Combining gaming and entertainment

2018-2019
ANNUAL REPORT

LOTO
QUÉBEC

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Mission

To responsibly and efficiently manage games of chance in a controlled and measured fashion, in the interest of all Quebecers.

Vision

To offer Quebecers first-rate entertainment thanks to an appealing, innovative and competitive offering, while remaining a recognized world leader for responsible commercialization.

Values

Integrity and agility

Integrity guarantees that the chances of winning are the same for everyone, and that the reliability and thoroughness of all processes are ensured. **Agility** allows us to adjust more quickly to market realities, particularly in terms of method, so we can remain competitive in the gaming and entertainment industry.

Client-centred and creator of emotions

Being **client-centred** means we are able to provide our clients with an unparalleled and satisfying entertainment experience, by applying high standards, listening to their concerns and demonstrating total respect in every interaction. Being a **creator of emotions** in the gaming and entertainment offering means using passion to engage the imagination of clients and generate moments of exhilaration.

Overall performance and innovation

Overall performance covers economic, social and environmental issues. It requires efficient and responsible management of the gaming and entertainment offering. **Innovation** means staying ahead of the curve to foster competitiveness. Developing partnerships also helps us expand our capacity for innovation.

Synergy and pleasure

Synergy leverages the varied skill sets of all our employees to deliver an integrated offer to clients. It is a matter of fostering teamwork by setting shared and consistent objectives. The **pleasure** derived from our work creates an environment that nurtures respect, appreciation and recognition. It kindles both personal and collective pride.

KEY FIGURES OF THE YEAR

AS AT MARCH 31

(In thousands of Canadian dollars)	2019	2018	$ Variation	% Variation
Total revenues	**2,827,087**	**2,742,167**	**84,920**	**3.1**
Lotteries	**955,737**	879,053	76,684	8.7
Casinos	**917,893**	906,947	10,946	1.2
Gaming establishments	**979,488**	981,581	(2,093)	(0.2)
Intragroup transactions	**(26,031)**	(25,414)	(617)	(2.4)
Gross margin	**2,326,527**	2,275,750	50,777	2.2
Total expenses	**918,321**	940,283	(21,962)	(2.3)
Net income	**1,408,206**	1,335,467	72,739	5.4
Dividend	**1,383,206**	1,310,467	72,739	5.6
Other amounts contributed to the Québec and Canadian governments	**181,565**	188,099	(6,534)	(3.5)
Total assets	**1,008,258**	1,113,851	(105,593)	(9.5)
Shareholder's equity	**110,887**	121,573	(10,686)	(8.8)

Total revenues

(In millions of Canadian dollars)	2019	2018	2017	2016	2015
	2,827.1	2,742.2	2,623.3	2,599.4	2,449.7

Net income

(In millions of Canadian dollars)	2019	2018	2017	2016	2015
	1,408.2	1,335.5	1,230.6	1,227.0	1,115.8

ECONOMIC AND SOCIAL CONTRIBUTIONS

$1,383.2M
Dividend to the Government of Québec

$1,159.6M
Prizes awarded to lottery and gaming establishment winners (bingo and Kinzo)

$448.4M
Employee benefits

$349.8M
Commissions to lottery and gaming establishment network partners

$280.0M
Purchases from companies conducting business in Québec

$139.2M
Taxes to governments

$17.4M
Contribution to the Government of Canada

$32.8M
Problem gambling prevention

$16.1M
Contributions to non-profit organizations

$10.0M
Sponsorships

Message from the Chairwoman of the Board of Directors

Loto-Québec paid a dividend of $1.383 billion to the Québec Government for the 2018–2019 fiscal year. This significant contribution will benefit all Quebecers by helping to finance public services. Strong financial results aside, the Board of Directors is very pleased with the work of the entire organization, which stayed focused on the objectives it set out in its 2017–2020 strategic plan.

Now in the second year of its three-year plan, Loto-Québec continues to follow its four strategic orientations: place the customer at the centre of its decision-making process, develop new growth opportunities that combine gaming and entertainment, foster goodwill towards the organization and its offerings, and improve its agility and work processes.

Loto-Québec works to continually take its offering and customer service to the next level in order to meet the expectations of Quebecers. The Corporation has also continued working to converge its product families—namely, by pursuing ongoing efforts to strengthen the connection between its online and land-based networks.

The shift to entertainment has surged with the introduction of new products and themed activities that encourage social interaction. The Corporation also maintains partnerships with events and stakeholders in the gaming and entertainment industry to reinforce its positioning.

Responsible commercialization remains one of Loto-Québec's key priorities. It's a commitment the Corporation upholds by implementing measures to ensure the integrity of games and their distribution channels and by requiring lottery and video lottery terminal (VLT) retailers, as well as its establishments, to comply with responsible commercialization codes.

Hélène F. Fortin, FCPA, FCA, ICD.D
Chairwoman of the Board of Directors

December 2018 marked the end of a key phase in the VLT network action plan, as the final mandatory withdrawals were completed in targeted areas. Not only has Loto-Québec reshaped its network, which led to a decrease in the number of terminals to fewer than 9,900, but it has tightened its control over this sector through measures such as increased compliance visits.

Loto-Québec has introduced a number of assistance and awareness initiatives that have made it a world leader in the responsible commercialization of games of chance. The Corporation's Level 4 Responsible Gaming Framework Certification, which it earned from the World Lottery Association and is the highest international recognition for responsible gambling measures, is a testament to this.

The Board of Directors is very pleased with the work of the entire organization.

As it keeps a close eye on Loto-Québec's operations, the board has been a first-hand witness to the teams' effective management of resources. There is a clear commitment to continual improvement throughout the Corporation.

Appointments and acknowledgments

In February, the Government of Québec's Conseil des ministres renewed Lynne Roiter's mandate as President and CEO. The entire board appreciates all that she accomplishes on a daily basis at the helm of Loto-Québec.

In March, following appointments made by the Conseil des ministres, Jean-François Blais and Ann MacDonald joined the Board of Directors. We're thrilled to have them and wish them a warm welcome.

I'd like to take this opportunity to express my gratitude toward all my fellow directors. It would not be possible to maintain best governance practices without their hard work and dedication.

In closing, on behalf of the board, I offer my sincere thanks to the members of the Executive Committee and everyone at Loto-Québec for the integral part they played in helping the Corporation achieve the strong results it did over the past year.

Hélène F. Fortin, FCPA, FCA, ICD.D
Chairwoman of the Board of Directors

Message from the President and Chief Executive Officer

Owing to the solid performance of all our sectors and the tight rein we kept on expenses, we are reporting strong results for the fourth straight fiscal year. Our total revenues rose by $84.9 million, a 3.1% increase from the previous fiscal year. Our consolidated net income is up $72.7 million, or 5.4%, compared to last year, surpassing our budgetary target by $147.4 million, or 11.7%. Meanwhile, total expenses declined by $22 million, or 2.3%, compared to 2017–2018.

It was a remarkable year for the lottery sector, largely due to the many incredible jackpots that were offered through Lotto Max. Instant lottery and event betting sales both saw continued growth.

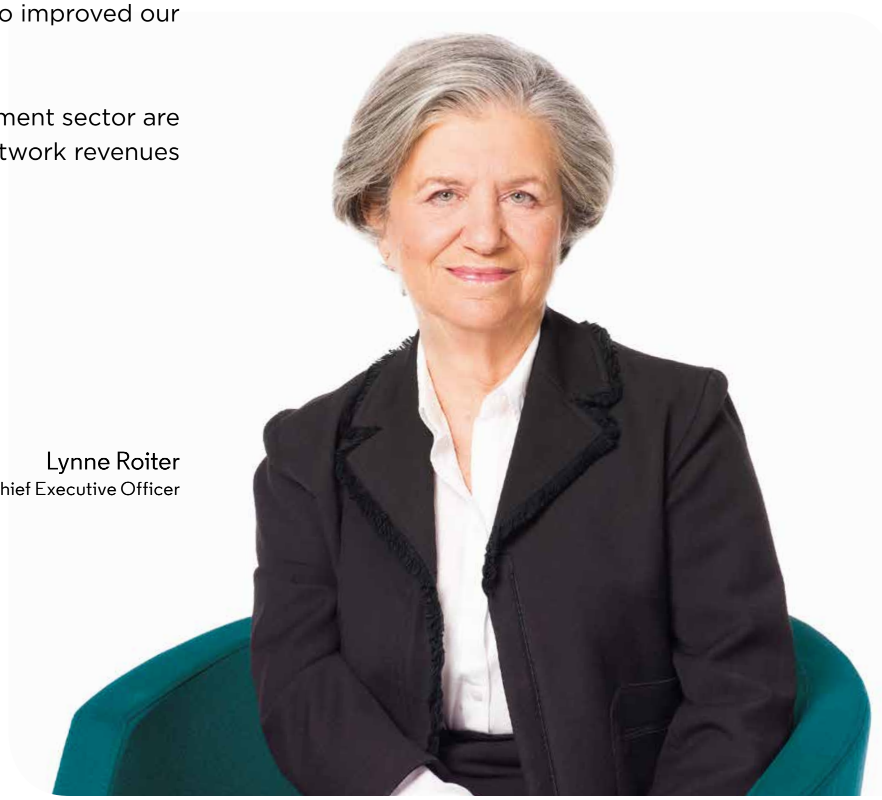
The casino sector also delivered strong results, mainly due to the success of its series of themed events, which give our customers the chance to experience our entertainment offer in many different ways.

Our online gaming site—lotoquebec.com—remains strong, as reflected by the 23.2% surge in revenues it achieved over the last fiscal year. In 2017–2018, we developed a portal that makes it easier to navigate between lottery and casino games. This not only gave our revenues a significant boost but also improved our market share.

While revenues in the gaming establishment sector are relatively stable, bars and brasseries network revenues experienced a slight drop.

The decline was more pronounced in sectors where we removed video lottery terminals (VLTs). Gaming halls, however, saw strong growth.

It is important to note that the introduction of new accounting standards[1] has changed how we present our financial statements for lotteries, bingo and Kinzo. The prizes paid out are now deducted from revenues, as was already the case for casinos and video lotteries, though this does not affect the gross margin or net income. Figures for previous years have been adjusted for comparison purposes.



Lynne Roiter
President and Chief Executive Officer

[1]Details have been provided on page 46 in the notes accompanying the financial statements.

A winning strategy

We owe these remarkable results to the vision outlined in our 2017–2020 strategic plan. We've remained focused on the customer, strengthened our focus on gaming and entertainment, maintained our responsible commercialization approach, and continued to improve our work processes in order to optimize convergence, agility and efficiency.

We owe these remarkable results to the vision outlined in our 2017-2020 strategic plan.

A client-centric year

Once again, we produced many winners across all of our gaming sectors. We paid out a record 129 lottery prizes worth $1 million or more.

The number of winners stopping by the lottery prize claim centres in our casinos and gaming halls is on the rise, which proves that our customers appreciate having these services nearby.

We organized a full year of festivities to mark the 25th anniversary of the Casino de Montréal, our very first casino, which opened its doors on October 9, 1993. We treated our customers to a number of surprises as a token of appreciation for their loyalty.

We also adapted some of our products to meet our customers' expectations. Gagnant à vie and a few other lotteries were given brand-new looks, and upgrades were made to our event betting offer.

Entertainment first

A number of initiatives have helped underscore our new focus on entertainment, including themed event series in our casinos and gaming halls. Customers can choose from a variety of entertainment options, including stopping by one of our restaurants or bars, attending a show or playing our wide range of games.

We've also introduced one-of-a-kind products such as the Boîte à bingo, a cross between a board game and scratch game—all in the name of putting a smile on our customers' faces.

Another new product that we launched—this time for our casino game fans—was Live Casino. It allows them to play online table games and chat with live hosts in real time. We also added keno games to lotoquebec.com.

To draw new customers to the world of bingo, we've launched a pilot project for electronic bingo known as bingo+. Available at four bingo halls, bingo+ encourages social interaction and offers a new form of entertainment. Keep in mind that bingo is a source of financing for many non-profit organizations.

By providing festival-goers with fun experiences, we've infused entertainment into our sponsorships. We've also maintained our partnerships in the video game and innovation sectors.

A responsible approach

Commercializing our products responsibly is a constant priority, as demonstrated by our World Lottery Association Level 4 Certification, the highest level possible. We're working toward renewing our certification for 2020.

Over the past year, we've launched several information and awareness-raising initiatives, including a campaign about the importance of respecting one's limits, an online content on games of chance and how they work, and a new slide-out menu on lotoquebec.com that links to information on responsible gambling.

Training our employees and retailers is another important part of responsible commercialization, and significant efforts are being made in that area.

Increasing our monitoring of video lottery retailers was part of the VLT network action plan. In addition to reconfiguring the network, which now has fewer than 9,900 VLTs, we've introduced stricter rules for all licence holders under the responsible commercialization code. The government has also adopted new socio-economic criteria for the distribution of terminals based in part on the underprivileged area scoring system used by the Institut national de santé publique.

The support we offer to various philanthropic causes has not wavered. Our employees once again gave generously to the *Tous gagnants* campaign for Centraide, HealthPartners-Quebec, the Québec division of the Canadian Red Cross and Moisson partner organizations.

Commercializing our products responsibly is a constant priority.

Profitable improvements

We've continued to improve and standardize the way we do things. Our goal is to have a convergent offering that meets customers' expectations and habits, and to be more efficient.

We've made improvements to our slot machines, online gaming site, lottery kiosks and lottery prize payout process.

In recent years, we've made sure to keep a tight grip on our expenses, and this year was no different. This can be seen in the $20 million we reduced in our spending compared to the previous fiscal year, which also saw a decrease.

Acknowledgments

First, I'd like to thank the Board of Directors and the government for placing their trust in me and renewing my mandate in February.

I'd also like to take this opportunity to say welcome to Jean-François Blais and Ann MacDonald, who joined the board at the end of the fiscal year.

Thank you to my fellow Executive Committee members for your invaluable contributions and unwavering support.

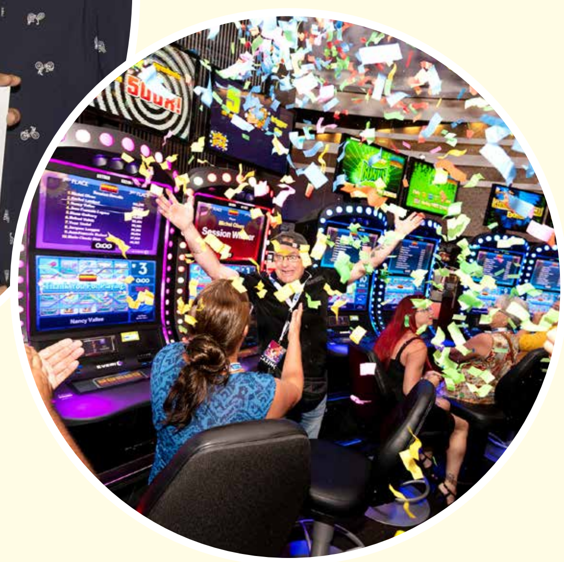
I extend my best wishes to André Dumouchel and François Tremblay, who retired at the start of the 2019–2020 fiscal year after serving respectively as Corporate Vice-President of Human Resources and President of Operations of the Société des établissements de jeux du Québec. Thank you for everything you've done for the Corporation.

Loto-Québec's entire staff also deserves recognition for their exemplary work. The dedication and professionalism of our employees is the real reason for the tremendous year we've had, and I cannot thank them enough.

Finally, I would like to thank our customers. Their trust in us is what drives us to keep raising the bar.

Lynne Roiter
President and Chief Executive Officer

Review of activities



ORIENTATION • 1

Place the customer at the centre of our decision-making process

Placing the customer at the centre of all our decisions is an invaluable source of competitive differentiation. Our offer, our commercialization methods, our marketing strategies and our customer service must reflect consumer gaming and entertainment expectations and habits.

Winners… and lots of them!

We made 34,236 payouts in lottery prizes during the fiscal year, not including the prizes of $600 or less that retailers paid out.

129

Record number of prizes of $1M or more

- Number of prizes of $1 million or more: 129
- Number of new millionaires: 93
- Number of millionaires since 1970: 1,828

Online winners

Lotoquebec.com players took home 22 prizes of $100,000 or more.

Casino winners

Our four casinos paid out 44 prizes of $100,000 or more in the past year. Here are the biggest prizes:

- A $1,669,422 bad beat jackpot in poker (a North American record)
- Two $1 million grand prizes through the Gagnant à vie slot machine

Winners found

Four press releases were sent out to locate the owners of unclaimed winning tickets for $1 million and more. Our strategy worked, and two lucky winners were found. All prizes worth $1 million or more were claimed before the deadline.

Payment centres

Customers are making the most of the lottery payment centres at our casinos and gaming halls. In fact, close to 20% of prizes were claimed there.

A winner a day

On average, we paid out the following number of prizes over the past fiscal year:

- 78 lottery prizes worth $1,000 or more per business day
- 7 prizes worth $10,000 or more per day in casinos

Lotto Max

Lotto Max saw 26 draws with a jackpot of $50 million or more compared to 14 last year. There was also a total of 691 Maxmillions compared to 112 in 2017–2018.

26
draws
with a jackpot of $50M or more

Gagnant à vie

Sales of the special-edition Gagnant à vie scratch ticket increased by 64% compared to 2017–2018. Gagnant à vie also got a new look with a fresh logo and photos inspired by trends seen on Instagram.

Biggest grand prizes won in Québec throughout the year

PRIZE	LOTTERY	DRAW DATE	WINNER'S PLACE OF RESIDENCE
$60,000,000	Lotto Max	June 8, 2018	Centre-du-Québec
$40,000,000	Lotto 6/49	October 3, 2018	Montérégie
$33,600,463	Lotto 6/49	August 29, 2018	Bas-Saint-Laurent
$26,600,135	Lotto Max	February 1, 2019	Montérégie
$17,600,769	Lotto Max	July 27, 2018	Lanaudière, Laurentides, Laval, Montérégie, Montréal
$10,985,156	Lotto 6/49	May 16, 2018	Lanaudière
$9,785,890	Lotto 6/49	June 9, 2018	Montérégie
$7,000,000	Lotto 6/49	June 23, 2018	Lanaudière
$6,116,456	Lotto 6/49	July 25, 2018	Chaudière-Appalaches
$5,000,000	Célébration 2019	January 13, 2019	Montérégie

Lottery survey

Here are some of the findings from the annual study on the public's perception of lottery games:

- 92.0% of the population feels that Loto-Québec offers attractive lotteries
- 88.9% of the population likes our lottery ads

25th anniversary

The Casino de Montréal turned 25 last October. We organized a number of special activities (promotions, tournaments, special offers, etc.) to mark the occasion.

US$1 million tournament

For the second consecutive year, 10 of our players competed for the US$1 million grand prize in the TournEvent of Champions—North America's biggest slot tournament.

Football frenzy

Mise-o-jeu bets on the 2019 Super Bowl reached an all-time high—up 7.9% compared to last year.

Sports on the rise

Compared to last year's sales in sports betting, soccer (+28.3%) and basketball (+23.5%) saw the biggest jumps.

Sales are up

There was an increase in event betting sales both online and at retailers compared to last year.

More questions

Given the ever-increasing popularity of event betting, there were 12.3% more betting opportunities compared to last year. We asked betting fans a total of 377,701 questions.

More winners

The number of prizes worth $1,000 or more won through event betting increased by 12.2%.

ORIENTATION • 2

Develop new growth opportunities combining gaming and entertainment

We're stepping up the renewal of our overall offer to create an unparalleled entertainment experience, relying on the extensive expertise we've acquired over the years and establishing relevant partnerships to strengthen our entertainment positioning.

Holiday collection

Holiday collection lottery ticket sales were up, mainly due to a higher purchase incidence among people aged 18 to 34. The most popular ticket was the holiday edition of Mots cachés. As for the Calendrier de l'avent, 90% of 25–34-year-olds who bought this ticket in 2018 had also bought one in 2017.

One-of-a-kind lotteries

The work of two Québec artists was featured on two new series of scratch tickets:

- Collection avec amour, designed by Marie-Claude Marquis
- Tatouage, designed by Rebecca Guinard

More scratch tickets

Partnerships and social media initiatives meant good visibility for these scratch tickets among people aged 18–34:

- Californie
- Voyage de pêche
- Phobie
- Liste de vie!

Boîte à bingo

The brand-new Boîte à bingo is a cross between a board game and scratch ticket. Each box includes five bingo games for up to eight players. While the game promises to be a sure-fire hit with bingo lovers, we hope that it will also appeal to customers who prefer board games to traditional scratch tickets.

What's new with *La Poule aux œufs d'or*

We made a few changes heading into the 2018–2019 season:

- New co-hosts: Sébastien Benoit and Julie Houle
- New format: Each contestant is now paired up with one of the hosts
- New bonus prizes: In 5 different games, we gave away 10 bonus prizes of $10,000

Célébration 2019

The popular holiday lottery saw a 7.0% increase in sales compared to last year. Hosted by Marie-Mai, the televised gala on January 13 drew 1.43 million viewers or 5.5% more than last year.

Célébration 2019 garnered ***1.43 million*** viewers.

Roue de fortune chez vous!

The Roue de fortune chez vous! televised series celebrated its 30th season last summer. Over the years, the lottery has paid out $154 million to more than 3,700 winners.

Popular online lotteries

Televised lotteries and Quick Plays saw increased sales on our website compared to last year:

- La Poule aux œufs d'or: +75.9%
- Roue de fortune éclair: +57.7%

Christmas markets

We decided to join in the fun and promote our holiday lotteries at Christmas markets. By setting up kiosks, we were able to interact directly with the public.

Mise-o-jeu kiosk

Our Mise-o-jeu kiosk is a great place for sports fans to learn about event betting. The kiosk made 20 different appearances over the year, namely at Montreal Alouettes games, sports bars and the Casino de Montréal.

Award-winning ads

Many of our lottery ads received awards this year, namely at the following awards shows:

- Marketing Awards: Seven awards, including three gold awards
- Batchy Awards: Four awards
- Prix Média: Four awards, including a top award in the Best Unconventional Campaign category
- STRAT: Two awards, including a top award in the Sustained Success category
- Boomerang: Two awards, including a top award in the Social Media Strategy category

Live Casino

In January, we introduced Live Casino, giving customers a new way to play online. In this section of the website, players get to chat with real-life hosts and the games are broadcast live.

Themed event series

We kept our customers entertained with these themed event series at our casinos throughout the year and over the holidays:

- *Leave in a BMW*
- *Retro Casino*
- *It's Country*
- *Let's Get Lucky!*
- *Vegas Nights*
- *Now Boarding*

La Base

We created a special area at the Casino de Montréal where first-time slot players can learn slot machine basics. Known as La Base, it's the only one of its kind in North America.

Progressive jackpots

A total of 12 blackjack tables with progressive jackpots were added to the table game areas at our four casinos. These new tables were added for players who love having more betting options.

Online keno

Two keno games were launched this year on lotoquebec.com, giving online players additional gaming options.

Exciting promotions

Our promotions at the Trois-Rivières and Québec gaming halls (*L'Italie en folie* and *L'étoile du match*, respectively) generated higher traffic and an increase in revenues. A perfect mix of gaming and fun, these promotions were a hit with our customers.

Bingo+

Bingo+ was launched in four bingo halls as part of an electronic bingo pilot project. The new regulations have made it possible for us to offer different types of bingo games.

Kinzo

The themed promotions at our Kinzo halls were a huge success all year long. These were some of the most popular:

- *Vendredi fou*
- *Nouvel An complètement Kinzo*
- *Kinzo à l'aventure*

Event sponsorships

Last year, we created interactive experiences at several summer festivals to promote the following:

- Loto de l'été
- Roue de fortune chez vous!
- Lotoquebec.com

We also set up these unique brand activations to enhance the festivalgoers experience:

- A Casino de Montréal-branded rooftop patio with live mural painting by local artist Monosourcil
- Lotto 6/49 lost and found kiosk

An award-winning blog

The Société québécoise des professionnels en relations publiques crowned our blog with gold in the Writing category. The blog (Toutunblogue.com) features short, reader-friendly posts about the various entertainment options that Loto-Québec offers.

DreamHack and Comiccon

To show our support for independent game developers, we set up our Indie Game Zone at both events to showcase the latest projects from dozens of studios.

Collaborative innovation

To encourage forward thinking and collaborative innovation, we provide funding to start-up labs, incubators and accelerators such as MT Lab, Centech and GamePlay Space. These partnerships allow us to act as an economic lever for a booming sector.

Main sponsorship activities promoting our products last summer

Giant scratch game

For this interactive experience, festival attendees competed in a memory-based scratch game for a chance to win the prize inside the Loto-Québec treasure chest.

The portal

Attendees stepped into a 100% digital world inspired by our "A world of entertainment" tagline. Equipped with a tablet and headphones, they had one minute to find hidden numbers amid casino-related symbols in a world of augmented reality.

Ton été en 360°

Through this fun and interactive activity, attendees got to create their own festival souvenir. First, they had to use a trampoline to get numbers that would potentially unlock the treasure chest. The whole thing was captured in a 360-degree photo.

Musical bikes

We invited festivalgoers to take a spin on our musical bikes. They had less than a minute to recreate a song by pedaling together. If they managed to play the song correctly, a code would appear on the screen which they could then use to unlock the treasure chest.

ORIENTATION • 3

Foster goodwill towards our organization and offerings

We're continuing to do everything we can to contribute positively to the Québec community. We're constantly striving to maintain a balance between the economic and social dimensions of our mission. This balance depends on the responsible commercialization of our offer.

Winner visibility

We organized a lot of activities with lottery winners over the past year:

- 7 meetings with winners and the media in 6 different regions
- Over 60 interviews on video
- 875 press releases
- An advertising campaign featuring real winners

875
press releases announcing winners

Responsible gambling

Launched this year, our *Respecting Your Limits, the Right Call* responsible gambling campaign consisted of the following:

- Two videos about the importance of making the right decision
- Three videos starring comedian Jean-Thomas Jobin
- Targeted posters in bars and brasseries with video lottery terminals

Winning innovation

Lottery winners receive support through a virtual reality tool. The tool—developed in collaboration with the Jasmin Roy Sophie Desmarais Foundation—won the World Lottery Association's Jean Jorgensen Merit Award.

It's All Up to Chance

New content was posted online to explain the role chance plays in gambling. It gives a fun explanation of the odds of getting your so-called lucky number. The *It's All Up to Chance* series is available on the agameshouldremainagame.com website.

Loto-responsable

Our new *Loto-responsable* training program was introduced to help lottery retailers and their employees brush up on their knowledge and skills. The annual program will be revised every year to ensure it stays up to date.

Taking Risks Is No Game

The responsible gambling training course for video lottery retailers and their employees was taken by 3,016 people over the year.

Centre du hasard information kiosks

The Centre du hasard information kiosk hosts at our casinos took part in themed activities all year long to continue raising player awareness in a fun and engaging way.

New service for self-excluded players

All players who register for the self-exclusion program at our casinos and gaming halls will now receive a follow-up call from a Gambling: Help and Referral counsellor. This service was developed in collaboration with Québec's Ministère de la Santé et des Services sociaux.

