



Second Session – Forty-Third Legislature

of the

Legislative Assembly of Manitoba

Standing Committee

on

Crown Corporations

*Chairperson
Robert Loiselle
Constituency of St. Boniface*



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MANITOBA LEGISLATIVE ASSEMBLY
Forty-Third Legislature

Member	Constituency	Political Affiliation
ASAGWARA, Uzoma, Hon.	Union Station	NDP
BALCAEN, Wayne	Brandon West	PC
BEREZA, Jeff	Portage la Prairie	PC
BLASHKO, Tyler	Lagimodière	NDP
BRAR, Diljeet	Burrows	NDP
BUSHIE, Ian, Hon.	Keewatinook	NDP
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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON CROWN CORPORATIONS

Wednesday, January 29, 2025

TIME – 1 p.m.

LOCATION – Winnipeg, Manitoba

**CHAIRPERSON – MLA Robert Loiselle
(St. Boniface)**

**VICE-CHAIRPERSON – Mr. Tyler Blashko
(Lagimodière)**

ATTENDANCE – 6 QUORUM – 4

Members of the committee present:

Hon. Min. Simard

*Mr. Blashko, MLA Compton, Mr. King,
MLA Loiselle, Mr. Narth*

APPEARING:

Kelvin Goertzen, MLA for Steinbach

*Gerry Sul, President and Chief Executive Officer,
Manitoba Liquor & Lotteries Corporation*

*Jeff Traeger, Chair of the Board, Manitoba
Liquor & Lotteries Corporation*

MATTERS UNDER CONSIDERATION:

*Annual Report of the Manitoba Liquor and
Lotteries Corporation for the fiscal year ending
March 31, 2024*

* * *

Clerk Assistant (Ms. Melanie Ching): Good afternoon. Will the Standing Committee on Crown Corporations please come to order.

Before the committee can proceed with the business before it, it must elect a Chairperson.

Are there any nominations?

Mr. Tyler Blashko (Lagimodière): I'd like to nominate MLA Loiselle.

Clerk Assistant: MLA Loiselle has been nominated.

Are there any other nominations?

Hearing no other nominations, MLA Loiselle, will you please take the Chair.

The Chairperson: Good afternoon. Our next item of business is the election of a Vice-Chairperson.

Are there any nominations?

MLA Carla Compton (Tuxedo): I nominate MLA Blashko.

The Chairperson: MLA Blashko has been nominated.

Are there any other nominations?

Hearing no other nominations, MLA Blashko is elected Vice-Chairperson.

All right, this meeting has been called to consider the Annual Report of the Manitoba Liquor and Lotteries Corporation for the fiscal year ending March 31, 2024.

At this time, I'd like to remind everyone that questions and comments must be put through the Chair using third person as opposed to directly to members and representatives.

Are there any suggestions from the committee to— as to how long we should sit this afternoon?

MLA Compton: I'm going to suggest 90 minutes.

The Chairperson: MLA Compton has suggested 90 minutes.

Mr. Trevor King (Lakeside): I was going to say four hours.

The Chairperson: MLA King has—okay. So MLA King has suggested four hours.

MLA Compton: How about two hours?

The Chairperson: MLA Compton has suggested two hours.

Is that agreed upon?

Mr. King: I'd like to meet in the middle, Mr. Chair. Three hours.

The Chairperson: MLA King has suggested three hours.

Is that agreed?

MLA Compton: How about two hours and then we revisit at two hours with the option to extend 30 minutes and then 30 minutes up to three hours.

The Chairperson: MLA Compton has suggested two hours with a revisiting every 30 minutes up to three hours.

Is that agreed upon?

An Honourable Member: Two and a half, Mr. Chair.

The Chairperson: MLA King has suggested two and a half hours.

Is two and a half hours agreed upon? *[Agreed]*

Does the honourable minister wish to make an opening statement, and would he please introduce the officials in attendance.

Hon. Glen Simard (Minister responsible for the Manitoba Liquor and Lotteries Corporation): Good afternoon, and welcome to the Standing Committee on Crown Corporations.

As minister responsible for Liquor & Lotteries, I am here this afternoon along with senior officials from Liquor & Lotteries to give a presentation on the results of the 2023-2024 fiscal year and to field questions from the members.

I would like to welcome the following officials of the corporation's board and executive: Jeff Traeger, chair of the MBLL board of directors; Gerry Sul, president and CEO of Manitoba Liquor & Lotteries; my deputy minister, Mona Pandey; and director of ministerial affairs, Mike Kelly to—who have joined me, as well as other staff.

As attendees to the meeting will know, Manitoba Liquor & Lotteries' business lines of gaming, cannabis and liquor sales generate much-needed revenue for the provincial budget that is, in turn, used to deliver health care, education and priorities.

La Société des alcools et loteries gère beaucoup de finances pour le budget provincial pour les soins en santé, l'éducation et d'autres priorités. Notre gouvernement a donné un mandat aux sociétés des alcools et loteries pour être responsable pour les services de notre corporation et pour assurer que les communautés et les travailleurs sont supportés en livrant ces choses aux Manitobains.

Translation

Manitoba Liquor & Lotteries manages many revenue streams of the provincial budget for health care, education and other priorities. Our government has

given a mandate to Manitoba Liquor & Lotteries to be responsible for the services of our corporation, and to ensure that communities and workers are supported in delivering these things to Manitobans.

English

Our government has provided a mandate for Liquor & Lotteries to responsibly continue and to provide services of the Crown corporation and to ensure that the communities and workers are supported in delivering customer needs.

Manitoba Liquor & Lotteries employs many Manitobans in good public-sector jobs, and we will ensure that Liquor & Lotteries maintains and even expands those operations to meet the demands of today and tomorrow.

Notre futur est dans les mains certaines de notre président et notre conseil administratif. Les employés des sociétés des loteries et alcools sont des Manitobains et Manitobaines qui ont des très bons travaux, et nous allons assurer que ça maintient leur 'tient' de la province au Manitoba.

Translation

Our future is in the capable hands of our president and our board of directors. The employees of Manitoba Liquor & Lotteries are Manitobans who have very good jobs, and we will ensure that they continue to maintain the hold of the Province in Manitoba.

English

Liquor & Lotteries also has an important role in fostering an entrepreneurial environment for liquor production and positive spinoffs in job and business creation for our Manitoba economy.

I will now turn to—the presentation over to Gerry Sul, president and CEO of Manitoba Liquor & Lotteries, with a question and answer to follow should the Chair be okay with that.

The Chairperson: Absolutely.

Does the critic of the official opposition have an opening statement before we move on to Mr. Sul?

An Honourable Member: Yes, thank you, Mr. Chair, and I want to thank the minister and the board executives here today for giving us—

The Chairperson: I apologize—MLA King, the floor is yours.

Mr. King: Again, thanks for the opportunity for us to come here today and ask some questions and some discussion on the report for Manitoba Liquor & Lotteries.

In my new role as the critic for this portfolio, I'm looking forward to getting educated and learning about the corporation.

With me today I have members Konrad Narth from La Vérendrye and Kelvin Goertzen from Steinbach with us as opposition. And they'll get an opportunity to ask some questions as well. MLA Narth, of course, has—previously in this portfolio before me and has some—definitely has some knowledge of the MBL, so we'll give him an opportunity to ask some questions as well as MLA Goertzen.

So, just keep my comments short, seeing as how we got to—we cut our time down to what we—we've got lots of material here we want to get through and lots of questions, so I look forward to the answers.

Thank you.

The Chairperson: We thank the member. Just a quick reminder that we should not be using last names but more so titles or—first names, sorry, but more so titles.

Does the representative from Manitoba Liquor & Lotteries Corporation wish to make an opening statement?

Mr. Gerry Sul (President and Chief Executive Officer, Manitoba Liquor & Lotteries Corporation): So, good afternoon, and thank you for the opportunity to address you today.

On behalf on our nearly 3,000 employees, I'm pleased to provide you today with an overview of Manitoba Liquor & Lotteries' business operations and activities for the fiscal year '23-24.

This past year, we welcomed to the board a new set of board members and began working on the new mandate that was set out by the Province of Manitoba that we received in December. Again, our corporation is focused on enriching the lives of Manitobans and making the greatest impact it can on the economic and social well-being of our province.

In fiscal 2023-24, we introduced a new corporate vision statement which would help guide our strategic initiatives and know that all our 'business' decisions are aligned with that particular vision. Our vision is to be consistently the largest contributor to the province of Manitoba.

* (13:10)

I know that, you know, over the last number of years, that's a fair statement to say is that we have been one of the largest contributors to the province of Manitoba.

Our staff are not only proud to give back to the people of Manitoba through the general revenues, but, as well, it's important that we give back through social responsibility, our growing community support program and our focus on environmental stewardship.

I'm proud to share that, through the hard work and dedication of our employees, in fiscal year 2023 and '24, we contributed, through \$1.69 billion in revenue, \$732.5 million to support the province and the important programs, like health care, social services, infrastructure and education.

We take great pride in knowing that every dollar of profit remains in the province of Manitoba. This return last year was \$64 million better than budget—or 600—our budget of \$668 million. So it was a 9.6 per cent increase over the planned budget.

Looking at the performance of our three lines of business, the gaming and entertainment segment accounted for 52 per cent of our net income back to the province. Since the pandemic, we've continued to see year-over-year revenue growth in the Casinos of Winnipeg. Our revenues in the casinos grew by 7.3 per cent and reached a record level of \$246.2 million, contributing \$89.9 million back to the Province through net income. This growth was primarily driven by increased visitation into our casinos as well as some of our efforts to expand and improve the gaming selection that's available to our consumers. In the casino, we added 300 new slot machines into the gaming environment.

Our lottery sales contributed 54—or, \$45.1 million to the province, 'reflecting' a 15 per cent decline compared to the previous year. Lottery forecasts are based on statistical modelling, and so there's a lot of volatility in it; and we recognize that we are subject to these volatilities and roll patterns that really drive incremental sales when it comes to lottery products.

In fiscal '23-24, we saw a significant decrease in those jackpot rolls. In a typical year, you would see 18 max jackpots achieved, and of course starting those roll patterns, we only saw seven in the last fiscal year. This negative impact was partially offset by a revision to the Lotto 6/49 game, adding what was called the gold ball feature to that, so that helped offset some of that decline.

Manitoba's 900-plus retailers that we have in the province that sell lottery products earned \$19 million in sales commissions, and as well is—in prize redemptions.

For our online gaming environment, PlayNow.com, we take great pride in offering Manitobans a safe and regulated online gaming environment through PlayNow. This is the province's only legal online gaming platform. PlayNow generated \$45.2 million net income in fiscal '23-24, representing a 15 per cent decrease from the previous year. Revenues were flat, but at the same time this was impacted by increased expenditures related to protecting against the illegal market; so increased marketing and advertising, as well as we were impacted through the lottery sales decline, because we sell lottery products online.

Despite the year-over-year declines, when we came out of the pandemic and we saw the reopening of casinos and VLT land-based options that were out there, we did see a steady decline year over year as it related to online gaming and revenues, which was expected. But we are still sitting 300 per cent better than we were pre-pandemic, as far as net income back to the province of Manitoba.

Over that time, since we've established PlayNow, we've accumulated 150,000 player registrations, and this past summer we introduced a new online app that allows players to play sports on iOS devices.

Looking at our VLT, or our video lottery terminal network of 6,715 VLTs, net income for fiscal '23-24 reached \$199 million, which is an increase of 5.4 per cent over the previous year. And again, this growth was really driven by a refresh of our VLT gaming environment, as well as it was complemented by the fact that we started to see improvements in the hours of operations for the various operators out there that house the VLT machines.

We are seeing—you know, again, those extended hours have made a difference. VLT site holders themselves earned \$116.4 million in direct income from the VLT machines; \$60 million of that went to First Nations VLT site holders; \$53.1 million of that went to commercial operators in the province of Manitoba; and the other \$3 million would have gone to the veterans or legions in the province of Manitoba.

