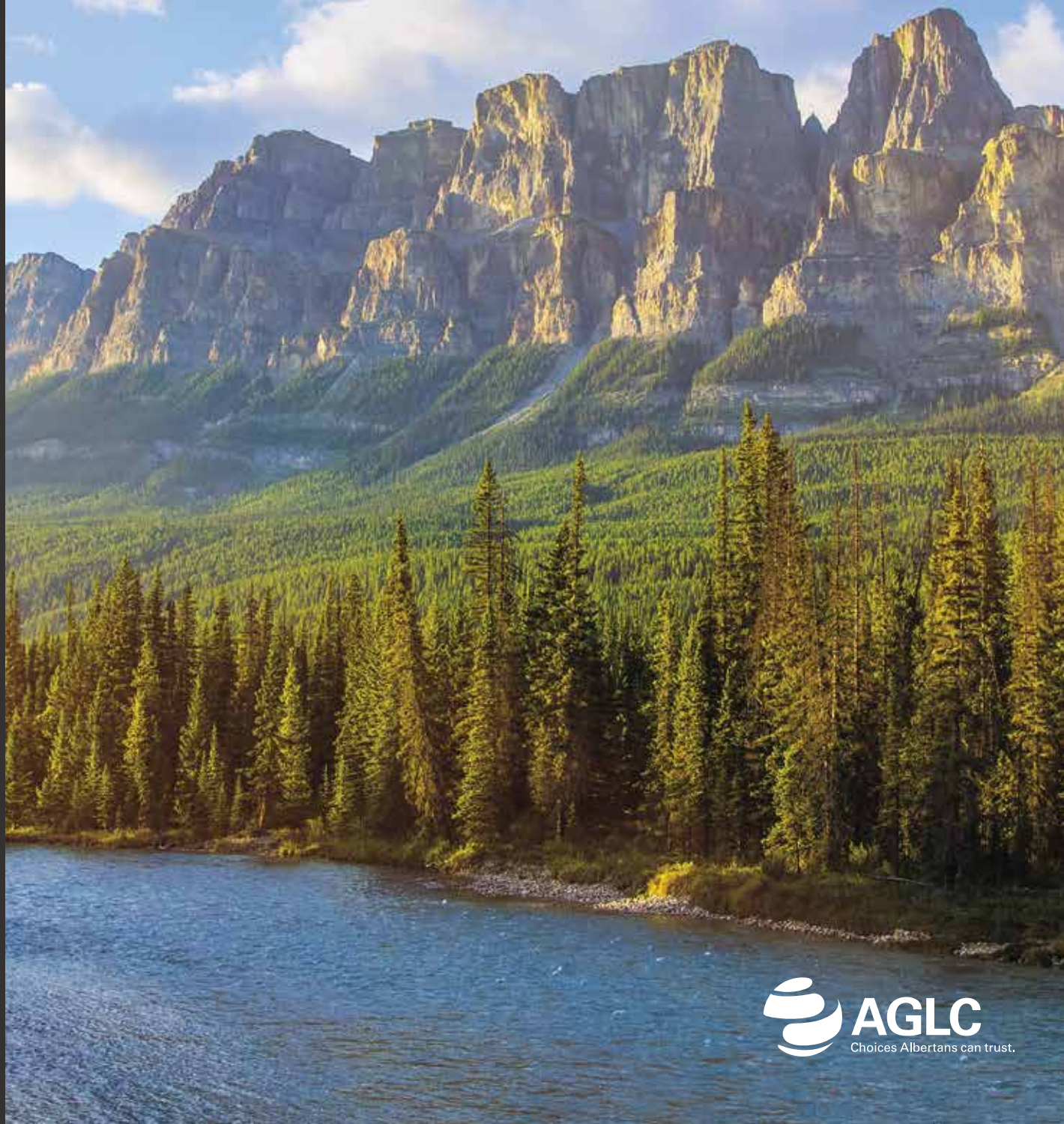


RESILIENT ADAPTABLE RESPONSIVE



■ AGLC ANNUAL REPORT 2020-21



Resilient. Adaptable. Responsive.

In the face of the difficulties and challenges imposed by the global pandemic, our stakeholders have shown immense resilience and adaptability.

It is their strength that inspires AGLC to continue to be responsive to the rapidly changing needs of our stakeholders, while empowering the resilient and adaptable spirit that our staff, stakeholders and Albertans have illustrated over the past year.

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■ Messages from Board Chair and Acting President and CEO

Message from the Board Chair



This past year has been one of the most unique times in our generation. The COVID-19 pandemic has forced us all to reflect on our priorities and to find ways to operate differently in all aspects of our lives. Despite the challenges, my fellow board members and I found ourselves inspired by both AGLC staff and stakeholders who reinvented how they work—adapting to new social and economic realities. In many ways, their strength and resilience motivated our efforts to respond to the changing needs of industry to support them in their success.

Our Board's number one focus in the last fiscal year was balancing the immediate needs and impacts of COVID-19 on our employees and stakeholders with a consideration for our long-term outcomes. COVID-19 accelerated our work on red tape reduction (RTR), which will result in sustained benefits for the gaming, liquor and cannabis industries in the long-run. We established a special Policy Committee with a mandate to both deliver on what the government asked of us in terms of RTR and be a leader in the field. In January 2021, we were honoured to receive the Golden Scissors Recognition Award from the Canadian Federation of Independent Business for our RTR efforts. I encourage our readers to reference the AGLC's year in numbers section of this report to see specific examples of our achievements in this area.

Additionally, we supported business continuity for both our stakeholders and for AGLC, as well as reducing costs and finding efficiencies in our operations. The year saw continued income generation for the Government of Alberta's General Revenue Fund despite reduced revenues. Through sessions with stakeholders, we gained valuable insight into their daily realities and challenges. Those insights helped inform and shape supportive policy changes. We remain keenly aware of industry's evolving needs and therefore anticipate a continued and sharpened focus on creating opportunities for private sector job creation and business growth.

Looking forward, I would like our stakeholders to know that our Board is committed to business and economic recovery for the province. We will be working closely with stakeholders to understand their needs, deliver opportunities to boost economic recovery and maximize charitable gaming proceeds. Opportunities for improvements discovered during the last year will be carried forward into future years, making us more efficient and better equipped to serve our stakeholders.

AGLC has always been an organization with a strong customer focus, and the Board is determined to tap into and enhance that culture, resulting in a future-oriented organization that is more customer-centric than ever before.

Original signed by

Len Rhodes
Board Chair

“Our Board was inspired by the strength and adaptability of our stakeholders, who reinvented their business and charitable models to adapt to social and economic realities we have not seen before in our generation.”

~ *Len Rhodes*

Message from Acting President and CEO



Albertans have been deeply impacted by the challenges of the global pandemic. At the start of this fiscal year, the magnitude of COVID-19 was not yet clear and the impact to lives and businesses largely unknown. As the Crown commercial enterprise and agency that oversees gaming, liquor and cannabis in Alberta, we challenged ourselves to expedite our actions to support these industries in the face of uncertainty. I am thankful for the guidance of our Board of Directors in helping our organization quickly address the challenges facing our industries.

Through stakeholder consultations, AGLC implemented several policy changes to help industry adapt to the changing environment. Many changes are detailed throughout the report. The impacts of these changes are truly, positively shaping Alberta's future. Upon reflection, it is evident that the pandemic expedited plans that were in the making to progress economic growth, consumer choice and business sustainably.

Evident in AGLC's history, our models have continuously offered strength and stability to the province. While 2020-21 was marked by uncertainty, it also showcased AGLC's ability to execute, which supported the transfer of \$1.7 billion in revenue to the Alberta General Revenue Fund, where it will be used to support government funded projects and initiatives.

We are deeply committed to creating a modern regulatory environment and have achieved significant progress in alignment with the Government of Alberta's red tape reduction initiative. Our commitment to modernization also means enhancing our already growing online digital presence to meet consumer expectations. In addition to popular land-based gambling experiences, October 1, 2020, marked the launch of PlayAlberta.ca—the regulated, online gambling website available to Albertans over the age of 18 and physically located within the province's borders. PlayAlberta.ca also integrates AGLC's best-in-class GameSense responsible gambling program, which promotes healthy gambling behaviour.

We have significant talent and resiliency at AGLC and a commitment from our Board to challenge us to be bold in setting our future direction. This includes strengthening AGLC as a diverse, inclusive workforce, increasing our customer-centric approach and delivering our services in the most efficient way possible to aid in Alberta's economic recovery.

As an organization, we are proud of being open and accountable to ensure we continue to earn the trust of our stakeholders and Albertans. We are excited to continue supporting positive economic growth in Alberta's gaming, liquor and cannabis industries.

Original signed by

Kandice Machado
Acting President and CEO

"I want to thank our employees for their incredible commitment. Over the past year, they have shown tremendous resilience to support one another, our stakeholders, our customers and Albertans."

~ *Kandice Machado*



Who we are

AGLC is the Crown commercial enterprise that oversees the gaming, liquor and cannabis industries in Alberta. We uphold a commitment to balancing choice and social responsibility to provide choices Albertans can trust.

Vision

Driven by a balanced approach, AGLC will be a leader in creating gaming, liquor and cannabis experiences trusted by Albertans.

Mission

Ensuring responsible gaming, liquor and cannabis choices for the benefit of Albertans.



Values



Integrity

We play by the rules, do the right thing and do what we say we'll do.



Respect

We create an environment where each individual is valued and heard and celebrate the diversity that makes us stronger.



Collaboration

Together we are better. Working as a team with our partners we achieve extraordinary results.



Innovation

We imagine the possibilities. We challenge ourselves to look beyond what is to what can be.



Excellence

We are all leaders. We work with passion, pride and purpose and own our part in the success of the team.

Guiding principles for a balanced approach

Together, we are guided in our work by the following principles:

- ▶ **Focus on consumers**
- ▶ **Reduce barriers and encourage economic growth**
- ▶ **Focus on public health and safety**
- ▶ **Maintain stakeholder integrity**

Legal status



AGLC's mandate is defined by the following legislation and regulations:

- ***Gaming, Liquor and Cannabis Act (GLCA)***
- ***Gaming, Liquor and Cannabis Regulation (GLCR)***

AGLC is also subject to the following statutes, regulations and policies¹:

- ▶ *Financial Administration Act* and any related regulations and directives
- ▶ *Fiscal Planning and Transparency Act*
- ▶ *Auditor General Act*
- ▶ *Freedom of Information and Protection of Privacy Act*
- ▶ *Alberta Public Agencies Governance Act*
- ▶ *Conflicts of Interest Act*
- ▶ *Lobbyists Act*
- ▶ *Public Interest Disclosure (Whistleblower Protection) Act*
- ▶ *Public Sector Compensation Transparency Act*
- ▶ *Reform of Agencies, Boards and Commissions Compensation Act*
- ▶ Labour and safety code requirements
- ▶ Beverage Container Recycling Regulation

¹This list is a high-level overview. AGLC is subject to additional statutes, regulations and policies not listed above.

Employees



We know that our employees are our greatest asset. Our team of dedicated high performers are driven to provide stakeholders with outstanding service and provide Albertans with choices they can trust. Employee engagement, attraction of talent, efficient decision-making and creating positive customer experiences is the result of a healthy culture that is focused on our stakeholders now and into the future.

AGLC is proud to be an employer of choice.

2021 marked the fifth time AGLC was selected as one of Alberta's Top Employers.



Organizational structure

Government of Alberta President of Treasury Board and Minister of Finance

Honourable Travis Toews

AGLC Board

Len Rhodes, Chair

W. Kent Breedlove¹

Jack Fujino¹

Patti Grier

Elan Harper

Robert (Bob) Sartor¹

Vincent Vavrek

Angela Tu Weissenberger

Tongjie (TJ) Zhang

Biographies of the board members are available online at aglc.ca

Acting AGLC President & Chief Executive Officer

Kandice Machado²

Divisions³

Corporate Services
Information Technology

Gaming & Cannabis
Liquor Services
Regulatory Services

Human Resources
Policy & Public Affairs

1. Appointed to the Board on 13 May 2020.

2. AGLC's President and Chief Executive Officer is a non-voting member of the Board.

3. Divisional structure reflects organizational structure as at March 31, 2021.

Board structure

As set out in the *Gaming, Liquor and Cannabis Act* (GLCA), AGLC’s Board is responsible for the organization’s governance and overseeing the management of our business affairs.

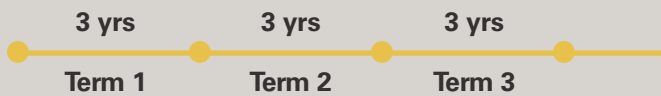


Board membership



Consisting of up to nine independent members, appointed by Lieutenant Governor in Council, acting on the recommendation of the President of Treasury Board and Minister of Finance.

One of those members is designated by the Lieutenant Governor in Council as the Chair of the Board.



Board members serve terms of appointment of up to three years in length, with a maximum service of up to 10 years in total.

AGLC's Board functions independently of management and its members must remain free from any business relationship that would impede their ability to make decisions in the best interest of Albertans and AGLC.

AGLC follows Government of Alberta practices related to compensation for board members of provincial agencies, boards and commissions.

Upholding honesty, openness and accountability

AGLC has established an office responsible for monitoring and responding to reports made under the *Public Interest Disclosure (Whistleblower Protection) Act* and/or AGLC's Code of Conduct and Ethics. Our legal counsel and ethics officer acts as the designated officer for any such disclosure.

