MANITOBA LIQUOR & LOTTERIES

MANITOBA
LIQUOR & LOTTERIES

ANNUAL REPORT

2020 21

VALUES

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

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

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

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

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

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

LETTER OF TRANSMISSION

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

July 30, 2021

Dear Honourable Minister:

It is my pleasure to present you with the annual report of Manitoba Liquor and Lotteries Corporation for the fiscal year ended March 31, 2021.

Respectfully submitted,

Randy Williams
Chair, Board of Directors

BOARD OF DIRECTORS

April 1, 2020 – March 31, 2021

Randy Williams, Chairperson

Gestur Kristjansson

Tracey Maconachie
(Outgoing September 2020)

Bryce Matlashewski

Wayne Rempel

Marshall Ring

Patricia Solman, Vice Chair
(Outgoing February 2021)

James Spencer

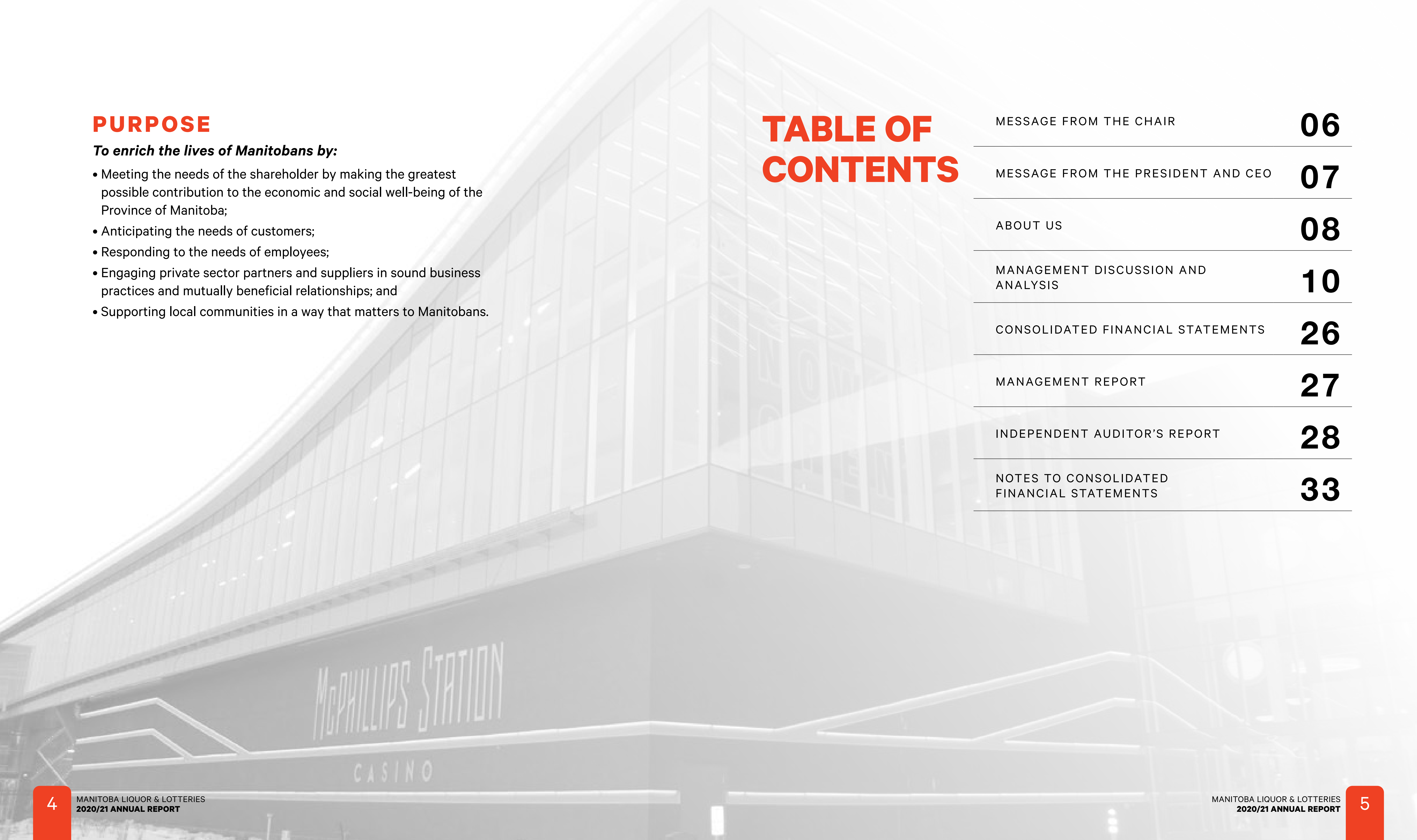
Mavis Taillieu
(Outgoing February 2021)

Brenda Tobac

Christine Van Cauwenberghe

Rosa Walker

Jonathan Webber
(Outgoing April 2020)



PURPOSE

To enrich the lives of Manitobans by:

- Meeting the needs of the shareholder by making the greatest possible contribution to the economic and social well-being of the Province of Manitoba;
- Anticipating the needs of customers;
- Responding to the needs of employees;
- Engaging private sector partners and suppliers in sound business practices and mutually beneficial relationships; and
- Supporting local communities in a way that matters to Manitobans.

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MESSAGE FROM THE CHAIR

On behalf of the Board of Directors, I want to acknowledge what a difficult year fiscal 2020/21 has been for both individuals and businesses. Our Board is proud of the efforts made by our executive, management, and staff to meet the ongoing challenges related to the COVID-19 pandemic and mitigate the negative impact on our business and employees, while remaining true to our overall goal of generating revenue for fundamental programs and community services in the Province of Manitoba.

This past year pushed our staff and resources to their limits, while simultaneously transforming parts of our business as we implemented changes due to Public Health restrictions. The Board believes we can apply what we have learned from this experience to further advance our business lines and better serve our customers, while increasing revenues.

The pandemic changed how many of our customers purchase goods and services, which means we will adjust how we do business with them to ensure we continue providing products and services effectively and in a safe and responsible manner. Now, perhaps more than ever before, we need to ensure we are using technology to advance our goals and support our customers and stakeholders. We will continue to review, assess, and update current systems and identify process improvements.

In addition to overcoming pandemic-related issues, various announcements made by government this year impacted our business and operations.

Early in the fiscal year, the third phase of Manitoba's non-medical cannabis retail strategy was announced, opening the cannabis application process to all prospective retailers. Manitoba Liquor & Lotteries is the wholesale distributor of non-medical cannabis for the province and is responsible for cannabis store retailer agreements, including the facilitation of the application process. With an open retail market for cannabis established, we are committed to working with retailers and suppliers to ensure Manitobans have access to a wide range of evolving products.

In the fall of 2020, Bill 40 – *The Manitoba Liquor and Lotteries Corporation Amendment and Liquor, Gaming and Cannabis Control Amendment Act* was given first reading in the Legislature. If passed, Bill 40 will allow a wider range of businesses to sell liquor. This initiative aligns with the government's mandate to reduce red tape for businesses and increase private sector participation in liquor, providing more choice and convenience for customers.

As we consider the future, in what we hope will be a post-pandemic normalcy, the Board is optimistic about improving our business performance. Working with the executive team, we have developed a strategic plan to help focus our efforts over the next three years.

Even after we return to more regular operations, the pandemic will have had a significant impact on our employees, with respect to how they do their jobs and what support they will need. We will adapt accordingly and ensure we have a safe and supportive working environment.

RANDY WILLIAMS
Chair, Board of Directors

MESSAGE FROM THE PRESIDENT AND CEO

This year was truly a year unlike any other. I do not use the word 'unprecedented' very often, but the impact of the COVID-19 pandemic truly was just that. It caused significant disruptions to how we live, work, socialize, and do business. Manitoba Liquor & Lotteries acted quickly – making changes to our operations, adapting how we serve our customers and adjusting our product offering, while also ensuring a safe retail and work environment.

The safety of our employees and customers is a priority, so we were thankful that the newly installed controlled entrances at our Winnipeg, Brandon, Portage la Prairie and Selkirk Liquor Marts greatly improved the comfort level of everyone working in and visiting our stores. These entrances also proved helpful when navigating fluctuating capacity restrictions and screening protocols due to COVID-19.

At the onset of the pandemic, we created a Pandemic Response Team composed of people with the experience and decision-making authority to quickly implement new protocols or changes to our business. This team continues to meet frequently to ensure the ongoing safety of our customers and employees.

As we entered fiscal 2020/21, over 600 of our corporate employees shifted to working from home following recommendations from Public Health. Using technology to our advantage, our Information Technology Services team, with the help of various internal departments, efficiently transitioned these employees to a remote work environment almost overnight. Their efforts have paved the road for how we will work in the future.