In fiscal 2023-24, our liquor operations celebrated 100 years of publicly managed liquor sales in the province of Manitoba. This line of business contributed \$313.8 million in net income back to the Province, which represented a \$5.3-million decrease,

or 1.7 per cent decrease in—from the previous year. This decrease can be attributed to the labour disruption that we experienced last summer. In addition, we are experiencing, as all the other Canadian jurisdictions are, a decline in the consumption of beverage alcohol. So we saw last year 1.6 per cent decline in the volume consumed in the province of Manitoba; so just over 100 million litres were sold last year in Manitoba.

Despite these challenges, our Liquor Marts and our provincial retailer network continue to offer Manitobans exceptional selection, service and convenience. And over the last fiscal year, we introduced more than 900 new products that were available not only to our Liquor Marts but to the various retailers—or private retailers in Manitoba. And basically this expands our portfolio to over 13,000 products, representing more than 70 different countries.

As the central order point for liquor deliveries, MBLL distributes to over 1,800 commercial customers, and, as I mentioned earlier, our distribution centre shipped 100 million litres of alcohol across the province, representing a 1.6 per cent decrease from the previous year. Again, this is a trend we're seeing, you know, and monitoring closely as an organization as to how do we potentially pivot around kind of these headwinds that we're facing.

To serve our rural communities, our 57 Liquor Marts and six Liquor Mart Express stores are complemented with more than 400 private retail channel partners. We have 165 liquor vendors, 227 hotel beer vendors, eight private wine store operators and three duty-free operators. In fiscal '23-24 we reached a new specialty wine store agreement and extended our relationship with the specialty wine store association to 2035.

In our Liquor Mart locations, we remain focused on balancing safety with convenience. Over the past year we introduced some enhancements to our controlled entrance procedures, allowing us faster and smoother access for our customers to move them through the queue. In addition, the LGCA introduced some new ID types that will provide convenience for Manitobans to access our controlled access locations; that would include the NEXUS card, the Manitoba Métis card, the firearms and acquisition licence and, of course, the Canadian Armed Forces licences.

As we've noted, we are proud of Manitoba's craft production industry. While many jurisdictions in Canada are seeing closures in the craft industry, we are healthy in Manitoba, with 51 local craft

manufacturers offering a diverse, locally made selection of craft beer, fine wine, ciders and spirits, many of which are privately distributed through their channels as well as through our Liquor Marts, liquor vendors and beer vendors throughout Manitoba.

Our cannabis line of business continues to experience strong and amazing year-over-year growth, both in the number of retail stores and annual 'revenue'-revenues. In fiscal '23-24, net income reached \$39.5 million back to the Province, marking a 26 per cent year-over-year increase, very similar to the previous year. This growth is primarily driven by the reduced cost of goods, the expansion of the retail network in Manitoba and our growing product catalogue, with more than 3,000 items in the catalogue for retailers to select from.

The private retail channel network in Manitoba ended the year in that fiscal year at 205, which was a delta or a change of 28 stores. So there was incrementally 28 more stores in the province of Manitoba, and so we ended the year with 122 in Winnipeg, 83 in rural Manitoba. Currently, that 205 continues to grow. We're at 226 today. So again, you know, evidence that the industry is strong and continue to thrive and grow in Manitoba. As the market evolves we remain committed to our role to bringing in safe supply and distribution of non-medical cannabis.

One of the most rewarding aspects of our job, obviously, at Manitoba liquor lottery is giving back to the communities in which we work or in which we live. Each year, Manitoba Liquor & Lotteries proudly supports a wide range of charitable, not-for-profit and community organizations in a meaningful way and—that leaves a lasting impact.

In fiscal '23-24 we provided \$3.1 million in financial support, which represents a 1.7 per cent million—or \$1.7-million increase, or 122 per cent increase, over the previous year. So we continue to kind of grow how we give back to Manitobans through community.

In fiscal '23-24, we launched our MBLL—

The Chairperson: Order.

Mr. Sul's time has expired. Is there leave to allow him to finish? *[Agreed]*

Mr. Sul: So again, in fiscal '23-24 we launched MBLL Good Together, again, a campaign to showcase our commitments and contributions back to the province of Manitoba. We feel it's important for

Manitobans to know where the money goes and how we give back in the province of Manitoba.

I'm proud to say this year our community support team was honoured in Toronto, where they received the prestigious Corporate Champions of the Arts Award. It's a prestigious award that's usually bestowed upon large national or global corporations, recognizing contributions to the arts and culture in Canada, and this award was, you know, again brought forward to our team, so we're very proud of that achievement.

* (13:20)

And, again, it's kind of—reflects on kind of our giving back to community and how important it is and how we bring our money back to support Manitobans.

As prescribed under the Liquor & Lotteries Corporation act, 2 per cent of our anticipated net income is mandated for a social responsibility program. That could be broken into really three specific categories: consumer awareness; research; as well as direct funding.

Our contribution to social responsibility was \$13.4 million in the last fiscal year, and we only had a carry-forward of \$286,000. And a lot of that kind of relates to timing.

For our staff, we continue to focus on our efforts to create a culture of belonging, where diversity is celebrated, inclusion is standard practice and equality shapes our decision making.

This year, we launched a three-year diversity, equity and inclusion road map in the organization and, again, looking to drive the organization to new heights and respect for all people in Manitoba.

We also unveiled a truth and reconciliation road map, a living document that helps guide our journey to reconciliation, and we are grateful to be supported by an external body or Indigenous advisory circle that we have assembled that helped lead us and guide us forward as we navigate through the journey. And it's basically made up of a representative of leaders and elders in the province of Manitoba.

One of the highlights of the year I want to mention is that all seven collective bargaining agreements were ratified in '23-24.

In closing, I want to acknowledge the honour that it is to serve Manitobans and I want to recognize the entire Manitoba Liquor & Lotteries team, all 3,000 of them. Without this, none of this would happen: the \$732 million back to the province. It was really all in

their hands and was on their backs to make that happen.

We are proud of what we do for the province of Manitoba and we take pride knowing that our revenues are returned to the province and stay in our province and support important government programs.

Thank you.

The Chairperson: Thank you, Mr. Sul.

The floor is now open for questions.

Mr. King: I'm going to start with just some of the general performance of the corporation and my question would be directed, of course, to the president and/or the board chair.

The total net revenue decreased from \$740.9 million in 2022 to 2023 to \$732.5 million in '23-24.

What are the primary reasons for this decline and what corrective actions are being taken, and what is the projected net revenue for the upcoming fiscal year, and what factors could influence that outcome?

Mr. Sul: Mr. Chair, I think when you look at year-over-year comparison, I think there's a number of factors that came into play. There were decisions made about a year ago or in the fast-last fiscal year that we're carrying on forward that have had year over year, I'll say, annualized impacts to the organization.

I would suggest there was the new speciality wine store agreement that would have contributed to that. The last government introduced another adjustment to the reduced markup to support our local craft manufacturers in the province of Manitoba.

The pause on First Nation gaming, or the gaming pause that was put in place continues to hinder our ability to grow, in particular, you know, we've basically put off opportunities to grow First Nations gaming in the province of Manitoba, which has hindered our bottom line growth.

Our community support program was expanded under some direction of our past government and board, and so we expanded that materially. You know, as I mentioned, it grew 122 per cent.

And so some of those arrangements or some of those decisions that were made—and again, all for the good of the province of Manitoba—again have, you know, lasting effects on the bottom line.

Mr. King: Thank you for that answer. Just—I'll move into the social responsibility part of the corporation.

So what social responsibility initiatives are planned for the coming year? How much will you be spending on that, and are there any stats that correlate social responsibility initiatives with addiction rates? And how does MBLL measure the effectiveness of its social responsibility programming?

Mr. Sul: So in the upcoming fiscal year, again our—it's—the 2 per cent is based on anticipated net income, so our budget for the current fiscal year is \$715 million, so that would basically expected \$14.3 million would be the expenditure.

And again, it's always important to know that those funds are committed, so if there's any carry-over or, you know, timing issues or the funds can't be distributed, again, those funds are actually preserved, kind of going forward.

Again, the bulk of the money goes towards funding and I would say that about—just over \$8 million of it will go to Shared Health and Marymount are the two primary beneficiaries when it comes to funding. Marymount would be the YASU project, or the Youth Addictions Stabilization Unit, that we support. And then there's a variety of other important entities out there.

Some of the other areas of focus is FASD-related. So supports. So we've engaged with four or five different organizations that basically focus on FASD as kind of a—their primary focus of services or counselling provided. It's kind of, you know, where we're kind of directing or focusing our energies.

Something to note is that there was a change. When it comes to consumer awareness, we had a lot of involved—we were a lot more involved and there was more expenditure related to that. A lot of that's been transferred over to the LGCA. So we do provide some funding to the LGCA to support their efforts around consumer awareness campaigns and programming.

The research is a smaller amount. So research would—you know, you'd generally be in that 200 to 300 thousand dollar range annually. And again, it relates to programs, you know, where we partner up with universities on studies and such that are related to either any of our three lines of business, whether it's cannabis, liquor or beverage alcohol.

Mr. King: What has been the impact of the strike and what long-term impacts do you foresee? What mitigating steps have been taken moving forward?

Mr. Sul: You know—again, any kind of labour disruption like that has a major impact as it relates to relationships between management and employee. Can—and I think the first order of business for us post-strike, you know, was for us to get out there and get in front of our people and help them understand what happened or what they became involved in.

You know, a lot of it is none of their doing but at the same time we want to make them understand two things, really. You know, (a) we're there to support them, that management does have their back and management cares about them where sometimes that might come into question during labour disruptions.

I think, secondly, it's important for them, after what they went through, is to make them understand there's a future, you know, that there are things to strive for or that there's a reason to work for this organization going forward. Because again, it kind of leaves questions in their mind as to, hey, they don't care about me, they don't want to pay me for what I'm worth. And I think it's important for us to convey to them that they are an important, you know, cog in the wheel, they're important in contributing to that to the province of Manitoba.

So I think, you know, there's a healing and at the same time there's also giving them hope as to there's a bright future for them as us being their employer.

Mr. Simard: Yes, just to add to that, one of the—with the MBLL committing to a new strategic plan that had a vision to be a large—the largest contributor to the—from the Crowns, was one about a mission and a vision to be pride—of pride: pride in an organization that enriches the lives of Manitoba.

And I think to the president's point of restoring our positive relationship with the employees allows for the organization or corporation to be able to have a workforce that can seize the feeling of what it means to be a proud worker in Manitoba and being a part of the MBLL is something that they can look to as being a really positive experience. And harmony and consensus goes a long way in being able to proudly serve the people of Manitoba. And when you have retailers and you have a staff that are in direct relationships with the people they serve, who can take pride in the store, who can take pride in having good knowledge of the products they are helping people consume or enjoy. It goes to not only enhancing a

workforce pride but also a great experience for the people who are accessing the services.

So I think the impact of the strike can be measured in the fact that there's a renewed vision, renewed sense of pride in what working for the MBLL means.

Mr. King: Thank you, Minister and CEO, for those answers.

* (13:30)

Next question is, what do you foresee as the single greatest short-term risks and the single greatest long-term risks for the corporation?

Mr. Sul: Thank you for that question.

I think when I think of kind of, you know, the biggest headwinds facing our organization currently, obviously, it would be the decline in beverage alcohol consumption. Consumers are drinking differently; they're drinking less—we know that, you know. And this is not a Manitoba phenomena; this is something we're seeing, you know, across all jurisdictions and globally. People are making healthier choices. People are more aware of and cognizant of—you know, again, the stringent laws around drinking and driving, you know, have obviously had an impact as well.

And I think the other thing that's happening out there is you're starting to see in media more messaging around—you know, CancerCare is a good example in Manitoba where, you know, make your next drink non-alcoholic. You're starting to see, you know, people making linkages between beverage alcohol and cancer—the US Surgeon General announcement not that long ago.

So I think those things will weigh on consumers' minds and kind of, you know, had them kind of question the amount of beverage alcohol that they consume. And so I think as an organization, we—you know, this is what we're focused on. You know, how do we navigate through that. How can we pivot through that but, of course, always in a socially responsible way.

