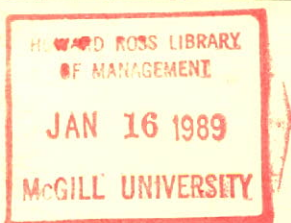
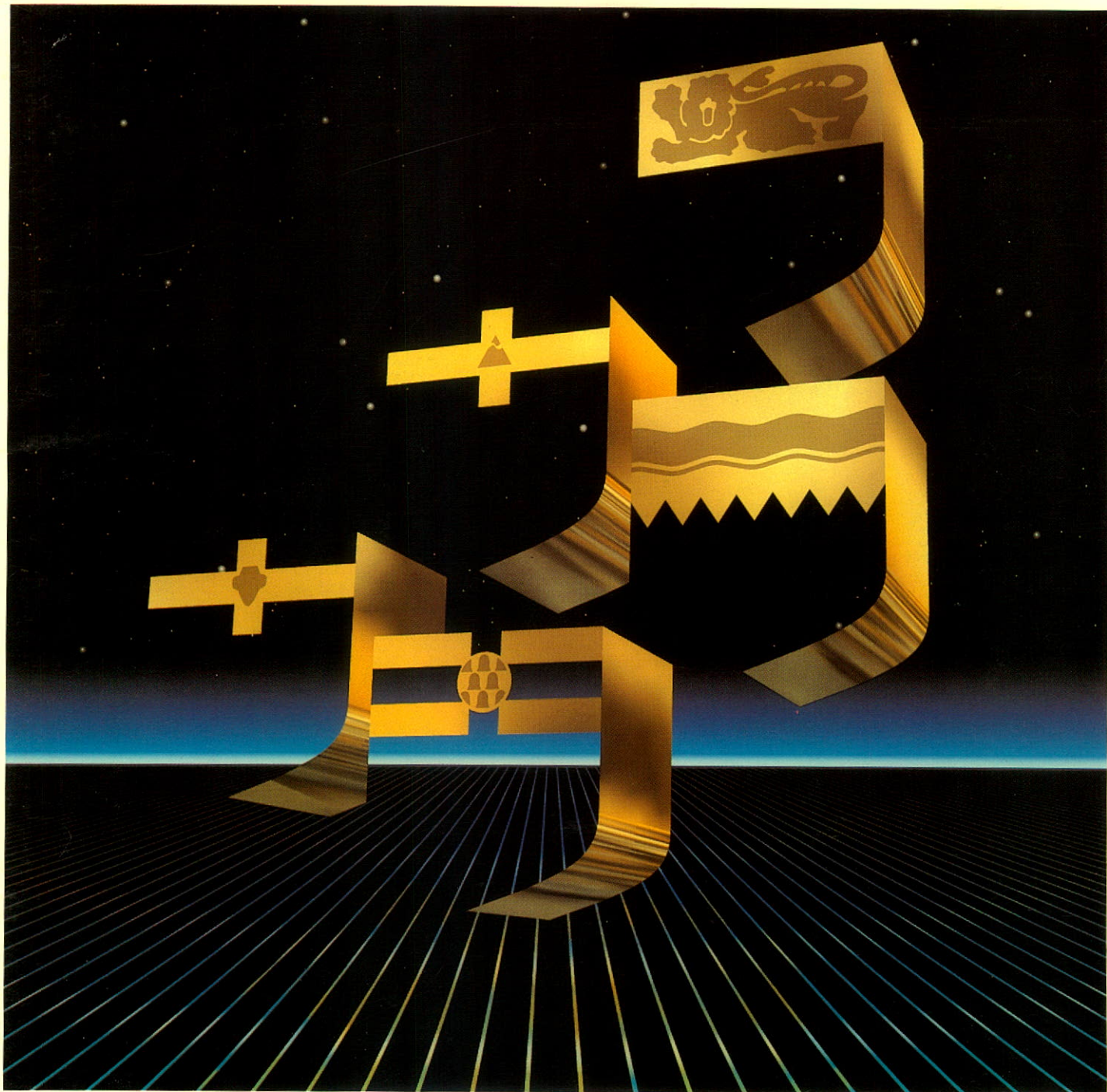


WESTERN CANADA LOTTERY CORPORATION



Annual Report 1987-1988

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WESTERN CANADA LOTTERY CORPORATION

FROM THE BOARD
OF DIRECTORS 2-3

FROM THE EXECUTIVE
COMMITTEE 4-5

VITAL SIGNS 6

THE GAMES 7-9

THE WINNING
EXPERIENCE 10-11

VITAL STATISTICS 12

THE LOTTERY
DOLLAR 13

THE ULTIMATE
WINNERS 13-17

AUDITORS' REPORT/
FINANCIAL STATEMENTS 18-24

Fiscal 1987/88 was a pivotal year for Western Canada Lottery Corporation (WCLC). While sales topped the half-billion dollar mark for the first time in the Corporation's 14-year history, the final figure—\$501.9 million—represents a modest gain of five percent. This gain, hard won, signals the pulse of the future and marks the industry's transition from development to maturity. ■ Anticipating the transition, an innovative game plan was put into action. ■ The game plan went straight to the heart of the industry, the On-Line system. To ensure greater efficiencies within the system, improve accessibility to it and pave the

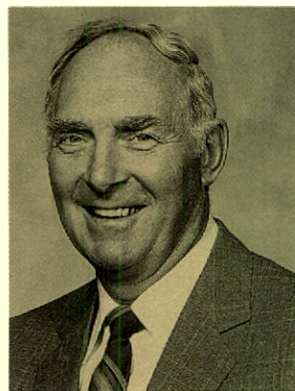
path for a new overlay game, Lottery Terminals were upgraded, the network expanded and hours of On-Line play extended. ■ To enhance On-Line gaming appeal, Quick Pick, the play feature now determining over 40 percent of all On-Line Selections, was extended to the most popular form of Combination Play—the 7-Number Combination. ■ Recognizing the tremendous influence of JACKPOT size on purchasing behaviour, on-going awareness initiatives were reinforced. Now, when JACKPOTs reach proven pulse-quickenning levels, radio and newspaper advertisements are used as awareness adjuncts to up-to-the-minute LED signs and outdoor posters. ■ Through these initiatives and phasing out the cap that inhibited JACKPOT growth, LOTTO 6/49 amassed \$255.1 million in sales, 51 percent of the WCLC total! ■



JIM BURNETT
Chairman (October-March)
Saskatchewan



WILLIAM CLARKE
Chairman (April-September)
Saskatchewan



D.E.L. KEOWN
Vice-Chairman
Alberta



GARTH MANNESS
Director
Manitoba



These initiatives also benefitted the new regional On-Line game—LOTTO 6/36—plugged into the system at the start of the fiscal year. Launched with a bang through the award-winning “XISYTRIHTXIS” campaign, LOTTO 6/36 proved to be “HOW THE WEST IS WON.” With first year transactions registering \$35.7 million, LOTTO 6/36 outpaced its predecessor by a staggering 104 percent! ■ To bring more dollars to the bottom line, the game plan emphasized product diversification. Sights were set on the fastest-growing component of the product mix, the INSTANT game. The pace of change and innovation was stepped up. Through addition of a fifth theme, unique game designs to catch the wandering eye and introduction of a \$2 game to the INSTANT roster, sales topped \$122 million for an increase of 43 percent! ■

To stimulate renewed interest in Western Canada’s longest-running game of chance, the evolution of WESTERN EXPRESS continued. Promising players “THE BEST OF BOTH,” a new ticket debuted at the start of the 1988 calendar year. And in delivering \$46.6 million in total ticket receipts, WESTERN EXPRESS maintained its solid third place ranking in WCLC’s popularity poll. ■ The success of the fiscal year is best measured by net revenue returned to the provinces and territories. In meeting the challenges of 1987/88 head-on, a record \$194.3 million was channelled back to the provincial and territorial governments for enhancement of significant causes. The result was a winning year for the entire lottery community.



