



**2015/16
ANNUAL SERVICE PLAN REPORT**



For more information on BC Lottery Corporation (BCLC) contact:

74 West Seymour Street, Kamloops, B.C. V2C 1E2

250-828-5500

Email: consumerservices@bclc.com

or visit our website at

www.bclc.com

Board Chair's Accountability Statement



On behalf of the Board of Directors, management and our employees, I'm pleased to present BCLC's 2015/16 Annual Service Plan Report, for the twelve months ended March 31, 2016. The Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*.

The Board is responsible for all content and reporting methods, as well as ensuring appropriate internal controls are in place to measure information accurately and report it in a timely fashion. The Board is also responsible for ensuring the information contained within the report is consistent with the mandate and goals of the organization.

Significant decisions and changes to BCLC's strategies, measures, targets or data, as of March 31, 2016, are identified in the report. All significant assumptions, events and identified risks have been considered in the preparation of this report. Estimates and interpreted information represent the best judgement of management.

The BCLC 2015/16 Annual Service Plan Report outlines how BCLC is meeting the objectives as set out in the 2015/16 Mandate Letter and how we are aligning our business with the Taxpayer Accountability Principles. It compares the corporation's actual results to the expected results identified in the 2015/16 – 2017/18 Service Plan. I am accountable for those results as reported.

Respectfully,

A handwritten signature in black ink, which appears to read "Bud Smith". The signature is stylized and cursive.

Bud Smith
Board Chair

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Chair/CEO Report Letter



Fiscal 2015/16 was BCLC's 30th anniversary and we were extremely pleased to mark the occasion by delivering very strong financial results to the Province of British Columbia and ultimately, to the people of British Columbia. The Corporation outperformed all Canadian gaming jurisdictions by achieving growth in all lines of business and generating more than \$1.3 billion in net income for the Province of British Columbia, which is \$97.5 million over budget and \$59.0 million ahead of last year.




Strong financial results were achieved through innovation and capitalizing on opportunities to make strategic investments primarily in marketing and operations that successfully drove revenue growth in lottery, casino and eGaming. BCLC's diverse portfolio of products combined with our ability to be responsive to changing consumer demands and evolving market conditions were key to surpassing budget.

While growth is strong, the dynamic nature of the gambling business continues to put pressure on operating costs as international accounting treatments require increasing investments in technology to be recognized as expenses. Despite this, BCLC achieved a comprehensive cost ratio (the measure of total business costs, excluding prizes and taxes, as a percentage of total net win) of 42.0%. This result was below the target of 43.3% primarily because lower cost/higher margin products accounted for most of BCLC's revenue growth this year.

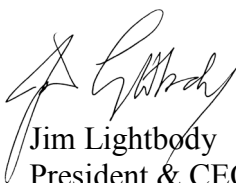
With great results comes great responsibility. Along with our commitment to growing our business prudently including a new enhanced responsible gambling strategy, BCLC remains committed to managing our business in the best interests of the people in our Province. We have taken actions to ensure that BCLC's Board of Directors and Executive team have received appropriate orientation and training regarding the accountability framework and their respective roles and expectations. The Taxpayer Accountability Principles also have been communicated to all staff.

BCLC and the Ministry of Finance have jointly developed a Strategic Engagement Plan, and will continue to ensure effective communication of performance against the Taxpayer Accountability Principles. The detailed plan can be found in Appendix D. BCLC is also committed to delivering on the strategic priority items outlined by Government in the 2015/16 Mandate Letter. A list of actions to fulfill this direction can be found in Appendix C.

We're very proud that our business can be a catalyst for economic growth for the Province of B.C. With responsible strategic planning and prudent investment, BCLC will strive to continue to benefit the people of British Columbia.

A handwritten signature in black ink, appearing to read 'Bud Smith'.

Bud Smith
Board Chair

A handwritten signature in black ink, appearing to read 'Jim Lightbody'.

Jim Lightbody
President & CEO

Purpose of the Organization

BCLC conducts and manages gambling in B.C. including casino, lottery, bingo and sports betting through multiple channels of distribution. Our slot machines, table games and bingo are operated through operational service contracts with private sector service providers at 15 casinos, two racecourse casinos, 18 community gaming centres and seven commercial bingo venues. Our national and provincial lottery products are sold at over 3,800 retail locations, operated by private sector retailers who earn a standard commission based on product sales. PlayNow.com is BCLC's secure, regulated online and mobile channel with a growing diversity of lottery games, sports betting, eCasino, ePoker and eBingo entertainment for over 329,000 registrants. PlayNow.com also provides online gambling services and web-based and smartphone platforms to the Province of Manitoba through a contract with Manitoba Liquor & Lotteries.

BCLC is a Crown corporation, established on April 1, 1985, and is governed by B.C.'s [Gaming Control Act](#) (2002). We manage and conduct gaming and grow net income in a socially responsible manner, adhering to the [Taxpayer Accountability Principles](#), for the benefit of British Columbians. BCLC is regulated by the Gaming Policy Enforcement Branch, who is responsible for regulating all gaming in B.C., including horse racing and charitable gaming. BCLC also adheres to the federal financial regulator, FINTRAC, when it comes to its anti-money laundering practices.

The consolidated financial statements of BCLC include a wholly-owned subsidiary, B.C. Lottotech International Inc. (Lottotech). The primary business of Lottotech is the purchase and lease of capital assets for BCLC, with Lottotech's budget renewed and approved through our annual business planning process. The financial operations, management and oversight of Lottotech are consolidated within BCLC operations.

Strategic Direction and Context

Specific direction from government to BCLC was provided in the Government's 2015/16 Mandate Letter directing BCLC to take actions in accordance with the best interests of the Province and the taxpayer.

The Mandate Letter outlined specific actions to deliver high quality services and products within the Taxpayer Accountability Principles framework that strengthens accountability, promotes controlled spending and optimizes the corporation's financial performance.

Read the full letter outlining BCLC's Mandate here: <http://www.bclc.com/content/dam/bclc/corporate/documents/service-plan-2015-16.pdf>

In fiscal 2015/16, a number of significant factors, both internal and external, challenged our business and performance.

Foremost, we stabilized our executive team; Jim Lightbody was named as President and CEO and we permanently filled five interim executive leadership appointments. Although BCLC experienced high

employee turnover in 2014/15 due to uncertainty, the turnover rate stabilized in 2015/16. Competition for talent continues to be challenging for key skills.

Our two major business units (lottery and casino) are mature and facing market saturation. The supply gap has been largely filled and the Canadian gaming industry has seen a shift from a supply driven to a demand driven environment. B.C. is the only province in Canada which has not experienced a year-over-year revenue decline while operating in this demand driven environment. With fewer new distribution opportunities, we focus more on marketing, product development, and improving the gaming facilities and services for our customers. In 2015/16, we benefited from a statistically significant number of large lottery jackpot rollovers and our slot revenues have rebounded with more British Columbians visiting casinos within B.C., helping to drive record growth. Our eGaming business through PlayNow.com was our fastest growing line of business and continues to provide incremental revenue with mobile services driving growth. This mitigated the anticipated decline in high limit table game revenue. Jackpot rolls in the lottery business are volatile and present risks for the growth of the business. We believe that the low Canadian dollar has contributed to B.C. players staying in the province; however, as the dollar rebounds we expect that competition from Nevada and Washington state casinos will increase. Moving forward we intend to achieve growth through innovation and strategic investment that better serve the customer.

In conjunction with the maturing market, the entertainment environment in which BCLC competes has evolved and player expectations have changed significantly. While each of our business units experiences unique conditions, some similarities exist. Our current product mix is less relevant to casual or light playing customers while we are encountering competition from other entertainment options such as professional sports leagues, online gaming, fantasy sports, social gaming, restaurants and bars.

Going forward, net income growth will result from facility enhancements and innovative product changes. We are working with our casino operational service providers and with the support of our municipal partners; we can enhance casino properties so they have broader appeal among customers within existing markets as an entertainment choice.

Legacy systems supporting our lottery business are nearing end-of-life and hamper our ability to serve new content to players. To address this strategic challenge, we are leveraging the opportunity to plan a multi-year program that will transform the way players engage with our products in the retail setting.

BCLC depends on maintaining and growing its “social license” to operate gambling on behalf of British Columbians. Low public awareness of how gaming revenues benefit communities impacts perceptions of our business. Research supports the need to communicate how provincial gaming revenues benefit communities. We also strive to engage with and involve communities early in decisions that may impact them.

Report on Performance

Our mandate is to grow net income responsibly for the benefit of British Columbians. The [2015/16 Mandate Letter](#) provides specific actions for BCLC to ensure alignment with government goals and objectives.

BCLC has made significant progress on each of the priority actions set out by government. As outlined in the letter, we have taken action on items that pertain to BCLC in the Province's Plan for Public Health and Gambling in the areas of health prevention, protection and research to address problem gambling. BCLC has also worked with GPEB to clarify roles and responsibilities of each organization, and we remain focused on evolving our business and exploring new revenue opportunities to optimize our financial performance and net return to the province. Over the past year we have been committed to fulfilling the direction set out in the Crown Review and have substantially completed 18 out of the 25 recommendations. Additionally, BCLC worked closely with GPEB and Law Enforcement to identify strategies and solutions to prevent money laundering in gaming facilities.

A detailed summary of BCLC's work to fulfill the 2015/16 Mandate Letter directions appears in Appendix C.

In the 2015/16 Mandate Letter, BCLC was directed to take specific actions and, in accordance with Government policy and directive, implement the Taxpayer Accountability Principles. BCLC has taken the necessary steps to adopt and integrate all principles within our strategic direction for business, market and consumer trends, and these principles inform the business choices we make.

This is reflected in BCLC's performance framework and in our revised [Standards of Ethical Business Conduct \(SOEBC\)](#) for employees, which includes and makes publicly available all principles (except 'service'). Also our SOEBC for contractors has recently been updated and was made public in summer 2015. In addition to Taxpayer Accountability Principles discussions at Executive and Board meetings, principles have been communicated to employees in person, via email and as part of a mandatory online course to solidify knowledge and understanding.

With annual feedback from Government during the Service Plan process, BCLC developed performance measures related to player, people, public and profit. These measures reference all relevant Taxpayer Accountability Principles initiatives.

BCLC has developed a Strategic Engagement Plan, and will continue to meet regularly with Ministry of Finance officials and the Minister of Finance to ensure effective communication of performance against the Taxpayer Accountability Principles.

Our 2015/16 BCLC Annual Service Plan Report compares actual results to the expected results identified in the [2015/16 – 2017/18 Service Plan](#). The following pages summarize how BCLC measures and reports performance through four corporate goals.

Goals, Strategies, Measures and Targets

Our mandate is to grow net income responsibly for the benefit of British Columbians, applying the Taxpayer Accountability Principles. BCLC aims to build public understanding of our business through transparency, and to manage costs efficiently and effectively, investing wisely to sustain the long term health of our business.

Goal 1: Player – We are creating an integrated player-focused entertainment company

BCLC achieves positive outcomes for the citizens of British Columbia by maintaining a player centric approach.

Strategies:

Create fun player experiences with relevant content in and across games, channels and touchpoints.

Our players have many entertainment options on which to spend their discretionary dollars. Learning what our players want and delivering the best player experiences to meet their expectations will help make us a top entertainment choice. Using tools and technology, we will continue to listen to our players to be a more player-centric organization, whether it be in our gaming facilities, at lottery retail locations or online.

Grow and diversify the player base to strengthen our business.

By increasing the entertainment value of our products and amenities and integrating new content, we are focused on broadening and diversifying our player base to strengthen our business. We are moving toward one view of the player regardless of where they play our games. This will help create a seamless experience and cultivate long-term player relationships.

Optimize our distribution channels.

Our traditional gambling distribution channels are mature and close to meeting market demand. We will continue to review ways to evolve our casino and lottery businesses and leverage our eGaming platform, PlayNow.com, so that we attract a broader player base by offering relevant, accessible entertainment experiences.

Develop responsible gambling programs that are effective in encouraging healthy gambling choices.

We believe the more informed players are, the better equipped they are to make healthy decisions about gambling. Our commitment to developing responsible gambling programs is demonstrated by our successes with our internationally recognized and adopted GameSense education program, our Level 4 responsible gambling certification by the World Lottery Association (the highest level possible) and our gaming facilities' and PlayNow.com's commitment to RG Check, an independent accreditation program that reviews how BCLC and our private sector service providers operate against best practices and independent standards in responsible gambling.

In 2015/16 we once again offered Responsible Gambling Awareness Weeks, working with the Gaming Policy and Enforcement Branch and communities across B.C. to raise public awareness about responsible gambling practices to help reduce risk and connect people to community resources and services. As well, the Government of British Columbia and BCLC have dedicated \$2 million over five

years to the independent Centre for Gambling Research at the University of British Columbia. Research from this centre will help inform the Province's responsible and problem gambling programs.

