

# Letter of Transmission

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Honourable Ron R. Schuler  
Minister of Crown Services  
Room 343, Legislative Building  
450 Broadway  
Winnipeg, MB R3C 0V8

September 22, 2016

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, 2016.

Respectfully submitted,

**Polly Craik**  
Chair, Board of Directors

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# Board of Directors

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**Polly Craik**, Chair  
**Nick Logan**, Vice-Chair  
**Gary Coleman**  
**Tracey Maconachie**  
**James Morden**  
**Stuart Murray**  
**Rene Pereux**  
**Jennifer Plett**  
**Mavis Taillieu**  
**Gary Timlick**

## About Us

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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 health care, education, social services, housing and infrastructure. We are responsible for the sale of liquor and gambling in Manitoba using a sustainable and socially responsible approach. We strive to reduce the risks associated with our products, to work with customers and business partners to inspire healthy choices around liquor and gambling, and to realize the many benefits that result from doing business responsibly.

We operate all Liquor Mart and Liquor Mart Express stores, Club Regent Casino, McPhillips Station Casino, Video Lotto, and PlayNow.com. We distribute and sell beverage alcohol and are the exclusive supplier of breakopen tickets plus bingo paper in Manitoba. We also distribute and sell lottery tickets in partnership with the Western Canada Lottery Corporation and the Interprovincial Lottery Corporation.

# Strategic Direction

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## VISION

To exceed customer expectations while supporting our communities.

## MISSION

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

## VALUES

**Importance of People** Foster a positive and diverse workplace and work together towards our common goals.

**Responsibility** Demonstrate responsible business, social, and environmental practices.

**Integrity and Fairness** Be respectful, ethical, and fully accountable for our actions and decisions.

**Service Excellence** Provide superior service to our customers, partners, and co-workers.

**Innovation** Learn from our experiences, embrace change, and encourage innovation.

## STRATEGIC PILLARS

**Customers** Maintaining satisfied customers and increasing our customer base.

**Effectiveness** Delivering profitable growth and quality products while embracing innovation.

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

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

## \$10.3 million in growth

Before their eyes, our guests continue to see Winnipeg's casinos evolve into contemporary entertainment venues. Reimagined dining, lounge and gaming spaces, plus improved parking at Club Regent Casino complement the new Club Regent Event Centre. At McPhillips Station Casino the transformation has just begun. The carefully targeted construction and renovation contributed an estimated \$10.3 million to Manitoba's gross domestic product in 2015/16.

## \$11.3 million in employment

Engineers, electricians, welders, heavy machine operators and other skilled tradespeople are integral to our casino renewal. Casino renewal in 2015/16 generated an estimated 138 person-years of employment worth an estimated \$7.4 million of income for Manitobans. A further \$3.9 million in local, provincial and federal taxes will be raised through construction, directly benefiting our communities.



> **The Casinos of Winnipeg** are the first casinos in the world to be certified by the Marine Stewardship Council. Certified Manitoba-harvested pickerel bearing the blue MSC label signifies the fish is from an environmentally responsible, well-managed fishery.

# Entertaining for Good >



ECONOMIC IMPACT



SOCIAL IMPACT



WINNINGS

900  
LOTTERY RETAILERS

500  
VIDEO  
LOTTERY VENUES

\$583  
MILLION  
ALLOCATION TO  
THE PROVINCE

\$99 MILLION  
COMMISSIONS,  
CONTRIBUTIONS,  
& SUPPORT FOR THE  
HOTEL & RESTAURANT  
INDUSTRY

\$56 MILLION  
OTHER VLT  
COMMISSIONS &  
CONTRIBUTIONS

3,200  
EMPLOYEES

20% LOCAL  
INGREDIENTS  
USED BY CASINO  
RESTAURANTS

1  
GAMING  
CENTRE

435  
PRIVATE WINE,  
BEER, LIQUOR &  
DUTY FREE STORES

2  
CASINOS

63  
LIQUOR MART  
& LIQUOR MART  
EXPRESS STORES

29 FAIR TRADE LIQUOR  
PRODUCTS LISTED

52  
ORGANIC LIQUOR  
PRODUCTS LISTED



Some numbers rounded and/or estimated.

## Message from the Chair

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As the new Chair for Manitoba Liquor & Lotteries it is my pleasure to contribute to the annual report for 2015/16. First, my board colleagues and I would like to recognize the previous board for their many years of dedicated service. This annual report is a tribute to their contribution. Thank you also to our CEO and executive team for their assistance in transitioning the new board.

As the new governance body for Liquor & Lotteries, we are honoured to be asked to provide strategic guidance and governance oversight to the corporation. We look forward to continuing to strengthen our relationship with the senior leadership team to facilitate

continued profitable growth for both the corporation and for our various private sector partners. Starting in the fall of 2016, the board will begin the task of setting new strategic direction with a focus on achieving results through efficiency, effectiveness and accountability.

Liquor & Lotteries has delivered healthy profits to the Province of Manitoba over the past year and that will continue to be our focus. We have also seen significant progress in several strategic areas including renewed engagement with our 1,800 plus private business stakeholders, reinvestment in our two casino properties, growth of our Liquor Mart and Liquor Mart Express brands and a steadfast commitment to community and corporate social responsibility.

We look forward to another year of serving the people of Manitoba and are proud to be a part of this dynamic organization as we focus on achieving results on behalf of all Manitobans.

**Polly Craik**  
Chair, Board of Directors

## Message from the CEO

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I'm pleased to report that in my first full year as CEO, Manitoba Liquor & Lotteries returned profits of \$583 million to the Province of Manitoba, with revenue growth achieved in all lines of business. Beyond delivering a strong financial return, we've seen a great deal of other progress inside our organization as I have encouraged the momentum of change that began with the inception of Liquor & Lotteries.

One of my goals is to engage employees in driving innovation, growth, and a positive corporate culture. To that end, there is a monthly CEO blog – *The Bald Guy Blog* – and I work alongside our staff on the front line every couple of months through my *Not-So-Undercover-Boss* initiative. An annual all-staff meeting has also been launched in order to better inform all members of the Manitoba Liquor & Lotteries family about business plans, business opportunities and business challenges. I believe these initiatives help build trust and insight across the organization.

Over the past year we have been reframing and strengthening our business relationships with the intent of becoming

more transparent and accountable to our private sector partners. As a result of this, our stakeholders have indicated that we are moving in the right direction regarding our renewed commitment to partnership and innovation.

We invited beer vendors, video lotto siteholders, private wine stores and other business partners to join a newly established Channel Partner Advisory Committee. This provides an opportunity to bring Liquor & Lotteries together with our private sector partners to discuss our overlapping business interests and provides a forum to look strategically at challenges, conflicts and opportunities. I am committed to leveraging this new forum for communication, planning and innovation to ensure that both our organization and our channel partners learn from each other and embrace mutual opportunities to better serve Manitobans.

We encouraged the establishment of the Manitoba Brewers Association, and are ensuring that our interests are aligned with theirs for the betterment of our economy. As a major sponsor of the 2015 Grey Cup Festival Series we helped ensure that local craft beer producers had commercial access to events. Additionally, Liquor & Lotteries announced a loan program for craft beer and distilling start-ups, set lower markups for small producers, and expanded the growler program.

In response to the federal government's decision to begin the process of legalizing recreational marijuana, Liquor & Lotteries is involved with two working groups. First, Liquor & Lotteries is a member of

the provincial working group on the legalization of marijuana that is co-chaired by the Department of Justice and the Liquor and Gaming Authority of Manitoba. This working group will be responsible for providing final advice to the provincial government regarding Manitoba's position on regulating and distributing recreational marijuana in our province. Additionally, we have also formed a research group in partnership with the Liquor and Gaming Authority of Manitoba tasked with analyzing relevant literature, research and the experience of jurisdictions already involved in the legal sale of recreational marijuana. This group's mandate is to ensure that any advice that Liquor &

Lotteries provides to the provincial working group, to our government shareholder, and to our Board of Directors is based on evidence, is grounded in a philosophy of social responsibility, and recognizes that any eventual introduction of recreational marijuana as a retail product is going to be complex and challenging.

Finally, a big thank you to all of our employees and to my management team for providing Manitobans with excellent service. Together with our many community and business partners, we will continue to do great things for Manitoba.

**John Stinson**  
CEO



> **Not So Undercover Boss** John works alongside Kevin, Product Consultant, at the Brandon South Liquor Mart.

# Customers >

*Maintaining satisfied customers and increasing our customer base.*

## **CASINOS OF WINNIPEG**

The Club Regent Event Centre continues to build its reputation for drawing great entertainment and for the comfort and convenience it promises every guest. The venue continues to host private and corporate events while delivering memorable experiences for participants. Some of the most popular entertainment events held in the 2015/16 fiscal year included multiple sold-out Johnny Reid shows, 2015 Grey Cup festivities and CFL Awards, and the travelling version of the popular *The Price is Right* game show.

We're always looking for new ideas to surprise and entertain our guests. Last year we temporarily turned Club Regent's walk-through aquarium into a restaurant with our sold-out Under the Sea Dinner. The popularity of our casino events is perhaps best reflected by a record-high membership in the Club Card program achieved this past year.

## **LOTTERY, VIDEO LOTTO, AND PLAYNOW.COM**

Huge jackpots fueled excitement across Canada last year. Manitobans proved to be a lucky bunch with over 150 prizes of \$10,000 and 11 prizes of over \$1 million. PlayNow.com celebrated its first major lottery winner on the February 27 LOTTO 6/49 draw, with one lucky Winnipegger taking home \$3.6 million. This was also

the largest lottery prize payout of the year in Manitoba. Offering a wide range of games including live poker and bingo, sports bets, casino games and more, PlayNow.com has attracted more new players than was forecasted for this year.

Customers of our video lottery terminals were introduced to a variety of new game titles over the year.

## **LIQUOR MART AND LIQUOR MART EXPRESS**

Three new Liquor Mart Express locations and one new Liquor Mart opened this year: Sage Creek Liquor Mart, and Express locations at Jefferson Safeway, Reenders Sobeys, and St. Anne's Superstore. The Portage and Ainslie Liquor Mart was expanded and renovated with enhanced lighting and new customer experiences including a wine sampling station.

Liquor & Lotteries is working with our partners at Winnipeg's private wine stores and private food and wine stores. We collaborated with these retailers during the 2015 Christmas season by selling wine gift baskets in Liquor Marts on behalf of Winnipeg's private wine retailers. This collaborative promotion raised our partners' profiles, offered them a new sales channel, and provided Liquor Mart customers with another innovative and convenient product offering.