I think the other area where, you know, we have some headwinds that we're watching for would be on the online gaming side of it. So we're continuing to be faced with illegal operators or illegal actors out there marketing their online gaming offerings to Manitobans. You know, again, a lot of Manitobans don't understand when they're playing on some of these online gaming sites that they are illegal, you know. And I think the biggest implication to the province of Manitoba is that when we people are

playing on these online sites, you know, you're funnelling money into offshore companies. These monies that would be more rightfully served to serve Manitobans and give back to Manitobans are being funnelled offshore.

So there's that aspect of it, of, you know, moving money offshore. But I think the second aspect is consumer protection. So when you think about the risks that people don't understand about when you deposit money into an account in Antigua, Malta or Gibraltar, you know, and you have—you run into some difficulties with the organization, how are you going to get your money back? And there's lots of stories out there of that kind of happening. And so we want to educate the Manitoba consumer. We want to protect the Manitoba consumer, and we want to make sure that our money stays in the province of Manitoba to support the important government programs we have.

Mr. Simard: Yes, and just to add to some of the points made by the president here, I think the—one of the most important things that MBLL is faced with is continuing to make sure that the MBLL is a strong corporation that continues to serve Manitobans.

So to your previous question about the strike and its effects, it created, you know, an environment where that was at risk, and the more that you can strengthen the corporation in ensuring long-term stability, whether that's through employee contracts or whether that's through a strategic plan that looks to these headwinds that were mentioned before and to be able to pivot to new lines of business or stabilize the consumer experience or to enhance investment in Manitoban products, whether it's in craft beer, whether it's in craft liquor, whether it's in legal gaming, all of that contributes to an environment that makes the MBLL strong.

So one of the challenges is, how do we do this without weakening the strength of the corporation? And we know that the government and the province would be hard-pressed to forgo the significant revenues that are generated by the corporation.

Mr. King: Mr. Chair, my next question will be just for the board.

Question: Can you explain the board nomination process and how you ensure that board member skillsets fit the needs of the corporation?

Mr. Simard: I'll make the first attempt.

I think the—what we were able to do is conserve a number of board members who were there through

previous iterations, but also having an eye and a diverse range of Manitoba experiences. I think weighing the representation of the board members across the province, I think, was a paramount concern. But at the same time creating an environment where, again, the stability of the MBLL remains paramount, and to continue on championing an all-of-Manitoban approach, balancing institutional memory, balancing new thinking and balancing representation from not only one segment of society but all of it.

Mr. Jeff Traeger (Chair of the Board, Manitoba Liquor & Lotteries Corporation): I would also say that the selection of this particular board, in addition to what the minister said, includes a group of people that first of all do fully believe in the mission statement of Manitoba Liquor & Lotteries, but they're a very diverse group, and all of them bring different skill sets to the board. We have everything from social responsibility experts to financial experts. And we even have a previous board member who participated when Liquor & Lotteries merged who heads up our audit and finance committee, so someone with a lot of experience there.

And I think it's a little unusual, but there were two board members that were kept on by this government that were appointed by the previous government, including the vice chair. And I think that just shows that the selection of the board members was specifically related to the merit and what they could bring to the board rather than any political affiliation.

Mr. King: Thank you for that answer, Mr. Sul.

And, Mr. Chair, I'm just wondering if maybe the board chair or the president could list the board committees and who it is that sits on each committee, and do they hold any designation or relevant professional designations such as a—you know, a CPA or a CHRP.

Mr. Traeger: Sure. I can tell you that there are three standing committees of the board. So there's the human rights and compensation committee, the strategic planning and governance committee and the audit and finance committee.

And all of the current eight board members sit on those committees. The chairs would be Tannis Mindell, who is the person I was speaking of earlier that was a previous board chair and oversaw the merger of Liquor & Lotteries. And the board chair is Tim Comack for the strategic planning and governance committee, who was appointed by the previous government. He's also the vice chair of the board and an independent businessman. And then the board

chair for the human rights and compensation committee is Sarah Pinsent, and Sarah is somebody who specializes in mental health counselling and brings a strong focus on social responsibility to our board.

And then the board members—the other board members are Doug Ramsey, who is a professor in the university of Brandon; Sara Penner, who brings a very strong business presence; she's been a very good addition to the board. And who else am—what else am I forgetting here. *[interjection]* Josiane Kroll, who has a strong IT designation, and I think she was the last one.

We did have—the second person who was appointed by the previous government was Christine Van Cauwenberghe, but she did not seek reappointment, so there's a vacancy on the board in that position currently.

Mr. King: Thank you for that answer.

Just move into the cannabis here now. So cannabis revenue has increased by \$22.7 million to \$153 million. Now, was the increase in private retailers to 205 responsible for this increase, and if so, will you be working to further increase private retail numbers? And if not, what specific factors contributed to this growth?

Mr. Simard: Before passing on the response to the president, I will say that the cannabis retail environment is quite dynamic, I think, for lack of a better word. The addition and subtraction of that industry in terms of stores, I would say, came to—as a surprise to me.

* (13:40)

But at the same time, because it's a very young industry in Canada and in Manitoba, the MBLL has been able to act quickly and respond to those quickly changing needs. So I would just maybe preface the president's response with that information.

Mr. Sul: Yes, so I think, you know, when you think of factors of growth as it relates to—year-over growth in cannabis stores obviously played a factor in kind of creating convenience out there.

But I think a larger factor would be the downward pressures on cannabis prices. So one of the challenges the—when the industry was established, cannabis was kind of built around a \$10-a-gram model; the average catalogue price is about \$3.60 now. So, not good for suppliers, but at the same time good for retailers to offer great prices, you know, to consumers.

So that's kind of helped kind of attract the consumers to have fair pricing out there. I think introduction of new lines of product, that being, you know, the edibles is obviously a contributor to it.

I think to the question of growth and is it sustainable, I think is kind of the question, is that, again, when this was established by Premier Pallister, again, was—the full intent was to—a full, open market in Manitoba, and so we're seeing the—you know, we're seeing how an open market works. You know, it's growing, it's growing, you're seeing losses, you're seeing gains, you're seeing amalgamations and mergers and acquisitions happening.

I think ultimately the consumer will dictate when it stops growing, as far as the number of retail locations in the province of Manitoba.

Mr. King: I'm just wondering if you can explain what technology initiatives are planned for the upcoming fiscal year to enhance cannabis operations, what the cost to implement that will be, and how they are expected to improve MBLL's bottom line as well as increase retailer profitability.

Mr. Sul: So when we introduced the cannabis sector in Manitoba, actually it had very little impact from a technology perspective because, again, we were able to leverage our liquor systems that we had in place. So it's just another product, you know, as it relates to our business system. So it had little incremental cost as it relates to technology investment.

The only investment that we've made recently, and really the investment is paid for by the retailer, is the ability to track. So, the seed-to-sale tracking mechanism for the integrity of, you know, selling non-medical marijuana or cannabis. And so we implemented a solution where we were able to kind of track seed, and seed-to-the-sale side of the process.

So there's not a lot of investment planned for or required because, again, the existing business systems can support cannabis.

Mr. King: So, Mr. Chair, I'm just wondering if—are there any plans being developed to allow cannabis sales and consumption at places like festivals, public events, like, something like a beer garden and/or—and does other jurisdictions have regulations regarding this, do we know?

Mr. Simard: Currently there are no plans in the immediate work. However, as jurisdictions have different rules and regulations that the MBLL is always keeping an eye on those things, but this isn't

something that we are hearing is—from the public, is something that they want, but I'll allow.

Mr. Sul: So I think we are aware—you know, we consult regularly with our cannabis retailers, and I know that those are some of their interests or wants and needs, to hopefully either differentiate themselves or expand their business.

At the same time, you know, this would fall under the purview of the LGCA ultimately to make some of those decisions, or any other—some of the requirements that they have would fall under Health Canada as to whether they would be permitted, or permissible.

Mr. King: So what impact, Mr. Chair, I'm wondering will newly legalized homegrown cannabis have on retail cannabis sales, and what if any steps is MBLL taking to ensure the safety of home-based production?

Mr. Simard: I think the easiest response to your question is it will have a fairly negligible effect on retail sales of cannabis. I would liken it to planting tomatoes in your garden, and what does that do to the amount of tomatoes available at your local grocery store. And it doesn't really drive the overall production and consumption of those tomatoes year over year.

But I can—

The Chairperson: Mr. Sul.

Mr. Sul: So again, if you look into the other jurisdictions, where, you know, the sale of seed is permitted, again, it's so negligible; it's less than 1 per cent as far as it relates to contribution to net income. So it's very minimal.

Mr. King: Mr. Chair, just wondering also what plans are there to extend cannabis sales into mixed retail establishments like convenience or grocery stores.

Mr. Simard: When we look at the current annual report for '23-24, that wasn't something that was—you know, would be reflected in the figures there. continuing to look at the cannabis sector's performance and dynamic growth and change, in some sense, instability. I think that having those considerations is not something's that reflected in this report.

Mr. King: Okay. Well, thanks for that.

Just moving into the Lotteries here now. Mr. Chair, wondering what initiatives are being implemented to enhance the appeal of lottery products and attract a broader customer base.

Mr. Sul: So again, there's recognition that, you know, again, the appeal of lottery is continuing to decline

whether it's scratch tickets, whether it's the appeal of Lotto 6/49, Lotto Max. And, so again, when you look at Lotto Max and Lotto 6/49, these are all developed in partnership with the other provincial jurisdictions, so through the Interprovincial Lotteries Corporation. Again, we're responsible, and we have a joint entity, you know, that we oversee the development and promotion of draw-based games like Lotto Max.

We are actively, right now, working on a refresh of Lotto Max. We recognize, again, when we're seeing people—even when we're hitting those jackpots, and even for sustained periods, we're seeing rollovers; we're not seeing the related incremental sales we would have. Because typically what we would see as—it keeps—continues to roll and roll, you start to see the incremental sales just growing and growing and growing, and we're not seeing kind of that curve at the end of the sales projections. And so we need to enhance it. We need to refresh it. We make—need to make it relevant to the consumer because, again, you know, I hate to say it, but \$70 million is not doing it for people these days.

Mr. King: How does MBLL plan to leverage technology to improve the lottery experience for consumers and increase sales?

Mr. Sul: Yes, so where we have direct influence, obviously, is through the Western Canada Lottery Corporation. So in 1974, Manitoba—at that time Manitoba—British Columbia, Saskatchewan and Manitoba kind of created a joint entity, you know, to oversee lottery products. And so we recognize that paper-based products are starting to age and we got to get with the times, so we are actively pursuing a digital iLottery solution through Western Canada Lottery. So Western Canada Lottery is responsible—or we've given them conduct and manage to sell lottery products across the three provinces, and we are looking at a digital platform to sell iLottery.

So, you know, can we make it more exciting as opposed to just scratching a ticket with a dime; you know, is there some better experience that we can provide the consumer that makes it more appealing to them and kind of increase sales?

Mr. King: Thanks for that answer, Mr. President.

For the online gaming, the revenue decreased by approximately half a million dollars, shows there on page 19 of the report. So can you tell me what factors contributed to this decline and what strategies are in place to boost online gaming revenues and what steps

will be taken to enhance the online experience and attract new users?

Mr. Sul: So I'll speak first to the decline. So again, I think I mentioned in my opening remarks the first part of the decline obviously is related to incremental expenses due to partnerships.

* (13:50)

So we entered into exclusivity partnerships with some of our professional sports teams here in Manitoba so as to avoid them being able to advertise in those venues. It's just PlayNow.com in there. So again, that was a significant investment.

The second part of it, you know, again tied back to not seeing those lottery roles. So there was about a million-dollar impact that we had just from the fact that lotteries weren't performing, and of course, lotteries online weren't performing themselves.

As it relates to kind of keeping it relevant, our current host provider is British Columbia lotteries. So BCLC actually hosts the platform that we play on, so they have an equivalent one in British Columbia, Saskatchewan and Manitoba. They've just gone to tender for a new platform.

