Manitoba Liquor & Lotteries

Annual Report 2022/23

MANITOBA LIQUOR & LOTTERIES

LAND ACKNOWLEDGEMENT

Manitoba Liquor & Lotteries benefits from being on the original territories of the Anishinaabe, Cree, Oji-Cree, Dakota, Lakota, and Dene peoples, lands now known as Treaties One through Five – and the homeland of the Red River Métis.

We commit to respecting the treaties made on these territories while acknowledging the harms of the past and moving forward in partnership with Indigenous communities and a spirit of reconciliation.

While we acknowledge that territorial acknowledgements are only one step in cultivating greater respect for and inclusion of Indigenous Peoples, these words will accompany actions invested in building a future and community better for all.

MANITOBA
LIQUOR & LOTTERIES

PURPOSE

To enrich the lives of Manitobans by:

- Meeting the needs of the government by making the greatest possible contribution to the economic and social well-being of the Province of Manitoba;
- Anticipating the needs of customers;
- Enabling our 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.

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.

COMMITTED

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

COLLABORATIVE

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

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.

CUSTOMER FOCUSED

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

LETTER OF TRANSMISSION

Honourable Andrew Smith
Minister responsible for the Manitoba Liquor and Lotteries Corporation

Room 118, Legislative Building
450 Broadway
Winnipeg, MB R3C 0V8

July 31, 2023

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, 2023.

Respectfully submitted,

Bonnie Mitchelson
Chair, Board of Directors

BOARD OF DIRECTORS

As of June 16, 2023

Bonnie Mitchelson, Chairperson
Tim Comack, Vice Chair
Rod Bruinooge
Bill Gould
Gestur Kristjansson
Bryce Matlashewski
Wayne Rempel
David Schioler
Brenda Tobac
Christine Van Cauwenberghe

BOARD OF DIRECTORS

April 1, 2022 – March 31, 2023

Bonnie Mitchelson, Chairperson
Tim Comack, Vice Chair
Randy Williams, Chairperson*
Marshall Ring, Vice Chair*
Manny Atwal**
Bill Gould
Rod Bruinooge
Gestur Kristjansson
Bryce Matlashewski
Wayne Rempel
James Spencer*
Brenda Tobac
Christine Van Cauwenberghe

*Outgoing June 9, 2022
**Outgoing May 10, 2023

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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 more than 3,300 private 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 video lottery terminals (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 site 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 lower risk, informed choices for consuming liquor, gambling and cannabis.

MESSAGE FROM

The Chair

This past year we emerged from the challenges and unpredictability of the pandemic with a return to business that has exceeded expectations. MBLL's 2023-2026 Strategic Plan is our blueprint for emerging stronger, more resilient, and more efficient as we navigate economic, technological, and social changes at an ever-increasing speed. We continue to realign our business to today's realities, and it is important for us to understand where we are headed so that we deliver on commitments to all our stakeholders, The Province of Manitoba, our customers, our employees, our business partners and Manitoba's communities.

It was a highly successful year delivering products and services, jointly with our many business partners, in ways that resonated with our customers. We have significantly increased our financial contribution to our stakeholder, the Province of Manitoba, supporting important programs and initiatives in healthcare, education, social services, housing and infrastructure. Our employees are our greatest resource towards achieving our goals. They continue to engage positively with our customers to build and strengthen our business relationships. There are still both challenges and opportunities, but we look forward to working together with the hundreds of businesses who are immensely valuable partners in delivering gaming, liquor and cannabis products in Manitoba. We will evolve together to meet the changing needs of our customers, by adapting and growing.

Social responsibility is embedded in our culture as we continue to be a leader in sustainable responsible business practices. MBLL is a proud partner and sponsor for hundreds of worthwhile community events that bring Manitobans together and encourage the spirit of volunteerism. As the pandemic eased, and people began to reconnect, we enhanced our sponsorship categories with new opportunities, recognizing the value and importance of gathering together, celebrating, and building community relationships.

On a closing note, the board extends its thanks to Manny Atwal, departing as President & CEO during the year, for his exceptional leadership during a very challenging period not only for our corporation but for Manitoba. Our Board also wants to thank our Acting President & CEO, Gerry Sul, who has extensive knowledge of our business, great relationships with staff, management, and our business partners. Gerry has very capably stepped up to guide MBLL into the next fiscal year.

On behalf of the Board of Directors, I want to congratulate and commend the tremendous work of our management team and all employees as we build on the successes we have already achieved and continue to enrich the lives of Manitobans.

BONNIE MITCHELSON
Chair, Board of Directors

MESSAGE FROM

The Acting President and CEO

I am pleased to share that MBLL returned a record profit for 2022/23, with a $740.9 million contribution to the Province of Manitoba's general revenues. This helps to support priority programs for Manitobans like health care and education. Our dedicated employees and management worked diligently to deliver memorable products and entertainment through continual innovation and improvement.

As a corporation with diverse operational areas, we have historically had corporate offices in multiple locations. This year, we have moved to a hybrid workplace with a consolidated footprint. Next year, we will call 1555 Buffalo Place in Winnipeg our corporate head office.

Our casinos have enjoyed strong attendance welcoming customers back to live entertainment at Club Regent Event Centre and to gaming floors with refreshed layouts and exciting new games. VLT sites across Manitoba received a boost with new machines and game themes. And PlayNow, our online gaming platform, celebrated its tenth anniversary, with the first full year of single-event sports betting contributing to significant growth in overall sports betting on the platform.

As presenting sponsor, Liquor Mart, along with thousands of Manitobans, celebrated the return of the Winnipeg Wine Festival, Flatlander's Beer Festival, and the Whisky Festival – all three are important fundraisers for Manitoba charities.

We continue to refine the balance between safety and convenience at our Liquor Mart locations, where we successfully introduced enhancements to speed up customer entry through controlled entrances. We also moved to allow minors 11 and under to enter the store with a customer.

As the cannabis retail landscape matures with significant growth in the number of local retailers, we focused last year on strengthening our list of licensed suppliers and the products that they could deliver to market. We're pleased to offer retailers more product listings than ever before and continue working towards increasing efficiencies within our distribution model to further support the industry in Manitoba.

Social and environmental sustainability are core values at MBLL. This past year we confirmed LEED Gold certification for our Thompson Liquor Mart. LEED certification is a rigorous process requiring a new building to perform exceptionally in six areas of human and environmental health, which we achieved at our newest and northernmost store.

We are conscious of the communities in which we operate and continually look for ways to support community well-being. In Winnipeg's Osborne Village last year, for instance, we funded the SABE Peace Walkers. The SABE Peace Walkers are an Indigenous-led, relationship-based de-escalation team who work to connect individuals to support services. More broadly, MBLL announced $360,000 in new funding for FASD support organizations over two years.

