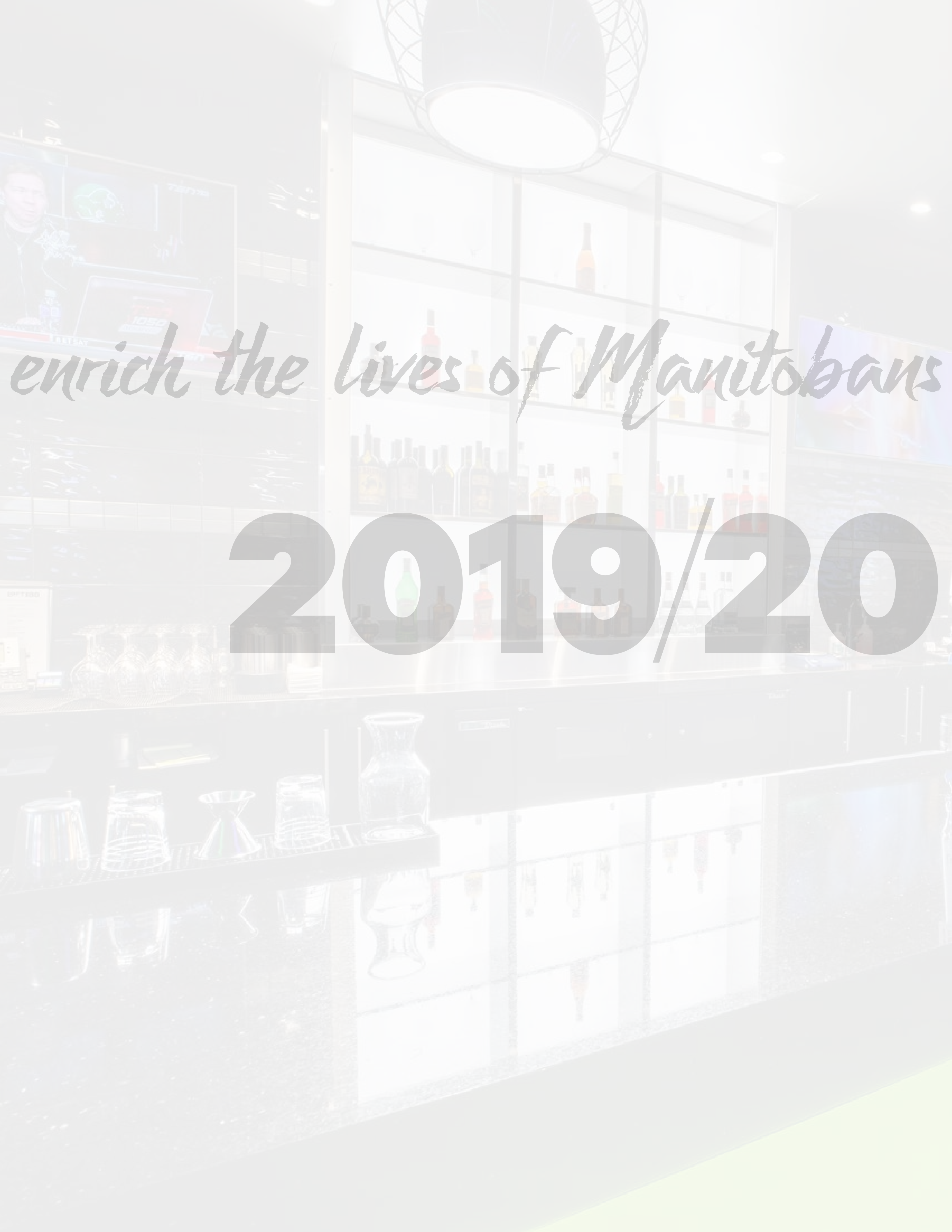
enrich the lives of Manitobans

MANITOBA LIQUOR & LOTTERIES

ANNUAL REPORT

2019/20

MANITOBA
LIQUOR & LOTTERIES



enrich the lives of Manitobans

2019/20

VALUES

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

CARING

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

COLLABORATIVE

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

CUSTOMER FOCUSED

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

CREATIVE

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

COMMITTED

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

LETTER OF TRANSMISSION

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

September 30, 2020

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, 2020.

Respectfully submitted,

Randy Williams
Chair, Board of Directors

purpose and elements

PURPOSE

ENRICH THE LIVES OF MANITOBANS

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

ELEMENTS

PERFORM PROFITABLY AND SUSTAINABLY

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

CHAMPION INNOVATION

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

BE PROGRESSIVE

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

ENGAGE MANITOBANS

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

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MESSAGE FROM THE CHAIR

On behalf of the Board of Directors, it is my pleasure to share the results from Manitoba Liquor & Lotteries for the fiscal year 2019/20. We are proud to have played an important role in guiding the corporation in its success over this past year.

To say this fiscal year at Manitoba Liquor & Lotteries was a difficult one would be an understatement. After record-setting financial results in 2018/19, we started the new year with our business well on-track to surpass the previous year's results. However, as the year unfolded, Liquor Mart thefts continued to escalate and drew much of our focus and efforts to find a conclusive solution to the issue. Then as we approached the end of the fiscal year, the casinos were shut down due to the COVID-19 pandemic and, sadly, hundreds of our employees were affected by the casino closures. I want to extend my sincere thanks and appreciation to employees in all areas of our business who have persevered through these many challenges.

NEW EXECUTIVE LEADERSHIP

After Peter Hak's retirement in June, we conducted an extensive search for a new President & CEO. We were very fortunate to find Manny Atwal right here in Winnipeg and we are very happy with how he has led this organization in his first five months while facing some enormous challenges. We thank him and his executive team for successfully implementing plans to protect our Liquor Marts, employees and customers, and for leading the corporation as the COVID-19 pandemic unfolded.

our message

MANDATE LETTER RESPONSE

Early in 2019, the Liquor & Lotteries Board of Directors received its mandate from the Minister of Crown Services providing us direction on the government's priorities and objectives. I am pleased to report that we have made significant progress on these this year.

Staffing Efficiencies
We reviewed our management structure and management levels were reduced. Overall headcount reductions were achieved across the corporation through attrition and vacancy management. To ensure alignment with government policies and practices, management reviewed all compensation agreements including executive compensation practices and interchange agreements.

Gaming Review and Capital Spending
In support of the government's gaming review, a pause was put on gaming expansion. Capital spending in gaming and liquor was limited to projects where the corporation was contractually committed, necessary maintenance was required; or if it was related to safety and security considerations.

Liquor Business
Management found new opportunities to increase private sector participation of liquor retail and distribution through the assortment expansion of refreshment beverages into all retail channels. A shared purchasing model was explored with other provinces to broaden selection and identify synergies related to the purchasing of liquor. In support of the province's economic development plans, Manitoba's craft brewing policies were revised with the introduction of a zero percent markup eligibility.

This initiative was developed to assist with the expansion of the local craft industry where products are consumed in brew pubs, tap rooms and distillery tasting rooms.

Cannabis Progress
Working with the Liquor, Gaming and Cannabis Authority of Manitoba, the corporation successfully managed the implementation of Phase II of the non-medical cannabis retail strategy with seven new stores identified to open in the Manitoba market. Opening dates for these stores vary due to the impacts of COVID-19 late in the fiscal year and plebiscite dates scheduled for late 2020.

Red Tape Reduction
In keeping with the government's commitment to reduce red tape, I am pleased to report that management achieved its targeted five percent reduction in regulatory requirements.

Procurement Practices
To benefit from economies of scale, Liquor & Lotteries began participating in joint government procurement. The corporation's procurement processes align to relevant trade agreements, therefore ensuring transparency in tendering and procurement practices.

Respectful Workplace
The corporation remains committed to supporting reconciliation with Indigenous communities. This is demonstrated in our workforce which represents 10 percent Indigenous employees and is supported by annual education and awareness training which this fiscal year included the completion of 10 sessions of Circles of Reconciliation. Policies related to ensuring a respectful workplace were updated and employee awareness and training on the policies was completed.

LOOKING FORWARD

Our Board of Directors and Executive Management team will continue to work closely together to manage the impact of the COVID-19 pandemic on our business. Obviously, how we do business will look different in the year ahead and we will need to continue to adapt, plan and respond to our new future. We are committed to providing the governance and support to further strengthen our operations, manage our costs, and contribute the dividends that benefit all Manitobans.

RANDY WILLIAMS
Chair, Board of Directors

MESSAGE FROM THE PRESIDENT & CEO

Manitoba Liquor & Lotteries is proud to play a significant role in supporting the Province of Manitoba through revenue for essential provincial programs and services. I am pleased to report in my first year as President & CEO that Liquor & Lotteries returned $606.3 million in profits to the Province of Manitoba in the fiscal year 2019/20.

