



WESTERN
CANADA
LOTTERY
CORPORATION

2022

ANNUAL REPORT

Board of Directors – Fiscal 2022

Kevin Gilroy	Board Chair	Saskatchewan
Gerry Sul	First Vice Chair	Manitoba
Len Rhodes	Second Vice Chair	Alberta
Candace Caswell	Director	Saskatchewan
Randy Williams	Director	Manitoba
Steve Lautischer	Director	Alberta

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, 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, Sask 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 two representatives from each of the participating provincial governments.

Message from the Chair

WCLC had a very successful 2022 fiscal year (F22) as sales reached a new record in our 48-year history – finishing at \$1.538 Billion (↑6.4% versus LY). This topped the previous record of \$1.478 Billion, set in F16, by nearly 5%.

From April through June 2021, the national LOTTO MAX game experienced a highly favourable roll-pattern, with the main jackpot rolling over for a record 16 straight draws. Along with an impressive 317 MAXMILLIONS draws, this run drove excitement and sales across the country, and helped the game achieve its own record result in the Prairies and the North. In all, LOTTO MAX sales were \$530.6 Million in our region, or 14.6% higher than last year.

National draw-based game (DBG) products – which account for about half of the sales in the region – set the tone for a positive year overall. Sales for the entire national DBG portfolio were up over last year. Along with the success of LOTTO MAX, LOTTO 6/49 reached \$218.4 Million (↑4.3% versus F21), and DAILY GRAND saw sales over \$29.8 Million (↑8.0%).

Sales on regional DBG products were also up over F21. EXTRA benefited from the stellar performance of the national games, buoyed by regional game performance as well. Played on the same ticket as several host games, EXTRA sales were over \$161.6 Million (↑9.3%). WESTERN MAX and WESTERN 649 – regional extensions of the national brands – saw increases of 4.2% and 2.2% respectively over last year.

Another marquee product in our portfolio, SPORT SELECT, saw a significant rebound. Last year, the league shutdowns due to COVID-19 affected the product for a number of months. In F22, the game was back on, and SPORT SELECT achieved sales of \$88.0 Million (↑33.9%). This brought the product back to its pre-COVID, F20 levels.

A sales rebound was not the only highlight for SPORT SELECT this year. In November, a rejuvenated SPORT SELECT debuted, with several long-awaited enhancements to the product. These include real-time odds, enhanced two game parlays, and futures betting. The refresh also included the introduction of single-event wagers, following a legislative change to the Criminal Code that allows the provinces and the operators they authorize to conduct and manage lotteries to offer single-event betting. SPORT SELECT was the first sports lottery product in Canada to offer single-event wagers at brick-and-mortar retail locations.

WCLC's instant scratch tickets ended the year with sales of \$359.4 Million. This was the only product to end the year down from F21; but the numbers here do not tell the full story. The instant product line was an undeniable star during the COVID-19 pandemic, as other recreation and gaming options were heavily curtailed and unavailable due to health and safety restrictions. Although down 7.3% from last year, F23 represents a 10.5% increase over the product's performance in our last pre-COVID year, F20.

Meanwhile, winners in the region took home a combined \$811.8 Million in prizes – an increase of 5.9% over last year. This included 73 prizes of \$1 million or more, and 10 larger jackpot prizes ranging from \$10 Million to \$55 Million.

In the end, we returned more than \$527.3 million in income to our members (the provinces of Alberta, Saskatchewan, and Manitoba) and associate members (the Yukon, Northwest Territories, and Nunavut). This represents a 6.5% increase over last year.

F22 was a success for WCLC not only in financial performance, but also in how we moved the needle in other priority areas. We are focused on enhancing players' experience and ability to connect with our products in the ways that suit them.

- F22 marked the first full year of operation for SubscriptionSpot.ca, our self-service subscription portal that launched in February 2021. Complementing other online purchasing platforms in some member provinces, Subscription Spot adds to players' ability to play their favourite games in the ways that best suit them.
- Starting in the fourth quarter, we launched transactional capability on our popular Lotto Spot! app, selling tickets to lottery players in Saskatchewan. Saskatchewan is the tenth province in Canada where players could buy their tickets online, and the first to do so through the app. In F23, we will expand this app feature to other parts of the region.

