MANITOBA LIQUOR & LOTTERIES

ANNUAL REPORT

2017 - 2018

LETTER OF TRANSMISSION

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

July 31, 2018

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, 2018.

Respectfully submitted,

Polly Craik
Chair, Board of Directors

BOARD OF DIRECTORS

Polly Craik, Chair
Nick Logan, Vice-Chair
Tracey Maconachie
Stuart Murray
Marshall Ring
Patricia Solman
Randall Swanson
Mavis Taillieu
Gary Timlick

Purpose

Enrich the lives of Manitobans

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

Elements

Perform Profitably and Sustainably

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

Champion Innovation

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

Be Progressive

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

Engage Manitobans

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

Values

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

Caring

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

Collaborative

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

Customer Focused

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

Creative

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

Committed

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

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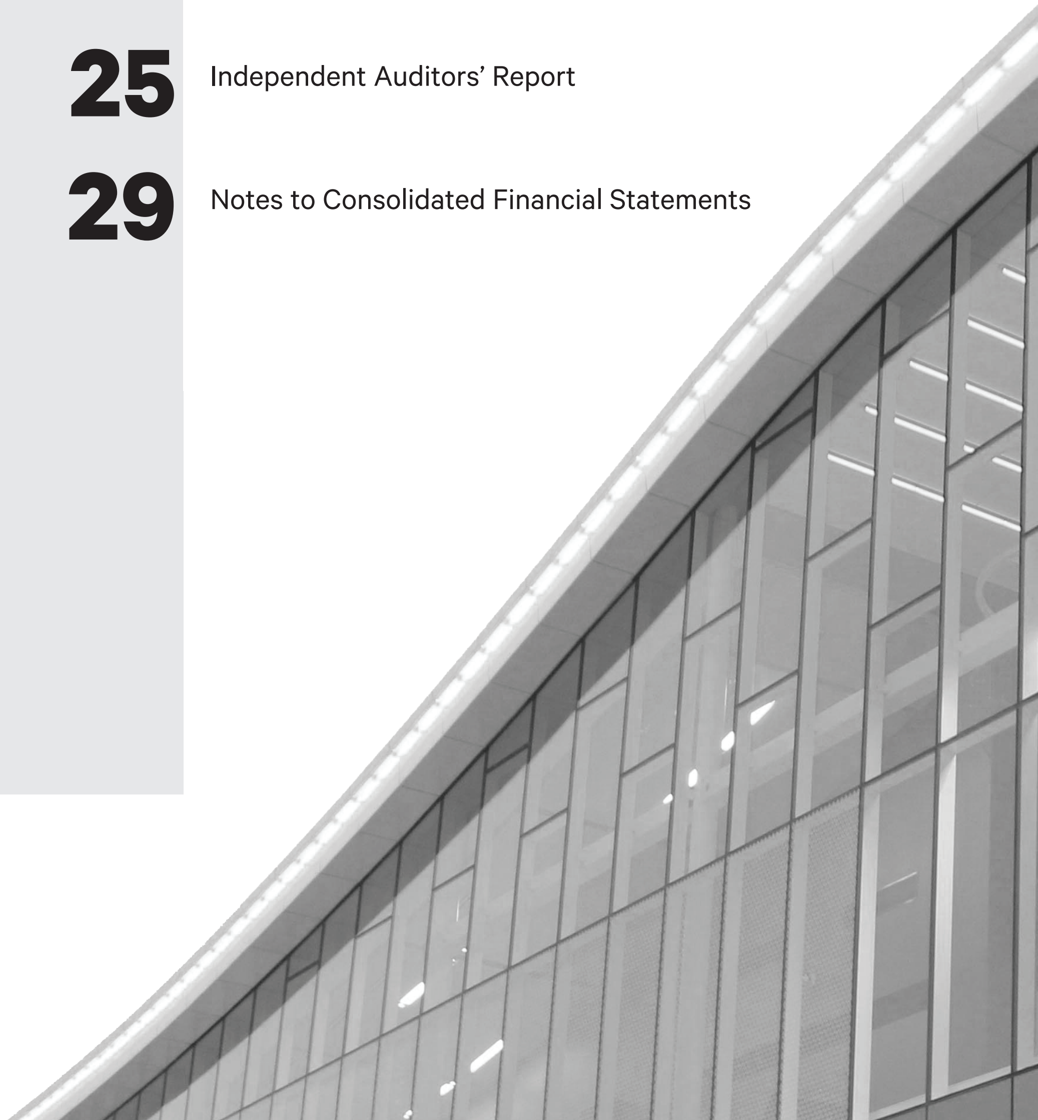


Message from **the Chair**

In my second year as Chair and on behalf of the Board of Directors, it is my great pleasure to share the Corporation's results for the fiscal year 2017-18.

The past year has been an exciting one as the Corporation embraces our organizational purpose; to enrich the lives of Manitobans by making the greatest possible contribution to the economic and social well-being of our province.

Manitoba Liquor & Lotteries belongs to and works for all Manitobans – where generating revenue for our province, partnering with local businesses, supporting communities, and investing in employees are just some of the ways we play an important role in our province.

Our consumer brands, such as Liquor Mart and Casinos of Winnipeg, connect with Manitobans every day when we sit down to dinner at home or go out on the town with friends. We share revenues and successes with thousands of business partners, small and large, in all corners of the province. We also share Manitobans' strong commitment to philanthropy and volunteerism by supporting the many charities we all care about and the many festivals and events that define Manitoba and our communities.

We have identified the key elements that have always been integral to our ongoing success:

Perform Profitably and Sustainably: Sound business practices that strengthen our profitability – allowing us to maximize funding available for healthcare, education and other services Manitobans rely on.

By following best business practices, Manitoba Liquor & Lotteries ensures that we can all rely on successful, sustainable results in our core operations. New initiatives contribute to steady growth, achieving the balance necessary to provide reliable revenue to the Province.

Champion Innovation: A vibrant ownership culture that celebrates innovation - supporting and challenging our employees to continuously improve all aspects of our operations.

Staff are encouraged to be open to new ideas and opportunities that will help grow and evolve our business organically. Taking new perspectives can be the simple spark that leads to an important improvement to some aspect of our business. The road to truly progressive change is often measured in small steps.

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

Manitoba Liquor & Lotteries continually strives to provide Manitobans with the best we have to offer by listening to our customers and sharing the latest trends.

Engage Manitobans: Meaningful relationships with Manitobans – engaging Manitobans both as customers and citizens to ensure all aspects of our operations reflect the needs, expectations and interests of those to whom we are ultimately accountable.

We work hard to build and maintain strong relationships through customer and employee interactions, business partnerships and our presence at community events. By listening to all of our stakeholders' points of view, we are better able to meet your expectations and support our local businesses and communities.

Invigorated by the Province's confidence in the stewardship of Manitoba Liquor & Lotteries by our Board and Management, we will continue to carefully steer the Corporation through a commitment to our purpose and its key elements. On behalf of the Board, I would like to thank President & CEO Peter Hak and his executive team for their continued focus, support and dedication. We look forward to another successful year, continuing to make Manitoba a great place to live.

