2013/14 ANNUAL REPORT

MANITOBA LIQUOR CONTROL COMMISSION

TABLE OF CONTENTS

VISION

To exceed customer expectations while supporting our communities.

MISSION

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

VALUES

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

Responsibility
Demonstrate responsible business, social, and environmental practices.

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

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

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

PILLARS

Customers
Maintaining satisfied customers and increasing our customer base.

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

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

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

MESSAGE FROM THE CHAIR

On behalf of the Board of Commissioners, I am pleased to present the 91st Annual Report of the Manitoba Liquor Control Commission for fiscal year 2013/14.

This report stands as a testament to the achievements of the MLCC, not the least of which was the return of a net profit to the provincial government. These funds, which ultimately benefit all Manitobans, served to again demonstrate our value to the financial fabric of the province.

Fiscal 2013/14 was also notable for the passing of new legislation that will govern the merged Crown corporation. Bill 43, *The Manitoba Liquor and Lotteries Corporation Act* and *Liquor and Gaming Control Act*, received Royal Assent on December 5, 2013 and came into force April 1, 2014. With this new legislation, Manitoba Liquor and Lotteries Corporation (Manitoba Liquor & Lotteries) becomes officially responsible for the sale and management of both beverage alcohol and lottery/gaming products. The new Liquor and Gaming Authority of Manitoba, which is comprised of both the MLCC Regulatory Services Division and the Manitoba Gaming Control Commission, becomes the sole regulator of liquor and gaming in the province.

As we continued along the path to becoming Manitoba's newest Crown corporation, the year saw a significant amount of progress made in respect to the merger. I am pleased to report that by the end of fiscal year 2013/14, Manitoba Liquor & Lotteries realized an accumulated savings of $6.1 million dollars related to the merger process, all the while providing excellent service to customers across the province, and ensuring the responsible sale of beverage alcohol.

Employees from both sides of the organization have worked tirelessly to ensure the transition to Manitoba Liquor & Lotteries is a smooth one, and the progress that has been made is undeniable. While there is still work to be done, the future continues to come into sharper focus everyday – and there is no doubt, that future will be bright.

On behalf of the Board of Commissioners, I would like to express my sincere thanks to President & CEO Winston Hodgins, the Executive Management Committee, and all the employees for their contributions in making 2013/14 a success. I look forward to the year ahead as we begin a new era of providing excellence and value to the people of Manitoba.

Tannis Mindell

BOARD OF COMMISSIONERS

FIRST ROW

Tannis Mindell,
Chair

Leslie Turnbull,
Vice-Chair

Fran Frederickson,
Director

Jean Paul Gobeil,
Director

SECOND ROW

Robert Mayer,
Director

Marion Moist,
Director

Arnold Ouskan,
Director

Kevin Rebeck,
Director

THIRD ROW

Gerald Rosenby,
Director

David Schioler,
Director

MESSAGE FROM THE PRESIDENT & CEO

It is my pleasure to report on another successful year for the MLCC. With a return of over $284 million to the provincial government, the Commission surpassed its financial goals for the year, raising funds that will be used to support vital government programs, services and initiatives that are of a benefit to all Manitobans.

If the 2013/14 fiscal year could be summed up in one word, it would be progress. A key year in our journey to becoming a merged corporation, 2013/14 saw many milestones reached, not the least of which was the successful co-location of over 420 employees from both the MLCC and Manitoba Lotteries Corporation (Manitoba Lotteries). This proved to be a pivotal point in our journey and brought together employees in common functional areas, providing them with an opportunity to gain exposure to both sides of our business.

While activities related to the merger continued to be a significant focus of 2013/14, our commitment to delivering a high level of service quality to our customers never wavered. Last year saw the opening of the first full-service Liquor Mart in Winkler, Manitoba; the relocation of both the Fort Richmond Plaza and Brandon South Liquor Marts; the opening of a new Liquor Mart *Express* location in Charleswood; and the official launch of Distinctions, a unique addition to the Grant Park Liquor Mart that showcases rare and exclusive products.

2013/14 was also a year in which we continued to ensure social responsibility was an inherent part of all MLCC activities. Whether it was promoting the responsible sale and consumption of beverage alcohol or integrating sustainable development into our business practices, social responsibility continued to be one of our key corporate values. This past fall, we were pleased to host the Canadian Association of Liquor Jurisdictions Annual Social Responsibility Committee Meeting. This meeting, which brought together representatives from provincial and territorial liquor jurisdictions across Canada, proved to be an excellent opportunity to share ideas and initiatives on this very important topic.

One of the core aspects of being socially responsible is giving back to the community. Under the Manitoba Liquor & Lotteries family of brands, we continued to support hundreds of charitable organizations within the province. This past year, we also committed $1.35 million over three years towards Fetal Alcohol Spectrum Disorder (FASD) research funding to the Canada-Israel Fetal Alcohol Consortium which is affiliated with the University of Manitoba. Within our Liquor Marts, customer-ask programs resulted in thousands of dollars raised for the Heart & Stroke Foundation of Manitoba and the Canadian Red Cross in support of Typhoon Haiyan relief efforts.

This past year, the MLCC was again honoured to win a Canadian Fairtrade Award in recognition of our ongoing commitment to the fair trade movement. It is also my pleasure to report that for the eighth consecutive year, the MLCC was jointly recognized with Manitoba Lotteries as one of the Top 25 Employers in Manitoba as selected by the editors of Canada's Top 100 Employers competition.

In closing, I would like to thank our Board of Commissioners, our Executive Management Committee and all our employees for their ongoing enthusiasm, dedication and commitment this past year. Our accomplishments and achievements have been the result of a true team effort.

W. Hodgins

Winston Hodgins

EXECUTIVE MANAGEMENT COMMITTEE

FIRST ROW

Winston Hodgins,
President & CEO

Tracy Graham,
Chief Financial Officer

Peter Hak,
Chief Corporate Services Officer

Peter Kenyon,
Chief Operating Officer

SECOND ROW

Larry Wandowich,
Chief Community Relations & Marketing Officer

Robert Holmberg,
Vice President, Liquor Operations

Susan Olynik,
Vice President, Corporate Communications & Social Responsibility

Wayne Perfumo,
Vice President, Entertainment & Hospitality

THIRD ROW

Marilyn Robinson,
Vice President, Integration

Dan Sanscartier,
Vice President, Gaming Operations

Signy Shaw,
Senior Executive Director, Internal Audit & Corporate Compliance

AMALGAMATION OF THE MANITOBA LIQUOR CONTROL COMMISSION WITH MANITOBA LOTTERIES

On April 1, 2014 the MLCC officially merged with Manitoba Lotteries with the passing of *The Manitoba Liquor and Lotteries Corporation Act*. The regulatory activities of the MLCC transferred to the Manitoba Gaming Control Commission to create a new regulatory agency, the Liquor and Gaming Authority of Manitoba.

The 2013/14 fiscal year occurred prior to the new legislation passing, and is therefore being reported separately for the MLCC and Manitoba Lotteries.

The MLCC is mandated with regulating, distributing and selling beverage alcohol in the province of Manitoba. The Commission operates 56 Liquor Mart/Liquor Mart *Express* locations throughout the province, generating revenue for the provincial government to support programs, services and initiatives that benefit all Manitobans.

Throughout 2013/14 the MLCC and Manitoba Lotteries conducted operations collaboratively, guided by the vision, mission and values developed for the merging corporation. This fiscal year saw the additional development of business pillars and goals to provide strategic direction. This annual report is structured around the four strategic pillars of Manitoba Liquor & Lotteries as they pertain to liquor operations.