Section 32 of the Act requires public bodies in Alberta to report annually on the following parts of the act:

- ▶ The number of disclosures received by, or referred to, the designated officer, the number of disclosures acted on and the number of disclosures not acted on by the designated officer.
- ▶ The number of investigations commenced by the designated officer as a result of disclosures.
- ▶ In the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations made or corrective measures taken in relation to the wrongdoing or the reasons why no corrective measure was taken.



In 2020-21, there were no disclosures received under the *Public Interest Disclosure (Whistleblower Protection) Act*.

Managing enterprise risk

Risk management program

AGLC's Enterprise Risk Management (ERM) program is overseen by the Board's Audit and Finance Committee and is followed by all employees who also have a role in identifying, evaluating, managing, mitigating and reporting on enterprise risks. We use a detailed ERM program to identify, measure and monitor risks, and we consider both the positive and negative aspects of risk by identifying both threats and opportunities to achieve our objectives. Our ERM program provides a universal view of major and emerging risks, allowing us to plan actions that address these risks allowing us to continue delivering on our priorities.

Significant risks

Some of the potential risks AGLC is monitoring include:

Market dynamics

Market dynamic risks are driven by changes in consumer behaviour, economic conditions, political decisions and technology. These pressures create uncertainty around our growth potential. Our ability to predict the market can impact the investment choices made in new products and services, price points and delivery channels. Part of preparing for market changes is maintaining active engagement with our stakeholders in an effort to foster strong relationships.

Information technology

Technology changes very quickly and modern organizations need to be agile to deliver services in an efficient and effective manner. Implementation of planned information technology modernization initiatives may directly affect an organization's ability to meet strategic and operational objectives. The complexity of integrating new systems with older systems can create unexpected costs and delays. To manage this potential risk, we have created a strategy to phase in new technology.

Cyber security

The exposure of networks, systems, applications and information to attacks and unauthorized access can create disruptions to services. Different activities can cause cyber-attacks or increase the number of attacks that normally occur in a given timeframe. We have a multi-layered approach to managing cyber-risk and we conduct ongoing activities to monitor the external environment and maintain awareness of potential changes that could increase the number and type of attacks occurring.







■ Business priorities



Performance at a glance

The following table summarizes our performance measured against our strategic directions as described in our 2020-23 Business Plan.

| Strategic direction | Performance measure | Target | Actual |
|---|--|-------------|------------|
|  Responsible growth | Gaming net operating income (in thousands of dollars) | \$1,396,089 | \$773,608 |
| | Liquor net operating income (in thousands of dollars) | \$843,636 | \$897,105 |
| | Cannabis net operating loss (in thousands of dollars) | \$(36,095) | \$(12,033) |
|  Effective regulation ¹ | Stakeholder satisfaction ² | 92% | 92% |
| | Compliance charitable gaming activities ³ | 95% | 99% |
| | Compliance liquor licensees ³ | 95% | 99% |
|  Culture of moderation ¹ | Responsible gamblers ² | 97% | 96% |
| | Responsible drinkers ² | 85% | 89% |
| | GameSense awareness ² | 34% | 39% |
| | DrinkSense awareness ² | 31% | 32% |
|  Organizational strength | Reputation index ² | 80% | 83% |

¹Cannabis compliance related targets will be set once a baseline has been established with at least two full years of results. Currently collecting baseline data on awareness of responsible cannabis use messaging. A cannabis responsible use program is pending development as Alberta's cannabis model evolves.

²See Annual Satisfaction Surveys 2021 Methodology Summary available on aglc.ca.

³Calculated by total inspections during the fiscal year, minus incidents resulting in penalties, divided by total inspections during fiscal year.

Responsible growth



We will responsibly generate and grow revenue for the benefit of Albertans.

Highlights



PlayAlberta.ca launched on September 30, 2020. This website provides legal-aged Albertans with safe and secure gaming options, including GameSense tools, while ensuring money played in Alberta, stays in Alberta.



Liquor product registrations reached an all time high for a singular month in March 2021 with 1,885 registrations, signaling market growth. This is significant for Alberta consumers, as well as liquor industry stakeholders, as it signals market growth despite interruptions experienced from COVID-19.



AGLC represents liquor agencies and licensees on the Boards of various container management organizations, including the Beverage Container Management Board (BCMB). BCMB reported a return rate of 82 per cent in the 2020 calendar year with over 2 billion containers (soft drinks, juice, water and liquor bottles and cans) returned to recycling depots.



Cannabis product offerings saw an increase of over 800 products over last fiscal year. The number of Alberta cannabis retailers increased over 40 per cent and the number of licensed producers supplying cannabis products increased over 80 per cent.



Alberta's non-medical cannabis continued to increase estimated legal market capture from 38 per cent to 61 per cent over the last fiscal year. In partnership with our stakeholders, AGLC made progress towards eliminating the illicit market with competitive pricing and ensuring that high-quality, non-medical cannabis is readily available.

Key performance measures

As at March 31 (in thousands of dollars)

Gaming net operating income

| Year | Actual | Target |
|------|-------------|-------------|
| 2021 | \$773,608 | \$1,396,089 |
| 2020 | \$1,331,371 | \$1,414,120 |
| 2019 | \$1,455,657 | \$1,438,943 |

Liquor net operating income

| Year | Actual | Target |
|------|-----------|-----------|
| 2021 | \$897,105 | \$843,636 |
| 2020 | \$844,857 | \$823,328 |
| 2019 | \$860,423 | \$837,461 |

Cannabis net operating loss

| Year | Actual | Target |
|------|------------|------------|
| 2021 | \$(12,033) | \$(36,095) |
| 2020 | \$(14,244) | \$(31,378) |
| 2019 | \$(33,862) | \$(43,415) |

Effective regulation



We will ensure a relevant and balanced regulatory environment that manages risk and allows gaming, liquor and cannabis businesses to operate efficiently.

Highlights



Online raffle sales were expanded to include adults outside of the entertainment venue (within Alberta). This has resulted in opportunities for charities to expand their consumer base and raise money through online ticket purchases.



Policy changes enabled retail liquor stores to offer virtual tastings which generates additional sales possibilities and helped to address the impact of COVID-19 public health measure limitations.



Policy updates enabled liquor-licensed restaurants, bars and lounges (Class A liquor licensees) to provide the same mixed drinks on their in-house menu to consumers through delivery or take-out. This provides additional sales opportunities and enables these businesses to deliver unique offerings to Albertans.



Alberta remains a leader in cannabis retail, including stores per capita and website-based age verification. AGLC continues to ensure Albertans have access to cannabis products and that only those of legal age to purchase cannabis products are able to do so.

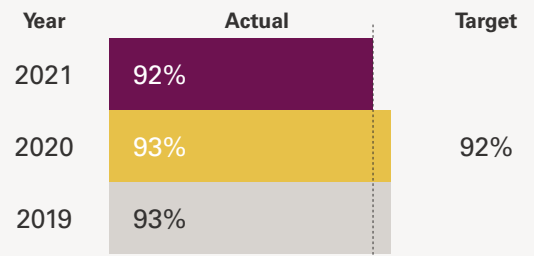


Anti-Money Laundering (AML) program enhancements include policy and training updates as well as an upgrade to the AML software reporting system to ensure Alberta gaming remains safe, legal and unavailable to those who would like to use the system for money laundering and illegal financing activities.

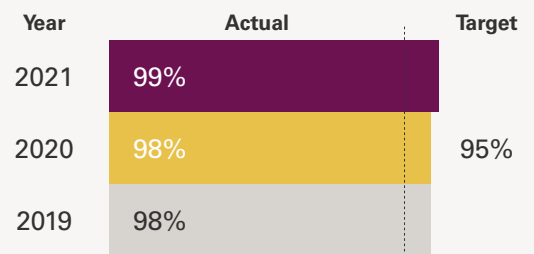
Key performance measures

As at March 31

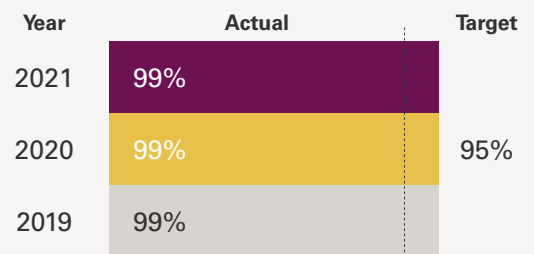
Stakeholder satisfaction



Compliance: charitable gaming activities



Compliance: liquor licensees



Culture of moderation



We will foster a culture of moderation by promoting responsible gaming experiences and responsible liquor and cannabis consumption.

Highlights



Alberta's Self-Exclusion Program was updated to reduce the incentive of participants to gamble, as well as increase convenience and access to program.

- ▶ Regulation and policies were updated making participants registered in the Self-Exclusion Program ineligible from receiving a prize in a gaming facility.
- ▶ The ability to sign up for the program was expanded to all AGLC offices, providing Albertans easier access.



Responsible gambling functionality, including account, deposit and wager limits and the ability to enroll in the Self-Exclusion Program, was implemented as part of the launch of PlayAlberta.ca. These responsible gambling features ensure players have the tools to manage their play.



AGLC's SMART Programs were updated, helping to ensure workers in the gaming, liquor and cannabis industries have up-to-date training and information and are well-prepared to provide responsible service to consumers in Alberta.



AGLC's public education campaigns to increase awareness of responsible gambling and drinking programs focused on informed choices. GameSense general awareness, DrinkSense Dry9 and Dry Days messaging reached Albertans through common consumer platforms including Google, Facebook, Instagram and Twitter.

Key performance measures

As at March 31

Responsible gamblers

| Year | Actual | Target |
|------|--------|--------|
| 2021 | 96% | 97% |
| 2020 | 95% | |
| 2019 | 97% | |

Responsible drinkers

| Year | Actual | Target |
|------|--------|--------|
| 2021 | 89% | 85% |
| 2020 | 88% | |
| 2019 | 80% | |

GameSense awareness

| Year | Actual | Target |
|------|--------|--------|
| 2021 | 39% | 35% |
| 2020 | 32% | 34% |
| 2019 | 32% | 34% |

DrinkSense awareness

| Year | Actual | Target |
|------|--------|--------|
| 2021 | 32% | 32% |
| 2020 | 27% | 31% |
| 2019 | 31% | 31% |

Organizational strength



We will increase employee engagement and improve the technology and processes we use to serve Albertans.

Highlights



AGLC was recognized for the fifth time as one of Alberta's Top Employers as well as one of Canada's Best Employers for New Graduates beginning their careers, showing AGLC's commitment to creating an exceptional workplace that attracts new talent as well as retains and engages our current employees.



Launch of our Fostering A Respectful Workplace course supports enhanced employee understanding of our Respectful Workplace Policy and strategies for communicating concerns and resolving issues. All current employees completed the course. It was also incorporated into our online onboarding for new employees.



We continued to enhance programs that focused on key drivers of engagement identified through employee input. All in-house courses were delivered virtually this year allowing employees to continue to develop their skills.



We proactively implemented a work from home program as a result of COVID-19 restrictions to ensure our staff were able to work from home safely and securely. This ensured our business operations continued with limited interruption to customer service during this unprecedented time.



A new recruitment module was implemented to streamline and modernize our talent attraction activities. This new system continues to support our dedication to continuous improvement to be able to serve Alberta better.

Key performance measures

As at March 31

Reputation index

| Year | Actual | Target |
|------|--------|--------|
| 2021 | 83% | |
| 2020 | 83% | 80% |
| 2019 | 81% | |



Red tape reduction

AGLC supports the Government of Alberta's red tape reduction initiative and remains committed to reducing administrative barriers for our industry stakeholders, as well as all Albertans. To further support this commitment, our Board created a special policy committee to evaluate red tape reduction initiatives and AGLC management created a RedTape Reduction team. These changes to our governance and operational structures allowed us to quickly and efficiently implement changes to support our stakeholders and uphold our responsibilities as a regulator.

Red tape reduction

Overview

 26%

red tape reduction achieved by AGLC in the 2020-21 fiscal year.

 12%

the Government of Alberta's red tape reduction target set for AGLC.

 1

Golden Scissors Recognition Award received from the Canadian Federation of Independent Business for red tape reduction.

 12,000+

businesses with the potential to be positively affected by AGLC red tape reduction initiatives.

 8

policy handbooks reviewed and streamlined, resulting in decreased administrative burden, reduced costs, increased flexibility and more options for businesses and charities to maximize proceeds.

- ▶ Community Bingo Terms & Conditions
- ▶ Commercial Bingo Handbook
- ▶ Casino Terms & Conditions and Operating Guidelines
- ▶ Racing Entertainment Centre and Terms & Conditions and Operating Guidelines
- ▶ Raffle Terms & Conditions
- ▶ Liquor Licensee Handbook
- ▶ Retail Liquor Store Handbook
- ▶ General Merchandise Handbook

 13,000+

charities in Alberta can explore increased proceeds through improved raffle opportunities.

Details

Simplified policies and processes

- ▶ Consolidated all raffle policies into one policy handbook.
- ▶ Streamlined background checks for bingo hall managers, assistant hall managers, event management system administrators and pull ticket managers to meet the same record check requirements of all other registered gaming workers.
- ▶ Removed duplicate and redundant policies from several subsections of the Commercial Bingo Handbook.
- ▶ Added a new clause to existing forms to address separation of business requirements for retail cannabis store licence applicants, removing the need to complete a separation of business document.
- ▶ Simplified cannabis product shipping, delivery and return procedures.