Your Best Bet

The new Your Best Bet tab on lotoquebec.com gives players instant access to information about responsible gambling from any page on the site.

A Closer Look at Chance

The A Closer Look at Chance activity conducted at the Centre du hasard information kiosks at our casinos and gaming halls won a Batchy Award in the Responsible Gambling Communication – Electronic category from the North American Association of State and Provincial Lotteries. It involves a fun quiz about chance played on electronic tablets.

Fewer VLTs

As of March 31, 2019, there were fewer than 9,900 active video lottery terminals (VLTs) in the network, which exceeds the sub-10,000 target set out in our VLT network action plan. Since implementing the plan, we've withdrawn over 1,100 VLTs.

Socio-economic criteria

As part of the VLT network action plan, new socio-economic criteria for installing VLTs were approved by the government. The criteria have been updated to ensure that they accurately reflect current realities.

The *Ici, on carte!* program

ICI ON CARTE ! *

* HERE WE CARD

Based on the *Ici, on carte!* program for lottery retailers, a new online training program for bar and brasserie owners and employees was launched in April 2018.
Last year, over 7,000 people took the training and are now better equipped to guess a customer's age.

Mystery shoppers in bars and brasseries

We send mystery shoppers to bars and brasseries that operate VLTs to ensure that these establishments follow the Code of Responsible Commercialization. Last year, terminals were taken away from three locations that failed to meet the Code.

Bingo+

We developed the following reference tools to accompany the launch of bingo+:

- A brochure describing the game and certain myths
- A guide for hall managers to follow if they see a player struggling with a gambling problem, and a card listing the available resources

Bingo gives back

Through our network bingo activities, we were able to distribute over $6 million to more than 600 non-profit organizations (NPOs).

$6M
went to over 600 NPOs thanks to bingo

Summit in Charlevoix

On June 8 and 9, Fairmont Le Manoir Richelieu hosted the G7 Summit while the Casino de Charlevoix was turned into a secondary media centre. Gregory Charles headlined the re-opening of the Casino on June 12.

Supporting the community

Over the past year, we invested $10 million in event sponsorships. We supported 65 festivals and events of all sizes that gave their regions an economic, social, tourism and cultural boost.

BOMA BEST

We renewed our BOMA BEST certifications for our multi-functional complex (Gold) and our head office (Silver). The Casino de Mont-Tremblant maintained its gold-level certification for excellence in environmental management.

Les Vivats

The *Les Vivats* competition recognizes eco-friendly events, and we sponsored two awards in 2018:

- The Grand Vivat (budget under $500,000): The Équiterre Change the World Run
- The Grand Vivat (budget over $500,000): Le Festif! in Baie-Saint-Paul

A strong presence

We came in first in the Presence category of the Ipsos-Infopresse index at the 2018 STRAT Awards. The index is based on a public survey used to determine the most influential brands in Québec.

Prix excellence tourisme 2018

Le Festif! won the Loto-Québec Sponsorship Award at the Prix excellence tourisme 2018 gala for its know-how, expertise and creativity in the tourism industry.

Artistic legacies

Two works of public art donated by Loto-Québec were inaugurated this past year:

- *Un habitat forgé par le ciel*, by artist Danielle April, in downtown La Malbaie
- *Humanitude*, by artist Serge Olivier Fokoua, in front of Gatineau's Maison du citoyen

Contemporary Art Fair Papier18

In partnership with the Contemporary Art Galleries Association and Papier, we gave five winners $1,000 each to purchase a work of art.

The Mouvement contest

Muses Design Urns won the $10,000 Loto-Québec prize in the 2019 Mouvement contest. Mouvement was created by Novae and Loto-Québec to foster social innovation.

Les Petits Rois work placements

The Les Petits Rois foundation offers training for adults with a moderate to severe intellectual disability. Since 2017, we've offered work placements to students at our head office and the Casino de Montréal, where they have the chance to develop social and professional skills while completing simple yet essential tasks.

4 casinos, 4 Moisson organizations

Our casino staff took part in our annual campaign in support of four Moisson organizations:

- Over 13,000 kg in food donations
- Around $84,500 ($25,000 of which were raised by the Casino de Montréal as part of its 25th anniversary) distributed among the four organizations served by the campaign
- Customer donations collected in piggy banks at our casinos’ cash desks

Big-hearted employees

Once again, our employees proved themselves to be very generous this past year:

- $166,297 was raised during the *Tous gagnants* campaign
- 885 new books were donated to the Literacy Foundation
- 311 backpacks were filled with school supplies for children in need
- 132 children were sponsored during Operation Santa Claus

ORIENTATION • 4

Improve our agility and work processes

Improving our agility and work processes makes us ever more flexible and efficient. These are essential assets in the rapidly changing gaming and entertainment markets. The skill, versatility and commitment of our staff contribute to the success of this optimization process.

Optimal management of our slot machines

The following improvements were made to our slot machine renewal procedure:

- We adopted international certification standards to reduce the delays involved in setting up new games
- We streamlined the handling steps required before the launch of new games

Complementarity

In order to continue improving our online offering, we set up a multisector committee that focuses on the complementarity of the following:

- Casino and online games
- Promotions and special offers, regardless of the channel
- The entertainment experience

A fast-growing website

Linking the Web and mobile versions of the Lotteries site helped enhance the customer experience and increased our online lottery revenues by 34.6%.

34.6%
increase in online lottery revenues

Top employer

The Casino du Lac-Leamy ranked among the best employers in the Gatineau and Ottawa region in the 2018 National Capital Region's Top Employers competition. The accolade is a testament to our efforts to provide our employees with an exceptional place to work.

Hilton Lac-Leamy

The Hilton at the Casino du Lac-Leamy ranked first in Canada and second in North America among the top Hilton hotels with 500 rooms or less. Thanks to our hard-working staff, the Hilton Lac-Leamy has been offering award-winning services for 18 years.

New kiosks

To advance our business model, we've installed lottery kiosks in seven Walmarts.

Winners' Experience

Our customer service team created the Winners' Experience program to make sure that all lottery winners are treated to a similar experience and personal service no matter which payment centre they visit to claim their prize.

Prize payout training

We put together a professional development program for the staff in charge of prize payouts at our eight lottery payment centres. The program ensures that staff members have the knowledge and skills required to serve customers in our establishments, where payments are made less frequently.

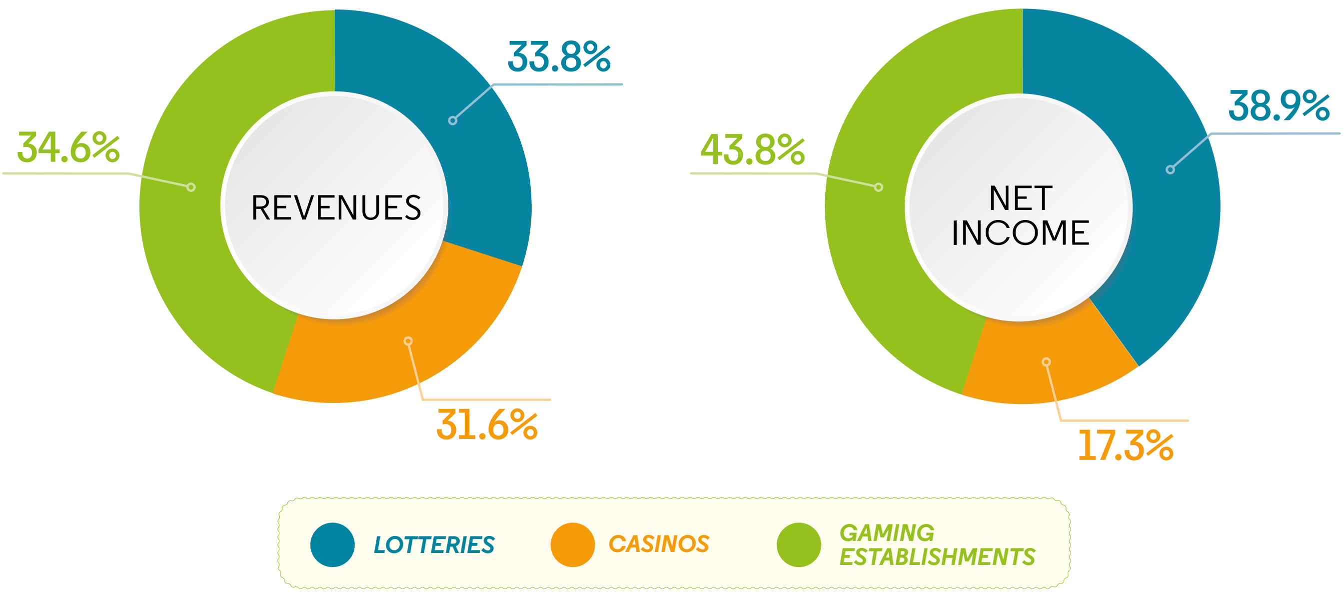
IT transformation program

The IT transformation program is now in its third year. The introduction of cloud computing and other tools will improve our work processes.

Financial review

FINANCIAL REVIEW

AS AT MARCH 31, 2019



By the end of the 2018–2019 fiscal year, Loto-Québec's total revenues reached $2.827 billion, a $84.9 million or 3.1% increase from the previous fiscal year.

The consolidated gross margin totalled nearly $2.327 billion, compared to $2.276 billion in 2017–2018, an increase of $50.8 million, or 2.2%. Total expenses, including net financial expenses, reached $918.3 million, representing a drop of $22.0 million, or 2.3%. The consolidated net income was $1.408 billion, up $72.7 million, or 5.4%, from the preceding fiscal year.

Lotteries

With revenues of $955.7 million, the lottery sector reported an increase of $76.7 million, or 8.7%, compared to the previous fiscal year.

The increase in revenues is primarily due to the strong performance of Lotto Max, for which sales were over $52.3 million, or 30.6% higher, than those in 2017–2018. The number of major jackpots offered by this lottery was exceptionally high this past year due to chance circumstances. There were 26 jackpots of $50 million or more—namely, 5 of $50 million, 4 of $55 million and 17 of $60 million—as well as 691 Maxmillions. Comparatively, 14 jackpots of $50 million and 112 Maxmillions were awarded in the previous year.

The instant lottery category continued to increase (up $18.8 million, or 12.3%) due to the overwhelming popularity of permanent games and $10 games. Changes made in product management over the past two years allowed us to reposition this category, which had seen a lag in sales. To reverse this trend, we developed new visuals and themes, and reduced the number of games launched each year.

Lottery gross margin was $752.3 million, up $58.0 million, or 8.4%, compared to the previous year. The sector's net income reached $547.6 million, rising 11.0% compared to 2017–2018, mainly due to the high number of major jackpots offered by Lotto Max.

REVENUES

AS AT MARCH 31

(In thousands of Canadian dollars)	2019	2018	$ Variation	% Variation
Draw lotteries	**752,348**	696,773	55,575	8.0
Instant lotteries	**172,329**	153,496	18,833	12.3
Event betting	**31,060**	28,784	2,276	7.9
Total	**955,737**	**879,053**	**76,684**	**8.7**
Online gaming (Included in the table above)	**28,603**	**21,243**	**7,360**	**34.6**

Casinos

In the casino sector, revenues reached $917.9 million, up $10.9 million, or 1.2%, from the previous fiscal year. Despite road work and difficulties getting to the Casino, the Casino de Montréal managed to see an increase of $2.7 million, or 0.5%, in revenues. Revenues at the Casino du Lac-Leamy dropped 1.9% compared to 2017–2018, but rose 3.1% compared to 2016–2017.

Thanks to optimal game management, revenues generated by online casino games rose by 19.4%.

The casino sector's net income for 2018–2019 went up 3.2% compared to 2017–2018, reaching $243.1 million—the best result since 2011–2012.

REVENUES

AS AT MARCH 31

(In thousands of Canadian dollars)	2019	2018	$ Variation	% Variation
Casino de Montréal	**514,144**	511,432	2,712	0.5
Casino de Charlevoix	**42,134**	42,671	(537)	(1.3)
Casino du Lac-Leamy	**265,499**	270,560	(5,061)	(1.9)
Casino de Mont-Tremblant	**19,357**	17,976	1,381	7.7
Online gaming	**76,759**	64,308	12,451	19.4
Total	**917,893**	**906,947**	**10,946**	**1.2**

Gaming establishments

The gaming establishment sector, which includes the bars and brasseries network and gaming, bingo and Kinzo halls, reported revenues of $979.5 million in 2018–2019, down $2.1 million, or 0.2%, compared to the previous year. The drop in revenues can be attributed to the bars and brasseries network, which saw a decrease in revenues of $6.7 million, or 0.7%. The reconfiguration of the video lottery terminal (VLT) network was completed. The network now has fewer than 9,900 VLTs, which surpasses our target. New socio-economic criteria have been approved by the government. The next steps aim to continue to tighten control over the network.

The gaming halls maintained their upward momentum with a $3.9 million, or 6.4%, increase in revenues. The promotional activities held at these venues are always as popular.

The gaming establishment sector's net income for 2018–2019 reached $617.6 million, up 1.8% compared to 2017–2018.

A total of $6.1 million was distributed to non-profit organizations that hold a bingo licence.

REVENUES

AS AT MARCH 31

(In thousands of Canadian dollars)	2019	2018	$ Variation	% Variation
Bars and brasseries	**895,136**	901,796	(6,660)	(0.7)
Gaming halls				
Salon de jeux de Québec	**48,672**	45,518	3,154	6.9
Salon de jeux de Trois-Rivières	**16,564**	15,805	759	4.8
Total for gaming halls	**65,236**	61,323	3,913	6.4
Bingo	**12,637**	11,885	752	6.3
Kinzo	**6,479**	6,577	(98)	(1.5)
Total	**979,488**	**981,581**	**(2,093)**	**(0.2)**

Online gaming

For the 2018–2019 fiscal year, total revenues generated by our online gaming site, lotoquebec.com, were $105.4 million ($28.6 million for lottery games and $76.8 million for casino games), up $19.8 million, or 23.2%, compared to 2017–2018 (increases of $7.4 million and $12.4 million respectively for lottery games and casino games).

Operating expenses

Expenses were $908.1 million, which represents a decrease of $19.5 million, or 2.1%, compared to the previous fiscal year and a 3.3% drop compared to 2016–2017.

Our daily management efforts focus on reviewing our processes, projects and programs to ensure maximum efficiency in the entire organization. The effect of these changes is reflected in the payroll (other than social benefits) which, after five years, is only 5.8% higher than in 2013–2014, despite a 2.0% annual increase related to collective agreements. Over this same period, staff was reduced by 6.3%, despite the increase in traffic and the broader entertainment offering at the casinos.

Net financial expenses

Net financial expenses amounted to $6.0 million, representing a decrease of $1.9 million compared to the previous year, notably due to a lower volume of borrowing in 2018–2019.

Additional information

Since 2014–2015, Loto-Québec's total revenues have risen by $377.4 million, or 15.4%, resulting in a $292.4 million, or 26.2%, increase in consolidated net income. For this same period, total expenses, including cost of sales, saw only a 6.4% increase. All business sectors contributed to the increase in net income (+39.9% for lotteries, +39.0% for casinos and +12.4% for gaming establishments), which demonstrates the efforts made throughout the Corporation.

Contributions to governments

Loto-Québec's contribution to the Minister of Finance in the form of a dividend stood at $1.383 billion, $72.7 million more than in the previous fiscal year. An additional $25.0 million was paid into the Government of Québec's various designated funds, along with $92.7 million to the Ministère du Revenu in Québec Sales Tax. Loto-Québec's total contributions to the Government of Québec equalled $1.501 billion (2018: $1.433 billion). The Corporation also paid $17.4 million to the Government of Canada as compensation for the federal government's withdrawal from the lottery sector and $46.4 million in Goods and Services Tax, for a total of $63.8 million (2018: $65.5 million).

CONTRIBUTIONS TO GOVERNMENTS

AS AT MARCH 31

(In millions of Canadian dollars)	2019	2018
Government of Québec		
Dividend	**1,383.2**	1,310.5
Designated funds	**25.0**	25.0
Québec Sales Tax	**92.7**	97.6
Total to Government of Québec	**1,500.9**	**1,433.1**
Government of Canada		
Compensation – withdrawal from the lottery sector	**17.4**	17.1
Goods and Services Tax	**46.4**	48.4
Total to Government of Canada	**63.8**	**65.5**
Total	**1,564.7**	**1,498.6**

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED MARCH 31

(In thousands of Canadian dollars)

	2019				
Business segments	**Lotteries**	**Casinos**	**Gaming establishments**	**Elimination of intragroup transactions**	**Consolidated figures**
Revenues					
Games	955,737	809,107	979,488	–	2,744,332
Restaurants	–	88,555	–	(26,031)	62,524
Accommodation	–	20,231	–	–	20,231
	955,737	**917,893**	**979,488**	**(26,031)**	**2,827,087**
Cost of sales					
Commissions	146,980	–	202,791	–	349,771
Royalties	934	29,345	1,227	–	31,506
Printing	29,374	–	1,292	–	30,666
Food and beverages	–	28,231	–	–	28,231
Goods and Services Tax	8,727	1,188	10,247	–	20,162
Québec Sales Tax	17,410	2,371	20,443	–	40,224
	203,425	**61,135**	**236,000**	**–**	**500,560**
Gross margin	**752,312**	**856,758**	**743,488**	**(26,031)**	**2,326,527**
Expenses					
Employee benefits	69,879	349,702	36,093	(7,302)	448,372
Depreciation, amortization and net impairment losses	14,412	70,991	34,515	–	119,918
Special payments	17,360	–	4,400	–	21,760
Goods and Services Tax	3,408	5,818	2,360	–	11,586
Québec Sales Tax	6,804	11,630	4,709	–	23,143
General operating, administrative and other expenses	91,298	169,510	41,211	(18,729)	283,290
	203,161	**607,651**	**123,288**	**(26,031)**	**908,069**
Income from operating activities	**549,151**	**249,107**	**620,200**	**–**	**1,418,458**
Financial income	(1,370)	(1,016)	(318)	–	(2,704)
Financial expenses	2,957	2,815	2,948	–	8,720
Net financial expenses	**1,587**	**1,799**	**2,630**	**–**	**6,016**
Share of net loss of an entity accounted for using the equity method and payments to partners	–	4,236	–	–	4,236
Net income	**547,564**	**243,072**	**617,570**	**–**	**1,408,206**

(In thousands of Canadian dollars)

2018					
Business segments	**Lotteries**	**Casinos**	**Gaming establishments**	**Elimination of intragroup transactions**	**Consolidated figures**
Revenues					
Games	879,053	802,878	981,581	–	2,663,512
Restaurants	–	84,154	–	(25,414)	58,740
Accommodation	–	19,915	–	–	19,915
	879,053	**906,947**	**981,581**	**(25,414)**	**2,742,167**
Cost of sales					
Commissions	138,784	–	203,939	–	342,723
Royalties	860	15,975	192	–	17,027
Printing	22,862	–	1,354	–	24,216
Food and beverages	–	27,627	–	–	27,627
Goods and Services Tax	7,435	609	10,261	–	18,305
Québec Sales Tax	14,833	1,215	20,471	–	36,519
	184,774	**45,426**	**236,217**	**–**	**466,417**
Gross margin	**694,279**	**861,521**	**745,364**	**(25,414)**	**2,275,750**
Expenses					
Employee benefits	64,906	342,250	36,285	(7,347)	436,094
Depreciation, amortization and net impairment losses	13,368	76,687	36,509	–	126,564
Special payments	17,090	–	3,847	–	20,937
Goods and Services Tax	4,037	6,805	3,452	–	14,294
Québec Sales Tax	8,224	13,765	7,066	–	29,055
General operating, administrative and other expenses	90,989	179,133	48,552	(18,067)	300,607
	198,614	**618,640**	**135,711**	**(25,414)**	**927,551**
Income from operating activities	**495,665**	**242,881**	**609,653**	**–**	**1,348,199**
Financial income	(949)	(551)	(165)	–	(1,665)
Financial expenses	3,093	3,133	3,381	–	9,607
Net financial expenses	**2,144**	**2,582**	**3,216**	**–**	**7,942**
Share of net loss of an entity accounted for using the equity method and payments to partners	–	4,790	–	–	4,790
Net income	**493,521**	**235,509**	**606,437**	**–**	**1,335,467**

COMPARATIVE RESULTS

FOR THE YEAR ENDED MARCH 31

(In thousands of Canadian dollars)	2019	2018	2017	2016	2015
Consolidated results					
Revenues	**2,827,087**	**2,742,167**	**2,623,275**	**2,599,440**	**2,449,693**
Cost of sales					
Lotteries					
Commissions	**146,980**	138,784	127,694	123,993	114,541
Royalties	**934**	860	604	771	982
Printing	**29,374**	22,862	20,721	20,825	21,812
Goods and Services Tax	**8,727**	7,435	7,312	7,139	6,718
Québec Sales Tax	**17,410**	14,833	14,588	14,242	13,403
	203,425	**184,774**	**170,919**	**166,970**	**157,456**
Casinos					
Royalties	**29,345**	15,975	8,867	6,589	4,255
Food and beverages	**28,231**	27,627	25,580	23,324	19,622
Goods and Services Tax	**1,188**	609	322	237	185
Québec Sales Tax	**2,371**	1,215	643	473	369
	61,135	**45,426**	**35,412**	**30,623**	**24,431**
Gaming establishments					
Commissions	**202,791**	203,939	202,603	200,888	197,805
Royalties	**1,227**	192	109	–	–
Printing	**1,292**	1,354	1,448	1,607	1,293
Goods and Services Tax	**10,247**	10,261	10,194	10,111	9,945
Québec Sales Tax	**20,443**	20,471	20,338	20,171	19,840
	236,000	**236,217**	**234,692**	**232,777**	**228,883**
Total	**500,560**	**466,417**	**441,023**	**430,370**	**410,770**
Gross margin	**2,326,527**	**2,275,750**	**2,182,252**	**2,169,070**	**2,038,923**
Operating expenses					
Lotteries	**178,537**	172,985	168,555	177,213	171,801
Casinos	**493,181**	495,969	466,413	455,638	448,047
Gaming establishments	**81,704**	88,684	119,159	94,579	97,787
Depreciation, amortization and net impairment losses	**119,918**	126,564	132,618	136,499	138,864
Goods and Services Tax	**11,586**	14,294	17,173	15,415	15,931
Québec Sales Tax	**23,143**	29,055	34,289	30,799	31,785
	908,069	**927,551**	**938,207**	**910,143**	**904,215**
Income from operating activities	**1,418,458**	**1,348,199**	**1,244,045**	**1,258,927**	**1,134,708**
Net financial expenses	**6,016**	**7,942**	**8,515**	**12,372**	**13,560**
Share of net loss of entities accounted for using the equity method and payments to partners	**4,236**	4,790	4,979	5,075	5,345
Writedown – other receivables	**–**	–	–	14,486	–
Net income	1,408,206	**1,335,467**	**1,230,551**	**1,226,994**	**1,115,803**

Consolidated financial statements

MANAGEMENT'S REPORT

The consolidated financial statements of Loto-Québec have been prepared by management, which is responsible for their preparation and presentation, including significant estimates and judgments. This responsibility involves the selection of appropriate accounting policies in accordance with International Financial Reporting Standards (IFRS). All financial information contained in the annual report on activities is consistent with that appearing in the consolidated financial statements.

To fulfil its responsibilities, management develops, establishes and maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded on a timely basis and in a manner suitable for preparing reliable consolidated financial statements. The Corporate Department of Internal Auditing and Enterprise Risk Management carries out periodic audits to ensure that internal controls are adequate, consistent and applied uniformly by Loto-Québec.

Loto-Québec acknowledges its responsibility for conducting its affairs in accordance with its governing statutes and regulations.

The Board of Directors of Loto-Québec oversees management in the performance of its financial reporting responsibilities and approves the consolidated financial statements, assisted by its Audit Committee consisting solely of independent members. The Audit Committee meets with management, the Corporate Department of Internal Auditing and Enterprise Risk Management, the Auditor General of Québec and accounting firm KPMG LLP (KPMG), reviews the consolidated financial statements and recommends their approval to the Board of Directors.

The Auditor General of Québec and KPMG have jointly audited the consolidated financial statements of Loto-Québec, in accordance with Canadian generally accepted auditing standards, and their independent auditors' report states the nature and scope of this audit and expresses their opinion. The Auditor General of Québec and KPMG have full and free access to the Audit Committee to discuss any matter related to their audit.

President and Chief Executive Officer,
Loto-Québec

Lynne Roiter

LYNNE ROITER

Corporate Vice-President
Finance and Administration, Loto-Québec

Johanne Rock

JOHANNE ROCK, CPA, CA

MONTRÉAL, QUÉBEC
MAY 30, 2019

INDEPENDENT AUDITORS' REPORT

To the Minister of Finance

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Loto-Québec (the "Group"), which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2019, and its consolidated financial performance and its consolidated 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. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 audit opinion.