Much of our gaming business remained shut down for most of the year, forcing us to temporarily lay off employees. This was a decision we did not make lightly, recognizing the enormous impact on individuals and their families. Wherever possible, we temporarily assigned employees to departments that required support due to COVID-19 or redeployed them to assist the Province in their pandemic response. Through these initiatives, nearly 150 employees remained working. To support laid off employees, we maintained their access to health, dental and basic life insurance benefits as well as services offered through our Employee and Family Assistance Plan.

Periods when our casinos were closed allowed us to reconfigure our gaming machines to ensure proper physical distancing and complete much needed maintenance and system improvements. We also took advantage of the closures to accelerate the introduction of stadium gaming, which leverages technology to enhance the gaming experience for our customers, while reducing gaming integrity risk and total costs.

Our Video Lottery Terminal (VLT) and lottery networks also experienced shutdowns. During the waves of the pandemic, we worked with partners and retailers to optimize floorspace for VLTs and help implement curbside pickup for lottery products. Limited tangible gaming options shifted players' focus to our online gaming website PlayNow.com, increasing revenues by 200% in a brief period.

Public health restrictions and concerns around the safety of in-person shopping gave us opportunities to explore ideas and change our business to suit this new market. We experienced renewed interest in our home delivery service in Winnipeg and Brandon – volumes initially increased by over 1000%. Like many businesses, we introduced Click & Collect, offering curbside pick-up at some Winnipeg Liquor Marts.

While remaining heavily focused on safety and adjusting how we do business, we also completed the relocation of our distribution centre. This massive project was the culmination of three years of work to ensure we can support market demand for our products now, and for years to come. It also provided the opportunity to implement some process improvements, resulting in better service levels with increased selection.

As Manitoba's wholesale distributor of non-medical cannabis, we experienced significant growth in the number of private cannabis stores when the third phase of Manitoba's cannabis retail strategy was implemented, resulting in increased revenue. There are over 70 private retailers now operating, with many more in the final stages of approval, and substantial interest for suppliers and retailers looking to invest in Manitoba. We look forward to providing customers with more retail and product options for 2021/22 and beyond.

The pandemic influenced our approach to the future by changing consumer expectations and shopping habits, dictating the need for enhanced online and other technology-enabled services. It drove us to accelerate and test new ideas, while identifying areas that require improvement. In response, we are developing a multi-year strategy and updating key systems that will drive improvements in net income and working capital.

While put together quickly, the work-from-home model was successful and resulted in excellent performance levels from the majority of our employees. Going forward, we will continue to support our entire workforce, with ongoing focus on mental health, as we adjust to a new-normal.

After such an unusual and difficult year, I would be remiss if I did not offer my most sincere thanks to all employees for their dedication and resilience. Together we experienced unprecedented change in all areas of our business. It was not easy and there were numerous challenges, but Manitobans can feel confident that through our adaptability and innovation, Manitoba Liquor & Lotteries weathered the storm and is more than ready for the future.

We do this to enrich the lives of Manitobans.

MANNY ATWAL
President & Chief Executive Officer

About us

Manitoba Liquor & Lotteries is a provincial Crown corporation that contributes to the general revenue of the Province of Manitoba through the sale of liquor, gaming and cannabis. Programs and services like healthcare, education, social services, housing and infrastructure are funded through the Province of Manitoba's general revenue.

All liquor, gaming and cannabis sold by over 3,300 private retailers and other businesses in Manitoba is purchased through Manitoba Liquor & Lotteries.

We supply liquor and beer vendors, specialty wine stores, restaurants and bars, lottery retailers, cannabis retailers and other licensees.

We operate the network of VLTs found at private licensed establishments and First Nations sites, and supply equipment and oversight to First Nations casinos and the Shark Club Gaming Centre. Manitoba's PlayNow.com is managed under agreement with BCLC.

We distribute and sell lottery tickets as a member of the Western Canada Lottery Corporation (WCLC) and, by extension, the Interprovincial Lottery Corporation (ILC). We are the exclusive supplier of breakopen tickets and bingo paper in Manitoba.

We directly operate all Liquor Mart and Liquor Mart Express stores and the Casinos of Winnipeg.

Sustainability and social responsibility are central to our business approach. We promote healthy choices for consuming liquor, gambling and cannabis.

MANAGEMENT

Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2021

The Management Discussion and Analysis reviews the consolidated financial results of the operations of Manitoba Liquor and Lotteries Corporation (the Corporation) for the fiscal year ended March 31, 2021. This report should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes.

Management is responsible for the reliability and timeliness of the information disclosed in the management discussion and analysis and does so by implementing and monitoring the appropriate existence and effectiveness of systems, controls and procedures used by the Corporation. Management has concluded, as at March 31, 2021, that the systems, controls, and processes in place are adequate to provide reliable and accurate information for the management discussion and analysis.

OVERVIEW AND RESULTS OF OPERATIONS

The six operating segments of the Corporation are: Cannabis Operations, Casinos, Liquor Operations, Lottery, Online Gaming and Video Lotto. In 2020/21, the Online Gaming segment was disaggregated from the Casinos segment and the 2019/20 comparative results were restated to reflect this change. In accordance with International Financial Reporting Standards (IFRS), the Corporation accounts for WCLC using the equity method and therefore presents its share of the profit of WCLC as one line in the consolidated statement of net income, comprehensive income and equity of the audited consolidated financial statements.

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

During 2020/21, necessary measures enacted in Manitoba to combat the spread of the novel strain of coronavirus (COVID-19) impacted each of the Corporation's operating segments in different ways. Provincially mandated extended closures and capacity restrictions throughout the year occurred within the Casinos, Lottery and Video Lotto segments which had a material negative impact on the 2020/21 financial results, while the Online Gaming segment saw increased activity as Manitobans sought gaming options during the closures. The sale of cannabis and liquor products were deemed essential services under provincial health orders therefore the Cannabis Operations and Liquor Operations segments remained operational throughout the entire year. The Corporation's allocation to the Province of Manitoba for 2020/21 was $425.1 million, a decrease of $181.2 million or 29.9% when compared to the 2019/20 amount of $606.3 million.

MANAGEMENT
Discussion and Analysis

2021 *(in thousands)*	CANNABIS OPERATIONS	CASINOS	LIQUOR OPERATIONS	LOTTERY	ONLINE GAMING	VIDEO LOTTO	TOTAL
Revenue	$ 80,180	$ 33,661	$ 885,997	$ 921	$ 72,434	$ 137,506	$ 1,210,699
Cost of sales	64,507	1,261	424,910	675	19,984	45,103	556,440
	15,673	32,400	461,087	246	52,450	92,403	654,259
Operating expenses	1,480	63,245	109,596	5,515	6,669	11,479	197,984
Depreciation and amortization	-	28,418	18,633	-	222	6,458	53,731
Goods and Services Tax	-	1,734	-	165	1,660	1,336	4,895
	1,480	93,397	128,229	5,680	8,551	19,273	256,610
Operating Income	14,193	(60,997)	332,858	(5,434)	43,899	73,130	397,649
Share of profit of Western Canada Lottery Corporation	-	-	-	48,767	9,602	-	58,369
Interest expense	-	(6,938)	(3,758)	(92)	(12)	(2,044)	(12,844)
Interest income	7	295	215	23	29	116	685
Income Before Allocations and Payments	14,200	(67,640)	329,315	43,264	53,518	71,202	443,859
Allocations and payments	51	1,961	8,635	1,402	1,689	5,020	18,758
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	$ 14,149	$ (69,601)	$ 320,680	$ 41,862	$ 51,829	$ 66,182	$ 425,101

2020 *(in thousands)*	CANNABIS OPERATIONS	CASINOS	LIQUOR OPERATIONS	LOTTERY	ONLINE GAMING	VIDEO LOTTO	TOTAL
Revenue	$ 51,480	$ 228,856	$ 800,398	$ 1,927	$ 21,365	$ 354,426	$ 1,458,452
Cost of sales	42,572	12,419	388,972	1,152	6,674	117,354	569,143
	8,908	216,437	411,426	775	14,691	237,072	889,309
Operating expenses	1,338	117,429	98,312	5,891	3,507	13,816	240,293
Depreciation and amortization	-	29,078	15,686	51	88	21,804	66,707
Goods and Services Tax	-	2,678	-	25	701	3,380	6,784
	1,338	149,185	113,998	5,967	4,296	39,000	313,784
Operating Income	7,570	67,252	297,428	(5,192)	10,395	198,072	575,525
Share of profit of Western Canada Lottery Corporation	-	-	-	59,933	2,108	-	62,041
Interest expense	-	(7,927)	(3,342)	(103)	(14)	(2,388)	(13,774)
Interest income	4	402	231	33	-	421	1,091
Income Before Allocations and Payments	7,574	59,727	294,317	54,671	12,489	196,105	624,883
Allocations and payments	381	3,036	10,373	827	1,124	2,840	18,581
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	$ 7,193	$ 56,691	$ 283,944	$ 53,844	$ 11,365	$ 193,265	$ 606,302

Revenue of $1,210.7 million was $247.8 million or 17.0% lower when compared to the revenue of $1,458.5 million in the prior year. Cannabis Operations revenues increased $28.7 million from last year. During the year, the cannabis retail market was expanded to allow applications from all prospective retailers which contributed to 42 new stores opening during the year. Casino revenues decreased $195.2 million from 2019/20 as the Casinos of Winnipeg operations were closed for 282 days during the year in response to the COVID-19 pandemic. Video Lotto revenues decreased by $216.9 million year-over-year as the VLT network was shut down for 195 days during the year. Liquor Operations revenues increased by $85.6 million over the prior year. The majority of this increase, $52.0 million, occurred in Liquor Marts and the home delivery offering. Online gaming revenues grew by $51.0 million from last year, as the active player base experienced significant growth due to the closures of the casinos and VLT network as well as a two-month pause on in-person lottery sales.