Even as we open new digital channels where players can find our products, we recognize that retail remains the primary sales channel for lottery products in the region, and we are continuing to invest a significant amount of effort to optimize the experience for players in-store. The importance of bricks-and-mortar retail is also reflected in the \$104.1 Million in commissions paid to retailers throughout the region this year (↑5.1%).

- Players can now build their tickets for draw-based games on the Lotto Spot! app, and SPORT SELECT tickets on the redesigned SportSelect.com, to generate a barcode that the retailer scans to seamlessly create the player's ticket for purchase. This allows players to bypass traditional paper-based selection slips, if they choose.
- Rollout also continues throughout the region of interactive play tables that bring valuable information to the player's fingertips and continue to modernize the retail experience.

On behalf of the Board of Directors of WCLC, I want to congratulate all those who contributed to a successful year. Thank you to everyone who played a part in continuing to support our stakeholders and players, while raising funds for the priority programs and services throughout the region that benefit from lottery proceeds.

And to our players: Thank you for continuing to turn to us as a source of entertainment, as we continue working to provide you with a world-class experience, and with relevant products delivered through accessible channels.

As the needs of our players continue to change, the staff and management of WCLC – working closely with partners in the provincial and territorial lottery organizations – have truly embodied the values that guide the organization: Adaptability, Innovation, Collaboration, Integrity, and Accountability.



Kevin Gilroy, Chair
Board of Directors

Financial Statements of

**WESTERN CANADA LOTTERY
CORPORATION**

March 31, 2022

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Western Canada Lottery Corporation (the "Corporation"), which comprise the statement of financial position as at March 31 2022, 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 (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

The logo for Deloitte CP, featuring the word "Deloitte" in a stylized, cursive script followed by "CP" in a simpler, bold font.

Chartered Professional Accountants

Winnipeg, Manitoba
May 24, 2022

TABLE OF CONTENTS

	<u>Page</u>
Statement of Comprehensive Income	1
Statement of Financial Position	2
Statement of Changes in Equity	3
Statement of Changes in Amounts Due to Provincial Governments or Appointed Organizations	4
Statement of Cash Flows	5
Notes to the Financial Statements	6 – 21

WESTERN CANADA LOTTERY CORPORATION

Statement of Comprehensive Income

For the year ended March 31

(in thousands of Canadian dollars)

	2022	2021
LOTTERY REVENUE (Note 4)	\$ 736,465	\$ 688,262
DIRECT EXPENSES		
Retailer commissions	104,073	98,991
Ticket printing	17,367	16,385
	121,440	115,376
GROSS INCOME	615,025	572,886
OPERATING EXPENSES		
Administration and operations	69,633	62,030
Depreciation - Property and equipment (Note 6)	8,314	6,284
Amortization - Intangible assets (Note 7)	2,596	2,353
	80,543	70,667
OPERATING INCOME	534,483	502,219
OTHER INCOME (EXPENSE)		
Interest and other income	1,174	1,151
Federal tax expense (Note 8)	(8,267)	(8,207)
	(7,093)	(7,056)
NET INCOME	527,389	495,163
Other comprehensive income		
Remeasurement gain (Note 10)	6,843	5,921
OTHER COMPREHENSIVE INCOME	6,843	5,921
COMPREHENSIVE INCOME	\$ 534,232	\$ 501,084
Net income allocated to the following provinces or territories		
Alberta	\$ 354,770	\$ 346,356
Saskatchewan	81,496	76,841
Manitoba	80,127	60,744
Yukon Territory	4,182	4,238
Northwest Territories and Nunavut	6,814	6,984
	527,389	495,163
Other comprehensive income		
Remeasurement gain	6,843	5,921
OTHER COMPREHENSIVE INCOME	6,843	5,921
COMPREHENSIVE INCOME	\$ 534,232	\$ 501,084

WESTERN CANADA LOTTERY CORPORATION

Statement of Financial Position

As at March 31

(in thousands of Canadian dollars)