Other information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditors' report thereon, in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the annual report prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Report on other legal and regulatory requirements

As required by the *Auditor General Act* (R.S.Q., c. V-5.01), we report that, in our opinion, those standards have been applied, after giving effect to the retrospective application of changes in accounting policies for revenues from contracts with customers and financial instruments explained in Note 3 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Auditor General of Québec

Guylaine Leclerc FCPA Auditor, FCA

GUYLAINE LECLERC, FCPA AUDITOR, FCA
MONTRÉAL, QUÉBEC
MAY 30, 2019

VGQ Vérificateur général du Québec

KPMG LLP

KPMG LLP[1]
MONTRÉAL, QUÉBEC
MAY 30, 2019

KPMG

[1]FCPA auditor, FCA, public accountancy permit No. A110618

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2019

(In thousands of Canadian dollars)	2019	2018 Restated
Revenues (Note 5)	**2,827,087**	2,742,167
Cost of sales (Note 6)	**500,560**	466,417
Gross margin	**2,326,527**	**2,275,750**
Expenses		
Employee benefits (Note 7)	**448,372**	436,094
Depreciation and amortization (Notes 14 and 15)	**119,918**	126,564
Special payments (Note 8)	**21,760**	20,937
Goods and Services Tax	**11,586**	14,294
Québec Sales Tax	**23,143**	29,055
General operating, administrative and other expenses	**283,290**	300,607
	908,069	**927,551**
Income from operating activities	**1,418,458**	**1,348,199**
Financial income (Note 9)	**(2,704)**	(1,665)
Financial expenses (Note 9)	**8,720**	9,607
Net financial expenses (Note 9)	**6,016**	**7,942**
Share of net loss of an entity accounted for using the equity method and payments to partners (Note 13)	**4,236**	4,790
Net income	**1,408,206**	**1,335,467**
Other comprehensive loss		
Items that will not be reclassified subsequently to net income:		
Remeasurements of the net defined benefit liability (Note 19)	**(10,686)**	(8,296)
Comprehensive income	**1,397,520**	**1,327,171**

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED MARCH 31, 2019

(In thousands of Canadian dollars)	Share capital	Retained earnings	Accumulated other comprehensive income	Total
Balance as at April 1, 2017	**170**	**86,300**	**43,399**	**129,869**
Dividend	–	(1,310,467)	–	(1,310,467)
Contributions to the Government of Québec (Note 10)	–	(25,000)	–	(25,000)
Transactions with the shareholder	–	(1,335,467)	–	(1,335,467)
Net income	–	1,335,467	–	1,335,467
Other comprehensive loss				
Remeasurements of the net defined benefit liability (Note 19)	–	–	(8,296)	(8,296)
Comprehensive income (loss)	–	1,335,467	(8,296)	1,327,171
Balance as at March 31, 2018	**170**	**86,300**	**35,103**	**121,573**
Dividend	**–**	**(1,383,206)**	**–**	**(1,383,206)**
Contributions to the Government of Québec (Note 10)	**–**	**(25,000)**	**–**	**(25,000)**
Transactions with the shareholder	**–**	**(1,408,206)**	**–**	**(1,408,206)**
Net income	**–**	**1,408,206**	**–**	**1,408,206**
Other comprehensive loss				
Remeasurements of the net defined benefit liability (Note 19)	**–**	**–**	**(10,686)**	**(10,686)**
Comprehensive income (loss)	**–**	**1,408,206**	**(10,686)**	**1,397,520**
Balance as at March 31, 2019	**170**	**86,300**	**24,417**	**110,887**

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2019

(In thousands of Canadian dollars)	2019	2018 Restated
ASSETS		
Cash (Note 23)	**100,997**	122,221
Trade and other receivables (Note 11)	**74,317**	109,221
Current portion of the advance to Manoir Richelieu Limited Partnership (Note 13)	**5,000**	–
Inventories (Note 12)	**4,813**	10,297
Prepaid expenses	**27,332**	25,660
Total current assets	**212,459**	**267,399**
Interests in an entity accounted for using the equity method, loans and advance (Note 13)	**35,082**	34,928
Property, plant and equipment (Note 14)	**708,373**	756,859
Intangible assets (Note 15)	**52,344**	54,665
Total non-current assets	**795,799**	**846,452**
Total assets	**1,008,258**	**1,113,851**
LIABILITIES		
Bank loans (Note 16)	**296,735**	289,294
Dividend payable	**147,404**	168,967
Accounts payable and accrued liabilities (Note 17)	**273,825**	269,875
Derivatives on gaming transactions	**5,620**	5,308
Deferred revenues	**10,256**	21,999
Current portion of long-term debt (Note 18)	**–**	100,000
Total current liabilities	**733,840**	**855,443**
Long-term debt (Note 18)	**117,959**	117,832
Net defined benefit and other long-term benefit liability (Note 19)	**45,572**	19,003
Total non-current liabilities	**163,531**	**136,835**
Total liabilities	**897,371**	**992,278**
SHAREHOLDER'S EQUITY		
Share capital authorized, issued and paid: 1,700 shares with a par value of $100 each	**170**	170
Retained earnings	**86,300**	86,300
Accumulated other comprehensive income	**24,417**	35,103
Total shareholder's equity	**110,887**	**121,573**
Total liabilities and shareholder's equity	**1,008,258**	**1,113,851**

On behalf of the board

HÉLÈNE F. FORTIN, FCPA, FCA
CHAIRWOMAN OF THE BOARD OF DIRECTORS

LYNNE ROITER
PRESIDENT AND CHIEF EXECUTIVE OFFICER

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2019

(In thousands of Canadian dollars)	2019	2018 Restated
OPERATING ACTIVITIES		
Net income	**1,408,206**	1,335,467
Items not affecting cash:		
Depreciation, amortization and net impairment losses	**119,918**	126,564
Loss on disposal of property, plant and equipment and intangible assets	**860**	4,191
Defined benefit and other long-term benefit expense	**32,324**	27,674
Share of net income of an entity accounted for using the equity method	**4,236**	4,791
Other net financial expenses	**6,016**	7,942
Net change in non-cash items (Note 23)	**30,339**	(3,497)
Capitalization of defined benefit obligation	**(16,442)**	(17,124)
Interest paid	**(9,111)**	(9,667)
Interest received	**2,704**	1,665
Cash flows provided by operating activities	**1,579,050**	**1,478,006**
INVESTING ACTIVITIES		
Additions to property, plant and equipment (Note 14)	**(53,554)**	(47,678)
Additions to intangible assets (Note 15)	**(15,026)**	(10,428)
Proceeds from disposal of property, plant and equipment	**197**	326
Investment, net of distributions and payments to partners, in Manoir Richelieu Limited Partnership	**(9,563)**	(5,700)
Cash flows used in investing activities	**(77,946)**	**(63,480)**
FINANCING ACTIVITIES		
Dividend paid	**(1,404,769)**	(1,207,151)
Net change in bank loans	**7,441**	(101,988)
Repayment of long-term debt	**(100,000)**	(40,000)
Contributions to the Government of Québec (Note 10)	**(25,000)**	(25,000)
Cash flows used in financing activities	**(1,522,328)**	**(1,374,139)**
Increase (decrease) in cash	**(21,224)**	**40,387**
Cash, beginning of year	**122,221**	**81,834**
Cash, end of year (Note 23)	**100,997**	**122,221**

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2019
(In thousands of Canadian dollars)

1 INCORPORATION AND ACTIVITIES

The Société des loteries du Québec, designated under the name Loto-Québec, is a joint-stock company whose shares form part of the public domain of Québec and are allocated to the Québec Minister of Finance. Under its incorporating statute (CQLR, chapter S-13.1), the functions of Loto-Québec are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. Loto-Québec may also offer, for consideration, consulting and implementation services in matters within its competence. In addition, the *Act respecting mainly the implementation of certain provisions of the Budget Speech of 26 March 2015* amended the incorporating statute of Loto-Québec to ensure it performs the duties conferred on it by Title III.4 of the *Consumer Protection Act* (chapter P-40.1) in relation to online gaming. The amendments in question will come into force on the date to be fixed by the government. Under the *Income Tax Act* (R.S.C. (1985), Ch. 1 (5th supplement)) and the *Taxation Act* (CQLR, chapter I-3), Loto-Québec is exempt from income taxes.

Loto-Québec is a corporation domiciled in Québec, Canada. Loto-Québec's head office is located at 500 Rue Sherbrooke Ouest, Montréal, Québec.

The consolidated financial statements of Loto-Québec include the accounts of Loto-Québec and those of its subsidiaries (collectively called "Loto-Québec" and, individually, the "entities of Loto-Québec") as well as Loto-Québec's interests in a joint venture.

2 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Board of Directors approved the consolidated financial statements of Loto-Québec and authorized their release on May 30, 2019.

b) Basis of measurement

The consolidated financial statements were prepared on a historical cost basis, except for:

- Derivative financial instruments on gaming transactions, which were measured at fair value;
- The net defined benefit liability, which was measured at the present value of the defined benefit obligation, less the fair value of plan assets.

The methods used to measure fair value are discussed in greater detail in Note 22.

c) Functional currency and presentation currency

The consolidated financial statements are presented in Canadian dollars, the functional currency of Loto-Québec. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to use its judgment in applying the accounting policies and to make assumptions and estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year.

The estimates and underlying assumptions are reviewed on a regular basis, and the impact of any changes is immediately recognized. They are based on experience, economic conditions and general trends, as well as conditions pertaining to the probable outcome of those matters. Actual results could differ from management's best projections.

Information about significant assumptions and uncertainties related to items that are subject to estimates, that have a significant impact on the amounts recognized in the consolidated financial statements and that have a significant risk of causing a material adjustment over the next fiscal year is provided in the following notes:

- Net defined benefit and other long-term benefit liability (Notes 4 f) and 19 b) (iv))
- Useful lives of property, plant and equipment and intangible assets (Note 4 m) and n))
- Impairment (Note 4 o))
- Contingent liabilities (Note 21)

3 CHANGES IN ACCOUNTING POLICIES

Information on new standards, amendments and interpretations that are likely to be relevant for Loto-Québec's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued, but are not expected to have a significant impact on Loto-Québec's consolidated financial statements.

Amendments to standards that must be applied for the current fiscal year and other accounting changes

IFRS 15, *Revenue from Contracts with Customers*

Loto-Québec adopted IFRS 15, *Revenue from Contracts with Customers*, on April 1, 2018. This new standard replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, IFRIC 13, *Customer Loyalty Programs*, and certain other revenue-related interpretations. The standard provides a single model that applies to contracts with customers. The model consists of a five-step contract-based analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 requires revenue to be recognized when the customer obtains control of the good or service, at a point in time or over time.

Transition

Loto-Québec has applied IFRS 15 retrospectively, with restatement of comparative information as of April 1, 2017, without the use of practical expedients.

IFRS 9, *Financial Instruments*

Loto-Québec adopted IFRS 9, *Financial Instruments,* on April 1, 2018. This new standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRIC 9, *Reassessment of Embedded Derivatives*. This standard provides a logical model for classification and measurement, and a single forward-looking expected loss impairment model.

The changes to accounting policies relating to financial instruments are as follows:

a) Classification and measurement of financial assets and liabilities:

Under IFRS 9, at the time of initial recognition, a financial asset is classified in one of the following three subsequent measurement categories: amortized cost, fair value through other comprehensive income or fair value through profit or loss. The basis of classification generally depends on the business model for managing the asset and its contractual cash flows characteristics. IFRS 9 eliminates the categories of held-to-maturity financial assets, loans and receivables and available-for-sale assets that existed under IAS 39.

The table below shows the initial measurement categories for financial assets under IAS 39 and the new categories under IFRS 9 for each category of financial asset of Loto-Québec as at April 1, 2018.

Financial assets	Initial classification under IAS 39	New classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Loans and advances to an entity accounted for using the equity method	Loans and receivables	Amortized cost

IFRS 9 largely retains the provisions of IAS 39 on the classification and measurement of financial liabilities.

For more detailed information on Loto-Québec's new accounting policies for the classification and measurement of financial assets and liabilities, see note 4 i).

b) Impairment of financial assets

IFRS 9 replaces the incurred credit loss impairment model in IAS 39 with the introduction of a new expected credit loss impairment model that requires more timely recognition of credit losses. The new impairment model applies to financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income, but not to equity instruments. For more detailed information on Loto-Québec's new accounting policies related to this new impairment model, see note 4 o) (i).

Transition

Loto-Québec has applied IFRS 9 retrospectively, with restatement of prior period comparative information, except for the following items:

- The determination of the business model for holding a financial asset is based on the facts and circumstances at the date of initial application of IFRS 9.

- If a security had a low credit risk at the date of initial application of IFRS 9, Loto-Québec assumed that the credit risk associated with the asset had not increased significantly since its initial recognition.

Other accounting changes

Goods and services taxes and Québec sales taxes

Loto-Québec has reclassified to "Cost of sales" in the consolidated statement of comprehensive income goods and services taxes and Québec sales taxes directly related to cost of sales items. Previously, goods and services taxes and Québec sales taxes were presented in full under "Goods and Services Tax" and "Quebec Sales Tax" as expenses in the consolidated statement of comprehensive income.

Loto-Québec made this reclassification for the year ended March 31, 2019, and for comparative information for the year ended March 31, 2018, to better reflect the nature of these expenses.

Provisions

Following an analysis by Loto-Québec of the nature of wagers on gaming transactions arising from contracts with clients, Loto-Québec restated the lottery prizes payable on instant lottery tickets, progressive jackpots payable and unclaimed prizes intended for bonus prizes, which were previously recorded as provisions. These items are now recorded as financial liabilities in accounts payable and accrued liabilities.

This restatement had no impact on operating results, financial position or cash flows in Loto-Québec's previous financial statements.

Assets and liabilities related to life annuities

Following an analysis by Loto-Québec of the recognition and derecognition criteria for life annuities awarded as large prizes in certain games arising from contracts with clients, Loto-Québec restated the financial assets and liabilities related to them. The balances that were presented in the consolidated statement of financial position as at March 31, 2018, have been derecognized.

This restatement had no impact on operating results, financial position or cash flows in Loto-Québec's prior financial statements.

Quantitative impacts of changes to accounting policies resulting from the adoption of IFRS 9 and IFRS 15 and other accounting changes

a) Consolidated statement of comprehensive income

Following the adoption of IFRS 9 and IFRS 15, Loto-Québec determined that gaming revenues arising in the ordinary course of its business comprise two main categories:

- Gaming revenues for which the rates of prizes awarded are fixed or substantially fixed (hereinafter referred to as "substantially fixed"). Such gaming revenues are in substance commissions and fall within the scope of IFRS 15, *Revenue from Contracts with Customers*. The amount of these gaming revenues corresponds to the consideration received from clients less the lottery prizes payable to them.

- Gaming revenues for which the rates of prizes awarded depend on the outcome of each game. Such gaming revenues are in substance settlements of derivatives on gaming transactions and fall within the scope of IFRS 9, *Financial Instruments*. The amount of these gaming revenues corresponds to the cumulative net profits and losses following each gaming settlement, i.e. the difference between the wagers and the prizes awarded.

As a result, all gaming revenues in the ordinary course of Loto-Québec's business are now recorded on a net basis. Previously, revenues from lottery, bingo and Kinzo games were presented on a gross basis, i.e. the amount of wagers received from clients, and the prizes awarded were presented as cost of sales.

The impact of this change was the restatement of the cost of sales for prizes awarded for lottery, bingo and Kinzo games as a reduction of revenue, as shown in the table below. The table also shows the impact of the reclassification of goods and services taxes and Québec sales taxes directly related to cost of sales.

YEAR ENDED MARCH 31, 2018

	Previously reported amounts	Restatements	Reclassification	Restated amounts
Lotteries				
Revenues	**1,881,127**	(1,002,074)	–	**879,053**
Cost of sales	**1,164,384**	(1,002,074)	22,464	**184,774**
Casinos				
Cost of sales	**43,602**	–	1,824	**45,426**
Gaming establishments				
Revenues	**1,006,563**	(24,982)	–	**981,581**
Cost of sales	**230,467**	(24,982)	30,732	**236,217**
Expenses				
General operating, administrative and other expenses	**300,803**	–	(196)	**300,607**
Goods and Services Tax	**32,599**	–	(18,305)	**14,294**
Québec Sales Tax	**65,574**	–	(36,519)	**29,055**

b) **Consolidated statement of financial position**

Previously, consideration received from clients for games for which the performance obligation was not yet satisfied at the end of a fiscal year was fully recognized as deferred revenues under liabilities. Following the adoption of IFRS 9 and IFRS 15:

- games for which the rates of prizes awarded are substantially fixed and for which the performance obligation is not yet satisfied at the end of a fiscal year, the portion of the consideration received from clients corresponding to the substantially fixed rate of prizes awarded is recorded in the statement of financial position as a financial liability for prizes payable and the remaining portion is recorded as deferred revenues.

- games for which the rates of prizes awarded depend on the outcome of each game and for which the gaming transaction is not settled at the end of a fiscal year are presented in the statement of financial position as derivatives on gaming transactions measured at fair value until the time the gaming transaction is settled.

The table below shows the impact related to the restatement of deferred revenues resulting from the amendments to IFRS 9 and IFRS 15 as well as the impact related to the restatement of provisions and financial assets and liabilities related to life annuities:

YEAR ENDED MARCH 31, 2018

	Previously reported amounts	Restatements	Restated amounts
ASSETS			
Trade and other receivables	**110,979**	(1,758)	**109,221**
Financial assets related to life annuities	**118,049**	(118,049)	**–**
LIABILITIES			
Accounts payable and accrued liabilities	**201,496**	68,379	**269,875**
Provisions	**52,941**	(52,941)	**–**
Derivatives on gaming transactions	**–**	5,308	**5,308**
Deferred revenues	**44,503**	(22,504)	**21,999**
Financial liabilities related to life annuities	**118,049**	(118,049)	**–**

New standards and interpretations issued but not yet effective

At the date of authorization of these consolidated financial statements, new standards and amendments and interpretations of existing standards have been published, but are not yet effective, and Loto-Québec has not early adopted them. Management anticipates that all of the pronouncements will be applied for the first annual period beginning after the effective date of each pronouncement.

<u>IFRS 16, *Leases*</u>

In January 2016, the IASB issued IFRS 16, which replaces IAS 17, *Leases*, and certain other lease-related interpretations. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low-value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease components, variable lease payments and optional periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting for leases and introduces new disclosure requirements.

This new standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted under certain circumstances. Management of Loto-Québec is currently assessing the impact of the application of this new standard on the consolidated financial statements.

4 | SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

(i) Subsidiaries

The subsidiaries are entities controlled by Loto-Québec. Control exists when Loto-Québec is exposed, or has rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over those subsidiaries. The financial statements of subsidiaries are integrated into the consolidated financial statements from the date control is obtained until the date control is lost. The accounting policies of the subsidiaries have been harmonized, as required, with those adopted by Loto-Québec.

The consolidated financial statements include the accounts of Loto-Québec and those of its wholly owned subsidiaries, whose places of business are in Québec (Canada), namely:

- Lotim inc.
- Société des casinos du Québec inc.
- Casiloc inc.
- Société des établissements de jeux du Québec inc.
- Société du jeu virtuel du Québec inc.
- 9059-3849 Québec inc.
- Casino Mundial inc.
- Casino Capital 2006 inc.
- Nter Technologies, Limited Partnership
- Nter Technologies inc.

(ii) Interests in a joint venture

Manoir Richelieu Limited Partnership (MRLP) and its general partner, 9064-1812 Québec inc., is a joint venture over whose activities Loto-Québec has joint control, established by contractual agreement requiring partners' unanimous consent on strategic financial and operating decisions. MRLP, whose place of business is in Québec (Canada), owns a resort which includes a hotel, restaurants, a golf course, a spa and commercial rental space.

The joint venture is initially recorded at cost. After their initial recognition, the consolidated financial statements incorporate Loto-Québec's share of the revenues and expenses and changes in equity of the entity accounted for using the equity method, taking into account adjustments made to bring the accounting policies in line with those of Loto-Québec, from the date on which Loto-Québec began to exercise significant influence or joint control until the date on which it ceases to exercise significant influence or joint control. When Loto-Québec's share of the losses exceeds its interest in an entity accounted for using the equity method, the carrying amount of this interest is reduced to zero and additional losses are no longer recognized, unless Loto-Québec has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated in the consolidated financial statements

Intragroup balances and transactions, and the revenues and expenses arising from intragroup transactions, are eliminated in the preparation of the consolidated financial statements.

b) Foreign currencies

Transactions denominated in foreign currencies are initially recognized in the respective functional currencies of the Loto-Québec entities using the exchange rates in effect on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are converted into the functional currency using the exchange rates in effect at the reporting date.

Foreign exchange gains and losses are reported on a net basis under General operating, administrative and other expenses in the consolidated statement of comprehensive income.

c) Revenues

The main sources of revenues and the related accounting policies are described below:

(i) Gaming revenues

Loto-Québec has determined that gaming revenues arising in the ordinary course of its business comprise two main categories:

- Gaming revenues for which the rates of prizes awarded are fixed or substantially fixed (hereinafter referred to as "substantially fixed"). Such gaming revenues are in substance commissions and fall within the scope of IFRS 15, *Revenue from Contracts with Customers*. The amount of these gaming revenues corresponds to the consideration received from clients less the prizes payable to them.

- Gaming revenues for which the rates of prizes awarded depend on the outcome of each game. Such gaming revenues are in substance settlements of derivatives on gaming transactions and fall within the scope of IFRS 9, *Financial Instruments*. The amount of these gaming revenues corresponds to the cumulative net profits and losses following each gaming settlement, i.e. the difference between the wagers and the prizes awarded.

Lotteries

- Revenues from lotteries for which the rates of prizes awarded are substantially fixed comprise instant lotteries and certain draw lotteries.

  Instant lottery revenues are recorded at the time of sale to clients by retailers or online, as these gaming transactions are settled, and the performance obligation is satisfied, instantly.

  Draw lottery revenues for which the rates of prizes awarded are substantially fixed are recognized on the date of the draw, since this is when the performance obligation is satisfied. For tickets sold up to March 31 for which the draws take place subsequently, the portion of sales corresponding to the notional fixed rate of prizes to be awarded is recorded in the statement of financial position as a financial liability for lottery prizes payable and the remaining portion is recorded as deferred revenues.

- Revenues from lotteries for which the rates of prizes awarded depend on the outcome of each game comprise certain draw lotteries and betting lotteries.

  These revenues are recognized on the date of the draw or at the time of the event since it is at that time the gaming transactions are settled. Tickets sold up to March 31 for which the draws or events take place subsequently are recorded in the statement of financial position as derivatives on gaming transactions.

Casinos

- Revenues for which the rates of prizes awarded are substantially fixed comprise pari-mutuel poker games. These revenues are recognized on the date the gaming transactions are settled, since it is at that time the performance obligation is satisfied.

- Revenues from other casino and online gaming transactions for which the rates of prizes awarded depend on the outcome of each game are recognized on the date on which the gaming transactions are settled. Generally, wagers are placed and games are settled the same day.

  When the free offer programs for clients is applicable to a transaction, the value of the points accumulated under the program is deducted from the revenues of these games.

Gaming establishments

- Gaming revenues for which the rates of prizes awarded are substantially fixed comprise bingo and Kinzo games. These revenues are recognized on the date of the draw, since it is at that time the performance obligation is satisfied.

- Gaming revenues for which the rates of prizes awarded depend on the outcome of each game comprise revenues from bars, brasseries and gaming halls. These revenues are recognized on the date the gaming transactions are settled. Generally, wagers are placed and games are settled the same day.

(ii) Non-gaming revenues
Non-gaming revenues are mainly generated from restaurant and accommodation activities. These revenues are recognized on the date the services are rendered to clients, since it is at that time the performance obligation is satisfied.

d) Free offer programs for clients

Certain programs introduced by a Loto-Québec subsidiary allow clients, in particular, to accrue points for gaming, which are exchangeable for cash or goods and services, at the client's option.

When points are awarded to clients, a portion of the transaction price is allocated to these points, in an amount corresponding to the cash value of the points, and is recognized as a liability under Accounts payable and accrued liabilities. Points used by clients are recorded as a deduction from the liability. If there is no activity in a client's account for a period of 12 months, the liability attributable to these expired points is written off and the consideration is recognized as revenues in the consolidated statement of comprehensive income.

These point programs are related to games for which the rates of prizes awarded depend on the outcome of each game.

e) Cost of sales

Commissions
Loto-Québec pays commissions based on a percentage of lottery ticket and bingo revenues as well as a percentage of revenues generated from video lottery terminals in bars and brasseries. These commissions are recognized under cost of sales in the consolidated statement of comprehensive income when they are incurred.

f) Employee benefits

(i) Short-term benefits
Salaries, government pension plan contributions, vacation, sick leave and bonuses are short-term benefits and are recognized during the year in which employees rendered the related services.

(ii) Compulsory public plans
Defined contribution plan accounting is applied to the compulsory public defined benefit plans, namely the Government and Public Employees Retirement Plan (RREGOP) and the Pension Plan of Management Personnel (PPMP), as Loto-Québec is not liable for obligations other than its contributions under these plans.

Contributions payable under those plans are recognized through net income in the years in which the services are rendered by employees, under Employee benefit expense in the consolidated statement of comprehensive income.

(iii) Defined benefit plans
The term "defined benefit plan" means any post-employment benefit plan other than a defined contribution plan.

Pension plans

The net defined benefit liability (asset) recognized in the consolidated statement of financial position is equal to the deficit or surplus of defined benefit plans, i.e., the difference between the present value of the defined benefit obligation at the end of the reporting period and the fair value of plan assets, adjusted to take into account the effect, if any, of the asset ceiling. The net defined benefit liability (asset) is calculated separately for each plan. Actuarial valuations, for accounting purposes, are performed by an actuary at the end of each fiscal year. The asset ceiling equals the present value of any economic benefits available in the form of refunds or decreases in future contributions to the plan. An economic benefit is available for Loto-Québec if it can be realized during the life of the plan or when the plan obligations are settled.

The projected unit credit method is used to determine the present value of the defined benefit obligation, related current service cost and past service cost. This method is used to estimate the future benefits that employees have earned in return for their service in the current and prior fiscal years. These benefit amounts are discounted using a rate representing the yields at the end of the reporting period of high-quality corporate bonds rated AA or higher that have maturities close to the plan's defined benefit obligation and are denominated in the same currency as that in which the benefits will be paid.

Defined benefit expense consists of current service cost, past service cost, net interest and remeasurements of the net defined benefit liability (asset). Past service cost is recognized in net income in the fiscal year in which a plan amendment occurs. Net interest is determined by multiplying the net defined benefit liability by the discount rate. Current service cost, past service cost and net interest are recognized under Employee benefit expense in the consolidated statement of comprehensive income. Remeasurements, comprising actuarial gains and losses on the defined benefit obligations, the effect of any change in the asset ceiling (if any) and the return on plan assets (excluding interest income), are recognized in other comprehensive income in the fiscal year in which they occur and are not subsequently reclassified to net income.

<u>Other long-term benefits</u>

Other long-term benefits consist, among other things, of extended coverage during family and disability leave. The long-term benefit liability consists of the non-pension defined benefit obligation.

The method used to determine the present value of the defined benefit obligation, related current service cost and past service cost of other long-term benefits is the same as that used for pension plans.

Service cost, net interest and remeasurements of the long-term benefit liability are recognized in net income under Employee benefit expense in the consolidated statement of comprehensive income.

g) Commodity taxes

Loto-Québec remits the Goods and Services Tax (GST) to the Government of Canada, in accordance with the *Games of Chance (GST/HST) Regulations*, enacted under the *Excise Tax Act*, as well as Québec Sales Tax (QST) to the Government of Québec, in accordance with the *Regulation respecting the Québec sales tax* (QST), enacted under the *Québec Sales Tax Act*.

Net taxes attributable to non-gaming activities are calculated in the same way as for other entities subject to commodity taxes (GST and QST). Taxes paid on products and services acquired and attributable to gaming activities are not recoverable by Loto-Québec. These taxes are recorded as part of the cost of the item to which they relate. Also, Loto-Québec pays additional taxes on the products and services acquired and attributable to gaming activities which are presented under cost of sales when they are directly attributable to a business segment, or separately in the consolidated statement of comprehensive income when they are not. Net taxes attributable to gaming activities represent approximately 30% of taxable gaming expenses.

h) Financial income and financial expenses

Financial income is recognized separately in the consolidated statement of comprehensive income and includes interest income on cash and on loans to a joint venture.

Financial expenses are recognized separately in the consolidated statement of comprehensive income and include, if applicable, interest on bank loans and long-term debt. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualified asset are recognized in net income using the effective interest method.

i) Financial instruments

(i) Initial recognition and measurement

Financial assets and liabilities are initially recognized as at the date Loto-Québec becomes a party to the contractual provisions of the instrument.

Trade receivables without a significant financing component are initially measured at the transaction price. Other financial assets and liabilities are initially measured at fair value plus or minus, in the case of an asset or liability that is not at fair value through profit or loss, transaction costs directly related to its acquisition or issue.