Operating expenses in 2020/21 were $198.0 million, a decrease of $42.3 million or 17.6% from the $240.3 million operating expenses of the prior year, and include employee and other costs directly related to the generation of revenues. Employee costs decreased due to temporary staff layoffs attributable to the COVID-19 pandemic and its impacts on operations, specifically the closure of the casinos and the shutdown of the VLT network. Other operating expenses were lower than last year as the Corporation engaged in cash flow management strategies to mitigate the impact of operational closures. Actions taken included the suspension or cancellation of service contracts where possible, the delay of initiatives that did not impact continuing operations, and a detailed review of all budget items to pause or defer spending.

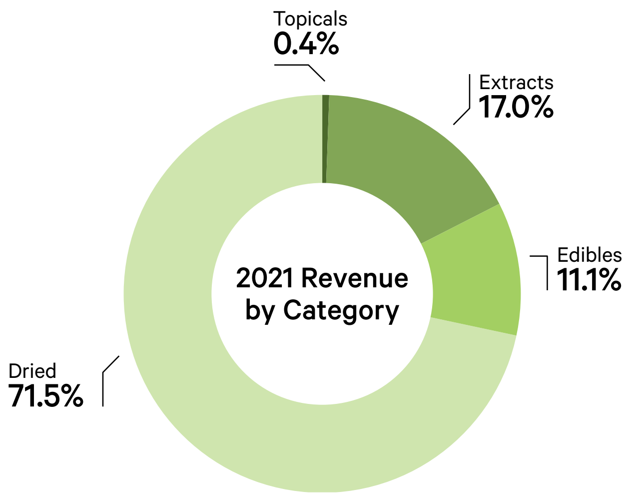
Non-operating expenses of the Corporation include depreciation and amortization, Goods and Services Tax (GST) related to gaming expenditures, interest expense net of interest income, and allocations and payments. Total non-operating expenses were $89.5 million in 2020/21, a decrease of $15.3 million or 14.6% from the $104.8 million recorded last year. This decrease is primarily seen in depreciation and amortization due to a reduction in the Corporation's capital investment program over the last number of years. An increase in regulatory expenses due to unrecoverable VLT licence fees was offset by a $1.0 million reduction in LGCA funding.

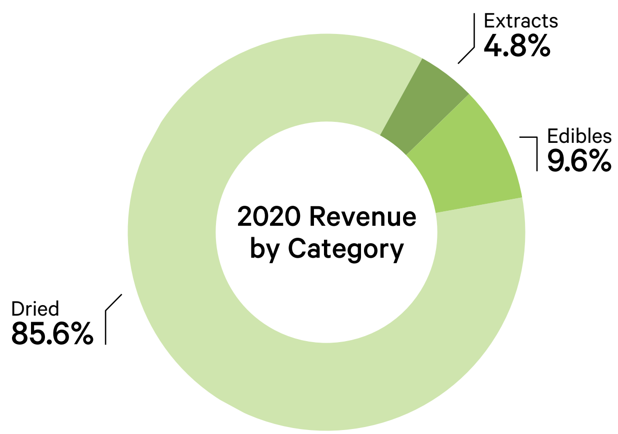
Cannabis Operations

The sale and consumption of non-medical cannabis became legal in Canada in October 2018. The Corporation is mandated to secure a safe supply of cannabis and to coordinate the distribution of cannabis to private sector retailers. Manitoba uses a direct distribution model that sees cannabis ship directly from Canadian producers to retailers.

In 2020/21, Cannabis Operations earned comprehensive income of $14.1 million, an increase of $6.9 million or 95.8% from the $7.2 million earned in 2019/20.

Revenue generated by Cannabis Operations was $80.2 million in the 2020/21 year, an increase of $28.7 million or 55.7% from revenue of $51.5 million generated in 2019/20. Revenue growth occurred in all cannabis categories. Increases include $13.3 million in dried cannabis, $11.1 million in extracts, $3.9 million in edibles, and $0.3 million in the first year topicals were offered. During the year, 42 additional retail locations opened, providing a total of 71 locations throughout the province. The sale of cannabis was designated as an essential service in Manitoba at the onset of the pandemic therefore retail locations were allowed to remain open for the full year. All licensed retailers are also eligible to offer online sales and many focused on that as an option for their customers in response to the pandemic.





Cannabis Operations supports private retailers as the provincial wholesale distributor, maintaining a catalogue of available cannabis products, including dried flower, edibles, extracts, vapes, beverages, and topicals. The Corporation continued to work with suppliers to expand the availability and variety of products in its catalogue. During the year package sizes of 28 grams (1 ounce) emerged, drawing long-time consumers to the legal market.

The Corporation continues to work with the private retail partners to meet the requirements of the federal government's Cannabis Tracking and Licensing System, developed to track the flow of cannabis as a means of preventing the illegal diversion of cannabis into and out of the legal cannabis supply chain.

Casinos

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

Casino operations generated a comprehensive loss of $69.6 million in the year, compared to the $56.7 million in comprehensive income earned in the prior year.

The measures enacted by the Province of Manitoba to combat the spread of COVID-19 had a material negative impact on the financial results of the casinos. During the 2020/21 year, the Casinos of Winnipeg lost 282 operational days. While the casinos were open between July 29, 2020 and October 18, 2020, capacity levels were limited to 30% during that time. As a result, casino revenue decreased $195.2 million or 85.3% when compared to the prior year. Casino cost of sales decreased $11.1 million or 89.5% over the prior year and include gaming direct expenses associated with the operation and maintenance of electronic gaming equipment and table games equipment as well as costs associated with the non-gaming offerings in the food and beverage and entertainment areas. Other expenses decreased $57.8 million or 36.2% over the prior year. The Corporation mitigated the impact of the operational closures through the use of temporary staff layoffs, the suspension or cancellation of service contracts wherever possible, and the reduction or elimination of discretionary spending. Certain expenses such as utilities, security, and ongoing maintenance were unavoidable during the periods of closure.

Liquor Operations

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

Liquor Operations earned comprehensive income of $320.7 million in 2020/21, an increase of $36.8 million or 13.0% over the $283.9 million earned last year.

Revenue generated by Liquor Operations was $886.0 million in 2020/21, an increase of $85.6 million or 10.7% from the revenue of $800.4 million in 2019/20. The sale of liquor was designated as an essential service at the onset of the pandemic and liquor retail locations were operational throughout the full year. During the year, liquor sales (both in dollars and in volume) as well as gross profit increased in all categories, with the increase in dollar sales outpacing the volume growth in each category. The largest growth occurred in refreshment beverages, as the introduction of hard seltzer products has been well-received by customers. The early stages of the pandemic resulted in a sharp increase in liquor sales due to customer uncertainty regarding potential closures however these buying patterns reduced to more regular levels early within the 2020/21 year. Consumer trends towards premiumization of liquor purchases as well as general stay at home orders which saw fewer Manitobans leaving the province during the year have both contributed to the increased liquor sales experienced in the 2020/21 year. Research collected through the Corporation's social responsibility program indicates that throughout the pandemic the majority of consumers maintained low-risk alcohol consumption habits, with a minority segment of customers self-reporting some increases in alcohol consumption patterns, contributing to a portion of the volume increase experienced throughout the year.