Polly Craik
Chair, Board of Directors

Message from **the President & CEO**

I am pleased to report the results for fiscal 2017-18 were very positive. The Corporation returned profits of $610.4 million to the Province of Manitoba for programs such as healthcare, education, social services, housing and infrastructure.

This contribution is just one of the important ways we deliver on our promise to enrich the lives of Manitobans. To accomplish this, we will continue to grow our organizational culture through the enhancement of five important values that support the key elements of our brand.

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

We conducted our second Employee Engagement Survey in 2018 which saw an outstanding 88% participation rate by employees and showed improvements in a number of important areas including communication.

We have a stake in our communities and are proud of our corporate social responsibility. We provide 2% of our annual anticipated net income to fund responsible gambling and alcohol consumption programs, including research and treatment. We also provide financial support to further strengthen Manitoba communities through worthwhile charitable programs and community sponsorships.

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

Teams from across the organization have been sharing their knowledge and skills to deliver outstanding experiences for our customers, reduce costs for the Corporation and our partners, and increase revenues for the benefit of all Manitobans.

We continue to foster essential partnerships with Manitoba's hotel and restaurant industry, First Nations, private liquor retailers, and a vast network of lottery retailers. These important relationships have generated consistent revenue streams for us as well as our partners through commissions, contributions, vendor margins and handling fees.

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

In recent customer satisfaction surveys, both Club Regent Casino and McPhillips Station Casino received an overall satisfaction score of 83% for the 2017/18 fiscal year, the highest score ever. The overall satisfaction score for Manitoba Liquor Marts in 2017/18 is also the highest to date with 94% of respondents giving the stores a top grade.

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

We are empowering our employees to look for creative ways to improve their jobs and processes, explore new opportunities and enhance customer satisfaction. New initiatives are enhancing our customers' experiences.

Divisions are now working closer than ever to support our business operations through collaborative strategies. As we move forward and focus on growing our corporate culture, we will continue to seek out opportunities across departments and divisions to share ideas that will advance our business.

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

This means keeping our promise to present appealing properties, products and entertainment so that our customers enjoy what we offer and receive good value, employees are proud to say they work here, and our partners are pleased to be affiliated with us.

I thank our Chair Polly Craik and Board of Directors for their steady support and guidance which empowered the executive and their divisions to approach our business with a renewed focus. This past year's financial success is in part the result of an emphasis on our core business operations, a disciplined approach to reducing expenses, and the ability to hold fixed costs flat.

I want to thank my executive team and each of our employees for their incredible dedication and commitment over this past year. Your combined efforts and hard work have directly contributed to our success. That's something for which we can all be proud.

Peter Hak
President & Chief Executive Officer

About Us

Manitoba Liquor & Lotteries is a provincial Crown corporation with a core mandate to provide revenue to the Province of Manitoba to support provincial programs and initiatives such as healthcare, education, social services, housing and infrastructure. We are responsible for the sale of liquor and gaming 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 gaming, 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, Club Regent Event Centre, 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 (WCLC) and the Interprovincial Lottery Corporation (ILC).

Manitoba Liquor & Lotteries

Enriching the lives of Manitobans

For 95 years, Manitoba Liquor & Lotteries, in all of its iterations, has been part of the fabric of Manitoba.

We are proud to give back to the province we call home, with our revenues supporting a variety of government programs and initiatives that are essential to Manitobans from the north to the south.

But we don't do it alone.

With our business partners - local liquor producers, liquor licensees, agents and suppliers; VLT siteholders, lottery retailers, gaming product suppliers, and other local businesses – we work collaboratively, supporting and encouraging the growth of Manitoba's hospitality industries. Together, we are better – not only for our industry, but for our province as well.

As a Crown corporation that sells liquor and offers gaming and entertainment experiences, we are deeply committed to helping our customers use our products in a healthy, responsible and sensible way and to reduce the risks of harm. To this end, we commit 2% of our annual anticipated net income to social responsibility initiatives, including extensive consumer social responsibility information and funding organizations that deliver problem gambling and alcohol addiction services in Manitoba. Services funded include the Addictions Foundation of Manitoba, Marymound, and Community Financial Counselling Services.

In our communities, we sponsor numerous festivals and events that enhance life in Manitoba. We also support charities and non-profit organizations in a number of ways such as our coin-box program, the donation of used assets, and encouraging volunteerism among current and former employees, their families and friends.

Making positive contributions to Manitoba is at the core of who we are as a corporation. We are honoured to puts Manitoban's money back to work in the communities in which we live and serve. To learn more about where Manitoba Liquor & Lotteries' revenue goes and how we contribute to enriching the lives of Manitobans, please refer to our inaugural Corporate Responsibility Report, available on our website.

Economic Contributions

Our economic contributions stay in the province and are used to support provincial programs and initiatives that benefit all Manitobans. Here's a snapshot of 2017/18:

• Allocation to the Province of Manitoba	$	610.4	Million
Support to our business partners through commissions, contributions, margins or handling fees:			
• Manitoba Hotel and Restaurant Industry	$	100.2	Million
• First Nations VLT Siteholders	$	62.8	Million
• Private Liquor Retailers	$	18.1	Million
• Lottery Retailers	$	17.1	Million
Amounts committed to community support programs and social responsibility initiatives:			
• Community Sponsorships	$	3.2	Million
• Bingo Volunteer Program	$	3.9	Million
• Social Responsibility	$	12.0	Million

Management Discussion and Analysis

of Financial Condition and Results of Operations as at March 31, 2018

The Management Discussion and Analysis reviews the consolidated financial results of the operations of Manitoba Liquor and Lotteries Corporation (the Corporation) for the fiscal year ended March 31, 2018. This report should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes.

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

Overview and Results of Operations

In the 2017/18 year, the Corporation focused its strategies toward growth and refinement of its core operations. This included the development of new ideas, new projects and new approaches to strengthen the organization while improving its liquor product offerings and gaming and entertainment services. In recent customer satisfaction surveys, Club Regent Casino and McPhillips Station Casino received an average annual satisfaction score of 83%, the highest score ever. The annual satisfaction for Manitoba Liquor Marts was also the highest to date with 94% of respondents giving the stores a top grade. The Corporation remains committed to exceeding customer expectations while supporting Manitoba's communities.

Liquor operations continued to focus on the customer experience in its stores. During the year, a new Liquor Mart location opened in the Bridgwater Forest area of Winnipeg. Renovation projects continued through the year at several rural and city Liquor Mart locations, with an aim at providing customers with a more convenient, modern shopping environment. Additionally, a revamped home delivery service was launched within the city of Winnipeg, offering customers the convenience of ordering popular products through the LiquorMarts.ca website.

Gaming operations focused on enhancing offerings to match the changing needs of its customers. At Club Regent Casino, work was completed on the modern makeover that has been ongoing for the past few years. A new parkade opened during the year, providing customers with convenient and safe parking connected to the casino and hotel. At McPhillips Station Casino, construction projects continued during the year with a design to improve the customers' total entertainment experience by providing a comfortable, contemporary environment. A new two-level front addition opened, providing additional gaming space and a link to the parkade. Video Lotto continued to strengthen its game mix and prizes while refining machine distribution on the VLT network in order to meet customer demand. PlayNow.com experienced further customer growth by offering a full suite of online gaming products.