(ii) Financial assets – classification, subsequent measurement, and gains and losses

At the time of initial recognition, a financial asset is classified as subsequently measured either at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss based on both: (a) the entity's business model for managing financial assets; (b) the financial asset's contractual cash flows characteristics.

Financial assets are not reclassified following initial recognition unless Loto-Québec changes the business model for managing financial assets. Where applicable, all relevant financial assets are reclassified prospectively as from the reclassification date.

A financial asset is measured at amortized cost if both of the following conditions are met and if it is not designated at fair value through profit or loss:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset which is a debt instrument is measured at fair value through other comprehensive income if both of the following conditions are met:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as at amortized cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This is particularly the case for all derivative financial assets.

In summary, the following methods are applicable for the subsequent measurement of financial assets and the recognition of gains and losses:

- Financial assets at fair value through profit or loss
  These assets are subsequently measured at fair value. Net gains and losses, including interest or dividends received, are recognized in net income.
- Financial assets at amortized cost
  These assets are subsequently measured at amortized costs using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses, if any, are recognized in net income. Gains and losses resulting from derecognition are recognized in net income.

Non-derivatives financial assets comprise cash, trade and other receivables, and loans and advance to an entity accounted for using the equity method, which are all classified as financial assets at amortized cost.

(iii) Financial liabilities – classification, subsequent measurement, and gains and losses

At the time of initial recognition, a financial liability is classified as subsequently measured either at amortized cost or at fair value through profit or loss.

A financial liability is classified as a financial liability at fair value through profit or loss if it is held for trading purposes, a derivative or designated as such on initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value and the resulting gains and losses, including interest expense, are recognized in net income.

Non-settled derivatives on gaming transactions are subsequently measured at fair value, and changes in fair value are recognized in net income.

The other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses and foreign exchange gains and losses, if any, are recognized in net income. Any gains or losses resulting from derecognition are recorded in net income.

Bank loans, the dividend payable, accounts payable and accrued liabilities, prizes payable, progressive jackpots payable, salaries payable, the due to MRLP and long-term debt are subsequently measured at amortized cost.

(iv) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the rights to receive the contractual cash flows from a financial asset and substantially all the risks and rewards of ownership of the financial asset are transferred.

A financial liability is derecognized when Loto-Québec's contractual obligations are discharged, cancelled or expire. A liability is also derecognized when its terms are changed and the cash flows of the changed liability are substantially different, in which case a new financial liability is recognized at fair value based on the changed terms.

When a financial liability is derecognized, the difference between the carrying amount allocated to the derecognized portion and the consideration paid, including, if applicable, the assets (other than cash) transferred and liabilities assumed, shall be recognized in net income.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, Loto-Québec currently has a legally enforceable right to set off the amounts, and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

(vi) Fair value

Loto-Québec classifies financial instruments recognized at fair value and financial instruments recognized at amortized cost for which fair value is presented using a three-level hierarchy based on the type of inputs used to develop those measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: Inputs for the asset or liability that are not based on market data (unobservable inputs).

The fair value of a financial asset traded in an active market generally reflects the bid price, and the fair value of a financial liability traded in an active market generally reflects the asking price. If the market for a financial instrument is not active, fair value is determined using a valuation technique that makes maximum use of inputs observed from markets. Those valuation techniques include using available information concerning recent market transactions, discounted cash flow analysis and valuation models.

When fair value is determined using valuation models, Loto-Québec uses assumptions regarding the amount and timing of estimated future cash flows and discount rates. Those assumptions are primarily based on external observable market inputs, including factors such as interest rates, credit spreads, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are not available.

j) Operating leases

Where Loto-Québec is the lessee and is not transferred substantially all the risks and rewards of ownership, payments under operating leases are recognized as an expense on a straight-line basis over the lease period. Related costs are recognized as an expense when incurred.

k) Cash

Under Loto-Québec's policy, cash include cash on hand at casinos and bank balances.

l) Inventories

Inventories include food and beverages, and lottery tickets and paper stock. Inventories are valued at the lower of cost and net realizable value. The cost is determined using the average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

m) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are recognized at cost less any accumulated depreciation and any accumulated net impairment losses.

Cost includes expenditures directly attributable to the acquisition of the asset. The cost of an asset produced by Loto-Québec for itself includes the cost of raw materials, direct labour, any other costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management and capitalized borrowing costs relating to qualifying assets.

Purchased software that is integral to the functionality of the related equipment is recorded as a component of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separated items (main components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between the disposal proceeds and the net carrying amount of the item and are recognized under General operating, administrative and other expenses.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the item's carrying amount if it is probable that future economic benefits associated with the item will flow to Loto-Québec and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Day-to-day servicing and maintenance costs are recognized under General operating, administrative and other expenses as incurred.

(iii) Depreciation

Depreciation is calculated using the cost of the asset less its residual value.

Depreciation is recognized commencing on the date when the property, plant and equipment are available for use for each main component of property, plant and equipment on a straight-line basis over the estimated useful life of each such main component, as this method reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The following rates represent the estimated useful lives:

Buildings	1.67% to 6.67%
Improvements to parking lots	3.33% and 5%
Improvements to rented parking lots	2.86% to 33.33%
Interior finishing	2% to 10%
Landscaping	3.33% to 6.67%
Leasehold improvements	3.7% to 10%
Equipment and other	6.67% to 33.33%

Loto-Québec reviews the depreciation methods, useful lives and residual values of its property, plant and equipment at each fiscal year-end and adjusts them as needed. Uncertainties in these estimates relate to technical obsolescence, which may affect useful lives.

Property, plant and equipment in progress, land and works of art are not depreciated.

Depreciation is recognized under Depreciation and amortization in the consolidated statement of comprehensive income.

n) Intangible assets

(i) Recognition and measurement

Intangible assets, consisting of software and licences, are measured at cost less any accumulated amortization.

Management must use judgment in determining whether software is in the research or development stage.

Costs directly attributable to the development phase of projects are recognized as intangible assets, provided they meet the following criteria:

- Development costs can be measured reliably;
- The project is technically and commercially feasible;
- Loto-Québec intends to complete the project and has sufficient resources to do so;
- Loto-Québec has the capacity to bring the software into use;
- The software will generate probable future economic benefits.

Loto-Québec is required to review costs directly attributable to the development phase for continued compliance with capitalization requirements, as software development is uncertain and can be jeopardized by technical issues arising after recognition.

Research and development costs that do not meet capitalization criteria are recognized as an expense when incurred.

Internally generated intangible assets include development costs of internally developed or modified software, comprising the cost of raw materials and direct labour, any other directly attributable costs necessary to prepare the asset to be capable of operating in the manner intended by management, and capitalized borrowing costs relating to qualifying assets.

The cost of acquired intangible assets includes costs directly related to the acquisition of licences and software and software installation costs.

(ii) Subsequent costs
The cost of replacing a part of an item of an acquired intangible asset is recognized in the item's carrying amount if it is probable that future economic benefits associated with the item will flow to Loto-Québec and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. All other expenses are recognized in net income as incurred.

(iii) Amortization
Amortization is calculated using the cost of the asset less its residual value.

Amortization is recognized commencing on the date when the intangible asset is available for use on a straight-line basis over the estimated useful life of the intangible asset, as this method reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The following rates/period represent the estimated useful lives:

Acquired licences	Term of licence
Acquired software	6.67% to 20%
Internally generated software	6.67% to 20%

Amortization methods, useful lives and residual values are reviewed at each fiscal year-end and adjusted as needed.

IT projects under development are not amortized.

Amortization is recognized under Depreciation and amortization in the consolidated statement of comprehensive income.

o) Impairment

(i) Financial assets
Loss allowances for expected credit losses are recognized on financial assets measured at amortized cost, if any.

Loss allowances for expected losses are assessed on one of the following two bases:

- 12-month expected credit losses resulting from possible defaults over the twelve months following the reporting date; or
- Lifetime expected credit losses resulting from all possible defaults over the expected life of the financial instruments.

Loto-Québec measures loss allowances at an amount equal to lifetime expected credit losses of the assets and instruments concerned, except for the following items, which are measured as 12-month expected credit losses:

- Debt instruments that are determined to have a low credit risk at the reporting date; and
- Other debt and treasury instruments for which the credit risk (i.e. the risk of default over the expected life of the financial instruments) has not increased significantly since their initial recognition.

Loto-Québec has elected to measure loss allowances for trade receivables at an amount equal to lifetime expected credit losses of these assets.

When determining whether the credit risk associated with a financial asset has increased significantly since its initial recognition, Loto-Québec considers reasonable and supportable information that can be obtained without incurring unreasonable costs or effort. This includes quantitative and qualitative information and analysis, based on Loto-Québec's historical experience, sound credit analyses and forward-looking information.

Loto-Québec assumes that the credit risk associated with a financial asset has increased significantly if payments are more than 30 days in arrears.

Loto-Québec considers a financial asset to be in default when:

- It is unlikely that the borrower will pay all of its credit obligations to Loto-Québec without resorting to actions such as the realization of guarantees, if any;
- The financial asset is more than 90 days past due.

Loto-Québec considers that a debt instrument presents a low credit risk when its credit rating is equivalent to that which would result from an investment grade classification by a rating agency, i.e. when its credit rating is greater than or equal to Baa3 (according to the Moody's rating agency) or BBB- (according to the Standard & Poor's rating agency).

The maximum period to be taken into consideration in measuring expected credit losses is the maximum contractual period over which the entity is exposed to credit risk.

At each reporting date, Loto-Québec assesses whether financial assets carried at amortized cost and debt instruments at fair value through other comprehensive income are likely to be impaired. A financial asset is impaired as a result of one or more events that negatively impact the estimated future cash flows of the asset.

Measurement of expected credit losses

Expected credit losses are an objective estimate based on probability-weighted amounts, which is determined by evaluating a range of possible outcomes. Expected credit losses are measured based on the present value of all cash flow deficiencies (i.e. the difference between the cash flows that are due to an entity under a contract and the cash flows that the entity expects to receive) over the expected life of a financial instrument. Expected credit losses are discounted at the effective interest rate of the financial asset.

Presentation of expected credit losses

In the consolidated statement of financial position, loss allowances related to financial assets measured at amortized cost are deducted from the gross carrying amount of these assets.

Recognized impairment losses are reported under General operating, administrative and other expenses in the consolidated statement of comprehensive income.

Derecognition

The gross carrying amount of a financial asset is derecognized when Loto-Québec no longer has a reasonable expectation of recovery with respect to all or part of the financial asset. This assessment is carried out instrument by instrument.

(ii) Non-financial assets

The carrying amount of non-financial assets is reviewed at each reporting date for any evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated. Whether any evidence of impairment exists or not, an impairment test is performed at the same time every year on intangible assets yet to be commissioned.

The recoverable amount of an asset or a cash-generating unit (CGU) is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted using a rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (CGUs).

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount.

All non-financial assets are subsequently remeasured for indication that an impairment loss previously recognized may no longer exist. An impairment loss may be reversed if the recoverable amount of an asset or a CGU exceeds its carrying amount.

5 REVENUES

Loto-Québec's revenues are allocated by business segment and main product categories as follows:

	2019				
Business segments	**Lotteries**	**Casinos**	**Gaming establishments**	**Elimination of intragroup transactions**	**Total**
Gaming revenues[1]					
Draw lotteries	**730,990**	**–**	**–**	**–**	**730,990**
Instant lotteries	**170,594**	**–**	**–**	**–**	**170,594**
Event betting	**25,550**	**–**	**–**	**–**	**25,550**
Casino gaming	**–**	**732,348**	**–**	**–**	**732,348**
Online gaming	**28,603**	**76,759**	**–**	**–**	**105,362**
Bars and brasseries	**–**	**–**	**895,136**	**–**	**895,136**
Gaming halls	**–**	**–**	**65,236**	**–**	**65,236**
Bingo	**–**	**–**	**12,637**	**–**	**12,637**
Kinzo	**–**	**–**	**6,479**	**–**	**6,479**
Total gaming revenues	**955,737**	**809,107**	**979,488**	**–**	**2,744,332**[1]
Non-gaming revenues[2]					
Restaurants	**–**	**88,555**	**–**	**(26,031)**	**62,524**
Accommodation	**–**	**20,231**	**–**	**–**	**20,231**
Total non-gaming revenues	**–**	**108,786**	**–**	**(26,031)**	**82,755**[2]
	955,737	**917,893**	**979,488**	**(26,031)**	**2,827,087**

Gaming revenues	
Revenues from gaming transactions for which the rates of prizes awarded are substantially fixed	637,762
Revenues from gaming transactions for which the rates of prizes awarded depend on the outcome of each game	2,106,570
	2,744,332[1]

	2018				
Business segments	**Lotteries**	**Casinos**	**Gaming establishments**	**Elimination of intragroup transactions**	**Total**
Gaming revenues[1]					
Draw lotteries	679,714	–	–	–	679,714
Instant lotteries	153,496	–	–	–	153,496
Event betting	24,600	–	–	–	24,600
Casinos gaming	–	738,570	–	–	738,570
Online gambling	21,243	64,308	–	–	85,551
Bars and brasseries	–	–	901,796	–	901,796
Gaming halls	–	–	61,323	–	61,323
Bingo	–	–	11,885	–	11,885
Kinzo	–	–	6,577	–	6,577
Total gaming revenues	**879,053**	**802,878**	**981,581**	**–**	**2,663,512**[1]
Non-gaming revenues[2]					
Restaurants	–	84,154	–	(25,414)	58,740
Accommodation	–	19,915	–	–	19,915
Total non-gaming revenues	–	104,069	–	(25,414)	78,655[2]
	879,053	**906,947**	**981,581**	**(25,414)**	**2,742,167**

Gaming revenues	
Revenues from gaming transactions for which the rates of prizes awarded are substantially fixed	567,852
Revenues from gaming transactions for which the rates of prizes awarded depend on the outcome of each game	2,095,660
	2,663,512[1]

[1] Gaming revenues from gaming transactions for which the rates of prizes awarded are substantially fixed fall within the scope of IFRS 15, *Revenue from Contracts with Customers*, as explained in Note 4 c. Gaming revenues from gaming transactions for which the rates of prizes awarded depend on the outcome of each game fall within the scope of IFRS 9, *Financial Instruments*, as explained in Note 4 c.

[2] These gaming revenues fall within the scope of IFRS 15, *Revenue from Contracts with Customers*.

6 | COST OF SALES

The cost of sales for gaming transactions consists of the following:

	2019	2018
Lotteries		
Commissions	**146,980**	138,784
Royalties	**934**	860
Printing	**29,374**	22,862
GST	**8,727**	7,435
QST	**17,410**	14,833
	203,425	**184,774**
Casinos		
Royalties	**29,345**	15,975
Food and beverages	**28,231**	27,627
GST	**1,188**	609
QST	**2,371**	1,215
	61,135	**45,426**
Gaming establishments		
Commissions	**202,791**	203,939
Royalties	**1,227**	192
Printing	**1,292**	1,354
GST	**10,247**	10,261
QST	**20,443**	20,471
	236,000	**236,217**
Total		
Commissions	**349,771**	342,723
Royalties	**31,506**	17,027
Printing	**30,666**	24,216
Food and beverages	**28,231**	27,627
GST	**20,162**	18,305
QST	**40,224**	36,519
	500,560	**466,417**

7 | EMPLOYEE BENEFITS

	2019	2018
Short-term employee benefits	**407,248**	398,552
Post-employment benefits	**40,883**	37,979
Other long-term benefits	**241**	(437)
	448,372	**436,094**

8 SPECIAL PAYMENTS

	2019	2018
Payment to the Government of Canada	**17,360**	17,090
Payments to non-profit organizations (NPOs)	**4,400**	3,847
	21,760	**20,937**

Payment to the Government of Canada

Following an agreement reached between provincial governments and the Government of Canada regarding the federal government's withdrawal from the administration of lotteries, the provinces pay the federal government an annual amount of $24,000 in 1979 dollars, which represented $75,784 in today's dollars for the year ended March 31, 2019 ($74,120 in 2018).

The Government of Québec's share is payable by Loto-Québec in accordance with the agreement reached between the provinces and the regional lottery corporations.

Payments to NPOs

As an agent of Loto-Québec, the Société des établissements de jeux du Québec inc. awards certain charitable or religious organizations that hold bingo licences various percentages of bingo proceeds less the value of prizes awarded to game winners, depending on bingo games.

9 NET FINANCIAL EXPENSES

	2019	2018
Interest income	**2,704**	1,665
Total financial income	**2,704**	**1,665**
Interest expense on bank loans[1]	**2,846**	2,587
Interest expense on long-term debt	**5,874**	7,020
Total financial expenses	**8,720**	**9,607**
Net financial expenses	**6,016**	**7,942**

[1]Includes $1,770 ($1,303 in 2018) on loans with the Caisse de dépôt et placement du Québec.

10 CONTRIBUTIONS TO THE GOVERNMENT OF QUÉBEC

	2019	2018
Ministère de la Santé et des Services sociaux	**22,000**	22,000
Ministère de la Sécurité publique	**3,000**	3,000
	25,000	**25,000**

The commitments related to these contributions are described in Note 21.

11 | TRADE AND OTHER RECEIVABLES

	2019	2018
Retailers[1]	**58,890**	70,157
Interprovincial Lottery Corporation	**3,424**	26,676
Other	**12,003**	12,388
	74,317	**109,221**

Receivables from retailers and the Interprovincial Lottery Corporation comprise receivables resulting from contracts with clients relating to revenues recognized under IFRS 15 and IFRS 9.

[1]Under an agreement with its retailers, Loto-Québec has an enforceable legal right to offset accrued liabilities payable to a retailer with trade receivables from the retailer and intends to settle the amounts on a net basis. As at March 31, 2019, gross trade receivables and accrued liabilities offset amounted to $71,984 ($89,923 in 2018) and $13,094 ($19,766 in 2018), respectively, representing the net amounts of the settlement of $58,890 ($70,157 in 2018).

12 | INVENTORIES

	2019	2018
Food and beverages	**3,936**	3,846
Lottery tickets and paper stock	**877**	6,451
	4,813	**10,297**

For the fiscal year, the cost of inventories recognized as an expense amounted to $57,605 ($50,489 in 2018).

13 | INTERESTS IN AN ENTITY ACCOUNTED FOR USING THE EQUITY METHOD, LOANS AND ADVANCE

	2019	2018
Interests	**27,774**	26,120
Loans and advance[1]	**12,308**	8,808
	40,082	**34,928**

[1]A portion of the advance ($5,000) is reported under current assets in the consolidated statement of financial position as at March 31, 2019.

INTERESTS

Interests and share of net income of an entity accounted for using the equity method and payments to partners

	2019	2018
	MRLP	**MRLP**
Equity interests		
With voting rights	**Class A units: 50%**	Class A units: 50%
With participating rights	**Class A units: 50%**	Class A units: 50%
	Class B units: 33%	Class B units: 33%
Carrying amount of interests	**27,774**	26,120
Share of Loto-Québec based on its proportion of Class A and B units	**(456)**	(1,066)
Payments to partners, holders of Class C units	**(3,780)**	(3,724)
Net contribution		
Share of net loss of an entity accounted for using the equity method and payments to partners	**(4,236)**	**(4,790)**

MRLP

Pursuant to a guarantee agreement between Loto-Québec and MRLP, and according to the distribution terms and conditions specified in the partnership agreement whereby Class A, B and C units of MRLP carry a participatory interest in the income generated by the different types of operations of MRLP, the net contribution represents the portion of net income generated by the operations of the Casino de Charlevoix payable to MRLP for the partners, holders of Class C units, as well as the share of Loto-Québec, holder of Class A and B units, in net income generated by Manoir Richelieu.

Summarized financial information excluding the percentage interest held by Loto-Québec

	2019	2018
	MRLP	MRLP
Total current assets	**13,705**	9,013
Total non-current assets	**89,019**	89,691
Total assets	**102,724**	98,704
Total current liabilities	**10,798**	5,219
Total non-current liabilities	**6,387**	11,452
Total liabilities	**17,185**	16,671
Revenues	**35,220**	29,858
Net and comprehensive loss – generated by Manoir Richelieu	**(1,021)**	(3,747)
Payments to partners, holders of Class C units	**3,186**	2,879
Net and comprehensive income (loss)	**2,165**	**(868)**

The year-end of MRLP is December 31. However, in accounting for its interest using the equity method, Loto-Québec includes this entity's results for the period from April 1 to March 31. The summarized financial information contained in the above table is presented as at December 31.

LOANS AND ADVANCE

	2019	2018
MRLP		
Loan, fixed rate of 5%, interest payable annually, without terms of repayment	**2,508**	2,508
Loan, variable rate of 2.36% as at March 31 (1.93% in 2018), interest payable annually, maturing on May 5, 2021	**1,300**	1,300
Loan, variable rate of 3.30% as at March 31, interest payable annually, maturing on January 9, 2024	**3,500**	–
Non-interest bearing advance, maturing on April 13, 2019[1]	**5,000**	5,000
	12,308	**8,808**

[1]This advance is reported under current assets in the consolidated statement of financial position as at March 31, 2019.

14 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Improvements: Parking lots	Improvements: Interior and exterior	Leasehold improvements	Equipment and other	Works of art	Under construction[1]	Total
Cost									
Balance as at April 1, 2017	44,133	432,338	121,389	509,054	85,744	627,822	7,875	15,274	1,843,629
Additions	–	235	1,575	7,732	833	32,604	–	1,663	44,642
Transfers out of In progress – commissioned	–	–	346	7,657	656	6,525	–	(15,184)	–
Disposals	–	–	(1,047)	(2,032)	(344)	(44,963)	–	–	(48,386)
Balance as at March 31, 2018	**44,133**	**432,573**	**122,263**	**522,411**	**86,889**	**621,988**	**7,875**	**1,753**	**1,839,885**
Additions	**–**	**4,320**	**353**	**1,569**	**1,143**	**34,183**	**–**	**12,434**	**54,002**
Transfers out of In progress – commissioned	**–**	**95**	**17**	**40**	**760**	**–**	**–**	**(912)**	**–**
Disposals	**–**	**(1,623)**	**–**	**–**	**(1,345)**	**(39,409)**	**–**	**–**	**(42,377)**
Balance as at March 31, 2019	**44,133**	**435,365**	**122,633**	**524,020**	**87,447**	**616,762**	**7,875**	**13,275**	**1,851,510**
Accumulated depreciation									
Balance as at April 1, 2017	–	197,286	91,465	260,162	60,417	409,681	–	–	1,019,011
Depreciation for the year	–	13,459	4,596	29,766	4,211	57,109	–	–	109,141
Disposals	–	–	(932)	(776)	(344)	(43,074)	–	–	(45,126)
Balance as at March 31, 2018	**–**	**210,745**	**95,129**	**289,152**	**64,284**	**423,716**	**–**	**–**	**1,083,026**
Depreciation for the year[2]	**–**	**12,280**	**4,624**	**25,382**	**4,384**	**55,198**	**–**	**–**	**101,868**
Disposals	**–**	**(1,234)**	**–**	**–**	**(1,216)**	**(39,307)**	**–**	**–**	**(41,757)**
Balance as at March 31, 2019	**–**	**221,791**	**99,753**	**314,534**	**67,452**	**439,607**	**–**	**–**	**1,143,137**
Net carrying amounts									
As at March 31, 2018	**44,133**	**221,828**	**27,134**	**233,259**	**22,605**	**198,272**	**7,875**	**1,753**	**756,859**
As at March 31, 2019	**44,133**	**213,574**	**22,880**	**209,486**	**19,995**	**177,155**	**7,875**	**13,275**	**708,373**

[1]The allocation of property, plant and equipment under construction by class is as follows:

	2019	**2018**
Buildings	**1,337**	246
Landscaping – Parking lots	**1,862**	144
Landscaping – Interior and exterior	**4,200**	502
Leasehold improvements	**5,876**	848
Equipment and other	**–**	13
	13,275	**1,753**

[2]For the current year, following additional experience acquired on certain main components of property, plant and equipment, Loto-Québec has extended the useful life of these components. The impact of this revision of the useful life has resulted in a non-significant decrease in depreciation expense for the current year and will reduce annual depreciation expense by approximately $22,000 for the fiscal years ending March 31, 2020, and thereafter.

15 INTANGIBLE ASSETS

	Acquired	Internally generated		
	Software and licences	Software	IT projects under development	Total
Cost				
Balance as at April 1, 2017	55,524	220,835	5,936	282,295
Additions	1,444	3,288	5,423	10,155
Transfers of commissioned IT projects	463	4,605	(5,068)	–
Disposals	(178)	(2,069)	–	(2,247)
Balance as at March 31, 2018	**57,253**	**226,659**	**6,291**	**290,203**
Additions	**2,850**	**2,126**	**11,190**	**16,166**
Transfers of commissioned IT projects	**106**	**901**	**(1,007)**	**–**
Disposals	**–**	**(437)**	**–**	**(437)**
Balance as at March 31, 2019	**60,209**	**229,249**	**16,474**	**305,932**
Accumulated amortization				
Balance as at April 1, 2017	51,122	167,983	–	219,105
Amortization for the year	1,500	15,923	–	17,423
Disposals	(117)	(873)	–	(990)
Balance as at March 31, 2018	**52,505**	**183,033**	**–**	**235,538**
Amortization for the year	**1,901**	**16,149**	**–**	**18,050**
Disposals	**–**	**–**	**–**	**–**
Balance as at March 31, 2019	**54,406**	**199,182**	**–**	**253,588**
Net carrying amounts				
As at March 31, 2018	**4,748**	**43,626**	**6,291**	**54,665**
As at March 31, 2019	**5,803**	**30,067**	**16,474**	**52,344**

16 BANK LOANS

Current bank loans totalled $296,735 ($289,294 in 2018), including $133,800 ($284,300 in 2018) from the Caisse de dépôt et placement du Québec, a government body executing fiduciary operations excluded from the Government of Québec's reporting entity. These loans carry interest at fixed rates ranging from 1.92% to 3.05% (1.35% to 1.68% in 2018).

17 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
Trade payable and accrued liabilities[1]	**67,837**	82,557
Lottery prizes payable[2]	**62,868**	57,841
Progressive jackpots payable[3]	**28,701**	24,156
Salaries payable	**92,320**	81,904
Employee benefits payable	**7,568**	8,361
MRLP	**2,340**	1,236
GST	**3,988**	4,519
QST	**8,203**	9,301
	273,825	**269,875**

[1]Trade payable and accrued liabilities include accrued interest totalling $1,257 ($1,829 in 2018) payable to the Financing Fund of the Government of Québec and $40 ($34 in 2018) payable to the Caisse de dépôt et placement du Québec.

[2]Lottery prizes payable consist of prizes payable to winners and prizes to be awarded on instant draw lottery tickets for which the rates of prizes awarded are substantially fixed, determined using a notional rate applied to the sales amount less the prizes disbursed. One year after the draw date or the date the tickets were dispensed, the liability related to unclaimed prizes expires and is used for awarding bonus prizes.

[3]Progressive jackpots payable result primarily for progressive jackpots of casino slot machines. This liability increases with the gaming activities of clients.