PAUL ROBINSON
Director (September-March)
Saskatchewan



ROBERT WESTBURY, PhD.
Director (April-February)
Alberta

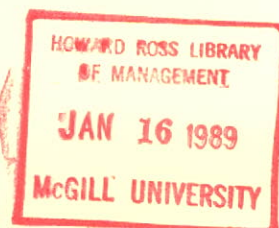


HOWARD MacDONALD
Director (March)
Alberta



LOIS TOMS
Secretary
Manitoba

JIM BURNETT
Chairman of the Board



As a revenue-generating inter-governmental agency, our objective remains—to maximize the bottom line. The challenge has never been greater. ■ Through initiatives taken in fiscal 1987/88 and those planned for the year ahead, we're ready and eager to meet the mature market challenge. ■ The On-Line Network, improved and expanded, is targeted for further development. Although the network has and will continue to expand, cautious placement criteria, the change in product mix and prospect of additional On-Line games suggest Terminal saturation is still a moving target. ■ The Network is, however, only as sound as the Retailer base. Initiatives to ensure consistency and maintain a high level of professionalism will continue throughout the coming year. To name but a few, these initiatives include "Components for Winning," a seminar and workshop program with customer service and merchandising techniques as its focus, and the newly-developed "Certified Lottery Terminal

Operators Training Program." ■ With an eye on further assistance to the Retailer, a new generation of LED JACKPOT signs will be tested and evaluated. Very sophisticated, the signs incorporate an LED readout message board to promote JACKPOT amounts and carry moving promotional messages. The signs are interfaceable with Lottery Terminals, enabling direct programming from the central computer. This state-of-the-art design is a leap forward with its capabilities of providing all-product, on-going moving message displays. ■ What's the message for fiscal 1988/89? With a game plan calling for innovation in all categories, it's all-product, on-going excitement. ■ On-Line gamers will have a full year of "The sky's the limit" JACKPOTs to play for—and more. They'll have a bigger and better LOTTO 6/49 Bonus and an exciting new regional game—THE PLUS. ■ The new game is unique on all counts, from mode of delivery to frequency of winning. To be piggy-backed onto LOTTO 6/36 and LOTTO 6/49, THE PLUS should enhance overall On-Line play through special prize categories designed to keep players in the games. ■ INSTANT enthusiasts,





through continuation of the overlapping games strategy, will realize even greater variety in game themes, play formats and prize potential. In the roundup for the coming year are a series of \$1 and \$2 games, a mix to spark the INSTANT impulse of all. There will be simple, generic "match three" games, sophisticated multiscene games, a new FIRST AND GOAL fielding the sports pool concept, and a bank of \$1 games which, by design, will deliver more but smaller prizes. ■ For the player, the design means more winning tickets, all of which can be encashed through the Retail Network. For the Retailer, it means more winners to build consumer traffic, increase redemption commissions and improve overall sales prospects. ■ Innovations scheduled for Traditional games should heighten

appeal of this product category as well. ■ The PROVINCIAL will adopt the strengths of SUPER LOTO, the \$1 million top prize and instant "match three" pouch game, while maintaining its existing strengths, a \$5 price tag with all tickets valid for five consecutive draws. ■ And, to fill the void left by the demise of SUPER LOTO, plans call for the launch of special event, single draw big lotto showcasing a galaxy of prizes. ■ The lottery is becoming an increasingly complex business with new demands to meet, hurdles to overcome and opportunities to seize. The game plan outlined just skims the surface of initiatives scheduled to tackle the challenges of the coming year. We are eager to put the plan into action and excited by the challenges that lie ahead.

5



DAVE LOEB
Director of
Internal Audit

RICHARD CONE
Director of
Marketing

LEN GZEBB
General
Manager

GIL JOHNSON
Director of
Finance and Administration

PAUL SAWYER
Director of
Information Systems


LEN GZEBB
General Manager

VITAL SIGNS

6

Vital signs of the lottery industry are sales, prizes and net revenue. As anticipated, results of the year in review confirm both the industry's stability and maturity. ■ Although overall growth has slowed from the frenetic pace of

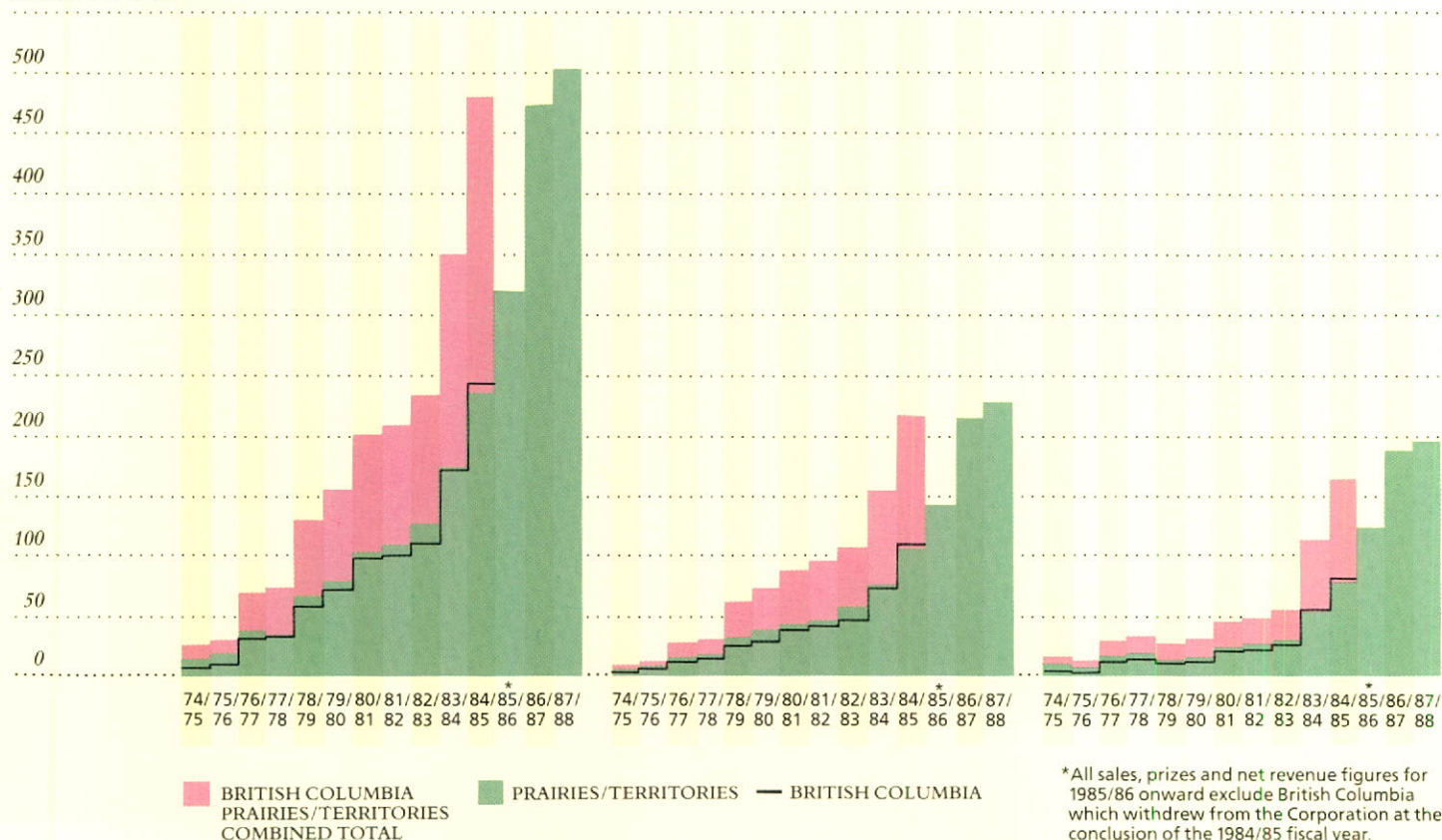
development years, the sales increase of 5.3 percent demonstrates continued vitality. ■ Record sales of \$501.9 million enabled a significant return to the lottery community. Players realized a collective prize payout of \$230.6 million. More importantly, all, through net revenue generated for return to the community, benefitted by the industry's health to the tune of \$194.3 million.

