

MANITOBA
LIQUOR
& LOTTERIES



RAPPORT ANNUEL

|| 2016 - 2017 ||

LETTRE DE TRANSMISSION

L'honorable Ron R. Schuler
Ministre des Services d'État
Salle 343, Édifice législatif
450, rue Broadway
Winnipeg (Manitoba) R3C 0V8

Le 31 juillet 2017

Monsieur l'honorable ministre,
J'ai l'honneur de vous présenter
le rapport annuel de la Société
manitobaine des alcools et des loteries
pour l'exercice se terminant le
31 mars 2017.

Respectueusement soumis,

Polly Craik

Présidente, Conseil d'administration

CONSEIL D'ADMINISTRATION

Polly Craik, présidente

Nick Logan, vice président

Gary Coleman

Tracey Maconachie

Stuart Murray

Rene Pereux

Jennifer Plett

Mavis Taillieu

Gary Timlick



VISION

Dépasser les attentes des clients tout en soutenant
nos collectivités.

MISSION

Livrer de manière novatrice et responsable des produits
et des divertissements de qualité tout en générant des
revenus pour le Manitoba.



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MESSAGE



MESSAGE DE LA PRÉSIDENTE

En tant que société d'État, la Société manitobaine des alcools et des loteries a le privilège unique de remettre l'argent des Manitobains dans la communauté. Mieux nous faisons en tant qu'entreprise, plus nous pouvons redonner à la Province pour soutenir les soins de santé, les écoles et d'autres priorités sur lesquelles comptent les Manitobains.

Depuis notre rendez vous de l'année dernière, notre objectif en tant que conseil d'administration a été de placer les besoins et les attentes des Manitobains au centre de tout ce que nous faisons. En termes clairs, cela signifie être responsable de chaque dollar que nous dépensons, écouter ce que les Manitobains nous disent est important et trouver de nouvelles façons d'améliorer constamment chaque aspect de l'expérience des clients.

Le rapport annuel de cette année indique clairement que la Société manitobaine des alcools et des loteries est sur la bonne voie. Des recettes solides et une discipline fiscale – comme la décision d'annuler les plans pour un siège social de 75 millions de dollars – ont aidé à mettre la Société sur une trajectoire financière positive alors qu'une nouvelle équipe de direction réduite aide à effectuer des améliorations dans l'ensemble de nos domaines opérationnels.

Notre objectif pour l'avenir est de continuer à nous appuyer sur ce qui fonctionne et à chercher à continuellement nous améliorer. Cela commence par le soutien d'une culture de l'innovation dans l'ensemble de la Société : encourager nos employés talentueux à examiner de nouvelles approches et idées, puis à mettre ces idées en pratique. Cela signifie également collaborer avec la direction pour garder le rythme à l'aide de nouveaux goûts et de nouvelles tendances, les technologies émergentes et les attentes en constante évolution de nos clients.

Mais le plus important, c'est notre but de continuer à mériter la confiance des Manitobains. Il est vital que les citoyens de l'ensemble de notre province voient la Société manitobaine des alcools et des loteries collaborer avec le gouvernement, nos partenaires de vente et la communauté offrent la plus importante contribution possible au bien être social et économique des Manitobains.

Nous avons un mandat, et une responsabilité, d'aider à renforcer notre province. Cela demeure notre objectif pour l'année à venir.

Polly Craik
Présidente, Conseil d'administration

DU PDG

...les opérations de jeu, de divertissement et de vente de boissons alcoolisées, nous avons travaillé avec diligence au cours de la dernière année pour mettre en œuvre de nouvelles idées, de nouveaux projets et de nouvelles approches avec pour objectif de maximiser les économies et de maintenir une attention particulière sur l'expérience du client.



Je suis heureux de signaler que les résultats pour l'exercice de 2016-2017 ont été positifs et que la Société manitobaine des alcools et des loteries a généré des profits de 586,1 millions de dollars pour la province du Manitoba.

Notre réussite peut être attribuée à un certain nombre de facteurs, dont l'un, mais non le moindre, est la saine gestion financière et le soutien de notre Conseil d'administration au cours de la dernière année. Il y a également eu un certain nombre de décisions de restructuration internes qui ont simplifié la présentation de rapports des secteurs fonctionnels en une équipe de haute direction réduite.

Donc, en remettant l'accent sur le rendement des affaires, les opérations de jeu, de divertissement et de vente de boissons alcoolisées, nous avons travaillé avec diligence au cours de la dernière année pour mettre en œuvre de nouvelles idées, de nouveaux projets et de nouvelles approches avec pour objectif de maximiser les économies et de maintenir une attention particulière sur l'expérience du client.

Ces efforts comprennent le rafraîchissement et la modernisation constants de nos milieux de magasinage Liquor Mart par l'intermédiaire de rénovations de magasins et de nouvelles constructions en plus de nouvelles économies au niveau de la chaîne d'approvisionnement qui ont apporté des améliorations importantes à nos processus d'entreposage et de livraison. Nos casinos ont également continué à offrir des options de divertissement et d'hospitalité exceptionnelles pour les clients, et je suis fier de signaler que le remodelage du Club Regent est virtuellement fini, ce qui offre aux Manitobains et aux visiteurs une expérience chic et contemporaine exceptionnelle. Les travaux

de construction pour rafraîchir l'intérieur et l'extérieur du McPhillips Station Casino ont commencé sérieusement au cours de l'exercice précédent et je ne doute pas que les résultats seront tout aussi impressionnants. Je remercie notre personnel qui a géré ces projets et ces améliorations de construction complexe ainsi que nos clients pour leur patience et leur patronage continu.

Je suis également heureux de signaler que les améliorations apportées au mélange des jeux et à la distribution des machines de notre réseau de loterie vidéo ont entraîné une augmentation des revenus au cours du dernier exercice. Notre plateforme de jeux PlayNow.com a également mené à une année de croissance positive, offrant à nos clients une suite complète d'expériences de jeux dans un environnement en ligne sécuritaire.

Comme toujours, la Société manitobaine des alcools et des loteries s'engage à encourager l'utilisation responsable socialement de nos produits et services afin d'assurer le bien-être de nos clients et de notre province. Nos principes et pratiques de responsabilité sociale profondément enracinés dans l'ensemble de notre organisation sont une priorité élevée pour les secteurs d'activités que sont la vente d'alcool et le jeu. Une réalisation importante est notre récente activité de l'accréditation de niveau 4 de la World Lottery Association; le processus rigoureux de vérification indépendante nous a positionnés parmi les meilleurs opérateurs de loterie et de jeux au monde.

Pour finir, je souhaite remercier mon équipe de la haute direction et le reste des employés dévoués de la Société pour une année réussie.