When viewed by channel, the bulk of the growth in revenue is attributable to Liquor Marts and home delivery, which together experienced a growth in sales of $52.0 million over last year while liquor vendor sales increased by $22.8 million. Licensees sales rose by $6.2 million in 2020/21, a modest increase over 2019/20. Increased hotel beer vendor sales offset decreased sales in bars and restaurants, which experienced extended shutdowns of on-premise service as a result of public health orders, as well as lower sales due to the cancellation of banquets, festivals, and large-scale sporting and concert events. Specialty wine stores sales decreased $3.3 million over last year due to the pandemic-related restrictions experienced by bars and restaurants. Operating and non-operating expenses increased by $12.9 million or 10.1% due to operational costs in support of increased sales volumes, the transition to a new liquor distribution centre, the implementation of controlled entrances at Liquor Marts in Winnipeg, Brandon, Portage la Prairie and Selkirk, as well as enhanced cleaning and safety procedures at all Liquor Marts to combat the spread of COVID-19.

MANAGEMENT DISCUSSION AND ANALYSIS
of financial condition and results of operations as at March 31, 2021

2021 *(in thousands)*	BEER	REFRESHMENT BEVERAGES	SPIRITS	WINE	TOTAL
Stores	$ 86,619	$ 37,002	$ 227,954	$ 141,078	$ 492,653
Liquor Vendors	19,285	11,109	46,984	16,205	93,583
Licensees	234,595	31,035	7,084	1,311	274,025
Specialty Wine Stores	-	140	72	15,379	15,591
Total Sales	340,499	79,286	282,094	173,973	875,852
Cost of Sales	200,624	38,068	106,605	79,326	424,623
Gross Profit	$ 139,875	$ 41,218	$ 175,489	$ 94,647	$ 451,229

2020 *(in thousands)*	BEER	REFRESHMENT BEVERAGES	SPIRITS	WINE	TOTAL
Stores	$ 81,270	$ 27,321	$ 198,951	$ 133,083	$ 440,625
Liquor Vendors	13,622	6,357	38,068	12,700	70,747
Licensees	226,846	16,887	19,588	4,498	267,819
Specialty Wine Stores	-	131	47	18,715	18,893
Total Sales	321,738	50,696	256,654	168,996	798,084
Cost of Sales	189,000	23,878	97,293	78,470	388,641
Gross Profit	$ 132,738	$ 26,818	$ 159,361	$ 90,526	$ 409,443

Volume Sales *(in millions of litres)*	BEER	REFRESHMENT BEVERAGES	SPIRITS	WINE
2021	74.3	12.1	8.1	12.3
2020	70.9	7.8	7.6	12.0
2019	74.3	6.9	7.3	11.7
2018	76.1	6.3	7.3	12.1
2017	76.4	5.7	7.2	11.8

Lottery

The Province of Manitoba is a member of WCLC, a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities in the Prairie provinces and the territories. The Corporation distributes and sells tickets for national lotteries operated by ILC and lottery gaming products operated by WCLC. As the province's sole distributor of lottery products, the Corporation is responsible for the development and maintenance of a network of more than 900 private retail outlets across Manitoba and to market a selection of breakopen tickets through those outlets, charitable organizations, and casinos across the province. The Corporation also continues to be the exclusive supplier of bingo paper to Manitoba's charitable and non-profit licensed bingo operators. In the online environment, ILC and WCLC lottery gaming products are also available on Manitoba's online gaming platform, PlayNow.com, and the share of profit from these products is presented separately in the Online Gaming segment.

In the 2020/21 year, the share of the profit of WCLC considered to be part of the Lottery operating segment was $48.8 million, a decrease of $11.1 million or 18.5% from last year's share of the profit of WCLC of $59.9 million. The impact of the pandemic on traffic volumes at lottery retailers, the shutdown of the majority of the lottery network between November 21, 2020 and January 22, 2021, lower than expected jackpots in LOTTO MAX and LOTTO 6/49 as well as decreased sporting events have contributed to reduced sales of lottery products. In 2020/21, lottery sales through private retail outlets decreased 8.2% over last year, although these reductions were partially offset by increased sales through PlayNow.com.

Online Gaming

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

Online Gaming generated comprehensive income of $51.8 million in the year, an increase of $40.4 million or 354.4% from the $11.4 million earned in the prior year.

Revenue generated by Online Gaming was $72.4 million in the 2020/21 year, an increase of $51.0 million or 238.3% over the revenue of $21.4 million generated in 2019/20. In recent years, the Corporation has focused its efforts on various programs to increase customer awareness and acceptance of Manitoba's legal online gaming site and online gaming has experienced consistent growth as a result. Before the pandemic, revenue growth averaged approximately 20% over the prior four years. During the 2020/21 year, PlayNow.com saw a significant increase in registrations and active players as Manitobans sought online gaming options while the casinos and VLT network were unavailable. Cost of sales increased $13.3 million over the prior year and include direct expenses associated with the operation and maintenance of the online gaming platform. The share of the profit of WCLC earned through the sale of lottery products on PlayNow.com was $9.6 million, an increase of $7.5 million from the $2.1 million earned in the prior year. During the period of time when the majority of Manitoba lottery retailers were unable to sell lottery tickets due to pandemic-related restrictions, PlayNow.com experienced an additional influx of new users to the site. Overall, the number of active players on PlayNow.com grew 178.9% in the 2020/21 year.

Video Lotto

The Corporation is responsible for the operation and maintenance of Video Lottery Terminals (VLTs). VLTs are located at First Nations communities, licensed establishments, and veterans' organizations. The operation of VLTs provides annual commissions and contributions to all VLT siteholders who operate equipment on their premises.

Video Lotto comprehensive income of $66.2 million decreased $127.1 million or 65.8% from the comprehensive income of $193.3 million in the previous year. The measures enacted by the Province of Manitoba to combat the spread of COVID-19 had a material negative impact on the financial results for Video Lotto. During the 2020/21 fiscal year, the VLT network was completely shut down for 195 days. For the remainder of the year, an average of 46.7% of VLT machines on the network were active to maintain the social distancing measures and maximum capacity requirements set out by the Province of Manitoba. Revenue of $137.5 million decreased by $216.9 million or 61.2% from the $354.4 million recorded last year.

In the 2020/21 year, the operation of VLTs provided annual commissions and contributions of $45.1 million to all VLT siteholders who operate equipment on their premises, a decrease of $72.3 million from the $117.4 million of support provided in the prior year. All siteholder categories experienced decreases due to the impact of the pandemic on operations. Included in the total commissions and contributions amount is $23.2 million of support to First Nations communities. First Nations VLT siteholders retain 90% of net win from the VLTs. Of that 90%, 5% represents the actual service component provided to the Corporation for hosting the terminals and the other 85% is provided as a contribution to promote sustainable social and economic benefits and opportunities within First Nations communities. Licensed beverage room VLT siteholders operate under a tiered structure whereby they retain between 17.5% and 22.0% of the net win from VLTs. Of this amount, 10% represents the actual service component provided by the siteholders to the Corporation for hosting the terminals and the balance is provided as a contribution to promote tourism in the province. During 2020/21, this support totaled $21.1 million. The commissions and contributions rate provided to veterans' organizations allows these siteholders to retain 30% of net win from the VLTs. Support to veterans' organizations totaled $0.8 million in the year.

VLT COMMISSIONS & CONTRIBUTIONS *(in millions)*

	FIRST NATIONS	CITY SITEHOLDERS	RURAL SITEHOLDERS	TOTAL
2021	$ 23.2	$ 12.5	$ 9.4	$ 45.1
2020	63.3	31.0	23.1	117.4
2019	61.8	30.6	23.7	116.1
2018	62.8	31.1	23.9	117.8
2017	58.6	30.4	23.6	112.6

Operating and non-operating expenses decreased by $17.6 million or 40.2% when compared to the prior year mainly due to the fact the majority of the VLT gaming equipment became fully depreciated during the 2020/21 year. The Corporation mitigated the impact of the VLT network closures during the year through the use of temporary staff layoffs and the reduction or elimination of discretionary spending. To assist its partners through the impacts of the pandemic, the Corporation paid $1.8 million in Liquor, Gaming and Cannabis Authority of Manitoba licence fees on behalf of siteholders related to VLTs that were non-operational due to health order restrictions during the year.

FIRST NATIONS CASINOS AND SHARK CLUB GAMING CENTRE

The Corporation maintains conduct and management authority over First Nations Casinos and the Shark Club Gaming Centre as the agent appointed to act as such for the gaming regime of the province. As authorized by the gaming agreements, all costs of gaming supplies are recovered on an annual basis and capital costs of gaming equipment are funded by the Corporation and are recovered over a five-year term. During the 2020/21 year, these gaming operations were subject to the same provincially mandated extended closure and capacity restrictions as the casinos operated by the Corporation.

No purchases of gaming equipment were made for Aseneskak Casino, South Beach Casino, Sand Hills Casino, or Shark Club Gaming Centre during the year.

MLC HOLDINGS INC.

