

# ANNUAL REPORT 2018



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## Board of Directors

### Fiscal 2018

Jim Burnett, Chair (SK)

Polly Craik, First Vice Chair (MB)

Niaz Nejad, Second Vice Chair (AB) from June 22, 2017

Peter Hak, Director, (MB)

Darin Banadyga, Director (SK) to June 2, 2017

Scott Brown, Director (SK) from June 2, 2017

Ken Knowles, Director (AB) from September 15, 2017

## Western Canada Lottery Corporation Structure

Western Canada Lottery Corporation (WCLC) is a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities for its members, the Governments of Alberta, Saskatchewan and Manitoba. The Yukon Territory, the Northwest Territories and Nunavut participate as associate members.

The Corporation works in conjunction with the provincial and territorial organizations in its region: Alberta Gaming, Liquor & Cannabis, Saskatchewan Lotteries, Manitoba Liquor & Lotteries, Lotteries Yukon and NWT & Nunavut Lotteries.

WCLC is a participating member of the Interprovincial Lottery Corporation (ILC). ILC is incorporated to manage and conduct lotteries on behalf of her Majesty the Queen in right of all provinces.

WCLC's affairs are governed by a Board of Directors, comprising of two representatives from each of the participating provincial governments.

## Message from the Chair

Building on its history of delivering steady results, Western Canada Lottery Corporation achieved cumulative sales of \$1.284 billion in Fiscal 2018. Sales were the fourth-highest in the Corporation's history, and Fiscal 2018 marked the tenth consecutive year sales have surpassed \$1 billion.

Sales declined 3.4% versus last year, as a result of two key factors. The first is the effects of the recent economic downturn; however, improvement in economic conditions was observed in the latter part of the period.

The second factor is the lower number of large jackpots offered on the national draw games, particularly LOTTO MAX. In Fiscal 2018, only four LOTTO MAX jackpots reached the \$60 million maximum, and 14 draws offered MAXMILLIONS prizes.

The national jackpot games – LOTTO 6/49 and LOTTO MAX – remain a considerable portion of total sales, together totaling \$564.4 million. But games with less jackpot volatility played an increasing role in the total results and diversifying the portfolio of products offered. The national DAILY GRAND – with a fixed top prize – completed its first full year of sales with \$41.9 million in net sales in the region.

The regional game POKER LOTTO also completed its first full year of sales with \$36.4 million in net sales. This was assisted late in the year by the launch of the POKER LOTTO companion game, ALL IN. The progressive ALL IN jackpot helped to spark new player interest and reached nearly \$1.4 million in sales in the last month of the fiscal year.

KENO closed the year with record sales of \$14.3 million. Fiscal 2018 was the first full year KENO was offered through lottery retailers in every part of the region.

SCRATCH 'N WIN ended 3.5% higher than in Fiscal 2017. Also known under the new ZING branding, SCRATCH 'N WIN remains a strong product category, finishing at \$304.1 million.

Lottery players in the West shared in total prizes of \$658.5 million. This included 35 wins of \$1 million or more – the largest being a \$60 million LOTTO MAX jackpot claimed by a couple in Sturgeon County, AB.

Fiscal 2018 was also a year of investment in, and renewal of, the lottery retail network. Lottery retailers play a valued role in the operation of lottery games, serving as the main point of contact for millions of players. In November 2017, a full replacement of lottery terminals and related equipment was completed. This was the culmination of significant effort, replacing equipment at nearly 5,000 retail locations across the Prairies and the North.

In addition, this refresh extended to the retail brand. Known as Lottery Ticket Centres for decades, retail locations will now be identified under the new Lotto Spot brand. The transition began in March 2018.

Lottery retailers throughout the region shared in the economic benefits of \$88.9 million in commissions for sales and prize redemptions.

Ultimately, Fiscal 2018 generated revenue of \$446.5 million for the member provinces and territories to support priority programs and services.

On behalf of the Board of Directors, I thank and congratulate the staff and management of WCLC and the provincial and territorial organizations for all their efforts contributing to the past year's profits and successes.