Thanks to the hard work and dedication of our entire team, we've had a very successful year where we made many important gains in several areas of our business. We also faced significant challenges that impacted our operations as well as our employees, customers, business partners and net income results.

THEFT REDUCTION STRATEGY

Early in the fiscal year, we began implementing a theft reduction strategy at Winnipeg Liquor Marts in response to an increase in thefts and robberies. Based on testing various approaches, we found the installation of controlled entrances to be the most effective way to move forward. As a result of a serious incident at one of our stores, we expedited the installation of controlled entrances and we had completed the project at most Winnipeg stores by the end of the fiscal year. This change resulted in a substantial shift in our store model and the experience of our customers as they are now all required to have their ID scanned before entering the store. This measure became necessary for our customers and staff to feel safe in our city stores. Since the introduction of controlled entrances, thefts and robberies at Winnipeg Liquor Marts have declined significantly.

I give enormous credit to our Liquor Mart staff who continued to provide outstanding customer service while we worked to improve safety and reduce theft. Executive Management and I had the opportunity to work occasional shifts at Winnipeg Liquor Marts before and after the controlled entrances were rolled out. Store staff and customers alike confirmed that with the controlled entrances in place, the atmosphere of safety and security in those stores has much improved.

our message

PANDEMIC RESPONSE

When COVID-19 hit Manitoba, it caused significant disruption to not only our business but many of our employees. The closure of our casinos impacted our fiscal results in the last weeks of the year and more importantly led us to make the difficult decision to temporarily lay off about 1,300 employees. While we worked to minimize the impact on staff and keep communication lines open, it was still very hard on many employees. Despite that, a crisis can also bring out the best in people and lead them to action. From the onset of COVID-19, our Pandemic Planning Team met daily to address key issues and make the necessary adjustments to protect our customers and staff, and keep essential services operating.

The team's planning activities led to a new supply chain for personal protective equipment as well as implementing comprehensive procedures to ensure the safety of Liquor Mart customers and employees. The team also focused on eliminating discretionary spending by cancelling or deferring non-safety related projects where possible. While the pandemic caused serious disruption and impact to our business, the entire Liquor & Lotteries team worked extremely well together to realign the business and position ourselves for the future.

EVOLVING BUSINESS

In reviewing other industries' best practices, we are leveraging technology to improve our business processes and better meet our customer's demands. These technology enhancements include: liquor operations refining its online home-delivery option to improve service and increase product availability; increased player gaming options and activity at PlayNow.com, our safe and legal online gaming platform; implementation of our producer direct-to retailer distribution model for edibles and beverages in our cannabis business; implementation of software such as Microsoft Teams and Office 365 to support staff working remotely; and the use of data analytic tools to improve our supply chain and decision making in liquor operations.

TEAMWORK AND FISCAL PRUDENCE

Throughout this past year, we continued to work closely with management and employees to explore opportunities to lower expenses and run our operations more efficiently. Efforts to reduce costs and empower employees to improve our processes continued to pay dividends as we were able to reduce operating expenses year over year and relative to budget. Coming from the private sector, I am pleased to see that Liquor & Lotteries operates with a keen eye for efficient management and a desire to continually improve what we are doing.

It was my pleasure to collaborate with our Executive Management team to find consensus that put us on the best path forward, whether that is seeking solutions to keep our customers and staff safe, offering competitive products and services to match customer demands, or meeting our obligation to the Province. I thank our Board Chair and Board of Directors for their tremendous support and astute governance throughout fiscal 2019/20. I am also grateful and excited for the opportunity to serve as President & CEO in this leading Crown corporation as we build for the future.

THE ROAD AHEAD

At fiscal year-end, the Casinos of Winnipeg remained closed as a result of COVID-19. Our other areas of business were also affected, as detailed further in this report. However, our corporation and our employees are resilient, and we are confident our business, along with that of our business partners, will get back on track in the coming fiscal albeit under a new way of operating. We will make the necessary adjustments to serve our customers in the same safe manner we've demonstrated, and we will continue to achieve customer satisfaction ratings for which any business would be proud.

Yes, we find ourselves in extraordinary times. However, I am confident as everyone in this great province pulls together, we'll come out the other side even stronger. Our team will continue to do its part to move the corporation forward and deliver the benefits that enrich the lives of all Manitobans.

MANNY ATWAL
President & Chief Executive Officer

ABOUT US

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

All liquor, gaming and cannabis sold by over 3,300 private retailers and other businesses in Manitoba is purchased through Manitoba Liquor & Lotteries. We supply liquor and beer vendors, specialty wine stores, restaurants and bars, lottery retailers, cannabis retailers and other licensees.

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

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

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

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

about us

MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS AT MARCH 31, 2020

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, 2020. 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, 2020, 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 Corporation strives to make the greatest possible contribution to the economic and social well-being of the province of Manitoba by focusing on the four key elements of performing profitably and sustainably; championing innovation; being progressive through products and experiences and engaging Manitobans. These key elements are the themes upon which the Corporation's goals and objectives have been developed; and form the basis of corporate strategic planning. At the centre of these elements is the Corporation's stakeholders – the people, communities, and businesses across Manitoba who benefit from the Corporation's economic contributions. The Corporation remains committed to achieving its purpose in a socially responsible manner.

The 2019/20 financial year was trending ahead of both forecast and the prior year for the majority of the year however the outbreak of the novel strain of coronavirus (COVID-19), and the necessary measures enacted to combat the spread of the virus, had a negative impact on the Corporation's operations. As a result, the Corporation's allocation to the Province of Manitoba for 2019/20 was $606.3 million, which was lower by $9.8 million or 1.6% when compared to the 2018/19 amount of $616.1 million.

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

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

net income

2020 *(in thousands)*

	CANNABIS OPERATIONS	CASINOS	LIQUOR OPERATIONS	LOTTERY	VIDEO LOTTO	TOTAL
Revenue	$ 51,480	$ 246,610	$ 807,608	$ 1,975	$ 354,631	$ 1,462,304
Cost of sales	42,572	19,093	396,841	1,152	117,354	577,012
	8,908	**227,517**	**410,767**	**823**	**237,277**	**885,292**
Operating expenses	1,338	117,325	97,653	5,939	14,021	236,276
Depreciation and amortization	-	29,166	15,686	51	21,804	66,707
Goods and Services Tax	-	3,379	-	25	3,380	6,784
	1,338	**149,870**	**113,339**	**6,015**	**39,205**	**309,767**
Operating Income	**7,570**	**77,647**	**297,428**	**(5,192)**	**198,072**	**575,525**
Share of profit of Western Canada Lottery Corporation	-	2,108	-	59,933	-	62,041
Interest expense	-	(7,941)	(3,342)	(103)	(2,388)	(13,774)
Interest income	4	402	231	33	421	1,091
Income Before Allocations and Payments	**7,574**	**72,216**	**294,317**	**54,671**	**196,105**	**624,883**
Allocations and payments	381	4,160	10,373	827	2,840	18,581
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	**$ 7,193**	**$ 68,056**	**$ 283,944**	**$ 53,844**	**$ 193,265**	**$ 606,302**

2019 *(in thousands)*

	CANNABIS OPERATIONS	CASINOS	LIQUOR OPERATIONS	LOTTERY	VIDEO LOTTO	TOTAL
Revenue	$ 26,991	$ 255,233	$ 794,597	$ 2,086	$ 355,882	$ 1,434,789
Cost of sales	22,434	18,679	391,898	1,173	116,080	550,264
	4,557	**236,554**	**402,699**	**913**	**239,802**	**884,525**
Operating expenses	856	123,441	106,050	6,485	13,817	250,649
Depreciation and amortization	-	26,781	6,630	-	19,960	53,371
Goods and Services Tax	-	3,913	-	192	2,270	6,375
	856	**154,135**	**112,680**	**6,677**	**36,047**	**310,395**
Operating Income	**3,701**	**82,419**	**290,019**	**(5,764)**	**203,755**	**574,130**
Share of profit of Western Canada Lottery Corporation	-	1,656	-	67,993	-	69,649
Interest expense	-	(7,563)	(653)	(110)	(2,626)	(10,952)
Interest income	-	460	193	33	469	1,155
Income Before Allocations and Payments	**3,701**	**76,972**	**289,559**	**62,152**	**201,598**	**633,982**
Allocations and payments	340	4,105	9,849	843	2,770	17,907
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	**$ 3,361**	**$ 72,867**	**$ 279,710**	**$ 61,309**	**$ 198,828**	**$ 616,075**

Revenue of $1,462.3 million was $27.5 million or 1.9% higher when compared to the revenue of $1,434.8 million in the prior year. Cannabis operations revenues increased $24.5 million in 2019/20, its first full year after the sale of non-medical cannabis was legalized in October 2018. Casino revenues decreased $8.6 million when compared to 2018/19 due to the closures on March 18, 2020 of both Club Regent Casino and McPhillips Station Casino in response to the COVID-19 pandemic. Video Lotto revenues decreased $1.3 million year-over-year due to reduced play in March as VLT players heeded social distancing recommendations to reduce the spread of COVID-19. Prior to March, all gaming offerings had been trending higher than 2018/19. Liquor operations revenues increased by $13.0 million over the prior year, with the majority of the increase occurring in Liquor Marts. Revenue, net of cost of sales of $885.3 million increased $0.8 million or 0.1% from $884.5 million in the prior year.