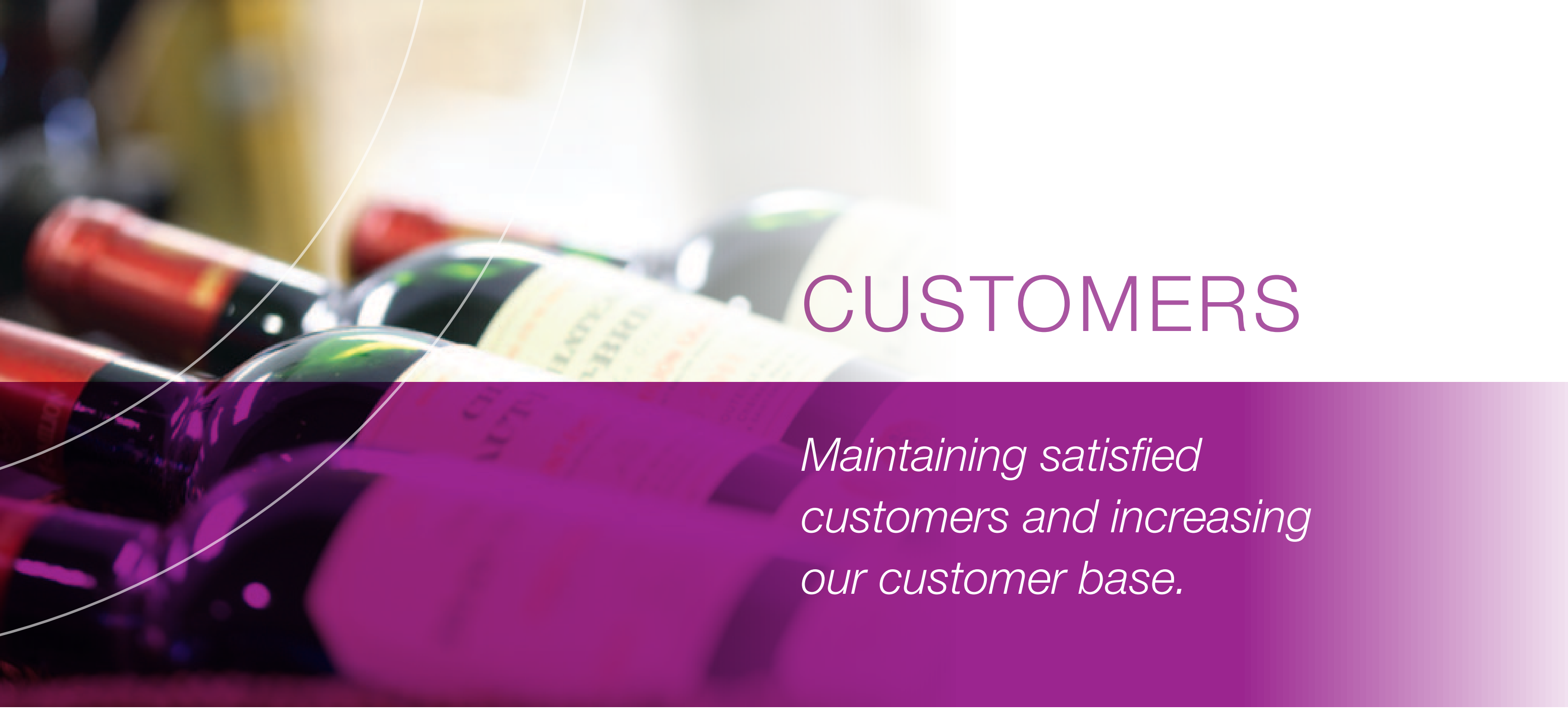
2013/14
BUSINESS REVIEW

The following pillars represent our key areas of focus.

CUSTOMERS
EFFECTIVENESS
RESPONSIBILITY
EMPLOYEES

These pillars provide the blueprint for incorporating our vision, mission and values into daily operational activities.

The following is an overview of the MLCC's accomplishments in 2013/14.



CUSTOMERS

Maintaining satisfied customers and increasing our customer base.

RETAIL NETWORK

In addition to the 52 Liquor Mart and four Liquor Mart *Express* locations in the province, there are 170 privately owned liquor vendors found throughout rural Manitoba, four duty-free stores, 260 privately owned beer vendors and eight specialty wine stores. This model provides a balance of private and public retailers while ensuring Manitoba consumers enjoy uniform pricing throughout the province.

LIQUOR MART CUSTOMER SERVICE SHOP RATINGS

Target	100%
Actual	**93% (Winnipeg & Brandon)**
	91% (Rural Manitoba)

LIQUOR MART DEVELOPMENT

The MLCC is committed to providing a convenient, modern shopping experience for customers through renovation and expansion of its Liquor Mart retail stores. The following Liquor Mart locations were renovated, built or expanded in 2013/14:

Winnipeg:

- Fort Richmond Plaza

Rural:

- Brandon South
- Winkler

Renovations are currently underway for the Northdale Liquor Mart in Winnipeg and the Steinbach Liquor Mart.

At the end of 2013/14, the following Winnipeg Liquor Marts were in the planning stages or in the process of being built:

- Spring Meadow Square
- Sage Creek Village Centre

(From left) Robert Holmberg, Vice President, Liquor Operations, Hon. Ron Lemieux, Minister responsible for the Manitoba Liquor and Lotteries Corporation Act, Ryan Potter, Store Manager and Al Roney, Executive General Manager, Retail Stores celebrate the opening of the new Winkler Liquor Mart.

Rare and unique selections in Distinctions at the Grant Park Liquor Mart.

LIQUOR MART *EXPRESS*

As part of the Hospitality Strategy, Liquor Mart *Express* stores were added to Manitoba's mix of public and private liquor retailers in 2011/12. This retail model lists some of the most popular selling wines, spirits and beers in the province and provides increased convenience to Manitobans.

In 2013/14, one new Liquor Mart *Express* location opened at the Park West Shopping Centre in Charleswood. This new Winnipeg store is the fourth *Express* location to open in the province alongside locations at the Winnipeg James A. Richardson International Airport, the Pembina Village Safeway in Winnipeg and the Brandon West End Sobeys.

At the end of 2013/14, a fifth *Express* store to be located within the Real Canadian Superstore at Gateway and McLeod in Winnipeg was in the final planning stages and scheduled to open in fiscal 2014/15.

Over the course of the 2014/15 fiscal year, Manitoba Liquor & Lotteries will continue to actively solidify plans and negotiate requirements for the opening of the five remaining Liquor Mart *Express* locations as originally announced in the Hospitality Strategy.

PRODUCT LISTINGS

Having the right product at the right time and at the right price is the key to MLCC's customer service success. Monitoring sales and product trends helps to ensure a wide assortment of products for our customers. To keep the product assortment robust, new products are added and low selling products are discontinued throughout the year. During 2013/14, 738 products were removed from the MLCC's assortment, while 605 products were added.

Product Listings as at March 31, 2014

Spirits	
General List – 517	Specialty List – 363
Wine	
General List – 1,044	Specialty List – 1,336
Beer	
MLCC Distributed – 143	Privately Distributed – 682
Refreshment Beverages (coolers/ciders)	
General List – 67	Specialty List – 23
Total	**4,175 Active Listings**

Note: General list products typically represent those with high volume sales. Specialty list products have smaller volume sales and are unique products that round out the overall product assortment.

MLCC distributed beer are products - usually single-serve, craft beers - that are sourced and distributed by the Manitoba Liquor Control Commission. The vast majority of beer in the province is privately distributed beer. These popular brands of beer products are distributed through contracted private beer distributors authorized by the MLCC.

PRODUCT EDUCATION

MLCC Product Ambassadors conducted 92 public product tasting and education sessions to over 2,940 attendees during 2013/14. These courses include wine appreciation sessions, scotch seminars, as well as food and product pairing sessions. Winnipeg sessions took place in the Education Centres located at the Madison Square and Grant Park Liquor Marts, and also in the Tasting Room at the MLCC's Head Office. Rural courses were held in various locations.

The MLCC is committed to ensuring Liquor Mart employees are knowledgeable in all product areas. Over the course of 2013/14, 78 training sessions were held for Liquor Mart Product Consultants and MLCC staff including the Basic Product Knowledge Course and a Higher Certificate Course.

Manitoba Liquor Marts continued to sponsor and support *Great Tastes of Manitoba*, the top-rated cooking show in Manitoba. Ben Rusch, MLCC's Manager, Product Education along with Product Ambassador Sheila Nash were the resident product experts on the program, recommending wines and spirits that perfectly paired to the dishes prepared on the show.

EFFECTIVENESS

Delivering profitable growth, and quality products while embracing innovation.

FINANCIAL PERFORMANCE RESULTS

Net Profit and Comprehensive Income:

Target	$278.4 million
Actual	**$284.1 million**

Net profit and comprehensive income for 2013/14 was $5.7 million or 2.0% over budget. Sales and volumes were below forecasted expectations in all categories with the exception of refreshment beverages (coolers/ciders) resulting in sales $20.9 million or 2.9% under budget. Gross profit was $11.6 million or 3.1% under budget.

Operating expenses; which include general and administrative expenses, allocations and payments, and items included in other comprehensive income (loss) related to the provision for employee pension benefits and retirement allowances were $17.4 million or 18.0% under budget. Pension related expenses were $9.5 million under budget primarily due to earnings on pension assets which were $8.6 million greater than anticipated. Salaries and short-term benefits were $3.4 million or 7.3% under budget due to management strategies in filling vacancies and new positions, and lower labour requirements in the Liquor Marts. Other operating expenses were carefully managed and were $4.6 million under budget.

DELUXE/PREMIUM SHARE OF MARKET

In 2013/14, the MLCC continued to focus its marketing efforts on promoting premium-priced products (premiumization). Year end results for spirits again suggest that the purchasing shift towards premium products is continuing.

Target	69.0%
Actual	**69.8%**

PRODUCTIVITY AND COST-EFFECTIVENESS

The MLCC annually reviews productivity and the cost-effectiveness of its strategies to determine the most efficient way of handling inventory. Targets are set for productivity for both Liquor Marts and the Distribution Centre.

LIQUOR MARTS

Measure
Productivity (Units/Labour Hour)

Winnipeg	
Target	34.0
Achieved	**34.2**

Rural	
Target	30.0
Achieved	**30.4**

DISTRIBUTION CENTRE

Measure

Cases per Labour Hour	
Target	29.6
Achieved	**30.9**

Inventory Turns (rolling 12 months)	
Target	7.0
Achieved	**6.5**

In-stock Service Levels	
Target	97.0%
Achieved	**98.6%**

RETAIL CENTRALIZED MERCHANDISING PROJECT

By centralizing Liquor Mart product assortment and replenishment activities, the MLCC will be able to more efficiently manage the supply chain, ensuring the right products are at the right place at the right time, while enabling store staff to spend more time on activities related to sales and customer service.