The Corporation's consolidated financial statements include the results of MLC Holdings Inc., a controlled entity established to purchase certain capital assets for lease to the Corporation at cost. The management and oversight of MLC Holdings Inc. is consolidated within the Corporation's operations and the Board reviews and approves capital purchases through the annual business planning and budget process. To support capital initiatives in the 2020/21 year, MLC Holdings Inc. acquired $18.3 million in capital assets for lease to the Corporation.

SOCIAL RESPONSIBILITY

The Corporation is committed to encouraging the responsible use of its products and instills social responsibility values throughout all business operations. As outlined within *The Manitoba Liquor and Lotteries Corporation Act*, 2% of annual anticipated consolidated net income and comprehensive income is allocated to social responsibility initiatives.

The Corporation's social responsibility program is focused on helping customers make low risk and informed decisions, on providing funding to treatment and support programs so they are accessible for those in need, and funding research initiatives related to responsible use messaging, harm minimization approaches and outcomes related to product use. In addition, social responsibility considerations are also applied to the introduction of new liquor and gaming products, to new and existing business partner relationships and to all marketing related messaging and campaigns produced by the Corporation.

Various components of the Corporation's 2020/21 social responsibility program were impacted by the pandemic such as the closure of the casino based GameSense Info Centres as well as internal and external research initiatives that were scheduled to launch but were unable to proceed thus resulting in reduced expenditures during the year. Of the 2020/21 committed amount, $2.5 million was unspent and carried forward, reserved for social responsibility initiatives in the 2021/22 year.

(in thousands)	2021	2020
Funding support	$ 8,714	$ 8,615
Internal research and program evaluation	422	333
Operating and consumer awareness	3,092	4,114
Prior year funding spent in current year	(1,835)	(1,965)
Funding carried forward to future years	2,516	1,835
	$ 12,909	$ 12,932

For more information on the Corporation's commitment to the responsible use of its products please visit www.mbll.ca.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities during the 2020/21 year provided the Corporation with $471.9 million in cash flows compared to $708.2 million in the prior year, a decrease of $236.3 million or 33.4%.

Cash spent on property and equipment in 2020/21 totaled $25.3 million as compared to the $32.0 million spent in the prior year. The majority of property and equipment expenditures in the year were focused on the regular process of maintaining existing equipment, facilities and technology to support ongoing operations. During the 2020/21 year, the Corporation completed work on the liquor operations distribution centre with the new facility becoming operational in August 2020. The Corporation also substantially completed its theft mitigation strategy through the installation of controlled entrances at all Liquor Mart and Liquor Mart Express locations in Winnipeg and at select locations in other areas of the province. Necessary maintenance to a portion of the heating, ventilation and air conditioning equipment at McPhillips Station Casino was also ongoing during the year. Where possible throughout the 2020/21 year, capital projects were placed on hold or deferred to a later start date to manage the impact of decreased cash flows as a result of the pandemic.

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

In the 2020/21 year, proceeds of long-term debt received were $33.6 million as compared to the $45.1 million of proceeds received in the prior year. No proceeds were received during the year to purchase gaming equipment for the First Nations Casinos, as compared to $0.1 million received for that purpose in 2019/20. All long-term debt has fixed interest rates and is repayable in monthly instalments.

Cash distributions to the Province of Manitoba during 2020/21 resulted in a cash outflow of $424.8 million compared to last year's $614.1 million.

CORPORATE GOVERNANCE

Corporate governance is the practice of ensuring an organization is accountable and conducts itself within the applicable legal framework and through an established system of by-laws, policies, processes, and structures by which the long-term goals and strategic plans of the Corporation are guided. The corporate governance structure specifies the distribution of authority and accountability among the different levels of the Corporation, particularly at the Government, Board of Directors, and Executive Management levels. It outlines the best practices and guiding principles for making decisions on corporate affairs and provides a mechanism for accountability in relation to those decisions.

The Corporation reports on its progress to the government on a quarterly and annual basis to meet various legislative requirements. In accordance with the requirements of *The Manitoba Liquor and Lotteries Corporation Act,* an Annual Report is prepared which includes the externally audited consolidated financial statements. Other reporting includes quarterly financial statements; an annual Business Plan outlining goals and objectives, key performance measures, and planned expenditures as required under the provisions of *The Crown Corporations Governance and Accountability Act*; a Schedule of Compensation which is prepared in accordance with the requirements of *The Public Sector Compensation Disclosure Act;* and an update on efforts to reduce red tape and improve regulatory accountability under *The Regulatory Accountability Act.*

WHISTLEBLOWER REPORT

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

A disclosure of alleged wrongdoing was submitted to the designated officer during the 2020/21 year. It was determined that the inquiry did not qualify as a wrongdoing as defined in the Corporation's Whistleblower Protection Policy.

RISK MANAGEMENT

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

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

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

STRATEGIC RISKS

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

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

OPERATIONAL RISKS

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

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

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

FINANCIAL RISKS

Financial risks include risks that cash flows and financial information are not efficiently and effectively managed or safeguarded which can compromise financial integrity and decision-making ability of the Corporation.

The Corporation's exposure to interest-rate risk is substantially limited due to the use of fixed-rate, long-term debt. Credit risk due to the inability or unwillingness of a counterparty to fulfill its payment obligations, while low, is mitigated through the Corporation's centralized credit management and collection practices. The Corporation manages its liquidity risk through effective cash and long-term debt management. The Corporation is exposed to currency risk through liquor inventory purchase transactions that require settlement in foreign currencies, which is mitigated by the policy of adjusting purchase or selling prices to maintain approved liquor profit margins.

GOVERNANCE AND 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.

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

FUTURE OUTLOOK

The Corporation's allocation to the Province of Manitoba is budgeted to be $570.0 million in the 2021/22 year. This represents an increase of $144.9 million from the $425.1 million allocation to the Province of Manitoba in the 2020/21 year. The 2021/22 budget contains concessions for the negative impacts of COVID-19 pandemic-related capacity restrictions on net income for both the casinos and Video Lotto. However, the duration of the COVID-19 pandemic and the associated public health orders are unknown at this time, and it is not possible to reliably estimate the full impact the pandemic will have on the 2021/22 financial results. In a typical year casinos and the VLT network together represent over 40% of the Corporation's annual comprehensive income; therefore, it is reasonable to expect that extended closures impacting these operations would have a material negative impact on the 2021/22 financial results.

In the upcoming year, the Corporation will continue to encourage the growth of the cannabis industry within the province through support of an open market for cannabis retail. As expansion continues in Winnipeg, cannabis operations will monitor for market saturation in certain areas of the city, while continuing to work with prospective retailers to expand availability in other communities. Cannabis operations will be conducting a review of the distribution model in the province to assess the feasibility of the current direct-ship model as retail expands and to consider long-term distribution plans for the province. In addition, an online product ordering system will be rolled out over the 2021/22 year.

Liquor Operations will continue to focus on the areas of home delivery and future online retailing capabilities in response to the rapid growth experienced as a result of the pandemic and evolving retail trends. Other initiatives expected to be in progress in the 2021/22 year include the necessary replacement of point of sale hardware at the Liquor Marts, an upgrade to the commercial customer ordering system to facilitate order entry ease and tracking history, and the elimination of single-use bags in the retail stores. A project to modernize the pricing structure and supporting systems will be launched with the objectives of increasing the flexibility to adapt to channel and category changes, simplifying discounts to retail channel partners and address administrative efficiencies. Aligned with that, and in response to previously passed legislation that enables the private distribution of other categories of alcohol in addition to beer, the Corporation will investigate changes required to its existing distribution policies and agreements to support this new private sector opportunity that enables positive changes to the landscape of liquor distribution in Manitoba.

The Corporation will continue to find ways to provide a modern and fun gaming experience in a safe environment. Online gaming through the PlayNow.com site will continue to take on additional significance in light of the current conditions and it is anticipated that growth of the customer base will continue in 2021/22 as more people are introduced to the online experience.

The Corporation will continue to focus its efforts to support PlayNow.com and promote its place as Manitoba's only legal online gaming platform. In 2021/22, Video Lotto will work closely with VLT sites to increase capacity while maintaining social distancing requirements. Additionally, Video Lotto will begin a program to replace old and obsolete VLT machines which will include the replacement of approximately 500 machines by the end of 2021/22. When allowed under public health orders, customers will be welcomed back to a reimagined casino gaming experience where they will have the opportunity to play their favourite games such as slots and bingo in a safe environment. Customers will also be provided a revised table games experience with the implementation of stadium gaming, a new and popular hybrid of electronic table games assisted by live dealers. Stadium gaming will offer customers many more low-limit table games in a way that aligns with public health best practices for social distancing. On June 22, 2021 the federal Bill C-218 was enacted, which amended the Criminal Code of Canada to allow single-game sports betting. The Corporation will move quickly to meet the needs of customers in relation to this new legislation.