Performance Measure 1.1: Player Satisfaction

Performance Measures	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Player Satisfaction ¹	85%	81%	78%	80%	77%	79%	80%

Data Source: Continuous online survey independently conducted by third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures as per Statistics Canada's Census. The margin of error is ± 1.92 at the 95% confidence level (19 times out of 20).

Benchmark Data: Player Satisfaction is internally benchmarked on a time series basis.

¹ Starting 2014/15, BCLC slightly revised the definition of 'player;' this revision has not had any impact on previous years' results.

Discussion

- Player satisfaction gauges BCLC's success in offering products and amenities that provide great value for money so that we achieve positive outcomes for British Columbians.
- In 2015/16, player satisfaction was very positive, but below our target. Based on player feedback, opportunities exist to enhance the player experience of our games and distribution channels, whether it is online, in gaming facilities or at retail locations.
- We plan to grow player satisfaction in the coming years by introducing new content and experiences for our games, channels and touch points.

Performance Measure 1.2: Player Participation (per cent at least monthly)

Performance Measure	2012/13 Actual ²	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Player Participation	69%	54%	51%	54%	52%	50%	51%

Data Source and Data Reliability: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance consistent with B.C. population as per Statistics Canada's Census. The margin of error is ± 1.55 at the 95% confidence level (19 times out of 20).

Benchmark Data: Player Participation is internally benchmarked on a time series basis.

² Results from 2012/13 are not comparable to results from 2013/14 onwards due to a change in survey questions. The change occurred in Q4 of 2012/13.

Discussion

- Player participation measures the percentage of adult British Columbians who play a BCLC game in any of our gambling channels at least once a month. It gauges BCLC's success in creating entertaining and relevant experiences so players purchase our games.
- In 2015/16, player participation was below target due to a decrease in participation from our core and moderate players which occurred predominantly in the first quarter of the year. This decline was influenced by low jackpots in Q4 of 2014/15, which affected the participation in Q1 of 2015/16. The lag was based on decreased player motivation as research suggests that jackpots are a main trigger for participation from our lottery player base. In fact, the final quarter of 2015/16 saw player participation reach 57%. While we cannot attribute the increase to specific events, the

final quarter saw high jackpots on Lotto Max compared to earlier in the year which may have contributed to the increase in participation.

- We will continue to learn about our players' expectations and introduce new content, games and experiences to appeal to light and casual players while delivering consistent entertainment experiences to our core player base.

Performance Measure 1.3: Player Awareness of Responsible Gambling Activities

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 ³ Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Player Awareness of Responsible Gambling Activities	78%	68%	79%	79%	77%	74%	73%

Data Source and Data Reliability: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance consistent with B.C. population as per Statistics Canada's Census. The margin of error is ± 1.55 at the 95% confidence level (19 times out of 20).

Benchmark Data: Player Awareness of Responsible Gambling Activities is internally benchmarked on a time series basis.

³ In 2014/15, we revised the survey statements for Player Awareness of Responsible Gambling Activities to better reflect our responsible gambling priorities; 2014/15 results are not comparable to previous years.

Discussion:

- Player Awareness of Responsible Gambling Activities measures the percentage of players who are aware of at least one of five responsible gambling activities. This measure determines how effective we are at educating our players about responsible gambling, so that players can make informed and healthy gambling choices.
- In 2015/16, player awareness of responsible gambling activities was below target.
- Based on recommendations made in the Crown Review Report on BCLC and the Plan for Public Health and Gambling, we are now shifting our focus from delivering messages to a general audience to delivering focused messages to prioritized key audiences. We are also shifting from developing and measuring awareness to evaluating the outcomes of responsible gambling programs on harm-reduction. For example, we are planning to implement new technology on slot machines to enable money and time budgeting tools for players. In future years, we will develop measures to determine the effectiveness of our responsible gambling programs in changing player behavior.

Performance Measure 1.4: Net Win Per Capita

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Net Win Per Capita	\$450	\$468	\$482	\$477	\$501	\$482	\$484

Discussion:

- Net Win per Capita tells us how successful we are in growing revenue in relation to the provincial population.
- In 2015/16, BCLC's net win per capita increased over the previous year and exceeded our target. This is due to a higher rate of growth in net win compared to the population growth. 2015/16 net win increase was generated primarily through lottery and slots play which offset an expected decline in our high-limit table net win.

- Lottery revenues surpassed targets as a record number of large jackpots in national lottery offerings (led by the LottoMax brand) exceeded budget assumptions.
- Slots revenues grew due to increase in distribution and facility improvements while benefitting from a weakening Canadian dollar as our players search for local entertainment opportunities versus travelling to the U.S.
- High limit table net win declined. This category is heavily dependent on an international player base and is directly tied to the tourism industry. Slowdowns in some national economies and enforcement of international currency restrictions continue to present business risks to the category.
- 2016/17 targets project lottery net win will normalize as a record number of jackpot sizes in national lottery games (LottoMax and 6/49) is not likely to repeat.

Goal 2: People – we are building an engaged workforce and a strong culture based on trust and collaboration.

We strive to demonstrate the value of our work by complying with a rigorous, standardized approach to performance management and employee compensation, which reflects appropriate compensation that is consistent with Government's Taxpayer Accountability Principles and other provincial Crown corporations in B.C.

Strategies:

We plan our future workforce needs so our people have the right skills at the right time for the success of our business.

Our human resources programs will continue to nurture a culture and environment that support BCLC's business strategy. Developing our employees so they continue to be our number one asset and are prepared for the rapidly changing external environment continues to be a key focus. We will continue to invest in leadership and employee development to provide the training and resources needed to sustain and grow net income to Government.

We are an employer of choice.

For ten consecutive years BCLC has been selected as a top employer in British Columbia. We continue to pursue excellence in the programs, services and experiences we offer to our workforce. An engaged workforce is a more productive workforce.

We are creating a rewarding and inspiring environment where fun is part of the experience.

Our employees are integral to creating fun gambling experiences, and we need a workforce that is passionate and engaged. Our employees drive the success of our business, whether they are modernizing our systems; researching, developing and implementing new products and services; or working with our private sector service providers to enrich the player experience.

We listen to our employees through our annual employee engagement survey, and act upon the results to attract and retain the right talent. We are currently implementing a Human Resources Management System that will create a single, integrated view of our workforce.

Performance Measure 2.1: Employee Engagement

Performance Measure	2012/13 Actual	2013/14 Actual ⁴	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Employee Engagement	82%	n/a	78%	80%	83%	83%	83%

Data Source and Data Reliability: Annual anonymous online survey of BCLC employees conducted by an independent third-party professional. The margin of error is ± 1.72 at the 95% confidence level (19 times out of 20).

Benchmark Data: Employee Engagement is internally benchmarked on a time series basis.

⁴In 2013/14, BCLC did not conduct the Employee Engagement survey, hence no results are available.

Discussion:

- Employee Engagement is defined as the intellectual and emotional commitment employees have in an organization. A passionate and engaged workforce will help to drive the success of our business, delivering the great entertainment experiences our players expect.
- In 2015/16, BCLC's employee engagement level exceeded our target and has increased compared to the previous year.
- We are planning to maintain this positive level among our workforce in the coming years.

Performance Measure 2.2: Employee Turnover Rate

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual ⁵	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Employee Turnover Rate	10.6%	12.4%	24.7%	14.0%	9.6%	10.0%	10.0%

Data Source: BCLC internal sources. Data is measured on a monthly basis with the year-end calculated by averaging the monthly rates.

Benchmark Data: Employee Turnover Rate is internally benchmarked on a time series basis.

⁵Cost management activities, including organizational restructuring, and uncertainty due to Government's Internal Audit and Advisory Services Review contributed to the higher results in 2014/15.

Discussion:

- Employee Turnover Rate measures the combined percentage of voluntary and involuntary turnover relative to BCLC's total headcount. This measure helps us determine how successful we are in attracting and retaining a workforce to drive the continuous optimization of our business and gauges our competitiveness in the labour market. It also evaluates the effectiveness of our training, development and retention programs.
- In 2015/16, BCLC's employee turnover rate was below the target, which is a positive result.
- We are planning to maintain this positive level among our workforce in the coming years and will continue to invest in leadership and employee development, focusing on building talent from within our workforce.

Goal 3: Public – our business and the benefits it creates are understood, trusted and supported by British Columbians.

BCLC strives to engage in respectful and effective communications that properly inform or consult all parties on actions, decisions and public communications in a timely manner. BCLC proactively collaborates in a spirit of partnership that respects the use of taxpayers' monies.

We have established a strong ethical code of conduct for all employees and executives, which serves the citizens of British Columbia by respecting the shared public trust and acting in accordance with the Taxpayer Accountability Principles.

Strategies:

Our contributions to economic growth and communities are recognized and valued by the public.

Our license to operate stems from public trust and support. Building the trust of our players, the public and our stakeholders is critical to the long-term success of our business. It is paramount that the public understands that our products are fair and our facilities are safe. We will continue to strike the right balance in delivering a healthy bottom line and giving our players the tools and education to make responsible gambling choices.

The gambling entertainment choices we offer are delivered with integrity and transparency.

More than \$1 billion is delivered each year to the Province of British Columbia for health care, education, community initiatives and other programs. Sustaining this net income depends on BCLC's ability to build the public's understanding, trust and support of our business by being a good corporate citizen, demonstrating integrity in what we deliver and how we deliver it, and being transparent in how we manage and conduct our business.

As part of our continued mandate, we will use information provided by law enforcement to create actions and solutions to prevent money laundering in B.C. gaming facilities.

Performance Measure 3.1: Public Recognition of Positive Contributions

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Public Recognition of Positive Contributions	60%	61%	68%	64%	68%	68%	68%

Data Source and Data Reliability: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance consistent with B.C. population as per Statistics Canada's Census. The margin of error is ± 1.55 at the 95% confidence level (19 times out of 20).

Benchmark Data: Public Recognition of Positive Contributions is internally benchmarked on a time series basis.

Discussion:

- Public Recognition of Positive Contributions measures the percentage of adult British Columbians who agree that BCLC makes positive contributions to the Province of British Columbia. This measure helps us gauge our success in building public understanding and recognition of the positive contributions we make.
- In 2015/16, Public Recognition of Positive Contributions exceeded target.
- We are planning to maintain this positive level in the coming years and will continue to use social and traditional media as well as engage with stakeholders to inform them about our business and the benefits and impacts on communities and the Province.

Performance Measure 3.2: Public Perceptions of BCLC's Transparency

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Public Perceptions of BCLC's Transparency	51%	52%	57%	52%	60%	60%	60%

Data Source and Data Reliability: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance consistent with B.C. population as per Statistics Canada's Census. The margin of error is ± 1.55 at the 95% confidence level (19 times out of 20).

Benchmark Data: Public Perceptions of BCLC's Transparency is internally benchmarked on a time series basis.

Discussion:

- Public Perceptions of BCLC's Transparency measures the percentage of adult British Columbians who view BCLC as forthcoming and open with the public. This measure helps us gauge our success in becoming increasingly transparent so that our business and its benefits are understood and supported by British Columbians.
- In 2015/16, results for Public Perceptions of BCLC's Transparency increased compared to the previous year and exceeded our target. This is a significant achievement when compared to just three years ago and is testimony to our new approach to communications.
- In the coming years, we are planning to maintain this positive level and will continue to act with integrity and transparency regarding our work and changes to gaming facilities so that our business and its benefits are understood and supported by British Columbians.

Performance Measure 3.3: Level of Greenhouse Gas Emissions

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Level of Greenhouse Gas Emissions (CO ₂ e metric tonnes by calendar year)	2012: 1,204	2013: 1,374	2014: 1,315	2015: 1,142	2015: 906	2016: 1,119	2017: 1,097

Data Source: Data is obtained from the suppliers of electricity, natural gas, fleet vehicle fuel and paper from internal procurement reporting. Data for electricity and natural gas consumption is verifiable from billable consumption figures supplied by the respective utilities companies. Usage for our offsite data facility is calculated from meter readings. Fleet vehicle fuel consumption is verified from our fleet vehicle management company reporting. Paper consumption of all types of reportable paper is measured internally each month.

Discussion:

- Sustainability is a key component of our social responsibility mandate. This measure gauges our success in reducing the level of reportable greenhouse gas emissions (GHG) over time.
- Our reportable greenhouse gas (GHG) emissions result from buildings, fleet vehicles and certain office paper supplies. BCLC uses calculations provided by the Province to convert and report our GHG emissions in a standard format. This calculation is completed and reported in metric tonnes of carbon dioxide emissions (CO₂e) by calendar year. Since 2010, BCLC has been required to meet the requirements for carbon neutrality set out in the Greenhouse Gas Reductions Target Act and pursue actions to minimize GHG emissions.
- In 2015, our reportable GHG emissions decreased by 31 percent from 2014. Factors that have contributed to this reduction include a reduction in natural gas consumption in both offices (we

had no fugitive emissions to report in 2015, as there were in 2014) and the reduction in fleet vehicles for which the 2015 was the first full year that BCLC operated with a significantly smaller fleet. This has allowed us to surpass our 2020 emission target five years earlier than planned.

