

WESTERN CANADA LOTTERY CORPORATION ANNUAL REPORT

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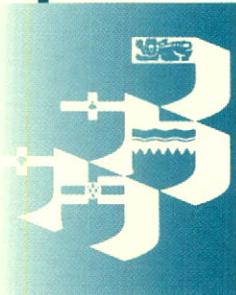


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BOARD OF DIRECTORS

Western Canada Lottery Corporation operates with a Board of Directors. Two directors are appointed to represent each member province.

Gary G. Boddez, Chairman
Alberta

Jim Burnett
Saskatchewan

Les Parry
Manitoba
Marvelle McPherson
(effective: April 6, 1993)

Don Jackson
Alberta

Ian McKay
Saskatchewan

Bill Funk
Manitoba

MISSION STATEMENT

Western Canada Lottery Corporation (WCLC) acts as agents on behalf of the governments of Alberta, Saskatchewan and Manitoba to manage and conduct gaming and related activities in cooperation with the Provincial Marketing Organizations (PMOs) to maximize long-term economic return to the governments while maintaining a high level of business integrity and social responsibility.

The Yukon Territory and the Northwest Territories participate as associate members in the sale of gaming and related products.



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Chairman's Report



As Western Canada Lottery Corporation (WCLC) moves towards the end of its second decade, it is appropriate to look back at the impact it has had in Western Canada. The Corporation was founded in May 1974, a cooperative venture of the four Provinces of Manitoba, Saskatchewan, Alberta and British Columbia ⁽¹⁾. It was founded to generate much needed revenue for the Provinces and to maximize this revenue by sharing each other's population base and the costs of operation.

Over its nearly twenty years in existence, the WCLC has successfully fulfilled its mandate. Sales have grown from \$22 Million in 1974-75 to over \$628 Million in 1992-93. This was a result of a rapidly expanding Canadian lottery market and the proven benefits of provincial cooperation both at a national level, with games like Lotto 6/49 and at the regional level, with successful Instant games as well as Sport Select and The Plus.

This highly successful business has produced over \$2 Billion of income in Western Canada, that has been delivered to the member governments and used in a variety of ways to improve the quality of life in our communities. Sports and Recreation funding through program and facility grants; Arts and Cultural assistance in the form of linguistic support, heritage funding as well as facility development; medical research support and many other forms of community development programs have been undertaken as a result of the lottery business in Western Canada.

Western Canada Lottery Corporation has worked diligently to be a leader in product and technological development and as a result has been able to ensure strong and steady growth and performance over the years.

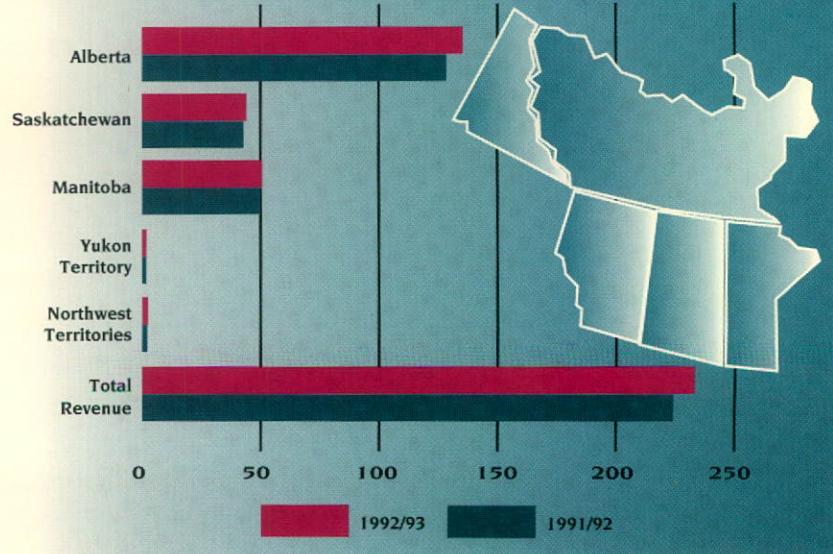
⁽¹⁾ British Columbia separated from the Corporation in 1985. Western Canada Lottery Corporation today includes the Provinces of Manitoba, Saskatchewan and Alberta, and the Yukon Territory and Northwest Territories.