ASSETS	2022	2021
CURRENT		
Cash	\$ 70,453	\$ 68,457
Accounts receivable	22,985	10,783
ILC Receivable	65	145
Inventories (Note 5)	7,245	7,140
Prepaid expenses	2,126	2,831
	102,874	89,356
PROPERTY AND EQUIPMENT (Note 6)	33,353	29,993
INTANGIBLE ASSETS (Note 7)	10,288	10,598
EMPLOYEE BENEFITS ASSETS (Note 10)	4,602	501
Total Assets	\$ 151,116	\$ 130,448
LIABILITIES		
CURRENT		
Prizes payable	\$ 39,716	\$ 39,415
Accounts payable and accrued charges	22,643	25,709
Lease liability (Note 9)	1,610	896
Deferred revenue	15,937	12,289
Payable to Interprovincial Lottery Corporation	-	-
Due to Provincial Governments or appointed organizations	58,448	48,069
	138,354	126,378
LEASE LIABILITY (Note 9)	3,364	1,514
EMPLOYEE BENEFITS (Note 10)	-	-
Total Liabilities	141,717	127,892
EQUITY		
Deficit	(8,664)	(8,664)
Accumulated other comprehensive gain	18,063	11,220
Total Equity (Deficiency)	9,399	2,556
	\$ 151,116	\$ 130,448

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)

	<u>Deficit</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Total Equity (Deficiency)</u>
Balance at March 31, 2020	\$ (8,664)	\$ 5,299	\$ (3,365)
Defined benefit plan remeasurement gains	-	5,921	5,921
Total other comprehensive income	-	5,921	5,921
Balance at March 31, 2021	\$ (8,664)	\$ 11,220	\$ 2,556
Balance at March 31, 2021	\$ (8,664)	\$ 11,220	\$ 2,556
Defined benefit plan remeasurement gains	-	6,843	6,843
Total other comprehensive income	-	6,843	6,843
Balance at March 31, 2022	\$ (8,664)	\$ 18,063	\$ 9,399

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)

	<u>2022</u>	<u>2021</u>
Due to Provincial Governments or appointed organizations, beginning of year	\$ 48,069	\$ 28,507
Add net income for the year	527,389	495,163
	575,458	523,670
Deduct		
Distributions during the year	501,649	460,912
Payment to the Federal Government on behalf of the Provincial Governments (Note 8)	15,361	14,689
	517,010	475,601
Due to Provincial Governments or appointed organizations, end of year	\$ 58,448	\$ 48,069
Due as follows:		
Alberta	\$35,353	\$ 30,248
Saskatchewan	10,498	12,186
Manitoba	11,283	4,366
Yukon Territory	496	485
Northwest Territories and Nunavut	818	784
	\$ 58,448	\$ 48,069

WESTERN CANADA LOTTERY CORPORATION

Statement of Cash Flows

For the year ended March 31

(in thousands of Canadian dollars)

	2022	2021
OPERATING ACTIVITIES		
Comprehensive income for the year	\$ 534,232	\$ 501,084
Items not affecting cash		
Depreciation - Property and Equipment	8,314	6,284
Amortization - Intangibles	2,596	2,353
Finance Interest on Leases	125	55
Employee benefits	(4,100)	(3,490)
	541,167	506,286
Changes in non-cash operating working capital items (Note 11)	(10,639)	20,339
	530,528	526,625
FINANCING ACTIVITIES		
Distributions to Provincial Governments or appointed organizations	(501,649)	(460,912)
Principal Repayment of Lease Obligations	(1,788)	(1,232)
Increase in Right of Use Assets Lease Obligations	4,225	1,640
Payment to Federal Government (Note 8)	(15,361)	(14,689)
	(514,573)	(475,193)
INVESTING ACTIVITIES		
Purchase of:		
Property and equipment	(7,448)	(7,002)
Right of use assets	(4,225)	(1,640)
Intangible assets	(2,286)	(3,778)
	(13,959)	(12,420)
INCREASE (DECREASE) IN CASH DURING THE YEAR	1,996	39,012
CASH POSITION, BEGINNING OF YEAR	68,457	29,445
CASH POSITION, END OF YEAR	\$ 70,453	\$ 68,457

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(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 2, PICK 3, PICK 4, SPORT SELECT, KENO, EXTRA and ZING (formerly 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 24, 2022.

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 the Financial Statements

Year Ended March 31, 2022

(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 \$453,685 (2021 - \$416,968) and are included in the Corporation's expenses.