Peter Hak
Président directeur général



À PROPOS DE NOUS

La Société manitobaine des alcools et des loteries est une société d'État provinciale dont le mandat principal consiste à générer des recettes pour la province du Manitoba afin de soutenir des programmes et des initiatives provinciaux, comme les soins de santé, l'éducation, les services sociaux, le logement et l'infrastructure. Nous sommes responsables de la vente de boissons alcoolisées et d'offrir des expériences de jeu, le tout d'une façon socialement responsable. Nous nous efforçons de réduire les risques liés à nos produits et de collaborer avec nos clients et nos partenaires d'affaires afin d'inspirer des choix sains entourant les boissons alcoolisées et le jeu et de réaliser les nombreux avantages issus de la poursuite responsable de nos activités.

Nous exploitons tous les Magasins d'alcools et les Magasins d'alcools Express, le Club Regent Casino, le McPhillips Station Casino, les appareils de loterie vidéo et le site Web PlayNow.com. Nous distribuons et nous vendons des boissons alcoolisées et nous sommes le fournisseur exclusif de billets à languette et de cartes de bingo au Manitoba. En outre, nous distribuons et nous vendons des billets en partenariat avec la Société de la loterie Western Canada et la Société de la loterie interprovinciale (SLI).

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

The Management Discussion and Analysis reviews the consolidated financial results of the operations of Manitoba Liquor & Lotteries for the fiscal year ended March 31, 2017. This report should be read in conjunction with Manitoba Liquor & Lotteries' audited consolidated financial statements and accompanying notes.

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

OVERVIEW AND RESULTS OF OPERATIONS

In the 2016/17 year, Manitoba Liquor & Lotteries focused its strategies towards 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. Manitoba Liquor & Lotteries remains committed to exceeding customer expectations while supporting Manitoba's communities.

Liquor operations continued to focus on the customer experience in its stores. Several Liquor Mart renovation projects were ongoing in 2016/17, with an aim at providing customers a more convenient, modern shopping environment. Construction was also nearing completion on a new Liquor Mart location in the Bridgwater Forest area of Winnipeg, set to open in April 2017. Work continued to increase the efficiency and effectiveness of the distribution centre, with the strategic reorganization of the warehouse and the expansion of daily deliveries to Liquor Marts.

Gaming operations continued to enhance its offerings to match the changing needs of its customers. At Club Regent Casino, activities surrounding the modern makeover of the property continued to progress. Interior developments included an ice cream shoppe, renovated washrooms and a new bank area, while a refreshed façade and other site upgrades were added for visual effect and improved traffic flows. At McPhillips Station Casino construction projects were ramping up during the year with a design to improve the customer's total entertainment experience by providing a comfortable, contemporary environment. Video Lotto continued to enhance 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 with its offering of a full suite of online gaming products.

In the 2016/17 year, Manitoba Liquor & Lotteries' allocation to the Province of Manitoba was \$586.1 million, an increase of \$2.9 million or 0.5% when compared to the 2015/16 amount of \$583.2 million.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

	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	33,012	427,756
	220,681	396,166	1,096	315,097	933,040
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)	276,730	631,998
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	273,595	684,843
Allocations and payments	7,683	8,075	786	82,245	98,789
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 \$1,360.8 million increased \$33.4 million or 2.5% from the previous year's revenue of \$1,327.4 million. Casino revenues increased \$2.8 million over the prior year due to increased play on the PlayNow.com online gaming site and increased electronic gaming play at the casino properties. Liquor operations revenues increased \$17.9 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 \$12.8 million during 2016/17 as continued enhancements to game mix and prizes resulted in increased play.

Revenue, net of cost of sales of \$933.0 million increased \$20.5 million or 2.2% from \$912.5 million in 2015/16. Operating expenses of \$248.8 million were \$7.6 million or 3.2% greater than last year's \$241.2 million, and include employee and other costs directly related to the generation of liquor, gaming and entertainment revenues. The increase in operating expenses is primarily a result of increases in salaries and benefits as

negotiated under the various collective agreements and increased staffing, rent and maintenance requirements to support the expanded Liquor Mart retail network. The majority of other operating expenses were carefully managed to maintain levels consistent with the prior year.

Depreciation and amortization of \$49.3 million in the 2016/17 year decreased \$1.5 million or 3.0% from the \$50.8 million recorded in 2015/16. During the year, Manitoba Liquor & Lotteries 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 and Liquor Mart Express locations.

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

	2016 (in thousands)				
	Casinos	Liquor Operations	Lottery	Video Lotto	Total
Revenue	\$ 234,312	\$ 755,392	\$ 2,369	\$ 335,279	\$ 1,327,352
Cost of sales	15,634	365,597	1,182	32,477	414,890
	218,678	389,795	1,187	302,802	912,462
Operating expenses	117,430	99,713	6,283	17,784	241,210
Depreciation and amortization	23,144	6,419	-	21,197	50,760
Goods and Services Tax	997	-	82	2,647	3,726
	141,571	106,132	6,365	41,628	295,696
Operating Income	77,107	283,663	(5,178)	261,174	616,766
Share of profit of Western Canada Lottery Corporation	1,065	-	68,201	-	69,266
Interest expense on long-term debt	(7,388)	(168)	(141)	(3,722)	(11,419)
Interest income	386	51	9	444	890
Income Before Allocations and Payments	71,170	283,546	62,891	257,896	675,503
Allocations and payments	7,429	8,873	837	75,193	92,332
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	\$ 63,741	\$ 274,673	\$ 62,054	\$ 182,703	\$ 583,171

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

CASINOS

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

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

Casino operations, which include the results of online gaming, generated revenues of \$237.1 million during the year, an increase

of \$2.8 million or 1.2% from the revenues of \$234.3 million in 2015/16.

Casino comprehensive income of \$65.5 million in 2016/17 increased from last year's comprehensive income of \$63.7 million by \$1.8 million or 2.8%. Increased play on the PlayNow.com online gaming site and increased electronic gaming play at the casino properties both contributed to this growth. Manitoba Liquor & Lotteries 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. Of particular note in the 2016/17 year was the introduction at both casinos and on PlayNow.com of a multi-jurisdictional slots game with a progressive jackpot that offers players a chance at a bonus prize starting at \$1 million. Additionally, in response to customer feedback, the casino properties began offering extended weekend hours in the latter part of the year. These enhanced offerings were very well received by patrons.



Payout Percentage Based on Dollars Won and Played (in millions)

Casinos

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

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

LIQUOR OPERATIONS

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

Liquor operations generated revenues of \$773.3 million during the year, an increase of \$17.9 million or 2.4% from the revenues of \$755.4 million of the previous year.

During the 2016/17 year, liquor sales (both in dollars and in volume) and 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, most notably in spirits. The beer category saw an increase in dollar sales, but gross profit and litre sales both decreased slightly compared to the prior year. The Manitoba beer landscape continues to change with the growth in popularity of craft-style, single serve beers.