Jim Burnett, Chair  
Board of Directors

## INDEPENDENT AUDITOR'S REPORT

To the Members and Board of Directors of  
Western Canada Lottery Corporation

We have audited the accompanying financial statements of Western Canada Lottery Corporation, which comprise the statement of financial position as at March 31, 2018, and the statement of comprehensive income, statement of changes in equity, statement of changes in amounts due to provincial governments or appointed organizations, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Western Canada Lottery Corporation as at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
May 23, 2018  
Winnipeg, Manitoba

## Western Canada Lottery Corporation STATEMENT OF COMPREHENSIVE INCOME

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

	2018	2017
LOTTERY SALES (Note 4)	\$ 1,283,628	\$1,328,845
DIRECT EXPENSES		
Prizes	658,462	671,594
Retailer commissions	88,866	91,957
Ticket printing	14,323	14,190
	761,651	777,741
GROSS INCOME	521,977	551,104
OPERATING EXPENSES		
Administration and operations	62,448	69,619
Depreciation - Property and equipment (Note 6)	4,945	4,215
Amortization - Intangible assets (Note 7)	1,911	2,247
	69,304	76,081
OPERATING INCOME	452,673	475,023
OTHER INCOME (EXPENSE)		
Interest and other income	2,063	1,515
Federal tax expense (Note 8)	(8,217)	(7,811)
	(6,154)	(6,296)
NET INCOME	446,519	468,727
Other comprehensive income		
Remeasurement gains (Note 10)	529	4,713
OTHER COMPREHENSIVE INCOME	529	4,713
COMPREHENSIVE INCOME	\$ 447,048	\$ 473,440
Net income allocated to the following provinces or territories		
Alberta	\$ 308,022	\$ 324,303
Saskatchewan	66,233	70,276
Manitoba	63,662	64,892
Yukon Territory	3,160	3,378
Northwest Territories and Nunavut	5,442	5,878
	446,519	468,727
Other comprehensive income		
Remeasurement gains	529	4,713
OTHER COMPREHENSIVE INCOME	529	4,713
COMPREHENSIVE INCOME	\$ 447,048	\$ 473,440

**Western Canada Lottery Corporation**  
**STATEMENT OF FINANCIAL POSITION**

As at March 31  
*(in thousands of Canadian dollars)*

ASSETS	2018	2017
<b>CURRENT</b>		
Cash	\$ 49,437	\$ 41,114
Accounts receivable	17,195	13,927
Inventories <i>(Note 5)</i>	5,275	4,213
Prepaid expenses	1,811	30,472
	73,718	89,726
PROPERTY AND EQUIPMENT <i>(Note 6)</i>	25,275	8,805
INTANGIBLE ASSETS <i>(Note 7)</i>	8,457	8,796
<b>Total Assets</b>	<b>\$ 107,450</b>	<b>\$ 107,327</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Prizes payable	\$ 27,133	\$ 25,621
Accounts payable and accrued charges	12,789	16,583
Deferred revenue	10,070	12,231
Payable to Interprovincial Lottery Corporation	4,162	2,557
Due to Provincial Governments or appointed organizations	53,962	50,831
	108,116	107,823
EMPLOYEE BENEFITS <i>(Note 10)</i>	10,446	11,145
<b>Total Liabilities</b>	<b>118,562</b>	<b>118,968</b>
<b>EQUITY</b>		
Deficit	(8,664)	(8,664)
Accumulated other comprehensive loss	(2,448)	(2,977)
<b>Total Deficiency</b>	<b>(11,112)</b>	<b>(11,641)</b>
	<b>\$ 107,450</b>	<b>\$ 107,327</b>

APPROVED BY THE BOARD

..... Director

..... Director

**Western Canada Lottery Corporation**  
**STATEMENT OF CHANGES IN EQUITY**

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

	Deficit	Accumulated other comprehensive income (loss)	Total Deficiency
<b>Balance at March 31, 2016</b>	\$ (8,664)	\$ (7,690)	\$ (16,354)
Defined benefit plan remeasurement gains	–	4,713	4,713
Total other comprehensive income	–	4,713	4,713
<b>Balance at March 31, 2017</b>	<b>\$ (8,664)</b>	<b>\$ (2,977)</b>	<b>\$ (11,641)</b>
<b>Balance at March 31, 2017</b>	<b>\$ (8,664)</b>	<b>\$ (2,977)</b>	<b>\$ (11,641)</b>
Defined benefit plan remeasurement gains	–	529	529
Total other comprehensive income	–	529	529
<b>Balance at March 31, 2018</b>	<b>\$ (8,664)</b>	<b>\$ (2,448)</b>	<b>\$ (11,112)</b>

**Western Canada Lottery Corporation**  
**STATEMENT OF CHANGES IN AMOUNTS DUE TO PROVINCIAL**  
**GOVERNMENTS OR APPOINTED ORGANIZATIONS**