In addition, the Corporation's share of the Interprovincial Lottery Corporation's operating expenses, amounting to \$1,574 (2021 - \$1,066), and interest revenues, amounting to \$615 (2021 - \$488) are included in the Corporation's expenses and interest revenue respectively.

b) Revenue recognition

Under IFRS 15, lottery revenue will continue to be recorded as of the date of the draw with the exception of ZING 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.

IFRS 15 presents a single model of recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs. The standard requires revenue

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(in thousands of Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services.

Presentation:

Under IFRS 15, revenue is measured at the transaction price, which is allocated to the performance obligations identified in the contract with the customer. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to customers.

As a result, revenue is required to be reported as net of expected prize expense. This results in all of the corporations Lottery Sales income being combined into a single line on the consolidated statement of comprehensive income, labeled Lottery Revenue.

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.

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.

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(in thousands of Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) *Property and equipment (continued)*

Property and equipment also includes Right of use (ROU) assets. The ROU assets for building and vehicles are initially measured at an amount equal to the associated lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or the site on which it is located, less any lease incentives received. They are subsequently measured at cost less accumulated depreciation and impairment losses. ROU assets are depreciated based on the lease term using the straight-line method.

The Company applies IAS 36 to determine whether a ROU is impaired and accounts for any identified impairment loss as described in the 'Property and Equipment' policy.

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 less its residual value, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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 signage and fixtures	5 years
Building and leasehold improvements	10 years
Office furniture and fixtures	5 to 10 years
Right of use assets	3 to 8 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.

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

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(in thousands of Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(in thousands of Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 Interprovincial Lottery Corporation and due to Provincial Governments or appointed organizations.

WESTERN CANADA LOTTERY CORPORATION
Notes to the Financial Statements
Year Ended March 31, 2022
(in thousands of Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) IFRS 16 - Leases

IFRS 16 specifies how the Corporation will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the asset group has a low value. It also eliminates the separate treatment of operating leases. The focus of this standard is on controlling the use of an asset.

The Corporation leases the following types of assets:

- Buildings
- Equipment

k) New standards and interpretations not yet adopted

None

4. LOTTERY REVENUE

Sales revenue by product is as follows:

	<u>2022</u>	<u>2021</u>
LOTTO 6/49	\$ 218,447	\$ 209,452
ZING (SCRATCH N' WIN)	359,445	387,829
LOTTO MAX	530,655	463,166
WESTERN MAX	33,045	31,723
DAILY GRAND	29,863	27,641
POKER LOTTO	26,916	25,679
POKER LOTTO ALL IN	12,451	11,670
SPORT SELECT	88,026	65,736
WESTERN 649	41,306	40,418
EXTRA	161,655	147,878
PICK 2	2,036	1,707
PICK 3	19,189	18,474
PICK 4	7,521	6,435
KENO	17,776	17,048
	1,548,331	1,454,856
LESS PRIZES	811,866	766,594
LOTTERY REVENUE	\$ 736,465	\$ 688,262

NATIONAL SCRATCH N' WIN (ZING) revenue is included in ZING (SCRATCH N' WIN).

WESTERN CANADA LOTTERY CORPORATION
Notes to the Financial Statements
Year Ended March 31, 2022
(in thousands of Canadian dollars)

5. INVENTORIES

	<u>2022</u>	<u>2021</u>
Office Supplies Inventory	\$ 17	\$ 22
Offline Ticket Inventory	5,858	5,790
Online Ticket Inventory	1,370	1,328
	<u>\$ 7,245</u>	<u>\$ 7,140</u>

During 2022, \$17,108 (2021 - \$15,828) of ticket inventory was recognized as an expense.