A priority in 2021/22 is furthering plans to increase engagement, retention, and talent development. The Corporation is committed to the principles of workforce diversity, inclusion and employment equity, through encouraging and maintaining, for all employees, potential employees, suppliers, and customers, a safe and respectful workplace that is reflective of the Manitoba population. Other initiatives for the Corporation will focus on technology, through stabilizing existing technology assets by keeping them up to date and efficient, and by enhancing cyber security, to protect networks and data, and to maintain a high level of resilience and stability.

The Corporation is committed to using the experience and lessons learned from the COVID-19 pandemic to find ways to think and act more efficiently. Since March 2020 there have been more than 600 staff members performing all or most of their job functions from home. This has allowed the Corporation to not only effectively manage physical distancing during the COVID-19 pandemic but has also provided an opportunity to pilot the ability to run the business with a remote workforce. Through the extended duration of the pandemic, the Corporation has been learning how to leverage technology to effectively communicate, collaborate, perform daily tasks and manage a remote workforce. In 2021/22, the Corporation will implement a long-term remote work strategy that will result in ongoing financial benefits through reduced office space requirements and will provide staff a more flexible work environment. This strategy, coupled with the relocation of the liquor distribution centre operations in the 2020/21 year, has provided the Corporation the unique opportunity to sell its location at 1555 Buffalo Place which is planned to occur during the 2021/22 year.

MANITOBA LIQUOR AND LOTTERIES CORPORATION

Consolidated Financial Statements

MANAGEMENT

Report

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

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

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

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

The Board meets with management and Ernst & Young LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the consolidated financial statements before approving them. The Board has reviewed and approved the consolidated financial statements for the fiscal year ended March 31, 2021.

Original signed by
MANNY ATWAL
President &
Chief Executive Officer

Original signed by
HEATHER MITCHELL
Chief Financial Officer

INDEPENDENT

Auditor's Report

To the Board of Directors of Manitoba Liquor and Lotteries Corporation

OPINION

We have audited the consolidated financial statements of Manitoba Liquor and Lotteries Corporation (the "Corporation"), which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statement of net income, comprehensive income and equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

BASIS FOR OPINION

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

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, in the Corporation's Annual Report.

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Winnipeg, Canada
June 18, 2021

INDEPENDENT Auditor's Report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31
(in thousands of Canadian dollars)

	NOTES	2021	2020
ASSETS			
CURRENT ASSETS			
Cash		$ 51,122	$ 68,969
Trade and other receivables	4	55,144	36,809
Inventories	5	64,335	54,564
Prepayments	6	4,474	4,382
		175,075	164,724
NON-CURRENT ASSETS			
Property and equipment, net	7	337,376	357,279
Right-of-use assets, net	8	68,257	72,693
Intangible assets, net	9	9,360	11,697
		414,993	441,669
TOTAL ASSETS		$ 590,068	$ 606,393
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	10	$ 121,340	$ 120,806
Contract liabilities	11	12,691	7,767
Payable to the Province of Manitoba		42,601	42,302
Current portion of long-term debt	12	54,633	52,348
Current portion of lease liabilities	8	7,536	7,430
		238,801	230,653
NON-CURRENT LIABILITIES			
Long-term debt	12	282,228	303,513
Lease liabilities	8	64,039	67,227
		346,267	370,740
Commitments and contingencies	16		
EQUITY			
Retained earnings		5,000	5,000
TOTAL LIABILITIES AND EQUITY		$ 590,068	$ 606,393

(see accompanying notes to the consolidated financial statements)

On behalf of the Board

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

Original signed by
BRENDA TOBAC
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	2021	2020
REVENUE	13	$ 1,210,699	$ 1,458,452
COST OF SALES	13	556,440	569,143
		654,259	889,309
Operating expenses	13	197,984	240,293
Depreciation and amortization		53,731	66,707
Goods and Services Tax		4,895	6,784
		256,610	313,784
OPERATING INCOME		397,649	575,525
Share of profit of Western Canada Lottery Corporation	14	58,369	62,041
Interest expense		(12,844)	(13,774)
Interest income		685	1,091
INCOME BEFORE ALLOCATIONS AND PAYMENTS		443,859	624,883
Allocations and payments	15	18,758	18,581
NET INCOME AND COMPREHENSIVE INCOME		425,101	606,302
EQUITY, BEGINNING OF THE YEAR		5,000	5,000
Allocation to the Province of Manitoba		(425,101)	(606,302)
EQUITY, END OF THE YEAR		$ 5,000	$ 5,000

(see accompanying notes to the consolidated financial statements)

CONSOLIDATED STATEMENT OF CASH FLOWS

	2021	2020
OPERATING ACTIVITIES		
Net Income And Comprehensive Income	$ 425,101	$ 606,302
Add:		
Depreciation related to property and equipment	41,250	52,844
Depreciation on assets related to Conduct and Management agreements	1,691	2,449
Depreciation related to right-of-use assets	9,218	9,182
Amortization related to intangible assets	3,263	4,681
Interest on financing activities	12,844	13,774
Loss on disposal of property and equipment	1,233	4,284
Loss on disposal of intangible assets	-	134
	494,600	693,650
Changes in non-cash working capital items:		
Decrease (increase) in trade and other receivables	(18,335)	17,120
Increase in inventories	(9,771)	(4,928)
Decrease (increase) in prepayments	(92)	311
Increase in trade and other payables	534	1,982
Increase in contract liabilities	4,924	81
CASH PROVIDED BY OPERATING ACTIVITIES	471,860	708,216
INVESTING ACTIVITIES		
Purchase of property and equipment	(25,332)	(31,984)
Purchase of intangible assets	(926)	(4,093)
Proceeds from disposal of property and equipment	1,061	411
CASH USED IN INVESTING ACTIVITIES	(25,197)	(35,666)
FINANCING ACTIVITIES		
Cash distributions to the Province of Manitoba:		
Current year	(422,500)	(609,000)
Prior year	(2,302)	(5,075)
Proceeds from long-term debt	33,600	45,140
Payment of principal and interest on long-term debt	(63,123)	(71,227)
Payment of principal and interest on lease liabilities	(10,185)	(9,179)
CASH USED IN FINANCING ACTIVITIES	(464,510)	(649,341)
NET INCREASE (DECREASE) IN CASH DURING THE YEAR	(17,847)	23,209
CASH, BEGINNING OF THE YEAR	68,969	45,760
CASH, END OF THE YEAR	$ 51,122	$ 68,969

(see accompanying notes to the consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

The consolidated financial statements of the Corporation for the year ended March 31, 2021 were authorized for issue by the Board of Directors on June 18, 2021.

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

(B) STATEMENT OF COMPLIANCE

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

(C) BASIS OF CONSOLIDATION

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

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

(D) WESTERN CANADA LOTTERY CORPORATION

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

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

(E) FIRST NATIONS CASINOS AND SHARK CLUB GAMING CENTRE

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

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

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

(F) PLAYNOW ONLINE GAMING PLATFORM

The Corporation entered into an agreement with British Columbia Lottery Corporation (BCLC) to develop a Manitoba version of their online gaming platform, PlayNow, which became operational in Manitoba in January 2013. BCLC is responsible for the overall direction and day-to-day operations of the PlayNow platform, with the Corporation maintaining C&M authority. BCLC and the Corporation collaborate on marketing initiatives, which are carried out in Manitoba on a fee-for-service basis.

(G) FOREIGN CURRENCY TRANSLATION

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

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

(H) FINANCIAL INSTRUMENTS

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

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

(I) Fair value through profit or loss

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

(ii) Amortized cost

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

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

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

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

(I) PROPERTY AND EQUIPMENT

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

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

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

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

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

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

(J) 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.

The Corporation recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee on the date that the underlying asset is available for use. Exceptions include leases of low-value assets, short-term leases (those with a lease term of 12 months or less), and variable leases where payment is linked to future performance or use. Payments related to low-value and short-term leases are recorded as an operating expense in the consolidated statement of net income, comprehensive income and equity on a straight-line basis over the term of the lease. Variable leases consist of leases for certain gaming equipment, and are recorded in cost of sales in the consolidated statement of net income, comprehensive income and equity.

The lease liability is initially measured at the present value of lease payments to be made over the lease term and include fixed payments, net of any lease incentives. The Corporation uses judgment in determining the appropriate lease term on a lease-by-lease basis and includes renewal options where it is reasonably certain the lease will be renewed. The present value of lease payments is calculated using the Corporation's incremental borrowing rate at the lease commencement date, unless the interest rate implicit in the lease is readily determinable.

Subsequent to initial measurement, lease liabilities are measured at amortized cost using the effective interest rate method.