- This is an accomplishment to be proud of; however, we acknowledge that the reduction in fleet only impacted our reportable emissions, as personal vehicles are now being used for business travel. Buildings now account for 93 per cent of our total emissions profile and thus we remain committed to limiting electricity and natural gas in our offices. As a low emitter, external factors such as weather and fugitive sources will have all the more impact on our emissions from year to year. Consequently, we have decided not to adjust our future targets based on this year's results.

Goal 4: Profit – we will optimize net income through investing to sustain the long-term health of our business

We maximize net income through a focus on our customers through innovation and investments to grow our net win revenue and the popularity of our games. From new games to new ways to play, to prominent retailers and destination venues, BCLC consistently ranks as a top revenue contributor for the good of everyone across B.C.

In 2015/16 we had strong financial results achieved through innovation and capitalizing on strategic investments primarily. Our lottery business grew 15.8% over last year which ranked BCLC as the leading province or state for growth in North America. Our slot business growth outpaced every other province in Canada and our eGaming business grew 24% over last year and remains the most profitable regulated online business in Canada.

BCLC continues to use cost management processes to identify areas for operational improvement. We foster a culture of cost-consciousness and remain committed to continual improvement of operational efficiencies and effectiveness. Our very strong profit margins keep us focused on driving revenue to deliver incremental net income for the Province.

Strategies:

Define and integrate the innovative experiences our players want, delivered with our strategic partners.

BCLC monitors consumer trends and listens to what our players want, so that we can deliver relevant products and experiences that meet expectations and provide value for money. With player understanding as our basis, and best-in-class vendors to work with, we will invest in innovative products and services for engaging gambling experiences and grow net income for the Province. In 2015/16 we structured a new team to focus on content innovation to attract light and casual players. This team is looking to partner with new types of vendors, including universities and start-ups, to develop new games and experiences.

Get to market faster with innovations so our games and services are more relevant.

We consistently improve processes, technology and skills to streamline IT, finance and procurement activities that support business operations. We work quickly to deliver cost-effective services and bring our products and innovations to market faster, which is key to providing engaging entertainment, growing our player base, and sustaining net income for the Province.

Performance Measure 4.1: Net Income (millions)

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Net Income (millions)	\$1,125.2	\$1,174.6	\$1,254.5	\$1,216.0	\$1,313.5	\$1,242.8	\$1,260.1

Data Source: Net win is from BCLC Audited Financial Statements and is calculated in accordance with International Financial Reporting Standards.

Benchmark Data: Net Income is benchmarked on a time series basis.

Discussion:

- Net Income is the total amount of money generated by BCLC and delivered to the Province, which uses it to benefit British Columbians via funding for health care, education and charitable and community programs.
- Through continued investment in our games and service offerings, we have built a diversified portfolio that has delivered engaging gambling experiences to our players and resulted in record revenues this past year.
- In 2015/16, BCLC exceeded its target and achieved a result of \$1,313.5 million in net income. The growth in net income represents 4.7 per cent increase over 2014/15. This growth is due primarily to higher than budgeted revenue in our lottery, slots and eGaming businesses offsetting a predicted decline in our high-limit table game revenue.
- LottoMax led growth following the successful implementation of the increased jackpot cap to \$60 million which, combined with the highest number of jackpots ever recorded for the brand, contributed to British Columbia recording the highest growth in lottery sales in North America at 15.8 per cent. Enhancements in other lottery game categories also contributed to growth.
- BCLC's 2016/17 net income target and the underlying budget is reasonable. It reflects that BCLC will be challenged to repeat the record revenue performance of 2015/16. In 2015/16 lottery revenues were driven by a record number of jackpots. The statistical likelihood of such jackpot sizes occurring again is less than 2 per cent. As well, while slots revenues grew in 2015/16 through increased distribution and facility improvements, we believe the category also benefited by the weakening Canadian dollar as players searched for local entertainment opportunities versus travelling to the U.S. BCLC's 2016/17 and 2017/18 net income forecast figures consider such factors to produce reasonable and prudent plans.

Performance Measure 4.2: Comprehensive Cost Ratio (% of Net Win)

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Comprehensive Cost Ratio (% of Net Win)	41.3%	43.4%	41.9%	43.3%	42.0%	43.4%	43.6%

Data Source: Comprehensive Cost Ratio is from BCLC Audited Financial Statements.

Benchmark Data: Comprehensive Cost Ratio is benchmarked on a time series basis.

Discussion:

- The Comprehensive Cost Ratio is the sum of direct, gaming support, operating, amortization and other costs (excluding taxes), divided by net win and expressed as a percentage. It is intended to gauge operational efficiency.
- The dynamic nature of the gambling business has continued to put pressure on operating costs. BCLC achieved a Comprehensive Cost Ratio of 42.0% which was below the budget of 43.3% primarily because lower cost products accounted for more of BCLC's revenue this year.
- The dynamic nature of the gambling business is expected to continue to put pressure on operating costs in future years. Targets reflect that:
 - Industry trends in technology related to infrastructure, platforms and software are moving towards internet-based 'software as a service' or hosted-service solutions versus in-house, customized technologies. The accounting standards are shifting in response to this trend toward classifying more of these types of expenditures as operating versus capital costs.
 - While BCLC's total portfolio of games provides some protection against variability in total revenue through diversification, BCLC's operating cost structure must be built to withstand year-over-year fluctuations in the business.
 - Operating cost targets now include funding for external policing costs associated with the new Joint Illegal Gaming Investigation Team. BCLC's role with the new Joint Illegal Gaming Investigation Team is limited to funding only.

Financial Report

Discussion of Results

In 2015/16, BCLC achieved a record \$1.3 billion net income on record revenue of \$3.1 billion, exceeding the previous records set last year by \$59.0 million and \$197.5 million, respectively.

This year, BCLC benefited most notably from a significant number of large lottery jackpots; and while an anticipated decline in high limit table game revenue materialized, this was more than offset by strong performance in the slots business which kept our casino business ahead of budget and last year. In addition, our eGaming business continues to be our fastest growing line of business.

Commensurate with the increase in sales volume, prizes, commissions, and related operating costs were higher this year. Each year, BCLC prepares a three-year Service Plan against which its results are measured. As part of this annual process, and in response to specific direction from government, BCLC committed to a focused cost containment initiative that began in 2013/14; however, many of BCLC's costs are tightly correlated with sales performance. Thus, while total revenue exceeded budget by \$212.0 million, the operating costs supporting that increase exceeded budget by only \$19.9 million, primarily from increased commissions associated with the increased volume experienced. On a year-over-year basis, a \$197.5 million increase in revenue was correlated with total operating costs that were \$49.8 million higher than the previous year, also primarily from increased commissions.

British Columbia Lottery Corporation (BCLC)

Financial Results	2011/12	2012/13 ¹	2013/14	2014/15	2015/16			
							VARIANCE FROM PRIOR YEAR	VARIANCE FROM PRIOR YEAR
(\$ in millions)	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
REVENUES								
Lottery & eGaming	\$ 1,061.4	\$ 1,093.8	\$ 1,123.5	\$ 1,103.4	\$ 1,287.1	\$ 1,109.7	\$ 177.4	\$ 183.7
Casino & Community Gaming	1,640.0	1,638.1	1,684.8	1,800.9	1,814.7	1,780.1	34.6	13.8
	2,701.4	2,731.9	2,808.3	2,904.3	3,101.8	2,889.8	212.0	197.5
Prizes	641.9	649.6	665.6	659.5	744.8	650.3	(94.5)	(85.3)
NET WIN	2,059.5	2,082.3	2,142.7	2,244.8	2,357.0	2,239.5	117.5	112.2
EXPENDITURES²								
Lottery & eGaming	175.6	177.6	189.9	175.4	204.7	196.9	(7.8)	(29.3)
Casino & Community Gaming	689.6	682.7	740.1	765.2	785.7	773.6	(12.1)	(20.5)
	865.2	860.3	930.0	940.6	990.4	970.5	(19.9)	(49.8)
Income before the undernoted	1,194.3	1,222.0	1,212.7	1,304.2	1,366.6	1,269.0	97.6	62.4
Indirect tax expense	86.9	96.8	38.1	49.7	53.1	53.0	(0.1)	(3.4)
NET INCOME								
Lottery & eGaming	278.9	297.4	304.1	304.2	369.1	292.2	76.9	64.9
Casino & Community Gaming	828.5	827.8	870.5	950.3	944.4	923.8	20.6	(5.9)
	\$ 1,107.4	\$ 1,125.2	\$ 1,174.6	\$ 1,254.5	\$ 1,313.5	\$ 1,216.0	\$ 97.5	\$ 59.0
Profit Margin	41.0%	41.2%	41.8%	43.2%	42.3%	42.1%	0.2%	-0.9%
Debt	\$90.1	\$131.7	\$154.9	\$140.1	\$150.1	\$154.9	4.8	(10.0)
Capital Expenditures	\$74.4	\$96.6	\$100.3	\$69.5	\$68.2	\$90.0	21.8	1.3

¹ 2012/13 comparative results have been restated to comply with amendments to IFRS.

Total net income for the year (as previously reported)	\$ 1,127.6
Reconciling Items:	
Employee costs	(2.4)
Total net income for the year (restated)	<u>\$ 1,125.2</u>

² Please refer to page 27 for a detailed breakdown of 2015/16 actual expenditures.

Performance Measurement:

BCLC's performance measurement framework is updated annually as part of its business planning process. This framework guides decision-making at all levels of the organization and has been used to assess 2015/16 operational performance against the targets and budgets established in the Service Plan (<http://corporate.bclc.com/content/dam/bclc/corporate/documents/service-plan-complete-document-2015-16.pdf>).

International Financial Reporting Standards (IFRS):

The *Budget Transparency and Accountability Act* specifies that the government and government organizations conform to the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, unless otherwise directed by Treasury Board. Accounting standards for senior governments are understood to mean standards established by the Public Sector Accounting Board (PSAB), which directs Government Business Enterprises (GBE) to adhere to IFRS. Treasury Board has directed BCLC to adopt IFRS.

Lottery and eGaming Operations:

FINANCIAL RESULTS (\$ IN MILLIONS)	2011/12	2012/13	2013/14	2014/15	2015/16			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Revenue								
Lottery	\$ 995.8	\$ 1,020.5	\$ 1,032.5	\$ 994.3	\$ 1,151.6	\$ 993.9	\$ 157.7	\$ 157.3
eGaming	65.6	73.3	91.0	109.1	135.5	115.8	19.7	26.4
	1,061.4	1,093.8	1,123.5	1,103.4	1,287.1	1,109.7	177.4	183.7
Prizes	580.8	594.2	615.7	610.5	698.1	605.1	(93.0)	(87.6)
Net win	480.6	499.6	507.8	492.9	589.0	504.6	84.4	96.1
Direct expenses ¹	77.4	81.2	84.7	85.3	98.9	88.7	(10.2)	(13.6)
Gaming support costs & operating expenses	98.2	96.4	105.2	90.1	105.8	108.2	2.4	(15.7)
Income before the undernoted	305.0	322.0	317.9	317.5	384.3	307.7	76.6	66.8
Indirect tax expense	26.1	24.6	13.8	13.3	15.2	15.5	0.3	(1.9)
Net income	\$ 278.9	\$ 297.4	\$ 304.1	\$ 304.2	\$ 369.1	\$ 292.2	\$ 76.9	\$ 64.9
Lottery retailers	3,853	3,805	3,748	3,928	3,873			
Lottery terminals	3,866	3,765	3,707	3,691	3,632			

¹ Direct expenses include commissions, direct supplies and ticket printing, and equipment leases and licenses.

Lottery and eGaming net income of \$369.1 million exceeded the previous year by \$64.9 million and budget by \$76.9 million. Overall revenue of \$1.287 billion was up \$177.4 million from budget and \$183.7 million, or 16.6 per cent, over the previous year.

Year-over-year revenue was up most notably in the Lotto category, driven by the strong jackpot performance of the national lottery games. Sales in the Lotto category were up \$104.3 million over budget and \$132.6 million over the previous year.

This year there were 30 LottoMax jackpots of \$50 million or more—13 more than the previous record set in 2013/14, and compared with only 9 comparable jackpots last year. Similarly, there were 21 Lotto 6/49 jackpots of \$20 million or more (including an all-time record jackpot of \$64 million on October 17, 2015) compared with only 11 comparable jackpots in last year.

During 2015/16, BCLC continued to invest in the PlayNow.com eGaming business, increasing the frequency with which new casino-style games were introduced, and making other product enhancements. Overall, eGaming revenue was up \$26.4 million from 2014/15—an increase of 24 per cent.