Reduced costs

- ▶ Reduced purchase requirements for audio/visual equipment for commercial bingo licensees.
- ▶ Reduced camera recording requirements in commercial bingo facilities while continuing to ensure security.
- ▶ Permitted third-party processors for liquor licensees liquor payments.
- ▶ Permitted liquor manufacturers to use a separate facility for product storage purposes.
- ▶ Removed requirement for agency applicants to submit business plans with registration application.
- ▶ Supported an amendment to the GLCA and Regulations to remove the requirement to hold a vote of electors for liquor licence applications where no previous licence was in effect.

Increased business opportunities

- ▶ Allowed casinos to offer new variations of progressive jackpots.
- ▶ Allowed charity raffles to offer limitless progressive raffles.
- ▶ Expanded online raffle sales to include sales to adults outside of the entertainment venue which resulted in some of the highest 50/50 jackpots ever seen in the province.
- ▶ Permitted hotel liquor licensees to offer complimentary alcoholic beverages.
- ▶ Allowed hotel liquor licensees to offer all-inclusive packages that include liquor service for overnight guests.
- ▶ Expanded open hours for liquor licensees.
- ▶ Permitted sale of mixed alcoholic drinks for off-site consumption by liquor licensees.
- ▶ Allowed patios that are not attached to liquor licensees premises to be licensed.
- ▶ Offered farmers' and artisan markets permanent liquor licence eligibility.
- ▶ Allowed retail liquor stores to offer off-premises virtual liquor tastings.
- ▶ Allowed charitable organizations to conduct fundraising activities in retail cannabis stores.

Guiding principles in action

As the organization responsible for overseeing the gaming, liquor and cannabis industries in Alberta, AGLC is committed to a balanced approach when developing regulations, policies and programs that impact these industries. Our guiding principles help ensure this balanced approach and the following section reports on our efforts in serving Albertans.

Guiding principles in action

Focus on consumer

AGLC prioritizes the needs and expectations of consumers, which is reflected in the accessibility and variety of products and services available.

 **80%**

of Albertans trust AGLC to manage gaming, liquor and cannabis activities in Alberta. We are proud to offer choices Albertans can trust.¹

Increased consumer choice

 **+127**

more locations to buy lottery tickets compared to five years ago.

 **PLAYALBERTA**

We expanded entertainment options in Alberta by providing secure, casino-style games, instants and live dealer games for legal-aged residents.

 **27%**

more liquor products on the market compared to five years ago.

 **ALBERTA
CANNABIS**

Albertans can make cannabis purchases online through Alberta's only legal, non-medical online cannabis store, albertacannabis.org.

 **433%**

more cannabis products since 2018-19.

¹Based on AGLC Annual Satisfaction Surveys 2021.

Reduce barriers and encourage economic growth

Economic activity is generated throughout communities in Alberta through independent operators and retailers who serve their communities as local casino providers, liquor stores and cannabis stores.



¹Deployed as of March 31, 2021.

²Retailers engaged in the sale of liquor for consumption in another location e.g., purchased from a liquor store or hotel for off-premises consumption.

³Retailers that are licensed to sell cannabis products.

Focus on public health and safety

AGLC aims to reduce the social harms related to gambling, liquor and cannabis by focusing on public awareness and education to enable healthy and informed choices.

DrinkSense drinksenseab.ca

AGLC's responsible drinking campaign provides Albertans with information and resources to promote responsible alcohol consumption.

89% of drinkers do so responsibly.¹

GameSense gamesenseab.ca

AGLC's responsible gambling campaign provides Albertans with information and resources to promote responsible gaming activities.

96% of gamblers do so responsibly.¹

Cannabis. **Know the facts.** aglc.ca/cannabisfacts

Know the facts is a source for Albertans to learn about cannabis, including what's legal, the health effects and safe consumption. AGLC also operates albertacannabis.org to help ensure cannabis products stay out of the hands of minors.

These programs deliver education and training, ensuring that employees in the gaming, liquor and cannabis industries are well-prepared to provide responsible service to Albertans.

AGLC **SMART** TRAINING PROGRAMS

46,453

SMART training certifications issued in 2020-21.

Our SMART programs provide social responsibility training to staff in the gaming, liquor and cannabis industries.

GAIN

73

GAIN webinars held with representatives from

781 organizations.

Our GAIN sessions provide information to groups that conduct charitable gaming activities.

¹Please visit aglc.ca for annual satisfaction survey results and methodology.

Maintain stakeholder integrity

AGLC is dedicated to a regulatory and policy environment that maintains our commitment to compliance in the gaming, liquor and cannabis industries.



1,932

gaming inspections conducted.



38,260

liquor inspections conducted.



7,866

cannabis inspections conducted.



907

due diligence disclosures received.¹



99%

liquor compliance rate.



99%

charitable gaming compliance rate.

¹AGLC's Due Diligence Unit conducts a full investigation for each disclosure received. As at March 31, 2021, 411 gaming and 496 cannabis disclosures were received.

Gaming, liquor and cannabis data

We understand that knowledge and data is an increasingly important resource in today's world and that our stakeholders require it to make informed decisions. To keep our commitment to our stakeholders, we publish data annually in this report regarding our gaming, liquor and cannabis lines of business.

For additional financial information please refer to the Management discussion and analysis and Financial statement sections of the annual report.

Gaming, liquor and cannabis data



Slot terminals

As at March 31

| | 2021 | | 2020 | 2019 |
|------------------------------|---|-------------------------------|---------------|---------------|
| Casinos ¹ | Active as of December 12, 2020 ² | Deployed as of March 31, 2021 | | |
| Edmonton | 4,096 | 5,121 | 4,962 | 4,780 |
| Calgary | 3,596 | 4,709 | 4,741 | 4,591 |
| Other | 2,472 | 3,307 | 3,719 | 3,724 |
| Racing Entertainment Centres | 1,084 | 1,465 | 1,468 | 805 |
| TOTAL | 11,248 | 14,602 | 14,890 | 13,900 |



Video lottery terminals (VLTs)

As at March 31

| | 2021 | | 2020 | 2019 |
|--|---|-------------------------------|-------|-------|
| Within distributed network (bars, pubs and gaming entertainment centres (GECs)) | | | | |
| | Active as of December 12, 2020 ² | Deployed as of March 31, 2021 | | |
| Number of operating VLTs | 5,375 | 5,896 | 5,933 | 5,973 |
| VLT retail locations | 734 | 770 | 795 | 820 |
| GECs (included in the total number of retail locations above) | 70 | 70 | 72 | 72 |
| Within casinos | | | | |
| Number of operating VLTs | 370 | 464 | 464 | 462 |



Lottery ticket centres

As at March 31

| | 2021 | 2020 | 2019 |
|----------------------------------|-------|-------|-------|
| Number of lottery ticket centres | 2,849 | 2,799 | 2,792 |

¹Effective 2021, St. Albert is considered part of Edmonton (formerly part of Other).

²Before Government of Alberta COVID-19 closures.



Charitable gaming

Use of proceeds by charitable groups

As at March 31

| | |
|---|------|
| Facility | 34% |
| Equipment/uniforms/vehicles | 16% |
| Wages, salaries, fees for service and honorariums | 14% |
| Raffle < \$20,000 expenditures | 11% |
| Administrative costs | 7% |
| Travel | 5% |
| Program support/development | 6% |
| Promotional activities | 2% |
| Bursaries and scholarships | 1% |
| Sports | <1% |
| Donations outside of Alberta | <1% |
| Senior citizen activities | < 1% |
| Youth development | < 1% |
| Donations within Alberta | <1% |
| Endowment funds | < 1% |
| Research | < 1% |
| Volunteer experiences | < 1% |
| Education | < 1% |
| Debt retirement | < 1% |

Use of Host First Nation (HFN) casino proceeds

As at March 31

| | |
|--|------|
| Housing and infrastructure | 43% |
| Education | 20% |
| Medical/health aid and relief | 8% |
| Charity worker wages and expenses | 7% |
| Administrative costs/wages, salaries, fees for service and honorariums | 6% |
| Culture | 4% |
| Facility | 2% |
| Aid of the distressed | 2% |
| Community safety programs | 1% |
| Sports/youth development | 2% |
| Children/adults in care | 2% |
| Addictions treatment/aftercare programs | 1% |
| Elders/senior citizens | 2% |
| Historical resources | < 1% |
| Promotional activities | < 1% |
| Equipment/uniforms/costumes/vehicles | < 1% |
| Donations within Alberta | < 1% |

Proceeds earned from charitable gaming activities must be used for approved charitable or religious purposes in accordance with the Criminal Code (Canada).

These proceeds help support thousands of programs and services provided by charitable organizations to their communities. Licensed HFN charities also use proceeds to support many programs and services provided to the HFN communities.

Visit aglc.ca to see which charitable organizations have received funding from casinos and bingos.



Liquor licences¹

As at March 31

| | 2021 | 2020 | 2019 |
|--|--------------|--------------|--------------|
| Class A (restaurants/bars/lounges/taprooms) | 5,309 | 5,486 | 5,506 |
| Class B (sports stadiums/convention centers/racetracks) | 835 | 873 | 764 |
| Class C (private clubs/military or police canteens) | 758 | 774 | 776 |
| Class D (retail stores/delivery services/hotel off-sales) | 2,352 | 2,282 | 2,255 |
| Class E (breweries/distilleries) | 213 | 189 | 158 |
| Class F (fermentation/winemaking facilities) | 25 | 18 | 9 |
| TOTAL | 9,492 | 9,622 | 9,468 |



Liquor licences – Class E detail

As at March 31

| | 2021 | 2020 | 2019 |
|---|------------|------------|------------|
| Breweries | 134 | 126 | 113 |
| Distilleries | 47 | 40 | 29 |
| Wineries/meaderies | 21 | 15 | 13 |
| Refreshment beverage ² manufacturers | 9 | 5 | 1 |
| Packaging facilities ³ | 2 | 3 | 2 |
| TOTAL | 213 | 189 | 158 |



Liquor products available

Number of SKUs, as at March 31

| | 2021 | 2020 | 2019 |
|------------------------------------|---------------|---------------|---------------|
| Wine | 14,103 | 15,378 | 14,605 |
| Spirits | 5,528 | 5,570 | 5,053 |
| Beer | 6,819 | 6,983 | 6,230 |
| Refreshment beverages ² | 1,319 | 1,029 | 808 |
| TOTAL | 27,769 | 28,960 | 26,696 |

¹Please refer to aglc.ca for detailed information regarding liquor licences in Alberta.

²Ready-to-drink beverages such as coolers, ciders and/or kombucha.

³Licensees who blend, flavour and/or package liquor for, or on behalf of, a liquor supplier as approved by AGLC.



Cannabis licences

As at March 31

| | 2021 | 2020 | 2019 |
|------------------------------|------|------|------|
| Licences issued to retailers | 248 | 387 | 75 |



Cannabis products available

Number of SKUs, as at March 31

| | 2021 | 2020 | 2019 |
|-----------------------|--------------|------------|------------|
| Dried flower | 403 | 204 | 147 |
| Vape | 256 | 63 | N/A |
| Pre-roll | 251 | 89 | 26 |
| Edibles | 77 | 19 | N/A |
| Oil/spray | 61 | 16 | 23 |
| Extract | 56 | 2 | N/A |
| Beverage | 29 | 1 | N/A |
| Capsule/soft gel | 29 | 12 | 28 |
| Beverage (non-liquid) | 20 | 5 | N/A |
| Topical | 20 | 0 | N/A |
| Seed | 13 | 0 | 1 |
| Milled flower | 2 | 0 | 3 |
| TOTAL | 1,217 | 411 | 228 |





■ Management discussion and analysis

Introduction

The management discussion and analysis section describes our mandate and provides additional details regarding our gaming, liquor and cannabis lines of business.

The information included is the best known at the time of report production and should be read in conjunction with the accompanying audited financial statements and notes for the year ended March 31, 2021.

A note on forward-looking statements

Forward-looking statements about future financial performance are subject to inherent risks and uncertainties. They require management to make numerous assumptions and are not guarantees of future performance. A variety of factors could cause business changes and undue reliance should not be placed on these forward-looking statements.

Mandate

AGLC is responsible for:



Regulating Alberta's charitable gaming activities, conducting and managing provincial gaming and lottery activities, as well as operating Alberta's only regulated online gambling website, PlayAlberta.ca.



Regulating the manufacture, importation, sale, purchase, possession, storage, transportation, use and responsible consumption of liquor in Alberta and overseeing a stable liquor distribution network.



Regulating Alberta's non-medical cannabis industry, the distribution of cannabis and operation of Alberta's only legal online cannabis store, AlbertaCannabis.org.

Overview

In 2021, AGLC was significantly impacted by the ongoing effects of the COVID-19 pandemic. Gaming facilities were closed from the beginning of the fiscal year and remained closed until June 12, 2020, at which point gradual reopening commenced. The Government of Alberta announced a second closure of gaming facilities effective December 13, 2020, and they remained closed through the end of the fiscal year.

In consideration of the significant impacts the closures had on funding for charities, AGLC introduced online sales of 50/50 tickets to all adult Albertans, whether they physically attended the event or not, as well as reducing the limit for the allowable use of random number generators. These changes provided greater fundraising flexibility to charities, while providing more access for ticket buyers.

Despite business interruptions due to COVID-19, overall liquor and cannabis sales in the province remained strong throughout the year. Cannabis and liquor retailers were able to operate under the imposed pandemic restrictions to meet consumer demands.

In 2021, AGLC continued to provide uninterrupted, safe and reliable services to Albertans and contributed \$1.7 billion from gaming, liquor and cannabis operations to the General Revenue Fund (GRF).