The West has won in the lottery business as a result of the foresight of the founders of the Corporation in 1974 and the sound business principles implemented over the years by successive Boards and Management.

As Chairman of the Board I would like to congratulate the Management and Staff of the Corporation on another successful year and thank them for their continuing commitment to the Corporation.

Gary G. Boddez
Chairman of the Board

LOTTERY REVENUE (in millions of dollars)





PRESIDENT'S REPORT

It's been another great year for the lottery business in Western Canada. Western Canada Lottery Corporation experienced a record year with sales of \$628.9 Million in 1992-93, an 8.3% increase over the previous fiscal year.

Lotto 6/49, the national on-line game introduced in June of 1982, celebrated its tenth anniversary and continued to lead all products with sales of \$318.3 Million, 50.6% of total product sales.

Following the lead of Lotto 6/49, a number of regional games performed very well, contributing significantly to the overall growth of the Corporation.

Instant tickets sales soared to \$142.6 Million driven by the outstanding success of the \$2 Bingo game and the \$1 Blackjack game. These two products, which could be found throughout the year at the 3,000 Lottery Ticket Centres in Western Canada, were joined by shorter term theme

products designed around special events and other inviting concepts. Sales in the Instant portfolio increased by 32.4% over fiscal '92.

The Plus, an add-on game you buy for just \$1, continued to grow with sales surpassing the \$60 Million mark for the first time. This 14.4% increase was a direct result of over 50% of the players of Lotto 6/49 and Pogo saying "YES" to The Plus.

Sports enthusiasts continued to support Pro•Line and Over/Under. The combination of these two skill-based games generated Sport Select game sales of over \$58 Million, close to a 24% increase over the previous year.

In the fall of 1992, WCLC introduced a new daily game, "Pick 3". This new game, fashioned after successful Pick 3 games in other jurisdictions, has attracted a steady following with its new format.

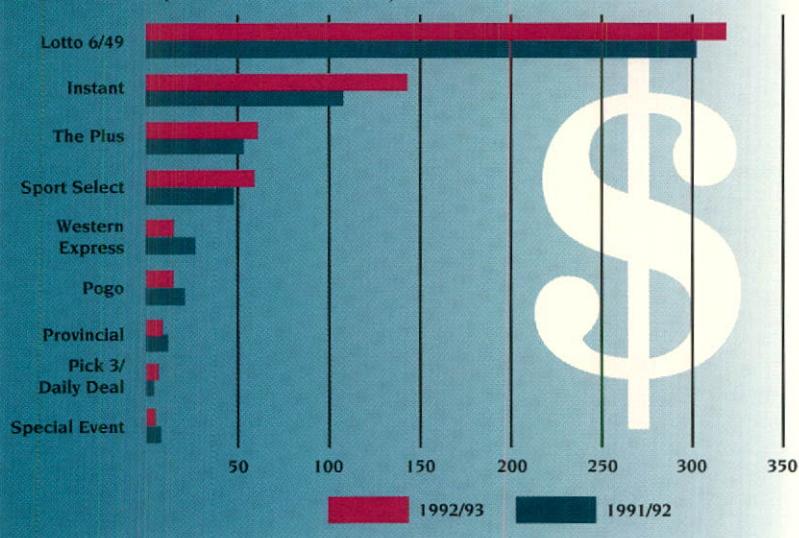
Additional support from Celebration '93, Provincial, Western Express and Pogo contributed to the record year we enjoyed.

Changes, in the form of a new national Lotto game, will be introduced in the upcoming fiscal year to ensure that lottery players continue to win prizes, and have fun with, WCLC's wide array of products, and the citizens of Western Canada continue to win through revenues generated by lottery sales in their region.