Over the past year, MBLL also advanced both our commitment to DE+I and our journey to reconciliation. We strive to understand, to respect and to support diversity, inclusion, and reconciliation so that everyone feels they are heard, valued, and belong.

On a final note, I'd like to extend my deep appreciation for our employees, management, and board. It is remarkable what we can accomplish as we work toward our common goal to enrich the lives of Manitobans.

GERRY SUL
Acting President & Chief Executive Officer

Management Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2023

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, 2023. 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, 2023, 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 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.

In 2022/23, the Corporation emerged from the uncertainties and pressures of the COVID-19 pandemic experienced over the past three years. During the year, the Casinos and Video Lotto segments returned to full operating hours after having been impacted by provincially mandated closures and other public health measures for a portion of 2021/22. The closures and restrictions in these two segments had a material negative impact on financial results in the prior year. The Corporation's allocation to the Province of Manitoba for 2022/23 was $740.9 million, an increase of $143.1 million or 23.9% when compared to the 2021/22 allocation of $597.8 million.

2023 (in thousands)	CANNABIS OPERATIONS	CASINOS	LIQUOR OPERATIONS	LOTTERY	ONLINE GAMING	VIDEO LOTTO	TOTAL
Revenue	$ 130,871	$ 229,491	$ 883,532	$ 1,595	$ 75,448	$ 324,571	$ 1,645,508
Cost of sales	96,930	12,514	420,303	1,006	21,007	108,605	660,365
	33,941	**216,977**	**463,229**	**589**	**54,441**	**215,966**	**985,143**
Operating expenses	2,092	95,218	115,465	6,741	9,356	10,171	239,043
Depreciation and amortization	-	20,801	17,556	-	49	4,907	43,313
Goods and Services Tax	-	2,711	-	223	1,929	2,013	6,876
	2,092	**118,730**	**133,021**	**6,964**	**11,334**	**17,091**	**289,232**
Operating Income	**31,849**	**98,247**	**330,208**	**(6,375)**	**43,107**	**198,875**	**695,911**
Share of profit of Western Canada Lottery Corporation	-	-	-	60,406	11,159	-	71,565
Interest expense	-	(5,638)	(3,864)	(73)	(10)	(1,759)	(11,344)
Interest income	39	391	535	71	76	541	1,653
Income Before Allocations and Payments	**31,888**	**93,000**	**326,879**	**54,029**	**54,332**	**197,657**	**757,785**
Allocations and payments	608	1,727	7,808	1,337	1,241	4,157	16,878
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	**$ 31,280**	**$ 91,273**	**$ 319,071**	**$ 52,692**	**$ 53,091**	**$ 193,500**	**$ 740,907**

2022 (in thousands)	CANNABIS OPERATIONS	CASINOS	LIQUOR OPERATIONS	LOTTERY	ONLINE GAMING	VIDEO LOTTO	TOTAL
Revenue	$ 113,922	$ 118,831	$ 873,194	$ 1,338	$ 82,940	$ 226,624	$ 1,416,849
Cost of sales	87,426	6,116	421,017	716	22,967	71,090	609,332
	26,496	**112,715**	**452,177**	**622**	**59,973**	**155,534**	**807,517**
Operating expenses	1,693	74,712	108,968	5,978	6,821	9,527	207,699
Depreciation and amortization	-	21,837	17,451	-	138	7,424	46,850
Goods and Services Tax	-	1,879	-	236	1,862	1,496	5,473
	1,693	**98,428**	**126,419**	**6,214**	**8,821**	**18,447**	**260,022**
Operating Income	**24,803**	**14,287**	**325,758**	**(5,592)**	**51,152**	**137,087**	**547,495**
Share of profit of Western Canada Lottery Corporation	-	-	-	64,729	12,783	-	77,512
Interest expense	-	(6,257)	(3,814)	(82)	(10)	(1,717)	(11,880)
Interest income	8	150	129	19	20	318	644
Income Before Allocations and Payments	**24,811**	**8,180**	**322,073**	**59,074**	**63,945**	**135,688**	**613,771**
Allocations and payments	231	1,709	5,703	1,367	821	6,112	15,943
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	**$ 24,580**	**$ 6,471**	**$ 316,370**	**$ 57,707**	**$ 63,124**	**$ 129,576**	**$ 597,828**

Overall Highlights

Revenue of $1,645.5 million was $228.7 million or 16.1% higher when compared to the revenue of $1,416.8 million in 2021/22. Cannabis Operations revenues increased $17.0 million from the prior year. During the year, 36 new private retail locations opened, providing a total of 177 locations throughout the province. Casino revenues increased $110.7 million year-over-year. Video Lotto revenues increased by $98.0 million from 2021/22. Both the Casinos of Winnipeg and the VLT network returned to full operation in 2022/23 after having lost 118 and 69 operational days respectively during the prior year in response to the COVID-19 pandemic.

Liquor Operations revenues increased by $10.3 million over last year, mainly attributable to growth in the licensee channel, as bars and restaurants returned to normal operations and banquets, festivals, and large-scale sporting and concert events occurred throughout the year after enduring restrictions in 2021/22. Online Gaming revenues decreased by $7.5 million from last year as the casinos and VLT network were fully operational after the closures in 2021/22. However, Online Gaming revenues remain well above historical levels as many of the new players introduced during the pandemic continued to enjoy the convenience of PlayNow.

Operating expenses in 2022/23 were $239.0 million, an increase of $31.3 million or 15.1% from the $207.7 million incurred in the prior year and include employee and other costs directly related to the generation of revenues. Employee costs increased as both the casinos and the VLT network were operational for a full year in 2022/23, after temporary staff layoffs during operational closures in the prior year. Other operating expenses were higher mainly due to increased technology initiative delivery costs and increased promotional expenditures attributable to enhanced marketing efforts for PlayNow as well as the Casinos of Winnipeg being fully operational during the year.