In the 2017/18 year, the Corporation's allocation to the Province of Manitoba was $610.4 million, an increase of $24.3 million or 4.1% when compared to the 2016/17 amount of $586.1 million.

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

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

2018 (in thousands)

	Casinos	Liquor Operations	Lottery	Video Lotto	Total
Revenue	$ 253,580	$ 801,427	$ 2,679	$ 361,124	$ 1,418,810
Cost of sales	17,340	393,616	1,319	117,835	530,110
	236,240	**407,811**	**1,360**	**243,289**	**888,700**
Operating expenses	121,758	108,845	6,817	17,127	254,547
Depreciation and amortization	24,454	6,844	-	21,108	52,406
Goods and Services Tax	982	-	67	2,305	3,354
	147,194	**115,689**	**6,884**	**40,540**	**310,307**
Operating Income	**89,046**	**292,122**	**(5,524)**	**202,749**	**578,393**
Share of profit of Western Canada Lottery Corporation	1,202	-	59,707	-	60,909
Interest expense on long-term debt	(7,606)	(580)	(119)	(3,149)	(11,454)
Interest income	401	77	12	447	937
Income Before Allocations and Payments	**83,043**	**291,619**	**54,076**	**200,047**	**628,785**
Allocations and payments	7,055	7,885	771	2,712	18,423
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	**$ 75,988**	**$ 283,734**	**$ 53,305**	**$ 197,335**	**$ 610,362**

2017 (in thousands)

	Casinos	Liquor Operations	Lottery	Video Lotto	Total
Revenue	$ 237,060	$ 773,316	$ 2,311	$ 348,109	$ 1,360,796
Cost of sales	16,379	377,150	1,215	112,571	507,315
	220,681	**396,166**	**1,096**	**235,538**	**853,481**
Operating expenses	120,228	106,494	6,612	15,446	248,780
Depreciation and amortization	21,629	6,769	-	20,891	49,289
Goods and Services Tax	881	-	62	2,030	2,973
	142,738	**113,263**	**6,674**	**38,367**	**301,042**
Operating Income	**77,943**	**282,903**	**(5,578)**	**197,171**	**552,439**
Share of profit of Western Canada Lottery Corporation	1,211	-	61,361	-	62,572
Interest expense on long-term debt	(6,398)	(480)	(136)	(3,622)	(10,636)
Interest income	378	38	6	487	909
Income Before Allocations and Payments	**73,134**	**282,461**	**55,653**	**194,036**	**605,284**
Allocations and payments	7,683	8,075	786	2,686	19,230
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	**$ 65,451**	**$ 274,386**	**$ 54,867**	**$ 191,350**	**$ 586,054**

Revenue of $1,418.8 million increased $58.0 million or 4.3% from the previous year's revenue of $1,360.8 million. Casino revenues increased $16.5 million over the prior year due to increased electronic gaming and table games play at the casino properties and increased play on the PlayNow.com online gaming site. Liquor operations revenues increased $28.1 million over last year as continued focus on promoting premium-priced and innovative new products has resulted in volume and sales growth in most alcohol beverage categories. Video Lotto revenues increased $13.0 million during 2017/18 as continued enhancements to game mix and prizes resulted in increased play.

Revenue, net of cost of sales of $888.7 million increased $35.2 million or 4.1% from $853.5 million last year. Operating expenses of $254.5 million were higher by $5.7 million or 2.3% compared to $248.8 million in 2016/17, and include employee and other costs directly related to the generation of liquor, gaming and entertainment revenues. The increase in operating expenses is primarily in the category of rent expense. Other operating expenses were carefully managed to maintain levels consistent with the prior year.

Depreciation and amortization of $52.4 million in the 2017/18 year increased $3.1 million or 6.3% from the $49.3 million recorded last year. During the year, the Corporation continued its capital investment into property and equipment to enhance the overall customer experience including ongoing renewal of the two casino properties as well as the construction of new, and renovations of existing, Liquor Mart locations.

The Corporation's allocation to the Province of Manitoba also included a one-time gain of $5.8 million on the disposal of the downtown head office property.

Casinos

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

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

Casino operations, which include the results of online gaming, generated revenues of $253.6 million during the year, an increase of $16.5 million or 7.0% from the revenues of $237.1 million last year.

Casino comprehensive income of $76.0 million in 2017/18 increased from last year's comprehensive income of $65.5 million by $10.5 million or 16.0%. Electronic gaming and table games play increased at both casino properties, with significant growth at Club Regent Casino and Event Centre, where the renovations have revitalized the gaming and entertainment experience. Additionally, increased play on the PlayNow.com online gaming site contributed to this growth, with well received additions such as the new Live Casino experience, which was launched in the latter part of the year. The Corporation continues to 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. The 2017/18 year saw the introduction of the Point Play Program, which allows Club Card members to convert their Player Points into free play. Construction was completed on a new parkade at Club Regent Casino, offering patrons convenient and safe parking connected to the casino and hotel. Work was also completed on a new two-level front addition at McPhillips Station Casino which connects with the parkade, allowing customers direct, climate-controlled access to the casino's amenities. The exterior of the casino was also refreshed with a modern look and enhanced lighting.

Liquor Operations

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

Liquor operations generated revenues of $801.4 million during the year, an increase of $28.1 million or 3.6% from the revenues of $773.3 million of the previous year.

During the 2017/18 year, liquor sales (both in dollars and in volume) as well as gross profit increased in the refreshment beverages, spirits and wine product categories. The increase in dollar sales outpaced volume sales growth in both spirits and wine. Customers continue to display a preference for premium products in both of these categories. The beer category saw an increase in both dollar sales and gross profit, while litre sales decreased slightly compared to the prior year.

Liquor operations' comprehensive income of $283.7 million increased from the previous year's comprehensive income of $274.4 million by $9.3 million or 3.4%. The 2017/18 fiscal year saw the opening of a new Liquor Mart in the Bridgwater Forest area of Winnipeg, while renovations were completed at several Liquor Mart locations to provide customers with a modern shopping experience. In-store initiatives such as single-lane checkouts, gravity fed coolers, and wine tasting stations have been well received by customers. Additionally, a revamped home delivery service was launched within the city of Winnipeg, offering customers the convenience of ordering popular products through the LiquorMarts.ca website. Behind the scenes, significant efforts are underway to modernize the supply chain and address capacity issues. One such initiative was the implementation of daily deliveries to many Liquor Mart stores to ensure that the right products are always in stock.