Operating expenses in 2019/20 were $236.3 million, a decrease of $14.3 million or 5.7% from the $250.6 million operating expenses of the prior year, and include employee and other costs directly related to the generation of revenues. Employee costs decreased compared to the prior year as the Corporation continued its focus on operational effectiveness and reduced expenditures through vacancy management and attrition. Staff layoffs as a result of the closure of the Casinos of Winnipeg in March 2020 did not occur until the 2020/21 year therefore none of the decrease in employee costs is attributable to the COVID-19 pandemic. Other operating expenses were carefully managed to levels that were lower than the prior year however the primary driver for the current year decrease was the adoption by the Corporation of the financial reporting standard *IFRS 16 Leases*.

IFRS 16 introduced a single lessee accounting model, eliminating the classification of leases as either finance or operating and will require lessees to recognize assets and liabilities for most lease arrangements on a go forward basis. The new standard changed the categorization of certain expenses which has resulted in items previously recognized as operating expenses, such as rents, now being recognized as depreciation and amortization or interest expense. The Corporation chose the option to apply IFRS 16 that assumes all leases commenced on the date of initial application (April 1, 2019) for those arrangements that were in existence prior to that date. This option does not result in the restatement of the prior year comparative information that continues to reflect the previous accounting policy related to leases and the corresponding expense categories.

The adoption of IFRS 16 had no impact on the amount of the Corporation's allocation to the Province of Manitoba. The impact of the changes to the categorization of expenses within the consolidated statement of net income, comprehensive income and equity of the audited consolidated financial statements can be summarized as follows:

IFRS 16 Leases Impact	2020
Operating expenses	$ (11,208)
Depreciation and amortization	9,182
Interest expense	2,026
	$ -

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. In the 2019/20 year, the Corporation determined a change to the classification of GST expense would improve the presentation of financial results by operating segment by more accurately attributing non-recoverable GST expenditures to gaming operations. The 2018/19 operating segment results presented for comparative purposes have been restated to conform to this change in classification. Total non-operating expenses were $104.8 million in 2019/20, an increase of $17.3 million or 19.8% from the $87.5 million recorded last year. As noted above, this increase is primarily the result of the adoption of the IFRS 16 financial reporting standard.

CANNABIS OPERATIONS

The sale and consumption of non-medical cannabis became legal in Canada on October 17, 2018. The Corporation is mandated to secure a safe supply of cannabis, and to coordinate the distribution of cannabis to private sector retailers.

In its first full year, cannabis operations earned comprehensive income of $7.2 million, an increase of $3.8 million over the partial year results of 2018/19. During the year, nine additional private retailer locations opened in the province providing a total of 29 locations, with 14 in Winnipeg, six in Brandon, two in Thompson, and seven serving other communities. All licensed retailers are also eligible to offer online sales. Cannabis operations supports these private retailers as the provincial wholesale distributor, maintaining a catalogue of available cannabis products.

The Corporation launched a call for listing requesting proposals from licensed suppliers to provide a legal source for the second phase of non-medical cannabis in the Province of Manitoba. The information gathered was used to develop a revised product catalogue to include the new legalized product categories of edible cannabis products, cannabis extracts and cannabis topicals. These products include confectionary items, inhalable items like vape cartridges and disposable vape pens, as well as cannabis concentrates. The new products, now legally available for sale, are in addition to the previously available dried cannabis and infused edible oils.

New suppliers coming to market increased the availability and variety of products and resulted in lower wholesale prices as the year progressed. The Corporation added 22 new suppliers, resulting in the offering of over 600 new products to private retailers.

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

CASINOS

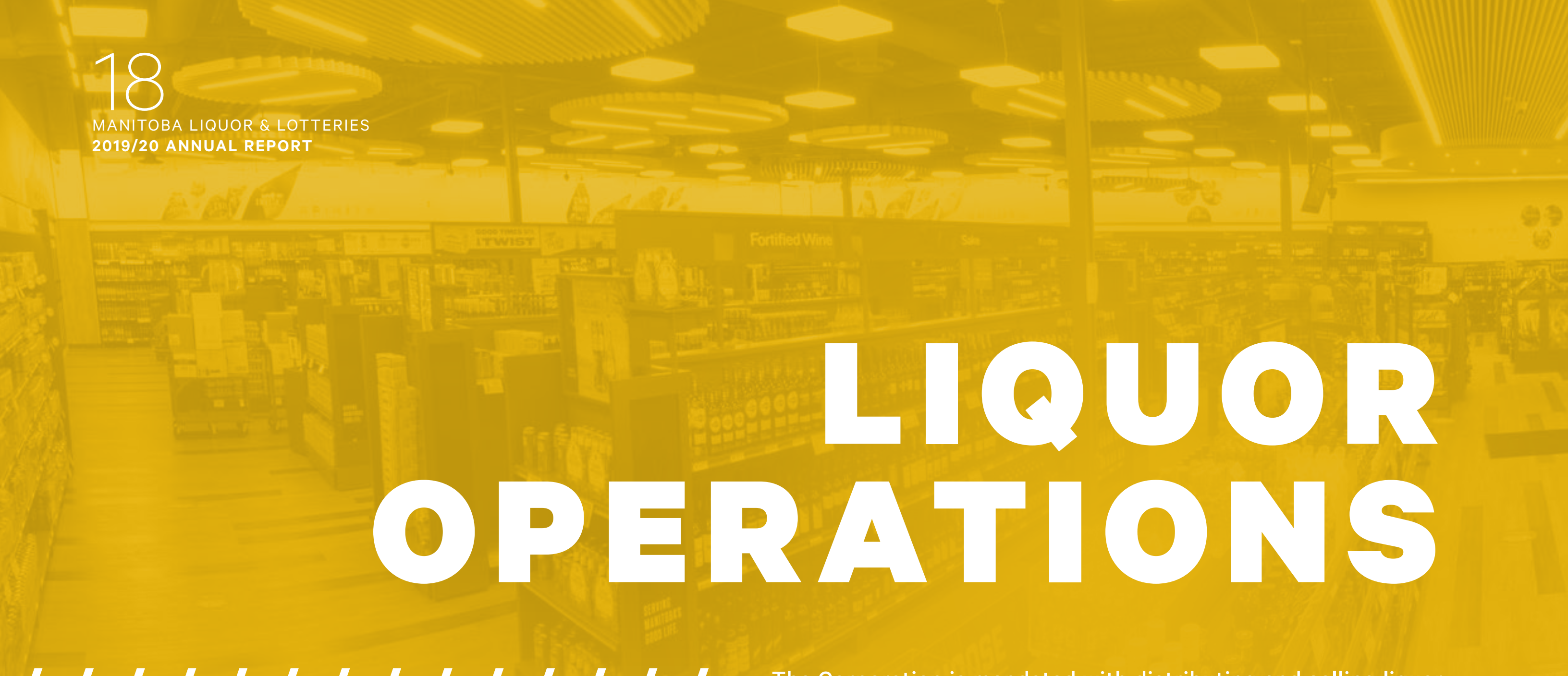
The Corporation owns and operates two casinos in the City of Winnipeg - Club Regent Casino and McPhillips Station Casino. Both casinos offer a full range of gaming services including slots, table games, bingo, and the ability to purchase lottery tickets and partake in off-track horse racing. In addition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

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

Casino operations, which include the results of online gaming, generated comprehensive income of $68.1 million in the year, a decrease of $4.8 million or 6.6% from last year's comprehensive income of $72.9 million.

