



WESTERN
CANADA
LOTTERY
CORPORATION

2021

ANNUAL REPORT

Board of Directors – Fiscal 2021

Niaz Nejad	Board Chair	Alberta
Kevin Gilroy	First Vice Chair	Saskatchewan
Randy Williams	Second Vice Chair	Manitoba
Candace Caswell	Director	Saskatchewan
Len Rhodes	Director	Alberta
Dan Sanscartier	Director	Manitoba
	UNTIL December 31, 2020	
Gerry Sul	Director	Manitoba
	FROM December 31, 2020	

Western Canada Lottery Corporation Structure

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

The Corporation works in conjunction with the provincial and territorial organizations in its region: Alberta Gaming, Liquor & Cannabis, 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 of two representatives from each of the participating provincial governments.

Message from the Chair

The 2021 fiscal year was a year of extremes, and one whose full effects were difficult to predict. Industries and individuals around the world faced the significant unknowns of COVID-19 throughout the year. From the initial onset of the global pandemic last spring, through the subsequent waves emerging throughout the year, F21 produced both unanticipated challenges and unexpected effects for lotteries in the region. F21 ended the year with WCLC's second-highest sales in our history, finishing the year at \$1.455 billion, just \$23.6 million, or 1.6%, shy of the record set in F16.

The effects of COVID-19 on WCLC and our industry were profound, as they were in many sectors. The beginning of the fiscal year in April 2020 saw our region still in the early days of the global pandemic. Many businesses, including those that offer lottery products at retail, made difficult decisions to close their doors or to shift focus to essential products. In some parts of the region, nearly a fifth of lottery retailers suspended lottery sales and redemptions for a time. Sports leagues around the world suspended play, essentially removing WCLC's SPORT SELECT product from play for a number of months. And from November 2020 through January 2021, nearly all lottery retailers in Manitoba were required under public health orders to suspend non-essential products, deemed to include lottery sales and validations at retail.

Challenges for the business continued to arise during the pandemic. WCLC quickly transitioned to a work from home model for as many employees as possible, to keep staff and players safer while maintaining critical services. Prize offices in the region continued to pay prizes throughout the pandemic, even during periods when they closed to in-person visits. While WCLC prize offices have always had the capacity to manage prize claims remotely, demand for such remote services grew immensely as WCLC and our players looked for opportunities to reduce personal contact.

Despite these challenges to the business, and closures at retail, there were undisputed bright spots within the WCLC portfolio. Three products ended the year at nearly 20% or more above the previous year: Zing, with total sales of \$387.8 million (↑19.3%); POKER LOTTO at \$25.7 million (↑22.5%); and POKER LOTTO ALL IN at \$11.6 million (↑23.0%). Other standouts with double-digit percentage increases include KENO (\$17.0 million, ↑16.4%), PICK 4 (\$6.4 million, ↑12.7%), and PICK 2 (\$1.7 million, ↑18.5%).

Some of these gains are due to the relative absence of other forms of recreation during parts of the pandemic, and it remains to be seen to what degree the sales increases experienced may continue going forward. However, in considering Zing's almost 20% increase over last year's record-setting result, credit must also go to the robust portfolio of products. This year, that portfolio welcomed THE BIGGER SPIN, the \$10 Watch and Win game that offers a \$1 million top prize, determined at a live spin event.

The interruption of lottery sales at retail during COVID-19 – including those voluntary suspensions that affected about 20% of WCLC’s nearly 5,000 retailers, and the mandated Manitoba suspension in late 2020 and early 2021, impacting nearly 1,000 retailers – necessarily had an impact on year-end results. However, this impact was significantly lower than we initially expected. The national jackpot games, LOTTO MAX and LOTTO 6/49 – which together account for almost half of WCLC sales – both held fairly even against last year’s performance. LOTTO 6/49 ended F21 at 0.5% lower than last year, and LOTTO MAX came in 1.1% higher. Similarly, SPORT SELECT exceeded modified expectations when sports leagues and events resumed earlier and wagers were stronger than anticipated. By year’s end, SPORT SELECT posted \$65.7 million in sales, down 25.9% from F20. Although a decrease, in a year in which sports wagering was not available for more than a quarter of the year, this represents a stronger performance than expected.