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

	2018	2017
Due to Provincial Governments or appointed organizations, beginning of year	\$ 50,831	\$ 42,580
Add net income for the year	446,519	468,727
	<u>\$ 497,350</u>	<u>\$ 511,307</u>
Deduct		
Distributions during the year	429,307	446,571
Payment to the Federal Government on behalf of the Provincial Governments <i>(Note 8)</i>	14,081	13,905
	<u>\$ 443,388</u>	<u>\$ 460,476</u>
Due to Provincial Governments or appointed organizations, end of year	\$ 53,962	\$ 50,831
Due as follows:		
Alberta	\$ 35,527	\$ 35,872
Saskatchewan	13,317	11,610
Manitoba	3,967	1,989
Yukon Territory	461	507
Northwest Territories and Nunavut	690	853
	<u>\$ 53,962</u>	<u>\$ 50,831</u>

**Western Canada Lottery Corporation**  
**STATEMENT OF CASH FLOWS**

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

	2018	2017
<b>OPERATING ACTIVITIES</b>		
Comprehensive income for the year	\$ 447,048	\$ 473,440
Items not affecting cash		
Depreciation - Property and Equipment	4,945	4,215
Amortization - Intangibles	1,911	2,247
Gain on disposal - Property and Equipment	-	5
Employee benefits	(699)	(3,050)
	<u>453,205</u>	<u>476,857</u>
Changes in non-cash operating working capital items <i>(Note 11)</i>	21,493	3,013
	<u>474,698</u>	<u>479,870</u>
<b>FINANCING ACTIVITIES</b>		
Distributions to Provincial Governments or appointed organizations	(429,307)	(446,571)
Payment to Federal Government <i>(Note 8)</i>	(14,081)	(13,905)
	<u>(443,388)</u>	<u>(460,476)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of:		
Property and Equipment	(21,415)	(4,391)
Intangible Assets	(1,572)	(1,809)
	<u>(22,987)</u>	<u>(6,200)</u>
<b>INCREASE IN CASH DURING THE YEAR</b>	<b>8,323</b>	<b>13,194</b>
<b>CASH POSITION, BEGINNING OF YEAR</b>	<b>41,114</b>	<b>27,920</b>
<b>CASH POSITION, END OF YEAR</b>	<b>\$ 49,437</b>	<b>\$ 41,114</b>

# Western Canada Lottery Corporation NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2018

(in thousands of Canadian dollars)

## 1. NATURE OF THE CORPORATION

The Western Canada Lottery Corporation (the "Corporation") was incorporated without share capital under Part II of the Canada Corporations Act on April 16, 1974 and was continued under the Canada Not-for-profit Corporations Act on June 30, 2014. The Provincial Governments of Manitoba, Saskatchewan and Alberta are members in the Corporation, and the Yukon Territory, the Northwest Territories and Nunavut participate with the provinces as associate members in the sale of gaming products. Each province and territory has appointed a lottery organization to assist the Corporation with the distribution of gaming products in its jurisdiction. The registered address of the Corporation is 125 Garry Street, Winnipeg, Manitoba, R3C 4J1.

The Corporation is responsible for the conduct and management of lottery games in Western Canada. It solely conducts the WESTERN MAX, WESTERN 649, POKER LOTTO, POKER LOTTO ALL IN, PICK 3, SPORT SELECT, KENO, EXTRA and SCRATCH 'N WIN lottery games and participates in the conduct of the LOTTO 6/49, LOTTO MAX, DAILY GRAND and NATIONAL SCRATCH 'N WIN lotteries through the Interprovincial Lottery Corporation. In addition, the Corporation manages projects for member provinces such as the operation of video lottery terminals in the Province of Saskatchewan. The revenues and expenses of these projects are not included in these financial statements.

The Interprovincial Lottery Corporation is incorporated under the Canada Business Corporations Act, and its shares are held by Her Majesty the Queen in right of the respective provinces. The Western Canada Lottery Corporation is a Regional Marketing Organization for the LOTTO 6/49, LOTTO MAX, DAILY GRAND and NATIONAL SCRATCH 'N WIN lotteries in its members' jurisdictions. The Ontario Lottery and Gaming Corporation, Loto Quebec, the Atlantic Lottery Corporation and the British Columbia Lottery Corporation are the other Regional Marketing Organizations.

The functional currency of the Corporation is Canadian dollars.

## 2. BASIS OF PRESENTATION

### [a] Statement of compliance

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

The financial statements were approved by the Board of Directors on May 23, 2018.