Lease liabilities are remeasured for any changes in lease terms, changes in future lease payments due to a change in the rate or index associated with those payments, or any lease contract modifications that do not result in the recognition of a separate lease. 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 within interest expense in the consolidated statement of net income, comprehensive income and equity.

Right-of-use assets are initially measured at the amount of the corresponding lease liability plus any significant initial direct costs and decommissioning costs. Subsequent to initial measurement, right-of-use assets are measured at cost, net of accumulated depreciation, and are adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter period of the lease term and the estimated useful life of the underlying asset. Right-of-use assets are subject to impairment, as described in note 2(m)(ii).

(K) INTANGIBLE ASSETS

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

Computer software	3 to 15 years

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

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

(L) 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 the distribution centre or warehouse location 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.

(M) IMPAIRMENT

(i) Trade and other receivables

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

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

(ii) Non-financial assets

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

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

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

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

(N) PROVISIONS

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

(O) PENSION PLANS

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

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

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

(P) REVENUE RECOGNITION

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

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

(i) Promotional allowances

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

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

(ii) Third-party AIR MILES® program

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

(iii) Micro-producer direct sales

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

(iv) Contract balances

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

A contract liability is the obligation to transfer goods or services to a customer for which the Corporation has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are recognized as revenue when the Corporation performs under the contract and are disclosed in note 11.

(Q) GOODS AND SERVICES TAX

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

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

(in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

(B) LEASES

The Corporation has based the determination of the lease terms for right-of-use assets on a detailed review of all facts and circumstances for each lease. The Corporation uses judgment in determining the incremental borrowing rate applicable to each lease, which is used in the calculation of the value of the right-of-use asset and lease liability. The periods covered by renewal options are included in the lease term only if it is reasonably certain that the lease will be renewed. The Corporation annually reviews the validity of the lease term for each right-of-use asset based on current circumstances and considers the impact of any external or internal changes in the Corporation's environment, which may indicate the requirement to reconsider the lease term applied.

(C) REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Loyalty points program

The Corporation operates a program whereby patrons can earn points based upon their level of play on certain casino games. Points can be redeemed for gaming free play, and certain goods and services provided by the casinos. The future redemption liability of $3,351 (2020 – $3,268) is included in contract liabilities and is based on an assessment of anticipated point redemptions and point value. The Corporation adjusts the estimated liability based on redemption experience and additional points earned and any adjustments are recorded in the consolidated statement of net income, comprehensive income and equity.

(ii) Principal versus agent considerations

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

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

(iii) Other consideration and obligations

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

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

4. TRADE AND OTHER RECEIVABLES

	2021	2020
Trade	$ 44,087	$ 34,857
British Columbia Lottery Corporation	6,544	1,952
Western Canada Lottery Corporation	4,513	-
	$ 55,144	$ 36,809

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

5. INVENTORIES

	2021	2020
Warehouse	$ 45,124	$ 36,829
Retail locations	18,839	17,331
Consumable supplies	372	404
	$ 64,335	$ 54,564

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is $6,625 at the end of the 2021 fiscal year (2020 – $4,916).

6. PREPAYMENTS

	2021	2020
Maintenance contracts	$ 3,237	$ 3,137
Deposits and other	895	914
Insurance	342	331
	$ 4,474	$ 4,382

(in thousands of Canadian dollars)

7. PROPERTY AND EQUIPMENT

COST	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
April 1, 2019	$ 25,427	$ 388,991	$ 32,282	$ 234,284	$ 127,979	$ 42,196	$ 25,348	$ 876,507
Additions	-	2,716	6,931	2,287	5,513	140	14,397	31,984
Transfers from WIP	-	4,463	5,582	7,143	2,322	101	(19,611)	-
Disposals	(3)	(8,599)	(4,882)	(29,394)	(7,562)	(1,913)	-	(52,353)
March 31, 2020	25,424	387,571	39,913	214,320	128,252	40,524	20,134	856,138
Additions	-	12,052	5,114	1,312	5,513	75	1,266	25,332
Transfers from WIP	-	2,189	12,000	-	2,796	-	(16,985)	-
Disposals	(4)	(7,026)	(220)	(523)	(6,379)	(190)	-	(14,342)
March 31, 2021	$ 25,420	$ 394,786	$ 56,807	$ 215,109	$ 130,182	$ 40,409	$ 4,415	$ 867,128

DEPRECIATION	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
April 1, 2019	$ -	$ 151,905	$ 16,800	$ 177,887	$ 108,104	$ 36,528	$ -	$ 491,224
Depreciation	-	14,149	2,469	28,741	7,485	2,449	-	55,293
Disposals	-	(4,610)	(4,487)	(29,381)	(7,267)	(1,913)	-	(47,658)
March 31, 2020	-	161,444	14,782	177,247	108,322	37,064	-	498,859
Depreciation	-	16,463	4,568	13,681	6,538	1,691	-	42,941
Disposals	-	(5,032)	(66)	(523)	(6,237)	(190)	-	(12,048)
March 31, 2021	$ -	$ 172,875	$ 19,284	$ 190,405	$ 108,623	$ 38,565	$ -	$ 529,752

NET BOOK VALUE	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
March 31, 2021	$ 25,420	$ 221,911	$ 37,523	$ 24,704	$ 21,559	$ 1,844	$ 4,415	$ 337,376
March 31, 2020	25,424	226,127	25,131	37,073	19,930	3,460	20,134	357,279

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

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

The amount of borrowing costs capitalized during the 2021 fiscal year was $112 (2020 – $339). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 1.70%, the effective interest rate of the specific borrowing.

8. LEASES

The Corporation has entered into lease contracts for the use of various land, buildings, and equipment used in its operations, which have remaining lease terms ranging from 1 to 19 years.

The Corporation's right-of-use (ROU) assets are grouped into categories consistent with property and equipment, and consist of the following:

COST	ROU Land	ROU Buildings	ROU Equipment	Total
April 1, 2019	$ 290	$ 57,540	$ 555	$ 58,385
Additions	15	22,872	603	23,490
March 31, 2020	305	80,412	1,158	81,875
Additions	34	4,063	685	4,782
March 31, 2021	$ 339	$ 84,475	$ 1,843	$ 86,657
DEPRECIATION				
April 1, 2019	$ -	$ -	$ -	$ -
Depreciation	185	8,787	210	9,182
March 31, 2020	185	8,787	210	9,182
Depreciation	123	8,906	189	9,218
March 31, 2021	$ 308	$ 17,693	$ 399	$ 18,400
NET BOOK VALUE				
March 31, 2021	$ 31	$ 66,782	$ 1,444	$ 68,257
March 31, 2020	120	71,625	948	72,693

The carrying value of lease liabilities are as follows:

April 1, 2019	$ 58,320
Additions and extensions	23,490
Payments	(9,179)
Interest on lease liabilities	2,026
March 31, 2020	74,657
Additions and extensions	4,782
Payments	(10,185)
Interest on lease liabilities	2,321
March 31, 2021	$ 71,575

Current portion of lease liabilities	$ 7,536
Lease liabilities	64,039
	$ 71,575

Payments for leases of low-value assets and short-term leases related to certain buildings and equipment in the 2021 fiscal year were $415 (2020 – $638) and are recorded in operating expenses. Variable lease payments in the 2021 fiscal year were $5,854 (2020 – $7,220) and are recorded in cost of sales.

(in thousands of Canadian dollars)

9. INTANGIBLE ASSETS

COST	Computer software – acquired
April 1, 2019	$ 53,594
Additions	4,093
Disposals	(753)
March 31, 2020	**56,934**
Additions	926
Disposals	(27)
March 31, 2021	**$ 57,833**

AMORTIZATION	
April 1, 2019	$ 41,175
Amortization	4,681
Disposals	(619)
March 31, 2020	**45,237**
Amortization	3,263
Disposals	(27)
March 31, 2021	**$ 48,473**

NET BOOK VALUE	
March 31, 2021	**$ 9,360**
March 31, 2020	11,697

10. TRADE AND OTHER PAYABLES

	2021	2020
Trade	$ 72,544	$ 71,340
Employee benefits	36,382	34,687
Jackpot liability	7,099	6,967
Goods and Services Tax	2,709	4,241
Manitoba Retail Sales Tax	2,606	2,871
Western Canada Lottery Corporation	-	700
	$ 121,340	$ 120,806

11. CONTRACT LIABILITIES

	2021	2020
Unearned revenue	$ 6,048	$ 1,837
Loyalty points program liability	3,351	3,268
Gift card liability	3,076	2,451
Other contract liabilities	216	211
	$ 12,691	$ 7,767

Revenue recognized in the 2021 fiscal year that was included in contract liabilities at the beginning of the year was $3,933 (2020 – $6,487).