Other highlights in this challenging year include the launch in February 2021 of Subscription Spot: a new online portal that allows players in the region to purchase many draw-based games and manage their own accounts. In its first months, Subscription Spot has already begun to show itself to be a convenient option for players and a practical alternative to the Mail Subscription program WCLC has offered since the 1990s.

Within our region, winners took home a combined \$766.6 million this year, including 50 prizes of \$1 million or more. Meanwhile, Lotto Spot retailers across the region shared in \$99.0 million in commissions for sales and prize redemptions – a 2.1% increase over last year.

Thanks to these sales results, and to careful attention to expenses, WCLC returned \$495.2 million in income to its members, the provinces of Alberta, Saskatchewan, and Manitoba; and to associate members Yukon, Northwest Territories, and Nunavut. This represents a 7.5% increase over the year prior.

At the close of F21, countries, businesses, and individuals continue to work toward adapting to the reality that COVID-19 remains an ongoing threat. Challenges will continue to face our business and our partners and employees, and we will continue to meet these challenges and opportunities with innovation and agility. We expect that F22 and beyond will see further development of our digital presence and enhancements to our retail footprint that will augment players’ experience and continue to support and provide value to our partners.

On behalf of the Board of Directors of WCLC, I congratulate and thank the staff and management of WCLC and the provincial and territorial lottery organizations for their dedication, adaptability, and innovation in a truly unprecedented year.



Kevin Gilroy, Chair
Board of Directors

Financial Statements of

**WESTERN CANADA LOTTERY
CORPORATION**

March 31, 2021

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, 2021, 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, 2021, 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

May 19, 2021
Winnipeg, Manitoba



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WESTERN CANADA LOTTERY CORPORATION
Statement of Comprehensive Income
For the year ended March 31
(in thousands of Canadian dollars)

	2021	2020
LOTTERY REVENUE (Note 4)	\$ 688,262	\$ 655,607
DIRECT EXPENSES		
Retailer commissions	98,991	96,923
Ticket printing	16,385	17,494
	115,376	114,417
GROSS INCOME	572,886	541,190
OPERATING EXPENSES		
Administration and operations	62,030	66,293
Depreciation - Property and equipment (Note 6)	6,284	5,525
Amortization - Intangible assets (Note 7)	2,353	2,081
	70,667	73,899
OPERATING INCOME	502,219	467,291
OTHER INCOME (EXPENSE)		
Interest and other income	1,151	1,947
Federal tax expense (Note 8)	(8,207)	(8,422)
	(7,056)	(6,475)
NET INCOME	495,163	460,816
Other comprehensive income		
Remeasurement gain (Note 10)	5,921	8,995
OTHER COMPREHENSIVE INCOME	5,921	8,995
COMPREHENSIVE INCOME	\$ 501,084	\$ 469,811
Net income allocated to the following provinces or territories		
Alberta	\$ 346,356	\$ 321,398
Saskatchewan	76,841	65,796
Manitoba	60,744	64,382
Yukon Territory	4,238	3,537
Northwest Territories and Nunavut	6,984	5,703
	495,163	460,816
Other comprehensive income		
Remeasurement gain	5,921	8,995
OTHER COMPREHENSIVE INCOME	5,921	8,995
COMPREHENSIVE INCOME	\$ 501,084	\$ 469,811

WESTERN CANADA LOTTERY CORPORATION

Statement of Financial Position

As at March 31

(in thousands of Canadian dollars)