Gaming operations

Gaming model key facts

Legal gaming in Alberta includes slot terminals (slots) and video lottery terminals (VLTs), online gambling (PlayAlberta.ca), bingo, lottery tickets, raffles and pull tickets. AGLC provides equipment to retail operators through slots supplied to casinos and Racing Entertainment Centres (RECs), VLTs provided to casinos and licensed premises, and lottery ticket terminals made available to various retail outlets. Retail operators earn commission reflective of the services they provide. Alberta also has a unique charitable gaming model and is the only province in Canada where charitable organizations are licensed to conduct and manage casino events.

Slots and VLTs are programmed to pay out, on average, 92% of all credits wagered. This is averaged over the lifetime of a gaming device and represents the outcomes of millions of individual spins. Individual player sessions will vary in payout based on a number of factors including a random number generator used by the chosen game, betting behaviour and whether winnings are cashed out or used to continue play.

Slot net sales

Net sales for slots in 2021 decreased by 54.3% in comparison to 2020. Delayed starts, terminal spacing requirements and varying health restrictions put in place impacted sales generation.

| As at March 31 (in thousands of dollars) | 2021 | % of net sales | 2020 | % of net sales | 2019 | % of net sales |
|---|-------------------|----------------|---------------------|----------------|---------------------|----------------|
| Slot net sales | | | | | | |
| Traditional casinos | \$ 301,257 | 61.0% | \$ 732,010 | 67.8% | \$ 767,489 | 67.7% |
| Host First Nation casinos | 153,989 | 31.2% | 260,850 | 24.1% | 293,098 | 25.8% |
| Racing Entertainment Centres | 38,258 | 7.8% | 87,643 | 8.1% | 74,055 | 6.5% |
| Total | \$ 493,504 | | \$ 1,080,503 | | \$ 1,134,642 | |

VLT net sales

Net sales for VLTs in 2021 decreased by 50.9% compared to 2020. When VLTs were in operation for the year, daily sales generated per active terminal increased in comparison to the prior year.

| As at March 31 (in thousands of dollars) | 2021 | % of net sales | 2020 | % of net sales | 2019 | % of net sales |
|---|-------------------|----------------|-------------------|----------------|-------------------|----------------|
| VLT net sales | | | | | | |
| Distributed network ¹ | \$ 248,989 | 92.9% | \$ 506,854 | 92.9% | \$ 549,655 | 93.2% |
| Casinos | 19,022 | 7.1% | 38,655 | 7.1% | 39,898 | 6.8% |
| Total | \$ 268,011 | | \$ 545,509 | | \$ 589,553 | |

¹Distributed network includes bars, pubs and gaming entertainment centres.

Online gambling

AGLC’s online gambling platform, PlayAlberta.ca, was launched on September 30, 2020. By the end of March 2021, PlayAlberta.ca offered casino-style games, instants and live dealer games. Net sales experienced a month over month average growth of 32.7% (excluding the initial launch month) during 2021. Net sales can be summarized as:

| As at March 31 (in thousands of dollars) | 2021 | |
|---|-----------|---------------|
| Casino | \$ | 31,825 |
| Instants | | 4,739 |
| Live dealer | | 463 |
| Total | \$ | 37,027 |

Charitable gaming

Charitable gaming model key facts

The Criminal Code of Canada requires that groups participating in charitable gaming are charitable or religious in nature and that the proceeds from gaming activities be directed to charitable or religious purposes.

Eligible organizations may apply for charitable gaming licences to conduct and manage events. The criteria used to determine eligibility generally includes: relief of poverty, advancement of education, advancement of religion and other purposes beneficial to the community. If approved, AGLC issues a licence, ensures that gaming activities are carried out in accordance with governing policies and oversees the use of charitable gaming proceeds.

Other than fees for licences and trustee services for charitable proceeds from traditional casino events, AGLC does not receive any revenue from charitable gaming. The groups pay private sector suppliers for the cost of products and services they obtain to conduct their events.

Host First Nation (HFN) casinos operate in parallel to traditional casinos whereby a HFN is the casino facility operator. A dedicated HFN licensed charity, as a separate and distinct organization, conducts and manages the charitable casino event at each HFN facility.

Charitable organizations in Alberta earned \$137.2 million to support programs and services for Albertans. This is a decrease of \$184.7 million (57.4%) in comparison to 2020, primarily due to closures of gaming venues due to COVID-19.

Charitable gaming proceeds

As at March 31
(in thousands of dollars)

| | Bingos ¹ | Casinos ² | Pull tickets ³ | Raffles ⁴ | 2021 | 2020 | 2019 |
|--|---------------------|----------------------|---------------------------|----------------------|-------------------|---------------------|---------------------|
| Charity licences ⁵ | 838 | 697 | 265 | 3,966 | 5,766 | 19,796 | 19,455 |
| Total gross | \$ 59,188 | \$ 213,284 | \$ 47,048 | \$ 175,988 | \$ 495,508 | \$ 1,480,365 | \$ 1,584,138 |
| Prize/winnings | (38,610) | (172,565) | (33,081) | (74,224) | (318,480) | (1,094,520) | (1,169,700) |
| Expenses ⁶ | (13,912) | (26,699) | (7,283) | (38,888) | (86,782) | (221,208) | (234,917) |
| | (52,522) | (199,264) | (40,364) | (113,112) | (405,262) | (1,315,728) | (1,404,617) |
| Net proceeds | 6,666 | 14,020 | 6,684 | 62,876 | 90,246 | 164,637 | 179,521 |
| Electronic gaming proceeds | 2,624 | 44,197 | - | - | 46,821 | 157,106 | 167,680 |
| Keno proceeds | 126 | 2 | - | - | 128 | 168 | 194 |
| Total proceeds to charity⁷ | \$ 9,416 | \$ 58,219 | \$ 6,684 | \$ 62,876 | \$ 137,195 | \$ 321,911 | \$ 347,395 |

¹Includes current year information for bingo events conducted at licensed bingo facilities and prior year data for bingo events conducted at community bingo facilities. Does not include community bingos with gross sales under \$2,500.

²Includes data for HFN casinos.

³Includes current year information for pull tickets sold at licensed bingo facilities and prior year information for pull tickets sold at all other locations.

⁴Includes prior year information for raffles with gross sales over \$20,000 and current year information for raffles with gross sales of \$20,000 and less.

⁵Bingo and pull ticket licences are generally in effect for two years. Licences for casinos and raffles are generally issued for a single event.

⁶Includes fixed fees/event expenses (including licence fees), pool expenses and electronic bingo net sales (sales less prizes). After program expenses are paid, electronic bingo net sales are returned to charities in the electronic gaming proceeds and proceeds to charity rows.

⁷Data is collected from many sources and may be based on the current fiscal year and/or prior year therefore it does not reconcile with AGLC financial statements.

Liquor operations

Liquor model key facts

Alberta has the only fully privatized liquor retail model in Canada with liquor retail managed by the private liquor industry.

AGLC manages warehousing and delivery through a private logistics provider. Manufacturers and suppliers sell liquor products to licensees through AGLC.

AGLC is the legal importer of record for liquor in Alberta. Alberta has an open listing process for liquor products, which enables industry to choose what to list.

All licensees pay the same wholesale price and delivery rate per case.

Liquor sales

During 2021, liquor sales increased in the spirits, wine and refreshment beverages categories, while the beer category sales declined in comparison to the prior year primarily due to small brewer markup program expansion.

The refreshment beverages category experienced the largest growth, with an increase of 50.8% in sales from 2020. This is largely due to an increased demand for hard seltzer and low calorie beverages.

Liquor sales

As at March 31
(in thousands of dollars)

| | 2021 | 2020 | 2019 |
|------------------------------------|---------------------|---------------------|---------------------|
| Beer | \$ 951,896 | \$ 972,456 | \$ 1,028,914 |
| Spirits | 907,086 | 835,818 | 792,153 |
| Wine | 647,502 | 629,657 | 611,992 |
| Refreshment beverages ¹ | 276,516 | 183,312 | 162,131 |
| Total | \$ 2,783,000 | \$ 2,621,243 | \$ 2,595,190 |

Liquor sales

As at March 31
(in hectolitres, hL)

| | 2021 | 2020 | 2019 |
|------------------------------------|------------------|------------------|------------------|
| Beer | 2,352,229 | 2,365,873 | 2,496,794 |
| Refreshment beverages ¹ | 558,088 | 367,538 | 322,919 |
| Wine | 466,639 | 457,786 | 445,795 |
| Spirits | 313,168 | 286,805 | 274,445 |
| Total | 3,690,124 | 3,478,002 | 3,539,953 |

¹Ready-to-drink beverages such as coolers, ciders and/or kombucha.

Cannabis operations

Cannabis model key facts

Alberta has a private model for non-medical cannabis retail sales and a public model for online sales.

All cannabis retailers must be licensed by AGLC, with all licence applicants undergoing extensive mandatory background checks and are subject to government regulations and AGLC licensing terms and conditions.

Licensed producers are regulated by Health Canada.

Cannabis sales

With legalization in October 2018, the cannabis industry is relatively new and continues to face challenges with illicit market competition. AGLC, alongside the federal and provincial governments, works with licensed producers to ensure pricing is competitive with the goal of increasing market share thereby reducing illicit market share.

Sales generated by cannabis operations in 2021 increased by 76.7% in comparison to 2020. In 2021, cannabis sales increased in all categories except for oil/spray and capsule/soft gels. The dried flower category continues to be the market leader for sales with 50.7% share of sales derived from this category (63.5% in 2020).

Cannabis sales

As at March 31
(in thousands of dollars)

| | 2021 | 2020 | 2019 |
|-----------------------|-------------------|-------------------|------------------|
| Dried flower | \$ 237,913 | \$ 168,629 | \$ 55,314 |
| Pre-roll | 91,361 | 62,774 | 4,577 |
| Vape | 79,157 | 8,775 | N/A |
| Edible | 17,090 | 2,778 | N/A |
| Oil/spray | 15,645 | 13,766 | 8,877 |
| Extract | 12,008 | 344 | N/A |
| Capsule/soft gel | 5,733 | 6,627 | 4,366 |
| Beverage | 3,867 | 4 | N/A |
| Milled flower | 2,585 | 1,354 | 3,341 |
| Topical | 2,054 | N/A | N/A |
| Beverage (non-liquid) | 1,780 | 520 | N/A |
| Seed | 387 | 157 | 239 |
| Total | \$ 469,580 | \$ 265,728 | \$ 76,714 |

Cannabis sales¹

As at March 31
(in kilograms, kg)

| | 2021 | 2020 | 2019 |
|-----------------------|---------------|---------------|--------------|
| Dried flower | 51,414 | 22,258 | 6,967 |
| Pre-roll | 12,543 | 7,225 | 537 |
| Vape | 6,132 | 374 | N/A |
| Beverage | 4,717 | 8 | N/A |
| Edible | 4,152 | 757 | N/A |
| Extract | 1,696 | 63 | N/A |
| Oils/spray | 988 | 1,545 | 924 |
| Milled flower | 838 | 236 | 553 |
| Capsule/soft gel | 322 | 483 | 429 |
| Topical | 151 | N/A | N/A |
| Beverage (non-liquid) | 65 | 22 | N/A |
| Seed | 44 | 13 | 21 |
| Total | 83,062 | 32,984 | 9,431 |

¹Sales in kg is calculated using dried cannabis equivalent for each product.

Future outlook

The province of Alberta is expected to experience economic recovery in the second half of 2021, which in turn is expected to support the recovery and growth of the gaming line of business, as well as the continued strong financial performance of the liquor and cannabis industries.

Gaming operations is forecasting growth in online gambling, as entertainment opportunities are expanded to include online lottery tickets, sports betting and poker. The recent passing of federal sports gambling legislation Bill C-218 will also provide new opportunities for growth with the legalization of single-event wagering. Alberta's charitable gaming model is also expected to continue supporting Alberta charities through modernization efforts. This includes conducting a review of the current charitable gaming model, which will inform suggested changes for consideration by the AGLC Board and Government of Alberta.

Liquor operations is anticipating a strong focus on maximizing operational efficiencies to strengthen liquor processes and generate economic benefit for Albertans. It is expected that technology modernization and process improvements will enhance service to industry (agencies, manufacturers and retailers) and the ability to respond to consumer demands for both current and novel liquor products.

Cannabis operations will continue to innovate as Alberta's cannabis industry matures, products evolve and Alberta's legal market grows. Global changes to cannabis legalization will be continuously monitored in relation to product innovation, as well as supply and price compression between legal and illicit markets.

A global marketplace is expected to create pressure on business conditions linked to world events, environmental pressures and technological advances. Economic activity related to price of oil, employment and consumer price index are expected to continue to be key drivers over the next five years. It is imperative that business models continuously adapt in key areas including technology, supply chain, risk planning, strategic navigation and sustainable solutions. Within AGLC's multi-stakeholder model, ongoing evaluations of business strategies will be conducted to ensure priority areas are addressed and unnecessary regulatory barriers are reduced to support industry collaboration and strengthen economic outcomes.

Revenue earned through Alberta's gaming, liquor and cannabis industries provide substantial social and economic benefits to Albertans and the communities where they live. AGLC will continue to manage its business with a focus on strengthening Alberta's economy and offering choices Albertans can trust.





STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Alberta Gaming, Liquor and Cannabis Commission (AGLC) have been prepared by management and approved by the AGLC Board (Board). The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Management is responsible for the integrity and fairness of the financial statements. Where required, management has made informed judgments and estimates regarding the expected future effects of current events and transactions with appropriate consideration to materiality. In the opinion of management, the financial statements have been properly prepared and fairly represent the financial position, operational results and cash flows of AGLC.