### [b] Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain liabilities that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

# Western Canada Lottery Corporation NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2018

(in thousands of Canadian dollars)

## 2. BASIS OF PRESENTATION (continued)

### [c] Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include property and equipment, intangible assets, legal accruals, prizes payable, as well as the accrued benefit obligation. Actual results could differ from these estimates.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

### [a] Accounting for the expenses of the LOTTO 6/49, LOTTO MAX, DAILY GRAND and NATIONAL SCRATCH 'N WIN lotteries

As the Corporation is a Regional Marketing Organization for the LOTTO 6/49, LOTTO MAX, DAILY GRAND and NATIONAL SCRATCH 'N WIN lotteries, it pays the Interprovincial Lottery Corporation its share of the cost of prizes for these games as well as its share of ticket printing costs for the NATIONAL SCRATCH 'N WIN lotteries. These costs amount to \$357,598 (2017 - \$385,229) and are included in the Corporation's expenses.

In addition, the Corporation's share of the Interprovincial Lottery Corporation's operating expenses, amounting to \$1,431 (2017 - \$927), and interest revenues, amounting to \$673 (2017 - \$500) are included in the Corporation's expenses and interest revenue respectively.

### [b] Revenue recognition

Lottery revenue is recorded as of the date of the draw with the exception of SCRATCH 'N WIN game revenue which is recorded at the time the retailer activates a specific book of tickets via the on-line accounting system for sale to customers.

### [c] Inventories

Inventories are measured at the lower of cost and net realizable value and include expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.



**Western Canada Lottery Corporation****NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

*(in thousands of Canadian dollars)***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)****[d] Property and Equipment**

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses and are depreciated over their estimated useful lives. Expenditures for repairs and maintenance are charged to income when incurred.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When significant components of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment and are depreciated over the useful life of the component.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in the statement of comprehensive income.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Central gaming system hardware	8 to 10 years
Other computer systems hardware	3 to 8 years
Retailer fixtures and signage	5 years
Building and leasehold improvements	10 years
Office furniture and fixtures	10 years

The Corporation conducts an annual assessment of the estimated residual balances, useful lives, and depreciation methods being used for property and equipment and any changes arising from this assessment are applied by the Corporation prospectively.

**Western Canada Lottery Corporation****NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

*(in thousands of Canadian dollars)***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)****[e] Intangible Assets**

Intangible assets that have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives for the current and comparative periods are as follows:

Central gaming software	8 to 10 years
Other computer software	3 to 8 years

**[f] Accounting for free ticket prizes**

Lottery tickets issued as a consequence of the redemption of free ticket prizes are not recorded as ticket sales or as prizes paid.

**[g] Employee benefits**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Corporation's net obligation in respect of the defined benefit pension plan (the "Plan") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Re-measurement comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Re-measurement recorded in other comprehensive income is ultimately not recorded in net income in future periods. However, the entity may transfer those amounts recognized in other comprehensive income within equity. Past service cost is recognized in profit or loss in the period of plan amendment. Net interest expense or income is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements
- net interest expense or income
- re-measurement gains or losses

The Corporation presents the first two components of defined benefit costs in the line item 'administration and operations' in its statement of comprehensive income. Curtailments gains and losses are accounted for as past-service cost.

**Western Canada Lottery Corporation**  
**NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

(in thousands of Canadian dollars)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

**[g] Employee benefits (continued)**

Re-measurement is recorded in other comprehensive income and remains as part of accumulated other comprehensive income within the Corporation's equity.

Pension assets recognized in the statement of financial position are limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

**[h] Provisions**

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**[i] Financial Instruments**

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets or 'loans and receivables'. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. The classification depends on the nature and purpose of the financial assets or liabilities and is determined at the time of initial recognition.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

**Western Canada Lottery Corporation**  
**NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

(in thousands of Canadian dollars)

**[i] Financial Instruments (continued)**

The Corporation's financial instruments consist of cash, accounts receivable, prizes payable, accounts payable and accrued charges, payable to (receivable from) Interprovincial Lottery Corporation and due to Provincial Governments or appointed organizations.

**[j] New standards and interpretations not yet adopted**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended March 31, 2018, and have not been applied in preparing these consolidated financial statements.

**IFRS 9 – Financial Instruments**

In July 2014, the IASB issued a final version of IFRS 9, Financial Instruments to replace IAS 39, Financial Instruments: Recognition and Measurement. The standard provides changes to financial instruments accounting for the following:

- classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset;
- impairment based on an expected loss model; and
- hedge accounting that incorporates the risk management practices of an entity.

The standard will be effective for fiscal years beginning on or after January 1, 2018.

**IFRS 15 – Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers which provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers (credit union assessments) and related costs.