	2021	2020
ASSETS		
CURRENT		
Cash	\$ 68,457	\$ 29,445
Accounts receivable	10,783	33,763
ILC Receivable	145	-
Inventories (Note 5)	7,140	5,423
Prepaid expenses	2,831	1,850
	89,356	70,481
PROPERTY AND EQUIPMENT (Note 6)	29,993	27,635
INTANGIBLE ASSETS (Note 7)	10,598	9,173
EMPLOYEE BENEFITS ASSETS (Note 10)	501	-
Total Assets	\$ 130,448	\$ 107,289
LIABILITIES		
CURRENT		
Prizes payable	\$ 39,415	\$ 35,198
Accounts payable and accrued charges	25,709	27,782
Lease liability (Note 9)	896	749
Deferred revenue	12,289	11,630
Payable to Interprovincial Lottery Corporation	-	2,601
Due to Provincial Governments or appointed organizations	48,069	28,507
	126,378	106,467
LEASE LIABILITY (Note 9)	1,514	1,198
EMPLOYEE BENEFITS (Note 10)	-	2,989
Total Liabilities	127,892	110,654
EQUITY		
Deficit	(8,664)	(8,664)
Accumulated other comprehensive gain	11,220	5,299
Total Equity (Deficiency)	2,556	(3,365)
	\$ 130,448	\$ 107,289

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, 2019	\$ (8,664)	\$ (3,696)	\$ (12,360)
Defined benefit plan remeasurement gains	-	8,995	8,995
Total other comprehensive income	-	8,995	8,995
Balance at March 31, 2020	\$ (8,664)	\$ 5,299	\$ (3,365)
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

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>2021</u>	<u>2020</u>
Due to Provincial Governments or appointed organizations, beginning of year	\$ 28,507	\$ 50,115
Add net income for the year	495,163	460,816
	523,670	510,931
Deduct		
Distributions during the year	460,912	467,791
Payment to the Federal Government on behalf of the Provincial Governments (Note 8)	14,689	14,633
	475,601	482,424
Due to Provincial Governments or appointed organizations, end of year	\$ 48,069	\$ 28,507
Due as follows:		
Alberta	\$ 30,248	\$ 19,839
Saskatchewan	12,186	8,862
Manitoba	4,366	(1,046)
Yukon Territory	485	334
Northwest Territories and Nunavut	784	518
	\$ 48,069	\$ 28,507

WESTERN CANADA LOTTERY CORPORATION

Statement of Cash Flows

For the year ended March 31

(in thousands of Canadian dollars)

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Comprehensive income for the year	\$ 501,084	\$ 469,811
Items not affecting cash		
Depreciation - Property and Equipment	6,284	5,525
Amortization - Intangibles	2,353	2,081
Finance Interest on Leases	55	17
Employee benefits	(3,490)	(7,953)
	506,286	469,481
Changes in non-cash operating working capital items (Note 11)	20,339	4,182
	526,625	473,663
FINANCING ACTIVITIES		
Distributions to Provincial Governments or appointed organizations	(460,912)	(467,791)
Principal Repayment of Lease Obligations	(1,232)	(751)
Increase in Right of Use Assets Lease Obligations	1,640	-
Payment to Federal Government (Note 8)	(14,689)	(14,633)
	(475,193)	(483,175)
INVESTING ACTIVITIES		
Purchase of:		
Property and equipment	(7,002)	(6,795)
Right of use assets	(1,640)	(17)
Intangible assets	(3,778)	(3,150)
	(12,420)	(9,962)
INCREASE (DECREASE) IN CASH DURING THE YEAR	39,012	(19,474)
CASH POSITION, BEGINNING OF YEAR	29,445	48,919
CASH POSITION, END OF YEAR	\$ 68,457	\$ 29,445

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2021

(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 19, 2021.

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, 2021
(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 \$416,968 (2020 - \$400,689) and are included in the Corporation's expenses.

In addition, the Corporation's share of the Interprovincial Lottery Corporation's operating expenses, amounting to \$1,066 (2020 - \$1,343), and interest revenues, amounting to \$488 (2020 - \$673) 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, 2021

(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, 2021

(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 5 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, 2021

(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, 2021

(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, 2021

(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

On adoption, Management elected to use the following practical expedients permitted under the standard:

- Recognize right-of-use (ROU) assets at an amount equal to the lease liability for leases previously treated as operating leases
- Not to reassess whether a contract is, or contracts, a lease at the date of initial application
- Not perform an impairment review at the date of initial application
- Treat leases ending within 12 months of conversion as short-term leases
- Exclude initial direct costs from measurement of the ROU at the date of initial application

k) New standards and interpretations not yet adopted

None

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2021

(in thousands of Canadian dollars)