Management has developed and implemented appropriate systems of internal controls and supporting procedures which have been designed to provide reasonable assurance that assets are protected; transactions are properly authorized, executed and recorded; and the financial statements are free from material misstatements. AGLC maintains a team of internal auditors whose functions include an ongoing review of internal controls and their applications. The Director, Internal Audit, has direct and unrestricted access of the Audit and Finance Committee.

The Board, assisted by the Audit and Finance Committee, is responsible for overseeing management in performance of its financial reporting duties. The Audit and Finance Committee meets regularly with management and external auditors to review the scope and findings of audits and to satisfy itself that the committee's responsibility has been properly discharged. The Audit and Finance Committee has reviewed the financial statements and has recommended their approval by the Board.

The Office of the Auditor General of Alberta was engaged to perform an independent external audit of these financial statements and prepared an Independent Auditor's Report, which is presented as part of the financial statements. The Independent Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

Original signed by

Kandice Machado

Acting President and Chief Executive Officer

Original signed by

Monika Kossowska

Acting Vice President, Corporate Services and Chief Financial Officer

Independent Auditor's Report

To the Members of Alberta Gaming, Liquor and Cannabis Commission

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Gaming, Liquor and Cannabis Commission (the Commission), which comprise the statement of financial position as at March 31, 2021, and the statements of net income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Commission in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

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

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

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Commission'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 an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the 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 my 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 my 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 Commission'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 Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I 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 I identify during my audit.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]
Auditor General
May 26, 2021
Edmonton Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31
(in thousands of dollars)

| | Note | 2021 | 2020 |
|--|------|-------------------|-------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 5 | \$ 202,962 | \$ 174,753 |
| Trade and other receivables | | 12,433 | 3,670 |
| Lease receivables | 10 | 3,694 | 3,598 |
| Inventories and prepaid expenses | 6 | 80,919 | 99,340 |
| | | 300,008 | 281,361 |
| Non-Current Assets | | | |
| Property and equipment | 7 | 229,921 | 283,837 |
| Intangible assets | 8 | 60,802 | 66,129 |
| Investment properties | 9 | 141,625 | 145,717 |
| Lease receivables | 10 | 11,262 | 14,980 |
| Right-of-use assets | 10 | 8,077 | 5,917 |
| Investment in Western Canada Lottery Corporation | 17 | 30,219 | 19,777 |
| | | 481,906 | 536,357 |
| TOTAL ASSETS | | \$ 781,914 | \$ 817,718 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | | \$ 195,372 | \$ 194,716 |
| Lease liabilities | 10 | 6,714 | 5,415 |
| | | 202,086 | 200,131 |
| Non-Current Liabilities | | | |
| Due to General Revenue Fund | 12 | 415,244 | 475,699 |
| Lease liabilities | 10 | 16,425 | 19,119 |
| Net defined benefit pension liability | 13 | 40,856 | 53,940 |
| | | 472,525 | 548,758 |
| EQUITY | | | |
| Retained surplus | | 106,600 | 83,300 |
| Accumulated other comprehensive income (loss) | 13 | 703 | (14,471) |
| | | 107,303 | 68,829 |
| TOTAL LIABILITIES AND EQUITY | | \$ 781,914 | \$ 817,718 |

The accompanying notes are an integral part of these financial statements.

Approved by:

BOARD

Original signed by

Elan Harper

Audit and Finance Committee Chair

MANAGEMENT

Original signed by

Kandice Machado

Acting President and Chief Executive Officer

STATEMENT OF NET INCOME

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

| | Note | 2021 | 2020 |
|---|------|------------------|------------------|
| Cannabis revenue | | \$ 469,580 | \$ 265,728 |
| Cannabis cost of sales | | (435,277) | (247,270) |
| Cannabis net revenue | 14 | 34,303 | 18,458 |
| Gaming net sales | | 798,542 | 1,636,930 |
| Commissions and federal payments | | (171,901) | (408,666) |
| Gaming net revenue | 14 | 626,641 | 1,228,264 |
| Liquor net revenue | 14 | 921,524 | 874,774 |
| Net Revenue | | 1,582,468 | 2,121,496 |
| Operating expenses | 15 | (275,250) | (287,487) |
| Profit from Operations | | 1,307,218 | 1,834,009 |
| Other revenue | 16 | 14,831 | 16,203 |
| Share of income from Western Canada Lottery Corporation | 17 | 336,631 | 311,772 |
| Net Income | 14 | 1,658,680 | 2,161,984 |
| Net income allocation to General Revenue Fund | 12 | (1,635,380) | (1,129,219) |
| Net income allocation to Alberta Lottery Fund | 11 | – | (949,465) |
| Net Income after Allocations | | \$ 23,300 | \$ 83,300 |

The accompanying notes are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

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

| | Note | 2021 | 2020 |
|-----------------------------------|------|---------------------|---------------------|
| Net income | 14 | \$ 1,658,680 | \$ 2,161,984 |
| Other Comprehensive Income | | | |
| Net actuarial gain | 13 | 15,174 | 6,495 |
| Comprehensive Income | | \$ 1,673,854 | \$ 2,168,479 |

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

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

| | Note | 2021 | 2020 |
|--|------|-------------------|------------------|
| Retained Surplus | | | |
| Retained surplus, beginning of year | | \$ 83,300 | \$ – |
| Net income after allocations | | 23,300 | 83,300 |
| Retained surplus, end of year | | 106,600 | 83,300 |
| Accumulated Other Comprehensive Income (Loss) | | | |
| Accumulated other comprehensive loss, beginning of year | | (14,471) | (20,966) |
| Other comprehensive income | 13 | 15,174 | 6,495 |
| Accumulated other comprehensive income (loss), end of year | | 703 | (14,471) |
| Total Equity | | \$ 107,303 | \$ 68,829 |

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

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

| | 2021 | 2020 |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Comprehensive income | \$ 1,673,854 | \$ 2,168,479 |
| Share of income from Western Canada Lottery Corporation | (336,631) | (311,772) |
| Amortization | 81,152 | 80,651 |
| Lease interest expense | 311 | 153 |
| Lease interest income | (218) | (47) |
| Loss on disposal of non-current assets | 538 | 5,289 |
| Decrease in net defined benefit pension liability | (13,084) | (9,967) |
| Net change in non-cash working capital items: | | |
| (Increase) decrease in trade and other receivables | (8,763) | 30,036 |
| Decrease (increase) in inventories and prepaid expenses | 18,421 | (41,303) |
| Increase (decrease) in trade and other payables | 656 | (10,690) |
| | 1,416,236 | 1,910,829 |
| Transfers to General Revenue Fund | (1,695,835) | (1,129,607) |
| Transfers to Alberta Lottery Fund | – | (999,607) |
| Net Cash Used in Operating Activities | (279,599) | (218,385) |
| Cash Flows from Investing Activities | | |
| Purchase of property and equipment | (11,247) | (91,760) |
| Purchase of intangible assets | (3,806) | (15,836) |
| Additions to investment properties | (843) | (3,279) |
| Net proceeds on disposal of non-current assets | 293 | 282 |
| Rental payments received | 3,812 | 662 |
| Advances received from Western Canada Lottery Corporation | 326,189 | 325,486 |
| Net Cash Provided by Investing Activities | 314,398 | 215,555 |
| Cash Flows from Financing Activities | | |
| Lease payments | (6,590) | (2,477) |
| Net Cash Used in Financing Activities | (6,590) | (2,477) |
| Net Increase (Decrease) in Cash and Cash Equivalents during the year | 28,209 | (5,307) |
| Cash and Cash Equivalents, Beginning of year | 174,753 | 180,060 |
| Cash and Cash Equivalents, End of year | \$ 202,962 | \$ 174,753 |
| Supplemental Cash Flow Information | | |
| Interest received | \$ 1,102 | \$ 3,426 |

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

1. Nature of Operations

The Alberta Gaming, Liquor and Cannabis Commission (AGLC) operates under the authority of the *Gaming, Liquor and Cannabis Act (Act)*, Revised Statutes of Alberta 2000, Chapter G-1. Under the Act, AGLC was established as a provincial Crown corporation governed by the Board appointed by the Lieutenant General in Council.

The objectives of AGLC are:

- a) to administer the Act;
- b) to conduct and manage provincial lotteries (gaming activities) for the Government of Alberta;
- c) to carry out functions respecting gaming delegated to it by the Lieutenant Governor in Council under the Criminal Code;
- d) to control, in accordance with the Act, the manufacture, import, sale, purchase, possession, storage, transportation, use and consumption of liquor;
- e) to control, in accordance with the Act, the import, purchase, giving, possession, storage, transportation and use of cannabis;
- f) to generate revenue for the Government of Alberta.

The registered office is located at 50 Corriveau Avenue, St. Albert, Alberta.

2. Implications of COVID-19

As a result of the COVID-19 pandemic a number of measures have been implemented by Government of Alberta to contain the spread of the virus. Although liquor and cannabis lines of business continued to perform strongly during the year, the temporary closures of gaming venues had significant impact on the operations and financial results of the gaming line of business.

Compared to 2019-20, the Gaming Net Income in 2020-21 declined by \$557,763 (41.9%), resulting in direct reduction in Net Income Allocation to the General Revenue Fund.

As at March 31, 2021, AGLC identified assets that had become idle as a result of temporary closures of gaming facilities and tested the recoverable amounts for impairment. AGLC's assessment determined that the assets will recover their value within a year once gaming facilities resume operations and no impairment loss was recognized.

AGLC also continues to monitor its credit and liquidity risks, and has determined that as of March 31, 2021 there is no significant change to these risks as a result of the COVID-19 pandemic.

Management has considered the impacts of COVID-19 and concluded that they do not create a material uncertainty that casts doubt upon AGLC's ability to continue as a going concern.

3. Significant Accounting Policies

a) Statement of Compliance

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

b) Basis of Presentation

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, the functional currency of AGLC. All values are rounded to the nearest thousand dollars.

The financial statements for the year ended March 31, 2021 were authorized for issue by the Board on May 26, 2021.

c) Financial Instruments

Recognition and Measurement

Financial instruments are classified based on the business model for managing financial instruments and contractual cash flow characteristic of the financial instruments. They are recognized in the Statement of Financial Position when AGLC becomes a party to the contractual terms of the instrument, which represents its trade date.

All financial instruments are initially measured at fair value and are subsequently accounted for based on their classification. Transaction costs directly attributable to acquisition or issue of financial instruments (other than those at fair value through profit or loss) are added or subtracted from the fair value of financial instruments. Transaction costs directly attributable to acquisition or issue of financial instruments at fair value through profit or loss are recognized immediately in profit or loss.

AGLC's financial instruments are classified as following:

| | |
|-----------------------------|---|
| Cash and cash equivalents | Debt instrument at amortized cost |
| Trade and other receivables | Debt instrument at amortized cost |
| Trade and other payables | Other financial liabilities at amortized cost |
| Due to General Revenue Fund | Other financial liabilities at amortized cost |

Derecognition

Financial assets are derecognized when the contractual cash flows from the assets expire or when AGLC transfers the right to receive the contractual cash flows of the assets. Financial liabilities are derecognized when the contractual obligation under the liability is discharged, cancelled, or it expires. Any differences in the carrying amounts of the financial instruments are recognized in the Statement of Net Income.

Impairment

Financial assets measured at amortized cost are assessed at each reporting date to determine where there is objective evidence of impairment. An expected credit loss impairment model is applied, where expected credit losses are the present value of all cash flows that AGLC expects to receive over the expected life of the financial asset. AGLC recognizes lifetime expected credit losses for trade and other receivables.

d) Inventories

Gaming parts and supplies and cannabis products held for sale are both measured at the lower of cost and net realizable value (NRV). The cost of inventories is determined on a weighted average basis and includes the purchase price, net of trade discounts received, plus other costs incurred in bringing the inventories to their present locations. Inventories are written down to their NRV when the cost of inventories is estimated not to be recoverable through sale or usage. Any write-down to NRV is recognized as expense in the period in which the write-down occurs.

Liquor inventories are held on behalf of liquor suppliers and/or agencies. As such, their value, as well as related duties and taxes, are not recorded in these financial statements.

e) Property and Equipment and Intangible Assets

Property and equipment and intangible assets are reported at cost less accumulated amortization. Where an asset is comprised of major components with different useful lives, the components are accounted for and amortized separately. Amortization begins when the asset is put into use, with no amortization calculated on assets under construction or development. Land is not amortized.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefit will flow to AGLC and the cost can be measured reliably.

The estimated useful life is reviewed on an annual basis for any change in circumstances.

The effects of any changes to the estimated useful life are accounted for on a prospective basis.

Gains and losses on the disposal of assets are recorded in the year of disposal.

Amortization is calculated on a straight-line basis over the estimated useful life of assets as follows:

| | |
|--------------------------------|----------------|
| Buildings | Up to 40 years |
| Leasehold improvements | Lease term |
| Equipment | Up to 15 years |
| Computer hardware | Up to 10 years |
| Gaming equipment and terminals | Up to 8 years |
| Computer software | Up to 15 years |
| Gaming software | 5 years |

f) Investment Properties

Investment properties are comprised of land, buildings or a combination of both that are held by AGLC to earn rental income. They include the liquor distribution and storage facility located at 2 Boudreau Road, leased to Connect Logistics Services Inc. and a warehouse located at 50 Corriveau Avenue. Both facilities are located in St. Albert.