6. PROPERTY AND EQUIPMENT

	Central gaming system	Other computer systems hardware	Retailer signage and fixtures	Building and leasehold improvements	Office furniture and fixtures	Right of use assets	Total
At March 31, 2020	3,007	50,484	18,537	8,071	1,563	2,698	84,360
Additions	142	2,005	4,529	310	16	1,640	8,642
Disposals	-	-	-	-	-	-	-
At March 31, 2021	3,149	52,489	23,066	8,381	1,579	4,338	93,002
Additions	409	5,156	1,704	179	-	4,225	11,673
Disposals	-	-	-	-	-	-	-
At March 31, 2022	3,558	57,645	24,770	8,560	1,579	8,563	104,675
Accumulated Depreciation							
At March 31, 2020	2,045	28,810	16,610	7,322	1,229	709	56,725
Depreciation	293	4,319	384	162	89	1,037	6,284
Disposals	-	-	-	-	-	-	-
At March 31, 2021	2,338	33,129	16,994	7,484	1,318	1,746	63,009
Depreciation	344	5,175	919	238	89	1,548	8,314
Disposals	-	-	-	-	-	-	-
At March 31, 2022	2,682	38,304	17,913	7,722	1,407	3,294	71,323
Carrying Amounts							-
At March 31, 2021	811	19,360	6,072	897	261	2,592	29,993
At March 31, 2022	876	19,341	6,857	838	172	5,269	33,353

WESTERN CANADA LOTTERY CORPORATION
Notes to the Financial Statements
Year Ended March 31, 2022
(in thousands of Canadian dollars)

7. INTANGIBLE ASSETS

	Central Gaming Software	Other Computer Software	Total
At March 31, 2020	\$ 30,325	\$ 11,574	\$ 41,899
Additions	3,409	369	3,778
Disposals	-	-	-
At March 31, 2021	\$ 33,734	\$ 11,943	\$ 45,677
Additions	356	1,930	2,286
Disposals	-	-	-
At March 31, 2022	\$ 34,090	\$ 13,873	\$ 47,963
Accumulated Amortization			
At March 31, 2020	\$ 22,606	\$ 10,120	\$ 32,726
Amortization	1,579	774	2,353
Disposals	-	-	-
At March 31, 2021	\$ 24,185	\$ 10,894	\$ 35,079
Amortization	1,579	1,017	2,596
Disposals	-	-	-
At March 31, 2022	\$ 25,764	\$ 11,911	\$ 37,675
Carrying Amounts			
At March 31, 2021	\$ 9,549	\$ 1,049	\$ 10,598
At March 31, 2022	\$ 8,326	\$ 1,961	\$ 10,288

8. PAYMENTS TO FEDERAL GOVERNMENT

The Corporation made the following payments to the Federal Government:

	<u>2022</u>	<u>2021</u>
Payment on behalf of the Provinces	\$ 15,361	\$ 14,689
Federal tax expense	8,267	8,207
	\$ 23,628	\$ 22,896

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 \$82.9 million).

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(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 18.6% of the total in 2022 (2021 – 18.7%). 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. LEASE LIABILITY

Leases are recognized as right-of-use assets and corresponding liabilities at the date at which a leased asset is available for use. Payments for short-term leases and leases of low-value assets are expensed on a straight-line basis and excluded from lease liability.

As at March 31, 2022, scheduled future minimum lease payments and the present value of the finance lease obligation are as follows for the next five fiscal years:

	2023	2024	2025	2026	2027	Total
Future minimum lease payments	\$ 1,799	\$1,704	\$ 1,580	\$ 671	\$ -	\$ 5,754
Discounted interest expense	189	246	248	97	-	780
Present value of lease liability	\$ 1,610	\$1,458	\$ 1,332	\$ 574	\$ -	\$ 4,974

During 2022, expenses for leases designated as low value of \$76 were recorded through operating expenses. In addition, expenses for variable lease payments of \$852 were recorded through operating expenses. In 2021, variable lease payments totalling \$748 were recognized as an expense in profit or loss in respect of operating leases.

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, 2022.

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(in thousands of Canadian dollars)

10. EMPLOYEE BENEFITS (continued)

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.

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, 2020 by Aon Hewitt and the next required valuation will be as of March 31, 2022. 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, 2022 (March 31, 2021 – no increase in defined benefit obligation).