Between these and the more than 4,600 products carried by Liquor Marts, Manitobans have a remarkably broad selection to choose from including a good selection of alcohol-free alternatives and fair trade certified wine and spirits. Liquor Marts and Liquor Mart Express stores also expanded their selection of complementary products like glassware and bar accessories. Over 2,400 people attended some 100 product tasting and education sessions throughout the year at our Grant Park Liquor Mart Education Centre covering everything from wine, beer, and spirits as well as food pairing sessions.

Approximately 12,400 tickets were sold for the Winnipeg Wine Festival, Flatlander's Beer Festival, and Winnipeg Whisky Festival. Funds raised at these festivals support Manitoba Special Olympics, The True North Foundation and The Manitoba Sports Hall of Fame. For those without the time to attend an event or a learning session, our highly knowledgeable Liquor Mart and Liquor Mart Express staff are always ready to provide informed product recommendations and to answer questions. Customers can also visit [liquormarts.ca](http://liquormarts.ca) and learn about our products through our new Liquor Logic videos. These videos are intended to inform and educate customers in a fun, conversational format.





> **Under the Sea Dinner Club Regent Casino**

## LIQUOR DISTRIBUTION

We are working to make Manitoba's wholesale liquor distribution system more efficient and convenient in order to reduce costs and improve service to licensees and vendors. On the convenience side, our distribution centre is now able to sequence and time deliveries so that licensees such as restaurants receive their deliveries at a time most convenient for them.

Beer vendors normally pick up their craft-style beers at Liquor Marts for resale at their own locations. This past year, select vendors participated in a trial program where we delivered products directly from our distribution centre to vendors. This allowed us to eliminate the extra shipping and storage costs to the Liquor Mart, reduce delivery lead times, and offer the convenience of direct-to-door service for vendors. Participating vendors saw a significant jump in related sales during this period.

607 PRODUCTS ADDED

988 SPIRITS

2,398 WINES

119 REFRESHMENT BEVERAGES

1,105 BEERS

4,610 TOTAL ACTIVE LISTINGS



## CLUB REGENT EVENT CENTRE

Winnipeg Comedy Festival  
Pacquiao vs Mayweather Pay-Per-View  
Sammy Kershaw, Aaron Tippin & Collin Raye  
Who's Bad: Ultimate Michael Jackson Experience  
Martin Short  
The Oak Ridge Boys  
Marty Stuart & His Fabulous Superlatives  
WSO Jeans 'n Classics  
The Mavericks Mono Mundo Tour  
Chris D'Elia  
Thunder from Down Under with Host Melanie Dahling  
Replay: '60s Invasion  
Wynonna  
Belinda Carlisle  
Kenny Rogers  
Queen: It's a Kind of Magic  
UB40 featuring Ali Campbell, Mickey & Astro  
Trooper with guest Harlequin  
WSO: Toast to the Rat Pack  
Lorrie Morgan & Pam Tillis  
Price is Right  
Salt-N-Pepa with Spinderella & guest Mama Cutsworth  
Brett Kissel with guest Jordan McIntosh  
1950s Dance Party with the WSO  
Platinum Blonde with guest Lee Aaron  
Chai Folk Ensemble Presents: Meridian  
Roger Hodgson, formerly of Supertramp  
CFL Player Awards  
CFLPA Official Players' Party  
Abbamania: Night Fever  
Jonny Lang  
Theory of a Deadman  
The InClines: Sweet Dreams of Patsy Cline  
Menopause: The Musical  
My Jokes Are Up Here: Jen Grant, Chris Walkinshaw, Rebecca Kohler, Erica Sigurdson  
Rocklands Entertainment Presents: Four by Four  
Ultimate Escape: The Music of Journey with the WSO  
Johnny Reid with Natalie MacMaster & Guests  
The Irish Rovers: 50 Years  
The Wailers  
George Canyon  
The Nylons Farewell Tour



# Effectiveness >

*Delivering profitable growth and quality products while embracing innovation.*

## **GAMING**

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Club Regent Casino's modern makeover continued with a fresh new façade well underway on the south side, as well as additional interior work. To better handle traffic demands of patrons attending shows and banquets at the Club Regent Event Centre, construction began on a new parkade just northeast of the Club Regent Event Centre.

In response to a rising US dollar, many Canadian entertainment venues have moved towards booking a greater proportion of domestic entertainers. Our own casino shows have followed this trend while remaining committed to bringing in quality events that excite our audiences. Despite the challenges arising from our reduced purchasing power due to currency valuation, careful management of our entertainment program has resulted in revenue growth for the Event Centre.

Within our casino restaurants, new a la carte menus have helped mitigate rising food costs while also offering more effective food portion control and reducing waste. At McPhillips Station Casino, Michele's Restaurant is responding to guest expectations by transitioning to a sports bar in the late night period. Buffet schedules have correspondingly been adjusted. On the gaming floor customers have applauded the introduction of liquor service.

PlayNow.com brought a new product to Manitoba called PlayNow Pools, an alternative to odds-based sports betting. Every pool offers the player a chance to win a share of a prize pool with other players in the pool. Other additions to the site included a lottery app, and bingo and casino slot games.

Lottery retailers attended a first-of-its-kind meeting with Liquor & Lotteries to exchange business ideas, customer service tips, and product knowledge. Similar meetings are held with VLT siteholders. In both cases we strive to understand our stakeholders' needs, their challenges and opportunities, and work together for mutually beneficial solutions.

## **LIQUOR**

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Over 60 private liquor vendors throughout Manitoba participated in seasonal promotions, featuring deluxe and premium products. A number of liquor vendors also grew their sales with our assistance by enhancing their product assortments, merchandising and staff training. Some hotel beer vendors partnered with us to introduce a similar process to improve their customer retail experience. Manitobans responded positively resulting in incremental sales growth for these channel partners with some locations experiencing growth double the rate of the provincial average.

Our successful Coast to Coaster craft beer promotion was launched in Liquor Marts and through some channel partners to showcase beer from across Canada. Thirty breweries across nine provinces participated including local producers offering special beers brewed exclusively for this promotion.



A trial project looked at the effect of more frequent daily deliveries from our distribution centre to select Liquor Marts. The results were positive and resulted in improved product availability (fewer out-of-stock occurrences) coupled with reduced storage and handling demands at Liquor Marts. We will be looking to extend these improvements to more stores in our network.

## CORPORATE

A new corporate website, [mbll.ca](http://mbll.ca), makes it easy to write to us, engage with our community support programs, and learn about GameSense and DrinkSense. Job seekers can discover what it's like to work for one of Manitoba's top employers and have access to our current job postings anytime, anywhere. A fun and interactive timeline tool provides a glimpse back into the history of liquor and gaming in Manitoba. The site is also a convenient jumping-off point to any of our product and service sites.

A complementary business-to-business website, [mbllpartners.ca](http://mbllpartners.ca), offers a one-stop shop for information and services aimed at suppliers, liquor agents, lottery retailers and other partners.

A separate website was launched for our lottery ticket centre partners to deliver retailer training, something especially beneficial for our business partners who operate in remote communities.

Changes to Canada's anti-money laundering legislation will expand our reporting responsibilities. In particular, Liquor & Lotteries will be responsible for regular reporting on behalf of First Nations casinos in Manitoba, as well as large VLT sites. The exact mechanisms for this reporting are being developed in consultation with these casinos and VLT sites as well as the federal government. Liquor & Lotteries remains committed to upholding the highest degree of accountability within our means.



# Responsibility >

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



**OUR PROGRAMS**

**Small Capital Sponsorship**

Funding capital projects that support youth, community growth and healthy lifestyles.

**Community Festivals**

Up to \$2,000 to support volunteers at community festivals.

**Sponsorship**

Sponsorships promote quality of life in Manitoba.

**Bingo Volunteers**

Enabling groups to fundraise by volunteering at casino bingos.

**Flight Deck**

Providing youth amateur sports teams a chance to attend Jets and Blue Bombers home games.

**IMPACT Team**

Manitoba athletes offering public speaking engagements and joining community celebrations.

**Golf**

Sponsoring charitable golf tournaments.

**Donations**

Supporting organizations with gift certificates, playing cards, and surplus business equipment.

**Coin Boxes**

Allowing charities to place coin boxes in Liquor Marts.

**HEALTHY CHOICES**

Liquor & Lotteries has long been a national leader in liquor and gaming social responsibility programs. Liquor & Lotteries commits two percent of anticipated net income to support all of our social responsibility programs.

The GameSense and DrinkSense brands encourage Manitobans to enjoy liquor and gaming sensibly and in moderation. Beyond the permanent resources that we maintain – such as GameSense Info Centres at our casinos – we also initiate regular awareness campaigns. In the past fiscal year we focused on topics that included setting sensible spending limits for gambling, binge drinking among young adults, parents’ role in alcohol education, and more. The DrinkSense brand, developed in Manitoba, has now been adopted by Alberta.

After identifying the potential harms from mixing energy drinks with alcohol, Liquor & Lotteries developed a policy on selling caffeinated beverage alcohol. We now limit caffeine content on all of our products to a maximum of 30mg per serving, and inform consumers of the associated risks.

With a focus on implementing continuous improvements identified during our top-level responsible gambling accreditation with the World Lottery Association, we developed a comprehensive advertising assessment process. Our new advertising rules of conduct exceed regulatory

requirements and ensure that any advertising across the organization meets our strict standards.

Manitoba Liquor & Lotteries is committed to funding evaluation, research and treatment programs for alcohol and gambling addictions (see page 5). We fund independent, peer-reviewed research through the Manitoba Gambling Research Program. In 2015 the program accepted 17 funding applications, valued at over \$1.1 million. After four years in operation a total of 58 awards valued at over \$3 million have been made, adding to the research capacity in Manitoba for responsible gambling.

Manitoba’s Alcohol Strategy, *A Culture of Shared Responsibility*, was launched in January 2016 and aims to promote a culture of responsibility towards alcohol. This year we will begin to implement the recommendations found in the strategy that apply to us and will work with other stakeholders to:

- Promote Canada’s low risk drinking guidelines.
- Deliver social marketing campaigns on alcohol-related risks and harms.
- Review and set minimum retail prices for wine and spirits at off-premise outlets.
- Review the pricing formula based on alcohol content to mitigate the risk of over-consumption of low cost, higher percentage alcohol products. Ensure the availability of low and non-alcohol products.