So there's some recognition that if we're going to compete still and if we can't shut out the illegal market, that we have to have a platform that, you know, would basically attract consumers to play there and make that their destination. So they are actively in the market looking at a new solution that would provide a new experience for the Manitoba consumer.

An Honourable Member: Cede the floor to Mr. Goertzen, please, Mr. Chair

The Chairperson: Absolutely.

Mr. Kelvin Goertzen (Steinbach): Does the corporation have an estimate of how much money is laundered at casinos every year in Manitoba?

Mr. Sul: So as far as kind of—you know, I think to estimate—you know, that's the responsibility of FINTRAC.

So again, you know, our obligation is to detect and report. We have an obligation as it relates to Proceeds of Crime (Money Laundering) and Terrorist Financing Act to report to FINTRAC various transactions as a casino entity. So we report casino disbursement reports. So a casino disbursement report would be \$10,000 transaction over a period or a consecutive 24-hour period. We record large cash transactions, so that would be disbursements to a

player of more than \$10,000 over a 24-hour period. And of course, we're obliged to report what we call suspicious transactions where we have some grounds to suspect or grounds to believe, you know, that a suspicious transaction's being conducted.

All that information, basically, is forwarded on to FINTRAC for them to do the analysis. So we're not the intelligence agency; we're the reporter at the end of the day. But, you know, again, we do a great job, and we're very diligent in reporting that to FINTRAC. We report about 4,000 to 5,000 transactions annually. About 400 to 500 of those would be—you know, deemed to be what we call suspicious transactions. But again, it's not necessarily a suspicious transaction. It's just it looks like one.

But again, ultimately, it's up to FINTRAC to do their analysis because I think as we understand, organized crime is complex; it's diverse; it's 'geography,' you know, widespread, and so it's up to them to kind of piece it all together and kind of put the picture together if it's—is it legitimate transaction or is it an illegal transaction or somehow tied to terrorist financing or organized crime, that sort of thing.

So I can't put a number to say, well, how much money is laundered in the casinos, other than we are very diligent in reporting that to FINTRAC and let them do their job.

Mr. Simard: And I just think to reiterate the point as being a public corporation that has the fiduciary responsibility to Manitobans provides security in the fact that people can rely on their organization to protect them. And when you think about other gaming platforms that may be offshore, Gibraltar or who knows where, that assurance doesn't exist.

So I think given the types of programs and items that were shared by the president, on top of the fact that the public corporation piece of the MBLL is probably, we'd say, as being one of the most robust programs in the country.

Mr. Sul: If I could just add—I just want to, you know, add to the comment. So there has been a recent incident that was publicized where there was a person involved in trafficking of drugs that was actually prosecuted, which, again, it's not often we get to know if somebody actually was convicted of some sort of crime after the fact. But that was one notable one that was publicized in the province of Manitoba where, again, you know, it was a known fentanyl trafficker that was laundering money in the casinos itself.

Mr. Goertzen: So if you're reporting to FINTRAC transactions of cash over \$10,000, how many of those in particular have there been over the last three years, to try and get a comparative analysis, if there's more people using cash transactions of over \$10,000 at the casinos. And have players—how many players have been suspended as a result of suspicion for money laundering?

Mr. Sul: Firstly, I guess, speaking to kind of, you know—if we think about kind of looking over—like, there—from a trend perspective, we haven't seen any kind of notable increases or kind of decrease. The numbers are very consistent year over year, and kind of what we report back to FINTRAC. And also remember it's not just reporting on, you know, Club Regent Casino, McPhillips casino; we report on the three First Nation casinos and any video lottery terminal site that has more than 50 machines. So we have an obligation to report on their behalf at the end of the day.

So for us, kind of thing, I think you—it was mentioned that it was cash. Like, it could be any currency. So again, could be cheque, chips, anything, you know, anything that's disbursed. It's not just cash transactions. So I—you know, we're not seeing any incremental cash transactions happening in the casino.

Mr. Goertzen: Follow up on that last question: How many players have been suspended for suspicion of money laundering at the casinos?

Mr. Sul: Yes, so again, you know, unless we were made aware of that an individual has been convicted there has been no barring or involuntary exclusion of any particular players. Again, any exclusions that we would initiate through the casino would be through direct actions against the casino, so vandalism, cheat at play, things like that, where we would actually take measures or actions to bar players. As it relates specifically to money laundering, we've never, you know, been advised such that okay, we're going to bar a player.

So, ultimately, you know, once somebody has been convicted of course, that person would be on the involuntary exclusion list.

Mr. Goertzen: In Ontario and British Columbia, they've indicated that if there is a tariff implemented by the United States that they are going to pull products that are produced in the United States. Has the Manitoba government or has the corporation put together a list of US-based alcohol products for con-

sideration of pulling if, in fact, there are tariffs implemented?

Mr. Simard: I think your question is—speaks to kind of the overall—whole-of-government approach to the response to what may or may not happen on February 1. Of course, I think that it's important to note that the Premier (Mr. Kinew) has indicated publicly—very publicly some of the measures that they are taking in terms of border security, in terms of diplomacy with fellow premiers across province.

As the MBLL goes, there is nothing to comment on here today, given that it's the annual report of the corporation.

The Chairperson: Before we move on to any more questions or comment, I just want to remind everyone that we're here to deal with the annual report and that questions should relate to the annual report and what's within the report.

Mr. Goertzen: How many products that MBLL sells would find their origins in the United States?

The Chairperson: Yes, Mr. Sul.

Mr. Sul: So about 6 per cent of our products originate from the US. About—and I would make up about 7 per cent sales dollars. I have a breakdown for you. So there's 409 spirits, 341 wines, 21 ready-to-drink products and 57 beers.

Mr. Goertzen: At one point, I think, products made in Russia were pulled from the shelves of MBLL. Is that still the case? Are those products still not available at MBLL that are made in Russia?

Mr. Sul: That would be correct.

Mr. Goertzen: So it's not a difficult process to pull products. We don't have any sort of agreements that would prevent MBLL from pulling American products if, for whatever reason, there was a desire to do so.

Mr. Sul: You know, I think other than, obviously, the logistics of what do you do with the product once you've kind of pulled it because then it's not available for sale. So we would have a large inventory then.

I think one of the benefits to Manitobans is the fact that we represent 70 different countries. We've got 13,000 products available. There's a lot to choose from, so if there was ever to be some decision that, you know, saw the removal of US-based products I believe Manitobans would still have lots of choice.

Mr. Goertzen: Not being a wine or other spirit connoisseur, maybe you can educate me on how many of the products that you sell are made in Canada.

Mr. Sul: Mr. Chair, I wouldn't have that number available.

Mr. Goertzen: Has there been any effort or consideration of sort of a buy-Canadian effort by MBLL, either related to potential tariffs or otherwise?

* (14:00)

Mr. Simard: Referring back to the Premier's (Mr. Kinew) comments not that long ago about, not only in terms of the choices citizens make for their vacation, for their summer plans. I think that the Canadian pride and the importance of supporting local industries, whether it's craft—you know, local Manitoba industries, whether it's going in and choosing Patent 5 product over a product that is maybe distilled in Quebec.

So I think, going back to the Premier's quotes about what it means to be proud to be Canadian and buying Canadian, I think that's always whether or not there's a spectre of what may or may not happen after February 1. It's always in the consumer's hand to make those choices, as well as entertaining themselves in any of our festivals that, you know, the MBLL spends a lot of time promoting and supporting.

Mr. King: So back to casinos here. The casino revenue's increased by \$16.7 million to \$246 million. On page 15, we read that the operating income decreased. Can that be explained?

Mr. Sul: Yes, there's two primary factors.

Obviously, it was the 'incised'—general wage increases that resulted post-collective agreements being settled is one factor.

The second is kind of related to technology deficits. So again, there was a number of years where we had limited access to capital to maintain our related infrastructure and technology, and so we're playing catch-up now to, you know, enhance and improve and bring to the current versions levels that are required for the various softwares and technology that we utilize in the casinos. So it's increased technology spend.

Mr. King: Wondering if they can explain the—how casinos such as South Beach Casino or the Shark Club, impact casino revenue for MBLL as operated establishments. And what is MBLL's share of revenue from these type of establishments? Why does MBLL

cover the capital cost of gaming equipment for these establishments? And is there interest charged to a non-MBLL-operated casino over the five-year period that the capital expenditure for new gaming equipment is being recovered?

Mr. Simard: Yes, just in advance of the response from the president, I think the—going back to the point that he made earlier—is the investment in the experience and the investment in the corporation to be able to draw players to the offerings that the MBLL owns. So that would be a casino—the casinos that we have. And the more that we can be able to have access to capital, to be able to do that type of work, I think will enhance the experience for players.

So looking at the context of the player in Manitoba and what it is that they are seeking when they attend a casino, I think it's always important that the MBLL continues to make those investments in our operations to be able to be an attractive choice for the consumer.

And as far as the relationship between the MBLL and the casinos you described, I'll allow the—

The Chairperson: Mr. Sul.

Mr. Sul: So, to answer the question, so again, from a retain—they retain 100 per cent of the earnings. So all three First Nations casinos, Aseneskak, Sand Hills and South Beach retain 100 per cent of their earnings.

The thing to recognize is that, you know, we have conduct and manage responsibility over those three First Nations casinos, and the fact that the Criminal Code does not allow for the First Nations to purchase their own games. So it's necessary for Manitoba Liquor & Lotteries to purchase on their behalf.

So those gaming equipment, or any gaming equipment or gaming supplies, are purchased on their behalf, and again, we get back some principal and interest through—you know, and we amortize it over generally the useful life of a gaming machine, so typically five years.

So again, all the money is fully recovered as well as any conduct and managed services that we offer to the three First Nations casinos in Manitoba.

Mr. King: Again, what strategies are in place to sustain and further increase casino revenues in the future? Are there any stats indicating where the casino patrons are coming from? Are they Manitobans or from other provinces and countries? And what's being done to attract extra-provincial tourism dollars to MBLL-operated casinos?

Mr. Sul: So I think it's important in the casinos, again, to make sure that your gaming offerings and entertainment, you know, are relevant. You know, and so it's always important to invest and reinvest in maintaining and refreshing your gaming equipment, so whether it's leased games and changing the look and feel of them, or bringing in new games.

You know, people grow tired. They're—something called gaming fatigue; they get tired. That said, there are customers who love to play the same old, same old kind of over time. But we want to kind of keep the floor refreshed along the way, and so we're always reinvesting in refreshing the gaming floor. So we replaced 238 slot machines in the 2023-24 fiscal year.

And, again, you know, we see what the house averages or earnings per game, and we see that material increase as we roll in new gaming equipment. And it's not just it took from somewhere else and it brought it to this new game; we see net incremental revenue.

So we always make—we want to make investments and we can't get stagnant in, kind of, what we offer to the consumer.

Mr. Simard: And just to add to that point, there's a lot of entertainment offerings that are happening in Club Regent, for example, that it's a—one of the busiest venues in the city, where you have a continual return of popular acts, comedians. I know that we have a very robust marketing campaign, but also workers who are going out there to be able to attract that talent, to have people come in within Manitoba, to visit Winnipeg, to spend their entertainment dollars here.

We know that we're in competition with all sorts of different venues and different organizations who are competing for that dollar, and really proud of the work that's been done to be able to attract that type of entertainment here where sometimes that work has been done to attract artists who are just on the cusp of making it big.

You know, when you look at the host of the Golden Globes or Oscars, or whatever it was, just—I guess the Golden Globes—just recently coming to do multiple shows here in the city in the very near future, I think that just shows the type of work that goes into recruiting that talent, of having sold-out shows around the holidays and to have repeat stays by not only the—by the artists. Like, the artists are coming back. They're making Club Regent and—their stop on the way across western Manitoba—or Canada.