18 LONG-TERM DEBT

	2019	2018
Loans from the Financing Fund of the Government of Québec, interest payable semi-annually, repayable according to the following maturities and rates:		
December 1, 2018, fixed rate of 1.608%	–	50,000
December 19, 2018, fixed rate of 2.171%	–	50,000
December 1, 2020, fixed rate of 4.102%	**43,375**	43,375
September 1, 2023, fixed rate of 3.133%	**25,000**	25,000
December 1, 2033, fixed rate of 3.720%	**25,000**	25,000
December 1, 2043, fixed rate of 3.753%	**25,000**	25,000
	118,375	**218,375**
Transaction costs	**(416)**	(543)
	117,959	**217,832**
Less current portion	–	(100,000)
	117,959	**117,832**

19 NET DEFINED BENEFIT AND OTHER LONG-TERM BENEFIT LIABILITY

a) Compulsory public plans

Employees of Loto-Québec, the Société des établissements de jeux du Québec inc. and Nter Technologies, Limited Partnership are members of the RREGOP or the PPMP, both defined benefit plans that include guarantees upon retirement or death.

On January 1, 2019, the employee and employer contribution rate decreased to 10.88% (10.97% in 2018) of assessable payroll for the RREGOP, while the rate for the PPMP was stable at 12.82% (12.82% in 2018). The employer's contributions are equivalent to employee contributions, except for a compensation amount provided for in the PPMP act of 2.97% as at January 1, 2019 (2.97% as at January 1, 2018) of assessable payroll that must be paid by the employer for participating members of the PPMP and to the Retirement Plan for Senior Officials and an equivalent amount for the employers' contribution. Accordingly, Loto-Québec pays an additional amount for the 2019 calendar year equal to 5.94% of assessable payroll (5.94% of assessable payroll for the 2018 calendar year).

Contributions to these compulsory public plans amounting to $8,799 ($9,869 in 2018) were recognized as an expense in consolidated income for the year. Loto-Québec's obligations toward these government plans are limited to its employer contributions.

b) Defined benefit plans

(i) Characteristics of pension plans

The Société des casinos du Québec inc. has two defined benefit pension plans, namely the Employee Pension Plan of the Société des casinos du Québec inc. (Employee Plan) and the Executive and Professional Plan of the Société des casinos du Québec inc. (Executive and Professional Plan). Membership in these plans is compulsory for all Société des casinos du Québec inc. employees who meet the eligibility criteria. These plans provide pension benefits based on indexed yearly pensionable earnings (maximum annual indexing of 2%) for the Employee Plan and number of years of service and average salary of the best three consecutive years for the Executive and Professional Plan. Benefits paid to pensioners are increased each year by 50% of the rise in the consumer price index (maximum annual indexing of 2%). The annual contribution of the Société des casinos du Québec inc. equals that of employees unless the actuary deems that it should be higher to fund the defined benefits and amortize any plan deficit. Surplus assets are used to repay the Société des casinos du Québec inc. in the form of an annual contribution holiday up to the balance of the amortization payments. An amount of 20% of the balance of surplus assets is used to reduce the contributions of employees and the Société des casinos du Québec inc. equally.

Loto-Québec provides senior management with the Supplementary Pension Plan for Executive Officers of Loto-Québec (Supplementary Plan) to pay lifetime retirement benefits exceeding the limits provided under the *Income Tax Act*.

Plan assets are managed by pension funds legally separated from Loto-Québec. Pursuant to the articles of incorporation of the pension funds, pension committees must act in the best interest of plan members and are responsible for determining investment policies. The investment policies establish, in particular, a benchmark portfolio indicating the plans' target asset allocation between various investment classes, as well as the minimum and maximum thresholds. The manager is mandated to administer the funds entrusted to him or her by the pension committees, seeking optimal returns on their capital while adhering to the investment policies.

Actuarial valuations for funding purposes are prepared to ensure compliance with pension legislation. The most recent actuarial valuations for the Employee Plan and the Executive and Professional Plan were prepared as at December 31, 2018. The next valuations will be prepared as at December 31, 2021, at the latest. The most recent actuarial valuation for the Supplementary Plan was prepared as at March 31, 2018, and the next valuation will be prepared as at March 31, 2019.

(ii) Risks related to pension plans

The plans expose Loto-Québec to actuarial risks, such as interest rate risk, investment risk, longevity risk, average age at retirement risk and inflation risk as well as the risk related to the rate of compensation increase.

Interest rate risk

A decline in the market yields on high-quality corporate bonds would increase the defined benefit obligation of pension plans, but it is expected that it would be largely offset by an increase in the fair value of the plans' bond portfolio.

Investment risk

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields on high-quality corporate bonds; if the return on plan assets falls below that rate, a loss will be generated.

Plan assets as at March 31, 2019, consist primarily of Canadian and international equities, bonds and real estate funds. The fair value of plan assets is exposed to their respective markets and returns generated by their respective managers.

Longevity risk

The present value of the defined benefit obligation is determined by reference to the best estimate of the mortality of plan members both during and after employment. Loto-Québec is required to provide benefits throughout the plan member's lifetime. An increase in the life expectancy of plan members would increase the defined benefit obligation.

Average age at retirement risk

The present value of the defined benefit obligation is determined by reference to the expected age of plan members at retirement. As a result, a decline in the plan members' average age at retirement would increase the defined benefit obligation.

Inflation risk

A significant percentage of the defined benefit obligation is linked to inflation. A rise in the rate of inflation would increase the defined benefit obligation. A portion of plan assets consists of inflation linked debt securities which mitigates certain effects of inflation.

Risk related to the rate of compensation increase

The present value of the defined benefit obligation is determined by reference to future salary increases of plan members. As a result, any rise in the rate of compensation increase of plan members would increase the defined benefit obligation.

(iii) Explanation of amounts recognized in the financial statements

The following amounts include the defined benefit obligation of the pension plans and the other long term benefits, and the fair value of pension plan assets at year-end:

	2019	**2018**
Present value of unfunded defined benefit obligation	**11,309**	11,068
Present value of funded defined benefit obligation	**767,653**	680,683
Total present value of defined benefit obligation	**778,962**	**691,751**
Fair value of plan assets	**733,390**	672,748
Net defined benefit and other long-term benefit liability	**45,572**	**19,003**

Changes in the discounted value of the defined benefit obligation and the fair value of plan assets are as follows:

			2019	2018
	Pension plans	Other long-term benefits	Total	Total
DEFINED BENEFIT OBLIGATION				
Balance, beginning of year	680,683	11,068	691,751	593,681
Current service cost	29,664	–	29,664	26,313
Interest expense	25,973	–	25,973	23,890
Employee contributions	17,576	–	17,576	17,060
Benefits paid	(12,889)	–	(12,889)	(10,054)
Actuarial (gains) losses	26,646	241	26,887	40,861
Balance, end of year	767,653	11,309	778,962	691,751
Fair value of plan assets				
Balance, beginning of year	672,747	–	672,747	593,523
Interest income	24,604	–	24,604	23,293
Return on plan assets excluding interest income	15,960	–	15,960	33,002
Employer contributions	16,442	–	16,442	17,124
Employee contributions	17,576	–	17,576	17,060
Benefits paid	(12,889)	–	(12,889)	(10,054)
Plan administration expenses	(1,050)	–	(1,050)	(1,200)
Balance, end of year	733,390	–	733,390	672,748
Net defined benefit and other long-term benefit liability	34,263	11,309	45,572	19,003

The allocation of the fair value of pension plan assets as at March 31 was as follows:

	2019		2018	
	Allocation %	Fair value $	Allocation %	Fair value $
Cash	1.2	8,801	1.2	7,808
Bonds	49.5	363,028	49.4	332,035
Canadian equities	11.2	82,140	11.2	75,450
International equities	29.5	216,350	29.9	201,181
Real estate funds	8.1	59,405	7.9	53,384
Infrastructure	0.2	1,467	–	–
Private investments	0.3	2,200	0.4	2,890
	100.0	733,390	100.0	672,748

The fair value of all investments is derived from inputs that can be corroborated by observable market data for the full term of the assets.

Defined benefit expense recognized in the consolidated statement of comprehensive income under Employee benefit expense is detailed as follows:

			2019	2018
	Pension plans	Other long-term benefits	Total	Total
Service costs	29,664	–	29,664	26,313
Net interest expense	1,369	–	1,369	598
Plan administration expenses	1,050	–	1,050	1,200
Actuarial (gains) losses related to other long-term benefits	–	241	241	(437)
Post-employment and other long-term benefits	**32,083**	**241**	**32,324**	**27,674**

The defined benefit amounts recognized in consolidated other comprehensive income are detailed as follows:

	2019	2018
Actuarial gains arising from changes in demographic assumptions	339	–
Actuarial losses arising from changes in financial assumptions	(21,166)	(27,567)
Actuarial losses arising from plan experience	(5,819)	(13,731)
Return on plan assets excluding interest income	15,960	33,002
Remeasurements of the net defined benefit liability	**(10,686)**	**(8,296)**

The weighted averages of the principal actuarial assumptions used at the reporting date are:

	2019		2018	
	Pension plans	Other long-term benefits	Pension plans	Other long-term benefits
Defined benefit obligation as at March 31				
Discount rate	3.35%	3.15%	3.60%	3.40%
Inflation rate	1.45%	1.45%	1.70%	1.70%
Rates of compensation increase	2.45%	2.45%	2.70%	2.70%

For the defined benefit obligation as at March 31, 2019, and March 31, 2018, the mortality assumptions are based on the 2014 Public Sector Mortality Table (CPM2014Publ) and the CPM Improvement Scale B (CPM-B). These rates are 120% for male Employee Plan members, 100% for female Employee Plan members, 100% for male Executive Plan and Supplemental Plan members, and 95% for female Executive Plan and Supplemental Plan members.

Average life expectancy at age 65 as at March 31, 2019, is:

	2019		2018	
	Female	Male	Female	Male
Employee Plan	24.8 yrs	21.6 yrs	24.7 yrs	21.6 yrs
Executive and Professional Plan and Supplementary Plan	25.2 yrs	22.9 yrs	25.1 yrs	22.9 yrs

(iv) Amount, timing and degree of uncertainty regarding future cash flows

Net defined benefit and other long-term benefit liability is exposed to uncertainties, particularly with respect to estimating discount rates, inflation rates, rates of compensation increase and mortality rates, which can vary significantly in future valuations of Loto-Québec's defined benefit obligation.

Significant actuarial assumptions used in determining the defined benefit obligation of pension plans consist of the discount rate, inflation rate, rate of compensation increase and mortality rates. The calculation of the defined benefit obligation is sensitive to these assumptions.

The table below summarizes the impact of changes in these actuarial assumptions on the pension plans' defined benefit obligation as at March 31, 2019:

	2019		**2018**	
Discount rate	**Increase to 4.35%**	**Decrease to 2.15%**	Increase to 4.60%	Decrease to 2.40%
(Decrease) increase in defined benefit obligation	**(115,437)**	**135,771**	(102,642)	120,753
Inflation rate	**Increase to 2.45%**	**Decrease to 0.45%**	Increase to 2.70%	Decrease to 0.70%
(Decrease) increase in defined benefit obligation	**36,089**	**(62,771)**	28,541	(50,862)
Rates of compensation increase	**Increase to 3.45%**	**Decrease to 1.45%**	Increase to 3.70%	Decrease to 1.70%
(Decrease) increase in defined benefit obligation	**7,258**	**(6,993)**	6,082	(5,830)
Mortality rate	**Increase to 110% of rates**	**Decrease to 90% of rates**	Increase to 110% of rates	Decrease to 90% of rates
(Decrease) increase in defined benefit obligation	**(9,043)**	**9,825**	(8,017)	8,708

In the sensitivity analyses, the present value of the defined benefit obligation is calculated using the projected unit credit method, which is the same method that is applied in calculating the defined benefit obligation recognized in the consolidated statement of financial position. The sensitivity analyses are based on the change in a single assumption. The analysis may not be representative of the actual change in the defined benefit obligation, as it is unlikely that the change in assumptions would occur in isolation of one another, as some assumptions may be correlated.

The Employee Plan and Executive and Professional Plan are funded in accordance with applicable legislation, and their assets are held by an independent trust. The Supplementary Plan is funded as required by plan rules. The minimum contributions to the plans are determined using the plans' most recent actuarial valuations.

Based on the result of the most recent actuarial valuation of each of those pension plans, Loto-Québec expects to make contributions totalling $18,644 during the next fiscal year.

The weighted average duration of the pension plans' defined benefit obligation as at March 31, 2019, was 15.01 years (15.18 years in 2018).

20 CAPITAL MANAGEMENT

The capital of Loto-Québec includes bank loans, long-term debt, share capital and retained earnings.

The capital structure, as defined by Loto-Québec, is as follows:

	2019	**2018**
Bank loans	**296,735**	289,294
Long-term debt	**117,959**	217,832
Share capital	**170**	170
Retained earnings	**86,300**	86,300
	501,164	**593,596**

Loto-Québec manages its capital to meet its shareholder's requirements and to ensure that its funds are protected at all times. Through a strict management framework, it ensures it effectively meets the objectives set out in its incorporating act.

Loto-Québec assumes full responsibility for financing its activities. Throughout the year, it pays a dividend to its shareholder, the Québec Minister of Finance, in the form of periodic advances. The declared dividend is deducted from shareholder's equity for the year, and corresponds to the net income for the year, from which are deducted the contributions to the Government of Québec. As a result of this distribution method, Loto-Québec must rely on external financing sources.

Effective April 1, 2018, Loto-Québec is authorized by the Government of Québec to make short-term borrowings up to a maximum total amount outstanding of $450,000 for the period from April 1, 2018, to March 31, 2019, $415,000 for the period from April 1, 2019, to March 31, 2020, and $300,000 for the period from April 1, 2020, to March 31, 2021, from financial institutions, the Caisse de dépôt et placement du Québec or the Québec Minister of Finance, in its capacity as manager of the Financing Fund of the Government of Québec, and long-term borrowings up to a maximum total amount outstanding of $1,100,000 from the same Fund. Notwithstanding the foregoing, the total amount of Loto-Québec's current and non-current borrowings may at no time exceed $1,400,000. During the year, Loto-Québec met its capital requirements.

Loto-Québec is not subject to any other requirement regarding external financing sources.

The capital management objectives, policies and procedures have not changed since March 31, 2018.

21 CONTINGENT LIABILITIES AND COMMITMENTS

a) Contingent liabilities

In the normal course of business, Loto-Québec is subject to claims and lawsuits. Loto-Québec's management disputes those claims and lawsuits. Loto-Québec has not recorded a provision for those contingent liabilities because management considers that any potential settlement resulting from those claims and lawsuits would not materially affect the consolidated financial statements.

b) Commitments

(i) Leases

Loto-Québec is committed under leases expiring on various dates through May 2035 for the rental of administrative offices and land. In certain cases, those leases carry an implied two-to-five-year renewal option.

Lease payments due under non-cancellable operating leases are as follows:

	2019	2018
Less than 1 year	**25,155**	30,459
1 to 5 years	**52,930**	75,059
More than 5 years	**19,028**	24,786
	97,113	**130,304**

(ii) Contributions to the Government of Québec

Ministère de la Santé et des Services sociaux (MSSS)

At the request and with the authorization of the Government of Québec, Loto-Québec is committed to the MSSS to make an annual contribution of $22,000 into a specified purpose account of the Government of Québec to fund prevention measures, treatment services, research programs and awareness campaigns to counter compulsive gambling.

Since the Government of Québec has not specified a termination date for the commitment, Loto-Québec is not in a position to assess its total amount.

Ministère de la Sécurité publique (MSP)

At the request and with the authorization of the Government of Québec, Loto-Québec is committed to the MSP to make an annual contribution of $3,000 into a specified purpose account of the Government of Québec to fund intensive control measures and activities that will be implemented by the Régie des alcools, des courses et des jeux to, among other things, ensure the management of control measures regarding access to video lottery terminals.

Since the Government of Québec has not specified a termination date for the commitment, Loto-Québec is not in a position to assess its total amount.

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Risk management policy

In the normal course of business, Loto-Québec is exposed to credit risk, liquidity risk and market risk arising from exchange rate and interest rate fluctuations. Loto-Québec has implemented policies and procedures that ensure proper management of the risks inherent to financial instruments.

a) Credit risk

Credit risk is the risk of financial loss to Loto-Québec if a counterparty to a financial instrument fails to fulfill one of its obligations. The carrying amount of financial assets represents Loto-Québec's maximum exposure to credit risk. There is no credit risk related to cash on hand in casinos as it is not held by a third party. Loto-Québec reduces the credit risk related to cash by dealing with recognized financial institutions whose credit ratings are "investment grade." Receivables arise primarily from transactions carried out with a significant number of retailers and with the Interprovincial Lottery Corporation, which is equally owned by each of the Canadian provinces and is mandated by them to conduct and administer the countrywide lotteries. Other financial assets consist of loans and the advance in an entity accounted for using the equity method.

Trade and other receivables past due represented 1% of receivables in 2019 (1% in 2018). Expected credit losses, recognized on all the above-mentioned financial assets are immaterial. Loto-Québec's management considers the credit quality of all of its assets that are not past due to be sound.

b) Liquidity risk

Liquidity risk is the risk that Loto-Québec will be unable to meet its financial obligations as they fall due. Loto-Québec manages liquidity risk by monitoring its operating requirements and using its credit facilities. Loto-Québec prepares budget and cash forecasts to ensure it has sufficient funds to meet its obligations.

Contractual cash flows related to Loto-Québec's financial liabilities were as follows:

	2019					
			Maturity			
	Carrying amount	Total contractual cash flows	Less than 12 months	1 to 2 years	2 to 5 years	5 years and over
Financial liabilities						
Bank loans	296,735	296,735	296,735	–	–	–
Dividend payable	147,404	147,404	147,404	–	–	–
Trade payable and accrued liabilities	67,837	67,837	67,837	–	–	–
MRLP	2,340	2,340	2,340	–	–	–
Prizes payable	62,868	62,868	62,868	–	–	–
Progressive jackpots payable	28,701	28,701	28,701	–	–	–
Salaries payable	92,320	92,320	92,320	–	–	–
Derivatives on gaming transactions	5,620	5,620	5,620	–	–	–
Long-term debt	117,959	162,865	4,431	47,806	32,563	78,065
	821,784	866,690	708,256	47,806	32,563	78,065

	2018					
			Maturity			
	Carrying amount	Total contractual cash flows	Less than 12 months	1 to 2 years	2 to 5 years	5 years and over
Financial liabilities						
Bank loans	289,294	289,294	289,294	–	–	–
Dividend payable	168,967	168,967	168,967	–	–	–
Trade payable and accrued liabilities	82,557	82,557	82,557	–	–	–
MRLP	1,236	1,236	1,236	–	–	–
Prizes payable	57,841	57,841	57,841	–	–	–
Progressive jackpots payable	24,156	24,156	24,156	–	–	–
Salaries payable	81,904	81,904	81,904	–	–	–
Derivatives on gaming transactions	5,308	5,308	5,308	–	–	–
Long-term debt	217,832	269,185	106,320	4,431	53,109	105,325
	929,095	**980,448**	**817,583**	**4,431**	**53,109**	**105,325**

c) **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect Loto-Québec's net income or the value of its holdings of financial instruments. Market risk management aims to manage and control market risk exposures within acceptable parameters.

(i) **Interest rate risk**
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Loans, long-term debt and bank loans have fixed interest rates. Loto-Québec considers its exposure to interest rate risk from loans and the long-term debt to be minimal, given that it has no intention to call the loans or repay the debt prior to maturity.

In addition, bank loans are taken out to meet temporary liquidity needs for a period of less than 365 days from financial institutions or the Minister of Finance. Those loans are managed so as to reduce the cash flow risk related to the interest paid. A reasonably possible 100 basis point change in interest rates at the reporting date would not have had a material impact on net income or shareholder's equity.

d) **Fair value**

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of cash, including cash on hand at casinos, trade and other receivables, the advance to MRLP, bank loans, the dividend payable and accounts payable and accrued liabilities approximates their carrying amount due to their short-term maturities.

The fair value of Loto-Québec's other financial instruments, which are all within Level 2 in the fair value hierarchy, except for derivatives on gaming transactions which are in Level 3, is detailed as follows:

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans to MRLP	**7,308**	**7,308**	3,808	3,808
	7,308	**7,308**	**3,808**	**3,808**
Long-term debt	**118,375**	**131,113**	217,832	229,818
	118,375	**131,113**	**217,832**	**229,818**

(i) **Non-derivative financial assets**
The fair value of loans and the advance to MRLP is based on the value of future cash flows discounted at the market interest rate at year-end.

(ii) Non-derivative financial liabilities

The fair value of the non-derivative financial liabilities, including the fair value of long-term debt, is based on estimated future cash flows discounted at the market interest rate at year-end.

(iii) Derivatives on gaming transactions

The initial fair value of derivatives on draw lotteries and event bettings is the amount of consideration received on the sale of entries to these games. Any subsequent change in the probability of gains or losses with respect to the expected outcome of a draw or event would change the fair value of derivatives on gaming transactions recorded for draw lotteries and event bettings that have not yet occurred as at March 31. The probabilities of gains or losses for draw lotteries are based on notional rates that do not change, and there are no reasonably likely changes in the event betting assumptions that would result in a significant change in the fair value of derivatives on gaming transactions that were recognized at March 31, although the actual gain or loss would be determined by the outcome of the draw or event.

23 CONSOLIDATED CASH FLOWS

	2019	2018
Cash as at March 31		
Cash on hand at casinos	**75,786**	80,782
Cash	**25,211**	41,439
	100,997	**122,221**
Net change in non-cash items		
Trade and other receivables	**34,904**	(42,253)
Inventories	**5,484**	(918)
Prepaid expenses	**(1,672)**	(3,362)
Accounts payable and accrued liabilities	**3,054**	24,395
Derivatives on gaming transactions	**312**	(126)
Deferred revenues	**(11,743)**	18,767
	30,339	**(3,497)**
Additional information		
Additions to property, plant and equipment funded by accounts payable and accrued liabilities	**13,959**	13,511
Additions to intangible assets funded by accounts payable and accrued liabilities	**2,192**	1,052
Share of partners, holders of Class C units, in MRLP included in accounts payable and accrued liabilities	**2,792**	2,966

Reconciliations of changes in liabilities resulting from financing activities:

	Liabilities			Shareholder's equity	
	Bank loans	**Dividend payable**	**Long-term debt**	**Retained earnings**	**Total**
Balance as at March 31, 2018	**289,294**	**168,967**	**217,832**	**86,300**	**762,393**
Changes arising from cash flows related to financing activities:					
Net change in bank loans	**7,441**	**–**	**–**	**–**	**7,441**
Dividend paid	**–**	**(21,563)**	**–**	**(1,383,206)**	**(1,404,769)**
Repayment of long-term debt	**–**	**–**	**(100,000)**	**–**	**(100,000)**
Contributions to the Government of Québec	**–**	**–**	**–**	**(25,000)**	**(25,000)**
	7,441	**(21,563)**	**(100,000)**	**(1,408,206)**	**(1,522,328)**
Other changes related to these liabilities:					
Change in transaction costs	**–**	**–**	**127**	**–**	**127**
Total changes related to these liabilities	**7,441**	**(21,563)**	**(99,873)**	**(1,408,206)**	**(1,522,201)**
Total other changes related to shareholder's equity	**–**	**–**	**–**	**1,408,206**	**1,408,206**
Balance as at March 31, 2019	**296,735**	**147,404**	**117,959**	**86,300**	**648,398**

	Liabilities			Shareholder's equity	
	Bank loans	Dividend payable	Long-term debt	Retained earnings	Total
Balance as at March 31, 2017	**391,282**	**65,651**	**257,651**	**86,300**	**800,884**
Changes arising from cash flows related to financing activities:					
Net change in bank loans	(101,988)	–	–	–	(101,988)
Dividend paid	–	103,316	–	(1,310,467)	(1,207,151)
Repayment of long-term debt	–	–	(40,000)	–	(40,000)
Contributions to the Government of Québec	–	–	–	(25,000)	(25,000)
	(101,988)	**103,316**	**(40,000)**	**(1,335,467)**	**(1,374,139)**
Other changes related to these liabilities:					
Change in transaction costs	–	–	181	–	181
Total changes related to these liabilities	**(101,988)**	**103,316**	**(39,819)**	**(1,335,467)**	**(1,373,958)**
Total other changes related to shareholder's equity	**–**	**–**	**–**	**1,335,467**	**1,335,467**
Balance as at March 31, 2018	**289,294**	**168,967**	**217,832**	**86,300**	**762,393**

24 RELATED PARTIES

a) Related party transactions and balances

Given that the Government of Québec is its sole shareholder, Loto-Québec is related to all Government of Québec departments and special funds as well as all agencies and public enterprises directly or indirectly controlled by the Government of Québec or subject to either joint control or significant influence by the Government of Québec. Except for transactions disclosed in the consolidated financial statements that were initially recognized at fair value, no individually or collectively significant transactions have been entered into by Loto-Québec with those related parties.

b) Key management personnel compensation

Key management personnel include members of the Board of Directors and certain officers of Loto-Québec. In addition to their salaries, Loto-Québec typically provides other short-term benefits to officers and contributes on their behalf to post-employment benefit plans, such as pension and other long term benefit plans.

Key management personnel received the following compensation:

	2019	2018
Short-term employee benefits	**3,592**	3,393
Post-employment and other long-term benefits	**552**	521
	4,144	**3,914**

MEASURING EFFICIENCY AND PERFORMANCE

Benchmarking

As required by the *Act respecting the governance of state-owned enterprises*, Loto-Québec carries out annual efficiency and performance assessments. The Board of Directors is responsible for ensuring that the steps for measuring efficiency and performance, including benchmarking with similar organizations, are undertaken by the Corporation and that this information is included in the annual report.

The benchmarking exercise involved eight government organizations across Canada: the British Columbia Lottery Corporation; the Western Canada Lottery Corporation; the Alberta Gaming, Liquor and Cannabis Commission; the Saskatchewan Liquor and Gaming Authority; the Manitoba Liquor and Lotteries Corporation; the Ontario Lottery and Gaming Corporation; the Atlantic Lottery Corporation; and the Nova Scotia Provincial Lotteries and Casino Corporation.

As none of these organizations operate in exactly the same way as Loto-Québec, it's important to take into account the characteristics of their respective game offerings and business model differences. Nonetheless, Loto-Québec ensures continuous monitoring, in collaboration with the above-mentioned Canadian government organizations, to stay abreast of changes in Canada's gaming sector. When it came time to develop the 2017–2020 strategic plan, these monitoring activities allowed us to draw inspiration from performance indicator best practices. Benchmarking made it possible to establish performance indicators in sectors such as compliance auditing in partner bars and brasseries, employee mobilization, product-cost ratio and customer satisfaction.

Last year's results and findings

The 2018–2019 fiscal year is the second year of our 2017–2020 strategy planning cycle. During this period, in keeping with the four orientations in our last strategic plan, we continued to improve our offering by focusing on client-centred entertainment, and stayed the course on efficient management and on balancing the social and economic aspects of our mission. The resulting strategy has thus far produced good results, with net income reaching $1.408 billion for 2018–2019, up 5.4% from the previous year ($1.335 billion).