Rollout of the first phase of the project was successfully completed, as scheduled, in June 2013. As a result, all Liquor Marts are now being replenished centrally. Efforts to complete the second phase (the forecasting component) are currently in-progress, with a pilot expected to begin in fiscal 2014/15. The business intelligence component of the project is also expected to begin in early fiscal 2014/15.

RESPONSIBILITY

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

SOCIAL RESPONSIBILITY - PROGRAM UPDATE

- New legislation was introduced directing two per cent of the new Manitoba Liquor & Lotteries' net income each year to liquor and gambling social responsibility initiatives.
- Manitoba Liquor & Lotteries is actively involved in the development of Manitoba's first Alcohol Strategy. The strategy will support a culture of responsibility in Manitoba and focus on preventing and minimizing the harms related to alcohol use. With our commitment to promote the responsible sale and use of alcohol, we will work closely with provincial partners and stakeholders to continue to improve our programs and support provincial social responsibility priorities.
- Being an informed consumer is essential to making healthy decisions about alcohol use. That is why we ensure there is a wealth of easy-to-understand information and tools for people around the topics of alcohol and pregnancy, binge drinking and impaired driving. We also encourage parents to talk to their children about alcohol and the risks associated with early alcohol use.
- In 2013/14, the *Be The Influence* public information campaign was refreshed which provides information and tools to help parents talk to their children about responsible alcohol use. The campaign underscores the role of parents as the single best influence on children and youth using the theme, "If you're not talking to your kids about alcohol, who is?" At *betheinfluence.org*, parents can find information about alcohol and its effects, Canada's Low Risk Drinking Guidelines, key influences impacting their children's choices around alcohol, how to talk to their children about alcohol, and supporting resources.

SOCIAL RESPONSIBILITY IN LIQUOR MARTS

To help counter underage drinking, we train all Liquor Mart employees to ask for proof of age from customers who look under 25 years of age. Liquor Mart employees are expected to ask for photo ID 100% of the time and to ensure that this is occurring the MLCC uses professional shoppers to shop its stores. If a Liquor Mart does not achieve a 100% score, remedial action involving staff training will occur.

Target	100% rating per store
Actual	**93% overall**

CHALLENGES & REFUSALS

In addition to asking customers for proof of age, Liquor Mart employees also refuse service to impaired customers.

	2013/14	2012/13
Proof of Age Requests	**610,407**	522,917
Minors Refused	**13,006**	14,095
Impaired Refused	**17,693**	15,337

SUSTAINABLE DEVELOPMENT

The MLCC is committed to the integration of sustainable development into all of its business decisions, actions and operations. In 2013/14, we continued to focus on:

- The integration of green building design and the use of green building products, materials, equipment and fixtures into Liquor Mart construction and renovation projects. In 2013/14, new stores were built in Fort Richmond, Winkler and Brandon South. Sustainable features in these stores include: the installation of efficient lighting; the use of efficient water fixtures in washrooms and kitchen areas; use of low-emitting construction materials such as paints, adhesives, sealants and formaldehyde free composite wood products to enhance indoor air quality; and the use of Forest Stewardship Council Certified wood products to support responsible forestry.
- Monitoring and assessing waste management activities at all locations. In 2013/14, waste audits were conducted in a sample of city and rural Liquor Mart locations. The audits were conducted to determine the percent recovery rates for the recyclable materials generated at the stores. With the exception of plastic sampling glasses, the recovery rate for recyclables was determined to be over 75% at all locations. Processes have been implemented to support the recycling of sampling glasses at all Liquor Mart locations.

FAIR TRADE AND ORGANIC PRODUCTS

Fair Trade is a socially conscious movement that supports ethical, social, labour and environmental practices around the world. It advocates sustainable development, transparent commerce and the payment of fair prices to aid producers and workers in developing countries. In October 2013, the MLCC was honoured to once again win a Canadian Fairtrade Award in recognition of its ongoing commitment to the Fair Trade movement. This marked the second consecutive year Manitoba Liquor Marts were recognized in the Provincial Liquor Board category.

In 2013/14, Liquor Marts carried over twenty fair trade products and over forty organic products.

WHISTLEBLOWER LEGISLATION

There are no disclosures to report in 2013/14.

Sustainable building concepts were used during the building of the new Fort Richmond Liquor Mart.

We were proud to once again be a provincial sponsor of Operation Red Nose. Our corporate volunteer night brought out employees from both the MLCC and Manitoba Lotteries.

Getting into the spirit for the Operation Red Nose corporate volunteer night.

Good spirits were in no short supply at the 2nd Annual Winnipeg Whisky Festival in support of the Manitoba Sports Hall of Fame.

COMMUNITY SUPPORT

Community support is an important component of our commitment to corporate social responsibility. This support is demonstrated through sponsorships of community, cultural, arts, health and sporting events and organizations; silent auction donations for non-profit fundraising events; and in-store fundraising opportunities.

As a merged department, Community Relations promotes the Manitoba Liquor & Lotteries family of brands at hundreds of events throughout the province.

WINE FESTIVALS & TASTINGS

Manitoba Liquor Marts assist urban and rural communities to host tasting events as fundraisers for community and charitable organizations. These events also provide the MLCC with opportunities to enhance customer product knowledge. The largest of these events is the Winnipeg Wine Festival in support of Special Olympics Manitoba.

Community	Charity/Recipient
Brandon	Westman Wine Festival in support of Brandon Rotary Club - Elspeth Reid Family Resource Centre
Dauphin	Dauphin Rotary Club
Flin Flon	Flin Flon Bombers
Lac du Bonnet	Lac du Bonnet Lions Club
Portage la Prairie	William Glesby Centre
Roblin	Roblin Life & Art Centre
Russell	Russell Recreation Commission - Russell Regional Multiplex project
Thompson	Thompson Community Foundation
Virden	Heart & Stroke Foundation of Manitoba
Winnipeg	Winnipeg Wine Festival in support of Special Olympics Manitoba
Winnipeg	Flatlander's Beer Festival in support of the Winnipeg Jets True North Foundation
Winnipeg	Winnipeg Whisky Festival in support of the Manitoba Sports Hall of Fame

IMPACT TEAM

One of the ways in which we engage Manitobans and communicate the programs we offer is through our IMPACT Team. These athlete ambassadors have individually succeeded in their respective sports at the highest national and international levels. They share their own stories, including personal challenges and insights, as speakers to communities and groups. This team is also active around the province visiting community events and joining celebrations. Arranging for a team member to attend your community event, classroom or organization is as simple as visiting *www.mbll.ca*.

IMPACT Team

- **Janine Hanson**, Olympic Silver Medalist, Women's 8 Rowing
- **Jared Funk**, 3-time Paralympic Medalist, Men's Wheelchair Rugby
- **Reid Carruthers**, Gold Medalist, World Curling Championship
- **Kaitlyn Lawes**, Olympic Gold Medalist, Women's Curling
- **Obby Khan**, Winnipeg Blue Bombers, retired

The IMPACT Team (Clockwise from left) Kaitlyn Lawes, Janine Hanson, Obby Khan, Reid Carruthers and Jared Funk

EMPLOYEES

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

Due to the ongoing merger between the MLCC and Manitoba Lotteries, 2013/14 was a year of transition for many of the existing Human Resource programs at MLCC.

DIVERSITY

The MLCC continued to support diversity in the workplace through the Aboriginal and Newcomer Internship programs, the Diversity Committee, the Language Bank Program, Diversity Week and Take Your Kids to Work Day.

Equity Representation Rates

Women	53.0%
Visible Minority	5.5%
Aboriginal	9.3%
Disabled	4.3%

CO-LOCATION

In May, approximately 420 employees participated in a corporate-wide relocation that combined complementary departments from the MLCC and Manitoba Lotteries. This major logistical effort was carefully planned so as to avoid disruption to business functions and customer service. The relocation marked an important transition in combining day-to-day operations between the two organizations, while greatly reducing the need for individual employees to split time at multiple work locations.

Moving Day

Volunteer Change Ambassadors from both the MLCC and Manitoba Lotteries provide merger information and support to co-workers.

The new intranet site for employees provides valuable news and information to staff in all business areas.

TRAINING

Employees continued to enroll in the MLCC's standard course offerings which included product knowledge, customer service, safety and health, security and management.

In 2013/14, two new e-learning courses (Office Ergonomics and Respectful Workplace) were rolled out to employees. In addition, a number of new online courses were developed over the year for release in 2014/15.

Classroom training sessions on the topics of Challenge & Refusal, Non-Violent Crisis Intervention, CPR & First Aid and Product Educations continued in 2013/14. In addition, one policy update (Information Technology Security Policy Review) and a course outlining the policy and procedure changes resulting from the merger between MLCC Regulatory Services and the Manitoba Gaming Control Commission (Summary of Licensing, Permits & Inspections Changes) were developed and delivered to staff.