Challenges & Refusals	2015/2016		2014/2015	
	Liquor Marts	Casinos	Liquor Marts	Casinos
Proof of Age Requests	772,781	182,790	623,703	185,325
Minors Refused	24,945	254	15,533	293
Impaired Refused	18,384	194	19,135	244

> Our award-winning awareness campaign, *Be UnDrunk – Perception isn't Reality.*



 MANITOBA  
LIQUOR & LOTTERIES

**DrinkSense**



**COMMUNITY SUPPORT**

Manitoba hosted the 103rd Grey Cup and we were proud to be a major sponsor of the Grey Cup Festival. The festival provided a unique opportunity to raise the profile of three local craft breweries – Half Pints Brewing, Fort Garry Brewing, and Farmery Estate Brewery – as the official breweries at related events. In addition to pouring rights, the partnership was supported by increased visibility for the three breweries in Winnipeg Liquor Marts and the Casinos of Winnipeg.

Other major sponsored events last year include the FIFA Women’s World Cup and the Winnipeg Comedy Festival. Liquor & Lotteries is a major sponsor of the 2017 Canada Summer Games and will exclusively present the Canada Summer Games Festival, showcasing musical and cultural events. Our support of the games also translates into over \$780,000 worth of sporting equipment that will be donated to local sports organizations after the games.

With the goal of delivering integrated services to children with disabilities, a unique network of support agencies have come together in the Specialized Services for Children & Youth (SSCY) Centre. Liquor & Lotteries is supporting the new SSCY Centre in Winnipeg with a \$500,000 capital sponsorship.

**BUYING LOCAL, SUSTAINABLE, FAIR TRADE**

The Casinos of Winnipeg are proud to serve local foods whenever possible. Twenty percent of the casinos’ total food purchases are sourced from local producers. Our efforts were captured in a case study conducted by Food Matters Manitoba that details our rigorous processes for ensuring full accountability in our food sourcing.

Guests at Club Regent Casino and McPhillips Station Casino are served certified sustainable pickerel bearing the Marine Stewardship Council label. The pickerel is sourced from Manitoba’s own Waterhen Lake Fisheries, the first Canadian freshwater fishery to be certified and only the fourth such fishery in the world.

Liquor & Lotteries proudly supported Canada’s National Fair Trade Conference hosted by Winnipeg in early 2016. During the conference, select Liquor Marts showcased some of our fair trade products. Liquor Marts also hosted conference keynote presenter Tukwini Mandela, co-owner and marketing director of House of Mandela wines and granddaughter of Nelson Mandela.

**ENVIRONMENTAL SUSTAINABILITY**

We were proud to take a leadership position in sustainable procurement this year through our participation in a consortium of public sector purchasers. The group developed a sustainable procurement website that serves as a valuable information source for businesses looking to improve their procurement practices. Our own supplier code of conduct is publicly available to support positive change in the supply chain.

We entered into a two-year sponsorship with the Asper School of Business to support their Sustainable Leadership Sessions. These field sessions help students explore environmental and social issues facing Manitoba and the world, with an emphasis on how the business community plays a role in their solution.



# Employees >

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

Our employees volunteer across Manitoba in their personal time, and we strive to support both our employees and the organizations that they care about. We create volunteer opportunities through our community sponsorships and we also recognize the volunteerism of employees with organizations of their own choosing. In the past year alone, together we volunteered 10,000 hours.

Liquor & Lotteries has moved to a fully integrated, flexible employee benefits plan. Increasingly common among top-ranked employers, this type of plan

allows staff to select levels of coverage in such areas as dental and disability that best suits the person's needs. As part of the plan's rollout our Human Resources team provided extensive support to inform employees about their options and register them in the plan.

Our employees are represented by seven unions. In the past year we successfully negotiated collective bargaining agreements for our workforce and a business position from which to generate strong revenues for Manitoba.

From our offices in Winnipeg, Morris, Brandon and beyond, employees are coming together to share ideas and build our workplace culture. Launching a new intranet and extending email service to all employees has enhanced our ability to effectively reach and communicate with employees regardless of where they work and live in the province. In an increasingly digital world, we are using these tools to deliver an employee engagement survey and other initiatives. Structured staff events range from small-group lunches with senior leadership to all-staff annual meetings.

## Strategic Leadership Council

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**John Stinson**, Chief Executive Officer

**Peter Hak**, Chief Corporate Services Officer,  
Acting Chief Financial Officer

**Larry Wandowich**, Chief Community Relations & Marketing Officer

**Robert Holmberg**, Vice President, Liquor Operations

**Susan Olynik**, Vice President, Corporate Communications & Social Responsibility

**Dan Sanscartier**, Vice President, Gaming Operations

**Signy Shaw**, Vice President, Internal Audit & Corporate Compliance

**Brent Hlady**, Vice President, Corporate Governance & Business Transformation,  
Corporate Secretary

**Rob Campbell**, Vice President, Human Resources

**Kerry Wolfe**, Senior Executive Director, Strategic Liquor Development,  
Secretary to the Council



**EMPLOYMENT EQUITY**

**3.3%**  
Persons with Disabilities

**9.2%**  
Aboriginal

**25.0%**  
Visible Minority

**50.9%**  
Women

# Management Discussion and Analysis >



> **Cara & Brian**, Video Lotto, Morris

# Management Discussion and Analysis

Of Financial Condition and Results of Operations as at March 31, 2016

The Management Discussion and Analysis reviews the consolidated financial results of the operations of Manitoba Liquor & Lotteries for the fiscal year ended March 31, 2016. This report should be read in conjunction with Manitoba Liquor & Lotteries' audited consolidated financial statements and accompanying notes.

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

## Overview and Results of Operations

In the 2015/16 year, Manitoba Liquor & Lotteries continued to focus on activities to support future growth of the corporation and the generation of revenue for the Province of Manitoba.

Liquor operations expanded with the opening and renovation of several Liquor Mart and Liquor Mart Express locations. Building on the success of last year's pilot program, Growler Bars were added to four Liquor Marts and five beer vendor locations in Winnipeg and the Liquor Mart location in Steinbach. This was coupled with the introduction of the "Howler" which is half the size of a standard Growler and which can be filled at any Growler Bar location in the province.

Gaming operations continued to enhance its offerings to match the changing needs of its customers. Construction projects were ongoing during the year at both casino properties, with a design to improve the customer's total entertainment experience by providing a comfortable, contemporary environment. Video Lotto continued to refine the game mix and machine distribution on the upgraded VLT

network in order to meet customer demand. PlayNow.com experienced further customer growth with its offering of a full suite of online gaming products.

In the 2015/16 year, Manitoba Liquor & Lotteries' allocation to the Province of Manitoba was \$583.2 million, a decrease of \$12.8 million or 2.1% when compared to the 2014/15 amount of \$596.0 million due to the one-time extraordinary gain of \$26.1 million earned in the previous year on the settlement of pension liability. Manitoba Liquor & Lotteries' 2015/16 net income before settlement of pension liability was \$583.2 million, an increase of \$12.7 million or 2.2% compared to the 2014/15 net income before settlement of pension liability of \$570.5 million.

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

For reporting purposes within the management discussion and analysis, the administrative costs associated with corporate support services – including human resources, finance, marketing, facilities, technology, audit, security, corporate communications and social responsibility – have been allocated to each of the operating segments. The prior year settlement of pension liability is considered an item outside normal business operations and therefore has not been allocated to any operating segment.

# Management Discussion and Analysis

Of Financial Condition and Results of Operations as at March 31, 2016

	2016 (in thousands)				
	Casinos	Liquor Operations	Lottery	Video Lotto	Total
Revenue	\$ 234,312	\$ 755,392	\$ 2,369	\$ 335,279	\$ 1,327,352
Cost of sales	15,634	365,597	1,182	32,477	414,890
	<b>218,678</b>	<b>389,795</b>	<b>1,187</b>	<b>302,802</b>	<b>912,462</b>
Operating expenses	117,398	99,689	6,282	17,782	241,151
Depreciation and amortization	23,144	6,419	-	21,197	50,760
Goods and Services Tax	997	-	82	2,647	3,726
	<b>141,539</b>	<b>106,108</b>	<b>6,364</b>	<b>41,626</b>	<b>295,637</b>
<b>Operating Income</b>	<b>77,139</b>	<b>283,687</b>	<b>(5,177)</b>	<b>261,176</b>	<b>616,825</b>
Share of profit of Western Canada Lottery Corporation	1,065	-	68,201	-	69,266
Interest expense on long-term debt	(7,388)	(168)	(141)	(3,722)	(11,419)
Interest income	386	51	9	444	890
	<b>71,202</b>	<b>283,570</b>	<b>62,892</b>	<b>257,898</b>	<b>675,562</b>
Income Before Allocations and Payments					
Allocations and payments	7,429	8,873	837	75,193	92,332
<b>Net Income</b>	<b>63,773</b>	<b>274,697</b>	<b>62,055</b>	<b>182,705</b>	<b>583,230</b>
Other comprehensive loss	32	24	1	2	59
<b>Total Comprehensive Income and Allocation to the Province of Manitoba</b>	<b>\$ 63,741</b>	<b>\$ 274,673</b>	<b>\$ 62,054</b>	<b>\$ 182,703</b>	<b>\$ 583,171</b>

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	2015 (in thousands)					Total
	Casinos	Liquor Operations	Lottery	Video Lotto	Settlement of Pension Liability	
Revenue	\$ 228,081	\$ 722,123	\$ 2,433	\$ 323,489		\$ 1,276,126
Cost of sales	15,044	347,952	1,068	31,401		395,465
	<b>213,037</b>	<b>374,171</b>	<b>1,365</b>	<b>292,088</b>	-	<b>880,661</b>
Operating expenses	111,249	79,319	8,712	22,632		221,912
Depreciation and amortization	23,327	5,016	-	18,873		47,216
Goods and Services Tax	975	-	78	2,332		3,385
	<b>135,551</b>	<b>84,335</b>	<b>8,790</b>	<b>43,837</b>	-	<b>272,513</b>
<b>Operating Income</b>	<b>77,486</b>	<b>289,836</b>	<b>(7,425)</b>	<b>248,251</b>	-	<b>608,148</b>
Share of profit of Western Canada Lottery Corporation	462	-	56,808	-		57,270
Interest expense on long-term debt	(6,287)	-	(141)	(3,646)		(10,074)
Interest income	393	67	10	362		832
<b>Income Before Allocations and Payments</b>	<b>72,054</b>	<b>289,903</b>	<b>49,252</b>	<b>244,967</b>	-	<b>656,176</b>
Allocations and payments	6,702	8,128	795	70,011		85,636
<b>Net Income Before Settlement of Pension Liability</b>	<b>65,352</b>	<b>281,775</b>	<b>48,457</b>	<b>174,956</b>	-	<b>570,540</b>
Settlement of pension liability	-	-	-	-	26,121	26,121
<b>Net Income</b>	<b>65,352</b>	<b>281,775</b>	<b>48,457</b>	<b>174,956</b>	<b>26,121</b>	<b>596,661</b>
Other comprehensive loss	432	171	25	55		683
<b>Total Comprehensive Income and Allocation to the Province of Manitoba</b>	<b>\$ 64,920</b>	<b>\$ 281,604</b>	<b>\$ 48,432</b>	<b>\$ 174,901</b>	<b>\$ 26,121</b>	<b>\$ 595,978</b>

Revenue of \$1,327.4 million increased \$51.3 million or 4.0% from the previous year's revenue of \$1,276.1 million. Casino revenues increased \$6.2 million over last year due to increased play on the PlayNow.com online gaming site and increased table games play at the casino properties. Liquor operations revenues increased \$33.3 million over last year as continued focus on promoting premium-priced and innovative new products has resulted in volume and sales growth in all alcohol beverage categories. Video Lotto revenues increased \$11.8 million during the year as new and improved game offerings have received customer acceptance.