On March 18, 2020, all Manitoba casinos were required to close as the Province of Manitoba introduced additional measures to slow the spread of COVID-19. These closures, coupled with declining attendance that occurred in the latter part of the year as the pandemic became more severe, resulted in a reversal of the positive trends that had been experienced by the Casinos of Winnipeg in the 2019/20 year. For the eleven months ending February 29, 2020, revenue was 2.6% higher than 2018/19; however, by the end of the fiscal year revenue was at levels lower than last year. The PlayNow.com online gaming site continued to experience growth and saw revenue increase by 26.3% over the prior year.

Overall, casino operations revenue, which includes online gaming revenue, decreased $8.6 million or 3.4% when compared to last year. Casino cost of sales increased $0.4 million over the prior year and include gaming direct expenses associated with the operation and maintenance of electronic gaming equipment, table games equipment and the online gaming site as well as costs associated with the non-gaming offerings in the food and beverage and entertainment areas. Other expenses decreased $3.8 million or 2.3% over the prior year. The decrease includes lower employee costs relating to careful management of staffing levels to ensure operational effectiveness, and a decrease in marketing costs during the provincial election advertising blackout period in the current year.



LIQUOR OPERATIONS

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

Liquor operations earned comprehensive income of $283.9 million in 2019/20, an increase of $4.2 million or 1.5% from the $279.7 million earned last year.

Revenues generated by liquor operations were $807.6 million in the year, an increase of $13.0 million or 1.6% from revenues of $794.6 million in 2018/19. During the year, liquor sales (both in dollars and in volume) as well as gross profit increased in the spirits, wine, and refreshment beverages categories, with the increase in dollar sales outpacing the volume growth in each category. The bulk of the growth in revenue is attributable to increased sales at Liquor Marts, which saw an increase in revenue of $19.5 million. While there was a late year surge in sales due to consumer uncertainty regarding potential closures as a result of the COVID-19 pandemic, this only continued the sales trends seen at the Liquor Marts throughout the year. Licensee sales decreased $11.8 million from 2018/19, continuing the trend seen last year relating to changing consumer behaviours to favour entertaining at home, as well as declining overall beer consumption.

2020 *(in thousands)*

	Beer	Refreshment Beverages	Spirits	Wine	Total
Stores	$ 81,525	$ 27,977	$ 201,790	$ 137,202	$ 448,494
Liquor Vendors	13,622	6,357	38,068	12,700	70,747
Licensees	226,846	16,887	19,588	4,498	267,819
Specialty Wine Stores	-	131	47	18,715	18,893
Total Sales	**321,993**	**51,352**	**259,493**	**173,115**	**805,953**
Cost of Sales	189,255	24,534	100,132	82,589	396,510
Gross Profit	**$ 132,738**	**$ 26,818**	**$ 159,361**	**$ 90,526**	**$ 409,443**

2019 *(in thousands)*

	Beer	Refreshment Beverages	Spirits	Wine	Total
Stores	$ 80,576	$ 25,054	$ 191,102	$ 132,243	$ 428,975
Liquor Vendors	12,154	5,914	36,374	12,274	66,716
Licensees	240,684	13,675	20,215	5,014	279,588
Specialty Wine Stores	-	80	35	16,940	17,055
Total Sales	**333,414**	**44,723**	**247,726**	**166,471**	**792,334**
Cost of Sales	195,237	21,471	95,696	79,137	391,541
Gross Profit	**$ 138,177**	**$ 23,252**	**$ 152,030**	**$ 87,334**	**$ 400,793**

VOLUME SALES *(in millions of litres)*

	Beer	Refreshment Beverages	Spirits	Wine
2020	**70.9**	**7.8**	**7.6**	**12.0**
2019	74.3	6.9	7.3	11.7
2018	76.1	6.3	7.3	12.1
2017	76.4	5.7	7.2	11.8
2016	77.5	5.1	7.1	11.5

LOTTERY

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

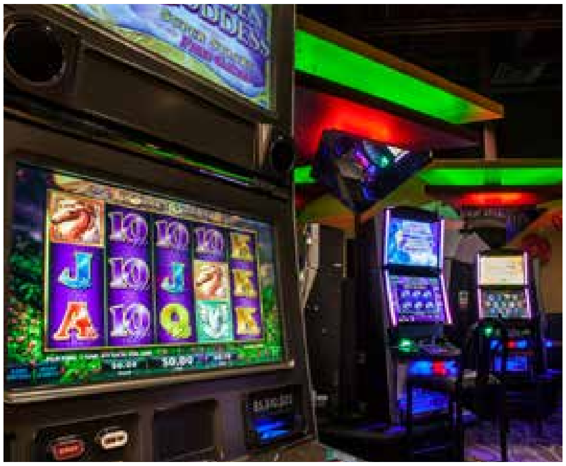
In the 2019/20 year, the Corporation's share of the profit of WCLC of $62.0 million decreased by $7.6 million or 10.9% from last year's share of the profit of WCLC of $69.6 million. Lottery comprehensive income of $53.8 million decreased by $7.5 million or 12.2% from the comprehensive income of $61.3 million in 2018/19. Sales of lottery products in the year were lower in several major categories with the decreases being most prominent in the LOTTO 6/49 and LOTTO MAX products. The sale of lottery products tends to follow jackpot levels and both products experienced a year-over-year decrease in large jackpots. LOTTO 6/49 saw a decrease in its average jackpot from $11.8 million in 2018/19 to $9.2 million in the current year. LOTTO MAX, which moved to two draws per week in May 2019, had an average jackpot of $35.1 million in 2019/20, compared to $40.1 million in the previous year. In addition, $245 million in MAXMILLIONS prizes were available in the current year, compared to the record $694 million available in the prior year.

VIDEO LOTTO

The Corporation is responsible for the operation and maintenance of Video Lottery Terminals (VLTs). VLTs are located at First Nations communities, licensed establishments, and veterans' organizations. The operation of VLTs contributed 31.9% of the Corporation's net income and provided annual commissions and contributions of $117.4 million to all VLT siteholders who operate equipment on their premises. Included in this amount is $63.3 million of support to First Nations communities, an increase of $1.5 million from the $61.8 million of support provided last year. 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 other 7.5% to 12% is provided as a contribution to promote tourism in the province. During 2019/20, this support totaled $50.8 million, a decrease of $0.4 million from the $51.2 million paid in 2018/19. In November 2019, the commissions and contributions rate provided to veterans' organizations increased by 5%, allowing these siteholders to retain 30% of net win from the VLTs. Support to veterans' organizations totaled $3.2 million in the year, an increase of $0.1 million from the support provided in 2018/19.

Video Lotto comprehensive income of $193.3 million decreased $5.5 million or 2.8% from the comprehensive income of $198.8 million in the previous year. For the eleven months ending February 29, 2020, revenues had been trending 3.9% higher than 2018/19 however social distancing and stay at home recommendations to slow the spread of COVID-19 resulted in a significant decrease in activity during the last month of the year such that revenues for 2019/20 finished $1.3 million or 0.4% lower than the prior year.



VLT COMMISSIONS & CONTRIBUTIONS *(in millions)*

	First Nations	City Siteholders	Rural Siteholders	Total
2020	**63.3**	**31.0**	**23.1**	**117.4**
2019	61.8	30.6	23.7	116.1
2018	62.8	31.1	23.9	117.8
2017	58.6	30.4	23.6	112.6
2016	51.5	29.7	23.9	105.1

COVID-19 IMPACTS AND RESPONSE

In March 2020 the World Health Organization declared the outbreak of COVID-19 to be a global pandemic. The Province of Manitoba and governments worldwide enacted emergency measures to combat the spread of the virus. COVID-19 and the related emergency measures had a significant impact on the Corporation's results for 2019/20.

The Casinos of Winnipeg began experiencing declining attendance in the last month of 2019/20 and on March 18, 2020, all Manitoba casinos were required by the provincial government to close. For the month of March 2020, revenues were nearly 70% lower than the same period of 2018/19. At the same time, bars and restaurants in Manitoba began to close voluntarily due to reduced business as patrons heeded social distancing and stay-at-home recommendations, negatively impacting both VLT revenues which were 40% lower than March 2019, and licensees liquor sales, which saw a 24% decrease in March 2020 compared to the prior year. All other liquor channels experienced strong sales in March 2020, led by Liquor Marts at 29% above March 2019.

The sale of liquor and cannabis were both designated as essential services by Manitoba Public Health and the Corporation moved quickly in response to the public health measures to ensure the safety of customers and staff. Liquor operations worked diligently to implement measures at all Liquor Mart locations to reduce the spread of COVID-19, including enhanced cleaning and social distancing procedures, limiting the number of customers in stores, and installing plexiglass shields. At corporate offices, enhanced cleaning procedures were implemented, and information technology staff successfully implemented solutions to allow the majority of staff to effectively work from home. Operating expenses attributable to the response totaled $0.2 million in March 2020.