Casino and Community Gaming Operations:

FINANCIAL RESULTS (\$ IN MILLIONS)	2011/12	2012/13	2013/14	2014/15	2015/16			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Revenue								
Slot Machines	\$ 1,140.7	\$ 1,140.1	\$ 1,135.3	\$ 1,149.4	\$ 1,206.6	\$ 1,120.6	\$ 86.0	\$ 57.2
Table Games	380.9	390.2	452.1	555.1	516.5	571.9	(55.4)	(38.6)
Poker	22.1	21.3	20.7	21.1	19.8	18.3	1.5	(1.3)
Bingo	96.3	86.5	76.7	75.3	71.8	69.3	2.5	(3.5)
	1,640.0	1,638.1	1,684.8	1,800.9	1,814.7	1,780.1	34.6	13.8
Prizes	61.1	55.4	49.9	49.0	46.7	45.2	(1.5)	2.3
Net win	1,578.9	1,582.7	1,634.9	1,751.9	1,768.0	1,734.9	33.1	16.1
Direct expenses	552.9	556.0	580.8	633.3	635.7	631.8	(3.9)	(2.4)
Gaming support costs & operating expenses ¹	136.7	126.7	159.3	131.9	150.0	141.8	(8.2)	(18.1)
Income before the undernoted	889.3	900.0	894.8	986.7	982.3	961.3	21.0	(4.4)
Income tax expense	60.8	72.2	24.3	36.4	37.9	37.5	(0.4)	(1.5)
Net income	\$ 828.5	\$ 827.8	\$ 870.5	\$ 950.3	\$ 944.4	\$ 923.8	\$ 20.6	\$ (5.9)
Casinos	17	17	17	17	17			
Casino slot machines	9,727	9,740	9,907	9,811	9,637			
Tables	459	472	476	505	518			
Commercial halls	10	7	7	7	7			
Community gaming centers	17	19	19	18	19			
Community gaming slot machines	2,103	2,484	2,803	2,535	2,683			

¹ In 2015/16 the biggest components were salaries and benefits (\$0.6M), equipment (\$0.8M), equipment (\$0.8M), advertising and marketing (\$1.7M), amortization (\$7.2M), corporate allocations to the business unit (\$6.2M), and miscellaneous smaller variances (\$1.6M).

The Casino and Community Gaming business generated revenue of \$1.815 billion in 2015/16, up \$13.8 million from 2014/15, and \$34.6 million over budget. Revenue from slot machines grew \$57.2 million from the previous year, while table games fell short of budget by \$55.4 million – a decline of \$38.6 million from the previous year.

Capital Spending:

FINANCIAL RESULTS (\$ IN MILLIONS)	2011/12	2012/13	2013/14	2014/15	2015/16			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Lottery	\$ 7.6	\$ 6.3	\$ 7.8	\$ 4.8	\$ 7.7	\$ 12.8	\$ 5.1	\$ (2.9)
eGaming	6.8	10.0	8.7	1.7	3.4	3.9	0.5	(1.7)
Casino & Community Gaming	46.8	63.5	67.2	47.2	45.0	52.3	7.3	2.2
Corporate	13.2	16.8	16.6	15.8	12.1	21.0	8.9	3.7
Capital Expenditures ¹	\$ 74.4	\$ 96.6	\$ 100.3	\$ 69.5	\$ 68.2	\$ 90.0	\$ 21.8	\$ 1.3

¹ Capital expenditures for Lottery, eGaming and Casino and Community Gaming were for gaming systems and equipment; corporate capital expenditures were for physical and information technology infrastructure.


From year to year, capital spending varies significantly in response to revenue-generating and gambling facility initiatives. In 2015/16, capital spending of \$68.2 million was \$21.8 million less than budget and \$1.3 million less than in 2014/15. The small decrease in year-over-year spending reflects project delays due to a reduced capacity to execute on business initiatives as well as a focus on active portfolio management.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of BCLC have been prepared by management in accordance with International Financial Reporting Standards. The consolidated financial statements present fairly the consolidated financial position of BCLC as at March 31, 2016, and the results of its consolidated financial performance and cash flows for the year then ended.

Management is responsible for the integrity of the consolidated financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of reliable financial information in a timely manner.

KPMG, LLP, Chartered Accountants have performed an independent audit of BCLC and expressed an unqualified opinion on the consolidated financial statements of BCLC.



Amanda Hobson
CFO & Vice-President
Finance and Corporate Services



Jim Lightbody
President & CEO



KPMG LLP
Chartered Accountants
200-206 Seymour Street
Kamloops BC V2C 6P5
Canada

Telephone (250) 372-5581
Fax (250) 828-2928
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Directors of and Minister Responsible for British Columbia Lottery Corporation

We have audited the accompanying consolidated financial statements of British Columbia Lottery Corporation, which are comprised of the consolidated statement of financial position as at March 31, 2016, the consolidated statements of comprehensive income, changes in deficit and cash flows for the year then ended, and notes, which are comprised of a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of British Columbia Lottery Corporation as at March 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants

Kamloops, Canada
May 12, 2016

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KPMG Confidential

British Columbia Lottery Corporation

Consolidated Statement of Financial Position

March 31, 2016, with comparative information for 2015
(in thousands of Canadian dollars)

	2016	2015
ASSETS		
Cash and cash equivalents (note 5)	\$ 73,651	\$ 75,850
Accounts receivable (note 6)	36,401	39,915
Receivable from the Interprovincial Lottery Corporation	17,894	15,128
Prepaid and deferred expenses	10,916	5,152
Inventories (note 7)	9,000	9,043
Current assets	147,862	145,088
Employee benefits (note 8)	—	2,645
Property and equipment (note 9)	188,366	180,988
Intangible assets (note 10)	69,685	83,720
Non-current assets	258,051	267,353
Total assets	\$ 405,913	\$ 412,441
LIABILITIES		
Cheques issued in excess of funds on hand (note 5)	\$ 4,418	\$ 1,239
Prizes payable (note 11)	33,124	28,751
Accounts payable, accrued and other liabilities (note 12)	67,538	80,596
Short-term financing (note 13)	150,095	140,080
Due to the Government of British Columbia (note 14)	129,820	143,686
Deferred revenue	13,293	11,105
Current liabilities	398,288	405,457
Employee benefits (note 8)	81,322	81,994
Non-current liabilities	81,322	81,994
Total liabilities	479,610	487,451
DEFICIT		
Accumulated deficit	(17,144)	(17,144)
Accumulated other comprehensive loss	(56,553)	(57,866)
Total deficit	(73,697)	(75,010)
Total liabilities and deficit	\$ 405,913	\$ 412,441

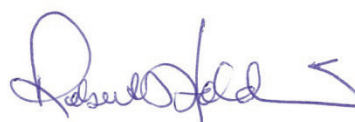
Commitments and contingencies (notes 17 and 18)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:



Bud Smith
Chair, Board of Directors



Robert Holden
Chair, Audit Committee

British Columbia Lottery Corporation

Consolidated Statement of Comprehensive Income

Year ended March 31, 2016, with comparative information for 2015

(in thousands of Canadian dollars)

	2016	2015
Revenue	\$ 3,101,782	\$ 2,904,303
Prizes	744,841	659,508
	2,356,941	2,244,795
Commissions and fees	689,381	680,323
Systems, maintenance and ticket distribution	37,300	35,654
Gaming equipment, leases and licenses	32,708	26,282
Ticket printing	12,618	11,987
	772,007	754,246
Employee costs	91,038	82,099
Amortization and depreciation (notes 9 and 10)	73,659	65,367
Advertising, marketing and promotions	25,932	18,814
Professional fees and services	7,859	5,935
Cost of premises	7,849	7,393
Other	11,994	6,695
	218,331	186,303
Income before the undernoted	1,366,603	1,304,246
Indirect tax expense (note 20)	53,112	49,739
Net income	1,313,491	1,254,507
Other comprehensive income		
<i>Item that will never be reclassified to net income</i>		
Net defined benefit plan actuarial gains (losses) (note 8)	1,313	(36,457)
Total comprehensive income	\$ 1,314,804	\$ 1,218,050

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Changes in Deficit

Year ended March 31, 2016, with comparative information for 2015

(in thousands of Canadian dollars)

	Accumulated Deficit	AOCL ¹	Total Deficit
Balance, April 1, 2014	\$ (17,144)	\$ (21,409)	\$ (38,553)
Net income	1,254,507	–	1,254,507
Net defined benefit plan actuarial losses (note 8)	–	(36,457)	(36,457)
Total comprehensive income	1,254,507	(36,457)	1,218,050
Distributions to the Government of British Columbia (note 14)	(1,245,175)	–	(1,245,175)
Distributions to the Government of Canada (note 15)	(9,332)	–	(9,332)
Balance, March 31, 2015	\$ (17,144)	\$ (57,866)	\$ (75,010)
Net income	1,313,491	–	1,313,491
Net defined benefit plan actuarial gains (note 8)	–	1,313	1,313
Total comprehensive income	1,313,491	1,313	1,314,804
Distributions to the Government of British Columbia (note 14)	(1,303,996)	–	(1,303,996)
Distributions to the Government of Canada (note 15)	(9,495)	–	(9,495)
Balance, March 31, 2016	\$ (17,144)	\$ (56,553)	\$ (73,697)

¹ Accumulated Other Comprehensive Loss

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015
(in thousands of Canadian dollars)

	2016	2015
Cash flows from operating activities:		
Net income	\$ 1,313,491	\$ 1,254,507
Items not involving cash:		
Depreciation of property and equipment (note 9)	51,519	45,048
Amortization of intangible assets (note 10)	22,140	20,319
Loss (gain) on disposal of property and equipment (note 9)	1,479	(252)
Net benefit plan expense (note 8)	17,960	12,737
	1,406,589	1,332,359
Changes in:		
Accounts receivable	3,514	(1,756)
Receivable from the Interprovincial Lottery Corporation	(2,766)	(7,382)
Prepaid and deferred expenses	(5,764)	1,717
Inventories	43	(1,802)
Employee benefits	(14,674)	(17,413)
Prizes payable	4,373	(2,281)
Accounts payable, accrued and other liabilities	(4,315)	2,213
Deferred revenue	2,188	2,743
Net cash from operating activities	1,389,188	1,308,398
Cash flows from financing activities:		
Increase (decrease) in short-term financing (note 13)	10,023	(14,771)
Interest paid (note 13)	(699)	(933)
Distributions to the Government of British Columbia (note 14)	(1,317,862)	(1,201,995)
Distributions to the Government of Canada (note 15)	(9,495)	(9,332)
Net cash used in financing activities	(1,318,033)	(1,227,031)
Cash flows from investing activities:		
Additions to property and equipment (note 9)	(64,262)	(47,945)
Additions to intangible assets (note 10)	(12,032)	(28,404)
Net proceeds (costs) on disposal of property and equipment (note 9)	(239)	1,497
Net cash used in investing activities	(76,533)	(74,852)
Net (decrease) increase in cash and cash equivalents	(5,378)	6,515
Cash and cash equivalents, beginning of year	74,611	68,096
Cash and cash equivalents, end of year (note 5)	\$ 69,233	\$ 74,611

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements

Year ended March 31, 2016

(in thousands of Canadian dollars)

1. Reporting entity:

British Columbia Lottery Corporation (BCLC or the Corporation) is a Crown corporation of British Columbia (B.C.). BCLC was incorporated under the *Company Act* (B.C.) on October 25, 1984, and is continued under the *Gaming Control Act* (B.C.). The address of BCLC's registered office is 74 West Seymour Street in Kamloops, B.C., Canada. As an agent of the Crown, the Government of British Columbia has designated BCLC as the authority to conduct, manage and operate lottery schemes on behalf of the Government of British Columbia, including lottery, casino, bingo and internet gaming (eGaming) activities. BCLC is also the B.C. regional marketing organization for national lottery games, which are collective undertakings by the provinces of Canada acting through the Interprovincial Lottery Corporation (ILC).

As BCLC is an agent of the Crown, it is not subject to federal or provincial corporate income taxes.

2. Basis of preparation:

A. STATEMENT OF COMPLIANCE:

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

These consolidated financial statements were authorized for issue by BCLC's Board of Directors (the Board) on May 12, 2016.

B. BASIS OF MEASUREMENT:

These consolidated financial statements of the Corporation have been prepared on a historical cost basis except for employee benefit plan assets, which are recognized as the fair value of plan assets less the present value of the defined benefit obligation and are limited as explained in note 3(F)(iii).

C. FUNCTIONAL AND PRESENTATION CURRENCY:

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information has been rounded to the nearest thousand dollars.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

2. Basis of preparation (continued):

D. USE OF ESTIMATES AND JUDGMENTS:

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements includes the determination of control over an investee (note 3(A)).

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year includes key actuarial assumptions used in the measurement of defined benefit obligations (note 8(D)(i)).