Liquor operations comprehensive income of \$274.4 million decreased from the previous year's comprehensive income of \$274.7 million by \$0.3 million or 0.1%. Increased operating expenses include costs to support Liquor Mart and Liquor Mart Express development and renovation, consistent with Manitoba Liquor & Lotteries' commitment to providing customers a convenient and modern shopping experience. As well, supply chain enhancements such as the expansion of delivery service and additional warehouse shifts were introduced in the 2016/17 year in response to the increased liquor operations sales activity.

Volume Sales (in millions of litres)

	Volume Sales (in millions of litres)			
	Beer	Refreshment Beverages	Spirits	Wine
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
2013	80.9	3.4	7.1	10.4



MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

	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

	2016 (in thousands)									
	Beer		Refreshment Beverages		Spirits	Wine	Total			
Stores	\$	69,619	\$	19,073	\$	178,359	\$	124,841	\$	391,892
Liquor Vendors		10,317		4,611		36,054		11,567		62,549
Licensees		246,338		10,151		20,541		4,749		281,779
Specialty Wine Stores		-		40		40		16,582		16,662
Total Sales		326,274		33,875		234,994		157,739		752,882
Cost of Sales		186,201		16,175		89,216		73,641		365,233
Gross Profit	\$	140,073	\$	17,700	\$	145,778	\$	84,098	\$	387,649

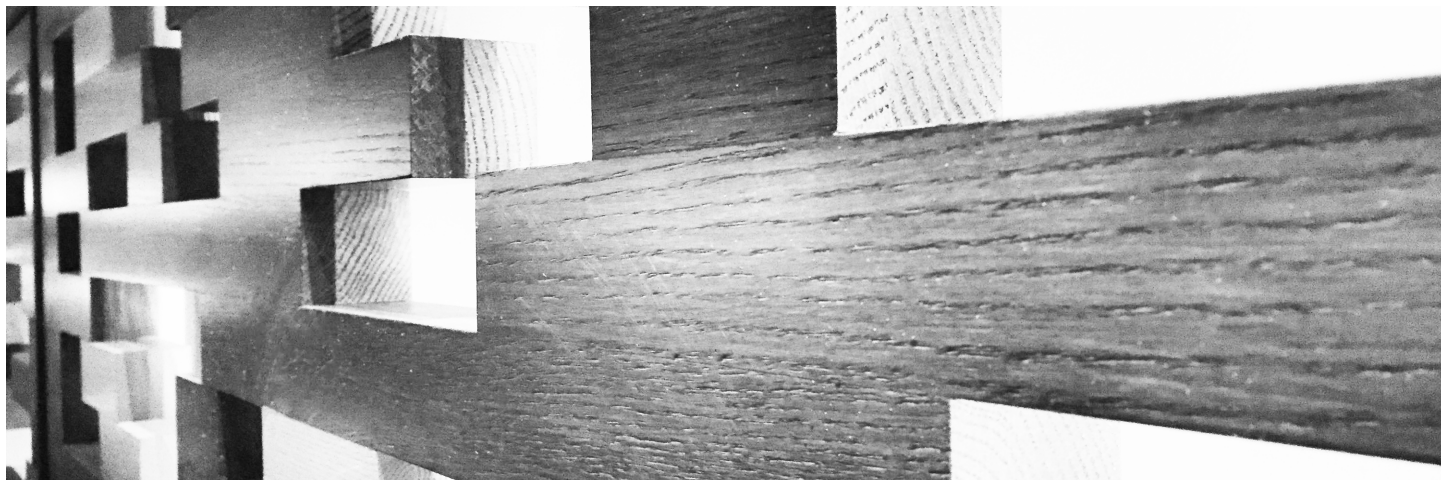
LOTTERY

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

In the 2016/17 year, Manitoba Liquor & Lotteries' share of the profit of WCLC of \$62.6 million decreased from the previous year's share of the profit of WCLC of \$69.3 million by \$6.7 million or 9.7%. Lottery comprehensive income of \$54.9 million decreased from the previous year's comprehensive income of \$62.1 million by \$7.2 million or 11.6%. The 2016/17 year saw a return to normal sales levels as compared to the record levels experienced in the prior year, predominantly in LOTTO MAX which experienced an unprecedented number of jackpot rolls in the prior year. Two new national games, DAILY GRAND and POKER LOTTO, were introduced in 2016/17 and have served to somewhat offset the decline in sales for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017



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, First Nations communities and Assiniboia Downs. The operation of VLTs contributed 32.7% of Manitoba Liquor & Lotteries' net income and provided annual commissions and contributions of \$112.6 million to all VLT siteholders who operate equipment on their premises.

Video Lotto operations generated revenue of \$348.1 million in the year, an increase of \$12.8 million or 3.8% from the revenue

of \$335.3 million in 2015/16. Video Lotto comprehensive income of \$191.4 million increased \$8.7 million or 4.8% from the comprehensive income of \$182.7 million in the previous year. A new VLT game was introduced in the 2016/17 year featuring a chance at higher jackpot prize levels. The game, which quickly became a customer favourite, along with continued refinement of the machine distribution on the VLT network both contributed to the increased revenues experienced in the year.

Payout Percentage Based on Dollars Won and Played (in millions)

Video Lotto

Dollars Deposited	\$	1,669	
Dollars Played			\$ 4,891
Dollars Won			\$ 4,547
Dollars Cashed Out	\$	1,325	
Revenue	\$	344	\$ 344
Dollars Won (Prizes)	\$	4,547	
Dollars Played	\$	4,891	93.0%

VLT Commissions & Contributions (in millions)

	First Nations	City Siteholders	Rural Siteholders	Total
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
2013	43.5	35.9	22.6	102.0

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

FIRST NATIONS CASINOS AND SHARK CLUB GAMING CENTRE

Manitoba Liquor & Lotteries 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 Manitoba Liquor & Lotteries and are recovered over a five year term.

During the 2016/17 year, Manitoba Liquor & Lotteries purchased gaming equipment in the amount of \$4.2 million for the continuation of South Beach Casino's gaming floor refresh

project. Aseneskak Casino commenced a gaming floor refresh project and initiated an upgrade to their casino management system for which Manitoba Liquor & Lotteries provided assistance and capital financing in the amount of \$1.0 million. No purchases of gaming equipment were required by Sand Hills Casino in the 2016/17 year.

No purchases of gaming equipment were required by Shark Club Gaming Centre in the 2016/17 year.

MLC HOLDINGS INC.

Manitoba Liquor & Lotteries' consolidated financial statements include the results of MLC Holdings Inc., a controlled entity established to purchase certain capital assets for lease to Manitoba Liquor & Lotteries at cost. The management and oversight of MLC Holdings Inc. is consolidated within Manitoba Liquor

& Lotteries' operations and the Board reviews and approves capital purchases through the annual business planning and budget process. To support Manitoba Liquor & Lotteries capital initiatives in the 2016/17 year, MLC Holdings Inc. acquired \$64.8 million in capital assets for lease to Manitoba Liquor & Lotteries.



MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

LIQUIDITY AND CAPITAL RESOURCES

Operating activities during the 2016/17 year provided Manitoba Liquor & Lotteries with \$630.4 million in cash flows compared to \$633.2 million in the previous year, a decrease of \$2.8 million or 0.4%.

Manitoba Liquor & Lotteries 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 totaled \$68.7 million as compared to the \$66.2 million spent in the previous year. In addition to the regular process of upgrading existing equipment, facilities and technology to support ongoing operations, the 2016/17 year saw continued investment associated with casino renewal construction projects as well as the construction of new, and renovations of existing, Liquor Mart and Liquor Mart Express locations.

Manitoba Liquor & Lotteries finances capital expenditures through a combination of working capital and long-term debt. All long-term debt is payable to the Province of Manitoba at rates established by the Minister of Finance at the time of issue. Borrowing is authorized under *The Manitoba Liquor and Lotteries Corporation Act* and *The Loan Act*.

Manitoba Liquor & Lotteries submits annual requests for necessary borrowing authority under *The Loan Act* to fund new capital projects related to its operations, as well as to provide funding to acquire capital assets related to the conduct and management agreements with the First Nations Casinos. Debt service costs on advances drawn to purchase gaming equipment for the First Nations Casinos are fully recovered over a five year term, consistent with the recovery of the capital costs of the gaming equipment purchased.

In the 2016/17 year, total proceeds of long-term debt received were \$60.2 million as compared to the \$69.3 million of proceeds received in the previous year. Of the total proceeds received, \$5.2 million was received to purchase gaming equipment for the First Nations Casinos as compared to \$0.8 million in the previous year. All long-term debt has fixed interest rates and is repayable in monthly installments.

Cash distributions to the Province of Manitoba during the current year resulted in a cash outflow of \$578.0 million compared to the previous year's \$597.5 million.



MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

COMMUNITY SUPPORT & CORPORATE IMPACT

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

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

Community Support

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

The program provides assistance to approximately 700 non-profit and charitable organizations in a variety of ways including sponsorships, bingo volunteer program funding, charitable donations and through the volunteer efforts of Manitoba Liquor & Lotteries employees, alumni, family and friends. The Community Relations team spearheads these initiatives, and works collaboratively with internal and external partners.

In the 2016/17 year, Manitoba Liquor & Lotteries spent \$10.6 million on these community support initiatives, which is consistent with the amount spent in the prior year.

First Nations

Manitoba Liquor & Lotteries provides support to First Nations communities through VLT commissions earned and allocations of VLT revenue. First Nations VLT siteholders retain 90% of net win from the VLTs. Of that 90%, 5% represents the actual service component provided to Manitoba Liquor & Lotteries for hosting the terminals and the other 85% is provided as a contribution to promote sustainable social and economic benefits and opportunities within First Nations communities. In the 2016/17 year, this resulted in \$58.6 million in commissions and contributions paid to First Nations siteholders, an increase of \$7.1 million or 13.8% over the \$51.5 million paid in the prior year.

Partner Support

Manitoba Liquor & Lotteries provides support to the Manitoba hotel and restaurant industry through VLT commissions and contributions and various hotel beer vendor programs and initiatives. This support totaled \$99.1 million in the 2016/17 year, which is consistent with the \$99.0 million of support provided in the prior year.

Licensed beverage room VLT siteholders operate under a tiered structure whereby they retain between 17.5% and 22.0% of the net win from VLTs. Of this amount, 10% represents the actual service component provided by the siteholders to Manitoba Liquor &

Community Support (in thousands)	2017	2016
Bingo volunteer program	\$ 3,899	\$ 3,875
Community support program	4,443	4,158
Operating and other funding	2,306	2,632
	\$ 10,648	\$ 10,665



MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

Lotteries for hosting the terminals and the other 7.5% to 12% is provided as a contribution to promote tourism in the province. In the 2016/17 year, this support totaled \$51.1 million, an increase of \$0.4 million or 0.8% over the \$50.7 million paid in 2015/16.

Hotel beer vendors earn a margin on the sale of beer for off-premises consumption as well as receiving a handling fee to collect empty beer containers from public consumers. Tiered sales discounts are also provided to assist beer vendors who are experiencing low sales volumes. These measures resulted in \$47.9 million of support being provided to hotel beer vendors in the 2016/17 year, a decrease of \$0.3 million or 0.6% over the \$48.2 million paid in the prior year.

Manitoba Liquor & Lotteries has a number of partnerships enabling retailers and organizations to offer their customers gaming and liquor products which help support their operations. Privately owned specialty wine stores and rural liquor vendors earn a margin on the products they sell and veterans organizations retain a portion of the net win from the VLTs in their locations. The VLTs located at the Assiniboia Downs operate under the same tiered structure as licensed beverage room VLT siteholders and the contribution provided is to assist the horse racing industry in Manitoba. As well, over 900 lottery retailers receive tiered commissions ranging from 5% to 8.5% of their total lottery ticket sales.

In 2016/17, this represented a contribution of \$39.2 million in not-for-profit and private industry support, a decrease of \$1.4 million or 3.4% from the \$40.6 million provided in the prior year.

Social Responsibility

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

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

Of the 2016/17 committed amount, \$2.1 million was unspent and carried forward, reserved for social responsibility initiatives in the 2017/18 year.

DrinkSense.ca
With Child Without Alcohol



Social Responsibility (in thousands)	2017	2016
Funding support	\$ 8,237	\$ 8,256
Internal research and program evaluation	780	1,101
Operating and consumer awareness	2,088	1,815
Prior year funding spent in current year	(1,347)	(869)
Funding carried forward to future years	2,106	1,347
	\$ 11,864	\$ 11,650

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

RISK MANAGEMENT

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

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

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

Strategic Risks

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

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

Operations Risks

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

Manitoba Liquor & Lotteries has established appropriate functional areas and developed processes to effectively provide, promote and deliver products and services to customers; recruit, develop and retain resources to meet current and future operational needs; manage hazards; and manage information technology operations in order to achieve its goals and objectives.

Management regularly reviews and assesses the amount of risk present in operating units, large scale projects, and specific business processes and develops action plans to support continuous improvement.

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

Financial Risks

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

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

Governance & Compliance Risks

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

CORPORATE GOVERNANCE

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Prior to April 1, 2014, it was necessary to maintain two separate reportable entities with separate financial reporting processes. The process to amalgamate financial controls is ongoing. The most practical and efficient method to document and assess internal control design and operating effectiveness is to wait until full common amalgamated processes have been achieved. The corporation is taking a period of time to incorporate the controls of the Manitoba Liquor Control Commission (MLCC) into the evaluation of internal controls over financial reporting and will begin to disclose a full CEO/CFO certification for Manitoba Liquor & Lotteries beginning in 2017/18.