As part of the Province of Manitoba's commitment to support businesses directly impacted by the COVID-19 pandemic, the Corporation provided relief to liquor commercial customers. These customers were provided the opportunity to discuss options related to their account payments which resulted in interest free payment plans for up to six months for those customers who requested the extension. The Corporation has also reasonably assumed that due to COVID-19, permanent closures and bankruptcies are likely for certain of its commercial customers. As a result, an allowance of $4.1 million was recorded in the 2019/20 year for expected credit losses on trade receivables due to the impacts of the pandemic.

FIRST NATIONS CASINOS AND SHARK CLUB GAMING CENTRE

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

During the year, the Corporation purchased gaming equipment in the amount of $0.1 million on behalf of Aseneskak Casino. No purchases of gaming equipment were made for South Beach Casino, Sand Hills Casino, or Shark Club Gaming Centre in the 2019/20 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 2019/20 year, MLC Holdings Inc. acquired $16.2 million in capital assets for lease to the Corporation.

SOCIAL RESPONSIBILITY

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

The Corporation fulfills its commitment to social responsibility in several ways. Social responsibility perspectives are incorporated into many corporate, gambling, liquor, and marketing initiatives annually. Funding support is provided to organizations such as the Addictions Foundation of Manitoba that provide support and treatment for issues related to liquor and gambling consumption. Consumer information is developed and promoted to encourage low risk, responsible use of the Corporation's products and to contribute to maintaining and growing a sustainable customer base. The Corporation also provides funding for research aimed at the evidence-based evaluation and improvement of social responsibility programs related to prevention, harm minimization, product risk, and treatment of problems related to gambling and alcohol. Social responsibility initiatives related to the responsible use of cannabis will be included in future years.

Of the 2019/20 committed amount, $1.8 million was unspent and carried forward, reserved for social responsibility initiatives in the 2020/21 year.

(in thousands)	2020	2019
Funding support	$ 8,615	$ 8,189
Internal research and program evaluation	333	954
Operating and consumer awareness	4,114	4,450
Prior year funding spent in current year	(1,965)	(2,917)
Funding carried forward to future years	1,835	1,965
	$ 12,932	**$ 12,641**

For more information on the Corporation's commitment to the responsible use of its products and services; its support of communities, local charities, and non-profit organizations; its efforts to minimize negative environmental impacts; and the mutually beneficial relationships developed with its various business and community partners, please visit www.mbll.ca.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities during the 2019/20 year provided the Corporation with $694.4 million in cash flows compared to $674.6 million in the prior year, an increase of $19.8 million or 2.9%.

Cash spent on property and equipment in 2019/20 totaled $32.0 million as compared to the $54.6 million spent in the prior year. The majority of property and equipment expenditures in the year were focused on the regular process of maintaining existing equipment, facilities and technology to support ongoing operations. The Corporation has entered into a long-term lease for a new liquor operations distribution centre as the solution to the space constraints that exist in the current warehouse location and a major project in the 2019/20 year was the ongoing work to prepare the new facility for occupancy. In response to the rising number of thefts and robberies at its Liquor Marts, the Corporation also began work on the implementation of controlled entrances, with approximately half of the Winnipeg locations completed by the end of the 2019/20 year.

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

In the 2019/20 year, proceeds of long-term debt received were $45.1 million as compared to the $65.7 million of proceeds received in the prior year. Of the total proceeds received, $0.1 million was received to purchase gaming equipment for the First Nations Casinos as compared to $1.8 million in 2018/19. The majority of long-term debt has fixed interest rates and is repayable in monthly installments.

Cash distributions to the Province of Manitoba during 2019/20 resulted in a cash outflow of $614.1 million compared to last year's $620.4 million.

CORPORATE GOVERNANCE

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

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

RISK MANAGEMENT

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

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

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

STRATEGIC RISKS

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

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

OPERATIONS RISKS

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

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

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

FINANCIAL RISKS

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

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

GOVERNANCE & COMPLIANCE RISKS

Governance 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, and regulatory compliance programs. Management regularly reviews the appropriateness and effectiveness of control activities embedded within processes and takes corrective action to strengthen its system of internal controls.

WHISTLEBLOWER REPORT

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

A disclosure of alleged wrongdoing was submitted to the designated officer during the 2019/20 year. It was determined that the inquiry did not qualify as a wrongdoing as defined in the Corporation's Whistleblower Protection Policy.

FUTURE OUTLOOK

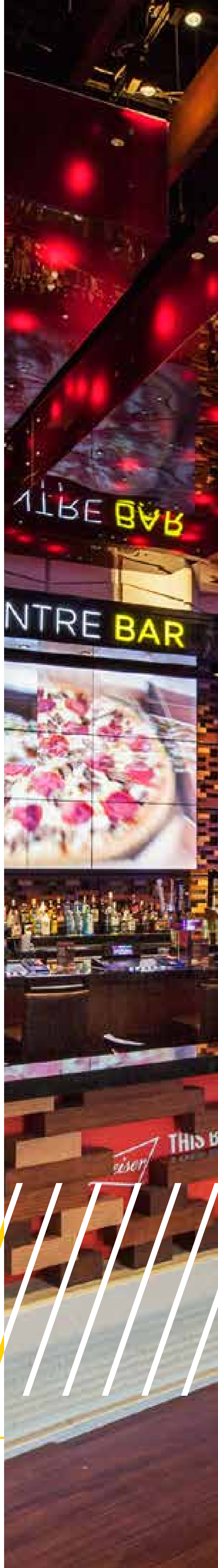
The Corporation's allocation to the Province of Manitoba was budgeted to be $650.2 million in the 2020/21 year, which would have represented an increase of $20.2 million or 3.2% as compared to the $630.0 million allocation to the Province of Manitoba that was forecast and expected to be achieved in the 2019/20 year. This budget does not consider the effects of the COVID-19 pandemic, which has significantly impacted health and economic conditions around the world and will continue to impact the Corporation's operations in 2020/21. The duration of the COVID-19 pandemic and the associated public health orders are unknown at this time; therefore, it is not possible to reliably estimate the full impact these developments will have on the 2020/21 financial results. The Club Regent Casino, McPhillips Station Casino and the VLT network together represent over 40% of the Corporation's average annual comprehensive income therefore it is reasonable to expect any sustained reduction of these operations will have a material negative impact on the 2020/21 financial results.

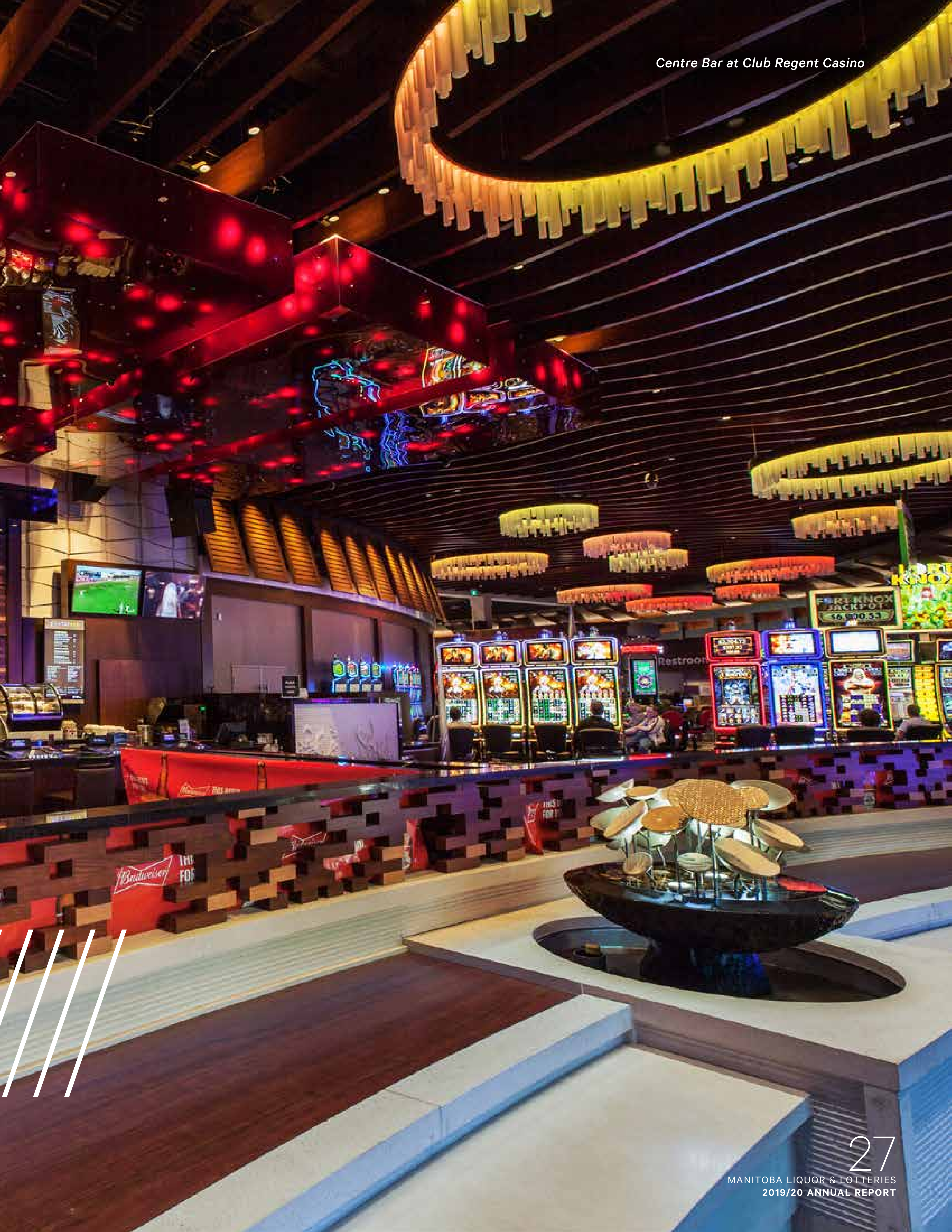
In 2020/21 the Corporation's primary focus will be on efforts to ensure the proper cleaning and social distancing protocols are in place, and appropriate personal protective equipment is available to ensure the safety and well-being of its staff and customers. Online gaming through the PlayNow.com site has taken on additional significance in light of the current economic conditions. It is anticipated that growth of the customer base will continue in 2020/21 as more are introduced to the online experience. The Corporation will continue to focus its efforts to support the site and promote its place as Manitoba's only legal comprehensive online gaming platform.