3. Significant accounting policies:

The Corporation and its subsidiary have consistently applied the following accounting policies to all periods presented in these consolidated financial statements:

A. BASIS OF CONSOLIDATION:

The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. These consolidated financial statements include B.C. Lottotech International Inc., a wholly-owned Canadian subsidiary of BCLC. Intercompany transactions and balances are eliminated on consolidation.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

B. FOREIGN CURRENCY TRANSACTIONS:

Transactions in foreign currencies are translated to Canadian dollars at the exchange rates in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the reporting date. Non-monetary assets denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the date of the transaction. Foreign currency exchange differences are recorded in income in the period incurred.

C. CASH AND CASH EQUIVALENTS:

Cash equivalents include Canadian money market funds (overnight deposits) with financial institutions having original maturity dates of three months or less from the acquisition date, which are subject to an insignificant risk of changes in their fair value, and are used by the Corporation in the management of its short-term commitments. Canadian money market funds are highly liquid and form an integral part of the Corporation's cash management.

D. FINANCIAL INSTRUMENTS:

The Corporation classifies its non-derivative financial instruments into the following categories: fair value through income, loans and receivables, held-to-maturity financial assets, available-for-sale financial assets and financial liabilities measured at amortized cost. The classification depends on the purpose for which the financial instruments were acquired.

i. Non-derivative financial assets:

The Corporation initially recognizes loans and receivables on the dates that they originate. All other financial assets are initially recognized on the trade dates, which are the dates the Corporation becomes a party to the contractual provisions of the instruments.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

D. FINANCIAL INSTRUMENTS (continued):

i. Non-derivative financial assets (continued):

The Corporation has the following non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in active markets. Such assets are measured initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any provision for doubtful debts and impairment losses (see note 3(I)). The effective interest method is used to recognize the total costs of, or income from, a financial instrument over the life of the instrument.

Loans and receivables are comprised of cash and cash equivalents, accounts receivable, and the receivable from the Interprovincial Lottery Corporation.

ii. Non-derivative financial liabilities:

All financial liabilities are recognized initially on the trade dates, which are the dates the Corporation becomes a party to the contractual provisions of the instruments.

The Corporation derecognizes a financial liability when its contractual obligations expire, are discharged, or are cancelled.

The Corporation classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are measured initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method with interest expense recognized in income in the period in which it is incurred.

The Corporation's non-derivative financial liabilities are comprised of cheques issued in excess of funds on hand, prizes payable, accounts payable, accrued and other liabilities, short-term financing and due to the Government of British Columbia.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

D. FINANCIAL INSTRUMENTS (continued):

iii. Offsetting:

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Corporation has a current, legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

E. INVENTORIES:

Inventories are measured at the lower of cost, determined on a weighted average or first-in, first-out basis, and net realizable value.

The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present locations. Inventories are written down to their net realizable values when the cost of the inventories is estimated not to be recoverable through use or sale.

F. EMPLOYEE BENEFITS:

i. Short-term employee benefits:

Short-term employee benefits are employee benefits, other than termination benefits, that are expected to be settled wholly within 12 months after the end of the reporting period in which the benefit is earned. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term incentive plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by an employee and the obligation can be estimated reliably.

ii. Termination benefits:

Termination benefits are recognized as an expense at the earlier of when the Corporation can no longer withdraw the offer of those benefits and when the Corporation recognizes costs for a restructuring. Benefits payable are discounted to their present value when they are not expected to be settled wholly within 12 months of the reporting date.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

F. EMPLOYEE BENEFITS (continued):

iii. Defined benefit plans:

The Corporation's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of benefit payable in the future that employees have earned in return for their service in the current and prior periods. That benefit is then discounted to determine its present value and the fair value of any plan assets are deducted.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Corporation, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability (asset), which are comprised of actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income (OCI). BCLC determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in income as employee costs.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in income. The Corporation recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

G. PROPERTY AND EQUIPMENT:

The Corporation's property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use. Borrowing costs related to the construction of qualifying assets are capitalized. Capitalized direct labour is comprised of short-term employee benefits for employees working directly on the construction of the qualifying asset.

When major components of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Land and assets under construction are not depreciated. The cost of other assets is depreciated over their estimated useful lives on a straight-line basis, beginning when they are available for use. Depreciation is based on asset cost less estimated residual value and based on the following estimated useful lives:

Asset	Rate
Corporate facilities, systems and equipment	3 to 20 years
Lottery gaming systems and equipment	5 years
eGaming systems and equipment	3 to 5 years
Casino and community gaming systems and equipment	3 to 10 years

The residual values, depreciation methods and useful economic lives of property and equipment are reviewed annually and adjusted if appropriate.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

H. INTANGIBLE ASSETS:

Expenditures incurred in the development or acquisition of computer software products or systems that will contribute to future economic benefits through revenue generation and/or cost reduction are capitalized as intangible assets. Other development costs are recognized in income as incurred.

Development expenditures are capitalized only if the expenditures can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Corporation intends to, and has sufficient resources to, complete development and to use or sell the asset.

The cost of computer software and systems that are acquired by the Corporation includes the purchase price and any expenditures directly attributable to preparing the asset for its intended use.

Capitalized direct labour is comprised of short-term employee benefits for employees working directly on development. Borrowing costs related to the development of qualifying assets are capitalized.

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

Assets under development are not amortized. The cost of other assets is amortized using the straight-line method over the estimated useful lives of the assets (three to ten years). The residual values, amortization methods and useful economic lives of intangible assets are reviewed annually and adjusted if appropriate.

I. IMPAIRMENT:

i. Financial assets:

Financial assets not classified as at fair value through income are assessed at each reporting date to determine whether there is objective evidence of impairment. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through income.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

I. IMPAIRMENT (continued):

ii. Non-financial assets:

The carrying amounts of non-financial assets, other than inventories and employee benefit plan assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets under development are tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). An impairment loss is recognized for the amount by which the asset's or cash generating unit's carrying amount exceeds its recoverable amount.

The recoverable amount is the greater of an asset's or cash generating unit's fair value less costs to sell and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. Impairment losses are recognized in income and are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

J. PROVISIONS:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized in income as a financing cost in other expenses.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

K. REVENUE:

Revenue is measured at the fair value of the consideration received or receivable. Revenue is earned through various distribution channels.

The Corporation's revenue recognition policies are as follows:

i. Revenue:

Revenue from lottery tickets is recognized at the date of the draw. Receipts for lottery tickets sold before March 31 for draws held subsequent to that date are recorded as deferred revenue.

Revenue, net of buybacks, for all instant ticket games is recognized at the time of the transfer of legal ownership to a retailer.

Revenue from slot machines and table games is recognized, net of prizes paid and deferrals under customer loyalty programs, in the same period in which the games are played.

Revenue from the operation of bingo games is recognized in the same period in which the games are played.

Revenue from sports betting is recognized in the period in which the bets settle. Receipts for bets that are received before March 31 for sporting events that occur subsequent to that date are recorded as deferred revenue.

ii. Customer loyalty programs:

The Corporation has several customer loyalty incentive programs whereby patrons can receive free or discounted goods and services. Some of the customer loyalty incentive programs allow customers to earn points based on the volume of play during gaming sessions. These points are recorded as a deliverable separate from current play in the revenue transaction.

For programs that provide patrons the right to receive free or discounted goods or services (including free play), the revenue, as determined by the fair value of the undelivered goods and services, is deferred until the promotional consideration is provided to the customer or expires.

iii. Net win:

Net win represents gaming revenue net of prizes paid.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

L. PRIZES:

Lottery and bingo prize expenses are recorded based on the actual prize liability experienced for each game.

Instant ticket games prize expenses are recorded at the theoretical prize liabilities for each game concurrently with the recognition of revenue. The actual expense incurred each year will vary from theoretical estimates based on the actual life cycle of the game. Over the life of a game, the actual prize expense will closely approximate the theoretical expense.

Unclaimed lottery prizes are recorded as prizes payable until the prizes are claimed, discontinued or expire. Expired prizes are recorded as reductions in prize expense and prize liability in the year of expiry.

Unclaimed prizes of national lottery games are administered by the Interprovincial Lottery Corporation.

Sports betting prize expenses are recorded based on the actual prizes paid for each bet.

Progressive jackpots:

The Corporation has several progressive jackpot games, each of which may be comprised of a seed (or base) as well as an incremental portion which increases by allotting a portion of each player's wager to the pot. BCLC recognizes such amounts as a prize payable at the time the Corporation has an obligation with regard to the jackpot funds.

M. COMMISSIONS:

Commissions paid to lottery retailers are based on revenue earned by BCLC. BCLC records these commission expenses as revenue is earned.

Commissions paid to gaming facility service providers, including commissions for facility development, are based on net win generated in accordance with underlying operating service agreements. BCLC recognizes commission expenses as net win is earned. Commissions for facility development are based on a commission structure employed by BCLC that enables gaming facility service providers to earn additional commission up to contractually determined limits.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

N. LEASES:

At inception of an arrangement, the Corporation determines whether the arrangement is or contains a lease.

Leases in which the Corporation assumes substantially all the risks and rewards of ownership are classified as financing leases. Upon initial recognition, a leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under financing leases are apportioned between the financing expense and the reduction of the outstanding liability. The financing expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases other than financing leases are classified as operating leases and are not recognized in the consolidated statement of financial position. Payments made under operating leases are recognized in income on a straight-line basis over the terms of the leases.

O. NEW STANDARDS ISSUED BUT NOT YET ADOPTED:

A number of new standards and amendments to standards are not yet effective and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Corporation are set out below. The Corporation does not plan to adopt these standards early.

i. IFRS 9 *Financial Instruments* (IFRS 9):

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39 and includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. At the date of these consolidated financial statements, the impact of this new standard is unknown. The Corporation plans to adopt this standard for its fiscal year ending March 31, 2019.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

O. NEW STANDARDS ISSUED BUT NOT YET ADOPTED (continued):

ii. IFRS 15 *Revenue from Contracts with Customers* (IFRS 15):

IFRS 15, published in May 2014, establishes a comprehensive framework for determining whether, how much, and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. At the date of these consolidated financial statements, the impact of this new standard is unknown. The Corporation plans to adopt this standard for its fiscal year ending March 31, 2019.

iii. IFRS 16 *Leases* (IFRS 16):

IFRS 16, published in January 2016, establishes principles for the recognition, measurement, presentation and disclosure of leases with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. It replaces existing lease guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted only if IFRS 15 is also adopted. At the date of these consolidated financial statements, the impact of this new standard is unknown. The Corporation plans to adopt this standard for its fiscal year ending March 31, 2020.

The following amended standards are not expected to have a significant impact on the Corporation's consolidated financial statements.

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38).*
- *Disclosure Initiative (Amendments to IAS 1 and IAS 7).*

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

4. Financial risk management:

The Corporation has exposure to the following financial risks from its use of financial instruments: credit risk, liquidity risk and market risk.

This note presents information on how the Corporation manages those financial risks.

A. GENERAL:

BCLC's Board is responsible for the oversight of management including its policies related to financial and risk management issues and oversight of the overall risk profile.

The Board uses BCLC's Risk Committee for monitoring the principal risks facing the Corporation. Strategic and business risks are also considered as part of the strategic and business planning processes. The Risk Committee oversees and reports back to the Board on the Corporation's risk management functions.

The Board uses BCLC's Audit Committee to assist in the review of financial risks. The Audit Committee oversees and reports back to the Board on the review of the Corporation's information systems, risk management function and internal controls in order to obtain reasonable assurance that such systems are operating effectively to produce accurate, appropriate and timely management and financial information.

The Corporation has adopted a formal risk management strategy and process (in accordance with international risk management standards) to identify significant risks, to assess control systems and to adopt risk treatment plans when appropriate. Quarterly reports on risk management activities and the risk profile of the Corporation are produced for the Executive Committee and the Risk Committee.

The Corporation also has a division focused on corporate security and compliance. Further, the Corporation has internal audit services and a dedicated risk manager to ensure that a high priority is placed on all operational aspects of risk management, control and compliance.

B. CREDIT RISK:

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its contractual obligations to the Corporation. Credit risk arises principally from the Corporation's trade receivables, net win less commissions outstanding, gaming cash floats, and cash and cash equivalents.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

4. Financial risk management (continued):

B. CREDIT RISK (continued):

Trade receivables, net win less commissions outstanding and gaming cash floats

The major third parties transacting with the Corporation, which include lottery retailers and gaming facility service providers, require registration with Gaming Policy and Enforcement Branch (GPEB) before doing business with BCLC.

The Corporation is not materially exposed to any one individual lottery retailer. The objectives of the Corporation's lottery retailer credit policies are to provide retailers with adequate time to sell lottery products before payment is requested, while not exposing the Corporation to unacceptable risks. Credit assessments may be completed for new retailers (with the exception of registered charities), retailers who have experienced insufficient fund occurrences or where there is a concern that a retailer might be experiencing financial difficulties.