Investment properties are initially recognized at cost and are subsequently carried at cost less accumulated amortization. Where an asset is comprised of major components with different useful lives, the components are accounted for and amortized separately. Amortization begins when the asset is put into use, with no amortization calculated on assets under construction or development. Land is not amortized.

The estimated useful life is reviewed on an annual basis for any change in circumstances. The effects of any changes to the estimated useful life are accounted for on a prospective basis.

Gains and losses on the disposal of assets are recorded in the year of disposal.

Amortization is calculated on a straight-line basis over the estimated useful life of assets as follows:

| | |
|-----------|----------------|
| Buildings | Up to 40 years |
|-----------|----------------|

g) Defined Benefit Pension Plan

AGLC participates in multi-employer defined benefit pension plans sponsored by the Province of Alberta: the Public Services Pension Plan (PSPP), the Management Employees Pension Plan (MEPP) and the Supplementary Retirement Plan for Public Service Managers (SRP). The cost of providing benefits under the defined benefit plans is determined separately for each plan by independent actuaries based on applicable assumptions. An expense and associated liability for benefits earned are recognized in the period that employee services have been rendered. Under defined benefit pension plan accounting, AGLC must recognize its proportionate share, determined on an actuarial basis, of plan assets, obligations, remeasurement amounts and service costs.

For defined benefit pension plans, current benefit cost represents the actuarial present value of the benefits earned in the current period. Such cost is actuarially determined using the accrued benefit method prorated on service, a market interest rate, management's best estimate of projected costs and the expected years of service until retirement. The liability is the present value of the defined benefit obligation, which is determined by discounting the estimated future cash flows using a discount rate based on market yields of high quality corporate bonds having terms to maturity that approximate the duration of the related benefit liability. Interest expense represents the amount required in each year to form the liability over the projected period to its future value.

Remeasurement changes in benefit liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

The Net Defined Benefit Pension Liability, including the underlying assumptions for future salary increases, inflation rates and discount rates, is reviewed annually.

h) Investment in an Associate – Western Canada Lottery Corporation

Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the *Canada Corporations Act* on April 16, 1974 and was continued under the *Canada Not-for-profit Corporations Act* on June 30, 2014. It is a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities for its members – the Governments of Alberta, Saskatchewan and Manitoba. Yukon, the Northwest Territories and Nunavut participate as associate members.

AGLC has significant influence, but no control or joint control, over the financial and operating policy decisions of WCLC. As a result, AGLC's investment in WCLC (considered an associate) is accounted for using the equity method of consolidation.

Under the equity method, the investment in WCLC is reported in the Statement of Financial Position at cost, including post-acquisition changes in AGLC's share of net assets of WCLC.

The Statement of Net Income reflects AGLC's share of the results of WCLC's operations. Where there has been a change recognized directly in the equity of WCLC, AGLC recognizes its share of any changes and discloses this, when applicable, in Due to General Revenue Fund. Unrealized gains and losses resulting from transactions between AGLC and WCLC are eliminated to the extent of the interest in WCLC.

The financial statements of WCLC are prepared in accordance with IFRS, for the same reporting period as AGLC. Where necessary, adjustments are made to bring the accounting policies into conformity with those of AGLC.

If there were indicators that the investment in WCLC is impaired, AGLC would calculate the amount of impairment as the difference between the recoverable amount of WCLC and its carrying value. This difference would be recognized in net income from WCLC in the Statement of Net Income.

Upon any loss of significant influence over WCLC, AGLC would measure and recognize any remaining investment at its fair value. Any difference between the carrying amount of WCLC and the fair value of the investment and proceeds from disposal would be recognized in the Statement of Net Income.

i) Impairment of Non-Financial Assets

At each reporting date, if there are indicators that non-financial assets carried at amortized cost may be impaired, AGLC would complete a formal impairment assessment. For this purpose, non-financial assets would be grouped at the lowest level for which there are separately identifiable cash inflows, referred to as cash-generating units. An impairment loss is the amount by which the cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of a cash generating unit's fair value less costs to sell and its value in use. Impairment losses would be recognized in the Statement of Net Income.

For previously impaired non-financial assets, an assessment is made annually to determine if there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, AGLC would estimate the recoverable amount. A previously recognized impairment loss would only be reversed if there has been a change in the assumptions used to determine the recoverable amount since the last impairment loss was recognized.

An impairment loss would only be reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized in prior years. Such impairment loss reversal would be recognized in the Statement of Net Income, in a manner consistent with the originally recognized impairment loss.

j) Leases

As a Lessor

Leases in which AGLC assumes substantially all the risks and rewards of ownership are classified as financial leases, while all other leases are classified as operating leases. All leases with AGLC as a lessor (properties classified as Investment Properties) have been classified as operating leases, with lease income recognized in net income on a straight line basis over the term of the lease. Expenses incurred in earning lease income are expensed as incurred.

As a Lessee

At inception of an arrangement, AGLC determines whether the arrangement is, or contains, a lease. AGLC leases properties (offices, warehouses and storage facilities) and vehicles. Contracts are typically made for fixed terms, but some may include extension options.

As a lessee, AGLC applies a single recognition and measurement approach for all leases, except for short-term leases, and recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to account for the present value of the future lease payments. Extension options are included in the assessment if AGLC is reasonably certain to exercise the options.

Right-of-use assets

AGLC recognizes right-of-use assets at the commencement date of the lease when the underlying asset is available for use. Right-of-use assets are measured at cost, including the lease and non-lease components of the lease arrangement, less any accumulated amortization and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized and lease payments made at or before the commencement date. Right-of-use assets are amortized on a straight-line basis over the shorter of the lease term or the estimated useful lives of the assets, as follows:

| | |
|----------|---------------|
| Property | Up to 5 years |
| Vehicles | Up to 3 years |

The right-of-use assets are also subject to impairment as described in Note 3i.

Lease liabilities

At the commencement date of the lease, AGLC recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments and incorporate the lease and non-lease components of the lease arrangement (including in-substance fixed payments).

In calculating the present value of lease payments, AGLC uses the interest rate implicit in the lease or its incremental borrowing rate (IBR) if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is reduced by the principal portion of the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments.

Short-term leases and leases of low-value assets

AGLC applies the short-term lease recognition exemption to its short-term leases (leases with a term of up to 12 months) of gaming equipment. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as an expense over the lease term.

Subleases

AGLC also has several property contracts which have been subleased to third parties. In these cases, AGLC as the original lessee, accounts for the original lease (the head lease) as a lessee and for the sublease as the lessor (intermediate lessor).

AGLC, as the intermediate lessor, recognizes lease receivables in the Statement of Financial Position and accounts for the head lease liability in accordance with the lessee accounting model.

k) Revenue from Contracts with Customers

AGLC's revenue is generated primarily from gaming activities (including revenue from slot terminals, video lottery terminals and online gambling), as well as the selling of liquor and cannabis. Revenue is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which AGLC expects to be entitled in exchange for those goods or services. AGLC has concluded that it is the principal in its revenue arrangements for gaming activities and cannabis and an agent for liquor transactions based on the control of goods or services before they are transferred to the customer.

The disclosures of significant accounting estimates, assumptions and critical judgments related to revenue from customers are provided in the respective note to financial statements.

Gaming Revenue

Gaming revenue, including online gambling, is comprised of one performance obligation which is honouring the outcome of the game played and making the appropriate payout. AGLC recognizes revenue from the gaming activities based on the net win or loss immediately as it is determined since no further performance obligations exist. Payment from the customer is required to initiate the game play.

Player Engagement Program

AGLC administers and manages Winner's Edge, a Player Engagement Program (PEP), which allows players to accumulate loyalty points for slot terminal play that can be redeemed for free plays or additional ballots for designated promotional draws. PEP loyalty points give rise to a separate performance obligation, as they provide a material right to the player. A portion of the slot terminal transaction price is allocated to the PEP loyalty points awarded to customers, based on relative stand-alone selling price and recognized as a contract liability until the PEP loyalty points are redeemed. Revenue is recognized upon redemption of PEP loyalty points by the customer.

When estimating the stand-alone selling price of the PEP loyalty points, AGLC considers the likelihood that the customer will redeem the loyalty points within the expiration period. AGLC updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the liability balance are recognized against revenue.

Sale of Liquor

AGLC purchases liquor products from liquor suppliers and registered agencies to warehouse and distribute based on a consignment model. As liquor warehousing and distribution is managed by third party providers, AGLC is acting as an agent in these arrangements, resulting in revenue being recorded on a net basis, recognized at the point in time when control for the goods is provided to the third party provider. Payment is required before the goods are transferred.

Sale of Cannabis

AGLC purchases cannabis products from licensed producers and is responsible for warehousing and distribution of recreational cannabis products to licensed retailers and directly to Albertans through an online platform. AGLC maintains direct control of cannabis products and thus is a principal in the arrangement and records revenue on a gross basis. Revenue from sale of cannabis is recognized at the point in time when control of the goods is transferred to the customer on delivery. Payment is required before the goods are transferred.

I) Federal and Provincial Taxes

As a Government of Alberta entity, AGLC is exempt from paying Goods and Services Tax (GST) on purchases of taxable supplies and services related to liquor and cannabis operations.

As a Provincial Gaming Authority, AGLC is a prescribed registrant under the Games of Chance (GST/HST) Regulations of the Excise Tax Act (the Regulations). AGLC is obligated to calculate and remit GST for gaming related operations pursuant to these Regulations.

m) Operating Expenses

Operating expenses are allocated against gaming, liquor and cannabis revenue sectors based on the nature of the expenses.

n) Allocation of Net Income

The Act requires AGLC to transfer the net income to the General Revenue Fund. Note 12 provides additional information regarding the amount due to the General Revenue Fund.

Until disestablishment of the Alberta Lottery Fund on December 5, 2019, net income arising from the conduct of authorized casino gaming, video lottery, lottery ticket and electronic bingo was transferred to the Alberta Lottery Fund. Note 11 provides additional information regarding prior year's transactions related to the Alberta Lottery Fund.

o) Contingent Liabilities and Provisions

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed by occurrence or non-occurrence of uncertain future events, or are present obligations that are not recognized because it is not probable that settlement will require outflow of economic benefits or because the amount of the obligation cannot be reliably measured.

Provisions are recognized if, as a result of a past event, AGLC has a present legal or constructive obligation, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of Net Income, net of any reimbursement.

p) Future Accounting Policy Changes

Future accounting policy changes are based on standards issued, but not yet effective, up to the date of the issuance of the financial statements. The following information is of standards and interpretations issued, which may be relevant and applicable at a future date.

IAS 16 Property, Plant and Equipment – amendments effective for annual reporting periods starting on or after January 1, 2022. These amendments introduce new guidance stipulating that proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost of property, plant and equipment. Moving forward such proceeds should be recognized in profit or loss, together with the costs of producing those items. Management is currently assessing the impact of this standard.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets – amendments effective for annual reporting periods starting on or after January 1, 2022. These amendments clarify that, when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract. Such costs include both the incremental costs and/or allocation of other costs incurred on activities required to fulfill the contract. Management is currently assessing the impact of this standard.

4. Significant Accounting Estimates, Assumptions and Critical Judgments

In conformity with IFRS, the preparation of AGLC's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of affected assets or liabilities in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis and applied prospectively.

For property and equipment, intangible assets and investment properties, judgment is used to estimate the useful life of the assets, based on an analysis of all pertinent factors including the expected use of the asset/asset category. If the estimated useful lives are incorrect, this could result in an increase or decrease in the annual amortization expenses and future impairment charges.

For the provision for pension liability, judgment is used to estimate the underlying assumptions for future salary increases, inflation rates and discount rates. If these assumptions are incorrect, this could result in an adjustment to the liability and the gain/loss recorded in Other Comprehensive Income (Loss) in the Statement of Comprehensive Income.

When accounting for leases where the interest rate implicit in the lease cannot be readily determined, AGLC uses its IBR to measure lease liabilities. The IBR is the rate of interest that AGLC would have to pay to borrow funds over a similar term, and with a similar security, necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects an estimated rate that AGLC 'would have to pay'.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described throughout these notes to the financial statements. AGLC based its assumptions and estimates on parameters available during the preparation of the financial statements. Existing circumstances and assumptions about future development(s) may change due to market changes or circumstances, arising beyond the control of management. Such changes are reflected in the assumptions as they occur.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, current balances in banks and deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Government of Alberta, as well as funds under administration.

The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality, short-term and mid-term fixed income securities with a maximum term to maturity of three years. For the year ended March 31, 2021, securities held by the CCITF had a time-weighted yield of 0.5% per annum (2020 - 1.8% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

A total of \$69 (2020 - \$13,690) in funds under administration is comprised of proceeds from table games that AGLC holds on behalf of charities. AGLC manages the collection of these funds, as well as investment and distribution of the charities' share of proceeds/losses from table games at licensed charitable casino events.

The share of proceeds/losses from these table games allocated to charities is established in policy and by agreement between the participating charity and the relevant casino operator. These allocations are collected by AGLC and pooled by casino or region; these funds earn interest and are subject to administrative fees. At the end of the pooling period (quarterly), the net proceeds in each pool are distributed equally to each charity that held a licensed charitable casino event in the casino/region during the pooling period.