HEALTH AND WELLNESS

The MLCC continued to recognize the importance and benefits of a healthy lifestyle through the following initiatives:

- Wellness Week events were held at various locations focusing on the theme of "Mental Health at Work." Information and packages were also distributed to all Liquor Mart locations.
- The annual employee flu shot clinic was held at corporate office locations as well as both casinos in preparation for the flu season.

Irene Cielen, HR Consultant, Training and Workplace Health & Safety and Cheryl Mihalus, Senior Safety & Health Consultant celebrate NAOSH week

Employees from both the MLCC and Manitoba Lotteries participate in the United Way's 2013 Plane Pull.

WORKPLACE SAFETY

Health and Safety continued to be a priority at MLCC. In 2013/14:

- The MLCC and Manitoba Lotteries were jointly recognized with the annual provincial award for best representation of a theme by the North American Occupational Safety and Health (NAOSH) organization sponsored by the Canadian Society of Safety Engineering (CSSE). Staff celebrated NAOSH Week with a safety video featuring employees, a slogan contest, activities and prizes.
- Fire Safety Information brochures were provided to all office employees. Site-specific evacuation procedures were relayed to staff during information sessions.
- The MLCC and Manitoba Lotteries jointly participated in the annual "Take Our Kids to Work" program. Students learned about their rights, how to ask questions, and the importance of SAFE Work through videos, injury scenarios and handouts.

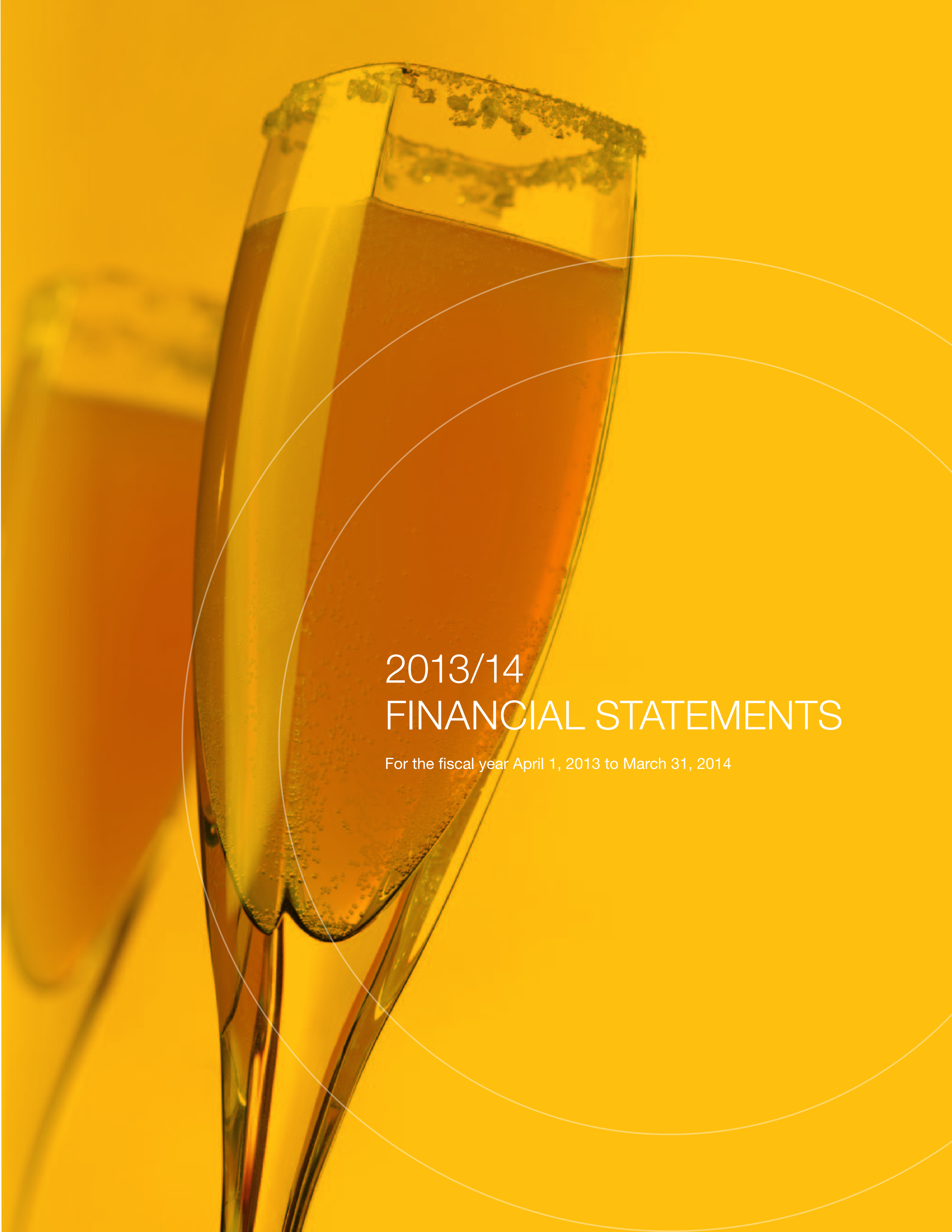
EMPLOYEE GIVING

MLCC and Manitoba Lotteries employees both have a deep history of volunteering and contributing to their communities. One of the advantages of merging is that employees discover even more opportunities to participate and to join forces for the community. This year employees supported many major campaigns from organizations including the United Way, Canadian Blood Services, Children's Rehabilitation Foundation, Christmas Cheer Board, the All Charities Campaign and others.

INNOVATION TEAM (iTEAM)

The iTeam continued to meet regularly to review and put into action ideas submitted by employees. Ideas implemented in the last fiscal year include the recycling of delivery pallets; a waste audit conducted at two rural Liquor Mart locations; and a penny drive in support of the Christmas Cheer Board.

In 2013/14, the iTeam expanded its membership to include employee representatives from Manitoba Lotteries. The committee will continue to review and implement ideas submitted by employees of the merged corporation.



2013/14
FINANCIAL STATEMENTS

For the fiscal year April 1, 2013 to March 31, 2014

MANAGEMENT REPORT

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

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

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

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

The Audit, Technology and Risk Management Committee of the Board meets with management and Ernst & Young LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the financial statements before approving them. The Board has reviewed and approved the financial statements for the fiscal year ended March 31, 2014.

W. Hodgins

Winston Hodgins
President & CEO

Tracy Graham

Tracy Graham
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
The Liquor Control Commission

We have audited the accompanying financial statements of **The Liquor Control Commission,** which comprise the statement of financial position as at March 31, 2014, and the statements of net profit and comprehensive income, payable to the Province of Manitoba and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **The Liquor Control Commission** as at March 31, 2014, and the results of its operations, payable to the Province of Manitoba and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Winnipeg, Canada,
June 6, 2014.

STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at March 31

	Notes	2014 $	2013 $
ASSETS			
Current Assets			
Cash		**10,154**	14,906
Trade and other receivables		**24,407**	22,134
Inventory	7	**40,701**	41,725
Prepaid expenses		**1,361**	1,514
		76,623	80,279
Non-Current Assets			
Property and equipment, net	8	**38,916**	37,327
Intangible assets, net	9	**6,389**	7,142
		45,305	44,469
TOTAL ASSETS		**121,928**	124,748
LIABILITIES			
Current Liabilities			
Trade and other payables		**45,862**	47,095
Goods and Services Tax payable		**1,134**	2,041
Manitoba Retail Sales Tax payable		**2,010**	1,870
Payable to the Province of Manitoba		**50,087**	42,109
Environmental Protection Tax payable		**151**	157
		99,244	93,272
Non-Current Liabilities			
Provision for employee pension benefits	10	**15,714**	24,308
Provision for retirement allowances	11	**6,970**	7,168
		22,684	31,476
TOTAL LIABILITIES		**121,928**	124,748

See accompanying notes to the financial statements

On behalf of the Commission:

Director & Chair of the Board

Director & Chair of the Audit, Technology and Risk Management Committee

STATEMENT OF NET PROFIT AND COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

Year ended March 31

	Notes & Schedules	2014 $	2013 $
Sales	Schedule	**694,188**	676,310
Cost of sales	Schedule	**334,392**	334,299
Gross profit	Schedule	**359,796**	342,011
Other income	12	**3,374**	4,019
		363,170	346,030
General and administrative expenses	10, 11 & 13	**83,475**	78,170
Allocations and payments	14	**3,328**	253
Net profit		**276,367**	267,607
Other comprehensive income (loss)	10 & 11	**7,720**	(6,998)
Total comprehensive income for the year		**284,087**	260,609

See accompanying notes to the financial statements

STATEMENT OF PAYABLE TO THE PROVINCE OF MANITOBA

(in thousands of Canadian dollars)

	$
Balance, March 31, 2012	39,048
Net profit and comprehensive income for the year	260,609
Transfers to Province of Manitoba - current year	(218,500)
Transfers to Province of Manitoba - prior year	(39,048)
Balance, March 31, 2013	42,109
Net profit and comprehensive income for the year	284,087
Transfers to Province of Manitoba - current year	(234,000)
Transfers to Province of Manitoba - prior year	(42,109)
Balance, March 31, 2014	**50,087**

See accompanying notes to the financial statements

STATEMENT OF CASH FLOWS

(in thousands of Canadian dollars)