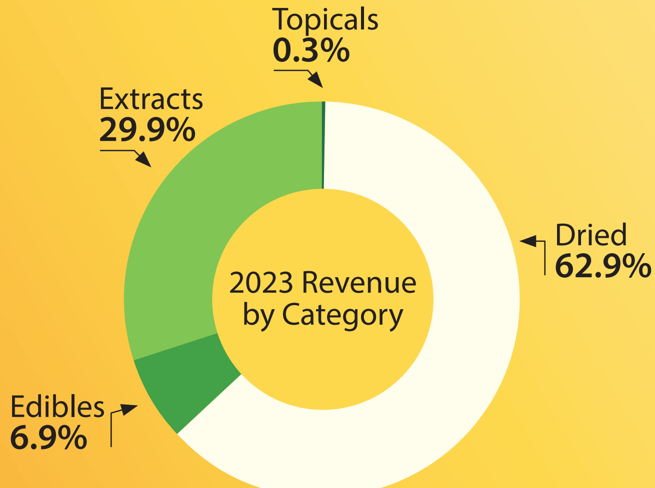
Non-operating expenses of the Corporation include depreciation and amortization, Goods and Services Tax (GST) related to gaming expenditures, interest expense net of interest income, and allocations and payments. Total non-operating expenses were $76.8 million in 2022/23, a decrease of $2.7 million or 3.4% from the $79.5 million recorded in 2021/22. This decrease is primarily seen in depreciation and amortization due to a reduction in the Corporation’s capital investment program in the previous three years.

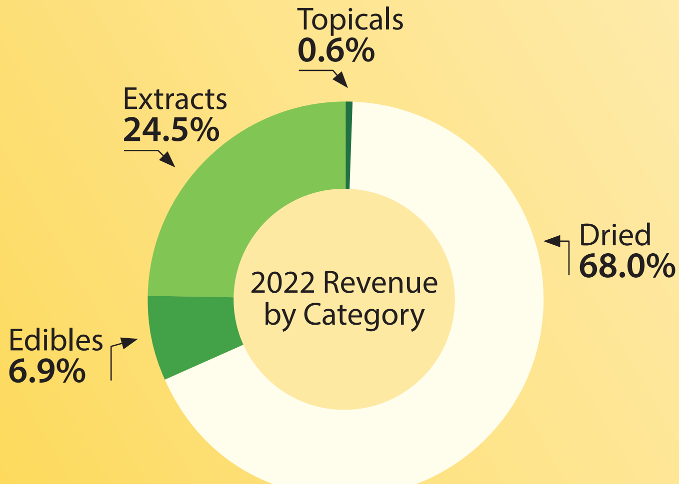
Cannabis Operations

The Corporation is mandated to secure a safe supply of cannabis and to coordinate the distribution of cannabis to private sector retailers. Cannabis Operations supports private retailers as the provincial wholesale distributor, maintaining a catalogue of available cannabis products, including dried, edibles, extracts, and topicals. The cannabis industry has experienced substantial growth since legalization, with competitive pricing, a significant increase in the variety of higher-quality products, and a growing number of retail stores.

In 2022/23, Cannabis Operations earned comprehensive income of $31.3 million, an increase of $6.7 million or 27.2% from the $24.6 million earned in the prior year.

Revenue generated by Cannabis Operations was $130.9 million in 2022/23, an increase of $17.0 million or 14.9% from revenue of $113.9 million in the prior year. Revenue growth included increases of $11.2 million in extracts, $4.8 million in dried cannabis, and $1.2 million in edibles, offset by a decrease of $0.2 million in topicals. During the year, 36 new retail locations opened, providing a total of 177 locations throughout the province. All licensed retailers are eligible to offer online sales.





During the year, Cannabis Operations introduced a wholesale online ordering system, allowing retailers to place orders and confirm receipts, creating operational efficiencies throughout the ordering process. Cannabis Operations also launched a pilot project for cross-docking services with four distributors to help decrease lead times and improve supplier access to small, rural, and remote retailers, by consolidating shipments. This project is intended to provide insights on future supply chain improvements and identify potential system and process changes.

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 race betting. 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 at the Club Regent Event Centre.

Casino operations generated comprehensive income of $91.3 million in 2022/23, an increase of $84.8 million from the $6.5 million earned in the prior year.

In 2022/23, the Casinos of Winnipeg returned to full operations after the prior three fiscal years were impacted by pandemic-related closures and restrictions. The 2021/22 comparative results were materially impacted by the measures enacted by the Province of Manitoba to combat the spread of COVID-19 that resulted in the Casinos of Winnipeg losing 118 operational days that year.

Overall, the increased operational time resulted in casino revenue of $229.5 million, an increase of $110.7 million compared to the prior year. While this remains below pre-pandemic levels, the casinos saw steady growth in revenue throughout the year, with electronic gaming revenue returning to 98% of the amount recorded in 2018/19, the last full year before the pandemic. The Club Regent Event Centre returned to a full schedule of paid shows in the year, with average attendance up over 7% from 2018/19. A new bingo option, Bingo Millions, was well-received by players and provides the opportunity to win a $1 million grand prize.

Casino cost of sales increased $6.4 million over the prior year and include gaming direct expenses associated with the operation and maintenance of electronic gaming equipment and table games equipment, and costs associated with the non-gaming offerings in the food and beverage and entertainment areas. Operating and non-operating expenses increased $19.5 million or 18.4% over the prior year from being fully operational in the year. In the prior year, the Corporation mitigated the impact of the operational closures through temporary staff layoffs, the suspension or cancellation of service contracts wherever possible, and the reduction or elimination of discretionary spending.

Liquor Operations

The Corporation is mandated with distributing and selling liquor in the Province of Manitoba. In addition to Liquor Mart and Liquor Mart Express locations, all operated by the Corporation, Manitoba's retail network includes privately-owned beer vendors, rural liquor vendors, duty-free stores, and specialty wine stores. This model provides Manitobans with convenient access to a broad range of products.

Liquor Operations earned comprehensive income of $319.1 million in the year, an increase of $2.7 million or 0.9% from the $316.4 million earned in the prior year.

Liquor Operations generated revenue of $883.5 million in 2022/23, an increase of $10.3 million or 1.2% from the revenue of $873.2 million in 2021/22. During 2022/23, the refreshment beverages category continued to experience growth both in dollars and volume, with dollar sales increasing 17.3% over the prior year. Spirits sales also increased in both dollars and in volume. Sales in the beer category decreased in both dollars and volume, with dollar sales down 6.4%, partially attributable to customers moving over to the refreshment beverages category.

When viewed by channel, Liquor Marts and liquor vendors continued their trend back to regular sales levels after experiencing a boost during the pandemic, with decreases in sales from last year of $7.3 million and $0.4 million, respectively. However, both channels are well above the sales in 2019/20, the last pre-pandemic year.

Licensee sales increased by $14.3 million in the year. Most bars and restaurants returned to normal operations, and sales increased with a full year of banquets, festivals, and large-scale sporting and concert events. These were partially offset by decreased hotel beer vendor sales, which also continued to trend back to normal sales levels. Specialty wine stores sales increased $2.1 million over last year as bars and restaurants returned to normal operations.

Operating and non-operating expenses increased by $8.4 million or 6.2% due to higher regulatory costs and increased technology initiative delivery expenses.