4. LOTTERY REVENUE

Sales revenue by product is as follows:

	<u>2021</u>	<u>2020</u>
LOTTO 6/49	\$ 209,452	\$ 210,403
ZING (SCRATCH N' WIN)	387,829	325,160
LOTTO MAX	463,166	458,207
WESTERN MAX	31,723	29,871
DAILY GRAND	27,641	29,122
POKER LOTTO	25,679	20,969
POKER LOTTO ALL IN	11,670	8,983
SPORT SELECT	65,736	88,702
WESTERN 649	40,418	41,003
EXTRA	147,878	146,280
PICK 2	1,707	1,440
PICK 3	18,474	18,477
PICK 4	6,435	5,708
KENO	17,048	14,647
	<u>1,454,856</u>	<u>1,398,972</u>
LESS PRIZES	766,594	743,365
LOTTERY REVENUE	<u>\$ 688,262</u>	<u>\$ 655,607</u>

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

5. INVENTORIES

	<u>2021</u>	<u>2020</u>
Office Supplies Inventory	\$ 22	\$ 15
Offline Ticket Inventory	5,790	4,926
Online Ticket Inventory	1,328	482
	<u>\$ 7,140</u>	<u>\$ 5,423</u>

During 2021, \$15,828 (2020 - \$16,756) of ticket inventory was recognized as an expense.

WESTERN CANADA LOTTERY CORPORATION
Notes to the Financial Statements
Year Ended March 31, 2021
(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	Right of use assets	Total
At March 31, 2019	2,903	45,192	17,624	7,772	1,376	2,681	77,548
Additions	104	5,292	913	299	187	17	6,812
Disposals	-	-	-	-	-	-	-
At March 31, 2020	3,007	50,484	18,537	8,071	1,563	2,698	84,360
Additions	142	2,354	4,481	18	7	1,640	8,642
Disposals	-	-	-	-	-	-	-
At March 31, 2021	3,149	52,838	23,018	8,089	1,570	4,338	93,002
Accumulated Depreciation							
At March 31, 2019	1,770	24,769	16,324	7,162	1,175	-	51,200
Depreciation	275	4,041	286	160	54	709	5,525
Disposals	-	-	-	-	-	-	-
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
Carrying Amounts							
At March 31, 2020	962	21,674	1,927	749	334	1,989	27,635
At March 31, 2021	811	19,709	6,024	605	252	2,592	29,993

WESTERN CANADA LOTTERY CORPORATION
Notes to the Financial Statements
Year Ended March 31, 2021
(in thousands of Canadian dollars)

7. INTANGIBLE ASSETS

	Central Gaming Software	Other Computer Software	Total
At March 31, 2019	\$ 27,424	\$ 11,325	\$ 38,749
Additions	2,901	249	3,150
Disposals	-	-	-
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
Accumulated Amortization			
At March 31, 2019	\$ 21,181	\$ 9,464	\$ 30,645
Amortization	1,425	656	2,081
Disposals	-	-	-
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
Carrying Amounts			
At March 31, 2020	\$ 7,719	\$ 1,454	\$ 9,173
At March 31, 2021	\$ 9,549	\$ 1,049	\$ 10,598

8. PAYMENTS TO FEDERAL GOVERNMENT

The Corporation made the following payments to the Federal Government:

	<u>2021</u>	<u>2020</u>
Payment on behalf of the Provinces	\$ 14,689	\$ 14,633
Federal tax expense	8,207	8,422
	\$ 22,896	\$ 23,055

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 \$77.7 million).

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2021

(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 18.7% of the total in 2021 (2020 – 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, 2021, scheduled future minimum lease payments and the present value of the finance lease obligation are as follows for the next five fiscal years:

	2022	2023	2024	2025	2026	Total
Future minimum lease payments	\$ 1,095	\$ 963	\$ 355	\$ 352	\$ 29	\$ 2,795
Discounted interest expense	199	108	33	41	4	385
Present value of lease liability	\$ 896	\$ 855	\$ 322	\$ 311	\$ 25	\$ 2,410

During 2021, expenses for leases designated as low value of \$78 were recorded through operating expenses. In addition, expenses for variable lease payments of \$748 were recorded through operating expenses. In 2020, variable lease payments totalling \$624 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, 2021.