1 PLACE THE **CUSTOMER AT THE CENTRE** OF OUR DECISION-MAKING PROCESS

2 DEVELOP NEW GROWTH OPPORTUNITIES COMBINING **GAMING AND ENTERTAINMENT**

3 **FOSTER GOODWILL** TOWARDS OUR ORGANIZATION AND OFFERINGS

4 IMPROVE OUR **AGILITY** AND **WORK PROCESSES**

Strategic orientation 1:
Place the customer at the centre of our decision-making process

Our efforts in terms of customer service continue to generate excellent results. The customers' general satisfaction rate rose to 8.4, a step up from the previous year (8.2).[1]

Our convergent offering strategy has also borne fruit. The proportion of the adult population who take advantage of our offering in more than one category is up significantly, having risen from 29% in 2017–2018 to 33% in 2018–2019.

This convergent offering strategy extends to online gaming, where it has also had a positive impact. The proportion of online revenues is now 3.7%, compared to 3.1% in 2017–2018.

Strategic orientation 2:
Develop new growth opportunities combining gaming and entertainment

Our different entertainment initiatives are resonating with young adults. The purchase incidence among 18–35-year-olds is up 4%, rising from 70% in 2017–2018 to 74% in 2018–2019.

Our shift to entertainment is also apparent in the proportion of video lottery terminals (VLTs) in multi-game establishments. This percentage, which stood at 19% in 2017–2018, reached 21% over the past year.

Strategic orientation 3:
Foster goodwill towards our organization and offerings

In 2016, our World Lottery Association Level 4 Certification—the highest level awarded for responsible gambling—was renewed, clearly demonstrating our efforts in this regard. The certification is valid until 2019. We are planning to renew this recognition over the next year.

We continue to place great importance on compliance audits with responsible commercialization codes. In the bars and brasseries network, the number of visits per establishment was 6.3 in 2018–2019, clearly higher than the number in other jurisdictions that operate VLTs. In the lottery retailer network, 418 visits were conducted. In both cases, the levels are higher than in previous years.

Our Centre du hasard kiosks, located in our four casinos and two gaming halls, are becoming increasingly popular. The total number of visits was 52,225 for the year, a 3.0% increase compared to the previous year, which had also seen a significant 33% increase in visits.

In terms of BOMA BEST certifications, we still have nine certified buildings, meeting our certification maintenance goal.

Strategic orientation 4:
Improve our agility and work processes

Managing our activities soundly and efficiently is central to our priorities, and the ratio of total expenses to revenues shows the extent of the efforts we are making. This ratio is down again, at 32.5%, below the previous year's ratio of 34.3%.[1]

[1] Last year's results have been restated as mentioned in Note 3 of the financial statements.

FOLLOW-UP ON THE ACTIONS OUTLINED IN THE 2015–2020 RESPONSIBLE COMMERCIALIZATION PLAN

FOR THE 2018–2019 FISCAL YEAR

As required under the *Sustainable Development Act*, this section outlines objectives and activities carried out in 2018–2019 with respect to our 2015–2020 responsible commercialization plan (RCP). The RCP allows the organization to operationalize the responsible commercialization code.

The RCP involves five horizontal objectives:

1. Provide our employees with a stimulating workplace
2. Optimize responsible gambling measures at every step of our commercialization activities
3. Guarantee the integrity of our games and their distribution channels
4. Continue the drive to improve our overall performance
5. Encourage dialogue with stakeholders based on a vision of complementary roles

We are presenting our results to put our responsible commercialization efforts into perspective based on the objectives and expectations of the Government Sustainable Development Strategy 2015–2020. This follow-up also links with the government terminology, which correspond to that used in the public service.

The definitions related to the contribution to the government strategy—objectives, target outcomes, essential activities and areas of intervention—can be found at the end of this section, on page 87.

Objectives | Target outcomes | Essential activities | Areas of intervention

Organizational objective 1

PROVIDE OUR EMPLOYEES WITH A STIMULATING WORKPLACE

› ACTION 1: Mobilize our employees to achieve our business objectives

79%
of respondents connect responsible commercialization with our business objectives.

Sub-action 1.1

Communicate our business objectives and strategic priorities, drawing a connection with responsible commercialization

Indicator

Percentage of employees who connect responsible commercialization and business objectives

Target

85% of employees

Further information

Integrating responsible commercialization at every level of the organization requires everyone to understand our approach so that every employee can contribute. We surveyed our employees' knowledge of our approach via our intranet last winter. Based on answers from 495 respondents, we have work to do when it comes to telling our employees about our achievements in terms of responsible commercialization.

Contribution to government strategy: Objectives 1.1, 1.2 | Target outcomes 1, 10 | Essential activities 1, 2 | Areas of intervention 1

63
communications showcased employees.

Sub-action 1.2

Highlight the employees' contribution to the achievement of our results

Indicator

Number of communications related to the recognition of employees directly involved in responsible commercialization projects

Target

Twenty annual communications

Further information

We acknowledged our employees for their involvement several times on our various platforms: 37 posts on our intranet and 26 posts on other media platforms highlighted their efforts, including their work with the 2019 Mouvement contest.

Contribution to government strategy: Objectives 1.1, 1.2 | Target outcomes 1, 17 | Essential activities 1 | Areas of intervention 1

› ACTION 2: Anchor responsible commercialization in our organizational culture

100%

of the action plans included responsible commercialization actions.

Sub-action 2.1

Integrate relevant actions from the responsible commercialization plan into the strategic plans and annual action plans of the business units

Indicator

Percentage of annual action plans that include actions from the responsible commercialization plan

Target

100% of plans

Further information

All units concerned, that is the Présidence des opérations – Loteries, the Société des casinos du Québec (SCQ) and the Société des établissements de jeux du Québec (SEJQ), have integrated RCP actions in their 2017–2018 action plans.

Contribution to government strategy

1.1 1.2 | 1 11 | 1 2 | 1

86%

of employees have seen concrete responsible commercialization actions.

Sub-action 2.2

Support responsible commercialization initiatives

Indicator

Percentage of employees who see concrete responsible commercialization actions in their company

Target

60% by 2020

Further information

This sub-action was revised in 2018–2019. Last winter, we conducted a survey on our intranet. The results were obtained by tabulating the answers from 477 employees. This year, to meet our employees' expectations, we will continue to look more closely at the needs of our various sectors to develop the relevant competencies and skills for different positions, and deploy best eco-friendly practices.

Contribution to government strategy

1.1 1.4 | 16 | 1 | 1

95%

of employees received training in responsible gambling.

Sub-action 2.3

Continue our responsible gambling awareness and training efforts with our employees

Indicator

Percentage of employees trained in responsible gambling

Target

95% of active employees

Further information

The current training, Level 1 of the problem gambling awareness workshop, is given in the classroom. It will be reviewed and offered online as professional development.

Contribution to government strategy

1.4 | 16 | 1 | 1

ORGANIZATIONAL OBJECTIVE 2

OPTIMIZE RESPONSIBLE GAMBLING MEASURES AT EVERY STEP OF OUR COMMERCIALIZATION ACTIVITIES

› ACTION 3: Provide a dynamic and competitive offer including the principles of responsible gambling

The **REVISED PROCESS** was implemented.

Sub-action 3.1

Take the principles of responsible gambling into account in the design, approval and evaluation of our games

Indicator

Implementation of a revised process

Target

March 2020

Further information

- The Corporate Department of Gaming Equipment and Systems Compliance conducted a comparative study among Canadian jurisdictions to identify the best certification practices.
- The new process was introduced before the target date.

Contribution to government strategy

2.5 8 1 1

› ACTION 4: Enforce the responsible commercialization framework with our retailers, raise player awareness of low-risk gaming behaviours in our gaming establishments and take action with players who show signs of gambling problems

At least one employee in **95%** of bars and brasseries took part in the training program.

Sub-action 4.1

Foster the improvement of our retailers' responsible commercialization practices

Indicator

Percentage of bars and brasseries where at least one employee took part in the *Ici, on carte!* training program

Target

70% of bars and brasseries

Further information

The new training course has been available since spring 2018. We beat our target thanks to our representatives, who convinced retailers to take the training. The latter enthusiastically took part in the training.

Contribution to government strategy

2.5 8 2 6

52,225 contacts were made with customers this year at the Centre du hasard kiosks.

Sub-action 4.2

Increase the reach of our awareness tools within our establishments

Indicator

Number of contacts made with clients at the Centre du hasard information kiosks

Target

20% increase by 2020

Further information

We beat the target for 2020 by 10%.

Contribution to government strategy

2.5 30 2

19%
of self-excluded clients are interested in one of our assistance services.

Sub-action 4.3
Continue our efforts to support players with problems

Indicator
Percentage of new self-excluded clients interested in at least one of our assistance services

Target
20% of self-excluded clients by 2020

Further information
When customers sign up for the self exclusion program, an investigator lets them know about the service offered by our partners at Gambling: Help and Referral. This free helpline provides support and information to players and their loved ones. Since this service has been made available, an increasing number of self-excluded players have been receptive to help and support.

Contribution to government strategy

2.5 5.1 30 2

› ACTION 5: Develop and communicate relevant information so that players can make informed decisions about their participation in gaming activities and have fun without losing control of their gaming habits

54%
of players know the basic messages about responsible gambling.

Sub-action 5.1
Improve the awareness rate of information about responsible gambling among players

Indicator
Percentage of players who know the basic messages about responsible gambling

Target
65% by 2020

Further information
- The penetration rate was evaluated by a Léger survey in February 2019.
- New awareness content was posted on the Web and on social media in June 2018. The campaign was right on target in terms of views, especially among players aged 25–54.

Contribution to government strategy

2.5 5.1 30 2

ORGANIZATIONAL OBJECTIVE 3

GUARANTEE THE INTEGRITY OF OUR GAMES AND THEIR DISTRIBUTION CHANNELS

› ACTION 6: Communicate the rules of all gaming activities and products

The rules of
100%
of our games are available to the players.

Sub-action 6.1
Disclose the rules of all our games or products on lottery tickets, on our websites, in our gaming establishments and at our points of sale

Indicator
Percentage of games for which the rules are available to players (online, at our retailers or in our establishments)

Target
100% of games

Further information
The rules for games and gaming terminals launched in 2018–2019 are available in our casinos, online, in gaming establishments and at lottery retailers.

Contribution to government strategy

2.5 30 1

› ACTION 7: Implement oversight measures that enforce these rules

We maintained our **WLA** certification.

Sub-action 7.1

Maintain information security management systems (ISMS) and apply best security and integrity practices

Indicator

World Lottery Association (WLA) Security Control Standard Certification (ISO/IEC 27001 Certification)

Target

Certification maintenance (annual follow-up and renewal every three years)

Further information

- Action 7 outlines the steps to take to enforce the game and product rules.
- The WLA Security Control Standard Certification was renewed in spring 2017. The renewal is expected to take place in the fall. ISO/IEC 27001 Certification is a prerequisite for WLA certification.

Contribution to government strategy

1

100% of our facilities are subject to security monitoring measures.

Sub-action 7.2

Maintain security measures to protect the Corporation's assets and games (surveillance, analysis, monitoring, compliance with official documents)

Indicator

Monitoring of measures

Target

100% of our facilities

Further information

Security monitoring measures that protect our assets and the integrity of our games are in place in all our facilities.

Contribution to government strategy

1

› ACTION 8: Ensure all players are treated equally

100% of new games are compliant.

Sub-action 8.1

Have our processes, games and random number generators certified in accordance with the rules and regulations in effect, as well as standards we have adopted, by external independent specialists

Indicator

Percentage of compliance for new games

Target

100%

Further information

Every game and gaming terminal that was launched in 2018–2019 at our casinos, on lotoquebec.com and at the SEJQ is compliant.

Contribution to government strategy

1

Our
CERTIFICATION
was renewed
in March 2019.

Sub-action 8.2

Maintain the minimum control standards for key lottery processes, in keeping with Interprovincial Lottery Corporation (ILC) standards

Indicator

ILC attestation

Target

Maintenance of the attestation

Further information

The annual certification process for compliance with the ILC standards was successfully completed in March 2019.

Contribution to government strategy

1

ORGANIZATIONAL OBJECTIVE 4

CONTINUE THE DRIVE TO IMPROVE OUR OVERALL PERFORMANCE

› ACTION 9: Contribute to the vitality of communities and improve the performance of our social programs

90%
of sponsored events attained the sustainability threshold.

Sub-action 9.1

Optimize the benefits of our sponsorships for our organization and the community

Indicator

Percentage of events that attain the sustainability threshold

Target

85% of sponsored events

Further information

- In total, 90% of the target events attained the sustainability threshold for 2018–2019. This threshold is established based on a score attributed to the measures applied.
- The performance of this indicator reflects the efforts made by the events we sponsored to continuously improve their responsible management practices.
- Again this year, Loto-Québec helped organize the *Les Vivats – les prix Loto-Québec pour les événements responsables*, which took place in fall 2018.

Contribution to government strategy

7 3

2
community legacy projects were completed.

Sub-action 9.2

Expand our cultural involvement, especially in regions where we have establishments (according to Agenda 21 de la culture du Québec)

Indicator

Number of cultural partnerships

Target

Four partnerships among the five regions where we have establishments by 2020

Further information

- Last year, we inaugurated public works of art in La Malbaie and Gatineau.
- The five regions are: Capitale-Nationale, Laurentides, Mauricie, Montréal and Outaouais.

Contribution to government strategy

3

› ACTION 10: Efficiently and effectively manage our resources

$13.3 MILLION
was saved through responsible commercialization.

Sub-action 10.1

Introduce a responsible commercialization continuous improvement system and report on its effects on the environment and society

Indicator

Dollars saved through the responsible commercialization process

Target

$20 million in savings thanks to the responsible commercialization approach by 2020

Further information

The money saved through responsible commercialization is included in our overall optimization portfolio. These savings took inspiration from the principles of "rethink, reduce, reuse and recycle."

Contribution to government strategy

1.1 1.2 | 1 | 1 4

› ACTION 11: Optimize our acquisition, operation and infrastructure management initiatives

100%
of projects were improved.

100%
of calls for tenders were evaluated.

Sub-action 11.1

Develop responsible commercialization criteria for projects and calls for tenders; develop synergies to reduce costs and impacts

Indicators

- Number of projects improved
- Percentage of calls for tenders for products and services evaluated (excluding calls for tenders for food products and consultation services) to ascertain the possibility of including responsible procurement criteria

Targets

- 100% of structuring projects
- 100% of call for tenders

Further information

- The number of structuring projects for 2018–2019 was 10.
- We issued 72 calls for tenders in 2018–2019 (not including calls for tenders for food products and consulting services).

Contribution to government strategy

1.1 | 8 9 | 2 4

1
new green ICT improvement was carried out.

Sub-action 11.2

Implement an improvement process for our information and communication technologies

Indicator

Number of improvements implemented based on a known green ICT repository

Target

10 improvements by 2020

Further information

The Corporate IT Department created a green ICT committee to help make our IT practices more environmentally friendly. Given the improvements made in recent years, we were able to reach our target for 2020.

Contribution to government strategy

1.2 | 10 11 | 2 | 4

2
BOMA BEST certifications were renewed.

Sub-action 11.3

Strengthen the global performance management system of our infrastructures

Indicator

BOMA BEST certifications

Target

Silver certification for target buildings[1]

Further information

Two certifications were re-evaluated in 2018–2019: the one for our head office, which received Silver certification, and the one for our multi-functional complex, which received Gold certification. Both locations are in Montréal.

Contribution to government strategy 1.1 | 4 5 8 | 1 2 | 1 3

› ACTION 12: Optimize the publication of our responsible commercialization performance

37
communications related to responsible commercialization were released externally.

Sub-action 12.1

Highlight our responsible commercialization actions

Indicator

Development and implementation of the communication strategy of our actions

Target

March 2019

Further information

Our efforts in terms of responsible gambling, the Collection Loto-Québec and sponsorships are being highlighted in a communication strategy. This does not include our responsible gambling ad campaigns.

Contribution to government strategy 1.2 | 2

[1]Target buildings include Loto-Québec's head office, the Loto-Québec multi-functional complex, the Pierre-De Coubertin computer centre, the Salon de jeux de Trois-Rivières, the Casino de Montréal, the Casino de Charlevoix, the Casino du Lac-Leamy, the Casino de Mont-Tremblant and the Hilton Lac-Leamy.

ORGANIZATIONAL OBJECTIVE 5

ENCOURAGE DIALOGUE WITH STAKEHOLDERS BASED ON A VISION OF COMPLEMENTARY ROLES

› ACTION 13: Enhance our relationships with our stakeholders

5
new projects were carried out in partnership with the health and research fields.

1,295
employees were involved in the *Tous gagnants* collective.

3
new projects were related to causes and other stakeholders.

Sub-action 13.1

Develop projects to improve our social programs with our stakeholders

Indicators

- Number of new projects carried out in partnership with the health and research fields
- Number of employees involved in the *Tous gagnants* collective
- Number of new projects related to causes and other stakeholders

Targets

- 5 projects by 2020
- 1,200 employees a year
- 5 projects by 2020

Further information

- The new projects carried out in partnership with the health and research fields deal with the effectiveness of prevention messages, creating a model to identify at-risk players and responsible gambling behaviour during the transition to adulthood.
- Our employees have found many ways to get involved. One of these was the Literacy Foundation collection, which allowed us to give new books to 885 children. We also gave out 311 backpacks filled with school supplies to students at the beginning of the school year.
- Different projects were introduced to meet the needs of different clienteles and to make contemporary art more accessible.

Contribution to government strategy 1.2 2

DEFINITIONS RELATED TO THE CONTRIBUTION TO THE GOVERNMENT STRATEGY

Objectives

1.1 Strengthen eco-responsible management practices in the public administration

1.2 Increase application of sustainability principles by government departments and agencies (GDAs)

1.4 Continue developing knowledge and skills related to sustainable development in the public administration

2.5 Help consumers make responsible choices

5.1 Promote the adoption of healthy lifestyles

Target outcomes

1 Eco-responsible actions related to current material resource management and waste management operations

4 10% reduction in GHG (greenhouse gas) emissions for GDA buildings in relation to the level assessed in 2009–2010

5 Eco-responsible construction and renovation projects

7 Eco-responsible products, communications activities and events

8 The inclusion of eco-responsible considerations in the internal contract management policy or the development of an eco-responsible acquisition policy

9 Significant increase in eco-responsible acquisitions by GDAs

10 Implementation of organizational sustainable development accountability processes for GDAs

11 Development and use of evaluation and decision-making methods that take sustainable development principles into account

16 Training on sustainable development practices

17 Promotion and enhancement of knowledge and initiatives conducive to sustainable development in GDAs and outside the public administration

30 Dissemination of information and public education about responsible consumption

Essential activities

1 Contribution to the achievements of the target eco-responsible management outcomes

2 Taking sustainable development principles into account

3 Contribution to the government orientation for integrating culture in sustainable development

Areas of intervention

1 Current administrative management activities

3 Buildings and infrastructure

4 Information and communications technologies

6 Public markets

ENTERPRISE RISK MANAGEMENT

As part of its operations, Loto-Québec is exposed to risks that may affect its ability to reach its objectives and uphold its corporate values. They may also impact its assets, key processes and ethics, as well as its compliance with applicable laws and regulations.

In a business, risk management is everyone's responsibility. In the interest of sound management, Loto-Québec has adopted an enterprise risk management (ERM) framework, which allows for the preventative, reactive and systematic management of significant risks that are likely to undermine the Corporation's ability to reach its goals.

More specifically, the ERM framework:

- Provides an overview of the risks Loto-Québec faces and facilitates the deployment of appropriate management strategies
- Allows Loto-Québec to share its rigorous risk management approach with its corporate and business units for their daily activities
- Allows Loto-Québec to provide its Board of Directors and Executive Committee with the information it needs to make an informed judgment on how events aimed at achieving strategic and operational objectives are developing

Management is kept informed of all threats to the Corporation thanks to monitoring and accountability activities related to strategic, operational and emerging risks. They can therefore mitigate these risks when the time is right. Below are three important types of risk.

Risk related to game integrity
This risk can affect Loto-Québec's activities and mission, and consequently harm its reputation and credibility. Compliance with game rules and customer confidence are the building blocks of the Corporation and require unwavering attention.

Risk related to information technologies
This risk merits special attention, as information technologies are at the heart of the Corporation's activities. Due to the rapid evolution and complexity of these technologies, as well as the possibility of cyberattacks and data manipulation, best practices and vigorous security measures must be adopted to ensure Loto-Québec's protection.

Risk related to the development of a new customer base and the evolution of the Corporation's gaming offer
This risk affects the alignment of the gaming and entertainment offer with customer expectations, and the balance between growth, innovation and responsible commercialization. The development of new initiatives combining gaming and entertainment must be carefully and strategically considered to ensure Loto-Québec's future.

These monitoring activities, coupled with individual efforts, improve risk awareness and foster efficient internal control processes.

CODE OF ETHICS AND RULES OF PROFESSIONAL CONDUCT FOR DIRECTORS AND MANAGERS OF LOTO-QUÉBEC AND ITS SUBSIDIARIES

PREAMBLE

Whereas the members of the Board of Directors are required to have a code of ethics and rules of professional conduct that respects the principles and rules prescribed by the Regulation respecting the ethics and professional conduct of public office holders (hereinafter referred to as the "Regulation") adopted in accordance with the *Act Respecting the Ministère du Conseil exécutif* (R.S.Q. c. M-30, a. 3.01 and 3.02; 1997, c. 6, a. 1);

Whereas the Act and the Regulation prescribe certain ethical principles and rules of professional conduct that apply to Directors (contained in Appendix 1 of present Code);

Whereas the members of the Board of Directors wish to provide the Corporation with its own Code of Ethics and Rules of Professional Conduct;

The members of the Board of Directors have adopted the following Code of Ethics and Rules of Professional Conduct.

1 DEFINITIONS

In the present Code, unless a different meaning is indicated by context, the terms below are defined as follows:

a) "Act": the *Act respecting the Société des loteries du Québec* (L.R.Q., c. S-13.1), as amended and modified from time to time

b) "Association": a group of persons having a common goal other than that of generating profits for the benefit of its members

c) "Board": the Board of Directors of the Corporation or of one of its Subsidiaries

d) "Code": this Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its Subsidiaries

e) "Committee": the Board's Governance and Ethics Committee, as prescribed by the *Act respecting the governance of state-owned enterprises*

f) "Confidential information": all information concerning the Corporation, trends in an industry or sector, or any and all information of a strategic nature that is not known to the public and that, if known by a person who is not a Director or a Manager, would be liable to give the person an advantage or compromise an operation in which the Corporation participates

g) "Conflict of interest": any real, perceived, potential or eventual situation in which Directors or Managers may be prompted to favour a person (including themselves and any Related persons) to the detriment of another. Any situation that could be prejudicial to the loyalty, integrity or judgement of a Director or Manager is also subject to the present definition

h) "Contract": a draft agreement

i) "Control": direct or indirect ownership by a person of securities, including partnership shares, that confer more than 50% of voting or shareholder rights and that does not depend on a special event having occurred and allows for the election of a majority of Directors

j) "Corporation": Loto-Québec and its Subsidiaries

k) "Director": a member of the Board of Directors who does or does not occupy a full-time position at Loto-Québec or one of its subsidiaries

l) "Enterprise": any form of organization for the production of goods or services, or any other business of a commercial, industrial or financial nature, and any group intended to promote specific securities, specific interests or specific opinions or influence public authorities. However, this does not include the Corporation or Associations or non-profit groups with no financial relationship to the Corporation or no incompatibility with its objectives

m) "Manager": with respect to the Corporation, any contract executive whose conditions of employment are subject to approval by the Board

n) "Related enterprise": any body corporate or company in which the Corporation directly or indirectly holds securities, including shares, conferring more than 10% voting or shareholder rights

o) "Related persons": persons who are related to Directors or Managers via

i. blood

ii. marriage

iii. civil union

iv. common-law marriage

v. adoption

For the purposes of the present Code, the following persons are also deemed to be related:

vi. the child of a person defined in Sections ii to iv

vii. any member of the immediate family living under the same roof

viii. any person with whom a Director or Manager is associated, or the partnership with which either may be associated

ix. a body corporate in which the Director or Manager directly or indirectly holds 10% or more of any category of voting shares

x. a body corporate controlled by a Director or Manager or a person defined in Sections i through iv and vi, or by a group of such persons acting jointly

xi. any person that a Director or Manager may be prompted to give preference to because of his relationship to that person or to a third party, or because of his status, title or any other reason

p) "Spouse": husbands and wives, as well as persons living together maritally for more than one year

q) "Subsidiary": any company wholly owned by the Corporation

2 GENERAL PROVISIONS

2.1 The present Code is intended to maintain and strengthen public trust with respect to the integrity and impartiality of the Corporation's administration, encourage transparency within the Corporation, and to instill a sense of responsibility in its Directors and its Managers.

2.2 The present Code is also intended to establish ethical principles and rules of professional conduct for the Corporation. The ethical principles take into account the Corporation's mission, the values on which its actions are based, and its general principles of management. The rules of professional conduct relate to the duties and obligations of Directors and of Managers, clarifying and illustrating them in an indicative manner.

2.3 The present Code is applicable to Directors and to Managers of the Corporation and its Subsidiaries, all of whom are required to respect its provisions.

2.4 The present Code has been established in accordance with the Act, the Corporation's internal governance regulation and the Regulation. It reflects and, as applicable, completes the provisions of the aforementioned.

2.5 The Board approves the present Code upon the recommendation of the Committee, which is responsible for its review.

2.6 In the context of the present Code, the prohibition of an act includes the attempt to commit the act and participation in or inducement to commit the act.

2.7 The Corporation shall take all necessary measures to ensure the confidentiality of information provided by Directors and Managers in conjunction with the application of the present Code.

3 ETHICAL PRINCIPLES AND GENERAL RULES OF PROFESSIONAL CONDUCT

3.1 Directors or Managers are appointed to contribute to the fulfilment of the Corporation's mission in the best interests of Québec. As such, they must employ their knowledge, capabilities, experience and integrity for the efficient, equitable and effective attainment of the objectives assigned to the Corporation by law and for the proper administration of the assets it possesses as a government agent.

Their contribution must be made in accordance with the law and with honesty, loyalty, prudence, diligence, efficiency, rigour and fairness.

3.2 In discharging their duties, Directors are required to respect the ethical principles and rules of professional conduct prescribed by the Act and the Regulation that constitute an integral part of this Code, as applicable, as well as those stipulated in the present Code. Managers are also required to respect these rules to the extent that they apply to them. In case of discrepancy, the strictest principles and rules are deemed to apply.

In case of any doubt, Directors and Managers are to act in accordance with the spirit of these principles and rules. Directors and Managers who serve as Directors or Managers or are members of another organization or Enterprise at the request of the Corporation are bound by the same obligations.