2018 (in thousands)

	Beer	Refreshment Beverages	Spirits	Wine	Total
Stores	$ 79,465	$ 22,273	$ 189,440	$ 135,884	$ 427,062
Liquor Vendors	11,099	5,436	36,357	12,329	65,221
Licensees	247,097	12,954	20,799	5,289	286,139
Specialty Wine Stores	-	65	31	17,771	17,867
Total Sales	**337,661**	**40,728**	**246,627**	**171,273**	**796,289**
Cost of Sales	197,672	19,430	94,643	81,518	393,263
Gross Profit	**$ 139,989**	**$ 21,298**	**$ 151,984**	**$ 89,755**	**$ 403,026**

Volume Sales
(in millions of litres)

	Beer	Refreshment Beverages	Spirits	Wine
2018	**76.0**	**6.3**	**7.3**	**12.1**
2017	76.4	5.7	7.2	11.8
2016	77.5	5.1	7.1	11.5
2015	76.8	4.3	7.0	11.1
2014	77.1	3.8	6.9	10.6

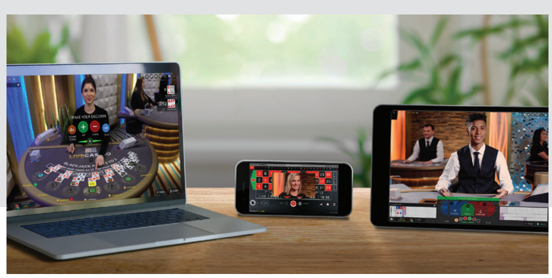
2017 (in thousands)

	Beer	Refreshment Beverages	Spirits	Wine	Total
Stores	$ 73,599	$ 20,375	$ 183,436	$ 129,665	$ 407,075
Liquor Vendors	10,705	4,910	35,706	11,942	63,263
Licensees	244,917	11,759	20,754	5,289	282,719
Specialty Wine Stores	-	68	20	16,909	16,997
Total Sales	**329,221**	**37,112**	**239,916**	**163,805**	**770,054**
Cost of Sales	190,057	17,820	91,809	77,079	376,765
Gross Profit	**$ 139,164**	**$ 19,292**	**$ 148,107**	**$ 86,726**	**$ 393,289**

Lottery

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

In the 2017/18 year, the Corporation's share of the profit of WCLC of $60.9 million decreased from the previous year's share of the profit of WCLC of $62.6 million by $1.7 million or 2.7%. Lottery comprehensive income of $53.3 million decreased from the previous year's comprehensive income of $54.9 million by $1.6 million or 2.9%. The 2017/18 year saw lower sales compared to the prior year, predominantly in LOTTO MAX which saw a year-over-year decrease in large jackpots, as there were 14 weeks with a jackpot of $50 million or more, compared to 22 such weeks in the prior year. Strong performance in the first full year for two new national games, DAILY GRAND and POKER LOTTO, somewhat mitigated the decline in sales for the year.



Video Lotto

Located in Morris, Manitoba, Video Lotto is responsible for the operation and maintenance of Video Lottery Terminals (VLTs). VLTs are located at licensed beverage rooms, veterans organizations, and First Nations communities. The operation of VLTs contributed 32.3% of the Corporation's net income and provided annual commissions and contributions of $117.8 million to all VLT siteholders who operate equipment on their premises. Included in this amount is $62.8 million of support to First Nations communities. First Nations VLT siteholders retain 90% of net win from the VLTs. Of that 90%, 5% represents the actual service component provided to the Corporation for hosting the terminals and the other 85% is provided as a contribution to promote sustainable social and economic benefits and opportunities within First Nations communities. This support has increased $4.2 million from the $58.6 million provided in the 2016/17 year. Licensed beverage room VLT siteholders operate under a tiered structure whereby they retain between 17.5% and 22.0% of the net win from VLTs. Of this amount, 10% represents the actual service component provided by the siteholders to the Corporation for hosting the terminals and the other 7.5% to 12% is provided as a contribution to promote tourism in the province. In the 2017/18 year, this support totaled $51.8 million, an increase of $0.9 million over the $50.9 million paid in 2016/17.

VLT Commissions & Contributions

(in millions)

	First Nations	City Siteholders	Rural Siteholders	Total
2018	**62.8**	**31.1**	**23.9**	**117.8**
2017	58.6	30.4	23.6	112.6
2016	51.5	29.7	23.9	105.1
2015	46.4	28.8	23.5	98.7
2014	44.2	33.0	23.6	100.8

Video Lotto operations generated revenue of $361.1 million in 2017/18, an increase of $13.0 million or 3.7% from the revenue of $348.1 million in the prior year. Video Lotto comprehensive income of $197.3 million increased $5.9 million or 3.1% from the comprehensive income of $191.4 million in the previous year. Continued enhancements, such as additional new VLT games allowing customers the ability to play for higher jackpot prize levels, have been a main contributor to the increase, as these games have proven to be very popular with customers. Additionally, the machine distribution on the VLT network continues to be refined to match customer demand.

First Nations Casinos and Shark Club Gaming Centre

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

During the 2017/18 year, the Corporation purchased gaming equipment in the amount of $0.4 million for the continuation of South Beach Casino's gaming floor refresh project. Aseneskak Casino completed an upgrade to their casino management system for which the Corporation provided assistance and capital financing in the amount of $0.1 million. No purchases of gaming equipment were required by either Sand Hills Casino or the Shark Club Gaming Centre in the 2017/18 year.

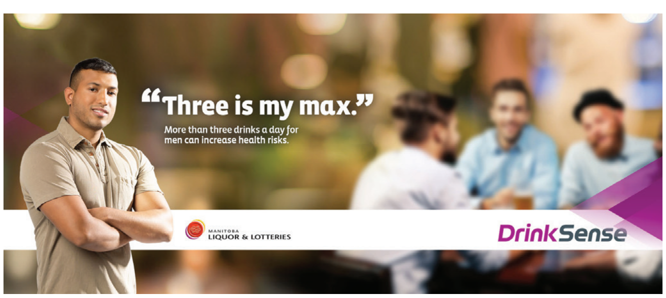
MLC Holdings Inc.

The Corporation's consolidated financial statements include the results of MLC Holdings Inc., a controlled entity established to purchase certain capital assets for lease to the Corporation at cost. The management and oversight of MLC Holdings Inc. is consolidated within the Corporation's operations and the Board reviews and approves capital purchases through the annual business planning and budget process. To support capital initiatives in the 2017/18 year, MLC Holdings Inc. acquired $42.8 million in capital assets for lease to the Corporation.

Social Responsibility

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

The Corporation fulfills its commitment to social responsibility in several ways. Social responsibility perspectives are incorporated into many corporate, gaming, liquor and marketing initiatives annually. Funding support is provided to organizations such as the Addictions Foundation of Manitoba that provide programs related to liquor and gaming prevention, awareness and treatment. Consumer and public information is developed and promoted to contribute to sensible, responsible use of the Corporation's products and to contribute to maintaining and growing a sustainable customer base.



Of the 2017/18 committed amount, $2.9 million was unspent and carried forward, reserved for social responsibility initiatives in the 2018/19 year.

(in thousands)	2018	2017
Funding support	$ 8,109	$ 8,237
Internal research and program evaluation	959	780
Operating and consumer awareness	2,136	2,088
Prior year funding spent in current year	(2,106)	(1,347)
Funding carried forward to future years	2,917	2,106
	$ 12,015	$ 11,864

For more information on the Corporation's commitment to the responsible use of its products and services; its support of communities, local charities, and non-profit organizations; and the mutually beneficial relationships developed with its various partners, please see the Corporation's 2017/18 Corporate Responsibility Report.