In the upcoming year, the Corporation will support the growth of the cannabis industry within the province with the implementation of an open market for cannabis retail, giving any person or company that wants to open a retail store the ability to enter into an agreement with the Corporation to establish a store in any Manitoba community that allows cannabis retail. Cannabis operations will continue to develop its relationships with both retailers and suppliers to secure a safe supply of non-medical cannabis and cannabis products for sale to the public. Other activities include implementing an online product ordering system, and updating business partner agreements.

In the coming year, liquor operations will have completed its theft mitigation strategy through the installation of controlled entrances at all Winnipeg Liquor Mart and Liquor Mart Express locations. The new distribution centre located at 1000 King Edward will be fully operational within the first half of the year, which will alleviate capacity and throughput issues at the existing 1555 Buffalo Place location. Other initiatives expected to be in progress in the 2020/21 year include the necessary replacement of point of sale hardware at the Liquor Marts, an upgrade to the commercial customer ordering system to better meet the needs of those customers, and the elimination of paper bags in the retail stores. There will also be an increased focus on the areas of home delivery and future online retailing capabilities in response to the rapid growth experienced as a result of the pandemic and the evolving consumer retailing trend.

In response to the priorities identified by the Government of Manitoba, liquor operations will continue to look for opportunities for increased private sector participation in the liquor retail and distribution sectors. In the 2019/20 year, a change was made to allow liquor manufacturers who sell directly to public consumers at their on-premise locations to do so at a 0% provincial markup. In the 2020/21 year, the small producer markup program will be streamlined and enhanced to extend the application of reduced markups to all liquor categories. In response to legislation that enables the private distribution of other categories of alcohol in addition to beer, the Corporation will investigate changes that may be required to its existing distribution policies to support this new private sector opportunity that enables positive changes to the landscape of liquor distribution in Manitoba.





Centre Bar at Club Regent Casino

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, 2020.

Original signed by

MANNY ATWAL
President &
Chief Executive Officer

Original signed by

HEATHER MITCHELL
Chief Financial Officer

management report

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, 2020, 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, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

BASIS FOR OPINION

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Winnipeg, Canada
June 17, 2020

MANITOBA LIQUOR AND LOTTERIES CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31 (in thousands of Canadian dollars)

	NOTES	2020	2019
ASSETS			
CURRENT ASSETS			
Cash		$ 68,969	$ 45,760
Trade and other receivables	4	36,809	53,584
Inventories	5	54,564	49,636
Prepayments	6	4,382	4,751
		164,724	153,731
NON-CURRENT ASSETS			
Property and equipment, net	7	357,279	385,283
Right-of-use assets, net	8	72,693	-
Intangible assets, net	9	11,697	12,419
		441,669	397,702
TOTAL ASSETS		**$ 606,393**	**$ 551,433**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	10	$ 120,806	$ 118,472
Contract liabilities	11	7,767	7,686
Payable to the Province of Manitoba		42,302	50,075
Current portion of long-term debt	12	52,348	59,458
Current portion of lease liabilities	8	7,430	-
		230,653	235,691
NON-CURRENT LIABILITIES			
Long-term debt	12	303,513	310,742
Lease liabilities	8	67,227	-
		370,740	310,742
Commitments and contingencies	16		
EQUITY			
Retained earnings		5,000	5,000
TOTAL LIABILITIES AND EQUITY		**$ 606,393**	**$ 551,433**

(see accompanying notes to the consolidated financial statements)

On behalf of the Board

Original signed by

RANDY WILLIAMS
Director & Chair of the Board of Directors

Original signed by

PATRICIA SOLMAN
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	2020	2019
REVENUE	13	$ 1,462,304	$ 1,434,789
COST OF SALES	13	577,012	550,264
		885,292	884,525
Operating expenses	13	236,276	250,649
Depreciation and amortization		66,707	53,371
Goods and Services Tax		6,784	6,375
		309,767	310,395
OPERATING INCOME		**575,525**	**574,130**
Share of profit of Western Canada Lottery Corporation	14	62,041	69,649
Interest expense		(13,774)	(10,952)
Interest income		1,091	1,155
INCOME BEFORE ALLOCATIONS AND PAYMENTS		**624,883**	**633,982**
Allocations and payments	15	18,581	17,907
NET INCOME AND COMPREHENSIVE INCOME		**606,302**	**616,075**
EQUITY, BEGINNING OF THE YEAR		5,000	5,000
Allocation to the Province of Manitoba		(606,302)	(616,075)
EQUITY, END OF THE YEAR		**$ 5,000**	**$ 5,000**

(see accompanying notes to the consolidated financial statements)

MANITOBA LIQUOR AND LOTTERIES CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2020	2019
OPERATING ACTIVITIES		
Net income and comprehensive income	$ 606,302	$ 616,075
Add items not involving cash:		
Depreciation related to property and equipment	52,844	49,135
Depreciation on assets related to Conduct and Management agreements	2,449	4,151
Depreciation related to right-of-use assets	9,182	-
Amortization related to intangible assets	4,681	4,236
Loss on disposal of property and equipment	4,284	33
Loss on disposal of intangible assets	134	-
	679,876	673,630
Changes in non-cash working capital items:		
Decrease (increase) in trade and other receivables	17,120	(2,284)
Increase in inventories	(4,928)	(1,628)
Decrease (increase) in prepayments	311	(402)
Increase in trade and other payables	1,982	3,170
Increase in contract liabilities	81	2,102
CASH PROVIDED BY OPERATING ACTIVITIES	**694,442**	**674,588**
INVESTING ACTIVITIES		
Purchase of property and equipment	(31,984)	(54,614)
Purchase of intangible assets	(4,093)	(5,570)
Proceeds from disposal of property and equipment	411	239
CASH USED IN INVESTING ACTIVITIES	**(35,666)**	**(59,945)**
FINANCING ACTIVITIES		
Cash distributions to the Province of Manitoba:		
Current year	(609,000)	(616,000)
Prior year	(5,075)	(4,362)
Proceeds from long-term debt	45,140	65,690
Repayment of long-term debt	(59,479)	(56,332)
Repayment of lease liabilities	(7,153)	-
CASH USED IN FINANCING ACTIVITIES	**(635,567)**	**(611,004)**
NET INCREASE IN CASH DURING THE YEAR	23,209	3,639
CASH, BEGINNING OF THE YEAR	45,760	42,121
CASH, END OF THE YEAR	**$ 68,969**	**$ 45,760**
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 14,114	$ 11,706

(see accompanying notes to the consolidated financial statements)

1. BACKGROUND

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

The consolidated financial statements of the Corporation for the year ended March 31, 2020 were authorized for issue by the Board of Directors on June 17, 2020.