The revenue arising from financial instruments is not required to apply the revenue recognition requirements in IFRS 15. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer.

The standard is effective for fiscal years beginning on or after January 1, 2018.

**IFRS 16 – Leases**

In January 2016, the IASB issued IFRS 16 – Leases. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

The Corporation is currently evaluating the impact of the above standards on its financial statements.

**Western Canada Lottery Corporation**  
**NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

(in thousands of Canadian dollars)

**4. LOTTERY SALES**

Sales revenue by product is as follows:

	2018	2017
LOTTO 6/49	\$ 237,925	\$ 243,579
SCRATCH 'N WIN	304,097	293,882
LOTTO MAX	326,429	412,001
WESTERN MAX	22,756	26,312
DAILY GRAND	41,919	23,044
POKER LOTTO	36,439	2,311
POKER LOTTO ALL IN	1,367	-
SPORT SELECT	95,500	98,497
WESTERN 649	45,751	50,124
EXTRA	131,063	140,129
PICK 3	26,083	27,017
KENO	14,299	11,949
	<u>\$ 1,283,628</u>	<u>\$ 1,328,845</u>

NATIONAL SCRATCH 'N WIN revenue is included in SCRATCH 'N WIN.

**5. INVENTORIES**

	2018	2017
Office Supplies Inventory	\$ 5	\$ 7
Offline Ticket Inventory	3,830	3,728
Online Ticket Inventory	1,440	478
	<u>\$ 5,275</u>	<u>\$ 4,213</u>

During 2018, \$13,467 (2017 – \$13,153) of ticket inventory was recognized as an expense.

**Western Canada Lottery Corporation**  
**NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

(in thousands of Canadian dollars)

**6. PROPERTY AND EQUIPMENT**

	Central gaming system	Other computer systems hardware	Retailer signage and fixtures	Building and leasehold improvements	Office furniture and fixtures	Total
At March 31, 2016	\$ 2,183	\$ 50,166	\$ 16,051	\$ 7,515	\$ 1,125	\$ 77,040
Additions	16	3,912	248	215	-	4,391
Disposals	-	-	(204)	-	-	(204)
At March 31, 2017	\$ 2,199	\$ 54,078	\$ 16,095	\$ 7,730	\$ 1,125	\$ 81,227
Additions	609	20,356	423	27	-	21,415
Disposals	-	(31,525)	-	-	-	(31,525)
At March 31, 2018	\$ 2,808	\$ 42,909	\$ 16,518	\$ 7,757	\$ 1,125	\$ 71,117

Accumulated Depreciation

At March 31, 2016	\$ 1,083	\$ 44,338	\$ 15,083	\$ 6,777	\$ 1,125	\$ 68,406
Depreciation	175	3,451	463	126	-	4,215
Disposals	-	-	(199)	-	-	(199)
At March 31, 2017	\$ 1,258	\$ 47,789	\$ 15,347	\$ 6,903	\$ 1,125	\$ 72,422
Depreciation	250	4,135	431	129	-	4,945
Disposals	-	(31,525)	-	-	-	(31,525)
At March 31, 2018	\$ 1,508	\$ 20,399	\$ 15,778	\$ 7,032	\$ 1,125	\$ 45,842

Carrying Amounts

At March 31, 2017	\$ 941	\$ 6,288	\$ 748	\$ 827	-	\$ 8,805
At March 31, 2018	\$ 1,300	\$ 22,510	\$ 740	\$ 725	-	\$ 25,275

The purchase of \$20,356 and the disposal of \$31,525 in the Other computer systems hardware category for Fiscal 2018 is related to the full replacement of lottery equipment located at all WCLC Lottery retail locations. The assets disposed of had been fully depreciated at replacement.

**Western Canada Lottery Corporation**  
**NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

(in thousands of Canadian dollars)

**7. INTANGIBLE ASSETS**

	Central gaming software	Other computer software	Total
At March 31, 2016	\$ 23,510	\$ 10,191	\$ 33,701
Additions	1,260	549	1,809
Disposals	–	(19)	(19)
At March 31, 2017	\$ 24,770	\$ 10,721	\$ 35,491
Additions	1,227	345	1,572
Disposals	–	–	–
At March 31, 2018	\$ 25,997	\$ 11,066	\$ 37,063
<b>Accumulated Amortization</b>			
At March 31, 2016	\$ 17,760	\$ 6,707	\$ 24,467
Amortization	979	1,268	2,247
Disposals	–	(19)	(19)
At March 31, 2017	\$ 18,739	\$ 7,956	\$ 26,695
Amortization	1,132	779	1,911
Disposals	–	–	–
At March 31, 2018	\$ 19,871	\$ 8,735	\$ 28,606
<b>Carrying Amounts</b>			
At March 31, 2017	\$ 6,031	\$ 2,765	\$ 8,796
At March 31, 2018	\$ 6,126	\$ 2,331	\$ 8,457