Revenue, net of cost of sales in 2015/16 was \$912.5 million compared to \$880.7 million in 2014/15, an increase of \$31.8 million. Operating expenses of \$241.2 million were \$19.3 million greater than the previous year's \$221.9 million, and include employee and other costs directly related to the generation of liquor, gaming and lottery revenues. The increase in operating expenses is primarily a result of increases in salaries and benefits as negotiated under the various collective agreements, increased staffing, rent and maintenance requirements to support the expanded Liquor Mart retail network, and costs to support VLT game enhancements to meet customer expectations for a

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continually varying and fresh gaming experience. The majority of other operating expenses were carefully managed to maintain levels consistent with the prior year.

Depreciation and amortization of \$50.8 million in the 2015/16 year increased \$3.6 million from the \$47.2 million recorded in the previous year. The increase was primarily a result of capital investment into property and equipment over the preceding years to enhance the overall customer experience including the upgraded VLT network, the introduction of the PlayNow.com online gaming site, the Club Regent Event Centre, ongoing renewal of the two casino properties as well as the opening of new Liquor Mart and Liquor Mart Express locations.

## Casinos

Manitoba Liquor & Lotteries owns and operates two casinos in the City of Winnipeg - Club Regent Casino and McPhillips Station Casino. 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 gaming, casino patrons can take advantage of a host of non-gaming amenities including fully licensed dining areas, banquet facilities and lounge services including live entertainment.

In addition to the gaming experience provided by the casinos, Manitoba Liquor & Lotteries provides Manitoba players with online gaming through the PlayNow.com site. PlayNow.com is the province's only regulated site for online gaming and

offers customers a safe and reputable site featuring extensive responsible gaming measures. The online platform was developed by British Columbia Lottery Corporation (BCLC) and Manitoba Liquor & Lotteries has partnered with BCLC to provide Manitoba players casino games, lottery products, bingo, poker and live sports betting opportunities.

Casino operations, which include the results of online gaming, generated revenues of \$234.3 million in the 2015/16 year, an increase of \$6.2 million or 2.7% from the revenues of \$228.1 million of the previous year.

Casino comprehensive income of \$63.7 million decreased from the previous year's comprehensive income of \$64.9 million by \$1.2 million or 1.8%. Increased operating expenses include negotiated increases in salaries and benefits under the collective agreements, and costs directly related to Manitoba Liquor & Lotteries' continued focus on efforts to be seen as a total entertainment destination. These efforts include regularly improving gaming offerings by updating certain games and by introducing new games, both at the casino locations as well as through the PlayNow.com online gaming site. In addition to the gaming offerings, Manitoba Liquor & Lotteries strives to provide premier hospitality and entertainment services at its casinos through food and beverage offerings to meet the varied appetites of customers and through entertainment offerings at venues such as the state-of-the-art Club Regent Event Centre.

## Payout Percentage Based on Dollars Won and Played (In millions)

### Casinos

Dollars Deposited	\$	1,257	
Dollars Played			\$ 2,297
Dollars Won			\$ 2,104
Dollars Cashed Out	\$	1,064	
Revenue	\$	193	\$ 193
Dollars Won (Prizes)	\$	2,104	91.6%
Dollars Played	\$	2,297	



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## Liquor Operations

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

Liquor operations generated revenues of \$755.4 million in the 2015/16 year, an increase of \$33.3 million or 4.6% from the revenues of \$722.1 million of the previous year.

In the 2015/16 year, liquor sales (both in dollars and in volume) and gross profit increased across all product categories. The increase in dollar sales outpaced volume sales growth in beer,

spirits and wine while refreshment beverages experienced consistent dollar and volume sales growth. Customers continue to display a preference for premium products, most notably in spirits, and the Manitoba beer landscape is changing with the availability and growth of craft-styled single serve beers. Manitoba Liquor & Lotteries continues to strengthen its relationship with local craft brewers by being an active participant in the provincial Supporting Manitoba Craft Brewing Industry strategy.

Liquor operations comprehensive income of \$274.7 million decreased from the previous year's comprehensive income of \$281.6 million by \$6.9 million or 2.5%. Increased operating expenses include negotiated increases in salaries and benefits under the collective agreements and salary and other costs to support Liquor Mart and Liquor Mart Express development and renovation, consistent with Manitoba Liquor & Lotteries' commitment to providing customers a convenient and modern shopping experience.

### Volume Sales (in millions of litres)

	Beer	Refreshment Beverages	Spirits	Wine
<b>2016</b>	<b>77.5</b>	<b>5.1</b>	<b>7.1</b>	<b>11.5</b>
2015	76.8	4.3	7.0	11.1
2014	77.1	3.8	6.9	10.6
2013	80.9	3.4	7.1	10.4
2012	83.3	2.9	7.0	10.0

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	2016 (in thousands)				
	Beer	Refreshment Beverages	Spirits	Wine	Total
Stores	\$ 69,619	\$ 19,073	\$ 178,359	\$ 124,841	\$ 391,892
Liquor Vendors	10,317	4,611	36,054	11,567	62,549
Licensees	246,338	10,151	20,541	4,749	281,779
Specialty Wine Stores	-	40	40	16,582	16,662
<b>Total Sales</b>	<b>326,274</b>	<b>33,875</b>	<b>234,994</b>	<b>157,739</b>	<b>752,882</b>
Cost of Sales	186,201	16,175	89,216	73,641	365,233
<b>Gross Profit</b>	<b>\$ 140,073</b>	<b>\$ 17,700</b>	<b>\$ 145,778</b>	<b>\$ 84,098</b>	<b>\$ 387,649</b>
	2015 (in thousands)				
	Beer	Refreshment Beverages	Spirits	Wine	Total
Stores	\$ 62,958	\$ 17,231	\$ 170,834	\$ 118,094	\$ 369,117
Liquor Vendors	9,168	4,024	35,391	10,872	59,455
Licensees	242,258	7,773	20,263	4,720	275,014
Specialty Wine Stores	-	23	81	16,083	16,187
<b>Total Sales</b>	<b>314,384</b>	<b>29,051</b>	<b>226,569</b>	<b>149,769</b>	<b>719,773</b>
Cost of Sales	177,065	13,725	86,671	70,241	347,702
<b>Gross Profit</b>	<b>\$ 137,319</b>	<b>\$ 15,326</b>	<b>\$ 139,898</b>	<b>\$ 79,528</b>	<b>\$ 372,071</b>

## Lottery

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

Manitoba's charitable and non-profit licensed bingo operators.

In the 2015/16 year, Manitoba Liquor & Lotteries' share of the profit of WCLC of \$69.3 million increased from the previous year's share of the profit of WCLC of \$57.3 million by \$12.0 million or 20.9%. Comprehensive income of \$62.1 million increased from the previous year's comprehensive income of \$48.4 million by \$13.7 million or 28.3%. The 2015/16 year saw record jackpot levels for the national products LOTTO MAX and LOTTO 6/49 which had a positive impact on the sales for the regional product EXTRA. The increases were most predominant in LOTTO MAX which experienced an unprecedented number of jackpot rolls and MaxMillions prizes as well as an increase in jackpot limit from \$50 million to \$60 million in the year.

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## Video Lotto

Located in Morris, Manitoba, Video Lotto is responsible for the operation and maintenance of VLTs. VLTs are located at licensed beverage rooms, veterans organizations, First Nations communities and Assiniboia Downs. The operation of VLTs

contributed 31.3% of Manitoba Liquor & Lotteries' net income and provided annual commissions and contributions of \$105.1 million to all VLT siteholders who operate equipment on their premises.

### VLT Commissions & Contributions (in millions)

	First Nations	City Siteholders	Rural Siteholders	Total
<b>2016</b>	<b>51.5</b>	<b>29.7</b>	<b>23.9</b>	<b>105.1</b>
2015	46.4	28.8	23.5	98.7
2014	44.2	33.0	23.6	100.8
2013	43.5	35.9	22.6	102.0
2012	46.4	38.5	24.0	108.9

Video Lotto operations generated revenue of \$335.3 million in the 2015/16 year, an increase of \$11.8 million or 3.6% from the revenue of \$323.5 million in the previous year. Comprehensive income of \$182.7 million increased \$7.8 million or 4.5% from the comprehensive income of \$174.9 million in the previous year. In response to customer demand, Video Lotto continually

refines the game mix and machine distribution on the upgraded VLT network which has contributed to the increased revenues experienced in the year. Operating expenses have decreased as the completion of the implementation of the VLT network has resulted in a return to more stable operational requirements.

### Payout Percentage Based on Dollars Won and Played (In millions)

#### Video Lotto

Dollars Deposited	\$	1,607	
Dollars Played			\$ 4,751
Dollars Won			\$ 4,417
Dollars Cashed Out	\$	1,273	
Revenue	\$	334	\$ 334
Dollars Won (Prizes)	\$	4,417	93.0%
Dollars Played	\$	4,751	

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## First Nations Casinos and Shark Club Gaming Centre

Manitoba Liquor & Lotteries continues to provide support to the First Nations casino operators in Manitoba. 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 Manitoba Liquor & Lotteries and are recovered over a five (5) year term.

During the 2015/16 year, Manitoba Liquor & Lotteries purchased gaming equipment in the amount of \$0.8 million for the continuation of South Beach Casino's gaming floor refresh project. Manitoba Liquor & Lotteries also purchased gaming equipment in the amount of \$0.4 million associated with the opening of Sand Hills Casino in the previous year. No purchases of gaming equipment were required by Aseneskak Casino in the 2015/16 year.