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

(B) STATEMENT OF COMPLIANCE

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

(C) BASIS OF CONSOLIDATION

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

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

(D) WESTERN CANADA LOTTERY CORPORATION

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

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

(E) FIRST NATIONS CASINOS AND SHARK CLUB GAMING CENTRE

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

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

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

(F) FOREIGN CURRENCY TRANSLATION

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

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

(G) FINANCIAL INSTRUMENTS

Financial instruments are recognized in the consolidated statement of financial position when the Corporation becomes a party to the contractual terms of the instrument, which represents its trade date. 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.

(H) PROPERTY AND EQUIPMENT

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

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

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

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

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

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

(I) LEASES

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

Policy in effect April 1, 2019

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

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

Subsequent to initial measurement, lease liabilities are measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured for any changes in lease terms, changes in future lease payments due to a change in the rate or index associated with those payments, or any lease contract modifications that do not result in the recognition of a separate lease. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized within interest expense in the consolidated statement of net income, comprehensive income and equity.

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

Policy in effect prior to April 1, 2019

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

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

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

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

(J) INTANGIBLE ASSETS

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

Computer software	**3 to 15 years**

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

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

(K) INVENTORIES

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

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

(L) IMPAIRMENT

(i) Trade and other receivables

The Corporation assesses at each reporting date whether to recognize a loss allowance for expected credit losses (ECL) 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.

(M) PROVISIONS

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

(N) PENSION PLANS

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

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

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

(O) REVENUE RECOGNITION

Revenue 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) Brewery, distillery and winery direct sales

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

(iv) Contract balances

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

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

(P) GOODS AND SERVICES TAX

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

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

(Q) CHANGES IN ACCOUNTING POLICIES

During the year, the Corporation adopted the following standard:

(i) *IFRS 16 Leases*

This standard was issued in January 2016 and superseded existing standard *IAS 17 Leases* and related interpretations. IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, referred to as the customer (lessee) and the supplier (lessor). IFRS 16 introduces a single lessee accounting model, eliminating the classification of leases as either finance or operating and will require lessees to recognize assets and liabilities for most leases. The new standard does not substantially change lessor accounting requirements; lessors will continue to classify leases as operating or finance under IFRS 16.

IFRS 16 became effective for annual periods beginning on or after January 1, 2019 and has been applied to the consolidated financial statements using the modified retrospective approach. Under this approach, IFRS 16 is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Corporation has not restated prior year comparative information which continues to be reported under IAS 17 and related interpretations.

Prior to adoption of IFRS 16, the Corporation classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Upon adoption of IFRS 16, the Corporation applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Corporation for leases previously classified as operating leases. No leases were previously classified as finance leases.

The Corporation recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Corporation applied the following optional transitional relief and practical expedients when adopting IFRS 16:

- A single discount rate was applied to portfolios of leases with reasonably similar characteristics;
- Leases for which the lease term ends within 12 months of the date of initial application were treated as short-term leases and were excluded from right-of-use assets and lease liabilities;
- Initial direct costs from the measurement of right-of-use assets at the date of initial application were excluded;
- Hindsight was used in determining the lease term where the contract contained options to extend or terminate the lease; and
- An election was made for a class of underlying assets, not to separate non-lease components from lease components. Instead, each lease component and any associated non-lease component was accounted for as a single lease component.

The effect of adoption of IFRS 16 on the Corporation's consolidated statement of financial position as at April 1, 2019 is as follows:

ASSETS		
CURRENT ASSETS		
Trade and other receivables	$	345
Prepayments		(58)
		287
NON-CURRENT ASSETS		
Right-of-use assets, net		58,385
TOTAL ASSETS	**$**	**58,672**
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables	$	352
Current portion of lease liabilities		6,662
		7,014
NON-CURRENT LIABILITIES		
Lease liabilities		51,658
TOTAL LIABILITIES AND EQUITY	**$**	**58,672**

The lease liabilities as at April 1, 2019 can be reconciled to the operating lease commitments as at March 31, 2019 as follows:

Minimum rental payments under operating leases as at March 31, 2019	**$**	**106,127**
ADD:		
Additional commitments recognized as at April 1, 2019		1,917
LESS:		
Commitments relating to short-term leases and leases of low-value assets		(280)
Minimum lease payments for leases starting after April 1, 2019		(38,985)
Impact of discounting at the incremental borrowing rate as at April 1, 2019		(10,459)
LEASE LIABILITIES as at April 1, 2019	**$**	**58,320**

The weighted average incremental borrowing rate as at April 1, 2019 was 2.99%.

(in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

(B) LEASES

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

(C) REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Loyalty points program

The Corporation operates a program whereby patrons can earn points based upon their level of play on certain casino games. Points can be redeemed for gaming free play, and certain goods and services provided by the casinos. The future redemption liability of $3,268 (2019 – $2,527) is included in contract liabilities and is based on an assessment of anticipated point redemptions and point value. The Corporation adjusts the estimated liability based on redemption experience and additional points earned and any adjustments are recorded in the consolidated statement of net income, comprehensive income and equity.

(ii) Principal versus agent considerations

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

The Corporation has concluded it is acting as agent under an arrangement which allows craft breweries, distilleries and wineries who manufacture product 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 no significant financing components exist.

4. TRADE AND OTHER RECEIVABLES

		2020		2019
Trade	$	36,809	$	50,245
Western Canada Lottery Corporation		-		3,339
	$	36,809	$	53,584

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

5. INVENTORIES

		2020		2019
Warehouse	$	36,829	$	32,965
Retail locations		17,331		16,349
Consumable supplies		404		322
	$	54,564	$	49,636

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is $4,916 at the end of the 2020 fiscal year (2019 – $5,221).

6. PREPAYMENTS

		2020		2019
Maintenance contracts	$	3,137	$	2,836
Deposits and other		914		1,570
Insurance		331		328
Rent		-		17
	$	4,382	$	4,751

(in thousands of Canadian dollars)

(in thousands of Canadian dollars)

7. PROPERTY AND EQUIPMENT

COST	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
April 1, 2018	$ 25,427	$ 384,505	$ 27,440	$ 216,235	$ 141,836	$ 39,617	$ 9,914	$ 844,974
Additions	-	3,722	3,167	20,564	3,747	2,590	20,824	54,614
Transfers from WIP	-	1,540	2,080	845	817	108	(5,390)	-
Disposals	-	(776)	(405)	(3,360)	(18,421)	(119)	-	(23,081)
March 31, 2019	25,427	388,991	32,282	234,284	127,979	42,196	25,348	876,507
Additions	-	2,716	6,931	2,287	5,513	140	14,397	31,984
Transfers from WIP	-	4,463	5,582	7,143	2,322	101	(19,611)	-
Disposals	(3)	(8,599)	(4,882)	(29,394)	(7,562)	(1,913)	-	(52,353)
March 31, 2020	$ 25,424	$ 387,571	$ 39,913	$ 214,320	$ 128,252	$ 40,524	$ 20,134	$ 856,138

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, 2018	$ -	$ 140,585	$ 15,170	$ 155,557	$ 116,939	$ 32,496	$ -	$ 460,747
Depreciation	-	12,005	2,035	25,661	9,434	4,151	-	53,286
Disposals	-	(685)	(405)	(3,331)	(18,269)	(119)	-	(22,809)
March 31, 2019	-	151,905	16,800	177,887	108,104	36,528	-	491,224
Depreciation	-	14,149	2,469	28,741	7,485	2,449	-	55,293
Disposals	-	(4,610)	(4,487)	(29,381)	(7,267)	(1,913)	-	(47,658)
March 31, 2020	$ -	$ 161,444	$ 14,782	$ 177,247	$ 108,322	$ 37,064	$ -	$ 498,859

NET BOOK VALUE								
March 31, 2020	$ 25,424	$ 226,127	$ 25,131	$ 37,073	$ 19,930	$ 3,460	$ 20,134	$ 357,279
March 31, 2019	25,427	237,086	15,482	56,397	19,875	5,668	25,348	385,283

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 2020 fiscal year was $339 (2019 – $755). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 3.12%, the effective interest rate of the specific borrowing.

8. LEASES

The Corporation has entered into lease contracts for the use of various land, buildings, and equipment used in its operations, which have remaining lease terms ranging from 1 to 20 years.