Year ended March 31	2014 $	2013 $
OPERATING ACTIVITIES		
Cash receipts		
Sales - spirits, wine, refreshment beverages, and beer	**691,475**	677,006
Annual licence fees and other	**3,126**	3,325
Goods and Services Tax	**35,350**	34,407
Manitoba Retail Sales Tax	**27,388**	23,804
Environmental Protection Tax	**2,228**	2,193
	759,567	740,735
Cash disbursements		
Purchases - merchandise, federal duty, excise and sales taxes, and other costs	**331,665**	342,519
General and administrative expenses, and allocations and payments	**84,680**	65,056
Goods and Services Tax	**36,257**	34,321
Manitoba Retail Sales Tax	**27,249**	23,641
Environmental Protection Tax	**2,235**	2,183
	482,086	467,720
Cash provided by operating activities	**277,481**	273,015
INVESTING ACTIVITIES		
Acquisition of property and equipment, and intangible assets	**(6,124)**	(10,465)
Cash used in investing activities	**(6,124)**	(10,465)
FINANCING ACTIVITIES		
Transfers to Province of Manitoba - current year	**(234,000)**	(218,500)
Transfers to Province of Manitoba - prior year	**(42,109)**	(39,048)
Cash used in financing activities	**(276,109)**	(257,548)
Net increase (decrease) in cash during the year	**(4,752)**	5,002
Cash, beginning of year	**14,906**	9,904
Cash, end of year	**10,154**	14,906

See accompanying notes to the financial statements

SCHEDULE OF SALES, COST OF SALES AND GROSS PROFIT

(in thousands of Canadian dollars)

Year ended March 31

	Spirits	Wine	Refreshment Beverages	Beer	Total
	$	$	$	$	$
Sales					
Stores	**166,980**	**110,832**	**15,139**	**59,960**	**352,911**
Liquor vendors	**34,898**	**10,286**	**3,602**	**8,819**	**57,605**
Licensees	**19,766**	**4,655**	**6,007**	**238,193**	**268,621**
Specialty wine stores	**65**	**14,924**	**62**	**—**	**15,051**
Total sales for 2014	**221,709**	**140,697**	**24,810**	**306,972**	**694,188**
Total sales for 2013	218,555	137,026	22,834	297,895	676,310
Cost of sales					
Total cost of sales for 2014	**84,975**	**65,812**	**11,669**	**171,936**	**334,392**
Total cost of sales for 2013	85,277	63,536	10,599	174,887	334,299
Gross profit for 2014	**136,734**	**74,885**	**13,141**	**135,036**	**359,796**
Gross profit for 2013	133,278	73,490	12,235	123,008	342,011

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

1. NATURE OF ORGANIZATION

The financial statements of The Liquor Control Commission [the "MLCC"] for the year ended March 31, 2014 were authorized for issue in accordance with a resolution of the Board of Commissioners on June 6, 2014. The MLCC was formed in 1923 as an agency of the Government of Manitoba under *The Liquor Control Act*. The registered office is located at 1555 Buffalo Place, Winnipeg, Manitoba. The MLCC's mandate is to purchase, sell and regulate alcoholic beverages; to determine locations for retail liquor outlets; to licence and regulate facilities used by the consuming public; to provide revenue to the Province of Manitoba from the activities of the MLCC; and to do all such things necessary to effect the provisions of *The Liquor Control Act*. All net profit and comprehensive income earned from the sale of liquor, or from licence and permit fees, or otherwise arising in the administration of *The Liquor Control Act*, shall be paid to the Province of Manitoba.

On April 17, 2012, the Province of Manitoba announced that the MLCC and Manitoba Lotteries Corporation would be merged into a single entity and the regulatory oversight for liquor control, currently managed by the MLCC would be merged with the Manitoba Gaming Control Commission. By consent of the Legislative Assembly of Manitoba, *The Manitoba Liquor and Lotteries Corporation Act* was enacted on December 5, 2013 which establishes the Manitoba Liquor and Lotteries Corporation by amalgamating The Liquor Control Commission and Manitoba Lotteries Corporation. It was proclaimed that April 1, 2014 would be the date upon which *The Manitoba Liquor and Lotteries Corporation Act* would come into force.

2. BASIS OF PRESENTATION

The financial statements of the MLCC have been prepared on a going concern basis, using historical cost except for certain financial instruments which are reported at fair value. The financial statements are presented in Canadian dollars, which is the functional currency of the MLCC, and all values are rounded to the nearest thousand dollars [$000] except when otherwise indicated.

The financial statements of the MLCC have been prepared in accordance with International Financial Reporting Standards ["IFRS"] and related interpretations as issued by the International Accounting Standards Board ["IASB"].

3. SIGNIFICANT ACCOUNTING POLICIES

[a] Cash in the statement of financial position includes cash on hand, current balances with banks and outstanding electronic fund transactions forwarded to banks.

[b] Trade and other receivables include electronic fund transactions to be forwarded to banks after March 31.

[c] Inventories of goods for resale are valued at the lower of average cost and net realizable value. Cost comprises 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.

[d] Revenue is recognized to the extent that it is probable that the economic benefits will flow to the MLCC and the revenue can be reliably measured. For the sale of products, revenue is recognized when the significant rewards of ownership of the products have passed to the buyer, usually on delivery of the products. Other operating income from licence and permit fees, merchandising program fees and administration and other fees is recognized when the MLCC's right to receive the payment is established and the MLCC has no further obligation to provide goods or services or on a straight-line basis over the licence term. Revenue is measured at the fair value of the consideration received, excluding sales taxes.

The MLCC assesses its revenue arrangements in order to determine if it is acting as principal or agent. The MLCC has concluded that it is acting as a principal in all of its revenue arrangements, except for the third-party AIR MILES® program in which the MLCC participates. The AIR MILES® program allows customers to earn AIR MILES® points when they purchase products in the MLCC's retail stores. The redemption of points by customers is the responsibility of the third-party AIR MILES® program. Consideration received and the related expense is recorded net in other income as the MLCC is acting as an agent for the AIR MILES® program.

[e] Revenue, expenses and assets are recognized net of the amount of sales and goods and services tax, and environmental protection tax, except:

[i] Where the sales and goods and services tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales and goods and services tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and,

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

[ii] Receivables and payables that are stated with the amount of sales and goods and services tax included.

The net amount of sales and goods and services tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

[f] Transactions in foreign currencies are initially recorded by the MLCC at the MLCC's Canadian dollar functional currency exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. All differences are taken to the statement of net profit and comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate 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] Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Costs include directly attributable costs. Repair and maintenance costs are recognized in the statement of net profit and comprehensive income as incurred. Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Buildings	15 to 40 years
Leasehold improvements	Straight-line basis over the remaining term of the lease
Paving	25 years
Furniture and equipment	5 to 40 years
Vehicles	5 years

An item of property and equipment and any significant part initially recognized 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 statement of net profit and comprehensive income when the asset is derecognized.

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

[h] Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognized as an expense in the statement of net profit and comprehensive income on a straight-line basis over the lease term. Leases that contain pre-determined, fixed rental increases are recognized over the life of the lease. 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.

[i] Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the statement of net profit and comprehensive income in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized on a straight-line basis over the useful economic life of the asset. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method are reviewed at each fiscal year-end and are treated as changes in estimates. The amortization expense is recognized in the statement of net profit and comprehensive income in the expense category consistent with the function of the intangible assets.

Gains and 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 statement of net profit and comprehensive income when the asset is derecognized.

A summary of the amortization policies applied to the MLCC's intangible assets is as follows:

Computer software	3 to 15 years

[j] The MLCC assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, a test is performed on the affected asset to assess its recoverable amount against carrying value. An impaired asset is written down to its recoverable amount, which is the higher of its value in use or its fair value less costs to sell. If there is an indication of an increase in fair value of an asset that had previously been impaired, then it is recognized by reversing the impairment, but only to the extent that the recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized for the asset.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

[k] Financial instruments are recognized in the statement of financial position when the MLCC becomes a party to the contractual terms of the instrument, which represents the trade date. Financial assets are removed from the statement of financial position when the contractual rights to the cash flows from the asset cease. Financial liabilities are removed from the statement of financial position when the obligation is met, cancelled or ends.

The classification of the MLCC's financial assets and financial liabilities is performed at initial recognition and are measured as follows:

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

[ii] Trade and other receivables are classified as loans and receivables and recorded at cost, which upon initial recognition is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method, less impairment. Any gains or losses and any losses arising from impairment are recognized in the statement of net profit and comprehensive income.

[iii] Trade and other payables, Goods and Services Tax payable, Manitoba Retail Sales Tax payable, payable to the Province of Manitoba and Environmental Protection Tax payable are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method. Any gains or losses are recognized in the statement of net profit and comprehensive income.

The MLCC assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. The carrying amount of financial assets carried at amortized cost is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of net profit and comprehensive income.

The fair value of financial instruments traded in an active market is determined by quoted market prices. Financial instruments not traded in an active market are valued using an appropriate valuation technique. An analysis of fair values of financial instruments and further details as to how they are measured is provided in note 15.