LIQUOR OPERATIONS CONTINUED

2023 (in thousands)	BEER	REFRESHMENT BEVERAGES	SPIRITS	WINE	TOTAL
Stores	$ 71,823	$ 41,240	$ 221,576	$ 127,160	$ 461,799
Liquor Vendors	16,899	12,268	47,928	14,785	91,880
Licensees	213,290	57,146	24,871	4,249	299,556
Specialty Wine Stores	-	153	127	20,792	21,072
Total Sales	**302,012**	**110,807**	**294,502**	**166,986**	**874,307**
Cost of Sales	180,090	52,982	109,459	77,410	419,941
Gross Profit	**$ 121,922**	**$ 57,825**	**$ 185,043**	**$ 89,576**	**$ 454,366**

2022 (in thousands)	BEER	REFRESHMENT BEVERAGES	SPIRITS	WINE	TOTAL
Stores	$ 79,096	$ 39,092	$ 220,433	$ 130,476	$ 469,097
Liquor Vendors	18,512	12,204	46,540	15,056	92,312
Licensees	225,194	43,025	14,419	2,607	285,245
Specialty Wine Stores	-	148	104	18,696	18,948
Total Sales	**322,802**	**94,469**	**281,496**	**166,835**	**865,602**
Cost of Sales	191,429	45,675	106,165	77,408	420,677
Gross Profit	**$ 131,373**	**$ 48,794**	**$ 175,331**	**$ 89,427**	**$ 444,925**

Volume Sales (in millions of litres)	BEER	REFRESHMENT BEVERAGES	SPIRITS	WINE
2023	**65.5**	**17.3**	**8.2**	**11.1**
2022	69.6	14.8	8.0	11.4
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

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 for marketing a selection of breakopen tickets through those outlets, charitable organizations, and casinos across the province. The Corporation continues to be the exclusive supplier of bingo paper to Manitoba's charitable and non-profit licensed bingo operators. ILC and WCLC lottery gaming products are available on Manitoba's online gaming platform, PlayNow, and the share of profit from these products is presented separately in the Online Gaming segment.

In 2022/23, the share of the profit of WCLC considered to be part of the Lottery operating segment was $60.4 million, a decrease of $4.3 million or 6.6% from last year's $64.7 million. The sale of lottery products tends to follow jackpot levels. This was the case for LOTTO 6/49 sales, where the enhanced Gold Ball jackpot resulted in an average jackpot of $22.3 million in 2022/23, compared to $10.2 million in the prior year. However, despite higher average jackpots and an increase in $70 million jackpots from 11 draws last year to 18 such draws in 2022/23, LOTTO MAX saw sales decrease. This was partially due to the increased interest in LOTTO 6/49. Instant ticket sales also decreased from last year. Both decreases were partially attributable to the impact of higher fuel prices on purchases by gas station customers. Sales of SPORTS SELECT products increased in the first full year of single event betting and enhanced betting options, which were launched in November 2021.

Online Gaming

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

Online Gaming generated comprehensive income of $53.1 million in 2022/23, a decrease of $10.0 million or 15.8% from the $63.1 million earned in the prior year.

Revenue generated by Online Gaming was $75.4 million in the current year, a decrease of $7.5 million or 9.0% from the revenue of $82.9 million generated in 2021/22. During the pandemic, PlayNow saw a surge in registrations as Manitobans sought online gaming options during periods where the casinos, VLT network, and lottery network were unavailable. With all lines of business fully operational during the year, online gaming revenue experienced a decline. However, revenues remain well above historical levels as many of the new players introduced to online gaming during the pandemic continued to enjoy the convenience of PlayNow.com.

Cost of sales decreased $2.0 million from 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 $11.2 million, a decrease of $1.6 million or 12.5% from the $12.8 million earned in the prior year, and follows the trends as described in the Lottery segment.

Video Lotto

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

Video Lotto comprehensive income of $193.5 million in 2022/23 increased $63.9 million or 49.3% from the comprehensive income of $129.6 million in the prior year. During the year, the VLT network was fully operational after the prior three fiscal years were impacted by pandemic-related closures and restrictions. The 2021/22 comparative results reflect the VLT network losing 69 operational days due to the measures. Overall, the increased operational time in 2022/23 resulted in Video Lotto revenue of $324.6 million, an increase of $98.0 million or 43.2% from the revenue of $226.6 million earned in 2021/22. Many siteholders struggled with market conditions in 2022/23, which included staffing issues and reduced operational hours. Despite these challenges, and while still below pre-pandemic levels, VLT revenue grew throughout the year and returned to nearly 92% of the amount recorded in 2018/19, the last full year before the pandemic.

VLT COMMISSIONS & CONTRIBUTIONS (in millions)

	FIRST NATIONS	CITY SITEHOLDERS	RURAL SITEHOLDERS	TOTAL
2023	**$ 54.3**	**$ 32.6**	**$ 21.7**	**$ 108.6**
2022	34.4	21.3	15.4	**71.1**
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**

VIDEO LOTTO CONTINUED

In 2022/23 the operation of VLTs provided annual commissions and contributions of $108.6 million to VLT siteholders, an increase of $37.5 million from the $71.1 million of support provided in the prior year. Included in the total commissions and contributions amount is $54.3 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 represents a contribution to promote tourism in the province. This support totaled $47.0 million in the year. 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 $2.8 million in 2022/23.

Total operating and non-operating expenses have decreased by $3.5 million or 13.5% when compared to 2021/22. This is mainly due to decreased Liquor, Gaming and Cannabis Authority of Manitoba licence fees which were paid by MBLL on behalf of siteholders through the pandemic, and lower depreciation as old and obsolete machines reached the end of their useful lives. These decreases were partially offset by increases in operating expenses and GST, both attributable to a return to normal operations.

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. Capital costs of gaming equipment, funded by the Corporation, are recovered over a five-year term.

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 2022/23 year, MLC Holdings Inc. acquired $48.0 million in capital assets for lease to the Corporation.

SOCIAL RESPONSIBILITY

The Corporation is committed to encouraging the responsible use of its products and services and 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 related to product use, providing funding to addictions treatment and support programs, developing responsible product and service delivery training for staff, and funding research initiatives related to harm minimization approaches and product use outcomes. In addition, social responsibility considerations are also applied to the development of new processes, to the introduction of new liquor and gaming products, to business partner relationships, and to all marketing campaigns produced by the Corporation.

All funds that the Corporation commits to social responsibility on an annual basis are for the exclusive use of related programs; however, due to the timing of implementation or the readiness of funding recipients, some funds are carried forward for use in future years. When funds are carried forward to future years, they continue to be strictly available for use on social responsibility programs. Of the 2022/23 committed amount, $0.3 million was unspent and carried forward, reserved for social responsibility initiatives in the 2023/24 year.