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2021

(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, 2021 (March 31, 2020 – no increase in defined benefit obligation).

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

	<u>2021</u>	<u>2020</u>
Discount rate	3.40%	3.80%
Discount rate – post-retirement (annuity purchase, not applicable to SRP plan)	3.50%	3.50%
Rate of compensation increase	3.00%+ SMP	4.00%
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, 2021

(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>2021</u>	<u>2020</u>
Current service costs	\$ (2,352)	\$ (2,793)
Net interest expense	(99)	(295)
Past Service Cost SRP	-	-
Settlement	-	-
Components of defined benefit costs recorded in net income	<u>(2,451)</u>	<u>(3,088)</u>
Re-measurement gain	5,921	8,995
Components of defined benefit costs recorded in other comprehensive income	<u>5,921</u>	<u>8,995</u>
Total of components of defined benefit costs	<u>\$ 3,470</u>	<u>\$ 5,907</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>2021</u>	<u>2020</u>
Defined benefit obligation (DBO)	\$ (57,708)	\$ (50,484)
Fair value of plan assets	58,209	47,495
Net liability arising from defined benefit obligation	<u>\$ 501</u>	<u>\$ (2,989)</u>

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

	<u>2021</u>	<u>2020</u>
Opening defined benefit obligation	\$ (50,484)	\$ (61,164)
Current service cost	(2,352)	(2,793)
Interest cost	(1,869)	(1,828)
Contributions from plan participants	(776)	(795)
Re-measurement (losses) gains arising from changes in financial assumptions	(4,844)	11,706
Benefits paid	2,617	4,390
Settlement	-	-
Closing defined benefit obligation	<u>\$ (57,708)</u>	<u>\$ (50,484)</u>

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2021

(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>2021</u>	<u>2020</u>
Opening fair value of plan assets	\$ 47,495	\$ 50,222
Interest income	1,770	1,533
Re-measurement gains (losses) arising from:		
return on plan assets (excluding amounts included in net interest expense)	10,765	(2,711)
Contributions from the employer	20	2,046
Contributions from plan participants	776	795
Benefits paid	(2,617)	(4,390)
Settlement	-	-
Closing fair value of plan assets	<u>\$ 58,209</u>	<u>\$ 47,495</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 \$12,535 (2020 – \$(1,178)).

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 \$14,326 (increase by \$10,800) if all other assumptions were held constant.
- If the expected salary growth would increase (decrease) by 1%, the defined benefit obligation would increase by \$3,818 (decrease by \$ 3,818) if all other assumptions were held constant.
- If the life expectancy would increase (decrease) by one year for both men and women, the defined benefit obligation would increase by \$1,176 (decrease by \$1,176) 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, 2021

(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 \$64 in to its defined benefit plan in 2022 (2021 - \$54).

11. SUPPLEMENTARY INFORMATION FOR STATEMENT OF CASH FLOWS

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

	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ 22,980	\$ (11,945)
Prepaid expenses	(981)	(299)
Inventories	(1,717)	968
Receivable from Interprovincial Lottery Corporation	(145)	-
Accounts payable and accrued charges	(2,073)	8,133
Prizes payable	4,217	7,957
Payable to Interprovincial Lottery Corporation	(2,601)	(2,201)
Deferred revenue	659	1,569
	<u>\$ 20,339</u>	<u>\$ 4,182</u>

WESTERN CANADA LOTTERY CORPORATION

Notes to the Financial Statements

Year Ended March 31, 2021

(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 \$13,758 (2020 - \$35,613) as at March 31, 2021 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, 2021

(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>2021</u>	<u>2020</u>
Compensation and short-term employee benefits	\$ 1,289	\$ 929
Post-employment benefits	162	115
	<u>\$ 1,451</u>	<u>\$ 1,044</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
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 (2nd Floor)
Yellowknife, Northwest Territories X1A 2P3
Phone: (867) 767-9166 Ext 21113
Fax: (867) 920-6467
whenyoplay.ca



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