Liquidity and Capital Resources

Operating activities during the 2017/18 year provided the Corporation with $679.7 million in cash flows compared to $630.4 million in the previous year, an increase of $49.3 million or 7.8%.

The Corporation focuses on capital investments which support strategies to grow its core operations for the purpose of making the greatest possible contribution to the economic and social well-being of the province. In order to support these goals, cash spent on property and equipment, net of proceeds from disposals of assets, totaled $31.2 million as compared to the $68.7 million spent in the previous year. In addition to the regular process of upgrading existing equipment, facilities and technology to support ongoing operations, the 2017/18 year saw continued investment associated with casino renewal construction projects as well as the construction of new, and renovations of existing, Liquor Mart locations.

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

In the 2017/18 year, total proceeds of long-term debt received were $40.4 million as compared to the $60.2 million of proceeds received in the previous year. Of the total proceeds received, $0.4 million was received to purchase gaming equipment for the First Nations Casinos as compared to $5.2 million in the previous year. All long-term debt has fixed interest rates and a significant portion is repayable in either quarterly or monthly installments.

Cash distributions to the Province of Manitoba during the current year resulted in a cash outflow of $619.7 million compared to the previous year's $578.0 million.

Corporate Governance

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

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

Risk Management

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

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

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

Strategic Risks

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

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

Operations Risks

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

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

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

Financial Risks

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

The Corporation's exposure to interest-rate risk is substantially limited due to the use of fixed-rate, long-term debt. Credit risk due to the inability or unwillingness of a counterparty to fulfill its payment obligations, while low, is mitigated through the Corporation's centralized credit management and collection practices.

Governance & Compliance Risks

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

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

Internal Controls Over Financial Reporting

The Corporation, as a best practice, has voluntarily adopted a program to evaluate internal controls over financial reporting consistent with the guidelines under Canadian Securities Administrator's National Instrument 52-109.

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

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

Based on that assessment, the CEO and CFO have concluded that, as at March 31, 2018, the Corporation's internal controls over financial reporting are adequately designed and effective for providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

As well, the CEO and CFO, together with management, after evaluating the effectiveness of the Corporation's disclosure controls and procedures, have concluded that the disclosure controls and procedures are adequately designed and effective for providing reasonable assurance that material information relating to the Corporation would have been made known to them as at March 31, 2018.

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

Whistleblower Report

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

A disclosure of alleged wrongdoing was submitted to the designated officer during the 2017/18 year. It was determined that the inquiry did not qualify as a wrongdoing as defined in the Corporation's Whistleblower Protection Policy.

Future Outlook

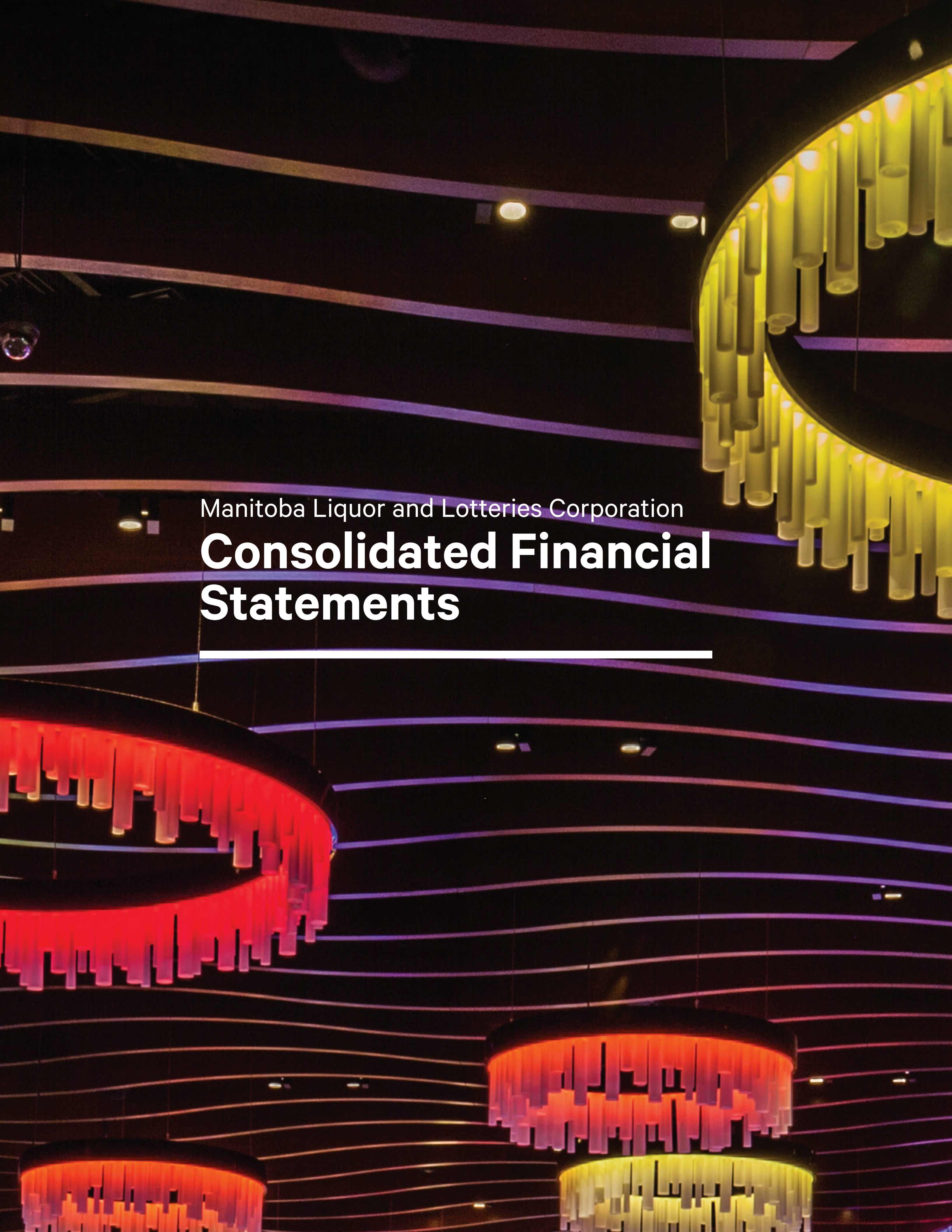
The Corporation's allocation to the Province of Manitoba is forecast to be $622.0 million in the 2018/19 year, an increase of $11.6 million or 1.9% as compared to the $610.4 million allocation to the Province of Manitoba in the 2017/18 year.

Planned initiatives for the Corporation 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 2017/18 year and which will continue in the 2018/19 year.

Investment in gaming initiatives include the enhancement of the VLT experience through the release of fresh, new games, and the start of a multi-year program to replace old and obsolete VLT machines. PlayNow.com looks to continue growth through innovative game offerings. Construction activities at both casino properties will continue to provide customers with a modern and relevant gaming experience. As construction wraps up on the exterior, the 2018/19 year will see interior refresh work commence at McPhillips Station Casino. Meanwhile, the development of the west side of Club Regent Casino is ongoing. This addition will include a new third-party operated restaurant as well as unique amenities. A renovation of the aquarium at Club Regent Casino will also be completed, providing a dynamic new look to one of the casino's most popular attractions. The Corporation 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. As well, work will begin in the coming year to replace the Bingo Gaming System terminals at both casino locations.