[l] Provisions are recognized when the MLCC has a present obligation [legal or constructive] as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

[m] The MLCC maintains a defined benefit pension plan in accordance with the provision of *The Civil Service Superannuation Act* administered by the Civil Service Superannuation Board ["CSSB"]. Substantially all of the employees of the MLCC are eligible for pension benefits based on length of service and average annualized earnings calculated on the best five years prior to retirement, termination, or death that provided the highest earnings. The cost of providing benefits under the defined benefit plan is actuarially determined on an annual basis using the projected unit credit method.

The net defined benefit asset or liability comprises the present value of the defined benefit obligation [using a discount rate based on high quality corporate bonds] less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the MLCC nor can they be paid directly to the MLCC. Fair value is based on market price information and, in the case of quoted securities, it is the published bid price.

Net interest is calculated by applying the discount rate to the net defined benefit asset or liability and is recognized in net profit immediately. Actuarial and experience gains and losses and the return on plan assets (excluding net interest) are recognized immediately in the statement of financial position with a corresponding debit or credit to other comprehensive income (loss) in the period in which they occur.

[n] Effective April 1, 1998, the MLCC commenced recording accumulated retirement allowances for its employees. Eligible employees are entitled to receive a retirement allowance equal to one week's pay, to a maximum of 25 weeks, for each year of continuous employment based on the current salary at date of retirement. The provision for retirement allowances is actuarially determined using the accumulated benefit cost method and actuarial gains and losses are recognized immediately in the statement of financial position with a corresponding debit or credit to other comprehensive income (loss) in the period in which they occur.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the MLCC's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as at the date of the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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 of assets and liabilities within the next fiscal year, are discussed below.

The cost of the defined benefit pension plan and other post employment healthcare benefits, the present value of the pension obligation, and the provision for retirement allowances are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, retirement rates and future pension increases. Due to the complexity of the valuations, the underlying assumptions and its long-term nature, a defined benefit obligation and provision for retirement allowances are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rate of corporate bonds in the respective currency with at least an AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the populations of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for Canada. Future salary increases and pension increases are based on expected future inflation rates for Manitoba.

Further details about the assumptions are outlined in notes 10 and 11.

5. CHANGES IN ACCOUNTING POLICIES

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

[a] IAS 1 – *Presentation of Financial Statements* was amended on June 16, 2011. The amendments enhance the presentation of other comprehensive income ["OCI"] in the financial statements, primarily by requiring the components of OCI for items that may be reclassified to the statement of net profit and comprehensive income to be presented separately from those that remain in equity. IAS 1 was further amended in May 2012 to clarify the requirements for providing comparative information when an entity provides financial statements beyond the minimum comparative information requirements. The adoption of the amendments to IAS 1 did not have any impact on the MLCC's financial statements.

[b] IFRS 13 – *Fair Value Measurement* does not change the circumstances under which an entity is required to use fair value, but rather provides guidance on how to measure the fair value of financial or non-financial assets and liabilities when required or permitted by IFRS. As a result of the guidance in IFRS 13, the MLCC re-assessed its policies for measuring fair values and the adoption of IFRS 13 did not have any impact on the MLCC's financial statements.

[c] IAS 19 [revised] – *Employee Benefits* was amended in June 2011. The amendments include eliminating the option to defer the recognition of gains and losses, streamlining the presentation of changes to assets and liabilities with all changes from re-measurement to be recognized in other comprehensive income and enhancing the disclosure of the characteristics of defined benefit plans and the risks that companies are exposed to through participation in these plans. The MLCC applied IAS 19 [revised] retrospectively in the current period in accordance with the transitional provisions set out in the revised standard and comparative figures have been restated accordingly.

The adoption of IAS 19 [revised] resulted in a decrease to general and administrative expenses of $6,998 for the year ended March 31, 2013 with a corresponding adjustment to other comprehensive income (loss). There was no impact to the overall equity of the MLCC. The impact of the adoption of this standard is reflected in the statement of net profit and comprehensive income and notes 10 and 11 of these financial statements.

6. STANDARD ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 – *Financial Instruments* reflects the first phase of the IASB's work on replacing the existing standard for financial instruments, IAS 39 – *Financial Instruments: Recognition and Measurement*, and applies to classification and measurement of financial instruments as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the MLCC's financial assets. The MLCC will quantify the effect in conjunction with the other phases when issued, to present a comprehensive picture.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

7. INVENTORY

Inventory consists of the following:

	2014 $	2013 $
Warehouse	**27,315**	28,330
Stores	**13,386**	13,395
	40,701	41,725

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is approximately $4,597 at the end of the 2014 fiscal year [2013 - $4,452].

8. PROPERTY AND EQUIPMENT

	Land $	Buildings $	Leasehold improvements $	Paving $	Furniture and equipment $	Vehicles $	Total $
COST							
April 1, 2012	120	18,939	16,598	520	16,079	701	52,957
Additions	—	3,839	4,203	—	1,867	135	10,044
Disposals	—	—	—	—	(1,765)	(60)	(1,825)
March 31, 2013	120	22,778	20,801	520	16,181	776	61,176
Additions	—	1,976	2,266	—	1,434	130	5,806
Disposals	—	—	(1,806)	(17)	(381)	(139)	(2,343)
March 31, 2014	**120**	**24,754**	**21,261**	**503**	**17,234**	**767**	**64,639**
DEPRECIATION							
April 1, 2012	—	5,960	7,328	169	8,106	344	21,907
Depreciation	—	555	1,154	20	1,872	124	3,725
Disposals	—	—	—	—	(1,751)	(32)	(1,783)
March 31, 2013	—	6,515	8,482	189	8,227	436	23,849
Depreciation	—	635	1,632	26	1,749	116	4,158
Disposals	—	—	(1,801)	(17)	(360)	(106)	(2,284)
March 31, 2014	**—**	**7,150**	**8,313**	**198**	**9,616**	**446**	**25,723**
NET BOOK VALUE							
March 31, 2014	**120**	**17,604**	**12,948**	**305**	**7,618**	**321**	**38,916**
March 31, 2013	120	16,263	12,319	331	7,954	340	37,327

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

9. INTANGIBLE ASSETS

	Computer software – acquired $
COST	
April 1, 2012	12,393
Additions	519
Disposals	—
March 31, 2013	12,912
Additions	87
Disposals	(503)
March 31, 2014	**12,496**
AMORTIZATION	
April 1, 2012	5,015
Amortization	755
Disposals	—
March 31, 2013	5,770
Amortization	840
Disposals	(503)
March 31, 2014	**6,107**
NET BOOK VALUE	
March 31, 2014	**6,389**
March 31, 2013	7,142

10. PROVISION FOR EMPLOYEE PENSION BENEFITS

The MLCC maintains a defined benefit pension plan in accordance with the provision of *The Civil Service Superannuation Act* administered by the CSSB.

Accrued benefit liability is comprised of:

	2014 $	2013 $
Defined benefit obligation	**86,556**	84,904
Fair value of plan assets	**70,842**	60,596
	15,714	24,308

Net benefit expense included in general and administrative expenses is comprised of:

	2014 $	2013 $
Current service cost	**3,128**	2,624
Net interest	**1,021**	936
Administration and management fees	**221**	175
	4,370	3,735

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

Changes in the present value of the defined benefit obligation are as follows:

	2014 $	2013 $
Defined benefit obligation, beginning of year	**84,904**	76,243
Current service cost	**3,128**	2,624
Net interest	**3,566**	3,431
Actuarial loss on changes in mortality rate assumptions	**4,159**	—
Actuarial (gain) loss on changes in financial assumptions	**(4,376)**	4,791
Experience (gain) loss on obligation	**(630)**	974
Benefits paid	**(4,195)**	(3,159)
Defined benefit obligation, end of year	**86,556**	84,904

Actuarial and experience gains and losses are recognized in other comprehensive income (loss).

Changes in the fair value of the plan assets are as follows:

	2014 $	2013 $
Fair value of plan assets, beginning of year	**60,596**	55,439
Net interest	**2,545**	2,495
Return on plan assets	**6,625**	1,800
Contributions by employer	**1,076**	862
Fair value of plan assets, end of year	**70,842**	60,596

Return on plan assets (which excludes amounts included in net interest) is recognized in other comprehensive income (loss).

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2014 %	2013 %
Cash and cash equivalents	**2.9**	1.7
Bonds and debentures	**19.9**	23.1
Canadian equities	**36.5**	34.2
United States equities	**16.9**	17.7
International equities	**23.8**	23.3

The key actuarial assumptions used in determining the MLCC's provision for employee pension benefits were at the following weighted average rates:

	2014 %	2013 %
Discount rate	**4.50**	4.20
Inflation	**2.00**	2.00
Rate of future compensation increases	**3.75**	3.75
Post retirement indexing	**1.33**	1.33

The impact of a 0.30% increase in the discount rate and a 0.10% decrease in the rates of inflation and future compensation would be a decrease of $4,778 to the defined benefit obligation. The impact of a 0.30% decrease in the discount rate and a 0.10% increase in the rates of inflation and future compensation would be an increase of $5,353 to the defined benefit obligation.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

Expected contributions to the defined benefit pension plan for the year ending March 31, 2015 are as follows:

	$
Employee contributions	2,744
The MLCC contributions	2,438

11. PROVISION FOR RETIREMENT ALLOWANCES

The provision for retirement allowances net benefit expense included in general and administrative expenses is comprised of:

	2014 $	2013 $
Current service cost	**254**	257
Net interest	**296**	184
Benefits paid	**203**	168
	753	609

Changes in the present value of the provision are as follows:

	2014 $	2013 $
Provision for retirement allowances, beginning of year	**7,168**	4,232
Actuarial (gain) loss on provision	**(248)**	3,033
Current service cost	**254**	257
Net interest	**296**	184
Retirement allowance paid	**(500)**	(538)
Provision for retirement allowances, end of year	**6,970**	7,168

Actuarial gains and losses are recognized in other comprehensive income (loss).