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, 2017, the internal controls over financial reporting over processes original to Manitoba Lotteries are adequately designed and effective for providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Based on a strong financial internal control environment, internal and external audit work performed, the CEO and CFO are not aware of any internal control weaknesses of a material nature within processes original to the MLCC.

As well, the CEO and CFO, together with management, have concluded that the disclosure controls and procedures are adequately designed and effective for providing reasonable assurance that material information relating to the corporation would have been made known to them as at March 31, 2017.

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

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2017

WHISTLEBLOWER REPORT

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

A disclosure of alleged wrongdoing was submitted to the designated officer during the 2016/17 year and an investigation commenced. The investigation concluded that the allegations of wrongdoing were unfounded.

FUTURE OUTLOOK

Manitoba Liquor & Lotteries' allocation to the Province of Manitoba is forecast to be \$592.0 million in the 2017/18 year, an increase of \$5.9 million or 1.0% as compared to the \$586.1 million allocation to the Province of Manitoba in the 2016/17 year.

Planned initiatives for Manitoba Liquor & Lotteries address revenue trends and reflect strategic priorities. To ensure the long-term sustainability of revenues and income streams; continued reinvestment in facilities, retail locations, gaming and non-gaming amenities at the casinos, and new technology is essential. This is demonstrated by the investment in initiatives to support operations that occurred in the 2016/17 year and which will continue in the 2017/18 year.

Investment in gaming initiatives include the continued enhancement of the VLT and PlayNow.com experiences through the release of fresh, new games as well as construction activities at both casino properties to provide customers with a modern and relevant gaming experience. The 2017/18 year will see continued work at McPhillips Station Casino, including the refresh of the casino's exterior façade and a two-level front addition which will connect to the parkade. The new addition will feature gaming space on the first floor to reduce congestion in the casino, while the second floor will include expanded banquet facilities and additional customer amenities. Meanwhile, the renewal program at Club Regent Casino is expected to be completed with the addition of a new central bar as well as the opening of a parkade providing convenient access to both the casino and hotel. Manitoba Liquor & Lotteries will also continue to introduce

exciting gaming options to the casino customers through replacement of aging slot machines with a variety of new leased, purchased and networked games and by introducing new table games where appropriate.

Liquor Mart and Liquor Mart Express store development activities will continue in the 2017/18 year through the investment into additional or expanded retail locations. Certain Liquor Marts slated for renovations will also act as pilot locations for new modular shelving systems. These modern systems will provide for greater flexibility with in-store merchandising while also enhancing the customer experience. Additionally, the point-of-sale system used in the stores will be upgraded to remain in compliance with payment card industry standards, while also enabling future implementation of mobile payments and other advanced features. Implementation will also commence 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. As Canada celebrates its 150th birthday, Manitoba Liquor & Lotteries will continue to focus on increasing customer awareness and growing 100% Canadian wine sales through its Celebrating Wines of Canada program.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2017



RAPPORT DE LA DIRECTION

Les états financiers consolidés ci joints relèvent de la direction et ont été préparés conformément aux méthodes comptables qui y sont énoncées. La direction a préparé les états financiers consolidés conformément aux Normes internationales d'information financière. De l'avis de la direction, les états financiers consolidés ont été établis en bonne et due forme, en tenant compte des limites raisonnables de l'importance relative, et incorporent l'ensemble des estimations nécessaires, fondées sur le meilleur jugement de la direction et les autres données disponibles. Sauf indication contraire, l'information financière présentée ailleurs dans le rapport annuel est cohérente avec celle des états financiers consolidés.

La direction est responsable de l'établissement et du maintien des contrôles et des procédures de communication de l'information, et du contrôle interne à l'égard de l'information financière de la Société manitobaine des alcools et des loteries. La direction a conçu ce contrôle interne, ou a demandé son élaboration sous sa supervision, afin de fournir une assurance raisonnable concernant la fiabilité de l'information financière et la préparation des états financiers à des fins externes conformément aux Normes internationales d'information financière.

La direction maintient un contrôle interne pour donner une assurance raisonnable de la fiabilité et de l'exactitude de l'information financière et pour protéger adéquatement les actifs de la Société manitobaine des alcools et des loteries. Le cabinet Ernst & Young s.r.l./S.E.N.C.R.L. a examiné, dans le cadre de l'audit des états financiers, le contrôle interne de la Société manitobaine des alcools et des loteries dans la mesure où il le jugeait nécessaire et a communiqué ses constatations à la direction et au conseil d'administration.

La responsabilité d'Ernst & Young s.r.l./S.E.N.C.R.L. est d'indiquer, en toute indépendance, si les états financiers consolidés sont présentés fidèlement et conformément aux Normes internationales d'information financière. Le rapport des auditeurs indépendants décrit la portée de l'audit et inclut l'opinion des auditeurs.

Le conseil rencontre la direction et Ernst & Young s.r.l./S.E.N.C.R.L. pour s'assurer que chaque groupe s'est acquitté adéquatement de ses responsabilités respectives et pour examiner les états financiers consolidés avant de les approuver. Le conseil d'administration a examiné et approuvé les états financiers consolidés de l'exercice clos le 31 mars 2017.

Original signé par :
Peter Hak
Président directeur général

Original signé par :
Heather Mitchell
Dirigeante principale des finances

RAPPORT DE L'AUDITEUR INDÉPENDANT

Au conseil d'administration de
la Société manitobaine des alcools et des loteries

Nous avons effectué l'audit des états financiers ci-joints de la Société manitobaine des alcools et des loteries, qui comprennent le bilan au 31 mars 2017, et les états des résultats d'exploitation et du résultat étendu, des variations de l'avoir et des mouvements de trésorerie, ainsi qu'un sommaire des principales conventions comptables et d'autres informations explicatives.

Responsabilité de la direction pour les états financiers consolidés

La direction est responsable de la préparation et de la présentation fidèle de ces états financiers consolidés conformément aux Normes internationales d'information financière, ainsi que du contrôle interne qu'elle considère comme nécessaire pour permettre la préparation d'états financiers consolidés exempts d'anomalies significatives, que celles-ci résultent de fraudes ou d'erreurs.

Responsabilité de l'auditeur

Notre responsabilité consiste à exprimer une opinion sur ces états financiers consolidés en nous fondant sur notre audit. Nous avons mené notre vérification selon les normes comptables généralement reconnues du Canada. Ces normes nous exigent d'observer les exigences en matière d'éthique et de planifier et de mener la vérification afin d'obtenir une assurance raisonnable que les états financiers consolidés sont exempts d'inexactitudes importantes.

