,121	9,914	384,227

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

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

The amount of borrowing costs capitalized during the 2019 fiscal year was $755 (2018 – $444). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 3.11%, 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 2019 fiscal year is $2,577 (2018 – $2,823) and consists of land being used for parking facilities at the McPhillips Station Casino.

(in thousands of Canadian dollars)

(in thousands of Canadian dollars)

10. INTANGIBLE ASSETS

COST	Computer software – acquired
April 1, 2017	$ 46,289
Additions	5,146
Disposals	-
March 31, 2018	51,435
Additions	5,570
Disposals	(3,411)
March 31, 2019	$ 53,594

AMORTIZATION	
April 1, 2017	$ 34,679
Amortization	5,671
Disposals	-
March 31, 2018	40,350
Amortization	4,236
Disposals	(3,411)
March 31, 2019	$ 41,175

NET BOOK VALUE	
March 31, 2019	$ 12,419
March 31, 2018	11,085

11. TRADE AND OTHER PAYABLES

	2019	2018
Trade	$ 74,838	$ 72,253
Employee benefits	33,874	33,391
Jackpot liability	5,268	4,475
Province of Manitoba taxes	3,093	3,098
Goods and Services Tax	1,399	2,085
	$ 118,472	$ 115,302

12. CONTRACT LIABILITIES

	2019	2018
Unearned revenue	$ 2,646	$ 106
Loyalty points program liability	2,527	3,061
Gift card liability	2,279	2,086
Other contract liabilities	234	331
	$ 7,686	$ 5,584

Revenue recognized in the 2019 fiscal year that was included in contract liabilities at the beginning of the year was $4,479 (2018 - $5,009).

13. LONG-TERM DEBT

	2019	2018
Province of Manitoba, bearing interest at rates ranging from 1.75% to 5.05%, repayable in monthly principal instalments ranging from $5 to $685 plus interest with maturity dates ranging from July 31, 2019 to March 31, 2039.	$ 370,200	$ 360,842
Less current portion of long-term debt	59,458	56,035
	$ 310,742	$ 304,807

All long-term debt is unsecured and the fair market value as at March 31, 2019 is $374,285.

The Corporation's exposure to liquidity risk related to long-term debt is disclosed in note 18(c).

14. REVENUE, COST OF SALES AND EXPENSES BY NATURE

The Corporation's revenue consists of the following:

	2019	2018
Liquor sales	$ 792,334	$ 795,228
Cannabis sales	26,991	-
VLT	351,513	354,967
Casino and online gaming	238,577	233,951
Non-gaming revenue	25,374	33,603
	$ 1,434,789	$ 1,417,749

The Corporation's cost of sales consists of the following:

	2019	2018
Liquor cost of sales	$ 391,541	$ 392,202
Cannabis cost of sales	22,434	-
VLT commissions	33,564	33,893
First Nations allocation	58,376	59,362
Tourism contribution	24,140	24,580
Gaming direct expenses	12,363	9,821
Non-gaming cost of sales	8,363	9,191
	$ 550,781	$ 529,049

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

Gaming direct expenses consist primarily of costs associated with the operation and maintenance of the Corporation's electronic gaming equipment, table games equipment and online gaming site.

Non-gaming revenue and cost of sales consist primarily of revenue and costs associated with the Corporation's entertainment, food & beverage and casino retail store operations.

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

	2019	2018
Employee benefits	$ 170,597	$ 166,276
Bank charges	3,615	3,464
Community support	2,189	3,156
Consultant and professional fees	1,865	2,238
Freight and delivery	4,451	4,173
Grants in lieu of taxes	6,288	5,871
Learning and development	1,278	1,221
Maintenance	15,765	16,374
Marketing and public awareness	14,604	11,700
Rents	9,661	16,375
Sundry	2,825	2,452
Supplies and equipment	5,004	4,333
Technology systems and support	11,235	8,492
Telecommunications	3,010	3,091
Transportation and vehicles	1,719	1,588
Utilities	4,021	3,743
	$ 258,127	$ 254,547

(in thousands of Canadian dollars)

(in thousands of Canadian dollars)

15. SHARE OF PROFIT OF WCLC

	2019	2018
Revenue	$ 249,927	$ 224,495
Prizes, commissions and other cost of sales	173,196	156,540
WCLC partner equalization	4,637	4,606
Payment to Government of Canada	2,445	2,440
Profit	$ 69,649	$ 60,909

The WCLC earned revenue in the 2019 fiscal year in the amount of $1,455,226 (2018 – $1,285,692), of which the Corporation's share calculated based on relative sales levels by jurisdiction is 17% (2018 – 17%). The WCLC's total profit for the 2019 fiscal year was $494,203 (2018 – $432,438) of which the Corporation's share is 14% (2018 – 14%).