**8. PAYMENTS TO FEDERAL GOVERNMENT**

The Corporation made the following payments to the Federal Government:

	2018	2017
Payment on behalf of the Provinces	\$ 14,081	\$ 13,905
Federal tax expense	8,217	7,811
	\$ 22,298	\$ 21,716

The Corporation's payments to the Federal Government are described as follows:

**[a] Payment to the Federal Government on behalf of the Provincial Governments**

The Interprovincial Lottery Corporation makes payments to the Government of Canada as a result of an agreement between the Provincial Governments and the Federal Government on the withdrawal of the Federal Government from the lottery field. The agreement requires the provinces, on a combined basis, to make on-going payments of \$24 million in 1979 dollars annually on an inflation adjusted basis (currently \$74.4 million).

**Western Canada Lottery Corporation**  
**NOTES TO FINANCIAL STATEMENTS**

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(in thousands of Canadian dollars)

**8. PAYMENTS TO FEDERAL GOVERNMENT (continued)**

The Corporation, as a Regional Marketing Organization of the Interprovincial Lottery Corporation, remits its member provinces' share of the above payments to the Interprovincial Lottery Corporation which is based on current population statistics and amounted to 18.8% of the total in 2018 (2017 - 18.8%). The cost is allocated between each member province based on their share of lottery ticket sales.

**[b] Federal tax expense**

Taxes are paid to the Federal Government by the Corporation based on a specific formula. This payment is in lieu of the collection of GST on lottery ticket sales to the consumers and is in addition to the GST paid on goods and services purchased by the Corporation.

**9. COMMITMENTS**

**Leases as lessee**

The Corporation leases its various premises under operating lease agreements expiring at various dates to 2022. Future minimum lease payments are as follows:

2019	\$ 1,301
2020	1,306
2021	1,331
2022	1,251
2023	1,078
	<u>\$ 6,267</u>

During 2018 an amount of \$1,407 was recognized as an expense in profit or loss in respect of operating leases (2017 - \$1,431).

**10. EMPLOYEE BENEFITS**

The Corporation operates two defined benefit plans. The first is a funded defined benefit pension plan covering substantially all of its employees and employees in the Saskatchewan Video Lottery Division. The Corporation identifies its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan. The second plan is an unfunded supplementary retirement plan (SRP) for certain employees. These plans are presented on a combined basis in these financial statements as the SRP comprised only 2% of the total defined benefit obligation at March 31, 2018.

The Corporation's Pension Committee that governs both plans is comprised of Corporation staff at various reporting levels. The committee of the pension fund is required by law or by articles of association to act in the interest of the fund and of all relevant stakeholders in the plan, i.e. active employees, inactive employees, retirees, and employers. The committee is responsible for the investment policy with regard to the assets of the fund. The Corporation makes contributions to the plan which provides pension benefits for employees upon retirement. The plan entitles a retired employee to receive an annual payment that is based on a complex calculation based on years of service, yearly maximum pensionable earnings and the age of the employee.

**Western Canada Lottery Corporation**  
**NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

(in thousands of Canadian dollars)

**10. EMPLOYEE BENEFITS (continued)**

The plans typically expose the Corporation to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at March 31, 2016 by Aon Hewitt and the next required valuation will be as of March 31, 2019. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Corporation has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with the statutory requirements of the plans under the Pensions Benefit Act (such as minimum funding requirements), the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan's assets less the total present value of obligations. As such, no increase in the defined benefit obligation is necessary at March 31, 2018 (March 31, 2017 - no increase in defined benefit obligation).

The principal assumptions used for the purposes of the actuarial valuations of the plans were as follows:

	2018	2017
Discount rate	3.25%	3.25%
Discount rate - post-retirement (annuity purchase, not applicable to SRP plan)	3.75%	3.75%
Rate of compensation increase	4.00%	4.00%
Mortality tables - post-retirement	Canadian Pensioners' Mortality Table 2014 with MI-2017	Canadian Pensioners' Mortality Table 2014 with CPM-B
Year's maximum pensionable earnings increase (per annum)	2.50%	2.50%

Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows:

	2018	2017
Current service costs	\$ (2,748)	\$ (3,183)
Net interest expense	(286)	(432)
Past Service Cost SRP	(57)	(1,001)
Components of defined benefit costs recorded in net income	(3,091)	(4,616)
Re-measurement gains	529	4,713
Components of defined benefit costs recorded in other comprehensive income	529	4,713
Total of components of defined benefit cost	\$ (2,562)	\$ 97

**Western Canada Lottery Corporation**  
**NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

(in thousands of Canadian dollars)

**10. EMPLOYEE BENEFITS (continued)**

The past service cost, the current service cost and the net interest expense for the year are included in the administration and operations expense in the statement of comprehensive income. The re-measurement of the net defined benefit liability is included in the statement of comprehensive income as other comprehensive income.