And I think that goes into the investment and some of the capital within the—with the entertainment centre that allows it to change the size of the venue to be able to host banquets, to be able to host awards shows, to be able to host concerts, small and large. And the more that we can continue to do that, really, you know, attracts people to the hotel, to the casino, to the restaurant, to the stores that are in Winnipeg, and the more that we can contribute to that, to a real positive experience for Manitobans, I think it goes a long way.

Mr. Sul: And I guess to—just to, you know, finish up on, kind of, the question. So, again, we recognize there's competition out there. If you watched TV or the media you're seeing advertising from casinos North Dakota, South Dakota casinos in Regina, they're advertising in our—on our domain or on our market space.

And so, you know, of course advertising is an important element, and our marketing and communication team does a great job in, kind of, promoting our casinos. So not only advertising outside the boundaries of Manitoba and then within Manitoba, to make people aware of the offerings we have. You know, we do a lot of work investing in events that would drive traffic into our specific casinos. So our investment in marketing and advertising for casinos was \$2.7 million in that fiscal '23-24.

Mr. King: So just back—just to follow up to that question, part of that question was—and maybe I missed it in the answer, but is there any way attracting or any stats of indicating where our patrons are coming from to our casinos from out of province, out of country? Do we have any way of analyzing that?

* (14:10)

Mr. Sul: So we have something called a—that's like a loyalty card or a club card, you know, that does allow us if they do sign up, to be able to track their origins at the day—at the end of the day, and to kind of track those type of, where they're coming from or they're travelling from.

We are mostly a locals casino, though; I would tell you that. So primarily people are from Manitoba, you know, that are in our casinos.

But at the same time, we could track those—I don't have those numbers readily available, but we have that ability to track if you sign up for a club card.

Mr. King: So in relation to McPhillips Street Station casino and Club Regent Casino, what percentage of table game floor area is currently being utilized? For example, is there surplus square footage due to under-performing gaming options, or are there any table games that have seen a large drop in popularity?

Mr. Simard: So what we're discovering—that the market has changed where there's migration to different platforms, PlayNow, online, but also to the offerings on the floor not in terms of table games.

So the responsiveness of the MBLL to the changing trends is actually one of the—it's very important in being able to manage what's happening and being able to—if there are games that are money losers or, not only that, present challenges for the casino, they are able to respond appropriately.

They always keep an eye on the best utilization of the space and making sure that the consumer experience is very positive. So whether or not the space is there, and the use that it is, is always paramount to what is the experience of the player going to be like, so.

Mr. Sul: So again, we're constantly, you know, looking to kind of optimize the gaming floor.

So when we came out of the pandemic, obviously, for social distancing reasons, you know, we reduced the number of gaming equipment on the floor. So we were very responsible when we reopened the casinos to be mindful of, okay, do we really need that many more games? So we were incrementally adding on while kind of keeping that, kind of, look and feel of, kind of having a lot of, I'll say, arm room around—or elbow room—you know, around the games, kind of thing. And we got to a point where we'd gotten it down to we were less than 2,000 machines. We're at 2,200 machines across the two casinos.

Similarly, we watched, you know, the behaviours on the table games itself. So we have 13 tables at McPhillips, 13 tables at Club Regent and three of them over at the Shark Club Gaming Centre. You know, we've recently did a review of it, and we believe that there's no reason or rationale to expand upon that.

Again, but, you know, there are times where we say, hey, there's an over-demand on the baccarat tables or things like that, where, hey, is it feasible or would it improve net income to, you add in another table game? So we're constantly monitoring and kind of managing that.

You know, and again, when we see games or table games not performing we'll look to either swap them out or outright remove them. And a good example would be, you know, post pandemic when we got rid of the poker room. You know, the poker room wasn't feasible, and it wasn't responsible for us as an organization to continue on with poker, because, again, not responsible to run a loss leader.

Mr. King: Thanks, Mr. President, for that answer, which leads me to the next one.

Can you explain the options available to private establishments, such as a legion or a lounge, in offering table games like poker? Can a private establishment be licensed for permanent gaming, or is it only one-off events? So walk by an establishment, you see a poker game going on, is that considered legal or do they have a permit or?

Mr. Sul: Yes, it should have a LGCA permit with that.

So, you know, charitable gaming is permitted outside of the casinos of Winnipeg. Again, the—you know, the only real option available to private owners or commercial establishments would be the introduction of VLT games out there.

Mr. King: So just so I'm clear, a private establishment, there has to be—it has to have a permit for a one-off event? It can't be licensed.

Mr. Sul: Yes, no—so again, it would be a permitted event, and it would be a charitable event allowed by the LGCA.

Mr. King: In your report there, that there was 6,715 VLTs in the province. How does that compare to last year, and was there any plans to increase that number?

Mr. Sul: So the 6,715 machines is a fixed number. So it was established by policy that there would be no more than 5,122 commercial VLTs in the province of Manitoba. So we've never exceeded that number for as long as I've been employed here. That's been a fixed number.

And then the other amount comes from the 1,593 First Nation VLTs that are out there. That's a number that actually could fluctuate. You know, so if a First Nation were to request additional VLTs, you know, you would see that 6,715 number actually grow over time. But, of course, due to the gaming pause, that number hasn't fluctuated in a number of years, probably since—hasn't since 2018.

The Chairperson: So far so good. I'm just going to remind everyone to address your questions through the Chair.

Mr. King: So that—what would just cause be for adding more machines, or what would be the request? Popularity or not enough machines in a venue, Mr. Chair?

Mr. Sul: So, you know, we're constantly fielding requests for new VLTs. Because we always see closures of establishments through the province of Manitoba, we would look to recycle the existing machines that we have. So if you see a hotel closure—we've seen a number of hotel closures in Manitoba over the last year—we would basically take that inventory and basically offer those to, you know, people waiting in the queue. Again, not to exceed that 5,122.

Mr. Simard: And just to add, there are no plans to exceed that amount of VLTs at the moment.

Mr. King: Just another question here on the VLTs. So what is the commission paid to the partners—Mr. Chair, to the board here: What's the commission paid to the partners hosting the VLTs, and are there any plans to change the commission's structure on those VLTs?

Mr. Simard: You know, referring back to the annual report, what you see in front of you represents a commercial split of 20-80 and 90-10 for VLTs on First Nations. So in the current context that we have, those are the splits.

The Chairperson: Mr. Sul?

Mr. Sul: No.

Mr. King: Mr. Chair, I'd like to cede the floor to Mr. Narth for some questions.

Mr. Konrad Narth (La Vérendrye): First question that I'll start off with follows up on casino and lotteries, since we're on a roll there, and then I'll focus some questions on liquor operations.

So the first question would be to Mr. Sul. In your mandate letter from the minister, it was clearly outlined— and we touched base on it a couple times throughout today's committee—was to work collaboratively with stakeholders to lift the pause on gaming expansion in the—in a targeted fashion to include supporting economic reconciliation and local economic development while maintaining MBLL's commitment to supporting the communities they serve.

You had also mentioned—Mr. Sul had also mentioned, honourable Chair, that this was, in fact, limiting—the pause was limiting the future sustainability of that area of the corporation. Has there been any expansion since the mandate letter, and is there any proposed expansion that Manitobans can expect?

Mr. Simard: Initial response here is that when you look at the context of Manitoba was consistently growing from 2017 on, right? So when you put a pause on there, the—in 2017, what it created was basically a situation where you have a balloon, and you—balloon of requests and a balloon of changes, and you're just consistently adding air to the balloon and getting outreach—say, hey, we would like this, we would like that.

* (14:20)

So in lifting the gaming pause, I would like you to use that image of that balloon and say, what would it be—a responsible way to let the air out, because over the course of seven years, the pressure on the system and the pressure of the requests that were basically not even entertained because of the pause meant that there was higher pressures on letting them all out at once.

So taking the time to be able to meet with whichever stakeholders had made requests in the past and were denied any access or audience because of the pause is important to be able to re-engage those conversations.

So in time, as we engage with public who are wanting to advance some of their interests or have opportunities, I think if you use the balloon aspect, if you let it go really quickly, it could create a chaotic situation—that balloon will be flying all over the room, probably hitting people in the face—where we have the opportunity as a government to basically let the air out slowly, where we listen and meet with stakeholders in a controlled fashion to be able to, after the air is out, make decisions.

Mr. Sul: I'd just like to add, you know, as it relates to kind of the profitability of the VLT line of business, I think what impacted us the greatest was the gaming pause.

So if you think back to 2018, we weren't allowed to refresh our gaming environment. We had actually gotten to 93 per cent of our VLTs in the province of Manitoba were obsolete. You can't add new game content; you can't find new parts for these games. And so we saw, you know, again, our revenues erode over that time because we're not offering something fresh to the consumers. And whether you're in rural

Manitoba or in the city of Winnipeg, you know, we got to a point of like I say, 93 per cent of our machines are not supported by the vendor.

We have machines in our inventory that are greater than 13 years old, you know, that are out there. And of course much like—equal to the lottery situation, again, it's grown tired, and you're starting to see that, you know, start to drift off as far as kind of our contribution to the bottom line.

It's essential that we refresh those VLTs and keep them fresh, you know, for the consumer and for the health of our net income to the province.

Mr. Narth: Just a follow-up to the minister on that.

So essentially what you're saying is that you've upheld the pause for the last year outside of possibly refreshing some of the technology around the digital games. Other than that, though, there hasn't—you made reference to a balloon, and letting the air out quickly is dangerous, so your approach has been to tie the knot, essentially.

Mr. Simard: Absolutely not. I think that when you look at a gaming pause and what that means, I think your definition is a proliferation of the gaming industry. What the lifting the gaming pause effectively is is a conversation with stakeholders and environment, where it takes time to be able to develop whatever strategy may come out of those discussions.

So rather—I mean, the important part here is that when you're not talking to your Manitobans and you're essentially putting your head in the sand and not really listening to what other people are saying, how can you make any progress forward

So you have this built-up angst. You have this built-up demand that the MBLL has absolutely no mechanism throughout those seven years to be able to make any decisions or any planning to some eventual removal of the pause. So when you do remove the pause, then those conversations can start. And that's an important distinction between what your definition of the pause is, whether it's—the MBLL could have a stockpile ready to go: a stockpile of consultation, a stockpile of meetings, a stockpile of supplies, a stockpile of strategy. The gaming pause limited and handcuffed the MBLL where they couldn't do any of those things.

So I—the reference of putting the pause, as you take, it is a complete, you know, wild, wild west here of expansion of gaming. And the most important thing is engagement with our stakeholders, engagement

with Manitobans to see what is the most responsible course forward, because, you know, you want to make sure that whatever expansion of gaming, or lifting of the pause, it translates into responsible rollout of future businesses.

The Chairperson: Before we continue, I just want to remind everyone that questions and comments must be put through the Chair using third person as opposed to directly to members and representatives.

Mr. King—or Mr. Narth, sorry.

Mr. Narth: My next question I'd like to be directed at the CEO through you, honourable Chair.

Touching base on liquor operations through MBLL, Mr. Sul had made mention that we're proudly celebrating 100 years of publicly managed liquor sales in Manitoba. And as we know, a lot changes in business environment and in operations over 100 years, and I know that MBLL and the structure organization and efforts of operation are not unique to that.

So for the committee today and Manitobans, honourable Chair, would the CEO be able to tell Manitobans how we use the blended model of private-public liquor retailing, what that looks like, and would he be able to share with the committee what the structure is and how is liquor purchased from suppliers, how it's warehoused, distributed and retailed throughout the province? So paint us a picture on how that blended, public-private model looks from the purchase to the retail.

Mr. Sul: I guess first I would start, you know, again when you think about—you mentioned—it's mentioned 100 years. You know, again things have evolved, and I think what's really evolved is how complementary it's been to have this private-public model that we have in Manitoba. Again there's places where it's not feasible for us to stand up full scale Liquor Mart stores, and it provides opportunities for private entrepreneurs in various communities throughout Manitoba, not only to benefit them as an entrepreneur, but it benefits the people that they serve in their respective communities.