6. Inventories and Prepaid Expenses

| | 2021 | 2020 |
|---------------------------|------------------|------------------|
| Gaming parts and supplies | \$ 12,793 | \$ 13,132 |
| Cannabis inventories | 63,283 | 82,714 |
| Total inventories | 76,076 | 95,846 |
| Prepaid expenses | 4,843 | 3,494 |
| | \$ 80,919 | \$ 99,340 |

7. Property and Equipment

| | 2021 | | | | | | 2020 |
|---|-----------------|-------------------------------------|-----------------|-------------------|--------------------------------|-------------------|-------------------|
| | Land | Building and Leasehold Improvements | Equipment | Computer Hardware | Gaming Equipment and Terminals | Total | Total |
| Cost, beginning of year | \$ 2,057 | \$ 45,500 | \$ 15,403 | \$ 29,700 | \$ 541,836 | \$ 634,496 | \$ 627,569 |
| Additions | – | 1,735 | 695 | 3,226 | 5,591 | 11,247 | 91,760 |
| Disposals | – | (3,729) | (568) | (510) | (33,633) | (38,440) | (84,833) |
| Cost, end of year | 2,057 | 43,506 | 15,530 | 32,416 | 513,794 | 607,303 | 634,496 |
| Accumulated amortization, beginning of year | – | (27,215) | (8,700) | (21,493) | (293,251) | (350,659) | (365,504) |
| Additions | – | (2,026) | (1,602) | (3,699) | (57,018) | (64,345) | (64,442) |
| Disposals | – | 3,666 | 568 | 510 | 32,878 | 37,622 | 79,287 |
| Accumulated amortization, end of year | – | (25,575) | (9,734) | (24,682) | (317,391) | (377,382) | (350,659) |
| Net book value, end of year | \$ 2,057 | \$ 17,931 | \$ 5,796 | \$ 7,734 | \$ 196,403 | \$ 229,921 | \$ 283,837 |

Total cost includes \$3,688 (2020 - \$14,048) of assets classified as work in progress (under construction or development).

8. Intangible Assets

| | 2021 | | | 2020 |
|---|-------------------|-----------------|------------|------------|
| | Computer Software | Gaming Software | Total | Total |
| Cost, beginning of year | \$ 88,417 | \$ 37,888 | \$ 126,305 | \$ 110,494 |
| Additions | 1,324 | 2,482 | 3,806 | 15,836 |
| Disposals | – | (962) | (962) | (25) |
| Cost, end of year | 89,741 | 39,408 | 129,149 | 126,305 |
| Accumulated amortization, beginning of year | (29,208) | (30,968) | (60,176) | (50,618) |
| Additions | (6,487) | (2,646) | (9,133) | (9,558) |
| Disposals | – | 962 | 962 | – |
| Accumulated amortization, end of year | (35,695) | (32,652) | (68,347) | (60,176) |
| Net book value, end of year | \$ 54,046 | \$ 6,756 | \$ 60,802 | \$ 66,129 |

Total cost includes \$582 (2020 - \$11) of assets classified as work in progress (under development).

9. Investment Properties

| | 2021 | | | 2020 |
|---|-----------|------------|------------|------------|
| | Land | Buildings | Total | Total |
| Cost, beginning of year | \$ 22,746 | \$ 155,007 | \$ 177,753 | \$ 174,474 |
| Additions | – | 843 | 843 | 3,279 |
| Disposals | – | (4,019) | (4,019) | – |
| Cost, end of year | 22,746 | 151,831 | 174,577 | 177,753 |
| Accumulated amortization, beginning of year | – | (32,036) | (32,036) | (27,133) |
| Additions | – | (4,922) | (4,922) | (4,903) |
| Disposals | – | 4,006 | 4,006 | – |
| Accumulated amortization, end of year | – | (32,952) | (32,952) | (32,036) |
| Net book value, end of year | \$ 22,746 | \$ 118,879 | \$ 141,625 | \$ 145,717 |

Total cost includes \$35 (2020 - \$35) of assets classified as work in progress (under construction or development).

a) Net Loss from Investment Properties

| | 2021 | 2020 |
|--|----------|----------|
| Rental income derived from investment properties | \$ 3,900 | \$ 3,058 |
| Direct operating expenses (including repair and maintenance) | (3,905) | (3,708) |
| Net loss arising from investment properties | \$ (5) | \$ (650) |

Currently monthly rental income for investment properties is \$315 (2020 - \$255).

b) Investment properties are recorded and reported at cost.

On March 31, 2021 the estimated fair value of investment properties is \$182,775 (2020 - \$187,435).

The fair value is based on a valuation performed by Bourgeois Brooke Chin Associates, an accredited independent valuator. Bourgeois Brooke Chin Associates has appropriate qualifications and recent experience in the valuation of similar properties.

The fair value valuation was performed on the liquor distribution and storage facilities at 2 Boudreau Road and warehouse at 50 Corriveau Avenue using income, cost and direct comparison approaches. Both properties are located in St. Albert, Alberta.

10. Leases

The carrying amounts of right-of-use assets during the period:

| | 2021 | 2020 |
|--|----------|----------|
| Right-of-use assets, beginning of year | \$ 5,917 | \$ 7,264 |
| Additions | 4,911 | 401 |
| Amortization | (2,751) | (1,748) |
| Right-of-use assets, end of year | \$ 8,077 | \$ 5,917 |

The carrying amounts of lease liabilities during the period:

| | 2021 | 2020 |
|---------------------------------------|-----------|-----------|
| Lease liabilities, beginning of year | \$ 24,534 | \$ 7,669 |
| Additions | 4,884 | 19,189 |
| Lease payments | (6,590) | (2,477) |
| Interest expense | 311 | 153 |
| Principal component of lease payments | (6,279) | (2,324) |
| Lease liabilities, end of year | \$ 23,139 | \$ 24,534 |
| Current liabilities | \$ 6,714 | \$ 5,415 |
| Non-current liabilities | \$ 16,425 | \$ 19,119 |

Undiscounted lease payments related to lease liabilities that are expected to be made over the next five fiscal years and thereafter are as follows:

| | | |
|------------|----|---------------|
| 2022 | \$ | 6,949 |
| 2023 | | 6,822 |
| 2024 | | 5,940 |
| 2025 | | 3,692 |
| 2026 | | 37 |
| Thereafter | | 209 |
| | \$ | <u>23,649</u> |

The carrying amounts of lease receivables during the period:

| | 2021 | 2020 |
|--|------------------|------------------|
| Lease receivables, beginning of year | \$ 18,578 | \$ 405 |
| Additions | – | 18,788 |
| Adjustments | (28) | – |
| Rental payments received | (3,812) | (662) |
| Interest income | 218 | 47 |
| Principal component of lease receivables | (3,594) | (615) |
| Lease receivables, end of year | <u>\$ 14,956</u> | <u>\$ 18,578</u> |
| Current assets | \$ 3,694 | \$ 3,598 |
| Non-current assets | \$ 11,262 | \$ 14,980 |

Undiscounted lease payments related to lease receivables that are expected to be received over the next five fiscal years and thereafter are as follows:

| | | |
|------------|----|---------------|
| 2022 | \$ | 3,866 |
| 2023 | | 3,922 |
| 2024 | | 3,975 |
| 2025 | | 3,356 |
| 2026 | | 37 |
| Thereafter | | 209 |
| | \$ | <u>15,365</u> |

The following amounts were recognized in the Statement of Net Income:

| | 2021 | 2020 |
|--|--------------------|--------------------|
| Right-of-use assets – amortization | \$ (2,751) | \$ (1,748) |
| Interest expense | (311) | (153) |
| Interest income | 218 | 47 |
| Operating expenses – short-term leases | (9,763) | (27,078) |
| Component of net income | <u>\$ (12,607)</u> | <u>\$ (28,932)</u> |

In 2021, AGLC had total cash outflows for all leases of \$16,353 (2020 - \$29,555), non-cash additions to right-of-use assets of \$4,911 (2020 - \$401) and non-cash additions to lease liabilities of \$4,884 (2020 - \$19,189).

11. Due to Alberta Lottery Fund

The Act required AGLC to transfer the net income from gaming activities to the Alberta Lottery Fund until December 5, 2019 when the *Fiscal Measures and Taxation Act, 2019* (Bill 20) disestablished the Alberta Lottery Fund. The Alberta Lottery Fund's net assets were subsequently transferred by AGLC to the General Revenue Fund.

| | 2021 | 2020 |
|--|-------------|-------------|
| Due to Alberta Lottery Fund, beginning of year | \$ – | \$ 50,142 |
| Net income allocation to Alberta Lottery Fund | – | 949,465 |
| Transfers to Alberta Lottery Fund | – | (999,607) |
| Due to Alberta Lottery Fund, end of year | <u>\$ –</u> | <u>\$ –</u> |

Subsequent to Bill 20, the net income from gaming activities was transferred to the General Revenue Fund.

12. Due to General Revenue Fund

The Act requires AGLC to transfer the net income, net of income retained for Retained Surplus, to the General Revenue Fund. The amount below represents the portion of net income which has not been transferred to the General Revenue Fund.

| | 2021 | 2020 |
|--|-------------------|-------------------|
| Due to General Revenue Fund, beginning of year | \$ 475,699 | \$ 476,087 |
| Net income allocation to General Revenue Fund | 1,635,380 | 1,129,219 |
| Transfers to General Revenue Fund | (1,695,835) | (1,129,607) |
| Due to General Revenue Fund, end of year | <u>\$ 415,244</u> | <u>\$ 475,699</u> |

Amounts due to General Revenue Fund are unsecured, non-interest bearing and have no specific terms of repayment. AGLC does not expect to pay the total amount owing to General Revenue Fund during the next fiscal year.

13. Employee Benefit Plans

Change in Net Defined Benefit Pension Liability

| | 2021 | | | | 2020 |
|---|-------------------|------------------|-----------------|-------------------|-------------------|
| | PSPP | MEPP | SRP | Total | Total |
| Change in Fair Value of Plan Assets | | | | | |
| Fair value of plan assets, beginning of year | \$ 171,541 | \$ 54,071 | \$ 1,070 | \$ 226,682 | \$ 217,920 |
| Employer contributions | 8,128 | 1,929 | 41 | 10,098 | 10,762 |
| Benefits paid | (8,597) | (3,088) | (52) | (11,737) | (10,840) |
| Interest income | 6,510 | 2,033 | 40 | 8,583 | 7,192 |
| Actuarial gain on plan assets | 22,678 | 6,985 | 147 | 29,810 | 1,648 |
| Fair Value of Plan Assets, End of Year | \$ 200,260 | \$ 61,930 | \$ 1,246 | \$ 263,436 | \$ 226,682 |

Change in Defined Benefit Obligation

| | | | | | |
|---|--------------------|--------------------|-----------------|--------------------|--------------------|
| Defined benefit obligation, beginning of year | \$ 210,759 | \$ 68,202 | \$ 1,661 | \$ 280,622 | \$ 281,827 |
| Current service cost | 7,435 | 2,650 | 53 | 10,138 | 11,540 |
| Benefits paid | (8,597) | (3,088) | (52) | (11,737) | (10,840) |
| Interest expense | 7,987 | 2,583 | 63 | 10,633 | 9,314 |
| Actuarial gain (loss) on plan liabilities | 10,929 | 3,720 | (13) | 14,636 | (4,847) |
| Prior service costs, settlements & curtailments | - | - | - | - | (6,372) |
| Defined benefit obligation, end of year | 228,513 | 74,067 | 1,712 | 304,292 | 280,622 |
| Net Defined Benefit Pension Liability | \$ (28,253) | \$ (12,137) | \$ (466) | \$ (40,856) | \$ (53,940) |

Employer's portion of the Net Defined Benefit Pension Liability is recorded as a provision and included as a liability in the Statement of Financial Position. The portions attributable to AGLC are 50% for PSPP, 51% for MEPP and 64% for SRP.

Accumulated Other Comprehensive Loss (AOCL)

| | 2021 | | | | 2020 |
|---|-----------------|-----------------|--------------|-----------------|------------------|
| | PSPP | MEPP | SRP | Total | Total |
| Actuarial gain on plan assets | \$ (22,678) | \$ (6,985) | \$ (147) | \$ (29,810) | \$ (1,648) |
| Actuarial (gain) loss on plan liabilities | 10,929 | 3,720 | (13) | 14,636 | (4,847) |
| Net actuarial gain | (11,749) | (3,265) | (160) | (15,174) | (6,495) |
| AOCL, beginning of year | 11,382 | 2,849 | 240 | 14,471 | 20,966 |
| AOCL, end of year | \$ (367) | \$ (416) | \$ 80 | \$ (703) | \$ 14,471 |

Pension Expense

| | 2021 | | | | 2020 |
|----------------------|----------|----------|-------|-----------|-----------|
| | PSPP | MEPP | SRP | Total | Total |
| Current service cost | \$ 7,435 | \$ 2,650 | \$ 53 | \$ 10,138 | \$ 11,540 |
| Past service cost | – | – | – | – | (6,372) |
| Interest expense | 7,987 | 2,583 | 63 | 10,633 | 9,314 |
| Interest income | (6,510) | (2,033) | (40) | (8,583) | (7,192) |
| Pension expense | \$ 8,912 | \$ 3,200 | \$ 76 | \$ 12,188 | \$ 7,290 |

Key Assumptions, Sensitivities and Risks

The principal assumptions used in the actuarial determinations of projected benefit obligations and the related net benefit expense are as follows:

| | 2021 | | | 2020 | | |
|---|---------------|---|---|---------------|---------------|---------------|
| | PSPP | MEPP | SRP | PSPP | MEPP | SRP |
| Discount rate | 3.30% | 3.30% | 3.40% | 3.80% | 3.80% | 3.80% |
| Inflation rate | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Average wage increases | 3.00% | 0.00% until Mar. 31, 2022; 3.00% thereafter | 0.00% until Mar. 31, 2022; 3.00% thereafter | 3.00% | 3.00% | 3.00% |
| AGLC's share of plan payroll | 2.54% | 2.17% | 0.92% | 2.54% | 2.17% | 0.92% |
| Date of the most recent actuarial valuation | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2018 |
| AGLC's expected contributions for the next period – all plans | | | \$11,002 | | | \$10,829 |

Additional assumptions are described in the valuation reports for each of the respective plans.

| | 2021 | | | 2020 | | |
|---|--------|--------|--------|--------|--------|--------|
| | PSPP | MEPP | SRP | PSPP | MEPP | SRP |
| Estimated sensitivity of liabilities to a 1% change in the discount rate | 14.70% | 13.90% | 18.00% | 14.10% | 13.80% | 18.00% |
| Estimated sensitivity of liabilities to a 1% change in the inflation rate | 6.80% | 7.40% | 8.10% | 6.60% | 7.00% | 8.40% |

Economic risk

Defined benefit plans are directly exposed to economic risks from plan assets invested in capital markets and indirectly with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets.