(in thousands)	2023	2022
Funding support	$ 9,414	$ 9,483
Internal research and program evaluation	197	291
Operating and consumer awareness	3,613	3,334
Prior year funding spent in current year	(808)	(2,516)
Funding carried forward to future years	284	808
	$ 12,700	$ 11,400

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 2022/23 year provided the Corporation with $789.1 million in cash flows compared to $666.9 million in the prior year, an increase of $122.2 million or 18.3%.

Cash spent on property and equipment and intangible assets in 2022/23 totaled $51.7 million as compared to the $28.2 million spent in the prior year. Video Lotto continued to replace old and obsolete VLT machines, with 960 new machines purchased during the year. The casinos began the first replacement of electronic gaming devices since 2018/19, with approximately 300 new machines purchased, and completed the first phase of an ongoing project to replace end-of-life HVAC equipment. In Liquor Operations, necessary upgrades were completed on point-of-sale hardware at the Liquor Marts.

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 Appropriation Act*. The Corporation submits annual requests for necessary borrowing authority under *The Appropriation 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 First Nations casinos. Debt service costs on advances drawn to purchase gaming equipment for First Nations casinos are fully recovered over a five-year term, consistent with the recovery of the capital costs of the gaming equipment purchased.

During the year, proceeds of long-term debt received were $58.1 million as compared to the $27.0 million of proceeds received in 2021/22. Most long-term debt has fixed interest rates and is repayable in monthly instalments.

Cash distributions to the Province of Manitoba resulted in a cash outflow of $750.8 million compared to $593.6 million last year. These distributions support the Province's programs and services such as health care, education, social services, housing and infrastructure.

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 that 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* and a schedule of compensation that is prepared in accordance with the requirements of *The Public Sector Compensation Disclosure Act*.

RISK MANAGEMENT

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

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

In the normal course of business, the Corporation is exposed to several 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 analysis 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.

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.

No disclosures were submitted to the designated officer during the 2022/23 year.

FUTURE OUTLOOK

The Corporation's allocation to the Province of Manitoba is budgeted to be $668.0 million in the 2023/24 year. This represents a decrease of $72.9 million from the $740.9 million allocation to the Province of Manitoba in the 2022/23 year. The allocation to the Province of Manitoba in the 2022/23 year resulted from a combination of lower operating expenses due to both delayed initiatives and prolonged staffing vacancies attributable to pandemic uncertainties and labour market challenges, as well as strong performance in most of the revenue lines despite challenging economic conditions. These results will be difficult to replicate in 2023/24 as operations normalize.

In 2023/24, Cannabis Operations will focus on technology initiatives, including the automation of its federal cannabis tracking requirements and a project to streamline internal product and supply chain data, both of which are expected to improve the timeliness and accuracy of reporting. Work will be ongoing to analyze the cross-docking pilot project, with a goal of developing and implementing a new distribution model to support growth and ensure long-term success of the cannabis market.

Liquor Operations will continue work in 2023/24 on a project to modernize the supply chain, pricing structure, and supporting systems with the objectives of increasing the flexibility to adapt to market opportunities and improve the way liquor is sourced, priced, distributed, and sold. An initiative to replace the existing central inventory replenishment software will be ongoing. Renovations and racking improvements will occur throughout the year at several Liquor Marts, with the goal of providing customers with a modern and convenient shopping experience.

In the upcoming year, investment in gaming initiatives will include the continued enhancement of the VLT experience with approximately 940 new machines expected to be purchased. A major upgrade to the VLT central management system will also be completed to ensure the continued integrity of the gaming environment. At the casinos, during 2023/24 approximately 260 aging electronic gaming devices will be replaced with new purchased games, and additional leased games will be refreshed, ensuring an exciting gaming experience. Work will continue on a phased project to replace end-of-life HVAC equipment at the Casinos of Winnipeg, lowering operating and maintenance costs and reducing their carbon footprint. Online gaming will focus its marketing initiatives and develop strategic partnerships to combat aggressive competition from illegal sites.

In 2023/24, the Corporation will continue to focus on succession planning for leadership and key positions, as approximately one-third of employees are eligible for retirement in the next five years. To compete with a challenging job market the Corporation will also look to evaluate compensation, retention, and recruitment strategies. *The Truth and Reconciliation Commission of Canada: Calls to Action* will drive initiatives to increase representation, support, awareness, and understanding of Indigenous culture and history. The Corporation will also focus on its technology roadmap, with an emphasis on cloud-based software solutions where feasible as well as ensuring resilient cybersecurity infrastructure to prevent and alert on advanced threats and attacks.

The Corporation continues to implement its long-term remote work strategy. Since the onset of the pandemic, more than 600 staff members have performed all or most of their job functions remotely. In this time, the Corporation has leveraged technology to effectively communicate, collaborate, perform daily tasks, and manage a remote workforce. In the first quarter of 2023/24, the remaining remote staff will return under a hybrid work model to the newly renovated space at 1555 Buffalo Place. The further consolidation of staff in a single location has allowed the Corporation to sell its location at 830 Empress Street, which is expected to occur in 2023/24. The adoption of a hybrid model has allowed the Corporation to reduce its office space requirements, providing environmental benefits, while also providing employees with flexibility and better work/life balance.

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, 2023.

Original signed by
GERRY SUL
Acting President &
Chief Executive Officer

Original signed by
IAN URQUHART
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, 2023, 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, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRS"].

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 16, 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	NOTES	2023	2022
ASSETS			
CURRENT ASSETS			
Cash		$ 41,789	$ 49,551
Trade and other receivables	5	59,022	59,567
Inventories	6	64,388	57,163
Prepayments	7	4,783	4,492
Assets held for sale, net	8	-	13,957
		169,982	184,730
NON-CURRENT ASSETS			
Property and equipment, net	8	333,631	314,930
Right-of-use assets, net	9	64,701	62,640
Intangible assets, net	10	4,687	7,085
		403,019	384,655
TOTAL ASSETS		**$ 573,001**	**$ 569,385**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	11	$ 133,651	$ 128,170
Contract liabilities	12	13,993	13,128
Payable to the Province of Manitoba		36,907	46,828
Current portion of long-term debt	13	61,789	57,302
Current portion of lease liabilities	9	7,968	7,698
		254,308	253,126
NON-CURRENT LIABILITIES			
Long-term debt	13	248,237	251,926
Lease liabilities	9	65,456	59,333
		313,693	311,259
Commitments and contingencies	17		
EQUITY			
Retained earnings		5,000	5,000
TOTAL LIABILITIES AND EQUITY		**$ 573,001**	**$ 569,385**

