



WESTERN
CANADA
LOTTERY
CORPORATION

2017 ANNUAL REPORT

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Board of Directors

Fiscal 2017

Jim Burnett, Chair (SK)

Darin Banadyga, Director (SK)

Tannis Mindell, First Vice Chair (MB)	(to May 12, 2016)
Polly Craik, First Vice Chair (MB)	(from July 5, 2016)
John Stinson, Director (MB)	(to October 4, 2016)
Peter Hak, Director (MB)	(from October 20, 2016)
William Clark, Second Vice Chair (AB)	(to June 23, 2016)
Susan Green, Second Vice Chair (AB)	(from June 23, 2016)
Bill Robinson, Director (AB)	(to March 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 and Liquor Commission, 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

Another year is in the books, and the Western Canada Lottery Corporation again posted impressive results. Lottery sales and profits in Fiscal 2017 were the second highest ever achieved. Cumulative sales reached \$1.32 billion across the prairies and the north.

Western Canada Lottery Corporation's mandate is to provide income to its members – the provinces of Alberta, Saskatchewan, and Manitoba – and associate members Yukon, Northwest Territories and Nunavut. Fiscal 2017's performance delivered a profit of \$468.7 million.

It was a year of hard work and accomplishment. A new national lottery game, DAILY GRAND, was launched. The first two jackpots were won in the West, one in Edmonton and one in Okotoks. In addition, a new regional game, POKER LOTTO, was introduced in the year's fourth quarter. Fiscal 2017 also saw KENO offered at every lottery retail location in Alberta. Each of these initiatives contributed to the results achieved, and each represented significant efforts by all those involved.

It was also another good year for lottery players. Tickets sold in the region won 56 prizes of \$1 million or more, including two huge LOTTO MAX prizes won in very small communities. A resident of Neville, Saskatchewan won \$60 million, and a resident of Irma, Alberta won \$50 million. These large marquee prizes are truly the tip of the iceberg. Many thousands of players claimed smaller prizes ranging from \$1 or \$2, to hundreds of thousands of dollars. The total prize return in Fiscal 2017 was \$671.5 million.

The more than 4,600 retailers who sell lottery products in the region also benefitted. Retailers shared in \$91.9 million of commissions paid for tickets sold and prizes redeemed.

The previous two years represented extreme swings in LOTTO 6/49 and LOTTO MAX jackpot trends. In Fiscal 2015, the games experienced what was termed an “epic” jackpot drought. Fiscal 2016 was a banner year – a rare occurrence of extremely lucky jackpot growth and roll patterns. Fiscal 2017 was a return to more usual jackpot trends, but it still delivered very attractive national jackpots to players. LOTTO MAX reached MAXMILLIONS mode – with main

jackpots of \$50 million or more – on 22 draws. These “maxed out” jackpots allowed for a total of 290, million-dollar MAXMILLIONS draws to be offered up.

The challenging economic circumstances that affected the oil industry in both Alberta and Saskatchewan continued to impact SCRATCH 'N WIN products, resulting in sales that were down from the previous year. Despite this, the SCRATCH 'N WIN product category ended the year with sales of almost \$294 million, second only to LOTTO MAX.

On behalf of the Board of Directors, I congratulate the staff and management of WCLC and the provincial and territorial organizations for the sales success of the past year and look forward to the success of the ambitious initiatives in the upcoming year.

A handwritten signature in black ink, appearing to read 'Jim Burnett', followed by a large, stylized capital letter 'A'.

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, 2017, 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, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in dark ink, appearing to read "Deloitte LLP", is written over a light gray rectangular background.