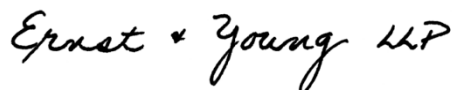
Un audit implique la mise en œuvre de procédures afin d'obtenir des preuves de vérification sur les montants et les divulgations indiqués dans les états financiers consolidés. Les procédures

retenues dépendent du jugement du vérificateur, y compris l'évaluation des risques d'inexactitudes importantes dans les états financiers consolidés, qu'elles soient attribuables à une fraude ou à une erreur. Au moment de mener ces évaluations du risque, les vérificateurs tiennent compte du contrôle interne de l'entité propre à la préparation et à la présentation juste des états financiers consolidés, afin d'élaborer des procédures de vérification appropriées selon les circonstances, mais non pour exprimer une opinion sur l'efficacité du contrôle interne de l'organisme. Un audit comprend également l'évaluation de la pertinence des politiques comptables utilisées et du caractère raisonnable des estimations comptables effectuées par la direction, ainsi que l'évaluation de la présentation générale des états financiers consolidés.

Nous croyons que les preuves de vérification que nous avons obtenues sont suffisantes et appropriées pour servir de fondement à notre opinion d'audit.

Opinion

À notre avis, les états financiers donnent, dans tous leurs aspects significatifs, une image fidèle de la situation financière de la Société manitobaine des alcools et des loteries au 31 mars 2017, ainsi que de sa performance financière et de ses flux de trésorerie pour l'exercice clos à cette date, conformément aux Normes internationales d'information financière.



Comptables professionnels agréés
Winnipeg, Canada
Le 23 juin 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31 (IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	2017	2016
Assets			
CURRENT ASSETS			
Cash		\$ 33,168	\$ 38,053
Trade and other receivables	5	50,305	45,922
Inventories	6	51,600	49,870
Prepayments	7	5,190	5,235
Assets held for sale, net	8	8,887	-
		149,150	139,080
NON-CURRENT ASSETS			
Property and equipment, net	8	394,888	385,604
Intangible assets, net	9	11,610	14,760
		406,498	400,364
TOTAL ASSETS		\$ 555,648	\$ 539,444
Liabilities and Equity			
CURRENT LIABILITIES			
Trade and other payables	10	\$ 106,324	\$ 109,519
Payable to the Province of Manitoba		63,725	55,671
Current portion of long-term debt	11	52,610	48,286
		222,659	213,476
NON-CURRENT LIABILITIES			
Long-term debt	11	327,989	320,968
Commitments and contingencies	15		
EQUITY			
Retained Earnings		5,000	5,000
TOTAL LIABILITIES AND EQUITY		\$ 555,648	\$ 539,444

(see accompanying notes to the consolidated financial statements)

On behalf of the Board

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

Original signed by
Gary Timlick
 Director & Chair of the Audit & Finance Committee

CONSOLIDATED STATEMENT OF NET INCOME, COMPREHENSIVE INCOME AND EQUITY

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

	Notes	2017	2016
REVENUE	12	\$ 1,360,796	\$ 1,327,352
COST OF SALES	12	427,756	414,890
		933,040	912,462
Operating expenses	12	248,780	241,210
Depreciation and amortization		49,289	50,760
Goods and Services Tax		2,973	3,726
		301,042	295,696
OPERATING INCOME		631,998	616,766
Share of profit of Western Canada Lottery Corporation	13	62,572	69,266
Interest expense on long-term debt		(10,636)	(11,419)
Interest income		909	890
INCOME BEFORE ALLOCATIONS AND PAYMENTS		684,843	675,503
Allocations and payments	14	98,789	92,332
NET INCOME AND COMPREHENSIVE INCOME		586,054	583,171
EQUITY, BEGINNING OF THE YEAR		5,000	5,000
Allocation to the Province of Manitoba		(586,054)	(583,171)
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)

	2017	2016
OPERATING ACTIVITIES		
Net income and comprehensive income	\$ 586,054	\$ 583,171
Add (deduct) items not involving cash:		
Depreciation related to property and equipment	44,641	45,569
Depreciation on assets related to Conduct and Management agreements	4,755	4,138
Amortization related to intangible assets	4,648	5,191
Loss (gain) on disposal of property and equipment	(397)	2,389
	639,701	640,458
Net change in non-cash working capital items:		
Decrease (increase) in trade and other receivables	(4,383)	5,870
Decrease (increase) in inventories	(1,730)	112
Decrease (increase) in prepayments	45	(700)
Decrease in trade and other payables	(3,195)	(12,586)
CASH PROVIDED BY OPERATING ACTIVITIES	630,438	633,154
INVESTING ACTIVITIES		
Purchase of property and equipment	(67,595)	(62,807)
Purchase of intangible assets	(1,498)	(3,494)
Proceeds from disposal of property and equipment	425	63
CASH USED IN INVESTING ACTIVITIES	(68,668)	(66,238)
FINANCING ACTIVITIES		
Cash distributions to the Province of Manitoba:		
Current year	(578,000)	(592,500)
Prior year	-	(4,978)
Proceeds from long-term debt	60,211	69,300
Repayment of long-term debt	(48,866)	(42,133)
CASH USED IN FINANCING ACTIVITIES	(566,655)	(570,311)
NET DECREASE IN CASH DURING THE YEAR	(4,885)	(3,395)
CASH, BEGINNING OF THE YEAR	38,053	41,448
CASH, END OF THE YEAR	\$ 33,168	\$ 38,053
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 11,700	\$ 11,566

(see accompanying notes to the consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

1. BACKGROUND

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The consolidated financial statements of Manitoba Liquor & Lotteries for the year ended March 31, 2017 were authorized for issue by the Board of Directors on June 23, 2017.

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

(b) STATEMENT OF COMPLIANCE

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

(c) BASIS OF CONSOLIDATION

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

MLC Holdings Inc. has been fully consolidated since the date of inception and will continue to be consolidated until the date when control ceases. The financial statements of MLC Holdings Inc. are prepared for the same reporting period as Manitoba Liquor & Lotteries using consistent accounting policies.

All intercompany transactions and accounts have been eliminated on consolidation.

(d) WESTERN CANADA LOTTERY CORPORATION

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

Manitoba Liquor & Lotteries has significant influence, but not control, over the financial and operating policies of the WCLC and therefore accounts for its share of the results of the operations of the WCLC (considered an associate) using the equity method. The financial statements of the WCLC are prepared for the same reporting period and Manitoba Liquor & Lotteries' share of the profits calculated based on relative sales levels by jurisdiction is disclosed in note 13.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

(e) FIRST NATIONS CASINOS AND SHARK CLUB GAMING CENTRE

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

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

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

(f) FOREIGN CURRENCY TRANSLATION

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

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

the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date the fair value is determined.