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

	<u>2022</u>	<u>2021</u>
Discount rate	4.00%	3.40%
Discount rate – post-retirement (annuity purchase, not applicable to SRP plan)	3.50%	3.50%
Rate of compensation increase	3.00%+ SMP	3.00%+ SMP
Mortality tables – post-retirement	Canadian Pensioners' Mortality Table CPM2014 with MI-2017	Canadian Pensioners' Mortality Table CPM2014 with MI-2017
Year's maximum pensionable earnings increase (per annum)	3.00%	3.00%

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(in thousands of Canadian dollars)

10. EMPLOYEE BENEFITS (continued)

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

	<u>2022</u>	<u>2021</u>
Current service costs	\$ (2,804)	\$ (2,352)
Net interest expense	32	(99)
Past Service Cost SRP	-	-
Settlement	-	-
Components of defined benefit costs recorded in net income	<u>(2,772)</u>	<u>(2,451)</u>
Re-measurement gain	6,843	5,921
Components of defined benefit costs recorded in other comprehensive income	<u>6,843</u>	<u>5,921</u>
Total of components of defined benefit costs	<u>\$ 4,071</u>	<u>\$ 3,470</u>

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:

	<u>2022</u>	<u>2021</u>
Defined benefit obligation (DBO)	\$ (52,745)	\$ (57,708)
Fair value of plan assets	57,347	58,209
Net asset arising from defined benefit obligation	<u>\$4,602</u>	<u>\$ 501</u>

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

	<u>2022</u>	<u>2021</u>
Opening defined benefit obligation	\$ (57,708)	\$ (50,484)
Current service cost	(2,804)	(2,352)
Interest cost	(1,913)	(1,869)
Contributions from plan participants	(820)	(776)
Re-measurement (losses) gains arising from changes in financial assumptions	7,711	(4,844)
Benefits paid	2,789	2,617
Settlement	-	-
Closing defined benefit obligation	<u>\$ (52,745)</u>	<u>\$ (57,708)</u>

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(in thousands of Canadian dollars)

10. EMPLOYEE BENEFITS (continued)

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

	<u>2022</u>	<u>2021</u>
Opening fair value of plan assets	\$ 58,209	\$ 47,495
Interest income	1,946	1,770
Re-measurement gains (losses) arising from:		
return on plan assets (excluding amounts included in net interest expense)	(869)	10,765
Contributions from the employer	30	20
Contributions from plan participants	820	776
Benefits paid	(2,789)	(2,617)
Settlement	-	-
Closing fair value of plan assets	<u>\$ 57,347</u>	<u>\$ 58,209</u>

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 gain / (loss) on plan assets was \$1,077 (2021 – \$12,535).

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 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 \$12,494 (increase by \$9,490) if all other assumptions were held constant.
- If the expected salary growth would increase (decrease) by 1%, the defined benefit obligation would increase by \$3,372 (decrease by \$ 3,372) 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 \$983 (decrease by \$983) 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.

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(in thousands of Canadian dollars)

10. EMPLOYEE BENEFITS (continued)

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 \$30 in to its SRP in 2023 (2022 - \$30).

11. SUPPLEMENTARY INFORMATION FOR STATEMENT OF CASH FLOWS

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

	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ (12,202)	\$ 22,980
Prepaid expenses	705	(981)
Inventories	(105)	(1,717)
Receivable from Interprovincial Lottery Corporation	80	(145)
Accounts payable and accrued charges	(3,066)	(2,072)
Prizes payable	301	4,217
Payable to Interprovincial Lottery Corporation	-	(2,601)
Deferred revenue	3,648	659
	<u>\$ (10,639)</u>	<u>\$ 20,339</u>

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(in thousands of Canadian dollars)

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
Lease liabilities	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 \$25,111 (2021 - \$13,758) as at March 31, 2022 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.

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.

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2022

(in thousands of Canadian dollars)

12. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (continued)

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:

	<u>2022</u>	<u>2021</u>
Compensation and short-term employee benefits	\$ 1,508	\$ 1,289
Post-employment benefits	182	162
	<u>\$ 1,690</u>	<u>\$ 1,451</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 Corriveau Avenue
St. Albert, Alberta T8N 3T5
Phone: (780) 447-8600
Fax: (780) 447-8931
aglc.ca

Sask 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
mbl.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 X1A 2P3
Centre Ice Plaza
480 Range Lake Road
Yellowknife, Northwest Territories X1A 3R9
Phone: (867) 767-9166 Ext 21115
Fax: (867) 920-6467
whenuyouplay.ca

2022 ANNUAL REPORT

WESTERN CANADA LOTTERY CORPORATION
MAIN FLOOR, 125 GARRY STREET
WINNIPEG, MB R3C 4J1
1-800-665-3313
wclc.com