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

COST	**ROU Land**	**ROU Buildings**	**ROU Equipment**	**Total**
April 1, 2019	$ 290	$ 57,540	$ 555	$ 58,385
Additions	15	22,872	603	23,490
March 31, 2020	$ 305	$ 80,412	$ 1,158	$ 81,875
DEPRECIATION				
April 1, 2019	$ -	$ -	$ -	$ -
Depreciation	185	8,787	210	9,182
March 31, 2020	$ 185	$ 8,787	$ 210	$ 9,182
NET BOOK VALUE				
March 31, 2020	$ 120	$ 71,625	$ 948	$ 72,693
March 31, 2019	-	-	-	-

The carrying value of lease liabilities are as follows:

April 1, 2019	$ 58,320
Additions and extensions	23,490
Payments	(9,179)
Interest on lease liabilities	2,026
March 31, 2020	$ 74,657

Current portion of lease liabilities	$ 7,430
Lease liabilities	67,227
	$ 74,657

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

(in thousands of Canadian dollars)

(in thousands of Canadian dollars)

9. INTANGIBLE ASSETS

COST	Computer software – acquired
April 1, 2018	$ 51,435
Additions	5,570
Disposals	(3,411)
March 31, 2019	53,594
Additions	4,093
Disposals	(753)
March 31, 2020	$ 56,934

AMORTIZATION	
April 1, 2018	$ 40,350
Amortization	4,236
Disposals	(3,411)
March 31, 2019	41,175
Amortization	4,681
Disposals	(619)
March 31, 2020	$ 45,237

NET BOOK VALUE	
March 31, 2020	$ 11,697
March 31, 2019	12,419

10. TRADE AND OTHER PAYABLES

	2020	2019
Trade	$ 71,340	$ 74,838
Employee benefits	34,379	33,874
Jackpot liability	6,967	5,268
Province of Manitoba taxes	3,179	3,093
Goods and Services Tax	4,241	1,399
Western Canada Lottery Corporation	700	-
	$ 120,806	$ 118,472

11. CONTRACT LIABILITIES

	2020	2019
Unearned revenue	$ 1,837	$ 2,646
Loyalty points program liability	3,268	2,527
Gift card liability	2,451	2,279
Other contract liabilities	211	234
	$ 7,767	$ 7,686

Revenue recognized in the 2020 fiscal year that was included in contract liabilities at the beginning of the year was $6,487 (2019 – $4,479).

12. LONG-TERM DEBT

	2020	2019
Province of Manitoba, bearing interest at rates ranging from 1.65% to 5.05%, repayable in monthly principal instalments ranging from $2 to $600 plus interest with maturity dates ranging from June 30, 2020 to March 31, 2040.	$ 348,861	$ 370,200
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. The interest rate on the debt at March 31, 2020 was 1.70%.	7,000	-
	355,861	370,200
Less current portion of long-term debt	52,348	59,458
	$ 303,513	$ 310,742

All long-term debt is unsecured and the fair market value as at March 31, 2020 is $374,661.

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

13. REVENUE, COST OF SALES AND EXPENSES BY NATURE

The Corporation's revenue consists of the following:

	2020	2019
Liquor sales	$ 805,953	$ 792,334
Cannabis sales	51,480	26,991
VLT	350,298	351,513
Casino and online gaming	234,367	238,577
Non-gaming revenue	20,206	25,374
	$ 1,462,304	$ 1,434,789

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

	2020	2019
Liquor cost of sales	$ 396,510	$ 391,541
Cannabis cost of sales	42,572	22,434
VLT commissions	33,509	33,564
First Nations allocation	59,810	58,376
Tourism contribution	24,035	24,140
Gaming direct expenses	13,383	12,036
Non-gaming cost of sales	7,193	8,173
	$ 577,012	$ 550,264

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

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

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

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

	2020	2019
Employee benefits	$ 167,266	$ 169,843
Bank charges	3,926	3,595
Community support	1,566	2,187
Consultant and professional fees	1,508	1,777
Freight and delivery	4,031	4,393
Grants in lieu of taxes	6,419	6,164
Learning and development	888	1,225
Maintenance	14,197	15,135
Marketing and public awareness	8,147	10,503
Rents	622	9,197
Sundry	4,800	2,726
Supplies and equipment	4,140	4,799
Technology systems and support	11,339	10,731
Telecommunications	2,487	2,878
Transportation and vehicles	1,086	1,637
Utilities	3,854	3,859
	$ 236,276	$ 250,649

(in thousands of Canadian dollars)

(in thousands of Canadian dollars)

14. SHARE OF PROFIT OF WCLC

	2020	2019
Revenue	$ 241,307	$ 249,927
Prizes, commissions and other cost of sales	172,056	173,196
WCLC partner equalization	4,708	4,637
Payment to Government of Canada	2,502	2,445
Profit	$ 62,041	$ 69,649

The WCLC earned revenue in the 2020 fiscal year in the amount of $1,400,918 (2019 – $1,455,226), of which the Corporation's share calculated based on relative sales levels by jurisdiction is 17% (2019 – 17%). The WCLC's total profit for the 2020 fiscal year was $446,183 (2019 – $494,203) of which the Corporation's share is 14% (2019 – 14%).

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

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

15. ALLOCATIONS AND PAYMENTS

	2020	2019
Social responsibility funding	$ 12,932	$ 12,641
LGCA funding and Crown Services Secretariat levy	5,124	4,881
Other community funding	525	385
	$ 18,581	$ 17,907

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

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

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

16. COMMITMENTS AND CONTINGENCIES

(A) LEGAL CLAIMS

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

(B) PURCHASE COMMITMENTS

At the end of the 2020 fiscal year, the Corporation had purchase commitments of $14,568 related to casino and liquor operations construction projects.

17. FINANCIAL INSTRUMENTS

The Corporation is exposed to interest rate, currency, liquidity and credit risks arising from financial assets and liabilities. The Corporation's objectives in managing these risks are to protect from volatility and to minimize exposure from fluctuations in market rates, and 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 98% 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 2020 fiscal year were $8,457 (2019 – $8,086). 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 $846 (2019 – $809) assuming the inventory purchased had been sold by the end of the year.

(C) LIQUIDITY RISK

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

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

2019	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
Trade and other payables	$ 5,268	$ 113,204	$ -	$ -	$ -	$ -	$ -	$ -
Contract liabilities	5,013	2,673	-	-	-	-	-	-
Payable to the Province of Manitoba	-	50,075	-	-	-	-	-	-
Long-term debt	-	59,458	48,290	47,670	47,201	46,838	31,461	89,282
	$ 10,281	$ 225,410	$ 48,290	$ 47,670	$ 47,201	$ 46,838	$ 31,461	$ 89,282

(in thousands of Canadian dollars)

(in thousands of Canadian dollars)

(D) CREDIT RISK

Credit risk is the risk to the Corporation that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. The Corporation mitigates this risk through centralized credit management and collection practices and, where applicable, the establishment of ECLs for non-collectible amounts which are netted against trade and other receivables. Trade and other receivables are non-interest bearing and generally have 30-day terms. The Corporation applies a simplified approach in evaluating the ECLs associated with trade and other receivables by calculating a loss allowance based on historical losses, as well as forward-looking information such as economic conditions. The estimated credit loss allowance for trade and other receivables for the 2020 fiscal year is $4,276 (2019 – $0). The maximum credit risk exposure is the carrying value of each class of financial asset disclosed in note 4.

The aging of trade and other receivables at the end of the 2020 fiscal year is as follows:

Current	$ 40,683
Past due as follows:	
Within 30 days	118
31 to 60 days	119
61 to 90 days	57
Over 90 days	108
Expected credit losses	(4,276)
	$ 36,809

(E) CAPITAL MANAGEMENT

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

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

(F) FAIR VALUE

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

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

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

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

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

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

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

2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	$ 45,760	$ -	$ -	$ 45,760
	$ 45,760	$ -	$ -	$ 45,760

18. RELATED PARTY DISCLOSURES

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

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

	2020	2019
Short-term employee benefits	$ 2,010	$ 2,009
Post-employment pension and medical benefits	139	139
Termination benefits	438	-
	$ 2,587	$ 2,148

19. COMPARATIVE FIGURES

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

20. EVENTS AFTER THE REPORTING PERIOD

In March 2020 the World Health Organization declared the outbreak of the novel strain of coronavirus (COVID-19) to be a global pandemic. Governments worldwide have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have cause material disruption to business globally resulting in an economic slowdown. The Province of Manitoba declared a state of emergency and all non-essential businesses were required to close, which included all Manitoba casinos and the VLT network. A gradual re-opening of the businesses impacted is expected in the first quarter of fiscal year 2021, however business levels are anticipated to remain below traditional levels throughout the year. As the duration and impact of the COVID-19 pandemic and associated emergency measures are unknown at this time, it is not possible to reliably estimate the impact on the financial results of the Corporation.

(in thousands of Canadian dollars)

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