(g) FINANCIAL INSTRUMENTS

Financial instruments are recognized in the statement of financial position when Manitoba Liquor & Lotteries becomes a party to the contractual terms of the instrument, which represents its trade date. Upon initial recognition Manitoba Liquor & Lotteries designates its financial assets as fair value through profit and loss or loans and receivables and its financial liabilities as other financial liabilities. All financial instruments are initially measured at fair value plus directly attributable transaction costs.

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

(i) Fair value through profit and loss

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

(ii) Loans and receivables

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

(iii) Other financial liabilities

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

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

(h) PROPERTY AND EQUIPMENT

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

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

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

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

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

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

(i) LEASES

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

(j) INTANGIBLE ASSETS

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

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

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

(k) INVENTORIES

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

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

(l) IMPAIRMENT

(i) Financial assets

Manitoba Liquor & Lotteries assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have occurred after initial recognition that have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets

are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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

(ii) Non-financial assets

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

(m) PROVISIONS

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

(n) PENSION PLANS

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

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.

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

(o) REVENUE RECOGNITION

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

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

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

(p) PROMOTIONAL ALLOWANCES

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

(q) GOODS AND SERVICES TAX

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

Manitoba Liquor & Lotteries collects GST on liquor sales, and 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 following criteria are met: Manitoba Liquor & Lotteries 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, Manitoba Liquor & Lotteries chose to adopt the following standard:

(i) IAS 1 – *Presentation of Financial Statements* was amended in December 2014 as part of the IASB's major initiative to improve presentation and disclosure in financial reports (the Disclosure Initiative). The amendments were effective for annual periods beginning on or after January 1, 2016. The adoption of the amendments to IAS 1 did not have any impact on Manitoba Liquor & Lotteries' consolidated financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

(a) DETERMINATION OF USEFUL LIVES FOR TANGIBLE AND INTANGIBLE ASSETS

Manitoba Liquor & Lotteries has based the determination of the useful lives of tangible and intangible assets on a detailed review of all empirical data for the different asset classes. Manitoba Liquor & Lotteries annually reviews the validity of the useful lives applied to the different asset classes based on current

circumstances and considers the impact of any external or internal changes in Manitoba Liquor & Lotteries' environment which may indicate the requirement to reconsider these useful lives.

(b) LOYALTY POINTS PROGRAM

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

The future redemption liability of \$3,580 (2016 – \$3,541) is included in trade and other payables and is based on an assessment of anticipated point redemptions and point value. Manitoba Liquor & Lotteries adjusts the estimated liability based on redemption experience and additional points earned and any adjustments will be recorded in the consolidated statement of net income, comprehensive income and equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

5. TRADE AND OTHER RECEIVABLES

	2017	2016
Trade	\$ 43,161	\$ 40,274
Goods and Services Tax	4,912	4,169
Western Canada Lottery Corporation	2,232	1,479
	\$ 50,305	\$ 45,922

Manitoba Liquor & Lotteries' exposure to credit risk related to trade and other receivables is disclosed in note 16 (d).

6. INVENTORIES

	2017	2016
Warehouse	\$ 34,465	\$ 33,301
Retail locations	16,817	16,398
Consumable supplies	318	171
	\$ 51,600	\$ 49,870

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is approximately \$4,865 at the end of the 2017 fiscal year (2016 – \$4,501).

7. PREPAYMENTS

	2017	2016
Maintenance contracts	\$ 2,846	\$ 2,824
Rent	960	963
Deposits and other	1,037	1,113
Insurance	347	335
	\$ 5,190	\$ 5,235

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

8. PROPERTY AND EQUIPMENT

	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
COST								
April 1, 2015	\$ 25,427	\$ 280,286	\$ 24,601	\$ 204,318	\$ 138,572	\$ 33,697	\$ 37,984	\$ 744,885
Additions	845	9,811	2,797	23,032	6,099	329	19,894	62,807
Transfers from WIP	-	3,313	76	5,884	3,010	1,091	(13,374)	-
Disposals	-	(64)	(2,446)	(16,050)	(13,897)	(172)	-	(32,629)
March 31, 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
DEPRECIATION								
April 1, 2015	\$ -	\$ 112,634	\$ 11,031	\$ 116,465	\$ 109,801	\$ 19,998	\$ -	\$ 369,929
Depreciation	-	8,963	2,308	24,256	10,042	4,138	-	49,707
Disposals	-	(64)	(2,446)	(13,599)	(13,896)	(172)	-	(30,177)
March 31, 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
NET BOOK VALUE								
March 31, 2017	\$ 25,427	\$ 167,235	\$ 11,995	\$ 73,861	\$ 25,065	\$ 11,412	\$ 79,893	\$ 394,888
March 31, 2016	26,272	171,813	14,135	90,062	27,837	10,981	44,504	385,604

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.

At the end of the 2017 fiscal year, assets held for sale relate to the land, building, and parkade at 233 Kennedy Street and 218 Edmonton Street in Winnipeg, Manitoba, which were offered for sale in January 2017. The assets held for sale are presented at their carrying amount in the consolidated statement of financial

position. The sale was completed during the 2018 fiscal year and is disclosed in note 19.

The amount of borrowing costs capitalized during the 2017 fiscal year was \$1,062 (2016 – \$143). The rate used to determine the amount of borrowing costs eligible for capitalization was 1.950%, the effective interest rate of the specific borrowing.

The net book value of buildings and parking lots held under finance leases at the end of the 2017 fiscal year is \$3,076 (2016 – \$3,355) and consists of land being used for parking facilities at the McPhillips Station Casino and the Video Lotto office building located in Morris, Manitoba.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

9. INTANGIBLE ASSETS

Computer software - acquired	
COST	
April 1, 2015	\$ 42,250
Additions	3,494
Disposals	(756)
March 31, 2016	44,988
Additions	1,498
Disposals	(197)
March 31, 2017	\$ 46,289
AMORTIZATION	
April 1, 2015	\$ 25,793
Amortization	5,191
Disposals	(756)
March 31, 2016	30,228
Amortization	4,648
Disposals	(197)
March 31, 2017	\$ 34,679
NET BOOK VALUE	
March 31, 2017	\$ 11,610
March 31, 2016	14,760

10. TRADE AND OTHER PAYABLES

	2017	2016
Trade	\$ 69,540	\$ 71,015
Employee benefits	30,987	32,124
Province of Manitoba taxes	2,807	3,726
Jackpot liability	2,990	2,654
	\$ 106,324	\$ 109,519

11. LONG-TERM DEBT

	2017	2016
Province of Manitoba, bearing interest at rates ranging from 1.750% to 5.050%, repayable in monthly principal installments ranging from \$6 to \$685 plus interest with maturity dates ranging from August 31, 2016 to November 30, 2035.	\$ 380,599	\$ 369,213
Finance lease obligation to the Province of Manitoba, with a 7.630% implicit interest rate and annual minimum lease payments of \$64 until January 1, 2017.	-	41
	380,599	369,254
Less current portion of long-term debt	52,610	48,286
	\$ 327,989	\$ 320,968

All long-term debt is unsecured and the fair market value at March 31, 2017 is \$389,041.