(see accompanying notes to the consolidated financial statements)

On behalf of the Board

Original signed by
BONNIE MITCHELSON
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	2023	2022
REVENUE	14	$ 1,645,508	$ 1,416,849
COST OF SALES	14	660,365	609,332
		985,143	807,517
Operating expenses	14	239,043	207,699
Depreciation and amortization		43,313	46,850
Goods and Services Tax		6,876	5,473
		289,232	260,022
OPERATING INCOME		695,911	547,495
Share of profit of Western Canada Lottery Corporation	15	71,565	77,512
Interest expense		(11,344)	(11,880)
Interest income		1,653	644
INCOME BEFORE ALLOCATIONS AND PAYMENTS		757,785	613,771
Allocations and payments	16	16,878	15,943
NET INCOME AND COMPREHENSIVE INCOME		740,907	597,828
EQUITY, BEGINNING OF THE YEAR		5,000	5,000
Allocation to the Province of Manitoba		(740,907)	(597,828)
EQUITY, END OF THE YEAR		**$ 5,000**	**$ 5,000**

(see accompanying notes to the consolidated financial statements)

(in thousands of Canadian dollars)

	2023	2022
OPERATING ACTIVITIES		
Net income and comprehensive income	$ 740,907	$ 597,828
Add (deduct):		
Depreciation related to property and equipment	31,683	34,885
Depreciation on assets related to Conduct and Management agreements	602	921
Depreciation related to right-of-use assets	8,917	8,930
Amortization related to intangible assets	2,713	3,035
Interest on financing activities	11,344	11,880
Gain on disposal of assets held for sale	(6,233)	-
Gain on disposal of property and equipment	(463)	(570)
Loss on disposal of intangible assets	283	-
	789,753	656,909
Changes in non-cash working capital items:		
Decrease (increase) in trade and other receivables	545	(4,423)
Decrease (increase) in inventories	(7,225)	7,172
Increase in prepayments	(291)	(18)
Increase in trade and other payables	5,481	6,830
Increase in contract liabilities	865	437
CASH PROVIDED BY OPERATING ACTIVITIES	789,128	666,907
INVESTING ACTIVITIES		
Purchase of property and equipment	(51,140)	(27,436)
Purchase of intangible assets	(598)	(760)
Proceeds from disposal of assets held for sale	23,349	-
Proceeds from disposal of property and equipment	617	689
CASH USED IN INVESTING ACTIVITIES	(27,772)	(27,507)
FINANCING ACTIVITIES		
Cash distributions to the Province of Manitoba:		
Current year	(734,000)	(586,000)
Prior year	(16,828)	(7,601)
Proceeds from long-term debt	58,100	27,000
Payment of principal and interest on long-term debt	(66,433)	(64,365)
Payment of principal and interest on lease liabilities	(9,957)	(10,005)
CASH USED IN FINANCING ACTIVITIES	(769,118)	(640,971)
NET DECREASE IN CASH DURING THE YEAR	(7,762)	(1,571)
CASH, BEGINNING OF THE YEAR	49,551	51,122
CASH, END OF THE YEAR	**$ 41,789**	**$ 49,551**

(see accompanying notes to the consolidated financial statements)

1. BACKGROUND

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

The registered office of the Corporation is located at Unit A, 1555 Buffalo Place, Winnipeg, Manitoba.

2. SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

The consolidated financial statements of the Corporation for the year ended March 31, 2023 were authorized for issue by the Board of Directors on June 16, 2023.

These consolidated financial statements were prepared on a going concern basis using historical cost, except for certain financial instruments that 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 15.

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

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

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

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

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

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

(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 includes 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).

For sale and leaseback transactions, the Corporation assesses the substance of the transaction and whether control of the asset has been transferred to the purchaser. If the transaction is determined to be a sale, the underlying asset is derecognized and a right-of-use asset is recognized at the proportion of the previous carrying amount as it relates to the right of use retained by the Corporation. Any residual amount is recognized as a gain on sale and leaseback of assets in the consolidated statement of net income, comprehensive income and equity.

(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 consist 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 (the 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 12.

(Q) GOODS AND SERVICES TAX

In lieu of Goods and Services Tax (GST) on lottery and gaming revenue, the Corporation forgoes 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 and beverage, and casino retail store operations. An input tax credit is claimed for GST paid on non-gaming expenditures.

(R) ASSETS HELD FOR SALE

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

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 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 that 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. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

(A) DEFINITION OF ACCOUNTING ESTIMATES – AMENDMENTS TO IAS 8

Amendments to *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* were issued in February 2021 and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments to IAS 8 are effective for annual periods beginning on or after January 1, 2023. The adoption of these amendments is not expected to have a material impact on the Corporation's consolidated financial statements.

(in thousands of Canadian dollars)

(B) DISCLOSURE OF ACCOUNTING POLICIES – AMENDMENTS TO IAS 1 AND IFRS PRACTICE STATEMENT 2

Amendments to *IAS 1 Presentation of Financial Statements* and *IFRS Practice Statement 2 Making Materiality Judgements* were issued in February 2021 and provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. They also clarify how to distinguish changes in accounting policies from changes in accounting estimates. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023, while the amendments to IFRS Practice Statement 2 do not have an effective date as they provide non-mandatory guidance. The adoption of these amendments is not expected to have a material impact on the Corporation's consolidated financial statements.

5. TRADE AND OTHER RECEIVABLES

	2023	2022
Trade	$ 42,108	$ 41,888
British Columbia Lottery Corporation	5,767	6,171
Western Canada Lottery Corporation	11,147	11,508
	$ 59,022	**$ 59,567**

The Corporation's exposure to credit risk related to trade and other receivables is disclosed in note 18(d).

6. INVENTORIES

	2023	2022
Warehouse	$ 42,757	$ 39,228
Retail locations	21,210	17,641
Consumable supplies	421	294
	$ 64,388	**$ 57,163**

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is $6,287 at the end of the 2023 fiscal year (2022 – $5,525).