Chartered Professional Accountants
May 25, 2017
Winnipeg, Manitoba

Western Canada Lottery Corporation

STATEMENT OF COMPREHENSIVE INCOME

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

	2017	2016
LOTTERY SALES (Note 4)	\$ 1,328,845	\$ 1,478,424
DIRECT EXPENSES		
Prizes	671,594	759,171
Retailer commissions	91,957	104,018
Ticket printing	14,190	15,400
	777,741	878,589
GROSS INCOME	551,104	599,835
OPERATING EXPENSES		
Administration and operations	69,619	67,666
Depreciation - Property and equipment (Note 6)	4,215	3,535
Amortization - Intangible assets (Note 7)	2,247	1,955
	76,081	73,156
OPERATING INCOME	475,023	526,679
OTHER INCOME (EXPENSE)		
Interest and other income	1,515	2,018
Federal tax expense (Note 8)	(7,811)	(8,449)
	(6,296)	(6,431)
NET INCOME	468,727	520,248
Other comprehensive income (loss)		
Remeasurement gain (loss) (Note 10)	4,713	(1,056)
OTHER COMPREHENSIVE INCOME (LOSS)	4,713	(1,056)
COMPREHENSIVE INCOME	\$ 473,440	\$ 519,192
Net income allocated to the following provinces or territories		
Alberta	\$ 324,303	\$ 361,379
Saskatchewan	70,276	73,117
Manitoba	64,892	75,928
Yukon Territory	3,378	3,588
Northwest Territories and Nunavut	5,878	6,236
	468,727	520,248
Other comprehensive income (loss)		
Remeasurement gain (loss)	4,713	(1,056)
OTHER COMPREHENSIVE (LOSS) INCOME	4,713	(1,056)
COMPREHENSIVE INCOME	\$ 473,440	\$ 519,192

Western Canada Lottery Corporation

STATEMENT OF FINANCIAL POSITION

As at March 31

(in thousands of Canadian dollars)

ASSETS	2017	2016
CURRENT		
Cash	\$ 41,114	\$ 27,920
Accounts receivable	13,927	11,698
Inventories (Note 5)	4,213	4,589
Prepaid expenses	30,472	35,416
Receivable from Interprovincial Lottery Corporation	-	57
	89,726	79,680
PROPERTY AND EQUIPMENT (Note 6)	8,805	8,634
INTANGIBLE ASSETS (Note 7)	8,796	9,234
Total Assets	\$ 107,327	\$ 97,548
LIABILITIES		
CURRENT		
Prizes payable	25,621	26,335
Accounts payable and accrued charges	16,583	13,935
Deferred revenue	12,231	16,857
Payable to Interprovincial Lottery Corporation	2,557	-
Due to Provincial Governments or appointed organizations	50,831	42,580
	107,823	99,707
EMPLOYEE BENEFITS (Note 10)	11,145	14,195
Total Liabilities	118,968	113,902
EQUITY		
Deficit	(8,664)	(8,664)
Accumulated other comprehensive loss	(2,977)	(7,690)
Total Deficiency	(11,641)	(16,354)
	\$107,327	\$ 97,548

APPROVED BY THE BOARD

..... Director

..... Director

Western Canada Lottery Corporation

STATEMENT OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

	Deficit	Accumulated other comprehensive income (loss)	Total Deficiency
Balance at March 31, 2015	\$ (8,664)	\$ (6,634)	\$ (15,298)
Defined benefit plan remeasurement gains and losses	—	(1,056)	(1,056)
Total other comprehensive loss	—	(1,056)	(1,056)
Balance at March 31, 2016	\$ (8,664)	\$ (7,690)	\$ (16,354)
Balance at March 31, 2016	\$ (8,664)	\$ (7,690)	\$ (16,354)
Defined benefit plan remeasurement gains and losses	—	4,713	4,713
Total other comprehensive loss	—	4,713	4,713
Balance at March 31, 2017	\$ (8,664)	\$ (2,977)	\$ (11,641)

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)

	2017	2016
Due to Provincial Governments or appointed organizations, beginning of year	\$ 42,580	\$ 51,513
Add net income for the year	468,727	520,248
	<u>\$ 511,307</u>	<u>\$ 571,761</u>
Deduct		
Distributions during the year	446,571	515,515
Payment to the Federal Government on behalf of the Provincial Governments <i>(Note 8)</i>	13,905	13,666
	<u>\$ 460,476</u>	<u>\$ 529,181</u>
Due to Provincial Governments or appointed organizations, end of year	<u>\$ 50,831</u>	<u>\$ 42,580</u>
Due as follows:		
Alberta	\$ 35,872	\$ 29,343
Saskatchewan	11,610	10,685
Manitoba	1,989	1,347
Yukon Territory	507	454
Northwest Territories and Nunavut	853	751
	<u>\$ 50,831</u>	<u>\$ 42,580</u>