So, you know, I think as kind of we look at how—what the network looks like in the province of Manitoba, it's always important that we're looking at it, that it's complimentary and it's not competitive. You know, at the end of the day, that's important, because, again, it's about serving Manitobans with the best price and selection it can be and so that we can offer to the province of Manitoba.

So I see that kind of evolving in—you know, over years, we've seen, you know, liquor vendors convert into Liquor Mart stores. We've seen it go the other way, we've seen Liquor Mart stores, you know, turn over to liquor vendors. I think we always have to look at it from a profitability perspective. You know, again, what's best for the net income to the province and what is best, you know, for the consumer to provide them access to beverage and alcohol in a responsible way out there.

I think, you know, when you look at you—I think it's asked, well, how does the model work or how does the process work. You know, again, we're a single buyer; you know, we're one of the largest single buyers in the world, and so that gives us access to products that many jurisdictions don't have access to provinces like Ontario, British Columbia. Again, we're able to kind of leverage our being one of the largest single buyers of beverage alcohol and it gives us access to products doesn't matter what category you're playing in, it provides selection to Manitobans.

So Manitobans benefit from having a single buyer in the province of Manitoba. It provides us buying power and access to product. At the same time again, we leverage the ability of having a single warehouse and single group of staff. So when it comes—you know, when we bring it into the province and bring it through our distribution centre, all those channels benefit from the cost efficiencies or economies of scale that are built through using a single source to basically procure, to manage the customs, excise, the clearing process, the distribution process, everybody in the channels benefit from that.

So, you know, when the product comes in, we distribute it out to the various partners. How the partners benefit, obviously there's discounts that are offered to the various retailers depending on who you are. So if you're a liquor vendor in the province of Manitoba, you get a 11 and three-quarters per cent discount on purchased product, with the exception of beer which is 14 and a half per cent.

* (14:30)

If you're a licensee, again, you're getting 14 and a half per cent on the beer. If you're a hotel beer vendor, you know, you're getting 11 and three quarters on coolers and ciders and 14 and a half per cent on beer.

So again, you know, as you kind of go downstream, again, those benefits start to push back into the hands of the private entrepreneurs that are out there

that are running liquor retail businesses in the province of Manitoba.

Again, you know, it's a very simple—or over-simplified. I don't know how much detail we wanted to get into of kind of the process, but again—you know, again, it all flows through Manitoba Liquor & Lotteries and, at the same time again, the beneficiaries are much broader than Manitoba Liquor & Lotteries and the Province itself as a whole.

Mr. Narth: Just to touch on that before we move on, that agreement between MBLL and the private liquor establishments, whether that be the licensees that are selling it in an establishment or the private liquor stores or the beer vendors: when was the last time that that agreement—the agreement between the private entrepreneurs and MBLL was revisited, as far as the model but also the profit share?

The Vice-Chairperson in the Chair

Mr. Sul: So, you know, as I mentioned earlier, we just struck a new agreement with the Manitoba Private Wine Stores Association. So that was fresh in July of 2023.

We haven't revisited the Manitoba Hotel Association or liquor vendor agreements in a number of years. I think, you know, the reference being and as it relates to the profit sharing or the discount amounts hasn't been revisited in many years, in my time with the corporation it hasn't happened.

Mr. Narth: Because we're leading it now is—as we've seen labour agreements change as of recently through the labour disputes and recent strike in this fiscal year that we're discussing in the report, and you had mentioned last year the private wine stores—their agreement has been revisited. Is there plans to also revisit the other agreements? As we've seen that it's important to provide a fair workforce, as you've stated, to focus on stability of the workforce, knowing that there is hope in being employed with good pay in the public sector. Is that something that you plan to revisit in your private partnership?

Mr. Sul: You know, I think it's important to regularly have consultations, you know, with the various business partners that we have out there and to be on top of, kind of what the demands or needs are out there and to discuss those through.

But, you know, again I would kind of encourage those organizations to come forward and if they want to entertain discussions so we can understand some of

the headwinds or challenges that are being faced by the industry partners that are out there.

But again, we're always willing to work with our industry partners. Again, when our industry partners are successful, we are successful too.

Mr. Narth: A key message in the minister's mandate letter to the Crown corporation was to, and I quote: responsibly expand public liquor retail stores including Liquor Mart Express outlets to give Manitobans more options while maintaining support for the small businesses in rural and northern Manitoba to sell liquor. End quote. That was from the mandate letter.

Honourable Chair, what has been done in the last year to expand liquor retailing throughout the province? And I guess would direct that at the CEO.

Mr. Sul: Yes, so, we've always had a robust Liquor Mart store development program. We're always constantly evaluating the performance of our stores. And again, that information is utilized to, you know—do we expand our stores, do we contract our stores, do we close stores; and, as well as having an ear to the track as to, you know, what kind of residential and commercial development's happening throughout the provinces.

Unfortunately, for about seven years we weren't able to pursue new opportunities, you know. So we've, you know—it wasn't until the new mandate letter that we were basically given, you know, the green light to kind of potentially go look for new opportunities to strengthen the net income back to the Province.

So, we are just in the process of, you know, dusting off our store development program and looking at what those opportunities that were missed over the last number of years. And there are opportunities that out—because, again, the landscape's always changing in our province, whether it's in the city or rural Manitoba. You know, we need to be mindful of how do we best serve customers here.

Mr. Narth: Thank you for that response. I'm going to, you know, focus my questions around the mandate letter, since that's what the minister had given direction to the corporation. And, again, out of that quote, it was said that the goal of this was to give Manitobans more options.

So my question, honourable Chair, would be to the minister. In the spring session of 2024, a bill was brought forward, bill 201, and the purpose of this bill was to expand liquor selection to Manitobans through expanding product offerings in the existing licensed

retailers, so not to expand public or private licensees; this was just to expand the product offering within the current licensees.

This bill did not pass but is a way that your government could see expanding liquor product availability to Manitobans? Is this something that the government would support in the future?

Mr. Simard: So the bill did not pass, you're correct in that.

I think going back to the response that was given by the president in terms of dusting off a retail expansion strategy and a plan and being unbound to be able to do that work, I think that it's a responsible course of action, first of all, to be able to respond to that piece of the mandate; also, looking at the robust number of retailers that we do have in Manitoba to be able to make those offerings.

I think in the opening comments of the president, they referred to a large number of selections that we do have. Also, having the type of buying power that MBLL has to be able to bring new products to Manitobans really demonstrates our commitment to be able to continue to do that, but also at the same time protecting the Manitoba market and ensuring that products that are brewed here and created here have prominent shelf space and cooler space in our store and overrepresent in many ways the prominence of those in the stores.

So I would suggest that the work is ongoing, that the expansion of the retail stores in Manitoba—and that work is ongoing, that—so the examination of new opportunities in Manitoba but also honouring existing agreements that we do have with our partners to be able to make sure that they also succeed where there's not a proliferation of liquor sales in a way that is not within the responsible growth of the corporation. And the more that we can do those kinds of things, the more that we can boost our performance.

And if you wanted to comment further? *[interjection]* Okay.

Mr. Narth: So I'll probably loop back at the—shortly, but speaking to expansion of liquor retailing and the mandate letter from the minister, it had also—makes mention to expanding Liquor Mart Express outlets. And some Manitobans may be very familiar with what a Liquor Mart Express is, but I've learned a lot about liquor retailing in the last year through the—my role as the official opposition critic and just how different liquor retailing is for rural Manitobans to city of Winnipeg Manitobans.

So I represent La Vérendrye constituency, which has a number of private beer vendors as well as private liquor stores but doesn't have a single Manitoba Liquor Mart.

* (14:40)

So people in my region, the southeast region of Manitoba, and there are other regions of our province that are completely unfamiliar with a provincial public Liquor Mart and also Liquor Mart Express outlets.

So my question—first question would be: How do these stores differ—the Liquor Mart Express—from regular Liquor Marts, and how many currently exist and how many have been added since the fall of 2023?

Mr. Sul: I guess for distinction—so an express store, typically—you know, you would find it within a store or a major grocery store. Typically, you know, they would be a footprint of 1,000 square feet or less. It's kind of the intention, of course.

The Chairperson in the Chair

The other part is—you know, managing that limited space is kind of—you know, we'd have just our top products or top skewers on the shelves.

So again, it's a very limited selection. Again, it's kind of aimed at, you know, convenience and/or impulse-type buying. So somebody's shopping; it's an opportunity as they're leaving the grocery store. You know, I'm going to pick up a bottle of wine or something to complement what groceries they might have bought.

So that's kind of the express model. We have six of them in the province of Manitoba currently. Five of them are in the city of Winnipeg. One of them is in Brandon, Manitoba.

Again, it was a pilot established more than 10 years ago. It basically stopped. We had stopped at six, and we hadn't kind of increased that number.

Again, we are exploring. You know, it's been a long time since we established the express store. We've learned a lot about maybe how we might do it better. You know, we are looking at what would an express two-oh kind of look like for Manitoba Liquor & Lotteries and for the customers to provide a better experience.

So that's kind of where we're at with the Liquor Mart Express side. But again, still on that exploration. So some might be familiar—you know, we were out there testing a—we were looking at a concept, but we

have not added any and made no commitments to anybody to add express stores.

Mr. Narth: Thank you, Mr. Sul, for clarifying that. It was a question that I had because it was highly outlined in the mandate letter.

No new Liquor Mart Express have been added since the fall, but it's obviously something you're entertaining, and to my understanding, some have been added in recent years though.

Honourable Chair, my question is: What is the cost to set up a new Liquor Mart Express store within the Manitoba environment?

Mr. Simard: So, looking at the annual report, I don't think you would see any of those costs reflected in there. So that's what I would suggest. And as you correctly identified, there—it's been a while since that's happened. So to have a—share those costs here would be highly speculative.

Mr. Sul: So I think if you want to reflect on cost, you know, in the day, when we were standing up express stores in Manitoba they were running in that 250-to-300-thousand-dollar range.

As far as to stand up an express store, again, we haven't—you know, because we are not pursuing any new ones, we haven't got a—you know, a new cost estimate as to, you know, what that might entail as far as capital cost or investment.

Mr. Narth: Yes. I appreciate that. I just thought since it's in the mandate letter—it's, you know, outlined of a feasible option for MBLL to expand liquor availability to give Manitobans more options is what the minister's mandate letter clearly outlines—that potentially the corporation would be looking at the costs associated with that. But I appreciate Mr. Sul giving us some high-level potential costs of what that would be, at \$250,000 to \$300,000.

Moving on then, honourable Chair, in the annual report, we saw \$864 million in total sales through Liquor Operations, \$413 million in cost of sales—it's outlined in the income statement or what's presented as an income statement—and \$451 million in gross profit. It's then stated in the written report that the comprehensive income was \$313 million.

So my question is: What is included in the cost of sales to establish the gross profit and what expenses are included in the calculations to achieve the comprehensive profit from the gross profit?

Mr. Sul: So I guess, you know, first—so we're looking for the—a breakdown of cost of sales?

Mr. Narth: Yes, honourable Chair. That's just to showcase to the committee today and Manitobans, you know, this is a Crown corporation and I think they'd appreciate transparency in the report.

We see, you know, the—what seems to be the cost of goods sold, right, as the cost of sales. I think everyone can interpret that, and the total sales, but how does the corporation derive the gross profit and then the comprehensive income?

So what makes up the difference between your cost of sales, your gross profit and your comprehensive income?

Mr. Sul: So the component you're looking for is the duty paid landed cost. So again, duty, clearance, custom clearing, freight are all included, obviously, when we establish duty paid landed costs.

And of course, you know, when we look at the cost to retail or the price at retail, of course it's incremented by surcharges as well as the ad valorem markup that we have in the province of Manitoba for the various categories of product itself.

Mr. Narth: So that would get us to \$451,755,000, correct?

And then the \$313 million, what would that include? Is that labour costs, rent, infrastructure costs?

What's the difference between those two profits?

Mr. Sul: Just for clarity, are we referring to page 11, or are we referring to page 17?

Mr. Narth: Page 17, and then in the written description of the report on page 16, which outlines the \$313-million comprehensive income.