Subject to their obligations of confidentiality, honesty, loyalty and, generally speaking, to obligations of a similar nature in accordance with the Act and code of ethics of any organization or Enterprise in which Directors or Managers exercise functions at the request of the Corporation, such Directors or Managers are required to inform the Corporation of any question brought up on the agenda of a meeting of the Board of Directors of such organizations or Enterprises that may have a significant impact on the finances, reputation or operations of the Corporation. They are required to inform the Corporation within a reasonable delay and prior to any vote by Directors on such matters.

3.3 Directors and Managers are required to collaborate with the Chairman of the Board or the Committee on questions of ethics or professional conduct whenever asked to do so.

3.4 In exercising their functions, Directors and Managers are required to keep their knowledge current and employ independent professional judgement in the best interests of the Corporation.

They are required to be familiar with, promote the respect of, and conform to the present Code, applicable laws and regulations, and policies, directives and rules as set forth by the Corporation. They are also required to keep themselves informed as to the economic, social and political climate in which the Corporation acts.

3.5 Directors and Managers are required to maintain relations with all persons and with the Corporation based on respect, cooperation and professionalism.

3.6 Directors and Managers shall make decisions in a manner so as to ensure and maintain the relationship of trust with clients, suppliers and partners of the Corporation, as well as with the government.

3.7 In exercising their functions, Directors and Managers must respect the Corporation's mission, vision and strategic directions set out in its strategic plan.

3.8 Directors and Managers shall not, in the performance of their duties, be impaired by the effects of alcohol, drugs, abuse of medications or any other substance.

In addition, Directors and Managers may not use cannabis or its derivatives (unless required for medical purposes) or illicit drugs while performing their duties or when representing the Corporation, nor participate in drug trafficking or distribution.

3.9 Directors and Managers may not, either directly or indirectly, offer, solicit or accept an undue favour or benefit for themselves or any persons related to a Director or Manager or a third party, nor can they accept any gift, any hospitality or any benefit other than what is customary and of modest value.

Any gift, any hospitality or any benefit that does not correspond to these criteria must be returned to the donor or to the State.

3.10 Door prizes in excess of $100 won by any Directors or Managers must be returned to the event organizers if the Corporation has paid event participation costs. Persons accompanying Directors or Managers in such cases are subject to the same rule.

3.11 In carrying out their functions, Directors and Managers must seek to defend only the Corporation's interests, to the exclusion of their own or those of a third party.

3.12 Directors and Managers shall not undertake any obligations to third parties nor afford them any guarantees with respect to any vote that they may be called upon to participate in or any decision whatsoever that the Board may be called upon to render.

3.13 A vote by a Director that is in violation of the provisions of the present Code or that is lodged while the Director is in default with respect to the production of the declaration mentioned in Section 4.11 may not be considered a deciding vote.

3.14 Directors or Managers who assume responsibilities in other entities may occasionally find themselves in situations of Conflict of interest. Whenever the present Code does not provide for the specific situation, they must determine whether their actions meet the behavioural standard the Corporation may reasonably expect in such circumstances. They must also determine if a reasonably informed person would conclude that their interests in the other entity are liable to influence their decisions and affect their objectivity and impartiality when discharging their duties to the Corporation.

3.15 Within a reasonable delay of assuming their position, Directors and Managers are required to organize their personal affairs so as not to prejudice the exercise of their functions and avoid incompatibility or Conflict of interest between their personal interests and the duties of their position. As applicable, they are required to take all necessary measures in order to comply with the provisions of the present Code.

3.16 Directors and Managers may not mix the Corporation's assets with their own. They may not utilize the Corporation's assets or Confidential information received in the course of carrying out their functions for personal or third party profit. These obligations remain in effect even after they have ceased to occupy their functions.

3.17 Directors and Managers are bound by discretion with respect to all Confidential information to which they are party in the exercise of their functions and are required to respect the confidential nature of information received at all times. Furthermore, Board deliberations, positions held by, and votes taken by its members are confidential.

3.18 Directors and Managers are required to respect any and all restrictions and apply protective measures with regard to Confidential information as follows:

- They must only convey Confidential information to authorized persons.
- If they use a system of electronic mail, they must comply with all practices and directives issued or approved by the Corporation regarding the storage, use and transmission of information by this system. They must not forward Confidential information received from the Corporation via this system to anyone.
- They are responsible for taking measures to protect the confidentiality of information to which they have access. These measures include:
  - not allowing documents containing Confidential information to be casually seen by third parties or unauthorized employees;
  - taking appropriate measures to ensure the physical protection of documents;
  - avoiding discussions in public that could reveal Confidential information;
  - identifying documents that may circulate as containing Confidential information that must be treated as such;
  - discarding any and all confidential documents using appropriate means (shredding, archiving, etc.) whenever they are no longer necessary for the execution of their mandate as Directors or Managers.

3.19 While exercising their functions, Directors and Managers may not have dealings with any persons that have ceased being a Director or Manager of the Corporation for less than one year if such persons are acting on behalf of another party with respect to a procedure, negotiation or any other operation to which the Corporation is party and about which such persons possess information that is not publicly available.

3.20 Once no longer exercising their functions, no Director or Manager may disclose any Confidential information received, or provide anyone with advice based on Confidential information unavailable to the public concerning the Corporation or any other organization or Enterprise with which they had direct and substantial relations during the year preceding the date on which their functions were terminated. During the course of the 12 months following this date, they are prohibited from acting on or on behalf of others relative to any procedure, negotiation or other operation to which the Corporation is party and about which they possess Confidential information not available to the public.

3.21 Directors or Managers who intend to become electoral candidates are required to inform the Chairman of the Board of their intention.

If the Chairman of the Board or the President and Chief Executive Officer has such intentions, they must so inform the Secretary General of the Executive Committee.

3.22 In exercising their functions, Directors and Managers must make decisions independently of all partisan considerations.

4 | DUTIES AND OBLIGATIONS OF DIRECTORS AND OF MANAGERS WITH RESPECT TO CONFLICTS OF INTEREST

Prevention of conflicts of interest

4.1 Directors and Managers must avoid placing themselves in situations of conflict between their personal interests and their official duties, or in situations that may cast reasonable doubt as to their ability to discharge their duties with uncompromised loyalty.

Directors and Managers must avoid situations in which they or Related persons could profit directly or indirectly from a contract signed by the Corporation or by influencing decisions taken by them in accordance with their official functions within the Corporation.

Full-time Directors or Managers of the Corporation or of any of its Subsidiaries are also required to avoid taking positions or being bound by engagements that may prevent them from fully giving their duties the time and attention that would normally be required.

Other Directors are required to ensure that they are able to devote the appropriate time and attention to the exercise of their functions reasonably required in the circumstances.

4.2 Directors and Managers with full-time duties within the Corporation may not possess direct or indirect interests in an organization, Enterprise or Association that create a conflict between their personal interests and the interests of the Corporation. If they do, they may be subject to dismissal. However, such dismissal shall not take place if the interest accrues through an inheritance or gift that is diligently renounced or disposed of. In the interval, Sections 4.5, 4.6, 4.8 and 4.11 shall apply.

All other Directors holding interests in an Enterprise must comply with Sections 4.5, 4.6, 4.8 and 4.11. Failure to do so may make them subject to dismissal.

4.3 In order to be deemed independent, Directors may not:

- be or have been (during the three years preceding the date of their nomination) employed by the Corporation or be related to a person described in Section 1.n) that has been so employed;
- be employed by the government or a government agency within the meaning of Section 4 of the *Auditor General Act* (R.S.Q., c. V-5.01);
- have any relations as determined by the government under Section 5 of the *Act respecting the governance of state-owned enterprises*.

Upon assuming their position, and annually thereafter, Directors must declare to the Committee the existence or absence of relations described in the preceding first and second paragraphs. They are also required to declare any changes to their declaration as soon as they become aware of such changes.

4.4 Directors and Managers of the Corporation who are also Directors or Managers of a Related enterprise are required to be specifically authorized by the controlling shareholder or shareholders of the Enterprise to:

- hold shares, partnership equity, any other share or any other security issued by the Related enterprise that confers voting rights or interest with respect to the Related enterprise, or any and all options for subscription or purchase rights concerning such shares, partnership equity, securities or interests;
- benefit from any profit-sharing plan, unless the Directors or Managers are engaged full-time within the Related enterprise and the profit-sharing plan is directly related to the individual performance of the Directors or Managers within the Related enterprise;
- benefit from a retirement plan offered by the Related enterprise if they are not full-time Directors or Managers of the Related enterprise; or
- benefit from any and all advantages extended in advance in case of a change in Control of the Related enterprise.

Renunciation and abstention

4.5 Directors or Managers who:

a) are party to a contract with the Corporation or a Subsidiary; or

b) possess a direct or indirect interest in an Enterprise that is party to a contract with the Corporation or a Subsidiary, or are Directors, Managers or employees of this Enterprise;

are required to disclose the nature and scope of their interest in writing to the Chairman of the Board.

The same applies for Directors or Managers who have a direct or indirect interest in matters taken up by the Board.

Directors or Managers must abstain at all times from communicating any information whatsoever regarding such contract or interest to any and all employees, Managers or Directors of the Corporation.

Directors must abstain from deliberation and voting on any question related to such interest and avoid any attempts to influence related decisions. They must also excuse themselves from meetings for the duration of deliberations and voting on such matters. Any such exclusion must appear in the minutes of the Board meeting.

4.6 In the case of a Director, disclosure required under Section 4.5 must occur during the first meeting:

a) at which the contract or matter of concern is being discussed;

b) subsequent to when Directors with no previous interest in the contract or matter acquire such interest;

c) subsequent to when Directors acquire an interest in an already concluded contract;

d) subsequent to when any and all persons with an interest in the contract or matter under study become Directors.

4.7 Managers who are not also Directors must offer the required disclosure under Section 4.5 immediately after:

- having learned that the contract or matter of interest was or will be discussed during a meeting;
- having acquired an interest, if subsequent to the conclusion of the contract or decision involved; or
- having become a Manager, if subsequent to the acquisition of such interest.

Managers may not attempt to influence decisions made by Directors in any way.

4.8 Directors and Managers must make the disclosure required under Section 4.5 as soon as they have any knowledge of a contract that falls within the bounds of this section and that, in the normal course of the Corporation's business, does not require Director approval.

4.9 Sections 4.5 through 4.8 also apply to cases where such interest is held by a Person related to a Director or Manager.

4.10 Directors and Managers shall denounce all rights they may possess against the Corporation or any of its Subsidiaries in writing to the Chairman of the Board, indicating their nature and value, as soon as such rights come into existence or as soon as they become aware of them.

4.10.1 The Manager shall disclose any Contract for personal purposes he intends to make with an Enterprise he knows to be a supplier of the Corporation, in each of the following cases:

a) If the Manager or the department to which he is attached within the Corporation has been or is in a business relationship with this supplier;

b) If he could derive any benefit from his status as a Manager in the context of the negotiation of the Contract with this supplier;

c) If the making of the Contract could place him in a Conflict of interest situation; or

d) If, in the exercise of his functions, he is in contact with representatives of this supplier.

Excluded from this disclosure obligation are the usual Contracts made with a utility company, such as electricity service or communications services (residential telephony, television or Internet), and Contracts seeking to obtain professional services.

The Manager shall make the disclosure required above in writing to the President and Chief Executive Officer before concluding the Contract with the supplier, specifying the name of the supplier concerned, the nature of the Contract and its value. However, if the Manager concerned is the President and Chief Executive Officer, the disclosure shall be made to the Chairman of the Board.

4.11 Within 30 days of their nomination, and on March 31 of each year in which they remain in service, Directors and Managers must forward a declaration in the form prescribed in Appendix 2 to the Chairman of the Board containing the following information:

a) The name of any and all Enterprises in which he or a Related person living under the same roof:

- holds, directly or indirectly, securities or assets, including shares, specifying the nature and quantity in number and in proportion of the securities held and the value of the assets, but excluding publicly-traded Enterprises for which he or a Related person living under the same roof holds less than five percent of the securities;

- assumes or holds a position as employee, director, manager or any analogous position; or
- has a direct or indirect interest, in the form of a claim, right, priority, mortgage or significant financial or commercial benefit.

b) To his knowledge, the name of any and all Enterprises in which any Related person:

- holds, directly or indirectly, securities or assets, including shares, specifying the nature and quantity in number and in proportion of the securities held and the value of the assets, but excluding publicly-traded Enterprises for which the Related person holds less than five percent of the securities;
- assumes or holds a position as employee, director, manager or any analogous position; or
- has a direct or indirect interest, in the form of a claim, right, priority, mortgage or significant financial or commercial benefit.

c) To his knowledge, the nature of any relationship between the Enterprises contemplated in the foregoing paragraphs and the Corporation; and

d) The name of any and all Associations in which they exercise functions or of which they are members, stipulating their functions, as applicable, as well as the purposes of the Association.

Directors or Managers to whom the provisions of Sections a) through d) do not apply are required to sign a declaration to that effect and remit it to the Chairman of the Board.

Directors or Managers are also required to produce a similar declaration within 30 days of any significant change occurring to its contents.

Declarations made subject to this section shall be treated as confidential.

4.12 The Chairman of the Board shall remit declarations received pursuant to the application of Sections 4.5 to 4.11 to the Secretary of the Corporation, who shall make them available to the members of the Board and of the Governance and Ethics Committee.

In addition, the Secretary of the Corporation shall notify the Chairman of the Board and the Governance and Ethics Committee of any breach of obligations under Sections 4.5 to 4.11 immediately upon becoming aware of such a breach.

4.13 Directors and Managers may notify the Corporation in advance of Board of Directors discussions pertaining to specific corporations or other entities from which they wish to be excluded.

4.14 In all cases where a matter may engender a Conflict of interest related to the function of a Director or Manager, or in the case of a corporation or entity declared by Directors or Managers under Section 4.13, the Secretary shall apply the deliberative procedures concerning conflicts of interest as prescribed in Appendix 3 of this Code.

4.15 Directors may not accept fees from the Corporation or from any of its Subsidiaries for consulting or any other similar services.

Dispensations

4.16 The present Code is not applicable to:

a) interests held through the intermediary of mutual investment funds in whose management the Directors or Managers do not participate either directly or indirectly;

b) interests held through the intermediary of a blind trust with no beneficiary right of review or right to know the composition of;

c) holding the minimum number of shares required to be eligible to become a Director of a body corporate;

d) an interest which, due to its nature and scope, is common to the population at large or to a particular sector in which Directors who do not exercise full-time functions within the Corporation or its Subsidiaries work;

e) a liability insurance contract for Directors;

f) shares issued or guaranteed by a government or municipality on terms that are identical for all.

5 APPLICATION OF THE CODE

5.1 The present Code is an integral part of the professional duties of Directors and Managers.

Directors and Managers undertake to become familiar and comply with it, as well as with any directive or particular instruction that may be supplied as to its application. In addition, they must confirm their adherence to the Code each year.

In case of any doubt as to the scope or application of a provision, Directors and Managers are required to consult the Committee.

5.2 Within 30 days of the adoption of a substantive amendment of the present Code by the Board, all Directors and Managers must submit the attestation described in Appendix 4 to the Chairman of the Board and the Secretary of the Corporation.

5.3 New Directors and Managers must each do the same within 30 days of their taking office.

5.4 The Associate Secretary General responsible for senior positions at the Ministère du Conseil exécutif is the competent authority for the application of the present Code with respect to the Chairman of the Board and other Directors appointed by the government.

5.5 The Chairman of the Board is the competent authority with respect to all Directors and Managers of subsidiaries in which the Corporation holds 100% of the shares.

5.6 The Committee may, as it sees fit, provide dispensation to a Director or Manager from one or more of the provisions of the present Code if it is of the opinion that such dispensation does not prejudice the objectives of the present Code as described in Section 2.1 and that the provisions of the Act and the Regulation have been met.

The Committee designates the Secretary to assist it in this function.

5.7 The Committee may advise Directors and Managers as to the interpretation of the provisions of the present Code and their application to particular or even hypothetical cases. It is not required to limit an opinion to the terms of the request.

5.8 The Committee must:

- review the present Code on an annual basis and submit any changes for approval to the Board;
- engage and oversee the process of preparing and assessing the Code of Ethics and Rules of Professional Conduct;
- ensure that the Directors and the Managers are provided with information and training about the contents and application procedures of the present Code;
- give its opinion and offer its support to the Board (Corporation) and to any and all Directors or Managers confronted with a problem;
- handle any requests for information related to the present Code;
- investigate any irregularity with respect to the present Code on its own initiative or upon receipt of an allegation.

5.9 The Committee may consult with and receive opinions from outside advisers or experts on any matter it deems relevant.

5.10 The Committee and the competent authority concerned shall preserve the anonymity of complainants, petitioners and informers except when there exists manifest intention to the contrary. They cannot be bound to reveal information likely to identify such persons except if required by law or by a court of law.

5.11 The Secretary shall assist the Committee and the Chairman of the Board in matters concerning the application of the present Code.

The Secretary shall maintain archives containing declarations, disclosures and attestations required to be submitted under the provisions of the present Code, as well as reports, decisions and advisory opinions with respect to ethics and professional conduct. Moreover, the Secretary is required to take all necessary measures to ensure the confidentiality of information supplied by Directors and Managers pursuant to the application of the present Code.

5.12 Directors or Managers who are aware of or suspect the existence of a violation of the present Code, including the use of or irregular communication of Confidential information or an undisclosed Conflict of interest, are required to report this to the Committee.

Such disclosure is to be made confidentially and must include the following information:

- The identity of the perpetrator or perpetrators of the violation
- A description of the violation

- The date or period of time over which the violation took place
- A copy of any documents that support the claim

5.13 Directors and Managers of the Corporation may, on their own initiative, submit a complaint against any Director or Manager to the competent authority.

5.14 In order for an appropriate decision to be taken in an emergency situation requiring rapid intervention, or in case of presumed gross negligence, the competent authority may provisionally remove Directors or Managers accused of breaches of ethics or professional conduct from their functions with remuneration.

5.15 Whenever a Director or Manager is accused of a breach of ethics or professional conduct, the Committee is responsible for gathering all pertinent information. The Committee shall report its conclusions to the appropriate competent authority and recommend any appropriate action that may be required.

5.16 Directors and Managers are not deemed to have violated the provisions of the present Code if prior favourable opinion has been obtained from the Committee under the following conditions:

a) Notification is received prior to the occurrence of events on which it is based.

b) The Board has been notified.

c) All pertinent facts have been fully revealed to the Committee in an exact and complete manner.

d) Directors or Managers have complied with all the requirements of the notification.

6 | DISCIPLINARY PROCESS

6.1 If it concludes that a violation of the Act, the Regulation, or the present Code has occurred, the competent authority may impose one of the following penalties:

a) In the case of a Manager, any appropriate penalty up to and including dismissal

b) In the case of a Director, reprimand, suspension without remuneration for a maximum of three months, or dismissal

Notwithstanding the preceding, when the competent authority is the Associate Secretary General as defined in Section 5.4, the penalty shall be imposed by the Secretary General of the Executive Committee. In addition, if the proposed penalty is the dismissal of a Public Administrator named or designated by the government, it may only be imposed by the latter. In that case, the Secretary General of the Executive Committee may immediately suspend the Public Administrator for a period not exceeding 30 days without remuneration.

6.2 The competent authority shall inform Directors or Managers of any breach of conduct with which they have been charged, as well as of the penalty that may be imposed.

Within seven days of being informed about a breach of conduct accusation, Directors or Managers may submit comments to the Committee. They may also request a Committee hearing on the matter.

6.3 In case of a violation as described in Section 4.2, the dismissal of the offender shall be placed on the record by competent authorities.

6.4 Directors and Managers are required to account for any and all profits made or benefits received due to or on the occasion of any violation of the provisions of the present Code, and they must reimburse the Corporation.

6.5 Any vote by Directors provided in violation of the provisions of the present Code or related to any such violation, or while the Directors are in default with respect to the production of the declaration mentioned in Section 4.11, shall not be a deciding vote.

7 | EFFECTIVE DATE

7.1 The present Code came into effect as of the session following its adoption by the Board.

POLICIES AND LAWS

Language policy

Making language quality a top priority

In accordance with the Government's policy on the use of French in public administration, on November 24, 2000, the Corporation adopted a language policy that reflects its business mission and covers the use and quality of French within each of its activity sectors.

During the past fiscal year, Loto-Québec continued to collaborate actively with the Office québécois de la langue française to ensure the consistent application of this policy throughout the organization and its subsidiaries.

Awarding of contracts

The procurement policy of Loto-Québec and its subsidiaries reflects the transparency and integrity that govern the awarding of contracts to suppliers. This policy can be consulted on the Loto-Québec website.

Act to facilitate the disclosure of wrongdoings relating to public bodies

In keeping with the *Act to facilitate the disclosure of wrongdoings relating to public bodies,* Loto-Québec has a policy to facilitate the disclosure of wrongdoings. This policy is in addition to the mechanisms already in place in this regard within the Corporation, such as the codes of ethics and the reporting line. The Act also states that Loto-Québec must report the number of disclosures received every year.

In keeping with the Act, any act that constitutes or consists in, as the case may be, the following is considered a wrongdoing:

- a contravention of a Québec law, of a federal law applicable in Québec or of a regulation made under such a law
- a serious breach of the standards of ethics and professional conduct
- a misuse of funds or property belonging to a public body, including the funds or property it manages or holds for others
- gross mismanagement within a public body, including an abuse of authority
- any act or omission that seriously compromises or may seriously compromise a person's health or safety or the environment
- directing or counselling a person to commit any of the wrongdoings described above

No wrongdoings were disclosed for the period ending on March 31, 2019.

Act respecting workforce management and control within government departments, public sector bodies and networks and state-owned enterprises

On December 5, 2014, the Government of Québec adopted the *Act respecting workforce management and control within government departments, public sector bodies and networks and state-owned enterprises*.

As the title suggests, the Act seeks to strengthen the mechanisms for managing and controlling the staff of public bodies, particularly by means of workforce planning, as well as the control of staffing and service contracts.

In 2014–2015, in keeping with the Act, Loto-Québec adopted a directive on service contracts and submitted it to the Conseil du trésor. Under this directive, in 2018–2019, the President and Chief Executive Officer of Loto-Québec authorized 72 service contracts for over $25,000, with a total value of $23,045,314. None of these contracts was concluded with a natural person.

Loto-Québec workforce[1] as at March 31, 2019	Paid hours			
	Hours worked	Overtime	Total	Number of employees
Category				
Management staff	193,108	877	193,985	106
Professional staff	919,648	14,878	934,526	512
Office, technical and similar staff	581,480	13,893	595,373	329
Labourers, maintenance and service staff	38,818	1,305	40,123	21
Students and interns	16,510	15	16,525	6
Total	**1,749,564**	**30,968**	**1,780,532**	**974**

[1]Excluding subsidiaries

For the period from April 1, 2018, to March 31, 2019, the staffing level did not exceed the target set by the government.

ACCESS TO INFORMATION AND PROTECTION OF PERSONAL INFORMATION

Access to information

Total number of requests received from April 1, 2018, to March 31, 2019	152

Number of requests processed, by type and processing time

	Requests for access			
	Administrative documents	Personal information	Correction	
Processing time				
0 to 20 days	9	48	0	
21 to 30 days	56	33	0	
31 days or more (if required)	0	0	0	
Total	**65**	**81**	**0**	**146[1]**

Number of requests processed, by type and decision rendered

	Requests for access			
	Administrative documents	Personal information	Correction	Provisions of the law invoked
Decision rendered				
Accepted	18	41	0	
Partially accepted	28	10	0	21, 22, 23, 24, 28, 29, 31, 32, 37, 39, 42, 53, 54, 57, 87.1, 137.1, S. 9 of the Charter of Rights and Freedoms
Rejected	10	14	0	
Other	9	16	0	

Number of notices of review received from the Commission d'accès à l'information	2
Number of requests for access subject to reasonable accommodation measures	0

The statistics presented above relate only to requests made under the *Act respecting Access to documents held by public bodies and the Protection of personal information*. Requests for information by summons, ordinance or by virtue of a power conferred by a law are not included.

In 2018–2019, the Corporation, in compliance with the *Regulation respecting the distribution of information and the protection of personal information*, voluntarily disclosed information on its website.

Protection of personal information

Under the stewardship of the information management committee, the principles of the protection of personal information were communicated through training courses, memos to employees and in relation to specific cases. The related guidelines were also reviewed.

[1]Requests processed are those for which a response was provided during the fiscal year. The processing time of an application can be spread over 30 days.

BOARD OF DIRECTORS AND CORPORATE SECRETARIAT

HÉLÈNE F. FORTIN
MONTRÉAL
FCPA, FCA, ICD.D

Chairwoman
of Loto-Québec's
Board of Directors
•
Partner
LF&B CPA inc.

Mandate renewed: June 27, 2017
End of term: June 26, 2021

Holding a graduate degree in public accounting with honours from McGill University, Hélène F. Fortin also earned a *magna cum laude* Bachelor of Business Administration degree with specialization in accounting and finance from Concordia University. She became a chartered accountant in 1982 and earned the title of ICD.D from the Institute of Corporate Directors in 2006 after completing the Directors Education Program. She has been practising public accounting for more than 30 years. A member of the Ordre des comptables professionnels agréés du Québec (OCPAQ), she sat on the Auditing and Assurance Standards Board of the Canadian Institute of Chartered Accountants from 2006 to 2009, and has assisted the association's Interprovincial Board of Evaluators for more than 30 years, all the while teaching accounting and certification in several Québec universities. She sits on numerous boards of major corporations and a variety of organizations, including Concordia University, the Institute of Corporate Directors (Québec section), the USB Bank and VoiceAge, as a chairwoman or presiding over the Auditing, Governance, Human Resources, Finance and Retirement Fund Management committees. She actively contributes to training on the governance of corporations and boards of directors as an author, guest speaker and workshop leader. Ms. Fortin earned the title of Fellow of the OCPAQ in February 2010.

LYNNE ROITER
MONTRÉAL

President and CEO
of Loto-Québec

Mandate renewed: February 27, 2019
End of term: May 31, 2021

A graduate of Université Laval's Law Faculty and member of the Québec Bar since 1972, Lynne Roiter joined Loto-Québec in 1985 as Director of Legal Affairs. Prior to that, she practised her profession as lawyer at the Commission des droits de la personne, the Régie de l'assurance automobile du Québec and in private practice. From November 1996 to May 31, 2017, she has served as Loto-Québec's Corporate Secretary and Vice-President of Legal Affairs. Ms. Roiter has been President and Chief Executive Officer since May 31, 2017, a role she had been filling on an acting basis since August 2016. She is also Corporate Secretary of the World Lottery Association, an organization comprised of more than 140 public lottery corporations from some 80 different countries around the world.

ALAIN ALBERT
MAGOG

Corporate Director

Mandate renewed: June 7, 2017
End of term: June 6, 2021

Alain Albert holds a master's degree in counselling from the University of Maine, a bachelor's degree with specialization in educational and career counselling from the Université du Québec à Montréal, and a Bachelor of Arts degree from the Université de Montréal. A retired director, Mr. Albert has accumulated over 30 years of experience in the Québec civil service. From 1981 to 2005, he worked at the Commission de la santé et de la sécurité du travail (now the Commission des normes, de l'équité, de la santé et de la sécurité du travail), notably as Vice-President of Partner Relations and Expertise during his last 11 years there. From 2007 to 2017, he was a member of the board of the Société de l'assurance automobile du Québec, where he chaired the Human Resources and Customer Service committees, and sat on the Governance and Ethics Committee.