Demographic risk

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to factors such as workforce average age and earnings levels, attrition and retirement rates, mortality and morbidity rates.

Multi-employer plan funding risk

In addition to economic and demographic risk factors, AGLC is exposed to funding risk in the multi-employer plans arising from:

- Legislative changes affecting eligibility for, and amount of, pension and related benefits; and
- Performance of plan assets affected by investment policies set by the responsible parties.

Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind-up or amendments and mandatory funding requirements.

14. Detailed Operating Results

Management monitors the operating results of the lines of business in order to make decisions about resource allocation and performance assessment.

| | 2021 | | | | 2020 |
|-------------------------------|------------|------------|--------------|--------------|--------------|
| | Gaming (a) | Liquor | Cannabis (b) | Total | Total |
| Net revenue | \$ 626,641 | \$ 921,524 | \$ 34,303 | \$ 1,582,468 | \$ 2,121,496 |
| Operating expenses | (192,404) | (33,458) | (49,388) | (275,250) | (287,487) |
| Profit (loss) from operations | 434,237 | 888,066 | (15,085) | 1,307,218 | 1,834,009 |
| Other revenue | 2,740 | 9,039 | 3,052 | 14,831 | 16,203 |
| Share of income from WCLC | 336,631 | – | – | 336,631 | 311,772 |
| Net income (loss) | \$ 773,608 | \$ 897,105 | \$ (12,033) | \$ 1,658,680 | \$ 2,161,984 |

(a) includes slot terminals, video lottery terminals and online gambling.

(b) includes sales to licensed retailers and sales through an online platform.

Gaming net revenue is comprised of the following:

| | 2021 | 2020 |
|-------------------------|------------|--------------|
| | Total | Total (d) |
| Net sales | \$ 798,542 | \$ 1,636,930 |
| Commissions | | |
| Operators/retailers | (121,657) | (245,684) |
| Charities | (44,161) | (150,698) |
| Federal tax expense (c) | (6,083) | (12,284) |
| Net revenue | \$ 626,641 | \$ 1,228,264 |

(c) as prescribed by the Games of Chance (GST/HST) Regulations of the Excise Tax Act (the Regulations) taxes are paid to the Government of Canada in lieu of the Goods and Services Tax (GST) on slot terminals, video lottery terminals and online gambling (imputed tax) based on a formula set out in the Regulations. This tax is in addition to the GST paid on the purchase of goods and services for which a credit is not allowed under the aforementioned formula.

(d) includes slot terminals, video lottery terminals and electronic bingo.

15. Operating Expenses

| | 2021 | 2020 |
|--|------------|------------|
| Salaries and benefits | \$ 107,855 | \$ 105,378 |
| Supplies and services | | |
| Fees and services | 20,572 | 15,990 |
| Data processing | 15,702 | 13,782 |
| Marketing and retailer relations | 9,843 | 6,349 |
| Equipment and vehicle | 7,748 | 9,078 |
| Property | 6,033 | 3,595 |
| Goods and Service Tax | 5,006 | 7,854 |
| Insurance and bank charges | 3,652 | 3,107 |
| Data communications | 3,368 | 5,921 |
| Miscellaneous | 967 | 889 |
| Travel and training | 663 | 2,168 |
| Stationary and supplies | 493 | 1,398 |
| Liquor product expense | 228 | 234 |
| Freight and ticket product delivery | 155 | 1,893 |
| | 74,430 | 72,258 |
| Leased gaming equipment | 9,763 | 27,078 |
| Net interest in net defined benefit pension plan | 2,050 | 2,122 |
| Amortization | 81,152 | 80,651 |
| | \$ 275,250 | \$ 287,487 |

16. Other Revenue

| | 2021 | 2020 |
|--|------------------|------------------|
| Licences, fees and fines | \$ 8,129 | \$ 10,976 |
| Premises rental | 3,900 | 3,058 |
| Interest | 1,102 | 3,426 |
| Miscellaneous | 1,069 | 1,508 |
| Chargebacks and recoveries | 684 | 759 |
| Liquor levies | 485 | 1,765 |
| Loss on disposal of non-current assets | (538) | (5,289) |
| | \$ 14,831 | \$ 16,203 |

17. Investment in Western Canada Lottery Corporation

AGLC's interest in the Western Canada Lottery Corporation (WCLC) is based on Alberta's proportionate share of WCLC's revenues and expenses derived from the sale and operation of interprovincial lottery games. WCLC is a non-profit entity that is not listed on any public exchange.

The following tables present summarized financial information of AGLC's investment in WCLC.

| | 2021 | 2020 |
|--|-------------------|-------------------|
| WCLC Statement of Financial Position | | |
| Current assets | \$ 89,356 | \$ 70,481 |
| Property and equipment | 29,993 | 27,635 |
| Intangible assets | 10,598 | 9,173 |
| | \$ 129,947 | \$ 107,289 |
| Current liabilities | \$ 127,892 | \$ 107,665 |
| Employee benefits | (501) | 2,989 |
| Equity | 2,556 | (3,365) |
| | \$ 129,947 | \$ 107,289 |
| Alberta's Proportionate Share of Revenue and Expenses | | |
| Lottery sales (a) | \$ 963,772 | \$ 917,892 |
| Direct expenses (a) | (582,104) | (560,511) |
| Gross income | 381,668 | 357,381 |
| Operating expenses | (32,123) | (33,342) |
| Interest and other income | 1,951 | 2,518 |
| Net income from operations | 351,496 | 326,557 |
| Federal tax expense (a) | (5,110) | (5,159) |
| Payment to the Federal Government (b) | (9,755) | (9,626) |
| Share of income from WCLC | \$ 336,631 | \$ 311,772 |

- (a) Online ticket lottery revenues are recognized at the date of the draw, with instant ticket revenues being recognized at the date activated for sale by the retailer. Prizes, commissions and federal tax expenses related to ticket revenues are recognized on the same basis as related revenues.
- (b) Payment made to the federal government resulting from an agreement between the provincial governments and the federal government on the withdrawal of the federal government from the lottery field. The payment is made by WCLC on behalf of Alberta and is based on current population statistics and its share of ticket lottery sales.

Statement of Change in Investment in WCLC

| | 2021 | 2020 |
|---------------------------------------|-----------|-----------|
| Investment in WCLC, beginning of year | \$ 19,777 | \$ 33,491 |
| Share of income from WCLC | 336,631 | 311,772 |
| Advances received from WCLC | (326,189) | (325,486) |
| Investment in WCLC, end of year | \$ 30,219 | \$ 19,777 |

18. Contractual Obligations

AGLC has various obligations under long-term contracts, including service contracts and operating leases. Undiscounted payments related to finance leases are disclosed in Note 10. The total expected payments for contractual obligations for each of the next five fiscal years and thereafter are as follows:

| | |
|------------|------------------|
| 2022 | \$ 31,968 |
| 2023 | 16,434 |
| 2024 | 9,278 |
| 2025 | 6,604 |
| 2026 | 4,650 |
| Thereafter | 9,300 |
| | <u>\$ 78,234</u> |

19. Contingent Liabilities

AGLC has been named as a defendant in several legal actions and claims. While the outcome of these claims cannot be determined, management is of the opinion that the ultimate outcome is not expected to have material adverse effect in the financial position or operations of AGLC.

20. Salaries and Benefits

The following table discloses the amounts earned by the Board and senior executives in the years ended March 31:

| | 2021 | | | | 2020 | |
|--|------|-----------------|-------------------------|-----------------------------|--------|--------|
| | Note | Base Salary (a) | Other Cash Benefits (b) | Other Non-Cash Benefits (c) | Total | Total |
| Chair of the Board | | \$ 138 | \$ – | \$ 2 | \$ 140 | \$ 149 |
| Members of the Board | d | 374 | – | 15 | 389 | 289 |
| President and Chief Executive Officer | e | 260 | 402 | 57 | 719 | 332 |
| Executive Members | | | | | | |
| Chief Operating Officer | | 231 | 1 | 50 | 282 | 291 |
| VP, Corporate Services and Chief Financial Officer | f | 192 | 18 | 46 | 256 | 251 |
| VP, Human Resources | | 201 | – | 47 | 248 | 256 |
| VP, Regulatory Services | | 201 | 1 | 44 | 246 | 251 |
| VP, Liquor Services | | 182 | 1 | 42 | 225 | 228 |
| VP, Policy and Public Affairs | | 175 | 2 | 38 | 215 | 36 |
| VP, Corporate Strategic Services and Chief Risk Officer | g | 65 | 3 | 12 | 80 | 232 |
| VP, Information Technology and Chief Information Officer | h | – | – | – | – | 179 |

- (a) Consists of regular base pay, including acting pay. For Chair and members of the Board, it consists of remuneration paid, based on rates prescribed in the *Committee Remuneration Order*, for time spent on the business of the Board.
- (b) Consists of vacation payouts, severance payments, honoraria and health and personal spending account payments. There were no bonuses paid during the year.
- (c) Include AGLC's share of employee benefits and contributions/payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, professional memberships and tuition fees.
- (d) At any given time the Board consisted of no more than 8 members plus the Chair, whose remuneration is disclosed separately. Fiscal 2021 is the first year of reporting with 8 members during the entire fiscal year.
- (e) Other cash benefits include \$303 of severance benefits paid as a result of a termination agreement and automobile benefits of \$6 (2020 - \$6). Occupancy of the position changed on November 24, 2020.
- (f) Occupancy of the position changed on November 27, 2020.

(g) Occupancy of the position ended on April 16, 2020, however total includes extended vacation period until August 7, 2020.

(h) Position eliminated on January 26, 2020.

21. Financial Instruments and Risk Management

AGLC's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables and payables to the General Revenue Fund. The carrying values of AGLC's financial instruments approximate their fair values, unless otherwise noted.

AGLC is exposed to credit and liquidity risks from financial assets and liabilities. AGLC actively manages the exposure to these risks.

Credit risk represents the loss that would be recognized if parties holding financial assets of AGLC fail to honour their obligations or pay amounts due causing a financial loss. Credit risk is minimized as AGLC does not have significant exposure to any individual retail entity.

Liquidity risk is the risk that AGLC would encounter difficulties in meeting its financial obligations as they become due. The risk is reduced as the majority of AGLC's operational activities involve cash sales and short-term accounts receivables. AGLC relies on the funds generated from its operations to meet operating requirements and to finance capital investments. The risk is further mitigated by forecasting and assessing actual cash flow requirements on an ongoing basis.

22. Related Party Transactions

AGLC is a wholly-owned Crown corporation of the Government of Alberta. All transactions with the Government of Alberta ministries, agencies and Crown corporations are in the normal course of operations and are measured at terms equivalent to those that prevail in arm's length transactions.

AGLC reports to the President of Treasury Board and Minister of Finance. Any ministry, department, fund or entity the Minister is responsible for is a related party to AGLC. These include:

- Department of Treasury Board and Finance
- Alberta Risk Management Fund
- General Revenue Fund

During the year AGLC made payments totaling \$468 (2020 - \$462) to the Alberta Risk Management Fund. Transactions with the General Revenue Fund are disclosed in Note 12.

Western Canada Lottery Corporation (WCLC), an associated entity as disclosed in Note 3h, is also a related party to AGLC. Details of transactions with WCLC are disclosed in Note 17. In addition to these transactions, AGLC received \$705 (2020 - \$746) in retailer service fees from WCLC.

The Board members of AGLC, executive management and their close family members are related parties to AGLC. Compensation for the Board members and executive management is disclosed in Note 20, while transactions with close family members are immaterial.

23. Approved Budget

AGLC includes its annual budget in its business plan. On recommendation from the Board, the budget receives approval by the President of Treasury Board and Minister of Finance and becomes part of the fiscal plan of the Government of Alberta.

| | 2021 |
|---|---------------------|
| Cannabis revenue | \$ 232,188 |
| Cannabis cost of sales | (218,930) |
| Cannabis net revenue | 13,258 |
| Gaming net sales | 1,803,866 |
| Commissions and federal payments | (456,918) |
| Gaming net revenue | 1,346,948 |
| Liquor net revenue | 870,887 |
| Net Revenue | 2,231,093 |
| Operating expenses | (350,888) |
| Profit from Operations | 1,880,205 |
| Other revenue | 14,089 |
| Share of income from Western Canada Lottery Corporation | 309,336 |
| Net Income | \$ 2,203,630 |

24. Comparative Figures

Certain comparative figures have been reclassified to conform to the current presentation.



~ Photo by: Carla Lehman of Edmonton, Alberta at carlalehmanphoto.ca/blog

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