Security is obtained from lottery retailers who are considered high financial risks or from lottery retailers where minimal credit information is available. Security may include Irrevocable Standby Letters of Credit, security deposits, or personal guarantees. The Corporation may secure net win less commissions that would be outstanding from gaming facility service providers through security deposits or Irrevocable Standby Letters of Credit. This security also covers gaming cash floats owned by the Corporation and provided by the Corporation to certain gaming facility service providers. While the Corporation is materially exposed to two different gaming facility service providers, their letters of credit and daily cash sweeps made by the Corporation mitigate the risk of material default for financial assets owned by the Corporation.

The Corporation's PlayNow.com sales are paid in advance through credit card, debit card, or online bill payment transactions.

As at March 31, 2016, the net win less commissions owing to the Corporation from the two largest gaming facility service providers accounts for \$11,449 (2015: \$8,255) of the accounts receivable carrying amount.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

4. Financial risk management (continued):

B. CREDIT RISK (continued):

Trade receivables, net win less commissions outstanding and gaming cash floats

(continued)

The maximum exposure to credit risk for trade receivables, net win less commissions outstanding and gaming cash floats at the reporting date by type of debtor is represented by the carrying amounts less any Irrevocable Standby Letters of Credit or security deposits. These amounts are listed as follows:

	2016	2015
Maximum exposure	\$ 79,444	\$ 82,303
Collateral	(65,215)	(64,698)
Net exposure	\$ 14,229	\$ 17,605

Normal credit terms for trade receivables or net win less commissions outstanding are payment within 30 days. As at March 31, 2016 and 2015, there were no trade receivables or net win less commissions outstanding for more than 60 days.

Cash and cash equivalents

Cash and cash equivalents, excluding gaming cash floats, are held with banks and counterparties which have high credit ratings and minimal market risk. Cash equivalents are limited to short-term debt securities with minimal market risk. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The Corporation has a formal policy and guidelines in place for cash equivalents that provide direction for the management of the Corporation's funds with respect to the allocation of responsibilities, investment objectives, asset allocation, allowable fund holdings and investment constraints, and performance standards.

A policy has been established that outlines various asset mix range percentages for low-risk investments restricted to short-term pooled money market funds or bond investments.

The maximum exposure to credit risk for cash and cash equivalents, excluding gaming cash floats, is represented by the carrying amounts at the reporting date (note 5).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

4. Financial risk management (continued):

B. CREDIT RISK (continued):

Concentrations

The Corporation has significant business arrangements with two gaming facility service providers which account for the majority of its casino and community gaming business. The Corporation also has arrangements with other gaming facility service providers and approximately 3,900 lottery retailers. Credit risk related to service providers or lottery retailers is mitigated through Irrevocable Standby Letters of Credit or security deposits, as well as by the distribution of risk across a large number of lottery retailers.

The Corporation has a number of business relationships with suppliers of goods and services. Among these are arrangements for ticket printing, as well as critical gaming hardware and software. In addition, the Corporation maintains a significant number of other relationships with suppliers of goods and services which are within the normal parameters of the Corporation's business and the gambling industry.

C. LIQUIDITY RISK:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due.

To manage cash flow requirements, the Corporation has a short-term financing agreement with the Government of British Columbia under its Fiscal Agency Loan (FAL) program. Under this agreement, the Corporation may borrow up to \$250 million. In making a loan to the Corporation, the Government of British Columbia uses reasonable efforts to comply with the borrowing requirements of the Corporation by supplying funds at market rates; however, the interest rate on any loan will be determined at the sole discretion of the Government of British Columbia. Loans are unsecured and there are no pre-established repayment terms. The terms are set by the Government of British Columbia each time a loan is requested under this agreement. To date the durations of the loans have not exceeded 90 days.

The Corporation also has a \$10 million unused demand operating credit facility with a Canadian commercial bank that is unsecured. Interest is payable at the bank's commercial prime lending rate (2015: prime rate).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

4. Financial risk management (continued):

C. LIQUIDITY RISK (continued):

The Corporation's Finance division manages liquidity risk by forecasting and assessing actual cash flow requirements on an on-going basis, as well as by planning for short-term liquidity with investment maturities chosen to ensure that sufficient funds are available to meet the Corporation's financial obligations.

Invested funds represent temporary cash surplus balances resulting from unclaimed prize money and money from normal operations held in advance of its transfer to the Government of British Columbia (note 14). As a result of fluctuating cash flow requirements and to minimize financial risk, the Corporation maintains a high degree of liquidity.

The contractual maturities of all financial liabilities as at March 31, 2016 and 2015 are three months or less, except for \$816 (2015: \$21,400) which matures in more than three months but fewer than twelve.

D. MARKET RISK:

Market risk is the risk that changes in market prices will affect the fair value of or future cash flows from a financial instrument. Market risk includes currency risk, interest rate risk and other price risk. BCLC is exposed to interest rate risk which is described below.

Interest rate risk

The Corporation is exposed to interest rate risk through its short-term financing agreement with the Government of British Columbia. The terms are set by the Government of British Columbia each time a loan is requested under the FAL agreement. The terms are determined based on market conditions available at that time.

The Corporation mitigates this risk by borrowing the minimum amount necessary over the minimum time period from the Government of British Columbia.

The Corporation's interest-bearing assets are typically invested for short periods due to liquidity considerations. As a result, exposure to interest rate risk is minimized for these assets.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

4. Financial risk management (continued):

D. MARKET RISK (continued):

Interest rate risk (continued)

The Corporation's interest-bearing financial instruments at the reporting date are as follows:

	2016	2015
Canadian money market funds (overnight deposit) (fixed-rate instruments)	\$ 20,034	\$ 23,686
Short-term financing (fixed-rate instruments)	(150,095)	(140,080)
	<u>\$ (130,061)</u>	<u>\$ (116,394)</u>

Sensitivity analysis

The Corporation does not account for any fixed-rate financial instruments at fair value through income; therefore, a change in interest rates at the reporting date would not affect net income. A change of one per cent in interest rates at the reporting date would have impacted the deficit by \$1,301 (2015: \$1,164).

E. FAIR VALUES:

The carrying amounts of financial assets and financial liabilities not classified as fair value through income approximate their fair values at the reporting date. This is due to the relatively short periods to maturity of these items or because they are due on demand.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

4. Financial risk management (continued):

F. OFFSETTING:

The carrying amounts of recognized financial instruments that are set off in the consolidated statement of financial position are as follows:

As at March 31, 2016	Gross financial assets set off	Gross financial liabilities set off	Net financial assets	Related financial assets not set off	Net amount
Accounts receivable					
Lottery retailers	\$ 30,084	\$ (10,304)	\$ 19,780	\$ –	\$ 19,780
Gaming facility service providers	30,488	(15,188)	15,300	–	15,300
Other	–	–	–	1,321	1,321
	\$ 60,572	\$ (25,492)	\$ 35,080	\$ 1,321	\$ 36,401

As at March 31, 2016	Gross financial assets set off	Gross financial liabilities set off	Net financial liabilities	Related financial liabilities not set off	Net amount
Accounts payable, accrued and other liabilities	\$ 482	\$ (1,329)	\$ (847)	\$ (66,691)	\$ (67,538)

As at March 31, 2015	Gross financial assets set off	Gross financial liabilities set off	Net financial assets	Related financial assets not set off	Net amount
Accounts receivable					
Lottery retailers	\$ 30,878	\$ (10,546)	\$ 20,332	\$ –	\$ 20,332
Gaming facility service providers	34,871	(18,115)	16,756	–	16,756
Other	–	–	–	2,827	2,827
	\$ 65,749	\$ (28,661)	\$ 37,088	\$ 2,827	\$ 39,915

As at March 31, 2015	Gross financial assets set off	Gross financial liabilities set off	Net financial liabilities	Related financial liabilities not set off	Net amount
Accounts payable, accrued and other liabilities	\$ 672	\$ (1,657)	\$ (985)	\$ (79,611)	\$ (80,596)

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

5. Cash and cash equivalents:

	2016	2015
Gaming cash floats	\$ 43,043	\$ 42,388
Funds held for security deposits	5,685	5,503
Funds held for player accounts	4,889	4,273
Canadian money market funds (overnight deposit)	20,034	23,686
Cash and cash equivalents in the statement of financial position	73,651	75,850
Cheques issued in excess of funds on hand in the statement of financial position	(4,418)	(1,239)
Cash and cash equivalents in the statement of cash flows	\$ 69,233	\$ 74,611

Gaming cash floats are owned by the Corporation and provided by the Corporation to its gaming facility service providers for gaming bankrolls (as specified under the operating service agreements). These floats are located at the gambling locations and are not available for other purposes.

Funds held for security deposits include security deposit amounts provided by lottery retailers and gaming facility service providers to the Corporation. These funds are deposited into a separate bank account. All security deposit amounts are internally restricted by the Corporation exclusively for funding the security deposit liability. A corresponding security deposit liability in the amount of \$5,685 (2015: \$5,503) is included in accounts payable, accrued and other liabilities.

Funds held for player accounts represent funds provided to the Corporation through player accounts on PlayNow.com. These amounts are deposited into a separate bank account and are internally restricted by the Corporation exclusively for funding the player accounts liability. A corresponding player account liability in the amount of \$4,889 (2015: \$4,273) is included in accounts payable, accrued and other liabilities.

Select casino service providers are responsible for holding and accounting for player funds held in Patron Gaming Accounts (gaming accounts). These gaming accounts are accounted for in accordance with the casino and community gaming centre standards, policies and procedures under the supervision of the Corporation, as well as in accordance with the regulations of GPEB. No amounts are recorded in the Corporation's financial statements for these gaming accounts. The casino service providers are legally liable for the player funds held in these accounts.

For the year ended March 31, 2016 interest income of \$494 (2015: \$730) was earned.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

6. Accounts receivable:

	2016	2015
Trade receivables and net win less commissions outstanding:		
Lottery retailers	\$ 19,780	\$ 20,332
Gaming facility service providers	15,300	16,756
	35,080	37,088
Other	1,321	2,827
	\$ 36,401	\$ 39,915

7. Inventories:

The major components of inventories are as follows:

	2016	2015
Slot machine spare parts	\$ 4,743	\$ 3,360
Instant tickets	2,890	4,442
Other	1,367	1,241
	\$ 9,000	\$ 9,043

For the year ended March 31, 2016, inventories recognized as an expense amounted to \$17,702 (2015: \$15,446).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

8. Employee benefits:

	2016	2015
Net defined benefit liability (asset) (Plan A)	\$ 4,316	\$ (2,645)
Net defined benefit liability (Plans B and C)	77,006	81,994
Net employee benefits	\$ 81,322	\$ 79,349

The Corporation contributes to and controls the following post-employment defined benefit plans:

Registered Pension Plan (Plan A)

Plan A is a registered pension plan in the Province of B.C. under the *Pension Benefits Standards Act (British Columbia)* (PBSA). Plan A entitles an employee to receive an annual pension payment after retirement based on length of service and the average of the 60 consecutive months of highest pensionable earnings, and covers substantially all of the Corporation's employees. The pension benefits are partially indexed for inflation after retirement.

Supplementary Pension Plan (Plan B)

Plan B covers employees designated by the Corporation. The pension benefits under Plan B provide designated employees a top-up to Plan A benefits to the extent, if any, that they are limited by the *Income Tax Act* maximum pension rules.

Non-Pension Post-Employment Plan (Plan C)

Plan C covers substantially all of BCLC's employees for post-employment medical, dental and life insurance benefits.

The Corporation, as the plan sponsor and plan administrator, has established the Pension Committee to have primary responsibility for the administration and oversight of the plans and to perform certain delegated responsibilities.

These plans expose the Corporation to foreign currency risk, interest rate risk, longevity risk, inflation risk and other market price risk.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

8. Employee benefits (continued):

A. FUNDING:

Plan A is funded by employee contributions, employer contributions and investment returns. The Corporation funds Plan A based on the advice of an actuary, in order to provide for the cost of the benefits accruing under the plan and for the proper amortization of any unfunded liability or solvency deficiency, both in accordance with the PBSA, after taking into account the assets of the plan, employee contributions and all other relevant factors. The actuarial assumptions used to determine funding requirements may differ from the assumptions herein.

If at any time the actuary certifies that the net assets available for benefits under Plan A exceed the actuarially-determined present value of the accrued pension benefit obligation, such surplus, or any portion thereof, may be used by the Corporation at its discretion, to reduce its contribution obligations, subject to PBSA restrictions.

The Corporation expects to contribute \$9,541 to Plan A in the year ending March 31, 2017.

Plans B and C are unfunded; as such, the Corporation pays all benefits thereunder as they fall due.