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

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

16. ALLOCATIONS AND PAYMENTS

	2019	2018
Social responsibility funding	$ 8,191	$ 9,879
LGCA funding and Crown Services Secretariat levy	4,881	4,654
Other community funding	390	3,890
	$ 13,462	$ 18,423

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

The Corporation provides funding to the Liquor, Gaming and Cannabis Authority of Manitoba (LGCA) through the payment of annual licence fees for employees, electronic gaming devices and retail liquor locations, as well as additional amounts directed to be paid under *The Liquor, Gaming and Cannabis Control Act*. The Corporation also provided funding to the Crown Services Secretariat through the payment of an annual levy.

The Corporation provides funding to various charitable and community organizations throughout Manitoba.

17. COMMITMENTS AND CONTINGENCIES

(A) LEASE OBLIGATIONS

The Corporation has entered into commercial leases on certain buildings and parking lots which have remaining terms ranging from 1 to 21 years. The future minimum rental payments relating to operating leases are as follows:

2020	$ 9,763
2021	9,444
2022	8,569
2023	8,255
2024	7,951
Subsequent years	62,145
	$ 106,127

(B) LEGAL CLAIMS

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

(C) PURCHASE COMMITMENTS

At the end of the 2019 fiscal year, the Corporation had purchase commitments of $7,306 related to casino and liquor operations construction projects.

18. FINANCIAL INSTRUMENTS

The Corporation is exposed to interest rate, currency, 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, and it does so through a combination of a system of internal and disclosure controls, effective cash management strategies and sound business practices.

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

(A) INTEREST RATE RISK

Interest rate risk is the risk to the Corporation's income that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk, though risks associated with interest rate fluctuations are mitigated based on 100% of long-term debt having a fixed interest rate.

(B) CURRENCY RISK

The Corporation is exposed to currency risk through liquor inventory purchase transactions that require settlement in foreign currencies. Exposure to fluctuations in exchange rates is mitigated by the policy of adjusting purchase or selling prices to maintain approved liquor profit margins. Purchases denominated in foreign currencies during the 2019 fiscal year were $8,086 (2018 – $7,925). Accordingly, a 10% increase or decrease in the exchange rate between the Canadian dollar and other foreign currencies would result in a total increase or decrease of $809 (2018 – $792) assuming the inventory purchased had been sold by the end of the year.

(C) LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages this risk through effective cash and long-term debt management. Trade and other payables are due within one year and a significant portion of the long-term debt is repayable in either quarterly or monthly instalments. Liquidity risk is further mitigated by collection terms on trade and other receivables being set at less than or equal to the payment terms of trade and other payables.

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

2019	**On demand**	**Less than 1 year**	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**	**> 5 years**
Trade and other payables	$ 5,268	$ 113,204	$ -	$ -	$ -	$ -	$ -	$ -
Contract liabilities	5,013	2,673	-	-	-	-	-	-
Payable to the Province of Manitoba	-	50,075	-	-	-	-	-	-
Long-term debt	-	59,458	48,290	47,670	47,201	46,838	31,461	89,282
	$ 10,281	$ 225,410	$ 48,290	$ 47,670	$ 47,201	$ 46,838	$ 31,461	$ 89,282

2018	**On demand**	**Less than 1 year**	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**	**> 5 years**
Trade and other payables	$ 4,475	$ 110,827	$ -	$ -	$ -	$ -	$ -	$ -
Contract liabilities	5,443	90	51	-	-	-	-	-
Payable to the Province of Manitoba	-	54,362	-	-	-	-	-	-
Long-term debt	-	56,035	53,115	41,946	41,326	40,858	40,791	86,771
	$ 9,918	$ 221,314	$ 53,166	$ 41,946	$ 41,326	$ 40,858	$ 40,791	$ 86,771

(in thousands of Canadian dollars)

(in thousands of Canadian dollars)

(D) 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 ECLs for non-collectible amounts which are netted against trade and other receivables. Trade and other receivables are non-interest bearing and generally have 30-day terms. The Corporation applies a simplified approach in evaluating the ECLs associated with trade and other receivables by calculating a loss allowance based on historical losses, as well as forward-looking information such as economic conditions. The estimated credit loss allowance for trade and other receivables for the 2019 fiscal year is $0 (2018 – $4). 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 2019 fiscal year is as follows:

Neither impaired nor past due	$ 53,215
Not impaired and past due as follows:	
Within 30 days	71
31 to 60 days	79
61 to 90 days	52
Over 90 days	167
	$ 53,584

(E) 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 are considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget and have remained unchanged over the fiscal years presented.

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

(F) FAIR VALUE

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

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

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

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

The Corporation's financial instruments consist of cash, trade and other receivables, trade and other payables, contract liabilities, 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 value, classified using the fair value hierarchy, are as follows:

2019	Level 1	Level 2	Level 3	Total
Cash	$ 45,760	$ -	$ -	$ 45,760
	$ 45,760	$ -	$ -	$ 45,760

2018	Level 1	Level 2	Level 3	Total
Cash	$ 42,121	$ -	$ -	$ 42,121
	$ 42,121	$ -	$ -	$ 42,121

19. 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 13.

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

	2019	2018
Short-term employee benefits	$ 2,009	$ 1,994
Post-employment pension and medical benefits	139	142
	$ 2,148	$ 2,136

20. COMPARATIVE FIGURES

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

(in thousands of Canadian dollars)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