The staff of WCLC and the PMOs have contributed significantly to these successes, and I thank them for their hard work and good ideas.

Garth Manness
President

GAME SALES (in millions of dollars)

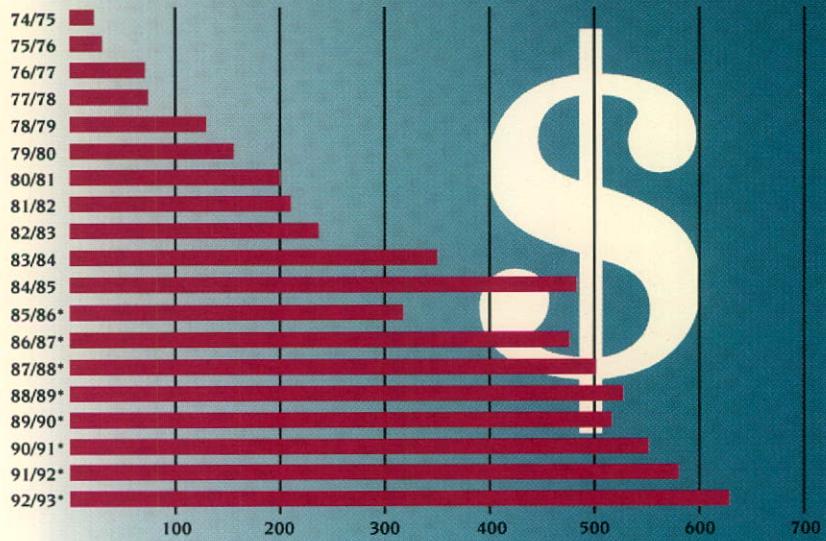


Performance Summary

Everyone's a winner! From the player who purchases a lottery ticket to the retailer selling the ticket, thousands of residents in Western Canada contribute to the success of Western Canada Lottery Corporation.

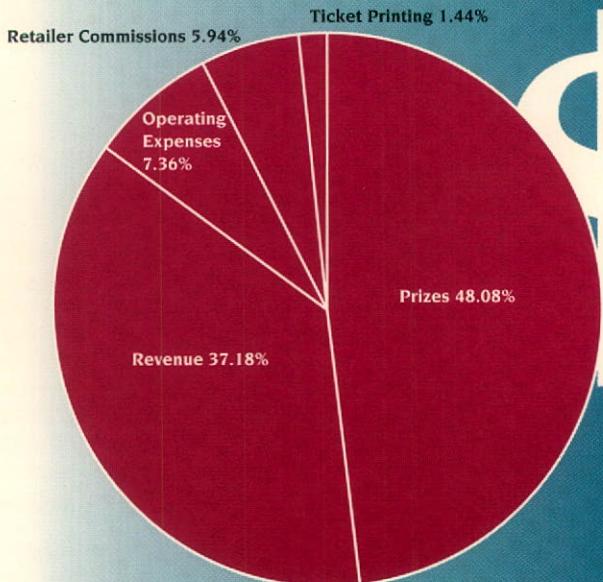
And that success is measured in many ways. Sales, revenue, prizes returned to players — these are our main measuring sticks. WCLC recorded its largest annual sales to date of \$628.9 Million in 1992-93, an 8.3% increase over last year. Revenue, which is earned for each Member in proportion to the sales in their Province/Territory, was just over \$232.8 Million. Prizes, what all players dream of when they purchase a ticket, totaled \$301.1 Million.

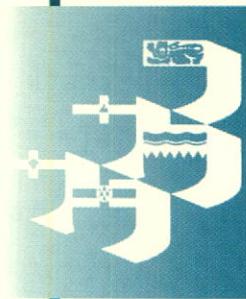
LOTTERY SALES (in millions of dollars)



*Note: All figures from 1985/86 onward exclude British Columbia which withdrew from the Corporation at the close of the 1984/85 fiscal year.