British Columbia Lottery Corporation
Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016
(in thousands of Canadian dollars)

8. Employee benefits (continued):

B. MOVEMENT IN NET DEFINED BENEFIT LIABILITY (ASSET):

A reconciliation from the opening balances to the closing balances for net defined benefit liability (asset) and its components is as follows:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	2016	2015	2016	2015	2016	2015
Balance at April 1	\$ 319,306	\$ 248,573	\$ (239,957)	\$ (201,005)	\$ 79,349	\$ 47,568
Included in income						
Current service cost	13,864	10,062	—	—	13,864	10,062
Past service cost	1,054	—	—	—	1,054	—
Interest cost (income)	11,901	11,899	(9,159)	(9,524)	2,742	2,375
Administration cost	—	—	300	300	300	300
	26,819	21,961	(8,859)	(9,224)	17,960	12,737
Included in OCI						
Remeasurements loss (gain):						
Actuarial loss (gain) arising from:						
Demographic assumptions	(3,662)	4,924	—	—	(3,662)	4,924
Financial assumptions	(16,475)	44,753	—	—	(16,475)	44,753
Experience adjustments	4,375	6,243	—	—	4,375	6,243
Return on plan assets excluding interest income	—	—	14,449	(19,463)	14,449	(19,463)
	(15,762)	55,920	14,449	(19,463)	(1,313)	36,457
Other						
Contributions paid by the employer	—	—	(14,674)	(17,413)	(14,674)	(17,413)
Contributions paid by the employee	2,546	2,600	(2,546)	(2,600)	—	—
Benefits paid	(10,317)	(9,748)	10,317	9,748	—	—
	(7,771)	(7,148)	(6,903)	(10,265)	(14,674)	(17,413)
Balance at March 31	\$ 322,592	\$ 319,306	\$ (241,270)	\$ (239,957)	\$ 81,322	\$ 79,349
Represented by:					2016	2015
Net defined benefit liability (asset) (Plan A)					\$ 4,316	\$ (2,645)
Net defined benefit liability (Plans B and C)					77,006	81,994
					\$ 81,322	\$ 79,349

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

8. Employee benefits (continued):

C. PLAN ASSETS:

Plan assets are comprised of:

2016		Level 1 ¹		Level 2 ²		Total	Asset Mix
Pooled funds							
Canadian equity funds	\$	71,604	\$	–	\$	71,604	30%
Global equity funds		84,202		–		84,202	35%
Fixed income funds		61,091		–		61,091	25%
Debt securities							
Canada real return bonds		–		24,373		24,373	10%
	\$	216,897	\$	24,373	\$	241,270	100%

2015		Level 1 ¹		Level 2 ²		Total	Asset Mix
Pooled funds							
Canadian equity funds	\$	71,047	\$	–	\$	71,047	29%
Global equity funds		82,853		–		82,853	34%
Fixed income funds		62,887		–		62,887	27%
Debt securities							
Canada real return bonds		–		23,170		23,170	10%
	\$	216,787	\$	23,170	\$	239,957	100%

¹ The fair values of Level 1 assets are determined based on quoted prices in active markets.

² The fair values of Government of Canada real return bonds are determined based on price quotations. However, as the underlying market in which these instruments are traded is not considered active, the bonds are classified as Level 2 in the fair value hierarchy.

Plan contributions are invested in equities and bonds. With consideration to the long-term nature of the plan liabilities, and the shorter-term liquidity needs for payments to retirees, the Corporation has a general target allocation of 60 per cent equities and 40 per cent bonds. As a general policy, and in accordance with the relevant regulations, the Corporation has adopted the investment guidelines of the PBSA for defining permissible investment activities for money held in trust. Each investment manager is expected to actively manage Plan A's assets within the parameters of the strategic asset mix comprising 40 to 70 per cent equity securities, 30 to 50 per cent investment funds and debt securities and 0 to 10 per cent cash and cash equivalents.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

8. Employee benefits (continued):

D. DEFINED BENEFIT OBLIGATION:

i. Actuarial valuation and assumptions:

An actuarial valuation is required, at a minimum, every three years to assess the financial position of Plan A. The most recent actuarial valuation of Plan A for funding purposes was made by Mercer (Canada) Limited, an independent firm of consulting actuaries, as of December 31, 2013. The defined benefit obligation for Plan A has been based on this valuation, with adjustments made for cash flows and material events since this date. The next required actuarial valuation will be made as of December 31, 2016.

There is no statutory actuarial valuation requirement for Plan B. The defined benefit obligation for Plan B is based on data collected for those members as of March 31, 2016.

There is no statutory actuarial valuation requirement for Plan C; however, an actuarial valuation is completed every three years on Plan C. An actuarial valuation of Plan C was performed by Morneau Shepell Ltd., an independent firm of consulting actuaries, as of December 31, 2015. The defined benefit obligation for Plan C has been based on this valuation.

The principal actuarial assumptions at the reporting date (expressed as weighted averages) were as follows:

	Plans A and B		Plan C	
	2016	2015	2016	2015
Discount rate:				
Defined benefit obligation	3.80%	3.75%	3.80%	3.75%
Benefit cost	3.75%	4.65%	3.75%	4.65%
Rate of compensation increase for the fiscal year	2.00%	0.00%	-	-
Future compensation increases	2.00%	2.00%	-	-
Inflation	1.75%	2.00%	-	-
Initial weighted-average health care trend rate	-	-	5.25%	5.82%
Ultimate weighted-average health care trend rate	-	-	4.21%	4.50%
Year ultimate reached	-	-	2026	2029
Assumed life expectations on retirement at age 65				
Current pensioners				
Male	23.1	23.0	23.1	23.0
Female	25.0	24.9	25.0	24.9
Retiring in 20 years				
Male	24.1	24.0	24.1	24.0
Female	25.9	25.9	25.9	25.9

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

8. Employee benefits (continued):

D. DEFINED BENEFIT OBLIGATION (continued):

i. Actuarial valuation and assumptions (continued):

Change in estimate

During the year, the Corporation engaged a new independent actuary. As a result of this change, the Corporation adopted the new independent actuary's single-rate yield curve for determining the discount rate used in the measurement of its defined benefit plans. The new single-rate yield curve is substantially consistent with the guidance issued by the Canadian Institute of Actuaries. The change in estimate has been accounted for in the current year without restatement of prior periods. The effect of this change in estimate is an increase of approximately \$10,800 in the defined benefit obligation as at March 31, 2016. The effect of this change in future years is impracticable to estimate.

ii. Sensitivity analysis:

Changes at March 31, 2016 to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts as follows:

	Effect on the defined benefit obligation			
	2016		2015	
	Increase in rate	Decrease in rate	Increase in rate	Decrease in rate
Discount rate (1% movement)	\$ (47,053)	\$ 60,815	\$ (51,606)	\$ 67,620
Future compensation increase (1% movement)	6,991	(5,890)	8,092	(6,253)
Inflation (1% movement)	13,764	(11,910)	16,633	(15,103)
Health care cost trend rate (1% movement)	9,792	(8,297)	11,319	(9,050)
Future mortality (10% movement)	(5,430)	5,895	(5,968)	6,595

In practice, it is unlikely that one assumption would change, with all other assumptions remaining constant, since changes in some of the assumptions may be interdependent; however, this analysis does provide an approximation of the sensitivity of the assumptions shown.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

8. Employee benefits (continued):

D. DEFINED BENEFIT OBLIGATION (continued):

iii. Maturity profile of plan membership:

The breakdown of the defined benefit obligation at March 31, 2016 (as a percentage of the total) in respect of active employees, former employees who have not yet started receiving a pension (deferred vested), and former employees and other beneficiaries receiving a pension (retirees), is as follows:

	Defined benefit obligation	
	2016	2015
Active members	46%	49%
Deferred vested members	5%	5%
Retirees	49%	46%
Total	100%	100%

At March 31, 2016, the weighted-average duration of the defined benefit obligation was 18.2 years (2015: 19.2 years).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

9. Property and equipment:

	Land	Corporate facilities, systems and equipment	Lottery gaming systems and equipment	eGaming systems and equipment	Casino and community gaming systems and equipment	Assets under construction	Total
Cost							
Balance at April 1, 2014	\$ 700	\$ 83,896	\$ 106,188	\$ 7,421	\$ 383,093	\$ 11,798	\$ 593,096
Additions	355	4,213	1,687	228	36,167	8,484	51,134
Transferred to systems and equipment	–	1,252	2,379	18	5,271	(8,920)	–
Disposals and retirements	–	(1,036)	(4,488)	(16)	(19,849)	–	(25,389)
Balance at March 31, 2015	1,055	88,325	105,766	7,651	404,682	11,362	618,841
Additions	1,634	8,334	5,033	–	36,125	8,813	59,939
Transferred to systems and equipment	–	3,577	1,420	–	4,730	(9,727)	–
Disposals and retirements	–	(2,024)	(1,784)	–	(12,600)	–	(16,408)
Balance at March 31, 2016	\$ 2,689	\$ 98,212	\$ 110,435	\$ 7,651	\$ 432,937	\$ 10,448	\$ 662,372
Accumulated depreciation							
Balance at April 1, 2014	\$ –	\$ 63,893	\$ 96,801	\$ 5,539	\$ 250,716	\$ –	\$ 416,949
Depreciation for the year	–	7,091	3,544	947	33,466	–	45,048
Disposals and retirements	–	(1,012)	(4,474)	(16)	(18,642)	–	(24,144)
Balance at March 31, 2015	–	69,972	95,871	6,470	265,540	–	437,853
Depreciation for the year	–	6,705	4,486	501	39,827	–	51,519
Disposals and retirements	–	(1,981)	(1,747)	–	(11,638)	–	(15,366)
Balance at March 31, 2016	\$ –	\$ 74,696	\$ 98,610	\$ 6,971	\$ 293,729	\$ –	\$ 474,006
Carrying amounts							
At March 31, 2015	\$ 1,055	\$ 18,353	\$ 9,895	\$ 1,181	\$ 139,142	\$ 11,362	\$ 180,988
At March 31, 2016	\$ 2,689	\$ 23,516	\$ 11,825	\$ 680	\$ 139,208	\$ 10,448	\$ 188,366

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

10. Intangible assets:

The intangible assets balance represents purchased and internally-generated software assets.

	Software	Assets under development	Total
Cost			
Balance at April 1, 2014	\$ 131,916	\$ 26,071	\$ 157,987
Acquisitions - separately acquired	8,803	6,468	15,271
Acquisitions - internally generated	1,940	763	2,703
Borrowing costs capitalized	—	376	376
Transferred to software	16,692	(16,692)	—
Disposals and retirements	(4,255)	—	(4,255)
Balance at March 31, 2015	155,096	16,986	172,082
Acquisitions – separately acquired	3,276	2,660	5,936
Acquisitions – internally generated	1,934	411	2,345
Borrowing costs capitalized	2	25	27
Transferred to software	7,202	(7,202)	—
Disposals and retirements	(3,389)	—	(3,389)
Balance at March 31, 2016	\$ 164,121	\$ 12,880	\$ 177,001
Accumulated amortization			
Balance at April 1, 2014	\$ 72,298	\$ —	\$ 72,298
Amortization for the year	20,319	—	20,319
Disposals and retirements	(4,255)	—	(4,255)
Balance at March 31, 2015	88,362	—	88,362
Amortization for the year	22,140	—	22,140
Disposals and retirements	(3,186)	—	(3,186)
Balance at March 31, 2016	\$ 107,316	\$ —	\$ 107,316
Carrying amounts			
At March 31, 2015	\$ 66,734	\$ 16,986	\$ 83,720
At March 31, 2016	\$ 56,805	\$ 12,880	\$ 69,685

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

11. Prizes payable:

	2016	2015
Lottery	\$ 28,123	\$ 24,050
Casino and community gaming	5,001	4,701
	<u>\$ 33,124</u>	<u>\$ 28,751</u>

12. Accounts payable, accrued and other liabilities:

	2016	2015
Trade payables	\$ 17,862	\$ 18,192
Accrued expenses	30,361	47,443
Indirect tax payable	5,747	4,074
Other	13,568	10,887
	<u>\$ 67,538</u>	<u>\$ 80,596</u>

13. Short-term financing:

	2016	2015
Government of British Columbia, loans, payable in single instalments including interest ranging from \$10 to \$26 at rates ranging from 0.35% to 0.42%, unsecured, due between April 14, 2016 and May 13, 2016	\$ 150,095	\$ —
Government of British Columbia, loans, payable in single instalments including interest ranging from \$4 to \$25 at rates ranging from 0.50% to 0.63%, unsecured, due between April 7, 2015 and April 16, 2015	—	140,080
	<u>\$ 150,095</u>	<u>\$ 140,080</u>

For the year ended March 31, 2016 interest on short-term financing of \$691 (2015: \$856) was recognized as an expense.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

14. Distributions to the Government of British Columbia:

In accordance with the *Gaming Control Act* (B.C.), net income in each fiscal year, after deducting contractual amounts due to the Government of Canada (note 15), is paid into the consolidated revenue fund of the Government of British Columbia in the manner directed by the Lieutenant Governor in Council. The Corporation's transfer to the Government of British Columbia occurs four weeks after each fiscal month-end. The Corporation does not retain any earnings.

15. Distributions to the Government of Canada:

The ILC makes inflation-adjusted payments to the Government of Canada as a result of an agreement between the federal and provincial governments following the withdrawal of the Government of Canada from the lottery field. The Corporation remits British Columbia's share of the above payments to the ILC.