Mr. Sul: So the component you're missing is other products as well. So like, if we were looking at, you know, the four categories, beer, ready-to-drink, spirits and wine, then there are other products as well sold. So there's a component that you're not necessarily seeing in the breakdown on page 17 versus what you're seeing on from page 11.

I'm looking for more clarity.

The Chairperson: Mr. Narth, if you could give us a little bit more clarity in your question in regards to exactly what you're looking for.

Mr. Narth: For clarification, comprehensive income is another terminology—for Manitobans that may not

be familiar with accounting terminology—comprehensive income would be another term for net income, correct?

And the difference between what you have listed as your gross profit—which, you know, it has that term profit so that raises everyone's attention right away that that's the money that's made. But the difference between your gross profit on page 17 and what is reported as comprehensive income as a result of liquor operations, that difference between \$313 million and the \$451 million would not be the cost of goods sold, but would be all of your carrying costs, so your labour costs, your costs of the infrastructure, distribution, warehousing.

That's what I'm trying to get. So what's included in the gross profit between the total sales and then from the gross profit to the net income.

You know, we're talking hundreds of millions of dollars here, so I think Manitobans would like to know what—how those numbers are established.

* (14:50)

Mr. Sul: Thanks for the clarification. So, you know, again—you know—looking at the other operating costs that need to be kind of considered in this—you know—is the contribution to Manitoba—Multi-Material Manitoba Stewardship—Manitoba. We have things like the corporate costs that basically get distributed, so there's human resources, marketing, information technology. Those costs are, as well, distributed back. They're allocated by our line of business, so whether it's liquor or lotteries, online gaming, we do a kind of a breakdown of those individual costs or corporate costs that are broken down to them.

So staffing, outbound freight, financial bank transaction costs, executive management costs are distributed across that. Social responsibility costs are distributed across that, as well, equally.

So there are a number of factors, you know, that basically get allocated across the organization, given—you know—again, we're one corporation but there are various functions that need to be distributed across the various lines of business to reflect on the net income statement.

Mr. Narth: Thank you for that clarification. I noticed, honourable Chair, in the annual report, that there was a significant decrease in the comprehensive income which we're establishing is the net income due to the 2023 labour dispute and new contracts that were negotiated following the recent labour dispute. And at

the time last year when we had this committee and I was to ask questions, we knew about these things but we didn't see them in the report at that time because of the overlap in years.

So, honourable Chair, could the CEO tell us how much this labour dispute cost the corporation in sales?

Mr. Sul: So I have that information. So when we look at the revenue it was estimated because, again, we needed to do it on a comparative year over year, we estimated \$22 million was the impact to revenue. And then after cost of sales, that would be a negative impact of \$11.7 million, or gross profit.

There's a positive impact to salaries and benefits as a result of using replacement workers but not having to pay our unionized staff that worked in those Liquor Mart stores; that was \$2.7 million. And again, other operating expenses added up to \$1.2 million.

The net income impact was estimated to be \$10.174 million.

Mr. Narth: Could you then tell us how much their renegotiation of labour costs equalled for MBLL in additional costs of operation this past fiscal year and moving forward?

We had seen in the report \$2.4 million—and it says \$2.4 million, including technology and regulatory costs. But for Manitobans in this committee today, would you be able to break out what that additional cost is attributed by the renegotiation of labour costs?

Mr. Sul: I wouldn't have the breakdown but what I would indicate is that there was a 6 per cent increase as far as salaries year over year.

The Chairperson: Mr. Narth—sorry, Mr. Sul.

Mr. Sul: And just for further clarity, again, you know those agreements were in arrears so we were obviously having to retroactively play catch-up as well.

Mr. Narth: Just for clarification, then, I didn't have that until you just mentioned it, but—so is that 6 per cent, would be the increase in labour costs for the year and moving forward, or is that all the retroactive pay is—was—6 per cent?

Mr. Sul: So again, there's the—that included the retroactive costs, but moving forward the general wage increases, you know, obviously there was a pattern to that. So it's—we're in the years of 3 per cent; 3 per cent now as far as GWI now. So it was 2.5, 2.75, 3, 3.

And so, you know, we're in the—actually we're in the final years of—with some of the bargaining units of the 3 per cent. So that's what you would see going forward.

Mr. Narth: So just to highlight, then, maybe, that we see it's actually—it's not at the 6 per cent. So it's not that big of a jump that we have to see in one year; it's 3 per cent, though, moving forward, and just to be clear, that was renegotiation for labour in the public employees' negotiations, and as we've clarified before, other than a renegotiation on the terms for specialty wine stores, all other private distribution of liquor—retailing of liquor, which nearly makes up half of the total revenue of MBLL—or of liquor operations—was not renegotiated. So the 11 and three quarter and 14 and a half that's been in place for a number of years, that didn't see any increase along with the public employees' renegotiation and increase, correct?

Mr. Sul: Yes, that would be correct.

Mr. Narth: Is there a bonus structure for the upper management and executives of the organization?

Mr. Sul: There is no bonus structure in place at Manitoba Liquor & Lotteries.

Mr. Narth: In the last couple of years, honourable Chair, we've been hearing a lot of liquor store theft. It's something that in the report was mentioned that there's been control that has been gained through the changes in operation. How much has been spent on retail security in the past fiscal year?

Mr. Sul: We're currently—all 36 Liquor Mart stores in Winnipeg, have controlled access or controlled entrances. We had added 10 more in rural Manitoba, you know, where we thought there—the threat was kind of warranting the additional measures. In the last year we have not added any net new ones.

Mr. Narth: Thank you, Mr. Sul, for that.

As I had asked, is there a dollar amount, is there a figure of what that additional security that was needed, clearly needed, in the Winnipeg stores and, like you had stated, in 10 more of the rural Manitoba Liquor Marts? Is there a cost associated with that?

Mr. Sul: So again, you know, using historic numbers, we were averaging—at the time we were budgeting \$60,000 per controlled entrance was the budget. And then there's an ongoing cost for the scanning equipment that we have in place.

Mr. Narth: Thank you for that; \$60,000 per store. Just to clarify for the committee today and Manitobans,

is there any financial support for security that was provided to the private partner stores, or were beer vendors through the struggle with security?

Mr. Sul: No, no supports were provided other than, you know, we offer ourselves to provide security advice based on our experience both in the casinos and our experience with the controlled accesses, we always make ourselves readily available to provide guidance and advice. So some operators have taken us up on that opportunity.

Mr. Narth: Honourable Chair, how much was spent last year on advertising, and how has that changed from pre-pandemic 2019 to 2022 and now currently? What is the budget for advertising, specific to, well, you can—if you have all of it available, but I was more so looking specific to liquor operations, but if you have a budget for lotteries and cannabis as well.

* (15:00)

Mr. Sul: So I guess, first and foremost, you know, to kind of point out again our requirement to advertise and market is important. You know, we're in competition for disposable income. You know, we're in competition, as we mentioned earlier about casinos as far as attracting people to our venues and casinos, and of course, you know, we do spend money on marketing and advertising to create awareness as well as to the great products that we have in our stores, and of course the same great products that are made available to our various liquor vendors in the province of Manitoba.

Our expenditure was \$4.5 million in fiscal '23-24 for advertising. Obviously a significant increase over the previous year if you had those numbers at your avail, is that, you know, again, a big part of that related to our investment in combatting online gaming competition. So that's where the material change—I would say across the other lines of business, there hasn't been any material year-over-year change as it relates to that particular investment.

Again, you know, the largest contribution to advertising and promotions is online gaming, and it exceeds \$8.7 million. The rest of those numbers are much smaller. So when we look at lottery, it's \$210,000; casinos are \$2.7 million; hospitality and entertainment was almost a half a million dollars; liquor was \$830,000.

What you have to remember is, is that a lot of the merchandising and marketing at retail is paid for by

the supplier. So again, it's not MBLL paying for that, so whether it's the AIR MILES program or the limited-time offers that we do have available in our Liquor Mart stores, the suppliers are the ones who actually pay for those programs. So you—because you might be surprised, why is that number so low for liquor at the end of the day. Our corporate was \$323,000, community relations was \$445,000.

Mr. Narth: I guess just to draw attention to the—how it all functions together with sort of central direction in a public-private model, the advertising budget for MBLL in general, and we could lump Lotteries into that because VLTs are in private establishments and liquor is sold, like we were saying, half of it through a private model, half of it through a public model.

That advertising, advertising in general, is it made available to the private partners as well as advertising in general for Manitoba Liquor Marts? I guess we all see the TV commercials of advertising for Manitoba Liquor Marts, Casinos of Winnipeg. Is there advertising support made available to your private partners that make up half of the sales?

Mr. Sul: No, there would be no offerings, you know, currently to have our marketing dollars to be put towards the private operators. And that would be true for cannabis, liquor and gaming.

Mr. Narth: So just to make it very clear to committee today, then, that we've stated on liquor operations, 11 and three-quarter per cent allowance in profitability through liquor and spirits and 14 and a half for beer vendors. That, like we have stated, is going to make up half of the general revenue for Manitoba liquor operations, and out of their allotted and only allowed profit margin, they're fully responsible for their own advertisement and promotion.

Mr. Sul: I think, you know, the other thing to remember again, a lot of our liquor vendors—liquor is not their primary line of business, and it's—and it can't be their primary line of business. You know, when we establish liquor-vendor agreements with parties—so again, you know, this is a subsidiary or a smaller part of their business. You know, nonetheless, I know it's important to again, draw customers to your operations at the end of the day.

Mr. Narth: Is—can the CEO give us a breakdown of the cost to run loyalty programs like AIR MILES for MBLL, and with these programs, including Liquor Mart gift certificates, and not including—and is that not including partnered liquor vendors, and how is MBLL

dealing with the advantage that they are creating for public stores in the marketplace?

Mr. Sul: For the—for managing time, you know, I think maybe best served provide an explanation kind of how it works or how the program works.

So the—you know, first and foremost when it relates to the advertising that you see in store that's paid for by the suppliers, again, we call it our merchandising at retail program. We have a large catalogue offering for suppliers to come in and, you know, basically represent themselves in a variety of ways. You know, whether it's on end caps, whether it's in-store displays or fixturing that we have in our store, we have an opportunity to offer that to them. We've earned more than \$2 million through that program. You know, basically it's actually earned revenue through those programs. And, again, it's paid for.

The AIR MILES program side of it, again, it's, you know, traditional, as what happens in a lot of organizations. And, again you have an established rate with the AIR MILES company, now owned by Bank of Montreal, where we basically secure a certain amount of miles at a certain point value and then similarly, you know, we offer this to our suppliers to basically purchase marketing programs that related to giveaway of specific kind of AIR MILES. Again, the intention is to be neutral or cost-neutral so that again, there's no negative exposure to we have to pay for AIR MILES.

So again, we're trying to be self-sufficient. So again, what you see out there, again, is paid for by suppliers at the end of the—it's the suppliers that are choosing to be in those markets to basically put their advertising and marketing dollars to, you know, garner consumer sales at the end of the day.

So it's not to say that, you know, again if they had a desire to have similar programs made available to them through our various private channels like liquor vendors or hotel beer vendors that the same wouldn't happen. And it does happen in our hotel beer vendor channels where some of the large beer companies provide dollars and to be able to market in those type of spaces.

The Chairperson: Before we continue, the committee agreed to rise at 3:31. Please be aware that the committee will need a minute at the end of the meeting to pass the report.

Mr. Narth: Yes, that question had basically come out of discussions with the Manitoba liquor vendors association and a concern that has been expressed for a number of years that the loyalty programs like AIR MILES, which aren't made available to the Manitoba liquor association members, it creates an unfair advantage, basically MBLL competing with themselves. So drawing attraction to the public stores instead of the private stores in some of those communities that aren't serviced by a public liquor mart.

* (15:10)

That being said, is there anything being done to draw consideration to expanding those programs to be on more of a level partnership playing field with the private liquor vendors?

Mr. Simard: I guess I would preface my answer by saying that MBLL serves those private vendors with a number of different services that those vendors don't have to pay for on their own. That the response—earlier response in—with respect to the net-neutral type exposure also provides insight into the current environment.