THE LOTTERY DOLLAR





LOTTERY PRIZES (in millions of dollars)



*Note: All figures from 1985/86 onward exclude British Columbia which withdrew from the Corporation at the close of the 1984/85 fiscal year.

Innovations are key to making any business a success and the innovations introduced by WCLC during the last fiscal year not only helped retailers, of which there are over 3,000 in Western Canada, but also the people that they serve, the players. Innovations like OLA (On-Line Accounting) helped WCLC and retailers better manage the flow of tickets. The full implementation of bar coded tickets enabled retailers to validate tickets faster and, in turn, provide better customer service to the player. After all, it is the player who is the key to our success.

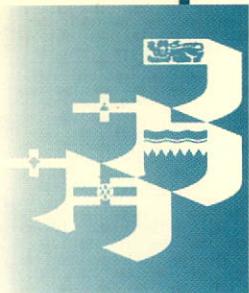
A look to the future will see WCLC continue to redefine its role. The technological advances and innovations of WCLC will continue to make lotteries more accessible and fun for Western Canadians and responsive to the demands of its customers.

LOTTERY REVENUE (in millions of dollars)



*Note: All figures from 1985/86 onward exclude British Columbia which withdrew from the Corporation at the close of the 1984/85 fiscal year.

** Figures from 1989/90 onward exclude ticket distribution and administration expenses. As well, an agreement between the provinces and the Federal Government requires ongoing payments of \$24 million in 1979 dollars annually to the Federal Government on an inflation-adjusted basis. Figures from 1979/80 to 1984/85 reflect revenue after these payments; figures from 1985/86 reflect revenue prior to these payments.



AUDITORS' REPORT

To the Members of the
Western Canada Lottery Corporation:

We have audited the balance sheet of the Western Canada Lottery Corporation as at March 31, 1993 and the statements of revenue and expense and changes in amounts due to Provincial Governments or appointed organizations for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

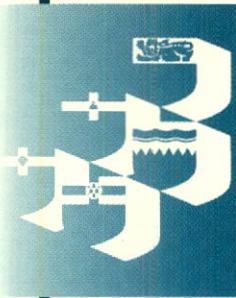
In our opinion, these financial statements present fairly, in all material respects, the financial position of the Western Canada Lottery Corporation as at March 31, 1993 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by Section 132 (2) of the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Winnipeg, Canada,

June 30, 1993.

Ernst & Young

Chartered Accountants



STATEMENT OF REVENUE AND EXPENSE

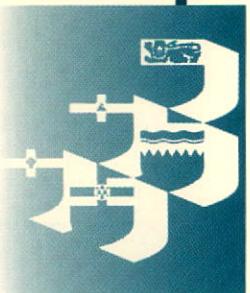
STATEMENT 1

WESTERN CANADA LOTTERY CORPORATION
STATEMENT OF REVENUE AND EXPENSE
YEAR ENDED MARCH 31, 1993

(in thousands of dollars)

| | 1993 | 1992 |
|--|------------------|------------------|
| Lottery sales (note 3) | <u>\$628,857</u> | <u>\$580,533</u> |
| Direct expenses: | | |
| Prizes | 301,094 | 264,160 |
| Retailer commissions | 37,168 | 34,458 |
| Ticket printing | 9,044 | 7,654 |
| | <u>347,306</u> | <u>306,272</u> |
| Gross income | 281,551 | 274,261 |
| Operating expenses: | | |
| Finance, operations and security | 7,656 | 13,001 |
| Marketing | 17,785 | 19,104 |
| Computer information and gaming systems | 13,510 | 12,602 |
| Depreciation and amortization | 7,145 | 5,202 |
| | <u>46,096</u> | <u>49,909</u> |
| Operating income | 235,455 | 224,352 |
| Other income (expense): | | |
| Interest and other income | 3,307 | 4,907 |
| Federal tax expense (note 5) | (5,925) | (5,360) |
| | <u>(2,618)</u> | <u>(453)</u> |
| Net income for the year | <u>\$232,837</u> | <u>\$223,899</u> |
| Net income allocated to the following provinces or territories: | | |
| Alberta | \$135,120 | \$128,373 |
| Saskatchewan | 43,759 | 42,586 |
| Manitoba | 50,481 | 49,727 |
| Yukon | 1,430 | 1,452 |
| Northwest Territories | 2,047 | 1,761 |
| | <u>\$232,837</u> | <u>\$223,899</u> |