Manitoba Liquor & Lotteries' exposure to liquidity risk related to long-term debt is disclosed in note 16 (c).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

12. REVENUE, COST OF SALES AND EXPENSES BY NATURE

Manitoba Liquor & Lotteries' revenue consists of the following:

	2017	2016
Liquor sales	\$ 770,054	\$ 752,882
VLT	344,037	334,606
Casino and online gaming	218,044	217,278
Non-gaming revenue	28,661	22,586
	\$ 1,360,796	\$ 1,327,352

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

	2017	2016
Liquor cost of sales	\$ 376,765	\$ 365,233
VLT commissions	33,013	32,477
Gaming direct expenses	9,561	9,203
Non-gaming cost of sales	8,417	7,977
	\$ 427,756	\$ 414,890

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

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

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

	2017	2016
Employee benefits	\$ 166,916	\$ 159,855
Bank charges	3,574	3,430
Community support	4,443	4,158
Consultant and professional fees	3,891	4,157
Freight and delivery	3,726	3,430
Grants in lieu of taxes	6,277	6,345
Maintenance	22,621	23,767
Marketing and public awareness	11,817	11,730
Rents	9,164	7,808
Sundry	1,836	2,642
Supplies and equipment	5,079	4,969
Telecommunications	3,994	3,624
Transportation and vehicles	1,546	1,587
Utilities	3,896	3,708
	\$ 248,780	\$ 241,210

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

13. SHARE OF PROFIT OF WCLC

	2017	2016
Revenue	\$ 228,978	\$ 248,698
Prizes, commissions and other cost of sales	159,331	172,783
WCLC partner equalization	4,701	4,372
Payment to Government of Canada	2,374	2,277
Profit	\$ 62,572	\$ 69,266

The WCLC earned revenue in the 2017 fiscal year in the amount of \$1,330,359 (2016 – \$1,480,442), of which Manitoba Liquor & Lotteries' share calculated based on relative sales levels by jurisdiction is 17% (2016 – 17%). The WCLC's total profit for the 2017 fiscal year was \$454,821 (2016 – \$506,582) of which Manitoba Liquor & Lotteries' share is 14% (2016 – 14%).

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

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

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

14. ALLOCATIONS AND PAYMENTS

	2017	2016
LGA funding and Crown Corporations Council levy	\$ 4,713	\$ 5,218
First Nations allocation	55,306	48,627
Tourism contribution	24,253	24,016
Social responsibility funding	9,776	9,834
Casino bingo volunteer program and other community funding	4,741	4,637
	\$ 98,789	\$ 92,332

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

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

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

15.COMMITMENTS AND CONTINGENCIES

(a) LEASE OBLIGATIONS

Manitoba Liquor & Lotteries has entered into commercial leases on certain buildings and parking lots which have an average remaining term of 1 to 17 years. In addition, Manitoba Liquor & Lotteries has entered into commercial leases on certain motor vehicles which have a remaining term ranging between 1 to 2 years. The future minimum rental payments relating to operating leases are as follows:

2018	\$ 7,984
2019	7,291
2020	6,722
2021	6,146
2022	5,563
Subsequent years	33,440
	\$ 67,146

(b) LEGAL CLAIMS

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

(c) PURCHASE COMMITMENTS

At the end of the 2017 fiscal year, Manitoba Liquor & Lotteries had purchase commitments of \$36,073 related to casino and retail liquor store construction projects.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

16. FINANCIAL INSTRUMENTS

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

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

(a) INTEREST RATE RISK

Interest rate risk is the risk to Manitoba Liquor & Lotteries' income that arises from fluctuations in interest rates and the degree of volatility of these rates. Manitoba Liquor & Lotteries does not use derivative instruments to reduce its exposure to interest rate risk, though risks associated with interest rate fluctuations are mitigated based on 100% (2016 – 100%) of long-term debt having a fixed interest rate.

(b) CURRENCY RISK

Manitoba Liquor & Lotteries is exposed to currency risk through liquor inventory purchase transactions that require settlement in foreign currencies. Exposure to fluctuations in exchange rates is mitigated by the policy of adjusting purchase or selling prices to maintain approved liquor profit margins. Purchases denominated in foreign currencies during the 2017 fiscal year were \$7,732 (2016 – \$9,933). 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 \$773 (2016 – \$993) assuming the inventory purchased had been sold by the end of the year.

(c) LIQUIDITY RISK

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

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

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
2016	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
Trade and other payables	\$ 2,654	\$ 106,865	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payable to the Province of Manitoba	-	55,671	-	-	-	-	-	-
Long-term debt	-	48,286	46,068	44,004	41,084	29,915	29,875	130,022
	\$ 2,654	\$ 210,822	\$ 46,068	\$ 44,004	\$ 41,084	\$ 29,915	\$ 29,875	\$ 130,022

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

(d) CREDIT RISK

Credit risk is the risk to Manitoba Liquor & Lotteries that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. Manitoba Liquor & Lotteries mitigates this risk through centralized credit management and collection practices and, where applicable, the establishment of a reasonable allowance for non-collectible amounts which is netted against trade and other receivables. Trade and other receivables are non-interest bearing and generally have 30 day terms. The

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

The aging of trade and other receivables at the end of the 2017 fiscal year is as follows:

Neither impaired nor past due	\$ 50,077
Not impaired and past due as follows:	
Within 30 days	36
31 to 60 days	91
61 to 90 days	14
Over 90 days	87
Allowance for doubtful accounts	-
	\$ 50,305

(e) CAPITAL MANAGEMENT

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

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

(f) FAIR VALUE

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

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

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

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

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

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

2017	Level 1	Level 2	Level 3	Total
Cash	\$ 33,168	\$ -	\$ -	\$ 33,168
	\$ 33,168	\$ -	\$ -	\$ 33,168
2016	Level 1	Level 2	Level 3	Total
Cash	\$ 38,053	\$ -	\$ -	\$ 38,053
	\$ 38,053	\$ -	\$ -	\$ 38,053

17. RELATED PARTY DISCLOSURES

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

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

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

	2017	2016
Short-term employee benefits	\$ 2,555	\$ 2,477
Post-employment pension and medical benefits	157	159
Termination benefits	687	189
	\$ 3,399	\$ 2,825

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FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS OF CANADIAN DOLLARS)

18. 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.

19. EVENTS AFTER THE REPORTING PERIOD

On June 20, 2017, the sale of the assets identified in Note 8 as held for sale, which included the land, building, and parkade at 233 Kennedy Street and 218 Edmonton Street in Winnipeg,

Manitoba was finalized. The gain on disposal of property and equipment of approximately \$5,784 will be realized during the 2018 fiscal year.

This publication is available in alternate formats, upon request.

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