**TOTAL SALES
FROM 1974/75 TO 1987/88**

**TOTAL PRIZES
FROM 1974/75 TO 1987/88**

**TOTAL NET REVENUE
FROM 1974/75 TO 1987/88**

(in millions of dollars)





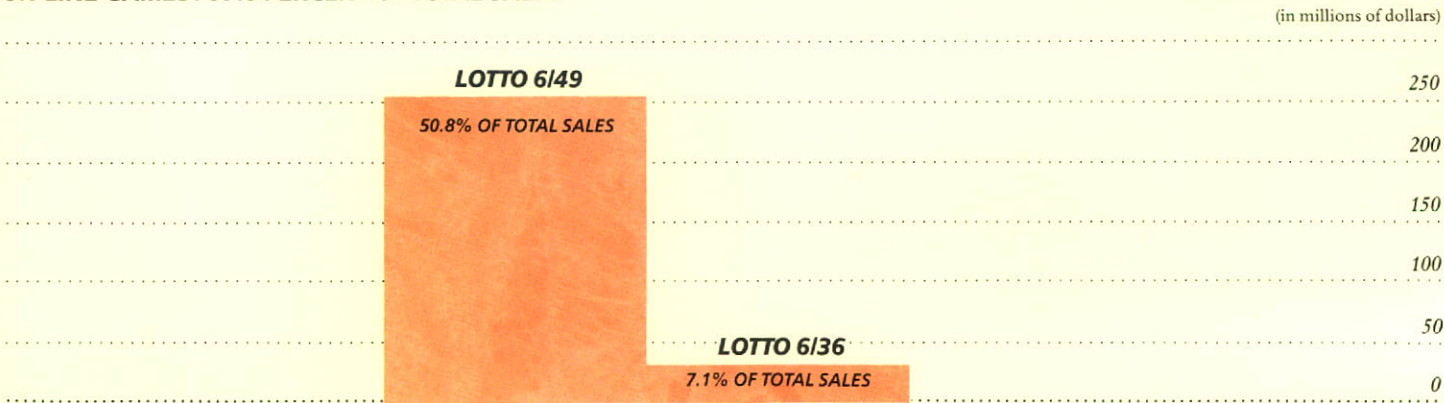
The year's game plan brought innovation to all product categories—On-Line, INSTANT and Traditional. Be it product enhancement or diversification, innovation ensured a product mix capable of satisfying the sophisticated player palate. ■ On-Line games, the consumer's choice at 57.9 percent of total sales, recorded an interest level of \$290.8 million, up 4.6 percent over the previous year. While the new kid on the On-Line block—LOTTO 6/36—was the deciding factor in the percentage increase, LOTTO 6/49 continued its commanding role. Respective play levels were \$35.7 million and \$255.1 million. ■ The novelty of "new kid" status, coupled with simple play objectives and the chance to win significant JACKPOTs, were key contributors to the first year success of LOTTO 6/36. So too were design features giving LOTTO 6/36 an edge over the On-Line king. On a regional versus nationwide game, there is substantially less competition for prizes. And with a one in 1.9 million chance of winning the JACKPOT, versus one in 13.9 million, the ultimate prize is seven times easier to win.



In contrast to LOTTO 6/36, LOTTO 6/49 is now a mature product. Reflected in a two percent sales decline, LOTTO 6/49 faced a challenge LOTTO 6/36 has yet to encounter. Draw sales nationwide far exceed the possible number of play combinations. The result is fewer carryovers, the major sales stimulus. In an effort to meet the challenge head-on, the cap inhibiting JACKPOT growth was removed in October. And in November, the first LOTTO 6/49 Bonus was featured. ■ Albeit occasional, JACKPOT fever remains a natural phenomenon. For the March 23rd JACKPOT, estimated at \$13 million after building through three carryovers, the fever was on and running high. Draw sales nationwide soared to \$46.1 million, a level not experienced since the advent of twice-weekly drawings in September, 1985. And all-time single day sales records were set March 23rd as Canadians queued up to buy \$23.5 million in tickets, \$3.3 million worth within the Prairies and Territories alone. The fever not only produced record-eclipsing sales, it resulted in a JACKPOT worth over \$14.2 million, the highest in Canadian history!

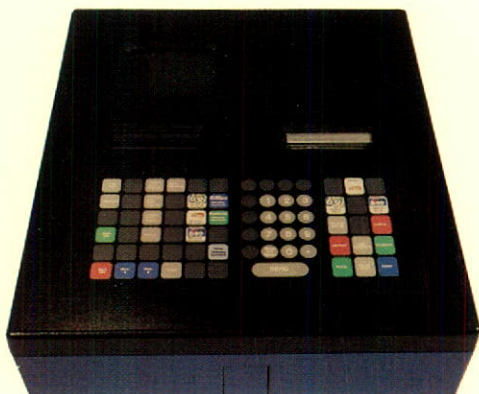
SALES AS PERCENTAGE OF TOTAL SALES BY
PRODUCT CATEGORY AND PRODUCT

ON-LINE GAMES: 57.9 PERCENT OF TOTAL SALES



INSTANT

game category, a focal point for innovation, delivered a rapid-fire succession of seven themes to satisfy the most discriminating “scratch and match” enthusiasts. And satisfy it did. Exceeding expectations, game sales increased 43 percent to \$122.1 million! ■ BIRTHSTONES and LUCKY STARS (a zodiac theme) commanded INSTANT interest with graphics special to all. Delivering a new twist to “scratch and match” play, THE 12 DAYS OF CHRISTMAS introduced the first INSTANT Bonus prize. That first, combined with a festive theme and holiday launch, resulted in the fastest-selling INSTANT game to date. GO FOR THE GOLD[®], a tie-in to the 1988 Winter Olympics, introduced commemorative gold and silver Olympic coin sets to the prize structure. And THE LOST PYRAMID, the final \$1 installment of the fiscal year, introduced the opportunity to double-up on winnings. ■ Innovation and diversification led to fielding the first \$2 game—FIRST AND GOAL. Well-received with INSTANT prizes ranging up to \$25,000 and the ultimate MVP prize determined by the outcome of Grey Cup '87, FIRST AND GOAL paved the path for a second \$2 game—DOUBLE DARE. And DOUBLE DARE, featuring two independently-programmed game components on which one or both could be winners, reinforced the niche for \$2 INSTANT games to come.