16. Interprovincial Lottery Corporation:

The Corporation's share of the ILC prize and ticket printing costs for national games is recognized in prize expense and ticket printing expense, respectively, in accordance with the recognition of revenue. The Corporation's share of the ILC's interest income less operating expenses is included in other expenses in the consolidated statement of comprehensive income.

17. Commitments:

Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases for premises, vehicles and office equipment are as follows:

2017	\$4,861
2018	4,444
2019	3,914
2020	3,344
2021	3,070
Thereafter	16,067

The Corporation leases its Vancouver office and warehouse space under operating leases. The leases commenced May, 2011 and have a term of 15 years. The lease payments are increased every five years by a predetermined amount as set out in the contract terms.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

17. Commitments (continued):

Operating leases (continued)

The Corporation leases a number of lottery retail locations under non-cancellable operating leases. These leases typically run for a period of five years. Many of these lease agreements include a base amount and an additional contingent rent amount based on sales volume of the retail location. In turn, the Corporation has entered into cancellable operating agreements with lottery retailers to operate these locations. These agreements have standard terms and are indeterminate in length. As part of the agreement to operate a location, the retailers pay contingent location fees that are reviewed, negotiated and adjusted as necessary.

The Corporation leases a fleet of vehicles and office equipment under operating lease agreements. These leases generally have five year terms.

During the year ended March 31, 2016, \$21,259 (2015: \$20,043) was recognized as an expense in the consolidated statement of comprehensive income in respect of non-cancellable and cancellable operating leases. The Corporation recognized income of \$3,115 (2015: \$2,643) in respect of rent under cancellable operating agreements with lottery retailers.

Capital commitments

As of March 31, 2016, the Corporation is committed to incur capital expenditures relating to property and equipment and intangible assets of \$9,350 (2015: \$22,016). These commitments are expected to be settled in the following year.

Joint Illegal Gaming Investigation Team

BCLC is committed to funding the new Joint Illegal Gaming Investigation Team, in combination with funding from the federal government through the Provincial Police Service Agreement. BCLC will provide funding for the external policing costs related to this team located within the Combined Forces Special Enforcement Unit of B.C. This funding commitment is estimated to be \$1,800 in the fiscal year ended March 31, 2017 and \$3,000 annually in subsequent years.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

18. Contingencies:

The Corporation has been named as a defendant in several lawsuits as well as other disputes in the ordinary course of business. A provision is recognized only when it is probable that there will be an outflow of economic benefits and the amount can be estimated reliably.

The Corporation periodically enters into agreements with suppliers that include limited indemnification obligations. BCLC is required to have all indemnification obligations approved by the B.C. Government Risk Management Branch. These indemnifications are customary in the industry and typically require the Corporation to compensate the other party for certain damages and costs incurred as a result of third-party claims. The nature of these agreements prevents the Corporation from making reasonable estimates of the maximum potential amount it could be required to pay its suppliers. Historically, the Corporation has not made any significant indemnification payments under such agreements and no amount has been accrued in the consolidated financial statements for these indemnifications.

19. Related party transactions:

BCLC is a wholly-owned Crown corporation of the Government of British Columbia.

All transactions with the Government of British Columbia ministries, agencies and Crown corporations occurred in the normal course of operations and are on terms comparable to those with other entities that are not government-related.

Key management personnel have been defined as the members of the Board of Directors, the President & CEO, and the Corporation's Vice-Presidents. The compensation for key management personnel is shown below:

	2016	2015
Short-term employee benefits	\$ 2,269	\$ 2,209
Pension and post-employment benefits	155	186
Termination benefits	306	194
Other	-	(48)
	\$ 2,730	\$ 2,541

The Corporation contributes to defined benefit plans. Transactions with these plans are disclosed in note 8. Other related party transactions have been disclosed in note 14.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2016

(in thousands of Canadian dollars)

20. Indirect tax expense:

As a provincial gaming authority, BCLC is a prescribed registrant under the *Games of Chance Goods and Services Tax (GST)/Harmonized Sales Tax (HST) Regulations* of the *Excise Tax Act* (the Regulations). The Corporation makes GST remittances to the Government of Canada pursuant to the Regulations. The Corporation's net tax for a reporting period is comprised of net tax attributable to both gaming and non-gaming activities. Imputed tax on gaming expenses is calculated according to a formula set out in the Regulations resulting in the direct payment of additional GST at the applicable statutory rate. The net tax attributable to non-gaming activities is calculated similar to other GST registrants.

Provincial Sales Tax is calculated and remitted to the Province of British Columbia pursuant to the *Provincial Sales Tax Act*.

Appendix A: Subsidiaries and Operating Segments

BC Lottotech International, Inc.

The consolidated statements of the British Columbia Lottery Corporation include BC Lottotech International, a wholly-owned subsidiary of the Corporation. The primary purpose of BC Lottotech is to purchase capital assets for BCLC. These assets are leased back to BCLC and the major expense is the amortization on the capital acquisitions. The management and oversight of BC Lottotech is consolidated within BCLC operations and the Board reviews and approves capital purchases through the annual business planning and budget process.

	2015/16	2014/15
Revenue (\$ thousands)		
Lease revenue	\$ 65,642	\$ 58,184
Expenses		
Depreciation and amortization	65,475	58,039
Other Expense (Income)	1,231	(404)
	66,706	57,635
Net income (loss)	\$ (1,064)	\$ 549

Appendix B: Additional Information

Vision, mission, values	http://corporate.bclc.com/who-we-are/our-mission-and-values.html
Organizational Overview	http://corporate.bclc.com/who-we-are.html http://corporate.bclc.com/what-we-do.html http://corporate.bclc.com/social-responsibility.html
Corporate Governance	http://corporate.bclc.com/who-we-are/governance-and-oversight/board-of-directors.html

Appendix C – Crown Corporations Mandate and Actions Summary

In the 2015/16 Mandate Letter from the Minister of Finance, BCLC received direction on strategic priorities for the 2015/16 fiscal year. These priorities and BCLC's resulting actions are summarized below:

Mandate Letter Direction	BCLC's Action
<p>1. BCLC will implement action items that pertain to the Corporation as part of government initiatives in the areas of health prevention, protection and research to address problem gambling. These action items and their timelines for the implementation are being developed by government in consultation with BCLC taking into consideration the Provinces' 2014 Problem Gambling Prevalence Study, the 2013 Public Health Officer's (PHO) Report, entitled <i>Lowering the Stakes: A Public Health Approach to Gambling in British Columbia</i>, as well as other research on problem gambling in youth and problem gambling treatment programs.</p>	<ul style="list-style-type: none"> • Thirteen of the 21 action items in the Plan involve BCLC. • Three action items have been completed and seven items are partially complete.
<p>2. The Gaming Policy Enforcement Branch (GPEB) and BCLC will jointly develop key principles that will inform respective roles and responsibilities. These principles will outline expectations, obligations, and related business impacts to provide role clarity and maximize accountability. These principles will be devised by June 30, 2015 and implemented by December 31, 2015.</p>	<ul style="list-style-type: none"> • BCLC and GPEB jointly developed key principles to inform roles and responsibilities of each organization. This work was completed by December 31, 2015.
<p>3. Optimize the Corporation's financial performance, in accordance with government policy and directives under the <i>Gaming Control Act</i> and Treasury Board direction. BCLC will sustain the organizations net return to the province, by responding to customer and marketplace demands for products and services and seeking new revenue opportunities that are consistent with the</p>	<ul style="list-style-type: none"> • BCLC continues to optimize our financial performance and sustain net return to the province by seeking new revenue opportunities and responding to marketplace demands. • We will continue to review ways to evolve our casino and lottery businesses and leverage our eGaming platform, PlayNow.com, so that we attract a broader player base by offering relevant,

<p>approved framework. Consistent with previous direction the corporation will present Treasury Board with a detailed business case for casino optimization by November 30, 2014, and a detailed business case and risk assessment for business optimization by February 28, 2015.</p>	<p>accessible entertainment experiences.</p> <ul style="list-style-type: none"> • BCLC presented its final submission on Casino Optimization on November 30, 2014. BCLC prepared a briefing document regarding Business Optimization revenue projections on October 31, 2014, which indicated that BCLC's revised business strategy and Service Plan will account for only the viable initiatives that were previously identified under the Business Optimization program. BCLC's 2015/16-2017/18 Service Plan was ratified by Government on January 28, 2015. The revised business strategy document was delivered on April 30, 2015.
<p>4. At the conclusion of the Crown Review BCLC, the Corporation will work to address, as appropriate, the recommendations made by Internal Audit & Advisory Services.</p>	<ul style="list-style-type: none"> • BCLC has substantially completed 18 of the 25 Crown recommendations.
<p>5. As part of the Corporation's continued mandate, BCLC will use information provided by law enforcement to create actions and solutions to prevent money laundering in BC gaming facilities. GPEB will develop anti-money laundering standards, to which BCLC will respond. Additionally, BCLC will identify and implement strategies to increase the use of cash alternatives and measure and demonstrate this progress.</p>	<ul style="list-style-type: none"> • In 2015, BCLC met regularly with Law Enforcement and GPEB to discuss anti-money laundering trends including mitigating suspicious cash. • In July 2015 GPEB provided approval in principle to two cash alternative proposals (delimiting convenience cheques and allowing international electronic fund transfers). BCLC has worked collaboratively with the GPEB Policy Division to further these proposals. • A major contributor to improving BCLC's ability to prevent money laundering in facilities is the implementation of a new system, identical to those used by the banking industry to monitor, detect and report on suspicious persons, transactions and other activity. BCLC is the first gambling jurisdiction to adopt this software. While there have been delays in modifying the solution to the unique needs of the gambling industry, the system is currently in the test phase. • An anti-money laundering (AML) course was developed and released in May 2015. Every

	<p>employee in the organization is required to complete this course.</p> <ul style="list-style-type: none">• GPEB and BCLC sponsored an AML summit on June 4, 2015, which brought together representatives from three levels of policing, the financial services industry, the banking industry and various government representatives. The recommendations from this summit continue to inform the next steps between GPEB and BCLC on the direction of AML and cash alternatives in casinos.• BCLC has an Information Sharing Agreement with law enforcement that provides BCLC the ability to proactively ban those with known links to criminal organizations, who pose a threat to public safety, or who are involved in criminal conduct likely to generate proceeds of crime.
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Appendix D – Strategic Engagement Plan

The Taxpayer Accountability Principles place a heavy focus on strengthening two-way communication between government and provincial public sector entities, as various reviews have identified this as an area that could be improved. The principles increase opportunities for ministers and ministries to engage the public sector organizations for which they are responsible.

The development of a ministry / Crown engagement plan is intended to support the commitment for two-way communication, effective working relationships, and enhanced governance oversight.

Engagement Plan

In order to successfully implement the ministry accountabilities under the Taxpayer Accountability Principles, it is imperative the ministry and the Crown Agencies it is responsible for develop, working relationships that result in effective Crown governance and increased public sector accountability to taxpayers.

Goals

- Support strong, positive working relationships between the Ministry of Finance and the Crowns for which they are responsible.
- Develop a working relationship based on ‘no surprises’, and open, candid and respectful discussion focused on the successful achievement of government’s direction.
- Enhance governance oversight by ensuring these entities are aligned with government priorities and that government’s expectations are effectively and consistently communicated by the Ministry and acted upon by these Crowns.

Key Principles

BCLC and the Gaming Policy and Enforcement Branch have developed the following Key Principles to guide and frame their respective roles and responsibilities.

- 1) Respect for Role
- 2) Transparency and Communications
- 3) Customer/Client Focus
- 4) Innovation
- 5) Senior Management Responsibility
- 6) Risk-based Approach
- 7) Results/Outcomes focused
- 8) Solutions-oriented
- 9) Responsiveness

Ministry and Crown meetings

Reflecting both the direction in the Taxpayer Accountability Principles and the anticipated needs of the Ministry and Crowns, the Ministry has identified that two types of meetings – more formalized meetings and ad-hoc meetings / communications – are required.

This proposal deals with the more formalized meetings, recognizing that ad-hoc meetings and communications via email, telephone, etc., that currently occur between the Ministry and Crowns at various levels of these organizations will continue and, in fact, if working relationships are strengthened, will occur more frequently.

Formalized meetings are not intended to interfere with the ongoing operational relationship of the Ministry and Crown or delay the Ministry and Crown addressing time-sensitive issues, emerging issues or financial pressures, or discussing, in a timely manner, operational or financial performance targets that will not be met. These types of issues should be identified by the Crown and discussed with the Ministry as soon as possible and not deferred until the next scheduled, formal meeting.

The plan is based on formalized meetings occurring at various levels of the Ministry and Crown organization:

- Minister meetings with the Crown Board Chair;
- Deputy Minister / Associate Deputy Minister meetings with the Crown Chief Executive Officer; and
- Assistant Deputy Ministry, Corporate Services Division meeting with the Crown Chief Financial Officer.