(see accompanying notes)



BALANCE SHEET

STATEMENT 2

WESTERN CANADA LOTTERY CORPORATION
BALANCE SHEET
MARCH 31, 1993

(in thousands of dollars)

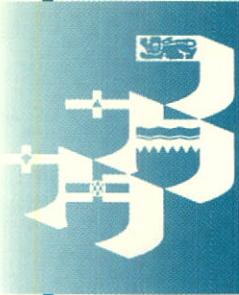
| | 1993 | 1992 |
|---|------------------------|------------------------|
| ASSETS | | |
| Cash: | | |
| Prize funds | \$ 14,503 | \$ 12,701 |
| Other | 9,876 | 17,268 |
| | <hr/> 24,379 | <hr/> 29,969 |
| Accounts receivable | 4,342 | 8,466 |
| Prepaid expenses | 2,448 | 1,998 |
| Fixed assets (note 4) | <hr/> 16,192 | <hr/> 10,396 |
| | <hr/> <u>\$ 47,361</u> | <hr/> <u>\$ 50,829</u> |
| LIABILITIES | | |
| Prizes payable | \$ 14,503 | \$ 12,701 |
| Payable to Interprovincial Lottery Corporation | 3,522 | 2,633 |
| Accounts payable and accrued charges | 15,196 | 4,917 |
| Deferred revenue | 4,367 | 5,259 |
| Due to Provincial Governments or appointed organizations | <hr/> 9,773 | <hr/> 25,319 |
| | <hr/> <u>\$ 47,361</u> | <hr/> <u>\$ 50,829</u> |

On behalf of the Board:


Director


Director

(see accompanying notes)



STATEMENT OF CHANGES

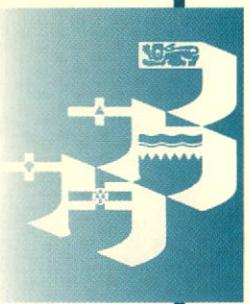
STATEMENT 3

WESTERN CANADA LOTTERY CORPORATION
STATEMENT OF CHANGES IN AMOUNTS DUE TO
PROVINCIAL GOVERNMENTS OR APPOINTED ORGANIZATIONS
YEAR ENDED MARCH 31, 1993

(in thousands of dollars)

| | 1993 | 1992 |
|--|-----------------|------------------|
| Due to Provincial Governments or appointed organizations, beginning of year | \$ 25,319 | \$ 17,166 |
| Add: | | |
| Net income for the year | <u>232,837</u> | <u>223,899</u> |
| | <u>258,156</u> | <u>241,065</u> |
| Deduct: | | |
| Distributions during the year | 239,821 | 207,259 |
| Payment to the Federal Government on behalf of the Provincial Governments (note 5) | <u>8,562</u> | <u>8,487</u> |
| | <u>248,383</u> | <u>215,746</u> |
| Due to Provincial Governments or appointed organizations, end of year | <u>\$ 9,773</u> | <u>\$ 25,319</u> |
| Due as follows: | | |
| Alberta | \$ 6,362 | \$ 14,299 |
| Saskatchewan | 1,798 | 6,023 |
| Manitoba | 1,413 | 4,492 |
| Yukon | 69 | 228 |
| Northwest Territories | <u>131</u> | <u>277</u> |
| | <u>\$ 9,773</u> | <u>\$ 25,319</u> |

(see accompanying notes)



NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1993

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 13, 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 gaming and related products. Each province and territory has appointed a lottery organization to assist the Corporation with the distribution of gaming and related products in its jurisdiction.