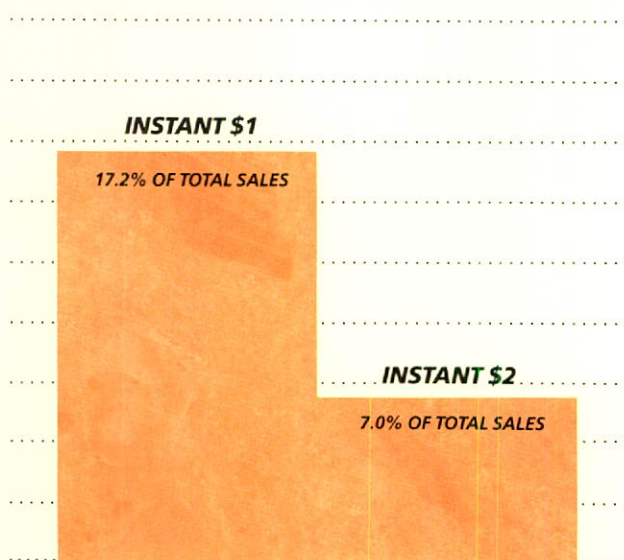
INSTANT games also produced record-eclipsing sales. This

WESTERN EXPRESS

Traditional games, including the hybrid WESTERN EXPRESS, were overshadowed by their On-Line and INSTANT compatriots. Regardless, sales in this category topped \$89 million. ■ The strongest pulse, at \$46.6 million in total sales, belonged to WESTERN EXPRESS. Continuing its evolution as a hybrid instant/passive game, it adopted sweeping design changes at the top of the calendar year. The introduction of Instant Express and Lotto Express game components helped retain a third place ranking for Western Canada's longest-running game of chance.

SALES AS PERCENTAGE OF TOTAL SALES BY PRODUCT CATEGORY AND PRODUCT

INSTANT GAMES: 24.2 PERCENT OF TOTAL SALES





While the final sales figure of \$23.6 million radiates solid support for the PROVINCIAL, overall performance was shadowed by a seven percent sales decline.

Clouding an otherwise sunny forecast for the PROVINCIAL was a temporary ticket recall in mid-January, the effects of which were felt through to the close of the fiscal year. Prior to the recall, WCLC was enjoying the largest percentage sales increase in Canada.



The weakest pulse in the traditional game category was that of SUPER LOTO. Having slowed 34.4 percent to \$18.8 million, the product was retired at the close of the fiscal year. The May 8, 1988 drawing marked the game's final curtain call.

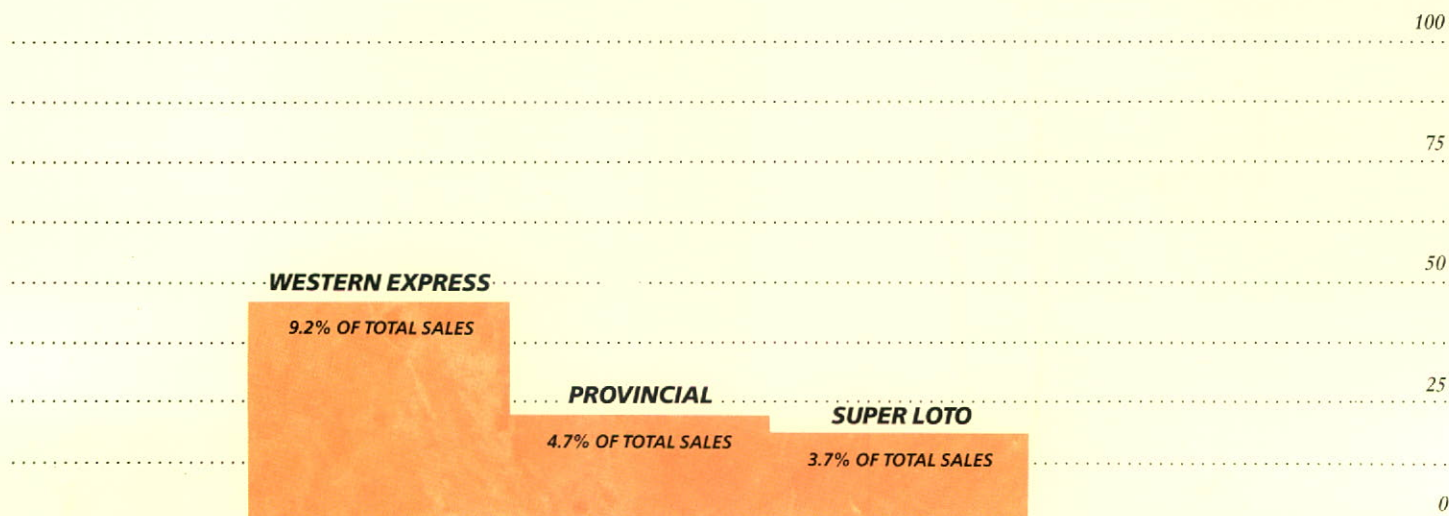
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SALES AS PERCENTAGE OF TOTAL SALES BY PRODUCT CATEGORY AND PRODUCT

TRADITIONAL GAMES: 17.6 PERCENT OF TOTAL SALES

(in millions of dollars)



The winning experience, from laughter to tears, is as unique as the winners themselves. Each winner has a tale to tell and 1987/88 was no exception.



There was the familiar. Kipling, Saskatchewan lottery buff John Lawrysyn posed a third time for WCLC cameras, grinning from ear to ear. The only Westerner to claim the top prize in three different lotteries, his first pose was with a \$100,000 WESTERN EXPRESS prize cheque, his second was with a \$500,000 PROVINCIAL prize cheque and his third, "but not last" as John was quick to add, was with a \$25,000 FIRST AND GOAL cheque. Where did John, whose pay streak totals \$625,000, purchase the winning tickets? "At the only place in town, Balfour Drugs."

There was the familial. A close-knit clan, the Thomases gather en masse each weekend at the family home in Beaconsfield, Manitoba. En masse? The clan consists of commercial fisherman Harry Thomas, his life-mate Donna Thomas, their seven children, five grandchildren and two sons-in-law.

They're a family that stays together...and plays together. The name of their game is LOTTO 6/49.

A long-standing tradition, the nuclear family collaborates on ticket purchases, the extended family congregates to view draw results.

Tradition broke the eve of January 16th when, watching the draw, the Thomases realized they caught the big one.

For reeling in a six-number match, the clan snagged the largest lottery catch in Manitoba's history — \$5,552,801.40!

What does the nine-way split netting \$616,977.93 for each mean? Mom summed it up best.

"What a wonderful start in life for the children!"



There was the unexpected. Thirty-year-old Walter Mueller was sound asleep when the call from WCLC came through. For this groggy Regina resident, the call, however realistic, was simply the extension of a pleasant dream. Or was it?

After multiple replays of the unusual wake-up call, his mind was suddenly alert. Was October 3rd his lucky day? Had his group's LOTTO 6/49 Subscription paid off?

He immediately dialed the number that would deliver the answers and the "dream" was promptly verified as fact.

The group of eight, all technicians for Sask Power in Regina, had scored the region's largest Subscription win to date. The prize was an eye-opening \$1,368,785.50!



There was the competitive. Shoulder to shoulder they sat, excitement palpable, throats raw. Every play of Grey Cup '87 was mirrored in their faces. One would win \$50,000. One would win \$5,000. The determining factor would be the outcome of the game.

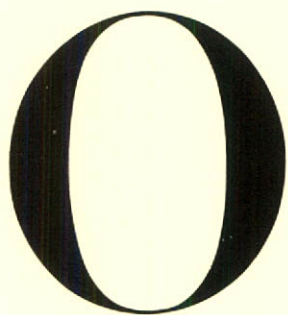
He, a life-long Toronto Argonauts fan, wore the Eskimos jersey. She, a 12-year Edmonton Eskimo season ticket holder, wore the Argos jersey.

"Loyalties go out the window for this," laughed Vicky Davis of Edmonton.

"I'll switch anytime," quipped Calgary's Joe Gourlay, "for \$45,000."