The key actuarial assumptions used in determining the MLCC's provision for retirement allowances were at the following weighted average rates:

	2014 %	2013 %
Discount rate	**4.50**	4.20
Inflation	**2.00**	2.00
Rate of future compensation increases	**3.75**	3.75

The impact of a 0.30% increase in the discount rate and a 0.10% decrease in the rates of inflation and future compensation would be a decrease of $369 to the provision. The impact of a 0.30% decrease in the discount rate and a 0.10% increase in the rates of inflation and future compensation would be an increase of $405 to the provision.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

12. OTHER INCOME

Other income consists of the following:

	2014 $	2013 $
Licence and permit fees	**1,636**	1,732
Merchandising program fees	**940**	1,093
Administration and other	**798**	1,194
	3,374	4,019

13. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

	2014 $	2013 $
Employee benefits	**49,234**	47,959
Alcohol education	**843**	513
Bank charges	**3,052**	2,753
Community support	**1,591**	737
Consultant and professional fees	**901**	569
Depreciation and amortization	**4,998**	4,480
Delivery charges	**2,292**	2,174
Grants in lieu of taxes	**755**	708
Leased premises rentals	**8,998**	8,360
Maintenance	**4,915**	4,290
Marketing	**865**	890
Protective services	**1,081**	1,067
Sundry	**832**	907
Supplies and equipment	**938**	871
Transportation and vehicles	**643**	548
Utilities	**1,537**	1,344
	83,475	78,170

14. ALLOCATIONS AND PAYMENTS

Allocations and payments consist of the following:

	2014 $	2013 $
Social responsibility funding	**3,217**	—
Crown Corporations Council levy	**111**	253
	3,328	253

Social responsibility funding includes amounts paid to the Addictions Foundation of Manitoba for their research and programming related to the responsible use of alcohol.

The MLCC provides funding to the Crown Corporations Council through the payment of an annual levy.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

[a] Fair value

The MLCC applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value.

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

Level 2 - Observable inputs other than level 1 prices, 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 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying values of the MLCC's financial assets and liabilities including trade and other receivables, trade and other payables, Goods and Services Tax payable, Manitoba Retail Sales Tax payable, payable to the Province of Manitoba and Environmental Protection Tax payable approximate their value at the reporting date. These short-term financial instruments approximate the fair value due to the relatively short period to maturity.

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

2014	Level 1 $	Level 2 $	Level 3 $	Total $
Cash	**10,154**	**—**	**—**	**10,154**
	10,154	**—**	**—**	**10,154**

2013	Level 1 $	Level 2 $	Level 3 $	Total $
Cash	14,906	—	—	14,906
	14,906	—	—	14,906

[b] Risk management policies

The MLCC manages risk and risk exposure through a combination of a system of internal and disclosure controls, effective cash management strategies and sound business practices. The MLCC is exposed to credit, currency and liquidity risks. The MLCC's management oversees the management of these risks in accordance with policies approved by the Board of Commissioners. The Board of Commissioners reviews and agrees on policies for managing each of these risks.

[c] Credit risk

Credit risk is the risk that a customer will fail to perform an obligation or fail to pay amounts due, causing a financial loss. The MLCC's maximum exposure to credit risk is the carrying value of trade and other receivables. Other receivables are all due within 30 days at year-end and were fully collected subsequent to year-end. Therefore no allowance for uncollectible accounts was accrued by management. Trade receivables are non-interest bearing and generally have 30-day terms. Trade and other receivables are written off when management determines that they cannot be collected.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

The aging of trade and other receivables at the end of the 2014 fiscal year is as follows:

	$
Neither impaired nor past due	23,641
Not impaired and past due as follows:	
Within 30 days	516
31 to 60 days	103
61 to 90 days	49
Over 90 days	98
Allowance for doubtful accounts	—
	24,407

[d] Currency risk

The MLCC is exposed to currency risk through 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 the profit margin approved by the Board of Commissioners. Purchases denominated in foreign currencies during the 2014 fiscal year were $8,520 [2013 - $8,148]. Accordingly, a 10% increase or decrease in the exchange rate between Canadian and U.S. dollars would result in a total increase or decrease of $538 [2013 - $451] assuming the inventory purchased had been sold by the end of the year.

[e] Liquidity risk

Liquidity risk is the risk that the MLCC will encounter difficulties in meeting its financial liability obligations. The MLCC manages its liquidity risk through effective cash management. Liquidity risk is 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. Trade and other payables are non-interest bearing and generally have 30-day terms.

[f] Capital disclosures

As an agency of the Government of Manitoba, the MLCC does not maintain capital balances. Rather, in managing capital, the MLCC focuses on cash available for operations. The MLCC's objectives are to have sufficient cash available for operations, to provide flexibility to take advantage of opportunities that will advance its purposes and to meet its obligation to transfer its net profit and comprehensive income to the Province of Manitoba annually. The need for liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget. The MLCC has met its objective of having sufficient liquid resources to meet its current obligations.

16. COMMITMENTS AND CONTINGENCIES

The MLCC leases 52 buildings. Leases have expiry dates ranging from 2015 to 2034.

The future minimum annual lease payments are as follows:

	$
2015	6,621
2016	6,053
2017	5,608
2018	5,226
2019	5,005
Subsequent years	33,534
	62,047

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

For the year ended March 31, 2014

17. RELATED PARTY DISCLOSURES

The MLCC 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. Under *The Liquor Control Act*, the MLCC is required to transfer the net profit and comprehensive income for the year annually to the Province. The payable to the Province of Manitoba on the statement of financial position represents the balance of unpaid profits as of the year-end reporting date.

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

	2014	2013
	$	$
Short-term employee benefits	**338**	561
Post-employment pension and medical benefits	**54**	83
Termination benefits	**4**	394
	396	1,038

18. COMPARATIVE FIGURES

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year's financial statements.

CHARTS & GRAPHS

INCOME AND EXPENSE RATIOS

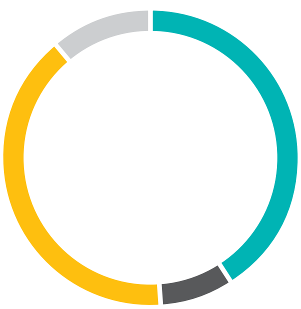
(in thousands of Canadian dollars)
Year ended March 31

	2010	2011	2012	2013	**2014**
Sales	610,515	621,880	652,622	676,310	**694,188**
Gross Profit	299,599	314,118	327,386	342,011	**359,796**
Net Profit and Comprehensive Income	233,677	250,118	254,270	260,609	**284,087**
Operating Expenses	70,674	67,687	76,864	85,421	**79,083**
Gross Profit as % of Sales	49.1%	50.5%	50.2%	50.6%	**51.8%**
Net Profit and Comprehensive Income as % of Sales	38.3%	40.2%	39.0%	38.5%	**40.9%**
Operating Expenses as % of Sales	11.6%	10.9%	11.8%	12.6%	**11.4%**

**Operating expenses include general and administrative expenses, allocations and payments, and items included in other comprehensive income (loss) related to the provisions for employee pension benefits and retirement allowances.*

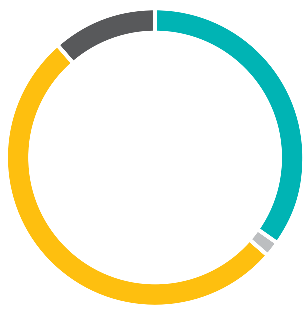
WHERE DOES THE MONEY GO?