The important thing here to remember is that there is significant net revenues that are disbursed to private vendors across the province through the agreements that we currently have. And when we continue to look at increasing—or the footprint of Manitoba Liquor & Lotteries across the province, there's always a consideration with existing liquor vendor agreements that have been signed.

So the proliferation of stores in communities, that's always a consideration to make sure that the current owners are protected, so that their trade area is not infringed upon. And I think that just really demonstrates the commitment that MBLL has to being a strong partner with private retailers where, if to use a food store or a fast food store, there's no Wendy's beside a McDonald's, and that trade area is protected through our agreements with private retailers.

And allowing the consumer to have that type of—or having a community have that type of reliability that you won't have a proliferation of stores in a true capitalist market I think demonstrates MBLL's commitment to be able to be a good partner with private retailers.

Mr. Narth: So I guess just to touch on, then, again, so that committee and Manitobans know exactly how

liquor pricing and retailing works in the province, and this came out of last year's committee process. We remember that comment was made that all liquor's retailed at the same price across the entire province, and that means that your bottle of wine costs the same at the Ellice Liquor Mart as it would at, let's say, small town liquor store.

Is that still correct, and is that the approach to liquor retailing that is being used in this current fiscal year and moving forward?

Mr. Sul: So uniform pricing is in legislation, so again, you know, there are no options right now, so—and that's been in place for as many years I've worked with the organization that there's been uniform pricing in place. And again, it creates fairness across the geographies of Manitoba.

Mr. Narth: So then, highlighting the financial report that we have in front of us, on page 17, if we'd be able to draw out some of the revenue generated by Manitoba liquor vendors, beer vendors and Manitoba Liquor Marts.

So it's outlined in the report, but would you be able to clarify that today for committee?

Mr. Sul: So I think, you know, just kind of some observations when we compare year over year one of the positive signs for our private retailers, actually, you can see that there's been growth. You know, where we've seen declines in our Liquor Marts as far as a year-over-year total revenues. You know, we're starting to see growth, you know, in our liquor vendors and our licensee channels as well as the specialty wine store channels. So you'll see that in all three of them.

So last year, if you would have looked at it, you know, we were responsible for 53 per cent of the sales back to the province of Manitoba, and again, that's dropped down to 51 per cent, and again, it's been distributed over to the—you know, the rural, private vendors that are out there, or private retailers.

Mr. Narth: Then looking at the specific liquors which are broken out here as beer, ready-to-drink, spirits and wine, are those—are the profit margins for MBLL the same for all of those; and basically, where I'm leading into that, we see a difference in trends in liquor consumption that you've stated. We've seen an increase in ready-to-drink, right? That seems to be popular, and

the liquor companies are catering towards that with—every time we go to a liquor store we see more coolers and those ready-to-serve-type drinks; and obviously people are spending less on their spirits, wine and especially beer.

What does the profit margin to the Crown corporation on each of those look like?

Mr. Sul: You know, as noted, you know, again, we've seen continued decline across all categories with the exception for refreshment beverages. Again, as you start—if it's—there's two parts to it. You know, are people consuming—they're not consuming at all, or is it people moving from other products. So if they're moving from beer to refreshment beverages, that would be kind of obviously a benefit to us from a margin perspective, because again, the markup is 75 per cent on the—the ad valorem markup is 75 per cent on beer versus 95 per cent on the refreshment beverages itself.

But again, the—you know, we're continuing to kind of see that growth. You know, it's been positive for the organization to see refreshment beverages continue to grow.

When we think of margins, and specifically margins, if we look year over year, and I've got, you know, the 10-year trends we've seen margins increase across all categories of beverage alcohol, with the exception of beer, and the reason being is because of our dedicated support to the local craft manufacturing industry. So it's the only product category where we're actually seeing a decline in our gross margin, and it's a result of the supports we provide to that industry.

Mr. Narth: I think we—you were able to or, honourable Chair, the CEO was able to give us a breakdown last year of what the profitability between retail and wholesale on beer, spirits and ready-to-serve, and just for comparison year after year, I'm curious to see if that's remained the same or, as you alluded to, that some have increased, with the exception of beer.

So would the CEO be able to state what those profit margins are?

Mr. Sul: So if we kind of look in its entirety across all categories, we went from 51 per cent gross margin to 52 per cent gross margin in this last year. If we look at it by category, I could tell you that beer went down from 40.4 down to 39.9. Ready-to-drink went

up 52.2 to 53.3 per cent gross margin. Spirits have climbed from 62.8 to 63.5. Wine grew from 53.6 up to 54.2.

So again, earlier I had mentioned the fact that we're seeing growth in our gross margin percentage, with the exception for beer.

Mr. Narth: Again, for clarification, when we talk gross margin, is that the cost from the actual supplier to what retail is on the shelf at the—at your local Liquor Mart, or does that include some other costs in there? Because I think we had numbers last year of spirits being 150 per cent profit margin from cost to retail, without any other costs associated, and wine was lower, somewhere around 100—I have it here but—100 per cent and then beer lower from there.

So, just to clarify that we're comparing apples to apples.

Mr. Sul: For clarity again, you know, it's—there's an ad valorem markup that's applied to the duty paid landed cost. That ad valorem markup is 153 per cent for spirits, 95 per cent for refreshment beverages, 75 per cent for beer and 95 per cent for wine.

* (15:20)

Mr. Narth: Yes, that answers that precisely, so I thank you for that.

Would the CEO be able to answer, honourable Chair, what the costs of operation for liquor stores across the province are for MBLL, and this can be either a percentage of sale or, you know, it would be hard to be a dollar value—I realize that—but a percentage costs of operation for Liquor Mart stores.

Mr. Simard: Yes, as the president and CEO goes through his work to be able to get you those figures, I think the most important part that we have to remember here is that the offerings that we have to Manitobans are housed and delivered by a network of various stores at various ages at various stages at various sizes with various staff, that each store is different, that the store that you see in The Pas will be different than the store you see in Steinbach.

And then when they—as they are costed out and developed, I think the important part that we always have to keep in mind is the type of service that's being offered. The people that make those stores to be the vision, to be the—have these high returns and be these

excellent businesses to be—or corporation to be able to provide really high-quality service to Manitobans, but also safely.

And when we work—when we look at these stores and we look at the various sizes, the smaller one in Brandon to the larger one in Grant Park or what have you, that there is always one thing that's constant: that the people and the service and the delivery of the—that you get in those stores is of the highest quality. And with a renewed focus and re-establishing positive labour relations, to having a pride for working for MBLL, for taking the time to go to work and enjoying yourself there and know that the corporation is investing in the people, I think that those costs can be overlooked, that the cost and the returns that you get from those costs are beneficial to Manitobans.

So when you try to boil it down to a specific number, a number that you can say per square foot or heating costs or electrical or electricity costs, you can't overlook those—that what we're talking about is a face-to-face enterprise of humans who make a difference. And when the costs that are associated with running a Liquor Mart are also juxtaposed against the profits and net rendering to the Province that goes to health care, I think that it's also seen as an investment.

And that's what I think that the MBLL can be proud of is the fact that it provides a very high-quality service in its Liquor Marts to Manitobans, that it can pride itself on having a progressive and positive relationship with liquor vendors and the protection of their territory and the development of positive relationships and to be innovative in the way that it offers these products to people.

And I always want to be able to come back to this, that the costs that are associated with running a Liquor Mart also have to take into account the future investment and social responsibility initiatives that are undertaken by the corporation. The investments in community support, in arts, in art, in the artist community in Manitoba to the point where Manitoba Liquor & Lotteries can be an award-winning, nationally recognized corporation that actually invests in people and invests in Manitoba.

So to—as providing time to the president, CEO to gather his response and will give you a dollar figure that might be able to be whittled down to a square foot or a cost per store, what you're searching for, I would caution any of those dollars to be considered in the

fact that the impact that it has on people and the impact it has on communities.

Mr. Sul: I think, you know, the question was about, kind of profitability and specifically trying to isolate our specific Liquor Marts.

So, you know, what I can isolate the fact is if we looked at just Liquor Mart stores, less cost of sales again, you know that gross profit margin is 59 per cent, specifically for Liquor Marts. When you get below that in the equation of working your way to the net operating income of the organization, this is where we get into the complexities of there are so many shared costs.

And, unfortunately, the organization doesn't break it down to that level of granularity or detail as to, you know, how do we partition off the costs of what portion goes to the Liquor Mart, what portion goes of that service to a liquor vendor or a hotel beer vendor or specialty wine store. You know, again, we don't parse it out to that level of detail to be able to give you a specific net income statement for Liquor Marts in isolation, you know, versus a liquor vendor versus a specialty wine store.

Again, there's so many things like, you know, that have blended costs whether it's outbound freight that everybody benefits. You know, everybody's on that same truck, so we're shipping out a truck of product, stopping at a couple of liquor vendors in your jurisdiction and stopping at maybe at a hotel beer vendor, and stopping maybe at a couple of Liquor Marts. Again, how do you partition out those freight costs to be able to come up with an accurate net operating income, specifically to Liquor Marts.

So what I'm saying is it's very difficult and near impossible, because we don't have that kind of record keeping, or that level of record keeping, to isolate—you know, what I can isolate specifically, what I said in the beginning was, from a gross profit margin, 59 per cent is the gross profit margin when you look at Liquor Mart sales less cost of sales.

Mr. Narth: With time being limited, I'd just like to make a couple of comments to the committee and to the board and minister.

I appreciate the minister's comments. I think, like I say, as I've had the opportunity in the last year to connect with many of the retailers that are part of the Manitoba liquor vendor association, I think it would be fair to state, as we say, that we provide jobs, MBLL

provides jobs that are well paid, fair to people that are passionate about providing the service to Manitobans.

I don't think that we can ignore the half, and we've stated that half of them are delivered through a unique model of public-private blended model, which we've stated here today that those vendors haven't seen an increase in their share in the market in a number of years; we don't know what that number of years is, but it's a number of years.

So leaving here today on liquor operations, the minister and the department, together with the CEO, what reassurance are we providing to the model as a whole—because half of liquor sales are done through that private model—that we see sustainability. Same reason that people deserve fair pay in the public model.

How are we reassuring Manitobans that half of that revenue, which is a substantial amount of money going back to the coffers of the Province, to health care and the rest, that we are supporting that other side of the model so that there is future sustainability in liquor sales and distribution; allowing stores, whether they be the Ellice Liquor Mart or the small-town liquor store, that they are selling a wide range of product that is providing selection to Manitobans while still being responsible to the social impacts that that can have on individuals and the community.

You know, whether it be the person that's working at the Grant Park Liquor Mart or the private liquor store, these are people that are going home, contributing to their families and their communities.

So what reassurance and what future plans does MBLL have in tying the model more closely together that it's considered a partnership instead of an avenue of income? *[interjection]*

* (15:30)

The Chairperson: Honourable Minister.

Mr. Simard: Sorry. I would just say that when MBLL succeeds and private liquor vendors succeed, Manitoba succeeds.

And when we talk about the fact that private vendors have liquor as not their primary area of business, that we recognize the value that is brought to those communities when they have robust and thriving businesses that are outside of the liquor vendor business.

And when we have increased investments in roads, highways, educational institutions because of the success of the corporation, everybody succeeds. And the models that you suggest or the partnerships that you suggest—I would say that MBLL does an extremely strong job of providing product to those shelves, to provide technology support, to provide distribution, to provide a quality product, to provide partnership to be able to use their buying power as a corporation to get these products to market and that the capitalism of liquor is—has always benefited with fact that we have one of the strongest corporations in the world.

The Chairperson: Seeing no further questions, I will now put the question on the report.

Annual report on the Manitoba Liquor and Lotteries Corporation for the fiscal year ending March 31, 2024—pass.

The hour being 3:32, what is the will of the committee?

Some Honourable Members: Rise.

The Chairperson: Committee rise.

COMMITTEE ROSE AT: 3:32 p.m.

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