Manitoba Liquor & Lotteries maintains conduct and management authority over 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 Agreement, all costs of gaming supplies are recovered on an annual basis and capital costs of gaming equipment are funded by Manitoba Liquor & Lotteries and recovered over a five (5) year term. During 2015/16, Manitoba Liquor & Lotteries purchased gaming equipment in the amount of \$0.1 million to support the Shark Club Gaming Centre's table games refresh project.

## MLC Holdings Inc.

Manitoba Liquor & Lotteries' consolidated financial statements include the results of MLC Holdings Inc., a controlled entity established to purchase certain capital assets for lease to Manitoba Liquor & Lotteries at cost. The management and oversight of MLC Holdings Inc. is consolidated within Manitoba Liquor & Lotteries' operations and the Board reviews and approves capital purchases through the annual business planning and budget process. To support Manitoba Liquor & Lotteries capital initiatives in the 2015/16 year, MLC Holdings Inc. acquired \$61.0 million in capital assets for lease to Manitoba Liquor & Lotteries.

## Liquidity and Capital Resources

Operating activities during the 2015/16 year provided Manitoba Liquor & Lotteries with \$633.2 million in cash flows compared to \$602.6 million in the previous year, an increase of \$30.6 million or 5.1%.

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

In order to support these goals, cash spent on property and equipment totaled \$66.2 million as compared to the \$58.5 million spent in the previous year. In addition to the regular process of upgrading existing equipment, facilities and technology to support ongoing operations, the 2015/16 year saw continued investment associated with casino renewal construction projects as well as the opening of one new Liquor Mart and three new Liquor Mart Express locations, and the major renovation of one Liquor Mart location. The 2015/16 year also saw the purchase of an office building located at 233 Kennedy Street to support the consolidation and relocation of corporate functions.

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

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Casinos are fully recovered over a five (5) year term, consistent with the recovery of the capital costs of the gaming equipment purchased.

In the 2015/16 year, total proceeds of long-term debt received were \$69.3 million as compared to the \$92.9 million of proceeds received in the previous year. Of the total proceeds received, \$0.8 million was received to purchase gaming equipment for the First Nations Casinos as compared to \$10.9 million in the previous year. All long-term debt has fixed interest rates and is repayable in either quarterly or monthly installments.

Cash distributions to the Province of Manitoba in the 2015/16 year resulted in a cash outflow of \$597.5 million compared to the previous year's \$601.1 million.

## Community Support and Corporate Impact

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

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

## Community Support

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

Manitoba Liquor & Lotteries fulfills its commitment to community support in several ways. The bingo volunteer program provides just under 400 charitable and non-profit organizations the opportunity to raise funds by assisting in the bingo events held at the two Winnipeg casinos. The community support program assists non-profit and charitable organizations not only through sponsorship funding, but also through the volunteer efforts of Manitoba Liquor & Lotteries employees, alumni, family and friends. The Community Relations team spearheads these initiatives, and works collaboratively with internal and external partners.

In the 2015/16 year, Manitoba Liquor & Lotteries spent \$10.7 million on these community support initiatives, an increase of \$0.9 million or 9.2% over the \$9.8 million of the prior year.

	(in thousands)	
	2016	2015
Bingo volunteer program	\$ 3,875	\$ 3,827
Community support program	4,158	3,808
Operating and other funding	2,632	2,182
	<u>\$ 10,665</u>	<u>\$ 9,817</u>

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## First Nations

Manitoba Liquor & Lotteries provides support to First Nations communities through VLT commissions earned and allocations of VLT revenue. First Nations VLT siteholders retain 90% of net win from the VLTs. Of that 90%, 5% represents the actual service component provided to Manitoba Liquor & Lotteries for hosting the terminals and the other 85% is provided as a contribution to promote sustainable social and economic benefits and opportunities within First Nations communities.

In the 2015/16 year, this resulted in \$51.5 million in commissions and contributions paid to First Nations siteholders, an increase of \$5.1 million or 11.0% over the \$46.4 million paid in the prior year.

## Commercial Support

Manitoba Liquor & Lotteries provides support to the Manitoba hotel and restaurant industry through VLT commissions and contributions and various hotel beer vendor programs and initiatives. In the 2015/16 year, this support totaled \$99.0 million, an increase of \$2.2 million or 2.3% over the \$96.8 million of support 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 Manitoba Liquor & Lotteries for hosting the terminals and the other 7.5% to 12% is provided as a contribution to promote tourism in the province. In the 2015/16 year, this support totaled \$50.7 million, an increase of \$1.4 million or 2.8% over the \$49.3 million paid in the prior year.

Hotel beer vendors earn a margin ranging between 14% and 17% on the sale of beer for off-premises consumption as well as receiving a handling fee to collect empty beer containers from public consumers. Tiered sales discounts are also provided to assist beer vendors who are experiencing low sales volumes. These measures resulted in \$48.2 million of support being provided to hotel beer vendors in the 2015/16 year, an increase of \$0.7 million or 1.5% over the \$47.5 million paid in the prior year.

The VLTs located at the Assiniboia Downs operate under the same tiered structure as licensed beverage room VLT siteholders and the contribution provided is to support the horse racing industry in Manitoba. In the 2015/16 year, this resulted in \$1.1 million in commissions earned and allocations of VLT revenue paid to the Manitoba Jockey Club which is consistent with the \$1.1 million paid in the prior year.

## Social Responsibility

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

Manitoba Liquor & Lotteries fulfills its commitment to social responsibility in several ways. 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 and Marymount that provide programs related to liquor and gambling prevention, awareness and treatment as well as to organizations involved in research in areas such as FASD. The Manitoba Gambling Research Program provides research funding support to researchers and students to enhance evidence-based prevention and treatment programs and to grow Manitoba research capacity. Consumer and public information is developed and promoted to contribute to sensible, responsible use of Manitoba Liquor & Lotteries' products and to contribute to a sustainable customer base. The Social Responsibility team spearheads these initiatives, and works collaboratively with internal and external partners.

Of the 2015/16 committed amount, \$1.3 million was unspent and carried forward, reserved for social responsibility initiatives in the 2016/17 year.

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	(in thousands)	
	2016	2015
Funding support	\$ 8,256	\$ 8,088
Internal research and program evaluation	1,101	813
Operating and public awareness	1,815	1,771
Prior year funding spent in current year	(869)	-
Funding carried forward to future years	1,347	869
	<b>\$ 11,650</b>	<b>\$ 11,541</b>

## Corporate Governance

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

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

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

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

- Board of Directors' and CEO's Expenses Policy
- Board of Directors Charter
- Board of Directors Code of Conduct
- CEO Charter and Delegation of Authority
- Chair of the Board Charter
- Communications Protocol

- Conflict of Interest Policy
- Corporate Governance Policy and Principles
- Corporate Social Responsibility Policy
- Grants Policy
- Risk Governance and Management Policy

As part of its corporate governance model, Manitoba Liquor & Lotteries 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*. Payments made to the President, Business Development are not included in the Schedule of Compensation.

## Risk Management

Manitoba Liquor & Lotteries continues to use and enhance its enterprise risk management framework to effectively embed risk management practices into key organizational processes.

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

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

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## 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.

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

## Technological Developments

As Manitoba Liquor & Lotteries continues to 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.

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

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

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

## Operations Risks

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

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

## Financial Risks

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

Manitoba Liquor & Lotteries' exposure to interest-rate risk is substantially limited due to the use of fixed-rate, long-term debt. Credit risk due to the inability or unwillingness of a counterparty to fulfill its payment obligations, while low, is



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

## Governance & Compliance Risks

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

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

## Internal Controls Over Financial Reporting

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

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

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

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

Based on that assessment, the CEO and CFO have concluded that, as at March 31, 2016, the internal controls over financial reporting over processes original to Manitoba Lotteries are adequately designed and effective for providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Based on a strong financial internal control environment, internal and external audit work performed, the CEO and CFO are not aware of any internal control weaknesses of a material nature within processes original to the MLCC.

As well, the CEO and CFO, together with management, have concluded that the disclosure controls and procedures are adequately designed and effective for providing reasonable assurance that material information relating to the corporation would have been made known to them as at March 31, 2016.

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

For the second consecutive year, Manitoba Liquor & Lotteries has received the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA). Manitoba Liquor & Lotteries is committed to meeting the highest principles of government budgeting.

# Management Discussion and Analysis

Of Financial Condition and Results of Operations as at March 31, 2016

## Whistleblower Report

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

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

## Future Outlook

Manitoba Liquor & Lotteries' allocation to the Province of Manitoba is forecast to be \$585.7 million in the 2016/17 year, an increase of \$2.5 million or 0.4% as compared to the \$583.2 million allocation to the Province of Manitoba in the 2015/16 year.

Planned initiatives for Manitoba Liquor & Lotteries address revenue trends and reflect strategic priorities. To ensure the long-term sustainability of revenues and income streams; continued reinvestment in facilities, retail locations, gaming and non-gaming amenities at the casinos, and new technology is essential. This is demonstrated by the investment in initiatives to support operations that occurred in the 2015/16 year and which will continue in the 2016/17 year.

Investment in gaming initiatives include the continued enhancement of the VLT experience through the release of fresh, new games as well as construction activities at both

casino properties to provide customers with a modern and relevant gaming experience. The 2016/17 year will see the construction of a new parkade at Club Regent Casino and continued activities at McPhillips Station Casino which include a two-level front addition which will connect to the parkade, and the refresh of the casino's exterior façade. Manitoba Liquor & Lotteries will also continue to introduce exciting gaming options to the casino customers through replacement of aging slot machines with a variety of new leased, purchased and networked games and by introducing new table games where appropriate.

Liquor Mart and Liquor Mart Express store development activities will continue in the 2016/17 year through the investment into additional or expanded retail locations and Manitoba Liquor & Lotteries will continue to focus on taking the beverage alcohol business into the future through support of the provincial Supporting Manitoba Craft Brewing Industry strategy. Beginning in 2016/17, lower markups will take effect for small producers, allowing craft breweries, craft distilleries, and cottage wineries the flexibility to keep a greater portion of the revenue from sales of their products or to price it competitively and grow their market share. In addition, Manitoba Liquor & Lotteries is introducing an economic incentive loan program to further support the growth and development of Manitoba's craft brewing and distilling industry. Up to \$5 million has been allocated to provide loans towards the purchase of brewing or distilling equipment for producers just starting their businesses, or towards the expansion of existing production or sales capacity for brewers already in operation.



> Nicole, Video Lotto, Morris

# Management Report

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

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

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

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

The 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, 2016.