$284.1 million for Manitobans



Merchandise	$279.3 (40%)
Federal Government	$55.1 (8%)
Operating Expenses	$79.1 (11%)
Provincial Government	$284.1 (41%)

RETAIL OUTLETS – 2014



Private Beer Vendors	260
Specialty Wine Stores	8
MLCC Liquor Marts/Liquor Mart Express	56
Private Liquor Vendors / Duty Free Stores	174

ADDITIONAL PAYMENTS TO THE PROVINCE (IN MILLIONS)

Retail Sales Tax	**$ 27.2**
Environmental Protection Tax	**$ 2.2**

ADDITIONAL PAYMENTS TO THE FEDERAL GOVERNMENT (IN MILLIONS)

Goods and Services Tax	**$36.3**

VOLUME SALES - MILLIONS OF LITRES

	Beer	Spirits	Wine	Coolers/Ciders
2010	82.0	6.9	9.3	2.9
2011	81.0	6.9	9.7	2.7
2012	83.3	7.0	10.0	2.9
2013	80.9	7.1	10.4	3.4
2014	**77.1**	**6.9**	**10.6**	**3.8**

PRODUCT SALES – MILLIONS OF DOLLARS

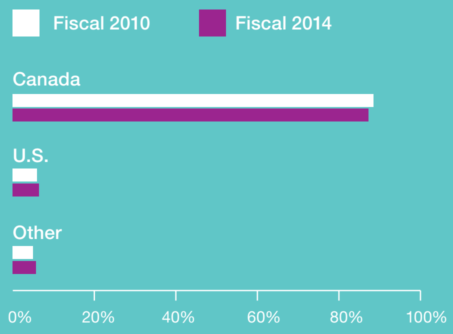
	Beer	Spirits	Wine	Coolers/Ciders
2010	271	203	117	20
2011	275	206	122	19
2012	293	212	128	20
2013	298	218	137	23
2014	**307**	**222**	**140**	**25**

PER CAPITA CONSUMPTION IN LITRES

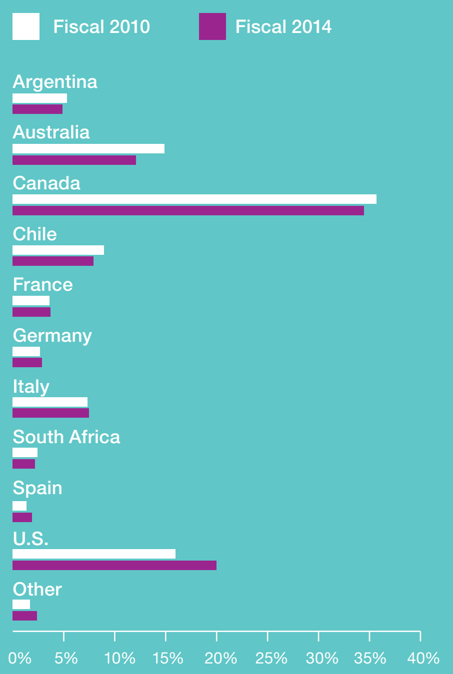
	Beer	Spirits	Wine	Coolers/Ciders
2010	88.3	7.4	10.0	3.1
2011	85.9	7.3	10.2	2.9
2012	86.7	7.3	10.4	3.0
2013	82.6	7.2	10.6	3.5
2014	**77.4**	**7.0**	**10.6**	**3.8**

Source: Manitoba Health Population Report based on population over the age of 17 as of June 1 of each year.

BEER SALES BY COUNTRY



WINE SALES BY COUNTRY



SPIRIT SALES BY TYPE

REGULATORY SERVICES

AMALGAMATION OF THE MLCC'S REGULATORY SERVICES DIVISION WITH THE MANITOBA GAMING CONTROL COMMISSION

On April 1, 2014 the passing of *The Liquor and Gaming Control Act* officially merged the Regulatory Services Division of the MLCC with the Manitoba Gaming Control Commission (MGCC) creating a new regulatory agency, the Liquor and Gaming Authority of Manitoba (LGA).

The mission of the LGA is to regulate the liquor and gaming industries in the public interest, for the benefit of all Manitobans, by providing a high standard of service through a balanced and independent approach.

As the 2013/14 fiscal year occurred prior to the new legislation passing, regulatory information is required to be reported as part of the MLCC.

LICENSING BOARD

The Licensing Board considers applications for licences and determines the appropriate disciplinary action for breaches of *The Liquor Control Act* and its Regulations. These decisions may be appealed.

The Licensing Board is comprised of five persons appointed by the Lieutenant Governor in Council. The board may be called to meet at any time by the chair of the board. All meetings of the Licensing Board are open to the public.

Licensing Board (from left) Vic Wonnacott (Chair); Les Barrett; Cliff Bernhardt; and Dale Neal (Vice-Chair) Not pictured: Lorraine Sigurdson

EDUCATION AND REGULATION

The MLCC balances education and enforcement of licensed premises and occasional permit functions to ensure compliance with *The Liquor Control Act*. Inspection Services uses a risk-based inspection program dependent upon the type of licence held and the previous history of operation. Establishments where liquor is the primary component of the operation such as beer vendors and cocktail lounges, are inspected more frequently than those where food is the primary component of the operation.

Progressive disciplinary action is recommended for those licensees, permittees and banquet hall operators who continue to breach *The Liquor Control Act* and Regulations.

Number of Inspections

	Target	Actual
Licensed Premises	27,000	**23,763**
Sale Permit Functions	25%	**29%**
Number of Inspections with No Breaches	97%	**99%**

Number of Educational Seminars

	Target	Actual
Licensed Premises	175	**253**
Permitees / Banquet Halls	75	**82**

Legislative Changes

Bill 43, *The Manitoba Liquor and Lotteries Corporation Act* and *Liquor and Gaming Control Act* was tabled in the Legislature on May 15, 2013; passed second reading on September 12, 2013; and was passed by the Committee on Social and Economic Development on October 15, 2013. It received Royal Assent on December 5, 2013 and came into force April 1, 2014.

NUMBER OF HOTEL REGISTRATIONS & LICENCES

Class of Licence	2010	2011	2012	2013	2014
Hotel Registration	302	300	301	295	**299**
Retail	273	275	272	266	**265**
Beverage Room	249	246	247	241	**241**
Dining Room	1,125	1,135	1,161	1,180	**1,201**
Transportation	7	6	6	6	**5**
Cocktail Lounge	403	398	407	403	**409**
Cabaret	29	25	27	26	**26**
Spectator Activities	45	50	50	49	**49**
Private Club	249	247	250	253	**254**
Canteen	13	13	11	11	**11**
Sports Facility	144	137	140	137	**136**
Manufacturer's	17	17	17	17	**17**
Total	2,856	2,849	2,889	2,884	**2,913**

OCCASIONAL PERMITS ISSUED

	2010	2011	2012	2013	2014
Liquor Sold	6,473	6,000	5,872	5,547	**5,174**
Liquor Complimentary	4,289	4,175	3,930	3,860	**3,587**
Total	10,762	10,175	9,802	9,407	**8,761**

INSPECTIONS, INVESTIGATIONS & EDUCATIONAL SEMINARS

	2010	2011	2012	2013	2014
Licensed Premises					
Licensee visits	25,867	22,784	28,778	27,791	**23,763**
Licensee requests for service	1,144	1,294	1,319	1,197	**1,086**
Final inspections	224	186	143	183	**162**
Application for licence	126	122	138	186	**155**
Licensees education sessions	180	195	262	268	**253**
Total	27,541	24,581	30,640	29,625	**25,419**
Occasional Permits					
Inspections while in progress	1,471	1,394	1,571	1,727	**1,433**
Investigations prior to issue	2,626	2,900	1,686	1,743	**1,969**
Education of hall owners/ permittees/public	69	82	82	111	**82**
Inspection of banquet halls	287	146	145	193	**88**
Total	4,453	4,522	3,484	3,774	**3,572**
Public Investigations					
Photo ID	277*	0	0	0	**0**
Public complaints	360	387	391	329	**280**
Total	637*	387	391	329	**280**

** The MLCC Photo ID program was discontinued June 29, 2009.*

RECOMMENDED DISCIPLINARY ACTION

LICENSEES:	2010	2011	2012	2013	2014
Administrative					
Warning letters	250	261	145	97	**47**
Meetings with Manager, Inspection Services	41	56	50	35	**39**
Total	291	317	195	132	**86**
Board					
Disciplinary hearings	44	62	48	61	**24**
Appeal hearings	9	7	4	8	**2**
Board Action					
Warnings	7	5	7	9	**8**
Suspensions	34	38	14	21	**5**
Cancellations	1	0	1	0	**1**
Monetary penalty	7	29	20	32	**9**
Other	1	1	5	0	**0**
Total	50	73	47	62	**23**
Total suspension days issued	91	70	49	47	**15**
Total monetary penalties issued	$11,150	$89,550	$21,500	$51,200	**$15,750**

Note: Board actions may not equal number of hearings due to appeals carried forward to next fiscal year.

PERMITTEES/HALL OWNERS:	2010	2011	2012	2013	2014
Administrative					
Warnings	5	8	12	7	**8**
Suspension of privileges	7	6	4	1	**2**
Total	12	14	16	8	**10**

Breaches of *The Liquor Control Act* are dealt with through a process of progressive discipline.

- Cautions - Usually given where there is no previous record (which include educating licensees regarding breach).
- Warning Letter - Usually given where there is a record of operation and the breach is of a less serious nature.
- Meeting with Manager, Inspection Services - To discuss solutions to the problem.
- Licensing Board Hearing - Usually for breaches of a more serious nature.

Appeals are heard by Board of Commissioners.

These disciplinary actions form part of a licensee's record of operation.

Breaches of The Liquor Control Act by banquet hall operators and occasional permit holders are normally handled by the administration of the MLCC.

MLCC
Box 1023 (1555 Buffalo Place)
Winnipeg, Manitoba R3C 2X1
Telephone: 204-284-2501

www.liquormarts.ca

Le rapport annuel est
disponible en francais sur
le site Web **www.liquormarts.ca**