12. LONG-TERM DEBT

	2021	2020
Province of Manitoba, bearing interest at rates ranging from 1.25% to 5.05%, repayable in monthly principal instalments ranging from $2 to $600 plus interest with maturity dates ranging from April 30, 2021 to March 31, 2041.	$ 336,861	$ 348,861
Province of Manitoba, bearing interest at the prevailing Royal Bank Prime Rate less 0.75%, interest only payable quarterly. No fixed repayment schedule and maturity date.	-	7,000
	336,861	355,861
Less current portion of long-term debt	54,633	52,348
	$ 282,228	$ 303,513

All long-term debt is unsecured and the fair market value as at March 31, 2021 is $354,694.

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

13. REVENUE, COST OF SALES AND EXPENSES BY NATURE

The Corporation's revenue consists of the following:

	2021	2020
Liquor sales	$ 875,852	$ 798,084
Cannabis sales	80,176	51,480
VLT	136,659	350,298
Casino and other gaming	32,916	213,002
Online gaming	72,429	21,365
Non-gaming revenue	12,667	24,223
	$ 1,210,699	$ 1,458,452

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

	2021	2020
Liquor cost of sales	$ 424,623	$ 388,641
Cannabis cost of sales	64,507	42,572
VLT commissions	12,911	33,509
First Nations allocation	21,889	59,810
Tourism contribution	10,303	24,035
Casino and other gaming direct expenses	1,535	6,709
Online gaming direct expenses	19,984	6,674
Non-gaming cost of sales	688	7,193
	$ 556,440	$ 569,143

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

Casino and other gaming direct expenses consist primarily of costs associated with the operation and maintenance of the Corporation's electronic gaming equipment and table games equipment.

Online gaming direct expenses consist primarily of costs associated with the operation and maintenance of the PlayNow online gaming platform.

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

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

	2021	2020
Employee benefits	$ 132,767	$ 167,266
Bank charges	4,185	3,926
Community support	980	1,566
Consultant and professional fees	1,015	1,508
Freight and delivery	4,670	4,031
Grants in lieu of taxes	6,761	6,419
Learning and development	485	888
Maintenance	20,307	14,197
Marketing and public awareness	3,259	8,147
Rents	449	622
Sundry	3,783	8,817
Supplies and equipment	3,344	4,140
Technology systems and support	9,688	11,339
Telecommunications	2,327	2,487
Transportation and vehicles	599	1,086
Utilities	3,365	3,854
	$ 197,984	$ 240,293

(in thousands of Canadian dollars)

14. SHARE OF PROFIT OF WCLC

	2021	2020
Revenue	$ 221,387	$ 241,307
Prizes, commissions and other cost of sales	156,303	172,056
WCLC partner equalization	4,493	4,708
Payment to Government of Canada	2,222	2,502
Profit	$ 58,369	$ 62,041

The WCLC earned revenue in the 2021 fiscal year in the amount of $1,456,006 (2020 – $1,400,918), of which the Corporation's share calculated based on relative sales levels by jurisdiction is 15% (2020 – 17%). The WCLC's total profit for the 2021 fiscal year was $480,523 (2020 – $446,183), of which the Corporation's share is 12% (2020 – 14%).

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

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

15. ALLOCATIONS AND PAYMENTS

	2021	2020
Social responsibility funding	$ 12,909	$ 12,932
LGCA funding and Crown Services Secretariat levy	5,325	5,124
Other community funding	524	525
	$ 18,758	$ 18,581

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 and cannabis consumption. The Corporation is required to allocate 2% of annual anticipated consolidated net income and comprehensive income to social responsibility initiatives. Any liability associated with this funding is included in trade and other payables.

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

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

16. COMMITMENTS AND CONTINGENCIES

(A) LEGAL CLAIMS

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

17. FINANCIAL INSTRUMENTS

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

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

(A) INTEREST RATE RISK

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

(B) CURRENCY RISK

The Corporation is exposed to currency risk through liquor inventory purchase transactions that require settlement in foreign currencies. Exposure to fluctuations in exchange rates is mitigated by the policy of adjusting purchase or selling prices to maintain approved liquor profit margins. Purchases denominated in foreign currencies during the 2021 fiscal year were $8,778 (2020 – $8,457). 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 $878 (2020 – $846), assuming the inventory purchased had been sold by the end of the year.

(C) LIQUIDITY RISK

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

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

2021	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
Trade and other payables	$ 7,099	$ 114,241	$ -	$ -	$ -	$ -	$ -	$ -
Contract liabilities	6,587	6,104	-	-	-	-	-	-
Payable to the Province of Manitoba	-	42,601	-	-	-	-	-	-
Long-term debt	-	54,633	54,164	53,801	38,403	28,596	19,750	87,514
Lease liabilities	-	9,656	9,115	8,812	8,232	7,702	6,558	36,975
	$ 13,686	$ 227,235	$ 63,279	$ 62,613	$ 46,635	$ 36,298	$ 26,308	$ 124,489

2020	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
Trade and other payables	$ 6,967	$ 113,839	$ -	$ -	$ -	$ -	$ -	$ -
Contract liabilities	5,900	1,867	-	-	-	-	-	-
Payable to the Province of Manitoba	-	42,302	-	-	-	-	-	-
Long-term debt	-	52,348	51,728	51,259	50,896	35,498	25,691	88,441
Lease liabilities	-	9,690	8,768	8,459	8,136	7,542	6,995	41,488
	$ 12,867	$ 220,046	$ 60,496	$ 59,718	$ 59,032	$ 43,040	$ 32,686	$ 129,929

(in thousands of Canadian dollars)

(D) CREDIT RISK

Credit risk is the risk to the Corporation that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. The Corporation mitigates this risk through centralized credit management and collection practices and, where applicable, the establishment of ECLs for non-collectible amounts, which are netted against trade and other receivables. Trade and other receivables are non-interest bearing and generally have 30-day terms. The Corporation applies a simplified approach in evaluating the ECLs associated with trade and other receivables by calculating a loss allowance based on historical losses, as well as forward-looking information such as economic conditions. The estimated credit loss allowance for trade and other receivables for the 2021 fiscal year is $6,606 (2020 – $4,276). The maximum credit risk exposure is the carrying value of each class of financial asset disclosed in note 4.

The aging of trade and other receivables at the end of the 2021 fiscal year is as follows:

Current	$ 61,559
Past due as follows:	
Within 30 days	111
31 to 60 days	8
61 to 90 days	12
Over 90 days	60
Expected credit losses	(6,606)
	$ 55,144

(E) CAPITAL MANAGEMENT

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

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

(F) FAIR VALUE

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

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

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

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

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

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

2021	Level 1	Level 2	Level 3	Total
Cash	$ 51,122	$ -	$ -	$ 51,122
	$ 51,122	$ -	$ -	$ 51,122

2020	Level 1	Level 2	Level 3	Total
Cash	$ 68,969	$ -	$ -	$ 68,969
	$ 68,969	$ -	$ -	$ 68,969

18. RELATED PARTY DISCLOSURES

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

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

	2021	2020
Short-term employee benefits	$ 2,127	$ 2,010
Post-employment pension and medical benefits	152	139
Termination benefits	406	438
	$ 2,685	$ 2,587

19. COMPARATIVE FIGURES

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

20. COVID-19

In March 2020 the World Health Organization declared the outbreak of the novel strain of coronavirus (COVID-19) to be a global pandemic. Governments worldwide have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, and social distancing, have caused material disruption to business globally resulting in an economic slowdown. During the year, the Corporation was impacted by public health measures resulting at various times in the closure of the casinos, a shutdown of the VLT network, and the removal of in-person lottery sales. Capacity restrictions and distancing requirements also impacted casinos and the VLT network when they were available to customers. These closures and restrictions had a material negative impact on the Corporation's financial results. The sale of liquor and cannabis were both designated as essential services by Manitoba Public Health and were allowed to operate under capacity restrictions and distancing requirements. Within all lines of business and at all corporate locations, the Corporation implemented specific measures, guided by public health recommendations, to ensure the safety of customers and staff.

As at the date of approval of the Corporation's consolidated financial statements, the Province of Manitoba remains in a state of emergency due to the COVID-19 pandemic. Manitoba casinos are closed and the VLT network is shut down. While it is anticipated that these operations will resume during the 2022 fiscal year, business levels are expected to remain below traditional levels throughout the year both at the casinos and within the VLT network. As the duration and impact of the COVID-19 pandemic and associated emergency measures are unknown at this time, it is not possible to reliably estimate the impact on the financial results of the Corporation.

21. EVENTS AFTER THE REPORTING PERIOD

On May 4, 2021, the Corporation received approval from the Government of Manitoba to offer for sale the land and building at 1555 Buffalo Place in Winnipeg, Manitoba. The sale of these assets is expected to be completed in the 2022 fiscal year.

This publication is available in alternate formats, upon request.