Original signed by  
**John Stinson**  
Chief Executive Officer

Original signed by  
**Peter Hak**  
Acting Chief Financial Officer

# Independent Auditors' Report

To the Board of Directors of

## **Manitoba Liquor and Lotteries Corporation**

We have audited the accompanying consolidated financial statements of **Manitoba Liquor and Lotteries Corporation**, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of net income, comprehensive income and equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

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

### **Auditors' responsibility**

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

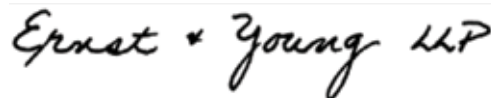
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Manitoba Liquor and Lotteries Corporation** as at March 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Winnipeg, Canada  
June 24, 2016



Chartered Professional Accountants

# Consolidated Statement of Financial Position

AS AT MARCH 31 (in thousands of Canadian dollars)

	Notes	2016	2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 38,053	\$ 41,448
Trade and other receivables	5	45,922	51,792
Inventories	6	49,870	49,982
Prepayments	7	5,235	4,535
		<u>139,080</u>	<u>147,757</u>
<b>Non-Current Assets</b>			
Property and equipment, net	8	385,604	374,956
Intangible assets, net	9	14,760	16,457
		<u>400,364</u>	<u>391,413</u>
<b>TOTAL ASSETS</b>		<u>\$ 539,444</u>	<u>\$ 539,170</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	\$ 108,997	\$ 121,750
Payable to the Province of Manitoba		55,671	69,978
Current portion of long-term debt	11	48,286	41,871
		<u>212,954</u>	<u>233,599</u>
<b>Non-Current Liabilities</b>			
Long-term debt	11	320,968	300,216
Provision for employee pension benefits	13	522	355
		<u>321,490</u>	<u>300,571</u>
Commitments and contingencies	17		
<b>Equity</b>			
Retained Earnings		<u>5,000</u>	<u>5,000</u>
		<u>5,000</u>	<u>5,000</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>\$ 539,444</u>	<u>\$ 539,170</u>

(see accompanying notes to the consolidated financial statements)

On behalf of the Board

Original signed by Polly Craik  
Director & Chair of the Board of Directors

Original signed by Gary Timlick  
Director & Chair of the Audit, Technology  
& Risk Management Committee

# Consolidated Statement of Net Income, Comprehensive Income and Equity

FOR THE YEAR ENDED MARCH 31 (in thousands of Canadian dollars)

	Notes	2016	2015
<b>Revenue</b>	14	\$ 1,327,352	\$ 1,276,126
<b>Cost of Sales</b>	14	<u>414,890</u>	<u>395,465</u>
		<u>912,462</u>	<u>880,661</u>
Operating expenses	14	241,151	221,912
Depreciation and amortization		50,760	47,216
Goods and Services Tax		3,726	3,385
		<u>295,637</u>	<u>272,513</u>
<b>Operating Income</b>		616,825	608,148
Share of profit of Western Canada Lottery Corporation	15	69,266	57,270
Interest expense on long-term debt		(11,419)	(10,074)
Interest income		890	832
<b>Income Before Allocations and Payments</b>		<u>675,562</u>	<u>656,176</u>
Allocations and payments	16	<u>92,332</u>	<u>85,636</u>
<b>Net Income Before Settlement of Pension Liability</b>		<u>583,230</u>	<u>570,540</u>
Settlement of pension liability	12	-	26,121
<b>Net Income</b>		<u>583,230</u>	<u>596,661</u>
Other comprehensive loss	13	59	683
<b>Total Comprehensive Income</b>		<u>583,171</u>	<u>595,978</u>
<b>Equity, beginning of the year</b>		5,000	5,000
Allocation to the Province of Manitoba		(583,171)	(595,978)
<b>Equity, end of the year</b>		<u>\$ 5,000</u>	<u>\$ 5,000</u>

(see accompanying notes to the consolidated financial statements)

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED MARCH 31 (in thousands of Canadian dollars)

	2016	2015
<b>Operating activities</b>		
Net income and comprehensive income	\$ 583,171	\$ 595,978
Add (deduct) items not involving cash:		
Depreciation related to property and equipment	45,569	43,331
Depreciation on assets related to Conduct and Management agreements	4,138	3,349
Amortization related to intangible assets	5,191	3,885
Loss (gain) on disposal of property and equipment	2,389	(191)
Provision for (recovery of) employee pension benefits	167	(16,927)
	<u>640,625</u>	<u>629,425</u>
Net change in non-cash working capital items:		
Decrease (increase) in trade and other receivables	5,870	(5,656)
Decrease (increase) in inventories	112	(7,787)
Increase in prepayments	(700)	(495)
Decrease in trade and other payables	(12,753)	(12,863)
<b>Cash provided by operating activities</b>	<u>633,154</u>	<u>602,624</u>
<b>Investing activities</b>		
Purchase of property and equipment	(62,807)	(57,007)
Purchase of intangible assets	(3,494)	(2,242)
Proceeds from disposal of property and equipment	63	713
<b>Cash used in investing activities</b>	<u>(66,238)</u>	<u>(58,536)</u>
<b>Financing activities</b>		
Cash distributions to the Province of Manitoba:		
Current year	(592,500)	(541,000)
Prior year	(4,978)	(60,145)
Proceeds from long-term debt	69,300	92,894
Repayment of long-term debt	(42,133)	(34,270)
<b>Cash used in financing activities</b>	<u>(570,311)</u>	<u>(542,521)</u>
<b>Net increase (decrease) in cash during the year</b>	<b>(3,395)</b>	<b>1,567</b>
<b>Cash, beginning of the year</b>	<u>41,448</u>	<u>39,881</u>
<b>Cash, end of the year</b>	<u>\$ 38,053</u>	<u>\$ 41,448</u>
<b>Supplemental cash flow information</b>		
Interest paid	<u>\$ 11,566</u>	<u>\$ 10,261</u>

(see accompanying notes to the consolidated financial statements)



# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

## 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 Lotteries Corporation (Manitoba Lotteries) and The Liquor Control Commission (MLCC) were amalgamated and

continued operations as a Crown corporation under the name Manitoba Liquor and Lotteries Corporation (Manitoba Liquor & Lotteries).

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

## 2. Significant Accounting Policies

### (a) Basis of presentation

The consolidated financial statements of Manitoba Liquor & Lotteries for the year ended March 31, 2016 were authorized for issue by the Board of Directors on June 24, 2016.

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

### (b) Statement of compliance

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

### (c) Basis of consolidation

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

MLC Holdings Inc. has been fully consolidated since the date of inception and will continue to be consolidated until the date when control ceases. The financial statements of MLC Holdings

Inc. are prepared for the same reporting period as Manitoba Liquor & Lotteries using consistent accounting policies. All intercompany transactions and accounts have been eliminated on consolidation.

### (d) Western Canada Lottery Corporation

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

Manitoba Liquor & Lotteries has significant influence, but not control, over the financial and operating policies of the WCLC and therefore accounts for its share of the results of the operations of the WCLC (considered an associate) using the equity method. The financial statements of the WCLC are prepared for the same reporting period and Manitoba Liquor & Lotteries' share of the profits calculated based on relative sales levels by jurisdiction is disclosed in note 15.

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

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

Through a selection process, the Government has provided certain First Nations the opportunity to operate casinos, with Manitoba Liquor & Lotteries maintaining the C&M authority over these casinos. Effective December 1, 2005, Manitoba Liquor & Lotteries received approval from its Board of Directors to discontinue the recovery of general administrative and compliance costs from First Nations Casinos and to provide these services only upon request on a fee for service basis. Manitoba Liquor & Lotteries will continue to recover all direct and/or gaming related expenses.

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

## (f) Foreign currency translation

The functional currency is the currency of the primary economic environment in which Manitoba Liquor & Lotteries operates and is normally the currency in which Manitoba Liquor & Lotteries generates and expends cash. Each entity determines its own functional currency and items included in the financial statements are measured using that functional currency. The functional currency and presentation currency of Manitoba Liquor & Lotteries is 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 statement of financial position when Manitoba Liquor & Lotteries becomes a party to the contractual terms of the instrument, which represents its trade date. Upon initial recognition Manitoba Liquor & Lotteries designates its financial assets as fair value through profit and loss or loans and receivables and its financial liabilities as other financial liabilities. All financial instruments are initially measured at fair value plus directly attributable transaction costs.

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

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

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

### (ii) Loans and receivables

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

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

using the effective interest rate method, less impairment. Any gains or losses and any losses arising from impairment are recognized in the consolidated statement of net income, comprehensive income and equity.

## (iii) Other financial liabilities

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

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

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

## (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 Manitoba Liquor & Lotteries and the cost can be reliably measured. If the costs of a certain component of property and equipment are significant in relation to the total cost of the asset, these are accounted for and depreciated separately. All other repairs and maintenance costs are charged to the consolidated statement of net income, comprehensive income and equity as incurred.

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

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

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

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

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

## (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.

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

Leases which transfer to Manitoba Liquor & Lotteries substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present 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 Manitoba Liquor & Lotteries consist of finite life computer software. Intangible assets acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is charged to the consolidated statement of net income, comprehensive income and equity on a straight-line basis over the estimated useful life of the asset as follows:

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Computer software	3-15 years
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The assets' useful lives and methods of amortization are reviewed at each fiscal year-end and adjusted prospectively, if appropriate.

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

## (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

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

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

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

## (ii) Non-financial assets

Manitoba Liquor & Lotteries assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated. For the purposes of impairment testing, 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, Manitoba Liquor & Lotteries has a present legal or constructive obligation that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. The expense relating to any provision is presented in the consolidated statement of net income, comprehensive income and equity net of any reimbursement and, if the effect of the time value of money is material, is discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase to the provision due to the passage of time is recognized as a finance cost.

## (n) Pension plans

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

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

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 other comprehensive income (loss) in the period in which they occur.

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

## (o) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Manitoba Liquor & Lotteries and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes.

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

Revenue from product sales is recognized when the significant rewards of ownership of the products have passed to the buyer, usually on the delivery of products. Lottery revenue is

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

## (p) Promotional allowances

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

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

## (q) Goods and Services Tax

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

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

## 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.

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

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

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

Manitoba Liquor & Lotteries has based the determination of the useful lives of tangible and intangible assets on a detailed review of all empirical data for the different asset classes. Manitoba Liquor & Lotteries annually reviews the validity of the useful lives applied to the different asset classes based on current circumstances and considers the impact of any external or internal changes in Manitoba Liquor & Lotteries'

environment which may indicate the requirement to reconsider these useful lives.