The amount included in the statement of financial position arising from the Corporation's obligation in respect of its defined benefit plan is as follows:

	2018	2017
Defined benefit obligation (DBO)	\$ (60,413)	\$ (60,236)
Fair value of plan assets	49,967	49,091
Net liability arising from defined benefit obligation	\$ (10,446)	\$ (11,145)

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2018	2017
Opening defined benefit obligation	\$ (60,236)	\$ (55,727)
Current service cost	(2,748)	(3,183)
Interest cost	(1,853)	(1,836)
Contributions from plan participants	(837)	(822)
Re-measurement (losses) gains arising from changes in financial assumptions	(524)	1,887
Benefits paid	5,234	446
Adjustment for in scope plans	608	-
Past Service Cost (for change in DBO in year)	(57)	(1,001)
Closing defined benefit obligation	\$ (60,413)	\$ (60,236)

Movements in the present value of the plan assets in the current year were as follows:

	2018	2017
Opening fair value of plan assets	\$ 49,091	\$ 41,532
Interest income	1,567	1,404
Re-measurement gains arising from: return on plan assets (excluding amounts included in net interest expense)	1,053	2,826
Contributions from the employer	2,653	2,953
Contributions from the participants	837	822
Benefits paid	(5,234)	(446)
Closing fair value of plan assets	\$ 49,967	\$ 49,091

Plan assets are held in a balanced fund that invests in Canadian Government and corporate bonds and debentures and equities of medium to large sized Canadian and U.S. companies.

The actual return on plan assets was \$2,620 (2017 – \$4,230).

**Western Canada Lottery Corporation**  
**NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

(in thousands of Canadian dollars)

**10. EMPLOYEE BENEFITS (continued)**

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period.

- If the discount rate would increase (decrease) by 1 %, the defined benefit obligation would decrease by \$4,329 (increase by \$5,011) if all other assumptions were held constant.
- If the expected salary growth would increase (decrease) by 1%, the defined benefit obligation would increase by \$3,322 (decrease by \$ 3,322) if all other assumptions were held constant.
- If the life expectancy would increase (decrease) by one year for both men and women, the defined benefit obligation would increase by \$1,021 (decrease by \$1,021) if all other assumptions were held constant.

Interrelationships between the assumptions, especially between discount rate and expected salary increases depend to a certain extent on expected inflation rates. The analyses above ignores the interdependence between the assumptions and quantifies sensitivity on individual variables.

An ALM (Asset-Liability Matching) study is performed in which the consequences of the strategic investment policies are analyzed in terms of risk-and-return profiles. Investment and contribution policies are integrated within this study.

The Corporation is expected to fund the cost of the entitlements expected to be earned on a yearly basis relating to the employees of the WCLC. Employees contribute to the pension plan at a rate of 5.7% to Yearly Maximum Pensionable Earnings (YMPE) and 8.2% on earnings over YMPE. The funding requirements are made, based upon the advice of the actuary to provide the normal cost of the benefits currently accruing to members under the plan and for the proper amortization of any unfunded liability in accordance with the Pension Benefits Act. In determining the required contributions, the discount rate is set on a rate based on high quality corporate bonds. Furthermore, premiums are determined on a current salary base. Apart from paying the costs of the entitlements the Corporation is not liable to pay additional contributions in case the Fund does not hold sufficient assets.

The average duration of the obligation of the funded defined benefit plan at the end of the reporting period is 8.1 years. This number can be subdivided into the duration related to:

- active members: 8.0 years;
- deferred members: 13.9 years;

The Corporation expects to fund \$2,676 in to its defined benefit plan in 2019 (2018 – \$2,879).