DONALD M. BASTIEN
MONTRÉAL

Corporate Director

Mandate renewed: June 7, 2017
End of term: June 6, 2020

After studying marketing at the Manitoba Institute of Technology, Donald M. Bastien began his career in the telecommunications sector. From 1972 to 2012, he successively occupied the positions of Radio and Television Sales Director, Vice-President and Senior Vice-President of Sales as well as Senior Vice-President and General Manager at the CTV Television Network. In addition to being a founding member and Chairman of the Board of Directors and member of the Executive Committee of the Mental Illness Foundation, Mr. Bastien sits on the Board of Directors and the Board of Governors of St. Mary's Hospital Foundation. He was also chairperson of RC média's Advisory Board and sat on the boards of directors of numerous television networks including Canada Live News Agency from 2002 to 2012, TQS from 2001 to 2008, and Canal Évasion from 2001 to 2005.

JEAN-FRANÇOIS BLAIS
MONTRÉAL

Corporate Director

Appointment: March 13, 2019
End of term: March 12, 2023

Jean-François Blais graduated with a bachelor's degree in actuarial science from Université Laval in 1988. He has been a fellow of the Canadian Institute of Actuaries and the Casualty Actuarial Society since 1991. Now retired, Mr. Blais spent close to 30 years in the insurance field and has sat on several boards. He was President and CEO of AXA Canada from 2004 to 2011, and President of Intact Insurance from 2011 to 2017. During his career, he served on the boards of the Insurance Bureau of Canada and the Insurance Institute of Canada. He has been a board member of Optimum Réassurance since 2018.

MARIE CÔTÉ
MONTRÉAL
ASC

Advisor,
Business Development

Appointment: March 14, 2018
End of term: March 13, 2022

Marie Côté holds a bachelor's degree in film studies from the Université de Montréal, where she also completed master's training in communication sciences with a specialization in human-computer interaction (UX design). Certified as an Administratrice de sociétés certifiée (ASC) (certified corporate director) by Université Laval's Collège des administrateurs in 2013, Ms. Côté has over 20 years of corporate governance experience, including a mandate as Chair of the Conseil des arts et des lettres du Québec's Board of Directors. Ms. Côté currently sits on the boards of the evenko foundation, Jalon Mtl and the Computer Research Institute of Montréal. Her professional experience includes more than 30 years in media, marketing and communications management (National Bank, Société Radio-Canada) and entertainment-sector business development (Cirque du Soleil, Productions J, ICI ARTV, ICI EXPLORA). Since 2015, Ms. Côté has acted as a business development and international relations advisor to several companies in creative industries, including Compagnia Finzi Pasca and Rodeo FX.

HUGO DELORME
MONTRÉAL

President,
MERCURE Conseil

Appointment: March 14, 2018
End of term: March 13, 2022

Hugo Delorme completed a master's degree in management science at HEC Montréal in 2010 and received a diploma from the EMBA McGill–HEC program in 2016. He was both Partner and Director at NATIONAL Public Relations where he worked for over 10 years. Mr. Delorme then moved on to the Canadian National Railway (CN) where he worked as Senior Director of Corporate Services. In 2018, he created his own consulting firm, MERCURE Conseil. He sits on the boards of the Société de la Place des Arts de Montréal and LaSalle College, and is Vice-President of the Fondation de la Place des Arts.

DOMINIQUE GAUTHIER
QUÉBEC
ASC

Corporate Director

Appointment: March 14, 2018
End of term: March 13, 2022

Dominique Gauthier holds a master's degree in industrial relations from Université Laval. A retired director, she began her career as a manager in the fisheries sector. She has nearly 30 years of experience in Québec's public sector. From 1988 to 2016, she worked for the Secrétariat du Conseil du trésor where she rose to become Associate Secretary for inter-sectoral negotiations coordination in the public, parapublic and near-public sectors. In 2014, Ms. Gauthier received the title of Administratrice de sociétés certifiée (ASC) (certified corporate director) from Université Laval's Collège des administrateurs de sociétés. Recognized by the Government of Québec, she may sit on boards to settle disputes in the municipal sector.

NATHALIE GOODWIN
MONTRÉAL
LL. B., ASC

Attorney and Partner,
Agence Goodwin

Mandate renewed: June 7, 2017
End of term: June 6, 2021

A Université de Montréal law graduate and member of the Québec Bar since 1990, Nathalie Goodwin is a partner at Agence Goodwin, a company she founded with two associates and which specializes in representing artists who work in various fields on all continents. The company also launches projects internationally in a wide range of artistic endeavours. Ms. Goodwin provides legal advice on representation, development and negotiations. She is also a shareholder and director of Goodwin Management. She was a member of the Board of Directors of the Association Littéraire et Artistique Internationale Canada (ALAI Canada) from 1995 to 1998 and, from 2009 to 2010, of the Société générale de financement. From 2008 to 2012, she has served on the Board of Directors of Alliance Films inc. and has chaired the company's Human Resources Committee. In 2013, she received the title of Administratrice de sociétés certifiée (ASC) (certified corporate director) from Université Laval's Collège des administrateurs de sociétés. She currently serves on the Board of Directors of the Théâtre Outremont (since July 2017), and the Board of Directors of the National Theatre School of Canada (since October 2018).

ANN MACDONALD
BEACONSFIELD
ASC, PMP

Chief Operating Officer,
BONE Structure

Appointment: March 13, 2019
End of term: March 12, 2023

In addition to holding a bachelor's degree in business administration from HEC Montréal, Ann MacDonald is a certified PMP from the Project Management Institute of Pennsylvania and an Administratrice de sociétés certifiée (ASC) (certified corporate director) from Université Laval's Collège des administrateurs de sociétés. Ms. MacDonald spent 17 years at Bombardier Transportation, where she successively held the positions of director and senior director in fields such as project management, sales, business development, communications and public affairs. In her seven years as Vice-President of Business Development and Sales, she used her solid negotiating skills to oversee all activities in Canada and across America. In 2018, she was the senior advisor for VIA Rail's fleet replacement program. Ms. MacDonald has been a member of numerous associations and forums, including the Conference Board of Canada and the Canadian Urban Transit Association. From 2010 to 2018, she was a member of both the Board of Directors and the Executive Committee of the CHU Sainte-Justine Foundation. She currently chairs the Board of Directors of the CHU Sainte-Justine and lends her vast experience managing strategic business growth and commercial development to BONE Structure as COO.

ANIE PERRAULT
SAINT-BRUNO-DE-MONTARVILLE
LL.L., ASC

Executive Manager,
BIOQuébec

Mandate renewed: June 7, 2017
End of term: June 6, 2020

An attorney by training, Anie Perrault is currently the Executive Manager of BIOQuébec and a part-time member (administrative judge) of the Canadian Human Rights Tribunal. In February 2013, she became an Administratrice de sociétés certifiée (ASC) (certified corporate director) from Université Laval's Collège des administrateurs de sociétés. Ms. Perrault has been a member of the board for Génome Québec since 2016 and is currently Chair of the board. She also sits on the boards of the Université de Sherbrooke and the Fondation Jeanne-Mance. She ran her own communications agency, Communications Anie Perrault, from 2006 to 2010 and was municipal councillor for Bromont from 2009 to 2015. From 2001 to 2006, she was Vice-President of Communications at Genome Canada. She was also previously National Director of Communications and Public Affairs for Canada's Research-Based Pharmaceutical Companies (R_x&D). From 1998 to 2000, Ms. Perrault served as Press Secretary, Director of Communications and Senior Advisor to the Right Honourable Joe Clark. She has also been a policy advisor to elected federal representatives and practised law in Montréal at Davies Ward Phillips & Vineberg from 1992 to 1995.

MARIE-CHRISTINE TREMBLAY
MONTRÉAL
LL.L.

Corporate Secretary
and Vice-President of Legal Affairs,
Loto-Québec

After earning a bachelor's degree in mathematics from McGill University, Marie-Christine Tremblay chose to pursue a law degree. She was hired by the Ministère de la Justice, where she practised law for a few years. Ms. Tremblay joined Loto-Québec in 1988 as Legal Counsel in the Corporate Legal Affairs Department. She was named Head of the Corporate Secretariat Department in 1998, and of the Legal Affairs Department in 2006. In 2017, she was appointed Corporate Secretary and Vice-President of Legal Affairs.

BOARD OF DIRECTORS AND COMMITTEE REPORTS

Mandate

The Loto-Québec Board of Directors (the "Board") is responsible for overseeing Loto-Québec's operations in compliance with the provisions of its act of incorporation and the regulations pertaining to it, as well as those of the other laws and regulations that govern the Corporation. The Board ensures that Loto-Québec takes the necessary measures to achieve the objectives arising from its mission. To do so, it adopts gaming regulations and approves Loto-Québec's principal policies, orientations and annual business plan and also monitors the progress of the organization's corporate responsibility actions and establishes the risk management oversight policies related to its operations.

The Board is supported by three permanent committees: the Audit Committee, the Governance and Ethics Committee, and the Human Resources Committee, and it is empowered to form other committees, as needed. As such, it created the Commercial Affairs Committee in 2008–2009. Each of these committees makes recommendations to the Board in its area of expertise.

The permanent committees are mandated to conduct an annual review of the Corporation's operational policies in their respective areas of governance and, where warranted, to recommend required policy amendments for approval by the Board.

Composition

As of March 31, 2019, the Board had 11 members—7 women and 4 men—appointed by the Government of Québec. All are independent members, except for the President and Chief Executive Officer.

Attendance

Regular meetings of the Board are scheduled at the beginning of the fiscal year, while special meetings are held as needed over the course of the year. The manner in which advance notice is given to members for committee meetings varies according to individual committee requirements.

During the 2018–2019 fiscal year, the Board held 15 regular meetings, in person or by conference call. A closed session without management present was held at the end of each Board and committee meeting.

Directors attendance report as of March 31, 2019

Members	Board of Directors		Audit Committee	Governance and Ethics Committee	Human Resources Committee		Commercial Affairs Committee
	Regular 8	Special 7	Regular 5	Regular 4	Regular 4	Special 7	Regular 2
Hélène F. Fortin	8/8	7/7	5/5	4/4	4/4	7/7	2/2
Alain Albert	8/8	7/7	–	–	4/4	7/7	2/2
Donald M. Bastien	8/8	7/7	–	4/4	4/4	7/7	2/2
Jean-François Blais	1/1	–	–	–	–	–	–
Marie Côté	8/8	6/7	5/5	–	–	–	2/2
Hugo Delorme	8/8	7/7	–	4/4	–	–	2/2
Dominique Gauthier	8/8	7/7	–	–	4/4	7/7	2/2
Nathalie Goodwin	8/8	7/7	5/5	–	4/4	7/7	2/2
Ann MacDonald	1/1	–	–	–	–	–	–
Anie Perrault	7/8	7/7	–	2/3	1/1	–	2/2

Excused absences.

Remuneration

Independent Directors of Loto-Québec are remunerated pursuant to the Order in Council 610-2006, which was adopted by the Government of Québec on June 28, 2006. Remuneration is also indexed in accordance with this order.

Remuneration of the independent directors

Directors	Total Remuneration
Hélène F. Fortin[1, 2, 3, 4 and 5]	$66,321.00
Alain Albert[3 and 4]	$23,717.39
Donald M. Bastien[2, 3 and 4]	$29,050.00
Jean-François Blais[4]	$1,128.11
Marie Côté[1 and 4]	$20,505.10
Hugo Delorme[2 and 4]	$20,505.10
Dominique Gauthier[3 and 4]	$18,606.21
Nathalie Goodwin[1, 3 and 4]	$26,004.00
Ann MacDonald[4]	$1,128.11
Anie Perrault[2 and 4]	$19,533.00
	$226,498.02

Jean-François Blais and Ann MacDonald joined the Board on March 13, 2019.

Activities

Strategic planning and business plan

At each meeting of the Board, Loto-Québec management reported on the progress of the Corporation's business in relation to the 2018–2019 business plan and principal current projects. The Board also approved the 2017–2018 annual report[6] and the 2019–2020 action plan.

Here are some of the topics that were addressed last year:

- The video lottery terminal network action plan
- Renewing the term of office of the President and CEO
- Cannabis legislation
- Negotiating collective agreements
- The pilot project for electronic bingo
- Budget targets
- Monitoring IT developments

In addition, during the last fiscal year, the Board approved game rules for the lottery, casino and gaming establishment sectors, including online gaming and certain internal operational policies.

For the 2018–2019 fiscal year:
[1]Audit Committee
[2]Governance and Ethics Committee
[3]Human Resources Committee
[4]Commercial Affairs Committee
[5]Pension plan committees for employees and for executive and professional staff of the Société des casinos du Québec (SCQ)

[6]The Board approved the 2018–2019 annual report at its meeting of May 30, 2019.

Financial results and internal controls

At each of its meetings, the Board reviewed a presentation on the financial results and their highlights. On the recommendation of the Audit Committee, the Board approved the financial statements for the year ended March 31, 2018,[1] as well as the 2019–2020 operating budgets.

Once again on the recommendation of the Audit Committee, the Board approved the changes to the internal operating policies related to the Committee's areas of competency.

After every Audit Committee meeting, the Board received a verbal report on the committee's activities.

Corporate governance

During the 2018–2019 fiscal year, the Board ensured the Corporation's compliance with its governance regulations and policies.

On the recommendation of the Governance and Ethics Committee, the Board approved the following:

- The required changes to the Code of Ethics for Employees of Loto-Québec and its Subsidiaries and the Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its Subsidiaries
- A new operational policy regarding the disclosure of wrongdoings

Also on the recommendation of the Governance and Ethics Committee, the Board did the following:

- Renewed the directors' insurance coverage
- Reviewed the makeup of the committees
- Conducted the annual review of its operations

After every Governance and Ethics Committee meeting, the Board received a verbal report on the Committee's activities.

Human resources management

Throughout the 2018–2019 fiscal year, the Board monitored various policies relating to personnel management, in cooperation with the Human Resources Committee.

On the recommendation of the Human Resources Committee, the Board approved the following:

- The remuneration parameters for non-union personnel and managers at Loto-Québec and its subsidiaries for 2019–2020
- The compensation of the President and Chief Executive Officer and the senior executives
- The results of the incentive program for 2017–2018 and the program's terms of application for 2018–2019, for all target employees
- The terms of the collective bargaining mandates for the union locals in question
- The 2018–2019 action plan for individuals with disabilities

The Board recommended to the Government of Québec, on the recommendation of the Human Resources Committee, the reappointment of the President and Chief Executive Officer of Loto-Québec. It also approved the appointment of the Acting President of Operations of the Société des établissements de jeux du Québec (SEJQ) and the Corporate Vice-President of Human Resources.

On the recommendation of the Human Resources Committee, the Board approved changes to various internal operational policies related to the committee's areas of competency.

A member of the Board continued to sit on the SCQ's employee and executive and professional pension plan committees to represent the Board.

After every Human Resources Committee meeting, the Board received a verbal report on the Committee's activities.

[1]At its meeting of May 30, 2019, the Board approved, on the recommendation of the Audit Committee, the financial statements of the Corporation for the year ended March 31, 2019.

AUDIT COMMITTEE REPORT

Mandate and composition

The Audit Committee supports the Board in monitoring the integrity of financial reporting and the Corporation's internal controls. It monitors the integrated risk management practices, oversees the establishment of effective and adequate internal control mechanisms and supervises the Internal Auditing activities. It acts as a communications link between the external co-auditors, Internal Auditing and the Board. Every year, it reviews its charter to recommend any appropriate changes to the Board.

As of March 31, 2019, the Audit Committee was composed of three independent members.[1]

Chairwoman: Hélène F. Fortin, FCPA, FCA
Members: Marie Côté and Nathalie Goodwin

All the members have the requisite experience and skills in accounting or finance. The Chairwoman holds the title of Fellow of the Ordre des comptables professionnels agréés du Québec.

Activities

During the last fiscal year, the Audit Committee met five times, in person or by conference call, and held a closed session without management present at the end of each meeting. At these meetings, the Committee achieved the following:

- Approved Loto-Québec's quarterly financial statements and monitored the budget
- Reviewed the Corporation's 2017–2018 financial statements with the co-auditors, namely the Auditor General of Québec and KPMG LLP, and recommended their approval to the Board[2 and 3]
- Conducted a follow-up on the application of the International Financial Reporting Standards (IFRS)
- Recommended that the Board authorize the payment of bonuses for 2017–2018
- Took note of any changes in the cost of the SCQ pension plans
- Approved the resource optimization audit approach and ensured that resource optimization was incorporated into the auditing mandates
- Ensured that the Internal Auditing Department was able to perform its role independently of Loto-Québec management
- Approved and monitored Internal Auditing's 2018–2019 annual work plan
- Monitored:
  - The internal control certification programs
  - The integrated business risk management program and the crisis management plan
  - The FINTRAC compliance program
  - The Corporation's insurance coverage
- Monitored the activities of the groups responsible for IT and security
- Reviewed the operational policies it is responsible for and recommended that the Board approve the required changes
- Carried out the annual review of its mandate
- Reported its accomplishments to the Board

After each of its meetings, the Committee made a verbal report on its activities to the Board.

[1] Donald M. Bastien and Jean-François Blais joined the Audit Committee on April 17, 2019.

[2] The proposal to retain KPMG LLP was made after a call for tenders for the audit of the financial statements for the years ending March 31, 2018, 2019 and 2020. The firm's audit fees for the 2018–2019 financial statements came to $400,000, in compliance with its proposal.

[3] At its meeting of May 29, 2019, the Audit Committee reviewed the 2018–2019 financial statements with the external co-auditors and recommended their approval to the Board.

GOVERNANCE AND ETHICS COMMITTEE REPORT

Mandate and composition

The Governance and Ethics Committee assists the Board in developing and applying the best ethics and corporate governance practices. It also proposes the rules of governance and the codes of ethics that apply to the Corporation's directors, executives and personnel. The Committee ensures that Loto-Québec's policies are reviewed on an annual basis by the appropriate Board committees. It also develops expertise and experience profiles for the appointment of Board members, with the exception of the President and Chief Executive Officer, and recommends them to the Board. Every year, it reviews its charter to recommend any appropriate changes to the Board.

As of March 31, 2019, the Governance and Ethics Committee was composed of four independent members.[1]

Chairman: Donald M. Bastien
Members: Hugo Delorme, Hélène F. Fortin, FCPA, FCA, and Anie Perrault

Activities

During the last fiscal year, the Governance and Ethics Committee met four times, in person or by conference call, and held a closed session without management present at the end of each meeting. At these meetings, the Committee achieved the following:

- Found the Corporation's governance regulations to be compliant
- Reviewed the Code of Ethics for Employees of Loto-Québec and its Subsidiaries and the Code of Ethics and Rules of Professional Conduct for Directors and Managers of Loto-Québec and its Subsidiaries, and recommended that the Board approve the required changes
- At each of its meetings, reviewed complaints received by the Corporate Secretary and the measures put in place for the reporting line, as well as investigating and making any required recommendations
- Recommended that the Board renew the directors' insurance coverage
- Reviewed:
  - The declaration of interest of the directors and senior managers and followed up on it
  - The new director intake program and the members' professional development program
  - The members' competency and experience profiles
  - The composition of the committees, and recommended that the Board appoint members for each committee
- Conducted the annual review of the operational evaluation criteria that apply to the Board, its committees and members, the process used and the evaluation form
- Conducted the annual review of the Board's operations
- Recommended that the Board approve a new operational policy regarding the disclosure of wrongdoings
- Reviewed the operational policies under its governance and ensured that all other committees did so as well
- Carried out the annual review of its mandate
- Reported its accomplishments to the Board

After each of its meetings, the Committee made a verbal report on its activities to the Board.

[1]Nathalie Goodwin joined the Governance and Ethics Committee on April 17, 2019.

HUMAN RESOURCES COMMITTEE REPORT

Mandate and composition

The Human Resources Committee is charged with examining the human resources policies and strategic orientations and making the required recommendations to the Board, as well as monitoring the implementation of the related actions. It also sees to the implementation of remuneration norms and scales for Loto-Québec managers and employees and helps with succession planning for the management personnel. The Committee is also tasked with developing the competency and experience profile and assessment criteria for the President and Chief Executive Officer, as well as recommending the remuneration for the position, within the parameters established by the government. Every year, it reviews its charter to recommend any appropriate changes to the Board.

As of March 31, 2019, the Human Resources Committee was composed of five independent members.[1]

Chairman: Alain Albert
Members: Donald M. Bastien, Hélène F. Fortin, FCPA, FCA, Dominique Gauthier and Nathalie Goodwin

Activities

During the last fiscal year, the Human Resources Committee met 11 times, in person or by conference call, and held a closed session without management present at the end of each meeting. At these meetings, the Committee achieved the following:

- Recommended that the Board approve:
  - The remuneration parameters for non-union personnel and managers at Loto-Québec and its subsidiaries for 2019–2020
  - The compensation of the President and Chief Executive Officer and the senior executives for 2019–2020
  - The results of the incentive program for 2017–2018 and its terms of application for 2018–2019, for all target employees
  - The terms of the collective bargaining mandates for the union locals in question
  - The appointment of the Acting President of Operations of the SEJQ and the Corporate Vice-President of Human Resources
  - The 2018–2019 action plan for individuals with disabilities
- Recommended that the Board recommend that the Government of Québec reappoint the President and Chief Executive Officer
- Took note of any changes in the cost of the SCQ pension plans
- Monitored:
  - Achievements, orientations, priorities and performance indicators in terms of occupational health and safety
  - The succession identification program
  - The talent development plan
  - Objectives for the Corporate Human Resources Department's action plan
- Reviewed the operational policies it is responsible for and recommended that the Board approve the required changes
- Carried out the annual review of its mandate
- Reported its accomplishments to the Board

After each of its meetings, the Committee made a verbal report on its activities to the Board.

[1] Donald M. Bastien and Nathalie Goodwin left the Human Resources Committee on April 17, 2019. Ann MacDonald and Anie Perrault joined the committee on the same date.

Remuneration and benefits of the five highest-paid executives of the Corporation for the fiscal year ended March 31, 2019

Name and title	Salary received	Incentive remuneration	Vehicle[1]	Additional benefits[2]	Group insurance plan
Lynne Roiter President and Chief Executive Officer	$411,749	$61,979	$16,223	$2,500	$2,921
Kevin G. Taylor President of Operations Société des casinos du Québec	$304,620	$78,017	$17,703	$2,500	$8,459
Isabelle Jean President of Operations – Lotteries Vice-President of Public Affairs	$280,026	$71,326	$11,441	$2,500	$5,821
Johanne Rock Corporate Vice-President Finances and Administration	$262,089	$65,331	$13,950	$2,500	$7,046
François Tremblay President of Operations Société des établissements de jeux du Québec	$261,990	$60,608	$30,520	$2,500	$6,963

Basic pension plan

These managers are members of the Government of Québec's Pension Plan for Management Personnel. The contribution and pension are calculated based on the usual provisions of their membership plans.

Supplementary pension plan

These managers are also members of the Supplementary Pension Plan for Executive Officers of Loto-Québec, which provides a pension based on the average salary of the three best years of service, with an accumulation rate of 2.5% a year. This pension is reduced by the benefit offered under the basic plan.

[1] These amounts constitute a taxable benefit.

[2] The additional benefits may include amounts paid for the following: medical check-up, financial and estate planning, sports club and business group.

COMMERCIAL AFFAIRS COMMITTEE REPORT

Mandate and composition

The Commercial Affairs Committee was formed in 2008–2009, on the recommendation of the Governance and Ethics Committee. All members of the Board initially sat on this Committee, which had a dual mandate: discuss the Corporation's commercial activities and better equip directors in their respective roles with customized training on matters concerning Loto-Québec's activities. At the end of the 2011–2012 fiscal year, again on the recommendation of the Governance and Ethics Committee, the Board reviewed the composition and mandate of the Commercial Affairs Committee. It must now be made up of at least three independent members. Its new mandate consists of handling the Corporation's main strategic affairs, conducting in-depth discussions on matters related to commercial practices or important operational issues and handling any other business that the Board may refer to it.

As of March 31, 2019, the Commercial Affairs Committee was composed of 10 independent members.

Chairwoman: Hélène F. Fortin, FCPA, FCA
Members: Alain Albert, Donald M. Bastien, Jean-François Blais, Marie Côté, Hugo Delorme, Dominique Gauthier, Nathalie Goodwin, Ann MacDonald and Anie Perrault

Activities

In the last fiscal year, the Commercial Affairs Committee met twice, in person or by conference call. At these meetings, the directors attended presentations on artificial intelligence, and blockchain and cryptocurrency technologies.

EXECUTIVE COMMITTEE

BACK ROW:

- Stéphane Fraser, Acting President of Operations of the Société des établissements de jeux du Québec
- Michel Gasse, Corporate Vice-President of Real Estate
- Michel Lalonde, Corporate Vice-President of Human Resources
- Kevin G. Taylor, President of Operations of the Société des casinos du Québec
- Denis Daly, Corporate Vice-President of Information Technologies

FRONT ROW:

- Johanne Rock, Corporate Vice-President of Finance and Administration
- Lynne Roiter, President and Chief Executive Officer
- Marie-Christine Tremblay, Corporate Secretary and Vice-President of Legal Affairs
- Isabelle Jean, President of Operations – Lotteries and Vice-President of Public Affairs

Missing from photo:
Guylaine Rioux, Corporate Vice-President of Responsible Gambling, Communications and Social Commitment

ORGANIZATIONAL STRUCTURE

ÉRIC GIRARD
Minister of Finance

Board of Directors
HÉLÈNE F. FORTIN
Chairwoman

Audit Committee
HÉLÈNE F. FORTIN
Chairwoman

LYNNE ROITER
President and Chief Executive Officer

BRUNO MARCIL
Corporate Director
Internal Auditing and Enterprise
Risk Management

STÉPHANE FRASER
Acting President of Operations
Société des établissements
de jeux du Québec

ISABELLE JEAN
President of Operations
Lotteries
Vice-President
Public Affairs

KEVIN G. TAYLOR
President of Operations
Société des casinos du Québec

DENIS DALY
Corporate Vice-President
Information Technologies

MICHEL GASSE
Corporate Vice-President
Real Estate

MICHEL LALONDE
Corporate Vice-President
Human Resources

GUYLAINE RIOUX
Corporate Vice-President
Responsible Gambling, Communications
and Social Commitment

JOHANNE ROCK
Corporate Vice-President
Finance and Administration

MARIE-CHRISTINE TREMBLAY
Corporate Secretary
Vice-President
Legal Affairs

NATHALIE RAJOTTE
Corporate Director
Strategy, Innovation
and Business Intelligence

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WORLD LOTTERY ASSOCIATION
WLA

CERTIFIED – LEVEL 4
RESPONSIBLE GAMING FRAMEWORK
2016 – 2019

CERTIFIED
SECURITY CONTROL STANDARD
VALID UNTIL JUNE, 2020