That was the difference between being winning MVP and runner-up in the premiere season of FIRST AND GOAL play.

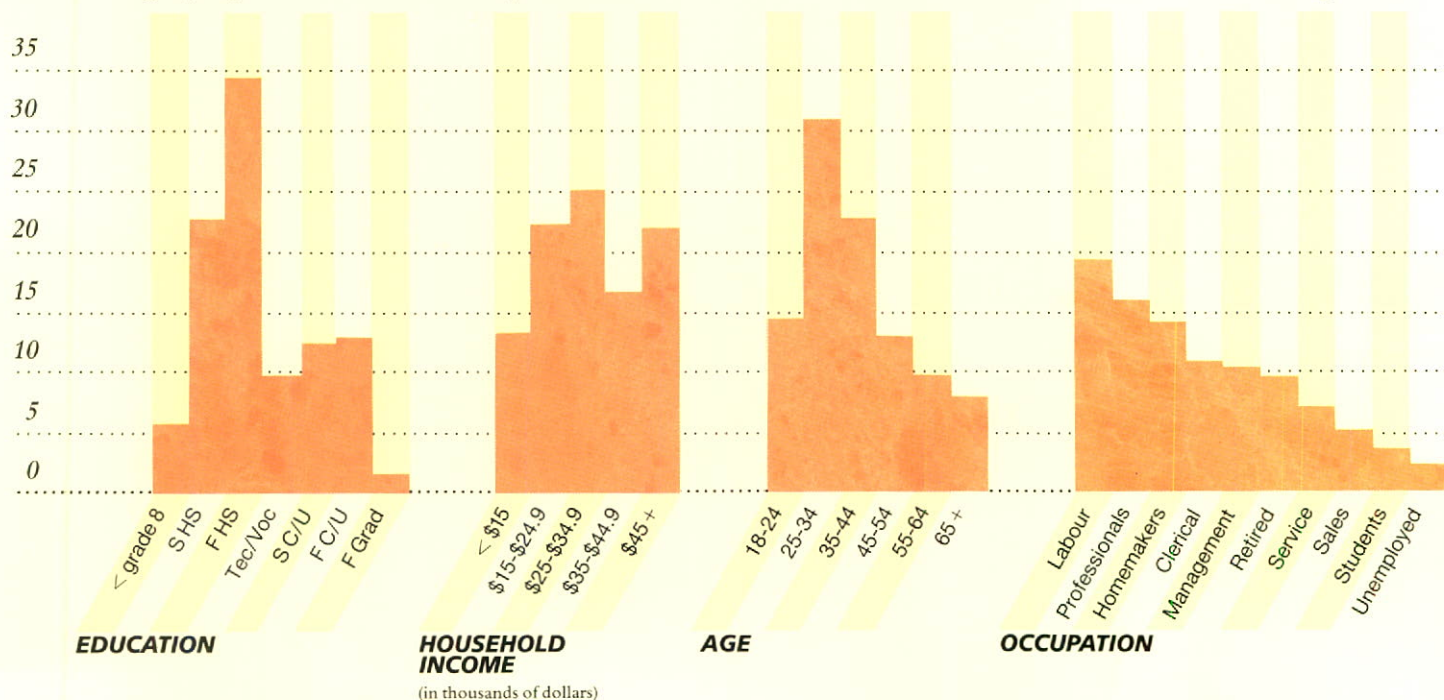
On the field, competition was fierce. The lead changed hands six times. With two minutes to go and the Argos leading, Vicky relaxed and Joe, tense with excitement, inched forward to the edge of his chair. Then, with just 45 seconds left to play, Edmonton's Jerry Kauric kicked a 49-yard field goal to win the Cup...and \$50,000 for Joe Gourlay.



On-going demographic research ensures an up-to-the-minute pulse is kept on the socio-economic profile of lottery players. ■ Who is today's lottery player? Representative of one in two players, the composite sketch illustrates a familiar

face. Just as likely to be male as female, today's player is high school educated (57.2 percent), between 25 and 44 years of age (54.3 percent) and earns from \$15,000 to \$34,999 annually (47.7 percent). ■ Where is today's player found? To find seven in ten lottery players, look to five occupational groups. Employed in the labour-intensive field are 19.6 percent of players. Professionals represent 16.1 percent of the player base, followed by homemakers at 14.3 percent, clerical workers at 11.1 percent and management personnel at 10.7 percent. ■ Does the lottery attract a disproportionate number of low income players? The answer is a definite no. While 26.7 percent of Prairie households earn less than \$15,000 annually, a mere 13.3 percent of lottery players fall within this category. ■ Market research not only tracks evolving player profiles, it continuously monitors the

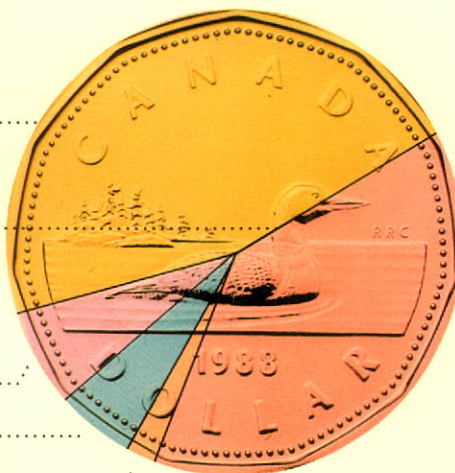
changing tastes of lottery players as well. The methods? ■ New game designs are typically tested through a form of computer simulation known as conjoint analysis. This early phase is followed by focus group studies and quantitative game playing simulations among hundreds of randomly-selected lottery players. ■ Conjoint analysis provides an incisive pool of information on player likes and dislikes and plays a vital role in game development. It facilitates a ranking of what counts most, and least, to lottery players. And it projects market share in specific, measurable terms, thus providing a yardstick for critical evaluation. ■ Game playing simulations yield important insight into the psyche of lottery players. Of note is that while odds of winning the JACKPOT are perceived as the most important On-Line game utility, only when odds are neutralized do results correspond with actual market shares. This suggests it is not the actual odds of winning that count most to players, but rather, it's the perception that they may win. ■ Reinforcing the observation is actual, versus simulated, play behaviour. LOTTO 6/49, the game with the longest odds, is the hands-down favourite of the player base. Of particular appeal to roughly eight in ten lottery players, LOTTO 6/49 continues to command market share in excess of 50 percent.