Liquor Mart and Liquor Mart Express store development activities will continue in the 2018/19 year through the investment into additional or expanded retail locations. Renovations are ongoing or planned at a number of stores with an aim at providing customers a more convenient, modern shopping environment. A new Liquor Mart location is under construction in Portage la Prairie, and another is slated to be constructed in the Seasons of Tuxedo area of Winnipeg, while several stores will be relocating to new, modernized locations in the coming year. Work will continue on the upgrade of the point-of-sale system used in the stores to remain in compliance with payment card industry standards, while also enabling future implementation of mobile payments and other advanced features. Implementation continues on a new liquor operations partner analytics tool. This software will compile sales, inventory and purchasing data into one source, to allow for the sharing of accurate and timely information and to promote faster decision-making. Finally, as demand for liquor products continues to increase, liquor operations will seek a solution to the space constraints at the current distribution centre location.

The Government of Canada has announced that the sale and consumption of recreational cannabis will become legal in Canada in 2018. The Province of Manitoba announced its plans for a public/private model for cannabis distribution and retail sales. The Corporation has a mandate to secure a safe supply of cannabis, and to coordinate the distribution of cannabis to private sector retailers for sale to the general public. Work in the 2018/19 year will include the development of a catalogue of available products, understanding retailer inventory requirements, and testing and implementing both the federal government's seed-to-sale tracking system as well as the Corporation's own central order processing system.



Manitoba Liquor and Lotteries Corporation

Consolidated Financial Statements

Management Report

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

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

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

The responsibility of Ernst & Young LLP is to express an independent opinion on whether the consolidated financial statements are fairly stated in accordance with International Financial Reporting Standards. The Independent 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, 2018.

Original signed by
Peter Hak
President & Chief Executive Officer

Original signed by
Heather Mitchell
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, 2018, 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, 2018, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Winnipeg, Canada
June 19, 2018

Manitoba Liquor and Lotteries Corporation

Consolidated Statement of Financial Position

As at March 31
(in thousands of Canadian dollars)

	Notes	2018	2017
Assets			
Current assets			
Cash		$ 42,121	$ 33,168
Trade and other receivables	5	51,300	50,305
Inventories	6	48,008	51,600
Prepayments	7	4,349	5,190
Assets held for sale, net	8	-	8,887
		145,778	149,150
Non-current assets			
Property and equipment, net	9	384,227	394,888
Intangible assets, net	10	11,085	11,610
		395,312	406,498
TOTAL ASSETS		**$ 541,090**	**$ 555,648**
Liabilities and Equity			
Current liabilities			
Trade and other payables	11	$ 120,886	$ 106,324
Payable to the Province of Manitoba		54,362	63,725
Current portion of long-term debt	12	56,035	52,610
		231,283	222,659
Non-current liabilities			
Long-term debt	12	304,807	327,989
Commitments and contingencies	16		
Equity			
Retained earnings		5,000	5,000
TOTAL LIABILITIES AND EQUITY		**$ 541,090**	**$ 555,648**

(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
Nick Logan
Director & Vice-Chair of the Board of Directors

Consolidated Statement of Net Income, Comprehensive Income and Equity

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

	Notes	2018	2017
Revenue	13	$ 1,418,810	$ 1,360,796
Cost of sales	13	530,110	507,315
		888,700	853,481
Operating expenses	13	254,547	248,780
Depreciation and amortization		52,406	49,289
Goods and Services Tax		3,354	2,973
		310,307	301,042
Operating income		**578,393**	**552,439**
Share of profit of Western Canada Lottery Corporation	14	60,909	62,572
Interest expense on long-term debt		(11,454)	(10,636)
Interest income		937	909
Income before allocations and payments		**628,785**	**605,284**
Allocations and payments	15	18,423	19,230
Net income and comprehensive income		**610,362**	**586,054**
Equity, beginning of the year		5,000	5,000
Allocation to the Province of Manitoba		(610,362)	(586,054)
Equity, end of the year		**$ 5,000**	**$ 5,000**

(see accompanying notes to the consolidated financial statements)

Consolidated Statement of Cash Flows

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

Operating activities

	2018	2017
Net income and comprehensive income	$ 610,362	$ 586,054
Add (deduct) items not involving cash:		
Depreciation related to property and equipment	46,735	44,641
Depreciation on assets related to Conduct and Management agreements	4,900	4,755
Amortization related to intangible assets	5,671	4,648
Gain on disposal of property and equipment	(231)	(397)
Gain on disposal of assets held for sale	(5,769)	-
	661,668	639,701
Changes in non-cash working capital items:		
Increase in trade and other receivables	(995)	(4,383)
Decrease (increase) in inventories	3,592	(1,730)
Decrease in prepayments	841	45
Increase (decrease) in trade and other payables	14,562	(3,195)
Cash provided by operating activities	**679,668**	**630,438**

Investing activities

	2018	2017
Purchase of property and equipment	(41,485)	(67,595)
Purchase of intangible assets	(5,146)	(1,498)
Proceeds from disposal of property and equipment	348	425
Proceeds from disposal of assets held for sale	15,050	-
Cash used in investing activities	**(31,233)**	**(68,668)**

Financing activities

	2018	2017
Cash distributions to the Province of Manitoba:		
Current year	(611,000)	(578,000)
Prior year	(8,725)	-
Proceeds from long-term debt	40,360	60,211
Repayment of long-term debt	(60,117)	(48,866)
Cash used in financing activities	**(639,482)**	**(566,655)**
Net increase (decrease) in cash during the year	8,953	(4,885)
Cash, beginning of the year	33,168	38,053
Cash, end of the year	**$ 42,121**	**$ 33,168**

Supplemental cash flow information

	2018	2017
Interest paid	$ 11,900	$ 11,700

(see accompanying notes to the consolidated financial statements)

1. Background

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

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

2. Significant Accounting Policies

(a) Basis of presentation

The consolidated financial statements of the Corporation for the year ended March 31, 2018 were authorized for issue by the Board of Directors on June 19, 2018.

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

(b) Statement of compliance

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

(c) Basis of consolidation

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

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

(d) Western Canada Lottery Corporation

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

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

(e) First Nations Casinos and Shark Club Gaming Centre

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

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

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

(f) Foreign currency translation

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

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

(g) Financial instruments

Financial instruments are recognized in the consolidated statement of financial position when the Corporation becomes a party to the contractual terms of the instrument, which represents its trade date. Upon initial recognition, the Corporation designates its financial assets as fair value through profit or 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 the Corporation include cash and trade and other receivables. The financial liabilities of the Corporation include trade and other payables, payable to the Province of Manitoba and long-term debt.