The Corporation is responsible for the conduct and management of lottery games in Western Canada. It solely conducts the WESTERN EXPRESS, POGO, THE PLUS, PICK 3, SPORT SELECT and INSTANT lottery games and participates in the conduct of the PROVINCIAL, SPECIAL EVENT GAMES and LOTTO 6/49 lotteries through the Interprovincial Lottery Corporation. In addition, the Corporation manages projects of gaming products for member provinces such as the operation of video lottery terminals in the Provinces of Alberta and Saskatchewan.

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 PROVINCIAL, SPECIAL EVENT GAMES and LOTTO 6/49 in its members' jurisdictions. The Ontario Lottery Corporation, Loto Quebec, the Atlantic Lottery Corporation and the British Columbia Lottery Corporation are the other Regional Marketing Organizations.

2. Summary of significant accounting policies

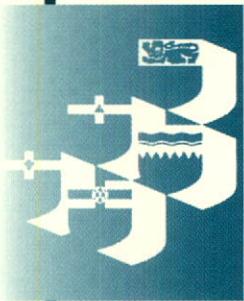
The financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles. The more significant of these accounting principles are presented below in order to assist the reader in understanding these financial statements:

- a) Accounting for the expenses of the PROVINCIAL, SPECIAL EVENT GAMES and LOTTO 6/49

As the Corporation is a Regional Marketing Organization for the PROVINCIAL, SPECIAL EVENT GAMES 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 SPECIAL EVENT GAMES. These costs, amounting to \$154,875,000 (1992 - \$149,379,000), and the Corporation's share of the Interprovincial Lottery Corporation's operating expenses, amounting to \$594,000 (1992 - \$532,000), and interest revenues, amounting to \$551,000 (1992 - \$809,000) are reflected in the expenses and interest revenues in the statement of revenue and expense.

- b) 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. For lotteries with draws subsequent to March 31, 1993, the receipts, net of direct expenditures, as at March 31 are recorded as deferred revenue.



c) 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% |
| Building and leasehold improvements | 10% |
| Retailer fixtures and signage | 20% |

d) 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.

e) Pension costs and obligations

The Corporation accounts for pension costs and obligations using the recommendations of The Canadian Institute of Chartered Accountants with prospective application from April 1, 1987. Pension costs are actuarially determined based on the value of pension plan assets and management's best estimate of the effects of future events on the actuarial present value of accrued pension obligations. Adjustments arising from plan amendments, experience gains and losses, and changes in actuarial assumptions, and the pension plan surplus at April 1, 1987 are amortized on a straight line basis over the employees' average remaining service life of 13 years.

The Corporation contributes to the pension plan based on the latest actuarial valuation of the plan. The cumulative difference between amounts expensed and the Corporation's funding contributions is included in prepaid expenses on the balance sheet.

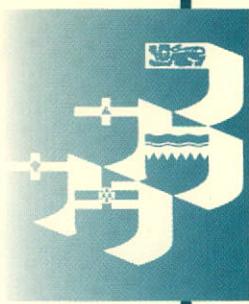
f) Accounting for project operations

The revenues and expenses of projects carried out on behalf of specific provinces are not included in these financial statements.

3. Lottery sales

Sales revenue by product is as follows:

| | 1993 | 1992 |
|---------------------|---------------------------|------------------------|
| | (in thousands of dollars) | |
| LOTTO 6/49 | \$318,359 | \$301,959 |
| INSTANT | 142,600 | 107,679 |
| THE PLUS | 60,755 | 53,106 |
| SPORT SELECT | 58,746 | 47,387 |
| WESTERN EXPRESS | 14,537 | 26,692 |
| POGO | 14,527 | 20,829 |
| PROVINCIAL | 8,508 | 11,469 |
| PICK 3 / DAILY DEAL | 6,290 | 3,767 |
| SPECIAL EVENTS | 4,535 | 7,645 |
| | <hr/> <u>\$628,857</u> | <hr/> <u>\$580,533</u> |