THE LOTTERY DOLLAR

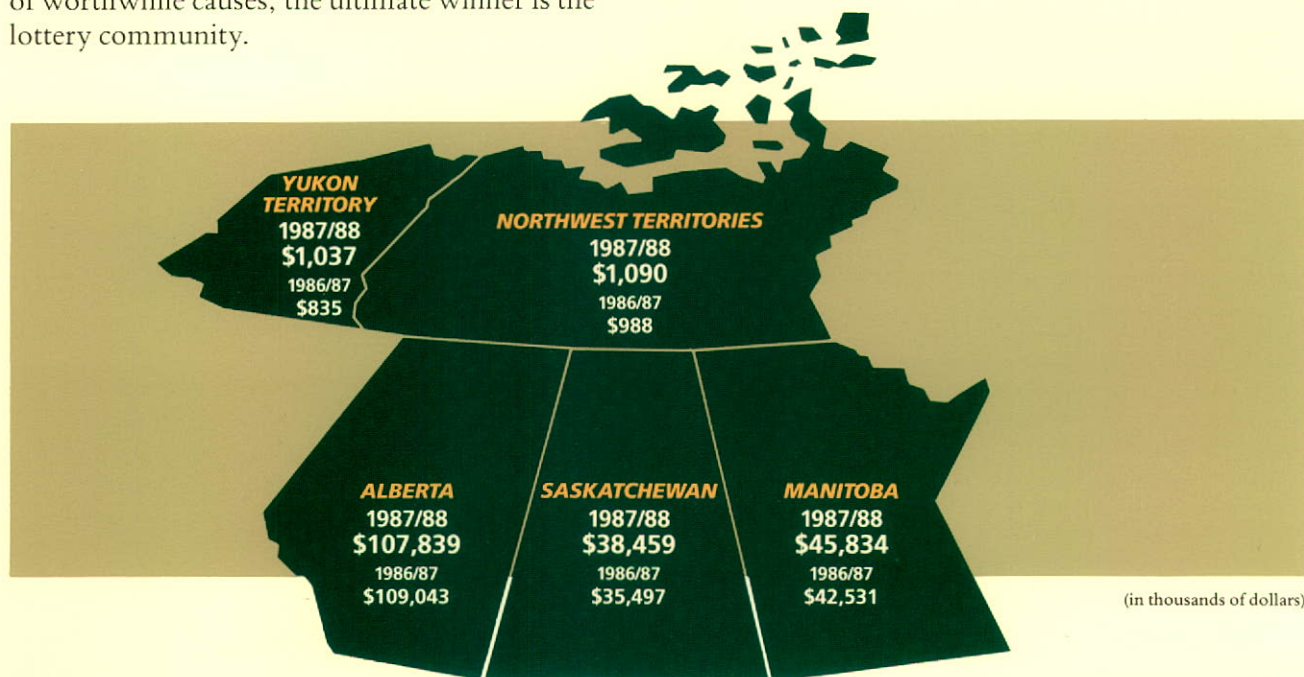
The lottery dollar not only seals a dream for player and community, it delivers. Through prizes won, revenue returned, commissions earned and services provided, it's a hard-working dollar of benefit to all. ■ Where does the dollar go?

Prizes	45.6%
Revenue to Provinces and Territories	38.5%
Operating Expenses	8.0%
Retailer Commissions	6.1%
Ticket Printing	1.8%



THE ULTIMATE WINNERS

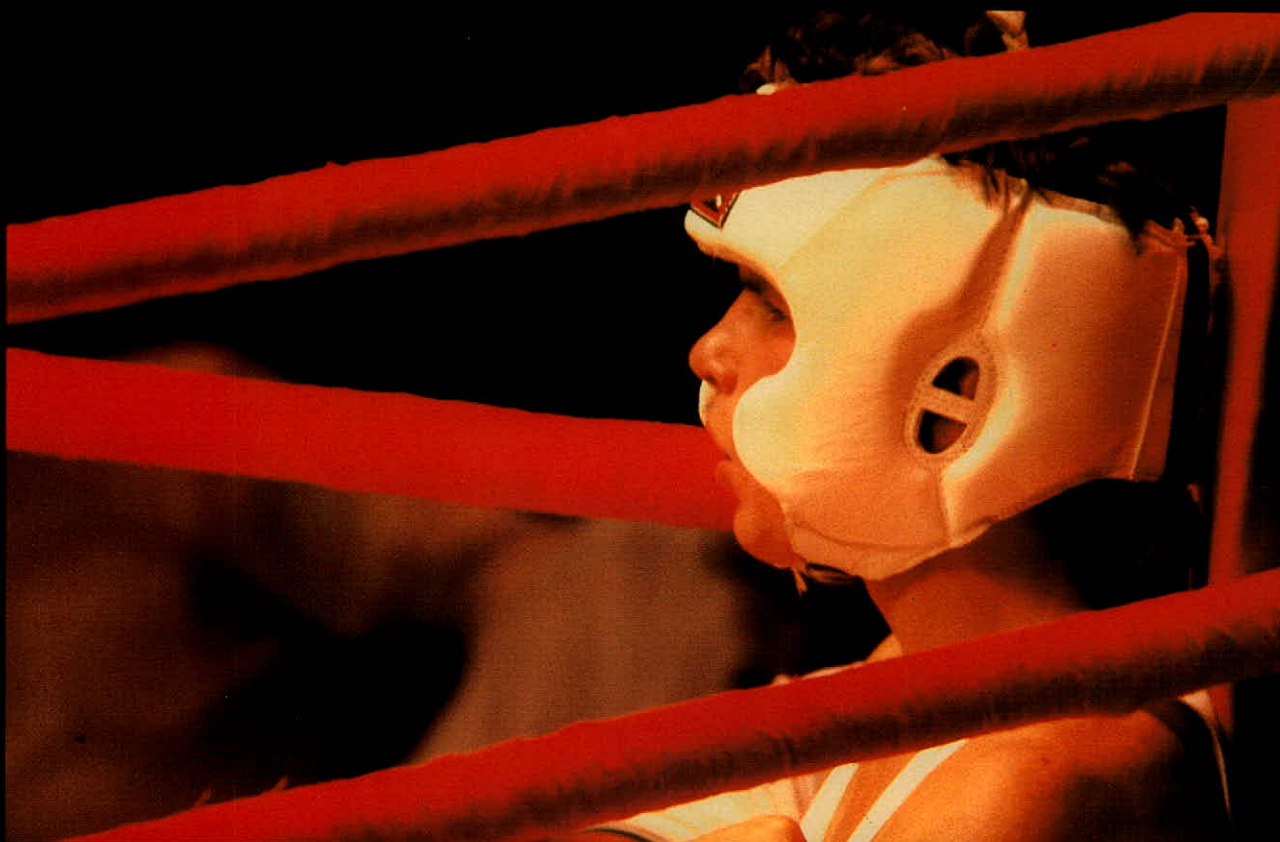
A winning year, fiscal 1987/88 returned over \$194 million in lottery revenue to the provinces and territories. With revenue used to enhance a variety of worthwhile causes, the ultimate winner is the lottery community.





Proceeds from lotteries enhance the quality of life and create important benefits for all Albertans. In addition to agricultural exhibitions and fairs throughout the province, lottery revenue is put to work on behalf of a far-reaching number of recreational, cultural, sports and community initiatives. Beneficiaries have included the Alberta Seniors Games, the Rick Hansen "Man in Motion Tour," women's crisis shelters and young Alberta artists, to note just a few.