(i) Fair value through profit or loss

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

(ii) Loans and receivables

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

(iii) Other financial liabilities

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

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

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

(h) Property and equipment

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

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

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

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

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

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

(i) Leases

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

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

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

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

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

(j) Intangible assets

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

Computer software	3 to 15 years

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

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

(k) Inventories

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

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

(l) Impairment

(i) Financial assets

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

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

(ii) Non-financial assets

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

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

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

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

(m) Provisions

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

(n) Pension plans

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

For employees whose annual earnings exceed the limit under the Fund, a pension liability is established. This liability is determined actuarially on an annual basis. Actuarial gains and losses are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to operating expenses in the period in which they occur.

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

(o) Revenue recognition

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

The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent 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 the Corporation participates. The AIR MILES® program allows customers to earn AIR MILES® points when they purchase products in the Corporation's retail liquor stores. The redemption of points by customers is the responsibility of the third-party AIR MILES® program. Consideration received is recorded net of related expenses as the Corporation is acting as an agent for the AIR MILES® program.

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.

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

(q) Goods and Services Tax

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

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

(r) Assets held for sale

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

(s) Changes in accounting policies

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

(i) IAS 7 Statement of Cash Flows

This standard was amended in January 2016 as part of the IASB's major initiative to improve presentation and disclosure in financial reports (the Disclosure Initiative). The amendments were effective for annual periods beginning on or after January 1, 2017. The adoption of the amendments to IAS 7 did not have any impact on the Corporation's consolidated financial statements.

3. Significant Accounting Estimates and Assumptions

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

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

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

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

(b) Loyalty points program

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

The future redemption liability of $3,061 (2017 – $3,580) is included in trade and other payables and is based on an assessment of anticipated point redemptions and point value. The Corporation adjusts the estimated liability based on redemption experience and additional points earned and any adjustments will be recorded in the consolidated statement of net income, comprehensive income and equity.

4. Standards Issued But Not Yet Effective

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

(a) IFRS 9 Financial Instruments

This standard 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 or 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. The Corporation is currently evaluating the impact of adoption of the new standard.

(b) IFRS 15 Revenue from Contracts with Customers

This standard was issued in May 2014 and supersedes existing standards and related interpretations including *IAS 18 Revenue* and *IFRIC 13 Customer Loyalty Programmes*. IFRS 15 introduces a single model for recognizing revenue from contracts with customers in a manner that depicts the transfer of goods or services to customers in amounts that reflect the consideration to which the entity is expected to be entitled in exchange for those goods or services. The new standard is intended to enhance disclosures about revenue, provide guidance for transactions not previously addressed and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018 and the Corporation is currently evaluating the impact of adoption of the new standard.

(c) IFRS 16 Leases

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

(in thousands of Canadian dollars)

5. Trade and Other Receivables

	2018	2017
Trade	$ 47,423	$ 43,161
Goods and Services Tax	-	4,912
Western Canada Lottery Corporation	3,877	2,232
	$ 51,300	$ 50,305

The Corporation's exposure to credit risk related to trade and other receivables is disclosed in note 17(d).

6. Inventories

	2018	2017
Warehouse	$ 32,515	$ 34,465
Retail locations	15,246	16,817
Consumable supplies	247	318
	$ 48,008	$ 51,600

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is $4,173 at the end of the 2018 fiscal year (2017 – $4,865).

7. Prepayments

	2018	2017
Maintenance contracts	$ 3,370	$ 2,846
Rent	17	960
Deposits and other	831	1,037
Insurance	131	347
	$ 4,349	$ 5,190

8. Assets Held for Sale

In January 2017, the Corporation offered for sale the land, building, and parkade at 233 Kennedy Street and 218 Edmonton Street in Winnipeg, Manitoba and at the end of the 2017 fiscal year property and equipment of $8,887 was reclassified as held for sale. During the 2018 fiscal year, assets held for sale increased to $9,281. On June 20, 2017, the sale of the assets was finalized for net proceeds of $15,050; resulting in a gain on disposal of $5,769.

(in thousands of Canadian dollars)

9. Property and Equipment

Cost	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
April 1, 2016	$ 26,272	$ 293,346	$ 25,028	$ 217,184	$ 133,784	$ 34,945	$ 44,504	$ 775,063
Additions	-	3,648	172	7,876	6,176	3,423	46,300	67,595
Transfers from WIP	-	7,544	45	272	146	1,763	(9,770)	-
Reclassified as held for sale	(845)	(7,266)	-	-	-	-	(1,141)	(9,252)
Disposals	-	(34)	(46)	(16,902)	(1,491)	(469)	-	(18,942)
March 31, 2017	25,427	297,238	25,199	208,430	138,615	39,662	79,893	814,464
Additions	-	21,316	396	11,083	4,658	609	3,423	41,485
Transfers from WIP	-	66,345	1,845	489	4,723	-	(73,402)	-
Reclassified as held for sale	-	(394)	-	-	-	-	-	(394)
Disposals	-	-	-	(3,767)	(6,160)	(654)	-	(10,581)
March 31, 2018	$ 25,427	$ 384,505	$ 27,440	$ 216,235	$ 141,836	$ 39,617	$ 9,914	$ 844,974

Depreciation	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
April 1, 2016	$ -	$ 121,533	$ 10,893	$ 127,122	$ 105,947	$ 23,964	$ -	$ 389,459
Depreciation	-	8,869	2,357	24,349	9,066	4,755	-	49,396
Reclassified as held for sale	-	(365)	-	-	-	-	-	(365)
Disposals	-	(34)	(46)	(16,902)	(1,463)	(469)	-	(18,914)
March 31, 2017	-	130,003	13,204	134,569	113,550	28,250	-	419,576
Depreciation	-	10,582	1,966	24,649	9,538	4,900	-	51,635
Disposals	-	-	-	(3,661)	(6,149)	(654)	-	(10,464)
March 31, 2018	$ -	$ 140,585	$ 15,170	$ 155,557	$ 116,939	$ 32,496	$ -	$ 460,747

Net book value								
March 31, 2018	$ 25,427	$ 243,920	$ 12,270	$ 60,678	$ 24,897	$ 7,121	$ 9,914	$ 384,227
March 31, 2017	25,427	167,235	11,995	73,861	25,065	11,412	79,893	394,888

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 2018 fiscal year was $444 (2017 – $1,062). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 2.54%, 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 2018 fiscal year is $2,823 (2017 – $3,076) and consists of land being used for parking facilities at the McPhillips Station Casino.

(in thousands of Canadian dollars)

10. Intangible Assets

Cost	Computer software - acquired
April 1, 2016	$ 44,988
Additions	1,498
Disposals	(197)
March 31, 2017	46,289
Additions	5,146
Disposals	-
March 31, 2018	$ 51,435

Amortization	
April 1, 2016	$ 30,228
Amortization	4,648
Disposals	(197)
March 31, 2017	34,679
Amortization	5,671
Disposals	-
March 31, 2018	$ 40,350

Net book value	
March 31, 2018	$ 11,085
March 31, 2017	11,610

11. Trade and Other Payables

	2018	2017
Trade	$ 77,837	$ 69,540
Employee benefits	33,391	30,987
Jackpot liability	4,475	2,990
Province of Manitoba taxes	3,098	2,807
Goods and Services Tax	2,085	-
	$ 120,886	$ 106,324

12. Long-term Debt

	2018	2017
Province of Manitoba, bearing interest at rates ranging from 1.75% to 5.05%, repayable in monthly principal installments ranging from $6 to $685 plus interest with maturity dates ranging from June 15, 2018 to November 30, 2035.	$ 360,842	$ 380,599
Less current portion of long-term debt	56,035	52,610
	$ 304,807	$ 327,989

All long-term debt is unsecured and the fair market value as at March 31, 2018 is $364,584.