4. Fixed assets

Fixed assets are comprised of:

| | Cost | Accumulated Depreciation | 1993 Net | 1992 Net |
|---|----------|--------------------------|----------|----------|
| (in thousands of dollars) | | | | |
| Computer systems and other related game equipment | \$45,751 | \$35,218 | \$10,533 | \$ 3,019 |
| Office furniture and fixtures | 1,259 | 863 | 396 | 769 |
| Building and leasehold improvements | 7,800 | 4,495 | 3,305 | 3,721 |
| Retailer fixtures and signage | 9,469 | 7,511 | 1,958 | 2,887 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | \$64,279 | \$48,087 | \$16,192 | \$10,396 |

5. Commitments to the Federal Government

The Corporation made the following payments to the Federal Government:

| | 1993 | 1992 |
|------------------------------------|----------|----------|
| (in thousands of dollars) | | |
| Payment on behalf of the Provinces | \$ 8,562 | \$ 8,487 |
| Federal tax expense | 5,925 | 5,360 |
| | <hr/> | <hr/> |
| | \$14,487 | \$13,847 |

The Corporation's commitments to the Federal Government in respect to future payments are as follows:

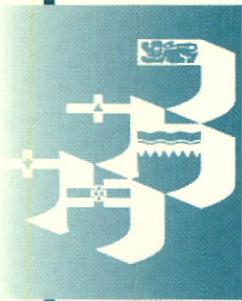
a) Payment to the Federal Government on behalf of the Provincial Governments

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 \$48 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% of the total in 1993. 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 Western Canada Lottery 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.



6. Lease commitments

The Corporation leases its various premises under operating lease agreements expiring at various dates to 1996. Future minimum lease payments, including an estimate of operating costs, are as follows:

| <i>(in thousands of dollars)</i> | |
|----------------------------------|---------|
| 1994 | \$1,107 |
| 1995 | 1,063 |
| 1996 | 466 |
| | <hr/> |
| | \$2,636 |

7. 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 accrued pension benefits as at March 31, 1993 amounted to \$3,749,000 (1992 – \$3,354,000). The market value of the net assets available to provide these benefits was \$5,279,000 (1992 – \$4,603,000).

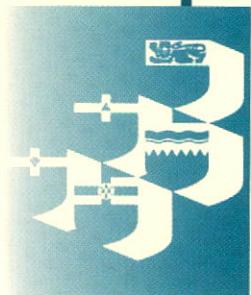
The pension expense recorded in the accounts during 1993 amounted to \$223,000 (1992 – \$237,000).

8. Statement of cash flows

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

9. Comparative figures

Certain of the comparative figures have been restated to conform with the presentation of the current year.



Western Canada Lottery Corporation (WCLC) manages and conducts lottery schemes in the three Prairie Provinces and two Territories. For further information on lotteries, contact:

Western Canada Lottery Corporation
9th Floor, 125 Garry Street
Winnipeg, Manitoba
R3C 4J1
Phone: (204) 942-8217
Fax: (204) 946-1921

Each provincial and territorial government has its own criteria for the disbursement of lottery revenue. For information on lottery revenue disbursements, contact:

Assistant Deputy Minister
Alberta Lotteries and Gaming
14th Floor, Royal LePage Building
10130 - 103rd Street
Edmonton, Alberta
T5J 3R2
Phone: (403) 422-9014
Fax: (403) 425-7972

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

Manitoba Lotteries Distribution System
3rd Floor, 213 Notre Dame Avenue
Winnipeg, Manitoba
R3B 1N3
Phone: (204) 945-0216
Fax: (204) 945-1675

Lotteries Yukon
312 Wood Street
Whitehorse, Yukon Territory
Y1A 2E6
Phone: (403) 668-6798
Fax: (403) 668-7561

Sport North
P.O. Box 504
Yellowknife, Northwest Territories
X1A 2N3
Phone: (403) 873-3032
Fax: (403) 920-4047