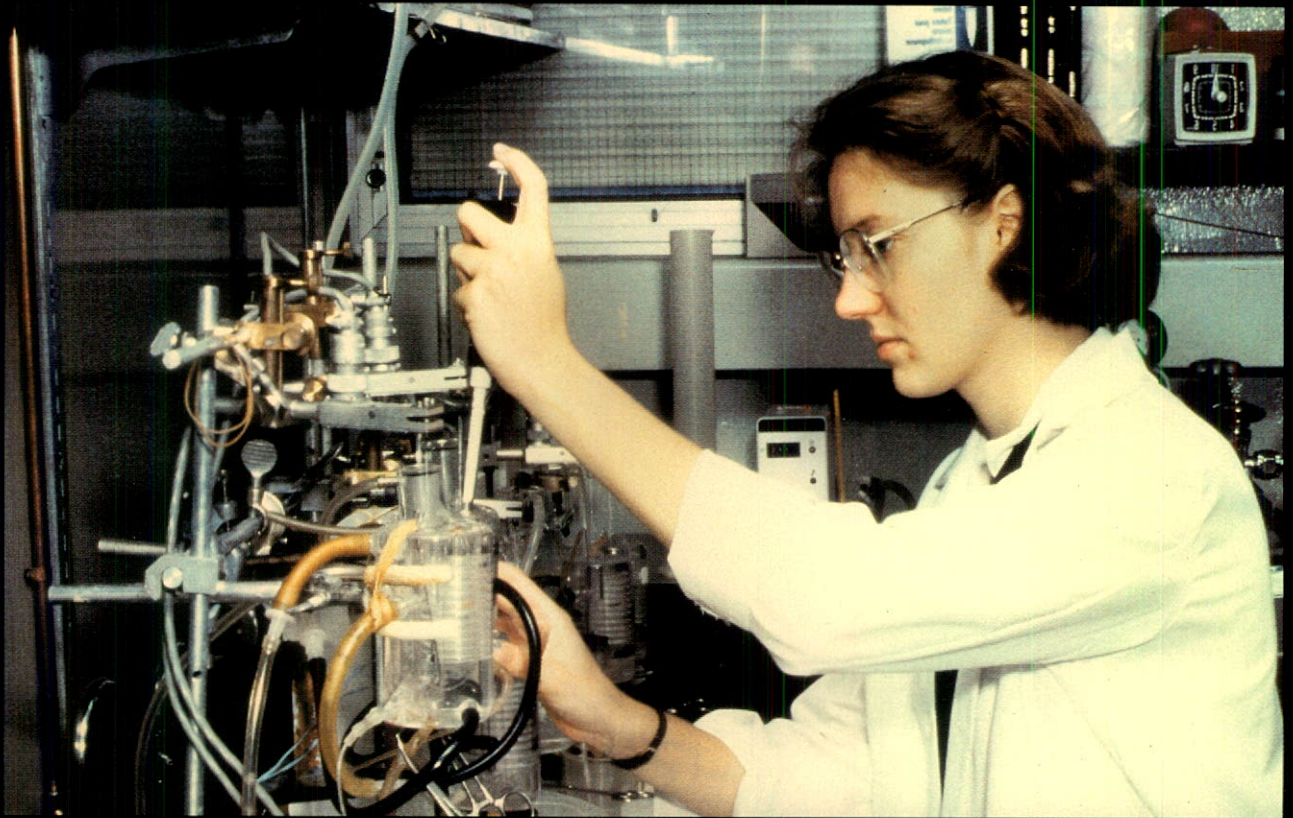




Since 1974, Sask Sport Inc., a non-profit, non-governmental fundraising organization, has been responsible for the marketing and administration of lottery operations and lottery revenue distribution. Saskatchewan Lotteries and Sask Trust are the two divisions of Sask Sport Inc. charged with these duties and responsibilities.

Every time a lottery ticket is purchased it helps support a provincial sport, culture, or recreation organization, or a community group – all with the purpose of enhancing the lifestyles of Saskatchewan residents. Aside from winning prizes, Saskatchewan residents are able to enjoy many services and opportunities that these groups provide through the backing of lottery proceeds.

Already, more than 800,000 residents have benefitted directly or indirectly from lottery funding.



Lottery proceeds benefit a wide variety of non-profit, community-based organizations in Manitoba through the province's unique *Lottery Funding System*. Funding umbrellas and two government departments receive a share for distribution to various heritage, sports, arts, community service and multicultural groups. Special Agreement Groups receive funds for the promotion of ethnocultural, educational, charitable and medical research programs, projects, and events.



YUKON TERRITORY

Revenues from the lottery operation in the Yukon Territory are distributed by the government-appointed Yukon Lottery Commission. The funds are distributed to Yukon communities to enhance their recreational activities, to Elite Athletes and Advanced Artists for pursuit of excellence in their fields of endeavour, to territorial sports, arts, and cultural societies to give basic funding support and, finally, to a wide range of organizations, groups and individuals for their recreational projects through an applicant grant process.



17



NORTHWEST TERRITORIES

In the Northwest Territories, Sport North provided lottery revenue to help finance the Arctic Winter Games, territorial competitions, coaching, officiating and player development clinics in addition to the Annual General Meeting and Awards. It was also used to assist cultural and recreational organizations, winter regional sports and summer sports.

AUDITORS' REPORT

18

To the Members of the
Western Canada Lottery Corporation:

We have examined the combined balance sheet of the Western Canada Lottery Corporation and its related lottery organizations as at March 31, 1988 and the combined statements of operations and changes in amounts due to Provincial Governments or appointed organizations for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these combined financial statements present fairly the financial position of the Western Canada Lottery Corporation and its related lottery organizations as at March 31, 1988 and the results of its operations and the changes in amounts due to Provincial Governments or appointed organizations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

CHARTERED ACCOUNTANTS.

Winnipeg, Canada
May 27, 1988

WESTERN CANADA LOTTERY CORPORATION AND ITS RELATED LOTTERY ORGANIZATIONS

COMBINED STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 1988

	1988	1987
	(in thousands of dollars)	
Lottery sales (note 3)	<u>\$501,890</u>	<u>\$476,680</u>
Direct expenses:		
Prizes	230,600	218,787
Retailer commissions	30,640	29,835
Ticket printing	<u>9,198</u>	<u>9,395</u>
	<u>270,438</u>	<u>258,017</u>
Gross income	<u>231,452</u>	<u>218,663</u>
Operating expenses:		
Finance and administration (note 4)	11,982	11,500
Marketing	12,738	9,636
Information systems	10,101	8,384
Depreciation and amortization	<u>5,467</u>	<u>3,387</u>
	<u>40,288</u>	<u>32,907</u>
Operating income	191,164	185,756
Interest and other income	<u>3,095</u>	<u>3,138</u>
Net income	<u>\$194,259</u>	<u>\$188,894</u>
Net income allocated to the following provinces or territories:		
Alberta	\$107,839	\$109,043
Saskatchewan	38,459	35,497
Manitoba	45,834	42,531
Yukon Territory	1,037	835
Northwest Territories	<u>1,090</u>	<u>988</u>
	<u>\$194,259</u>	<u>\$188,894</u>

(see accompanying notes)

WESTERN CANADA LOTTERY CORPORATION AND ITS RELATED LOTTERY ORGANIZATIONS

COMBINED STATEMENT OF CHANGES IN AMOUNTS DUE TO
PROVINCIAL GOVERNMENTS OR APPOINTED ORGANIZATIONS

YEAR ENDED MARCH 31, 1988

20

	1988	1987
	(in thousands of dollars)	
Due to Provincial Governments or appointed organizations, beginning of year	\$ 10,903	\$ 11,629
Add:		
Net income	<u>194,259</u>	<u>188,894</u>
	<u>205,162</u>	<u>200,523</u>
Deduct:		
Distributions during the year	176,467	176,577
Payment to Federal Government on behalf of the Provincial Governments (note 6)	<u>13,285</u>	<u>13,043</u>
	<u>189,752</u>	<u>189,620</u>
Due to Provincial Governments or appointed organizations, end of year	<u>\$ 15,410</u>	<u>\$ 10,903</u>
Due as follows:		
Alberta	\$ 8,083	\$ 5,471
Saskatchewan	3,510	3,263
Manitoba	3,624	2,058
Yukon Territory	105	57
Northwest Territories	<u>88</u>	<u>54</u>
	<u>\$ 15,410</u>	<u>\$ 10,903</u>

(see accompanying notes)

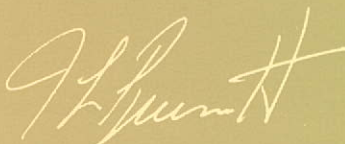
WESTERN CANADA LOTTERY CORPORATION AND ITS RELATED LOTTERY ORGANIZATIONS

COMBINED BALANCE SHEET


MARCH 31, 1988

	1988	1987
	(in thousands of dollars)	
ASSETS		
Cash—		
Prize funds	\$13,074	\$ 9,589
Other	<u>1,503</u>	<u>5,290</u>
	14,577	14,879
Accounts receivable	3,619	4,968
Prepaid expenses and deposits on equipment	919	1,819
Fixed assets (note 5)	<u>18,648</u>	<u>13,774</u>
	<u>\$37,763</u>	<u>\$35,440</u>
LIABILITIES		
Prizes payable	\$13,074	\$ 9,589
Payable to Interprovincial Lottery Corporation	1,798	5,724
Accounts payable and accrued charges	2,151	3,131
Deferred revenue	5,330	6,093
Due to Provincial Governments or appointed organizations	<u>15,410</u>	<u>10,903</u>
	<u>\$37,763</u>	<u>\$35,440</u>

On behalf of the Board:



Director



Director

(see accompanying notes)

NOTES TO COMBINED FINANCIAL STATEMENTS

MARCH 31, 1988

22

1. Nature of the Corporation

The Western Canada Lottery Corporation was incorporated without share capital under Part II of the Canada Corporations Act on May 13th, 1974. The Provincial Governments of Manitoba, Saskatchewan and Alberta are members in the Corporation, and the Yukon Territory and the Northwest Territories participate with the provinces as associate members in the sale of lottery tickets.