7. PREPAYMENTS

	2023	2022
Maintenance contracts	$ 3,529	$ 3,363
Deposits and other	1,102	933
Insurance	152	196
	$ 4,783	**$ 4,492**

(in thousands of Canadian dollars)

8. 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, 2021	$ 25,420	$ 394,786	$ 56,807	$ 215,109	$ 130,182	$ 40,409	$ 4,415	$ 867,128
Additions	-	679	850	11,538	6,609	41	7,719	27,436
Transfers from WIP	-	98	150	234	566	-	(1,048)	-
Reclassified as held for sale	(50)	(24,194)	-	-	(2,224)	-	-	(26,468)
Disposals	-	(498)	-	(9,929)	(11,016)	(7,222)	-	(28,665)
March 31, 2022	**25,370**	**370,871**	**57,807**	**216,952**	**124,117**	**33,228**	**11,086**	**839,431**
Additions	-	5,783	1,100	20,270	4,620	27	19,340	51,140
Transfers from WIP	-	5,233	186	595	187	-	(6,201)	-
Disposals	-	(243)	(192)	(32,111)	(11,129)	(345)	-	(44,020)
March 31, 2023	**$ 25,370**	**$ 381,644**	**$ 58,901**	**$ 205,706**	**$ 117,795**	**$ 32,910**	**$ 24,225**	**$ 846,551**

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, 2021	$ -	$ 172,875	$ 19,284	$ 190,405	$ 108,623	$ 38,565	$ -	$ 529,752
Depreciation	-	11,441	4,008	13,785	5,651	921	-	35,806
Reclassified as held for sale	-	(11,059)	-	-	(1,452)	-	-	(12,511)
Disposals	-	(497)	-	(9,862)	(10,965)	(7,222)	-	(28,546)
March 31, 2022	**-**	**172,760**	**23,292**	**194,328**	**101,857**	**32,264**	**-**	**524,501**
Depreciation	-	12,374	4,027	9,344	5,938	602	-	32,285
Disposals	-	(197)	(192)	(32,111)	(11,021)	(345)	-	(43,866)
March 31, 2023	**$ -**	**$ 184,937**	**$ 27,127**	**$ 171,561**	**$ 96,774**	**$ 32,521**	**$ -**	**$ 512,920**

NET BOOK VALUE								
March 31, 2023	**$ 25,370**	**$ 196,707**	**$ 31,774**	**$ 34,145**	**$ 21,021**	**$ 389**	**$ 24,225**	**$ 333,631**
March 31, 2022	25,370	198,111	34,515	22,624	22,260	964	11,086	314,930

(in thousands of Canadian dollars)

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 2023 fiscal year was $550 (2022 – $104). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 4.39%, the effective interest rate of the specific borrowing.

Assets held for sale relate to the land, building, and furniture and equipment at 1555 Buffalo Place in Winnipeg, Manitoba, which were offered for sale during the 2022 fiscal year. The assets held for sale are presented at their carrying amounts in the consolidated statement of financial position. The sale was finalized during the 2023 fiscal year for net proceeds of $23,349, resulting in a gain on disposal of $6,233 recorded in the sundry category within operating expenses in note 14.

9. 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 20 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, 2021	$ 339	$ 84,475	$ 1,843	$ 86,657
Additions	-	3,313	-	3,313
Disposals	(339)	-	-	(339)
March 31, 2022	-	**87,788**	**1,843**	**89,631**
Additions	-	10,978	-	10,978
Disposals	-	(1,104)	-	(1,104)
March 31, 2023	**$ -**	**$ 97,662**	**$ 1,843**	**$ 99,505**
DEPRECIATION				
April 1, 2021	$ 308	$ 17,693	$ 399	$ 18,400
Depreciation	31	8,761	138	8,930
Disposals	(339)	-	-	(339)
March 31, 2022	-	**26,454**	**537**	**26,991**
Depreciation	-	8,795	122	8,917
Disposals	-	(1,104)	-	(1,104)
March 31, 2023	**$ -**	**$ 34,145**	**$ 659**	**$ 34,804**
NET BOOK VALUE				
March 31, 2023	**$ -**	**$ 63,517**	**$ 1,184**	**$ 64,701**
March 31, 2022	-	61,334	1,306	62,640

(in thousands of Canadian dollars)

The carrying values of lease liabilities are as follows:

April 1, 2021	$	71,575
Additions and extensions		3,313
Payments		(10,005)
Interest on lease liabilities		2,148
March 31, 2022		**67,031**
Additions and extensions		14,136
Payments		(9,957)
Interest on lease liabilities		2,214
March 31, 2023	**$**	**73,424**

Current portion of lease liabilities	$	7,968
Lease liabilities		65,456
	$	**73,424**

Payments for leases of low-value assets and short-term leases related to certain buildings and equipment in the 2023 fiscal year were $644 (2022 – $643) and are recorded in operating expenses. Variable lease payments in the 2023 fiscal year were $11,838 (2022 – $9,952) and are recorded in cost of sales.

In 2023, the Corporation entered into a rental agreement for office space upon the sale of 1555 Buffalo Place in Winnipeg, Manitoba. This sale-and-leaseback transaction resulted in a gain of $6,233 recorded in the sundry category within operating expenses in note 14.

10. INTANGIBLE ASSETS

COST		Computer software – acquired
April 1, 2021	$	57,833
Additions		760
Disposals		(26)
March 31, 2022		**58,567**
Additions		598
Disposals		(4,170)
March 31, 2023	**$**	**54,995**

AMORTIZATION		
April 1, 2021	$	48,473
Amortization		3,035
Disposals		(26)
March 31, 2022		**51,482**
Amortization		2,713
Disposals		(3,887)
March 31, 2023	**$**	**50,308**

NET BOOK VALUE		
March 31, 2023	**$**	**4,687**
March 31, 2022		7,085

11. TRADE AND OTHER PAYABLES

		2023		2022
Trade	$	86,652	$	81,310
Employee benefits		36,247		35,816
Jackpot liability		6,489		6,445
Goods and Services Tax		1,508		2,234
Manitoba Retail Sales Tax		2,755		2,365
	$	**133,651**	**$**	**128,170**

(in thousands of Canadian dollars)

12. CONTRACT LIABILITIES

	2023	2022
Unearned revenue	$ 6,860	$ 5,648
Loyalty points program liability	3,005	3,560
Gift card liability	3,875	3,661
Other contract liabilities	253	259
	$ 13,993	$ 13,128

Revenue recognized in the 2023 fiscal year that was included in contract liabilities at the beginning of the year was $9,845 (2022 – $10,923).

13. LONG-TERM DEBT

	2023	2022
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 July 31, 2023 to March 31, 2043.	$ 282,951	$ 301,028
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.	27,075	8,200
	310,026	309,228
Less current portion of long-term debt	61,789	57,302
	$ 248,237	$ 251,926

All long-term debt is unsecured and the fair market value as at March 31, 2023 is $302,278.

The Corporation's exposure to liquidity risk related to long-term debt is disclosed in note 18(c).