Western Canada Lottery Corporation

STATEMENT OF CASH FLOWS

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

	2017	2016
OPERATING ACTIVITIES		
Comprehensive income for the year	\$ 473,440	\$ 519,192
Item not affecting cash		
Depreciation - Property and Equipment	4,215	3,535
Amortization - Intangibles	2,247	1,955
Gain on disposal - Property and Equipment	5	14
Employee benefits	(3,050)	1,568
	476,857	526,264
Changes in non-cash operating working capital items <i>(Note 11)</i>	3,013	(17,928)
	479,870	508,336
FINANCING ACTIVITIES		
Distributions to Provincial Governments or appointed organizations	(446,571)	(515,515)
Payment to Federal Government <i>(Note 8)</i>	(13,905)	(13,666)
	(460,476)	(529,181)
INVESTING ACTIVITIES		
Purchase of:		
Property and Equipment	(4,391)	(2,089)
Intangible Assets	(1,809)	(3,944)
	(6,200)	(6,033)
INCREASE (DECREASE) IN CASH DURING THE YEAR		
	13,194	(26,878)
CASH POSITION, BEGINNING OF YEAR	27,920	54,798
CASH POSITION, END OF YEAR	\$ 41,114	\$ 27,920

Western Canada Lottery Corporation

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2017

(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, 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 25, 2017.

[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, 2017

(in thousands of Canadian dollars)

[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 \$385,229 (2016 - \$437,723) and are included in the Corporation's expenses.

In addition, the Corporation's share of the Interprovincial Lottery Corporation's operating expenses, amounting to \$927 (2016 - \$950), and interest revenues, amounting to \$500 (2016 - \$796) 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, 2017
(in thousands of Canadian dollars)

[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, 2017

(in thousands of Canadian dollars)

[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.

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

Western Canada Lottery Corporation

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2017

(in thousands of Canadian dollars)

[g] Employee benefits (continued)

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.

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.

Western Canada Lottery Corporation

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2017

(in thousands of Canadian dollars)

[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, 2017, 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 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 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, 2017

(in thousands of Canadian dollars)

4. LOTTERY SALES

Sales revenue by product is as follows:

	2017	2016
LOTTO 6/49	\$ 243,579	\$ 302,688
SCRATCH 'N WIN	293,882	308,191
LOTTO MAX	412,001	491,076
WESTERN MAX	26,312	29,019
DAILY GRAND	23,044	-
POKER LOTTO	2,311	-
SPORT SELECT	98,497	100,188
WESTERN 649	50,124	56,332
EXTRA	140,129	154,783
PICK 3	27,017	26,785
KENO	11,949	9,362
	\$1,328,845	\$1,478,424

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

5. INVENTORIES

	2017	2016
Office Supplies Inventory	\$ 7	\$ 10
Offline Ticket Inventory	3,728	4,100
Online Ticket Inventory	478	479
	\$ 4,213	\$ 4,589

During 2017, \$13,153 (2016 - \$14,238) of ticket inventory was recognized as an expense.

Western Canada Lottery Corporation

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2017

(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, 2015	\$2,035	\$48,863	\$15,812	\$7,212	\$1,125	75,047
Additions	148	1,303	335	303	–	2,089
Disposals	–	–	(96)	–	–	(96)
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
Accumulated Depreciation						
At March 31, 2015	\$946	\$41,353	\$14,857	\$6,672	\$1,125	64,953
Depreciation	137	2,985	308	105	–	3,535
Disposals	–	–	(82)	–	–	(82)
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
Carrying Amounts						
At March 31, 2016	\$1,100	\$ 5,828	\$ 968	\$ 738	–	\$ 8,634
At March 31, 2017	\$ 941	\$ 6,288	\$ 748	\$ 827	–	\$ 8,805

Western Canada Lottery Corporation

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2017

(in thousands of Canadian dollars)

7. INTANGIBLE ASSETS

	Central gaming software	Other computer software	Total
At March 31, 2015	\$19,923	\$10,115	\$30,038
Additions	3,587	357	3,944
Disposals	–	(281)	(281)
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
Accumulated Amortization			
At March 31, 2015	\$16,938	\$ 5,855	\$22,793
Amortization	822	1,133	1,955
Disposals	–	(281)	(281)
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
Carrying Amounts			
At March 31, 2016	\$ 5,750	\$ 3,484	\$ 9,234
At March 31, 2017	\$ 6,031	\$ 2,765	\$ 8,796

8. PAYMENTS TO FEDERAL GOVERNMENT

The Corporation made the following payments to the Federal Government:

	2017	2016
Payment on behalf of the Provinces	\$13,905	\$13,666
Federal tax expense	7,811	8,449
	\$21,716	\$22,115

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 \$73.4 million).

Western Canada Lottery Corporation

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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 2017 (2016 - 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:

2018	\$1,222
2019	233
2020	235
2021	232
2022	150
	<hr/>
	\$2,072

During 2017 an amount of \$1,431 was recognized as an expense in profit or loss in respect of operating leases (2016 - \$1,371).

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, 2017.