Under the terms of its incorporation, the Corporation is responsible for the conduct and management of lottery games in Western Canada. The WESTERN EXPRESS, LOTTO 6/36 and INSTANT lottery games are conducted solely by the Corporation. The Corporation participates in the conduct of the PROVINCIAL, SUPER LOTO, and LOTTO 6/49 lotteries through the Interprovincial Lottery Corporation. 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 the Regional Marketing Organization for the PROVINCIAL, SUPER LOTO, and LOTTO 6/49 in its members' jurisdictions. The Ontario Lottery Corporation, Loto Québec, the Atlantic Lottery Corporation and the British Columbia Lottery Corporation are the Regional Marketing Organizations in Ontario, Quebec, the Atlantic provinces and British Columbia, respectively.

2. Summary of significant accounting policies

The financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles. The more significant of these accounting principles are presented below in order to assist the reader in understanding these financial statements:

A) Principles of combination

In addition to the results of the operation of the Western Canada Lottery Corporation and its financial position, the combined financial statements include the costs of delivery of lottery tickets incurred by related lottery organizations in each province or territory and their related assets and liabilities.

B) Accounting for the expenses of the PROVINCIAL, SUPER LOTO and LOTTO 6/49

As the Corporation is a Regional Marketing Organization for the PROVINCIAL, SUPER LOTO and LOTTO 6/49, it pays the Interprovincial Lottery Corporation its share of the cost of prizes for these games as well as its share of the ticket printing costs for the PROVINCIAL and SUPER LOTO. These costs (\$135,527,000), and the Corporation's share of the Interprovincial Lottery Corporation's operating expenses (\$535,000), and interest revenues (\$1,018,000) are reflected in the expenses and interest revenues in the combined statement of operations.

C) Income recognition

Lottery revenue is recorded as of the date of the draw with the exception of INSTANT game revenue which is recorded at the time of sale to the retailer. For lotteries with draws subsequent to March 31, 1988, the receipts, net of direct expenditures, as at March 31 are recorded as deferred revenue.

D) Fixed assets

Expenditures for fixed assets are capitalized at cost and are depreciated over their estimated useful lives. Expenditures for repairs and maintenance are charged to income. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts and any gain or loss resulting from their disposal is included in income.

Depreciation is provided on a straight line basis using the following rates:

Computer systems and other related game equipment	20%
Office furniture and fixtures	10%
Leasehold improvements	10%
Retailer fixtures and signage	20%

E) 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. Accordingly, a liability is not recorded for free ticket prizes unclaimed at year end.

F) Pension costs and obligations

The Corporation has adopted the new recommendations of The Canadian Institute of Chartered Accountants on accounting for pension costs and obligations with prospective application from April 1, 1987. Pension costs are actuarially determined using the projected benefit method pro-rated on service and management's best estimate assumptions. Adjustments arising from plan amendments, experience gains and losses, changes in actuarial assumptions and the difference between the actuarial present value of accrued pension obligations and the market value of pension plan assets at March 31, 1987 are amortized on a straight line basis over the employees' average remaining service life of 12 years.

3. Lottery Sales

Sales revenue by product is as follows:

	1988	1987
	(in thousands of dollars)	
LOTTO 6/49	\$255,113	\$260,398
INSTANT	122,085	85,413
WESTERN EXPRESS	46,624	59,482
SUPER LOTO	18,787	28,644
PROVINCIAL	23,591	25,241
LOTTO 6/36	35,690	—
LOTTO WEST	—	17,502
	<u>\$501,890</u>	<u>\$476,680</u>

4. Finance and administration expenses

Finance and administration expenses include expenses of related lottery organizations in the amount of \$4,042,000 (1987—\$3,979,000) which represent provincial costs related to the distribution of lottery tickets to retailers.

5. Fixed assets

Fixed assets are comprised of:

Computer systems and other

related game equipment

Office furniture and fixtures

Leasehold improvements

Retailer fixtures and signage

Cost	Accumulated Depreciation	1988 Net	1987 Net
(in thousands of dollars)			
\$29,734	\$16,664	\$13,070	\$ 7,981
1,035	311	724	828
5,030	1,800	3,230	3,455
5,236	3,612	1,624	1,510
<u>\$41,035</u>	<u>\$22,387</u>	<u>\$18,648</u>	<u>\$13,774</u>

6. Payment to Federal Government

The Interprovincial Lottery Corporation makes payments to the Government of Canada as a result of agreements made between the Provincial Governments and the Federal Government on the withdrawal of the Federal Government from the lottery field. The agreements require the provinces, on a combined basis, to make the following payments:

- \$100 million over a three year period to December 1987;

- \$24 million in 1979 dollars annually on an inflation-adjusted basis (currently \$40 million).

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 18.1 percent of the total in 1988. The cost is allocated between each member province based on their share of lottery ticket sales.

7. Funds administered by the Corporation

The Corporation distributes lottery income to beneficiaries on behalf of one of its member provinces. The undesignated funds are administered on behalf of the province by the Corporation and are not reflected in these statements.

8. Pension costs and obligations

The Corporation maintains a defined-benefit pension plan covering substantially all of its employees. Based on the latest actuarial report the estimated present value of the accrued pension benefits as at March 31, 1988 amounted to \$1,425,000 (1987 — \$1,150,000) and the market value of the net assets available to provide these benefits was \$1,657,000 (1987 — \$1,784,000).

The pension expense recorded in the accounts during 1988 amounted to \$124,000.

9. Statement of cash flows

A statement of cash flows has not been included with the financial statements as it would provide no additional information.

10. Comparative figures

The comparative operating expenses have been reclassified from the figures previously presented to conform to the presentation of the 1988 financial statements.

Each provincial and territorial government has established priorities for disbursement of lottery revenue. For lottery revenue disbursement information, write:

**Alberta Career Development
and Employment**

14th Floor, Park Square Building
10001 Bellamy Hill
Edmonton, Alberta
T5J 3W5

**Sask Trust for Sport, Culture
and Recreation**

1870 Lorne Street
Regina, Saskatchewan
S4P 2L7

Manitoba Lotteries Foundation

830 Empress Street
Winnipeg, Manitoba
R3G 3H3

Lotteries Yukon

312 Wood Street
Whitehorse, Yukon Territory
Y1A 2E6

Sport North

P.O. Box 504
Yellowknife, Northwest Territories
X1A 1H0

For further information on lotteries, call or write:

Western Canada Lottery Corporation

9th Floor, 125 Garry Street
Winnipeg, Manitoba
R3C 4J1
(204) 942-8217