14. REVENUE, COST OF SALES AND EXPENSES BY NATURE

The Corporation's revenue consists of the following:

	2023	2022
Liquor sales	$ 874,307	$ 865,602
Cannabis sales	130,868	113,916
VLT	321,777	224,554
Casino and other gaming	213,329	112,979
Online gaming	75,434	82,935
Non-gaming revenue	29,793	16,863
	$ 1,645,508	$ 1,416,849

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

	2023	2022
Liquor cost of sales	$ 419,941	$ 420,677
Cannabis cost of sales	96,931	87,426
VLT commissions	31,059	21,635
First Nations allocation	51,285	32,463
Tourism contribution	26,261	16,993
Casino and other gaming direct expenses	7,594	4,927
Online gaming direct expenses	21,006	22,967
Non-gaming cost of sales	6,288	2,244
	$ 660,365	$ 609,332

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.

(in thousands of Canadian dollars)

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 and beverage, and casino retail store operations, and unredeemed liquor container deposits.

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

	2023	2022
Employee benefits	$ 159,539	$ 139,068
Bank charges	4,278	4,162
Community support	1,400	1,048
Consultant and professional fees	1,562	1,077
Freight and delivery	5,856	5,070
Grants in lieu of taxes	6,439	6,317
Learning and development	706	644
Maintenance	17,972	20,937
Marketing and public awareness	8,618	4,406
Rents	466	647
Sundry (notes 8 and 9)	(2,027)	2,561
Supplies and equipment	4,272	2,881
Technology systems and support	22,082	11,918
Telecommunications	2,600	2,472
Transportation and vehicles	1,134	714
Utilities	4,146	3,777
	$ 239,043	$ 207,699

15. SHARE OF PROFIT OF WCLC

	2023	2022
Revenue	$ 267,960	$ 275,760
Prizes, commissions and other cost of sales	186,922	190,733
WCLC partner equalization	6,667	4,883
Payment to Government of Canada	2,806	2,632
Profit	$ 71,565	$ 77,512

The WCLC earned revenue in the 2023 fiscal year in the amount of $1,571,114 (2022 – $1,549,505), of which the Corporation's share calculated based on relative sales levels by jurisdiction is 17% (2022 – 18%). The WCLC's total profit for the 2023 fiscal year was $517,894 (2022 – $512,028), of which the Corporation's share is 14% (2022 – 15%).

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.

16. ALLOCATIONS AND PAYMENTS

	2023	2022
Social responsibility funding	$ 12,700	$ 11,400
LGCA funding and Crown Services Secretariat levy	3,661	4,032
Other community funding	517	511
	$ 16,878	$ 15,943

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*. During the 2023 fiscal year, the Corporation also provided 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.

17. 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.

(B) PURCHASE COMMITMENTS

At the end of the 2023 fiscal year, the Corporation had purchase commitments of $12,104 related to property and equipment and intangible assets.

18. 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 91% (2022 – 97%) 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 2023 fiscal year were $9,334 (2022 – $7,998). 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 $933 (2022 – $800), assuming the inventory purchased had been sold by the end of the year.

(in thousands of Canadian dollars)

(C) LIQUIDITY RISK

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

2023	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
Trade and other payables	$ 6,489	$ 127,162	$ -	$ -	$ -	$ -	$ -	$ -
Contract liabilities	7,056	6,937	-	-	-	-	-	-
Payable to the Province of Manitoba	-	36,907	-	-	-	-	-	-
Long-term debt	-	61,789	46,390	36,584	27,738	19,458	18,193	99,874
Lease liabilities	-	10,409	10,096	9,600	8,251	6,568	5,610	41,968
	$ 13,545	**$ 243,204**	**$ 56,486**	**$ 46,184**	**$ 35,989**	**$ 26,026**	**$ 23,803**	**$ 141,842**

2022	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
Trade and other payables	$ 6,445	$ 121,725	$ -	$ -	$ -	$ -	$ -	$ -
Contract liabilities	7,423	5,705	-	-	-	-	-	-
Payable to the Province of Manitoba	-	46,828	-	-	-	-	-	-
Long-term debt	-	57,302	56,939	41,540	31,733	22,887	14,607	84,220
Lease liabilities	-	9,662	9,359	8,779	8,249	6,888	5,356	32,270
	$ 13,868	**$ 241,222**	**$ 66,298**	**$ 50,319**	**$ 39,982**	**$ 29,775**	**$ 19,963**	**$ 116,490**

(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 ECL allowance for trade and other receivables for the 2023 fiscal year is $5,763 (2022 – $6,242). The maximum credit risk exposure is the carrying value of each class of financial asset disclosed in note 5.

The aging of trade and other receivables at the end of the 2023 fiscal year is as follows:

Current	$ 64,714
Past due as follows:	
Within 30 days	49
31 to 60 days	7
61 to 90 days	3
Over 90 days	12
Expected credit losses	(5,763)
	$ 59,022

(E) CAPITAL MANAGEMENT

The Corporation's capital consists 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.

(in thousands of Canadian dollars)

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:

2023	Level 1	Level 2	Level 3	Total
Cash	$ 41,789	$ -	$ -	$ 41,789
	$ 41,789	**$ -**	**$ -**	**$ 41,789**

2022	Level 1	Level 2	Level 3	Total
Cash	$ 49,551	$ -	$ -	$ 49,551
	$ 49,551	**$ -**	**$ -**	**$ 49,551**

19. 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 13.

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

	2023	2022
Short-term employee benefits	$ 2,500	$ 2,381
Post-employment pension and medical benefits	178	168
Termination benefits	-	471
	$ 2,678	$ 3,020

20. EVENTS AFTER THE REPORTING PERIOD

On April 28, 2023, the Corporation offered for sale the land and building at 830 Empress Street in Winnipeg, Manitoba. These assets have a remaining net book value of $282 as of the date offered for sale. The sale is expected to be completed in 2024 and the Corporation cannot reasonably estimate the financial impact of the sale.

21. COVID-19

In March 2020, the World Health Organization (WHO) declared the outbreak of the novel strain of coronavirus (COVID-19) to be a global pandemic. At various times over the past three years, governments worldwide have enacted emergency measures to combat the spread of the virus. During the 2022 year, the Corporation was impacted by public health measures resulting at various times in the closure of the casinos and a shutdown of the VLT network as well as capacity restrictions when operational. These closures and restrictions had a material negative impact on the Corporation's prior year comparative financial results. From the beginning of the pandemic, the sale of liquor and cannabis were both designated as essential services by Manitoba Public Health and were allowed to operate under capacity restrictions that were in place for a portion of the prior year. 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, all of the Corporation's lines of business are fully operational. On May 5, 2023, the WHO declared the end of COVID-19 as a global health emergency but warned on the risks of the emergence of new variants of the virus. Any potential impacts from the emergence of new variants are unknown at this time, and it is not possible to reliably estimate the impact they may have on the financial results of the Corporation.

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