## (b) Loyalty points program

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

The future redemption liability of \$3,541 (2015 - \$3,510) is included in trade and other payables and is based on an assessment of anticipated point redemptions and point value. Manitoba Liquor & Lotteries adjusts the estimated liability based on redemption experience and additional points earned and any adjustments will be recorded in the consolidated statement of net income, comprehensive income and equity.

## 4. Standards Issued But Not Yet Effective

The following standards, which are reasonably expected to be applicable to Manitoba Liquor & Lotteries, have been issued but were not yet effective at the date of issuance of the consolidated financial statements.

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

(ii) IAS 7 – *Statement of Cash Flows* was amended in January 2016 as part of the IASB's major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2017 and Manitoba Liquor & Lotteries is currently evaluating the impact of adoption of the amended standard.

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

(iv) IFRS 15 – *Revenue from Contracts with Customers* was issued in May 2014 and supersedes existing standards and related interpretations including IAS 18 – *Revenue* and IFRIC 13 – *Customer Loyalty Programmes*. IFRS 15 introduces a single model for recognizing revenue from contracts with customers in a manner that depicts the transfer of goods or services to

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

customers in amounts that reflect the consideration to which the entity is expected to be entitled in exchange for those goods or services. The new standard is intended to enhance disclosures about revenue, provide guidance for transactions not previously addressed and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and Manitoba Liquor & Lotteries is currently evaluating the impact of adoption of the new standard.

(v) IFRS 16 – *Leases* 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 Manitoba Liquor & Lotteries is currently evaluating the impact of adoption of the new standard.

## 5. Trade and Other Receivables

	<b>2016</b>	2015
Trade	\$ <b>40,274</b>	\$ 44,579
Goods and Services Tax	<b>4,169</b>	4,151
Western Canada Lottery Corporation	<b>1,479</b>	3,062
	<u><b>\$ 45,922</b></u>	<u>\$ 51,792</u>

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

## 6. Inventories

	<b>2016</b>	2015
Warehouse	\$ <b>33,301</b>	\$ 34,174
Retail locations	<b>16,398</b>	15,640
Consumable supplies	<b>171</b>	168
	<u><b>\$ 49,870</b></u>	<u>\$ 49,982</u>

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is approximately \$4,501 at the end of the 2016 fiscal year (2015 - \$5,114).

## 7. Prepayments

	<b>2016</b>	2015
Maintenance contracts	\$ <b>2,824</b>	\$ 2,361
Rent	<b>963</b>	928
Deposits and other	<b>1,113</b>	682
Insurance	<b>335</b>	564
	<u><b>\$ 5,235</b></u>	<u>\$ 4,535</u>



## Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

## 8. Property and Equipment

	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
<b>Cost</b>								
<b>April 1, 2014</b>	\$ 25,427	\$ 222,925	\$ 22,580	\$ 201,156	\$ 129,142	\$ 24,606	\$ 77,305	\$ 703,141
Additions	-	17,943	2,702	8,629	6,720	9,757	11,256	57,007
Transfers from WIP	-	41,768	-	-	8,757	52	(50,577)	-
Disposals	-	(3,285)	(6)	(5,529)	(3,705)	(656)	-	(13,181)
<b>March 31, 2015</b>	25,427	279,351	25,276	204,256	140,914	33,759	37,984	746,967
Additions	845	9,811	2,797	23,032	6,099	329	19,894	62,807
Transfers from WIP	-	3,313	76	5,884	3,010	1,091	(13,374)	-
Disposals	-	(64)	(2,446)	(16,050)	(13,897)	(172)	-	(32,629)
<b>March 31, 2016</b>	<b>\$ 26,272</b>	<b>\$ 292,411</b>	<b>\$ 25,703</b>	<b>\$ 217,122</b>	<b>\$ 136,126</b>	<b>\$ 35,007</b>	<b>\$ 44,504</b>	<b>\$ 777,145</b>
<b>Depreciation</b>								
<b>April 1, 2014</b>	\$ -	\$ 105,295	\$ 9,447	\$ 100,387	\$ 105,535	\$ 17,326	\$ -	\$ 337,990
Depreciation	-	10,354	1,921	21,227	9,829	3,349	-	46,680
Disposals	-	(3,498)	(3)	(5,170)	(3,332)	(656)	-	(12,659)
<b>March 31, 2015</b>	-	112,151	11,365	116,444	112,032	20,019	-	372,011
Depreciation	-	8,916	2,342	24,256	10,055	4,138	-	49,707
Disposals	-	(64)	(2,446)	(13,599)	(13,896)	(172)	-	(30,177)
<b>March 31, 2016</b>	<b>\$ -</b>	<b>\$ 121,003</b>	<b>\$ 11,261</b>	<b>\$ 127,101</b>	<b>\$ 108,191</b>	<b>\$ 23,985</b>	<b>\$ -</b>	<b>\$ 391,541</b>
<b>Net book value</b>								
<b>March 31, 2016</b>	<b>\$ 26,272</b>	<b>\$ 171,408</b>	<b>\$ 14,442</b>	<b>\$ 90,021</b>	<b>\$ 27,935</b>	<b>\$ 11,022</b>	<b>\$ 44,504</b>	<b>\$ 385,604</b>
March 31, 2015	25,427	167,200	13,911	87,812	28,882	13,740	37,984	374,956

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 2016

fiscal year was \$143 (2015 - \$180). The rate used to determine the amount of borrowing costs eligible for capitalization was 1.950%, 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 2016 fiscal year is \$3,355 (2015 - \$3,634) and consists of land being used for parking facilities at the McPhillips Station Casino and the Video Lotto office building located in Morris, Manitoba.

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

## 9. Intangible Assets

	<b>Computer software - acquired</b>
<b>Cost</b>	
<b>April 1, 2014</b>	\$ 37,926
Additions	2,242
Disposals	-
<b>March 31, 2015</b>	40,168
Additions	3,494
Disposals	(756)
<b>March 31, 2016</b>	<b>\$ 42,906</b>
<b>Amortization</b>	
<b>April 1, 2014</b>	\$ 19,826
Amortization	3,885
Disposals	-
<b>March 31, 2015</b>	23,711
Amortization	5,191
Disposals	(756)
<b>March 31, 2016</b>	<b>\$ 28,146</b>
<b>Net book value</b>	
<b>March 31, 2016</b>	<b>\$ 14,760</b>
March 31, 2015	16,457

## 10. Trade and Other Payables

	<b>2016</b>	<b>2015</b>
Trade	\$ 71,015	\$ 89,064
Employee benefits	31,602	27,067
Province of Manitoba taxes	3,726	3,115
Jackpot liability	2,654	2,504
	<b>\$ 108,997</b>	<b>\$ 121,750</b>

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

## 11. Long-term Debt

	2016	2015
Province of Manitoba, bearing interest at rates ranging from 1.750% to 5.050%, repayable in monthly principal installments ranging from \$6 to \$685 plus interest with maturity dates ranging from August 31, 2016 to November 30, 2035.	\$ 369,213	\$ 330,889
Province of Manitoba, bearing interest at the prevailing Canadian Dealer Offered Rate plus 0.90%, repayable in quarterly principal installments of \$550 plus interest until August 31, 2015.	-	1,100
Province of Manitoba, bearing interest at the prevailing Royal Bank Prime Rate less 0.75%, interest only payable quarterly. No fixed repayment schedule and maturity date.	-	10,000
Finance lease obligation to the Province of Manitoba, with a 7.630% implicit interest rate and annual minimum lease payments of \$64 until January 1, 2017.	41	98
	<b>369,254</b>	342,087
Less current portion of long-term debt	<b>48,286</b>	41,871
	<b>\$ 320,968</b>	\$ 300,216

All long-term debt is unsecured and the fair market value at March 31, 2016 is \$381,331.

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

## 12. Settlement of Pension Liability

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

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

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

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

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

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

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

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

The fair value of plan assets as at October 1, 2014 was \$73,147.

Of this amount, \$59,649 was used to settle the MLCC defined benefit obligation and the remaining \$13,498 was transferred to Manitoba Liquor & Lotteries for its exclusive use.

Manitoba Liquor & Lotteries' provision for employee pension benefits as at March 31, 2016 is disclosed in note 13.

## 13. Provision for Employee Pension Benefits

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

The pension expense related to Manitoba Liquor & Lotteries' contributions to the money purchase plan is \$315 (2015 - \$334) and is recorded in operating expenses.

The pension expense related to Manitoba Liquor & Lotteries' contributions to the multi-employer Civil Service Superannuation Fund is \$8,143 (2015 - \$7,942). Based on limited information available from the Civil Service Superannuation Fund, Manitoba Liquor & Lotteries has judged this information to be insufficient to properly allocate any potential pension plan deficits and is therefore not able to reliably determine its participation in any potential future deficit. As a result, Manitoba Liquor & Lotteries' contribution to the Civil Service Superannuation Fund is recorded in operating expenses.

Expected contributions for the 2017 fiscal year are \$9,441.

Manitoba Liquor & Lotteries' share of the multi-employer plan accrued benefit obligation has been actuarially measured for accounting purposes as at March 31, 2016 using the accumulated benefit cost method prorated based on service, a discount rate of 3.80% (2015 - 3.60%) and management's best estimate of expected plan performance, salary escalation and retirement ages of employees.

A net pension liability of \$522 comprised of the accrued benefit obligation of \$5,174, net of the fair value of assets of \$4,652, (2015 - \$355 comprised of the accrued benefit obligation of \$5,030, net of the fair value of assets of \$4,675) has been established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund. A loss of \$59 (2015 - \$683) was experienced in the current year based on the most recently available actuarial assessment of pension obligations as at March 31, 2016 and is recognized in other comprehensive income (loss).

## Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

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

Manitoba Liquor & Lotteries' revenue consists of the following:

	2016	2015
Liquor sales	\$ 752,882	\$ 719,773
VLT	334,606	320,881
Casino and online gaming	217,278	211,468
Non-gaming revenue	<u>22,586</u>	<u>24,004</u>
	<u>\$ 1,327,352</u>	<u>\$ 1,276,126</u>

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

	2016	2015
Liquor cost of sales	\$ 365,233	\$ 347,702
VLT commissions	32,477	31,401
Gaming direct expenses	9,203	7,529
Non-gaming cost of sales	<u>7,977</u>	<u>8,833</u>
	<u>\$ 414,890</u>	<u>\$ 395,465</u>

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

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

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

	2016	2015
Employee benefits	\$ 159,796	\$ 147,435
Bank charges	3,430	3,540
Community support	4,158	3,808
Consultant and professional fees	4,162	3,388
Freight and delivery	3,430	3,343
Grants in lieu of taxes	6,345	5,488
Maintenance	23,767	19,235
Marketing and public awareness	11,730	12,154
Rents	7,808	7,306
Sundry	2,642	2,044
Supplies and equipment	4,964	5,369
Telecommunications	3,624	3,397
Transportation and vehicles	1,587	1,793
Utilities	<u>3,708</u>	<u>3,612</u>
	<u>\$ 241,151</u>	<u>\$ 221,912</u>

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

## 15. Share of Profit of WCLC

	<b>2016</b>	2015
Revenue	\$ <b>248,698</b>	\$ 214,411
Prizes, commissions and other cost of sales	<b>172,783</b>	150,230
WCLC partner equalization	<b>4,372</b>	4,605
Payment to Government of Canada	<b>2,277</b>	2,306
Profit	<b>\$ 69,266</b>	<b>\$ 57,270</b>

The WCLC earned revenue in the 2016 fiscal year in the amount of \$1,480,442 (2015 - \$1,233,842), of which Manitoba Liquor & Lotteries' share calculated based on relative sales levels by jurisdiction is 17% (2015 - 17%). The WCLC's total profit for the 2016 fiscal year was \$506,582 (2015 - \$410,096) of which Manitoba Liquor & Lotteries' share is 14% (2015 - 14%).

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

Saskatchewan where Manitoba Liquor & Lotteries provides economic benefit equalization specific to salary costs of head office employees residing in Manitoba.

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

## 16. Allocations and Payments

	<b>2016</b>	2015
LGA funding and Crown Corporations Council levy	\$ <b>5,218</b>	\$ 4,552
First Nations allocation	<b>48,627</b>	43,825
Tourism contribution	<b>24,016</b>	23,436
Social responsibility funding	<b>9,834</b>	9,770
Casino bingo volunteer program and other community funding	<b>4,637</b>	4,053
	<b>\$ 92,332</b>	<b>\$ 85,636</b>

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

First Nations VLT siteholders receive an allocation of VLT revenue to provide sustainable social and economic benefits and

opportunities within the siteholders' communities in Manitoba.

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

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

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

responsibility initiatives. Any liability associated with this funding is included in trade and other payables.

Manitoba Liquor & Lotteries provides charitable and

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

## 17. Commitments and Contingencies

### (a) Lease obligations

Manitoba Liquor & Lotteries has entered into commercial leases on certain buildings and parking lots which have an average remaining term of 1 to 18 years. In addition, Manitoba Liquor & Lotteries has entered into commercial leases on certain motor vehicles which have a remaining term ranging between 1 to 3 years. The future minimum rental payments relating to operating leases are as follows:

2017	\$	7,289
2018		6,565
2019		6,017
2020		5,806
2021		5,354
Subsequent years		31,061
	\$	<u>62,092</u>

### (b) Legal claims

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

### (c) Purchase commitments

At the end of the 2016 fiscal year, Manitoba Liquor & Lotteries had purchase commitments of \$20,973 related to head office relocation, and casino and retail liquor store construction projects.

## 18. Financial Instruments

Manitoba Liquor & Lotteries is exposed to interest rate, currency, liquidity and credit risks arising from financial assets and liabilities. Manitoba Liquor & Lotteries' objectives in managing these risks are to protect from volatility and to minimize exposure from fluctuations in market rates and does so through a combination of a system of internal and disclosure controls, effective cash management strategies and sound business practices.

Risk management policies have been established to identify and analyze the risks faced by Manitoba Liquor & Lotteries, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Manitoba Liquor & Lotteries' management

oversees the management of these risks in accordance with the risk management policies and framework approved by the Board of Directors.

### (a) Interest rate risk

Interest rate risk is the risk to Manitoba Liquor & Lotteries' income that arises from fluctuations in interest rates and the degree of volatility of these rates. Manitoba Liquor & Lotteries does not use derivative instruments to reduce its exposure to interest rate risk, though risks associated with interest rate fluctuations are mitigated based on 100% (2015 - 97%) of long-term debt having a fixed interest rate.

# Notes to Consolidated Financial Statements

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## (b) Currency risk

Manitoba Liquor & Lotteries is exposed to currency risk through liquor inventory purchase transactions that require settlement in foreign currencies. Exposure to fluctuations in exchange rates is mitigated by the policy of adjusting purchase or selling prices to maintain approved liquor profit margins. Purchases denominated in foreign currencies during the 2016 fiscal year were \$9,933 (2015 - \$10,826). 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 \$993 (2015 - \$1,083) assuming the inventory purchased had been sold by the end of the year.

## (c) Liquidity risk

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

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

2016	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
<b>Trade and other payables</b>	\$ 2,654	\$ 106,343	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Payable to the Province of Manitoba</b>	-	55,671	-	-	-	-	-	-
<b>Long-term debt</b>	-	48,286	46,068	44,004	41,084	29,915	29,875	130,022
	<u>\$ 2,654</u>	<u>\$ 210,300</u>	<u>\$ 46,068</u>	<u>\$ 44,004</u>	<u>\$ 41,084</u>	<u>\$ 29,915</u>	<u>\$ 29,875</u>	<u>\$ 130,022</u>
2015	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
<b>Trade and other payables</b>	\$ 2,504	\$ 119,246	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Payable to the Province of Manitoba</b>	-	69,978	-	-	-	-	-	-
<b>Long-term debt</b>	-	41,871	40,701	38,483	36,419	33,499	22,450	128,664
	<u>\$ 2,504</u>	<u>\$ 231,095</u>	<u>\$ 40,701</u>	<u>\$ 38,483</u>	<u>\$ 36,419</u>	<u>\$ 33,499</u>	<u>\$ 22,450</u>	<u>\$ 128,664</u>



# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

## (d) Credit risk

Credit risk is the risk to Manitoba Liquor & Lotteries that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. Manitoba Liquor & Lotteries mitigates this risk through centralized credit management and collection practices and, where applicable, the establishment of a reasonable allowance for non-collectible amounts which is netted against trade and other receivables. Trade and other

receivables are non-interest bearing and generally have 30 day terms. The requirement for impairment is analyzed at each reporting date for every customer on an individual basis and trade and other receivables are written off when management determines that they cannot be collected. The maximum credit risk exposure is the carrying value of each class of financial asset disclosed in note 5 and it is management's opinion that Manitoba Liquor & Lotteries does not have significant concentration risk.

The aging of trade and other receivables at the end of the 2016 fiscal year is as follows:

Neither impaired nor past due	\$	45,446
Not impaired and past due as follows:		
Within 30 days		136
31 to 60 days		89
61 to 90 days		86
Over 90 days		165
Allowance for doubtful accounts		-
	<u>\$</u>	<u>45,922</u>

## (e) Capital management

Manitoba Liquor & Lotteries' capital is comprised of long-term debt and equity. Manitoba Liquor & Lotteries' objectives when managing its capital structure are to continue its ability to meet its financial obligations and to finance growth and capital expenditures. These objectives are considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget and have remained unchanged over the fiscal years presented.

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

## (f) Fair value

The fair value of Manitoba Liquor & Lotteries' financial instruments on initial recognition is the transaction price, which is the value of the consideration given or received.

Financial instruments recognized at fair value must be classified in one of the following three fair value hierarchy levels:

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

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

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

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2016 (in thousands of Canadian dollars)

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

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

2016	Level 1	Level 2	Level 3	Total
Cash	\$ 38,053	\$ -	\$ -	\$ 38,053
	<u>\$ 38,053</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,053</u>
2015	Level 1	Level 2	Level 3	Total
Cash	\$ 41,448	\$ -	\$ -	\$ 41,448
	<u>\$ 41,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,448</u>

## 19. Related Party Disclosures

Manitoba Liquor & Lotteries is related to various other government agencies, ministries and Crown corporations under the common control of the Government of Manitoba. All transactions with these related parties are in the normal course of operations and are measured at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured and settlement occurs in cash.

These transactions include long-term debt with the Province of Manitoba as disclosed in note 11 of these consolidated financial statements.

Compensation of key management personnel of Manitoba Liquor & Lotteries, which is recognized as an operating expense during the year, is as follows:

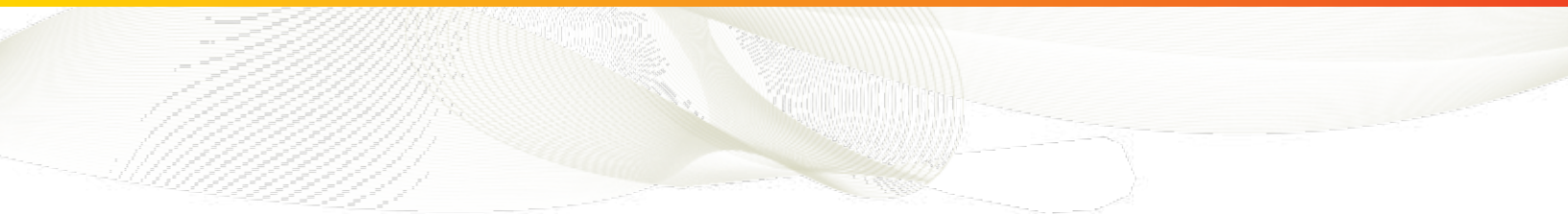
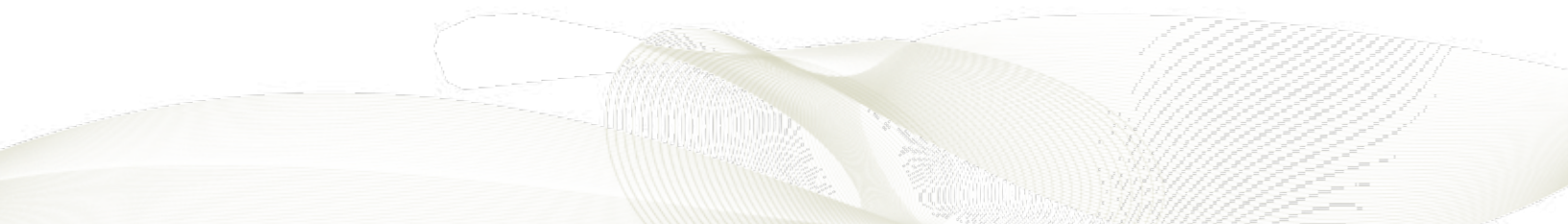
	2016	2015
Short-term employee benefits	\$ 2,477	\$ 2,264
Post-employment pension and medical benefits	159	136
Termination benefits	189	100
	<u>\$ 2,825</u>	<u>\$ 2,500</u>

## 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.





> This publication is available in alternate formats, upon request.

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