The Corporation's exposure to liquidity risk related to long-term debt is disclosed in note 17(c).

(in thousands of Canadian dollars)

13. Revenue, Cost of Sales and Expenses By Nature

The Corporation's revenue consists of the following:	2018	2017
Liquor sales	$ 796,289	$ 770,054
VLT	354,967	344,037
Casino and online gaming	233,951	218,044
Non-gaming revenue	33,603	28,661
	$ 1,418,810	$ 1,360,796

The Corporation's cost of sales consists of the following:	2018	2017
Liquor cost of sales	$ 393,263	$ 376,765
VLT commissions	33,893	33,013
First Nations allocation	59,362	55,306
Tourism contribution	24,580	24,253
Gaming direct expenses	9,821	9,561
Non-gaming cost of sales	9,191	8,417
	$ 530,110	$ 507,315

First Nations VLT siteholders receive an allocation of VLT revenue to provide sustainable social and economic benefits and opportunities within the siteholders' communities in Manitoba. The Corporation also provides contributions towards supporting tourism in Manitoba through the VLT program.

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

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

The Corporation's operating expenses by their nature are as follows:	2018	2017
Employee benefits	$ 168,224	$ 167,024
Bank charges	3,464	3,574
Community support	3,156	4,443
Consultant and professional fees	2,443	3,891
Freight and delivery	4,173	3,726
Grants in lieu of taxes	5,871	6,277
Maintenance	23,189	22,621
Marketing and public awareness	11,675	11,785
Rents	16,375	9,164
Sundry	1,876	1,851
Supplies and equipment	4,763	5,004
Telecommunications	4,187	3,994
Transportation and vehicles	1,408	1,530
Utilities	3,743	3,896
	$ 254,547	$ 248,780

14. Share of Profit of WCLC

	2018	2017
Revenue	$ 224,495	$ 228,978
Prizes, commissions and other cost of sales	156,540	159,331
WCLC partner equalization	4,606	4,701
Payment to Government of Canada	2,440	2,374
Profit	$ 60,909	$ 62,572

The WCLC earned revenue in the 2018 fiscal year in the amount of $1,285,692 (2017 – $1,330,359), of which the Corporation's share calculated based on relative sales levels by jurisdiction is 17% (2017 – 17%). The WCLC's total profit for the 2018 fiscal year was $432,438 (2017 – $454,821) of which the Corporation's share is 14% (2017 – 14%).

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

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

(in thousands of Canadian dollars)

15. Allocations and Payments

	2018	2017
Social responsibility funding	$ 9,879	$ 9,776
LGA funding and Crown Corporations Council levy	4,654	4,713
Other community funding	3,890	4,741
	$ 18,423	$ 19,230

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

The Corporation provides funding to the Liquor 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*. The Corporation also provided funding to the Crown Corporations Council through the payment of an annual levy.

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

16. Commitments and Contingencies

(a) Lease obligations

The Corporation has entered into commercial leases on certain buildings and parking lots which have remaining terms ranging from 1 to 21 years. In addition, the Corporation has entered into commercial leases on certain motor vehicles which have remaining terms of one year. The future minimum rental payments relating to operating leases are as follows:

2019	$ 8,596
2020	7,760
2021	7,128
2022	6,521
2023	6,150
Subsequent years	31,848
	$ 68,003

(b) Legal claims

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

The Corporation has been named as a party to a lawsuit related to First Nations gaming in Manitoba. An amended Statement of Claim was filed in February 2018, and a Statement of Defence is being filed on behalf of the Corporation and the Government of Manitoba. The possibility of a payout related to this action cannot be determined at this time, therefore no provision for any liability has been made in the consolidated financial statements.

(c) Purchase commitments

At the end of the 2018 fiscal year, the Corporation had purchase commitments of $17,793 related to casino and retail liquor store construction projects.

17. Financial Instruments

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

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

(a) Interest rate risk

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

(b) Currency risk

The Corporation is exposed to currency risk through liquor inventory purchase transactions that require settlement in foreign currencies. Exposure to fluctuations in exchange rates is mitigated by the policy of adjusting purchase or selling prices to maintain approved liquor profit margins. Purchases denominated in foreign currencies during the 2018 fiscal year were $7,925 (2017 – $7,737). 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 $792 (2017 – $774) assuming the inventory purchased had been sold by the end of the year.

(c) Liquidity risk

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

(in thousands of Canadian dollars)

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

2018	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
Trade and other payables	$ 4,475	$ $116,411	$ -	$ -	$ -	$ -	$ -	$ -
Payable to the Province of Manitoba	-	54,362	-	-	-	-	-	-
Long-term debt	-	56,035	53,115	41,946	41,326	40,858	40,791	86,771
	$ 4,475	$ 226,808	$ 53,115	$ 41,946	$ 41,326	$ 40,858	$ 40,791	$ 86,771

2017	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
Trade and other payables	$ 2,990	$ 103,334	$ -	$ -	$ -	$ -	$ -	$ -
Payable to the Province of Manitoba	-	63,725	-	-	-	-	-	-
Long-term debt	-	52,610	50,547	47,626	36,457	35,838	35,375	122,146
	$ 2,990	$ 219,669	$ 50,547	$ 47,626	$ 36,457	$ 35,838	$ 35,375	$ 122,146

(d) Credit risk

Credit risk is the risk to the Corporation that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. The Corporation mitigates this risk through centralized credit management and collection practices and, where applicable, the establishment of 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 the Corporation does not have significant concentration risk.

The aging of trade and other receivables at the end of the 2018 fiscal year is as follows:

Neither impaired nor past due	$ 50,920
Not impaired and past due as follows:	
Within 30 days	157
31 to 60 days	6
61 to 90 days	5
Over 90 days	216
Allowance for doubtful accounts	(4)
	$ 51,300

(in thousands of Canadian dollars)

(e) Capital management

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

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

(f) Fair value

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

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

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

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

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

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

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

2017	Level 1	Level 2	Level 3	Total
Cash	$ 33,168	$ -	$ -	$ 33,168
	$ 33,168	$ -	$ -	$ 33,168

(in thousands of Canadian dollars)

18. Related Party Disclosures

The Corporation is related to various other government agencies, ministries and Crown corporations under the common control of the Government of Manitoba. All transactions with these related parties are in the normal course of operations and are measured at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured and settlement occurs in cash. These transactions include long-term debt with the Province of Manitoba as disclosed in note 12.

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

		2018		2017
Short-term employee benefits	$	1,994	$	2,555
Post-employment pension and medical benefits		142		157
Termination benefits		-		687
	$	2,136	$	3,399

19. 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.
Le rapport annuel est disponible en français sur le site Web www.mbll.ca