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

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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, 2017 (March 31, 2016 - no increase in defined benefit obligation).

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

	2017	2016
Discount rate	3.25%	3.25%
Discount rate - post-retirement (annuity purchase, not applicable to SRP plan)	3.75%	3.50%
Rate of compensation increase	4.00%	4.50%
Mortality tables - post-retirement	Canadian Pensioners' Mortality Table 2014 with CPM-B	Uninsured Pensioner Table 1994 Generational
Year's maximum pensionable earnings increase (per annum)	2.50%	3.25%

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

	2017	2016
Current service costs	\$ (3,183)	\$ (3,123)
Net interest expense	(432)	(325)
Past Service Cost SRP	(1,001)	-
Components of defined benefit costs recorded in net income	\$ (4,616)	\$ (3,448)
Re-measurement (losses) gains	\$ 4,713	\$ (1,056)
Components of defined benefit costs recorded in other comprehensive income	\$ 4,713	\$ (1,056)
Total of components of defined benefit cost	\$ 97	\$ (4,504)

Western Canada Lottery Corporation

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2017

(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:

	2017	2016
Defined benefit obligation (DBO)	\$ (60,236)	\$ (55,727)
Fair value of plan assets	49,091	41,532
Net liability arising from defined benefit obligation	\$ (11,145)	\$ (14,195)

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

	2017	2016
Opening defined benefit obligation	\$ (55,727)	\$ (52,243)
Current service cost	(3,183)	(3,123)
Interest cost	(1,836)	(1,553)
Contributions from plan participants	(822)	(692)
Re-measurement (gains) losses arising from changes in financial assumptions	1,887	905
Benefits paid	446	979
Past Service Cost (for change in DBO in year)	(1,001)	-
Closing defined benefit obligation	\$ (60,236)	\$ (55,727)

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

	2017	2016
Opening fair value of plan assets	\$ 41,532	\$ 39,616
Interest income	1,404	1,228
Re-measurement gain (loss) arising from: return on plan assets (excluding amounts included in net interest expense)	2,826	(1,961)
Contributions from the employer	2,953	2,936
Contributions from the participants	822	692
Benefits paid	(446)	(979)
Closing fair value of plan assets	\$ 49,091	\$ 41,532

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 (deficit) on plan assets was (\$4,230) (2016 -(\$733)).

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.

Western Canada Lottery Corporation

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2017

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10. EMPLOYEE BENEFITS (continued)

- If the discount rate would increase (decrease) by 1%, the defined benefit obligation would decrease by \$4,043 (increase by \$4,665) if all other assumptions were held constant.
- If the expected salary growth would increase (decrease) by 1%, the defined benefit obligation would increase by \$3,278 (decrease by \$3,278) if all other assumptions were held constant.
- If the life expectancy would increase (decrease) with one year for both men and women, the defined benefit obligation would increase by \$989 (decrease by \$989) 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 5.2% to Yearly Maximum Pensionable Earnings (YMPE) and 7.5% 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 \$2,879 in to its defined benefit plan in 2018 (2017 - \$2,461).

Western Canada Lottery Corporation

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2017

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11. SUPPLEMENTARY INFORMATION FOR STATEMENT OF CASH FLOWS

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

	2017	2016
Accounts receivable	\$ (2,229)	\$ (5,982)
Prepaid expenses	4,944	(12,215)
Inventories	377	764
Receivable from Interprovincial Lottery Corporation	-	235
Accounts payable and accrued charges	2,647	1,162
Prizes payable	(714)	(3,186)
Payable to Interprovincial Lottery Corporation	2,614	-
Deferred revenue	(4,626)	1,294
	\$ 3,013	\$ (17,928)

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, prepaid expenses, and receivables from the ILC of \$44,399 (2016 - \$47,171) as at March 31, 2017 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.

Western Canada Lottery Corporation

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2017

(in thousands of Canadian dollars)

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.

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:

	2017	2016
Compensation and short-term employee benefits	\$ 1,269	\$ 1,067
Post-employment benefits	290	205
	<u>\$ 1,559</u>	<u>\$ 1,272</u>

Key management includes the Corporation's Board of Directors and senior management. One existing position was reclassified to a senior management position in 2017.

LOTTERY REVENUE DISBURSEMENT

Contact the following organizations for information regarding lottery revenue disbursement:

Alberta Gaming and Liquor Commission

50 Corriveau 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
whenyouplay.ca



Western Canada Lottery Corporation
10th Floor, 125 Garry Street
Winnipeg, MB R3C 4J1
1-800-665-3313
wclc.com