**Western Canada Lottery Corporation**  
**NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

(in thousands of Canadian dollars)

**11. SUPPLEMENTARY INFORMATION FOR STATEMENT OF CASH FLOWS**

Net change in non-cash working capital balances related to operations:

	2018	2017
Accounts receivable	\$ (3,268)	\$ (2,229)
Prepaid expenses	28,661	4,944
Inventories	(1,062)	377
Accounts payable and accrued charges	(3,794)	2,647
Prizes payable	1,512	(714)
Payable to Interprovincial Lottery Corporation	1,605	2,614
Deferred revenue	(2,161)	(4,626)
	\$ 21,493	\$ 3,013

**12. FINANCIAL INSTRUMENTS & RISK MANAGEMENT**

**Financial instruments**

The Corporation has made the following classifications:

Cash	Loans and receivables
Accounts receivable	Loans and receivables
ILC receivable	Loans and receivables
Prizes payable	Other Financial Liabilities
Accounts payable and accrued charges	Other Financial Liabilities
Payable to ILC	Other Financial Liabilities
Due to Provincial Governments or appointed organizations	Other Financial Liabilities

**Fair value of financial instruments**

The carrying value of all financial assets and liabilities approximates their fair value due to the short-term nature of these instruments.

**Risk management**

**a) Credit risk**

Credit Risk represents the loss that would be recognized if the counterparties in which the Corporation holds financial assets at the reporting date fail to honour their obligations under contract. The Corporation's maximum exposure to credit risk is represented by the carrying amounts of the accounts receivable and prepaid expenses of \$19,006 (2017 – \$44,399) as at March 31, 2018 on the Statement of Financial Position.

WCLC minimizes its credit risk on receivables by undertaking its sales transactions with a large number of retailers and requiring those retailers to remit any balance owing on a weekly basis.

**b) Liquidity risk**

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations as they fall due. This risk is managed by cash flow planning and access to approved bank overdraft facilities. All of the Corporation's financial liabilities mature within one year of the Statement of Financial Position date.

**Western Canada Lottery Corporation**  
**NOTES TO FINANCIAL STATEMENTS**

Year ended March 31, 2018

(in thousands of Canadian dollars)

**12. FINANCIAL INSTRUMENTS & RISK MANAGEMENT**  
**(continued)**

**c) Interest rate risk**

Interest rate risk is the risk that the Corporation will suffer a financial or economic opportunity loss due to an unfavourable change in interest rates. WCLC's exposures to such risks are not significant due to the nature of its financial assets and liabilities.

**d) Capital Management**

The Corporation's policy is to maintain a capital structure for the business which ensures sufficient liquidity and support for operations and positions the Corporation for future growth. The ongoing maintenance and pursuit of this policy is characterized by ongoing cash flow forecast analysis and budgeting processes directed at providing sound financial positioning for the Corporation's operations and financial management activities.

**13. CONTINGENCIES**

The Corporation is involved in various claims and litigation arising in the ordinary course and conduct of their business. Although such matters cannot be predicted with certainty, management does not consider the Corporation's exposure to such litigation to be material to these financial statements.

**14. COMPENSATION OF KEY MANAGEMENT**

Compensation awarded to key management included:

	2018	2017
Compensation and short-term employee benefits	\$ 1,248	\$ 1,269
Post-employment benefits	268	245
	<u>\$ 1,516</u>	<u>\$ 1,514</u>

Key management includes the Corporation's Board of Directors and senior management.

**LOTTERY REVENUE DISBURSEMENT**

Contact the following organizations for information regarding lottery revenue disbursement:

**Alberta Gaming, Liquor & Cannabis**

50 Corrivue Avenue  
St. Albert, Alberta T8N 3T5  
Phone: (780) 447-8600  
Fax: (780) 447-8931  
aglc.ca

**Saskatchewan Lotteries**

1870 Lorne Street  
Regina, Saskatchewan S4P 2L7  
Phone: (306) 780-9300  
Fax: (306) 781-6021  
sasklotteries.ca

**Manitoba Liquor & Lotteries**

830 Empress Street  
Winnipeg, Manitoba R3G 3H3  
Phone: (204) 957-2500  
Fax: (204) 957-2621  
mbll.ca

**Lotteries Yukon**

101-205 Hawkins Street  
Whitehorse, Yukon Y1A 1X3  
Phone: (867) 633-7890  
Fax: (867) 668-7561  
lotteriesyukon.com

**NWT & Nunavut Lotteries**

P.O. Box 1676  
4908-49 Street  
Yellowknife, Northwest Territories X1A 2P3  
Phone: (867) 765-8552  
Fax: (867) 669-8387  
whenuouplay.ca



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10<sup>TH</sup> FLOOR, 125 GARRY STREET  
WINNIPEG, MB R3C 4J1  
1-800-665-3313  
WCLC.COM