BC Lottery Corporation

2018/19
ANNUAL SERVICE PLAN REPORT

July 2019

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Board Chair's Accountability Statement

The *BCLC 2018/19 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2018/19 - 2020/21 Service Plan* created in February 2018. I am accountable for those results as reported.

Peter Kappel
Board Chair

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Chair/CEO Report Letter

BCLC is focused on offering gambling entertainment in a socially responsible manner in order to generate income for British Columbia and help communities grow. In fiscal 2018/19 BCLC generated more than $1.4 billion in net income for the Province of British Columbia, which was $105 million over budget and $15.6 million ahead of last year. In a year with many challenges, we would have not been able to achieve this result without tremendous effort on the part of our employees and support from our players and the communities in which we operate.

Our increase in net income was achieved despite declines in revenue from labour disputes at five casino and community gaming locations and the changing table game landscape. We were able to capitalize on opportunities, including the higher than average number of Lotto Max jackpot rolls, strong slot performance in brick-and-mortar facilities and strategic investments in new product offerings such as Live Casino on PlayNow.com.

In June 2018, Government released Dr. Peter German's review of B.C.'s anti-money laundering policies and practices in Lower Mainland casinos. BCLC is actively working with the Province and industry partners to address the recommendations made by Dr. German. As the organization entrusted to manage the casino business, we are committed to protecting our industry and restoring the trust of the people and communities of B.C.

Over the past year, a completely new group of directors was appointed to BCLC's Board. Our Board of Directors has been receiving ongoing training and education to ensure their understanding of BCLC's strategy and various lines of business. In addition to contributing to the strategy and oversight of the company, it is a Board priority to refresh governance to the highest standard. BCLC's Board of Directors and leadership team works closely with the Ministry of Attorney General and holds regularly scheduled meetings to ensure effective communication and alignment with government priorities. To that end, we continue to deliver on the strategic priority items set out by government in the 2018/19 Mandate Letter. A list of actions to fulfill this direction can be found in Appendix C.

We are proud of our results from this past year and we are committed to the responsible growth of our business. We will continue to work closely with government and make prudent investment decisions while looking for ways to operate our business more efficiently and effectively, in the best interest of British Columbians.

Peter Kappel Board Chair	Jim Lightbody President & CEO

Purpose of the Annual Service Plan Report

The Annual Service Plan Report (ASPR) is designed to meet the requirements of the *Budget Transparency and Accountability Act* (BTAA), which sets out the legislative framework for planning, reporting and accountability for Government organizations. Under the BTAA, the Crown Corporation's Board is required to report on the actual results of the Crown's performance related to the forecasted targets documented in the previous year's Service Plan.

Purpose of the Organization

BCLC conducts and manages commercial gambling in B.C. including casino, lottery, bingo and sports betting through multiple channels of distribution. BCLC offers slot machines, table games and bingo operated through operational services agreements (OSAs) with private sector service providers which, as of March 31, 2019, consisted of 15 casinos, two racecourse casinos, 18 community gaming centres and three commercial bingo halls. BCLC's national and provincial lottery and sports betting products are sold at 3,528 retail locations, operated by private sector retailers through Lottery Retailer Agreements (LRAs). PlayNow.com is BCLC's secure, regulated, online and mobile channel, with a growing portfolio of lottery games, sports betting, slots, table games and bingo entertainment for approximately 442,000 B.C. adults who are registered to play directly with us. BCLC also provides online gambling services and web-based and mobile platforms to the Province of Manitoba through an operating 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). Our mission is to conduct and manage gambling in a socially responsible manner for the benefit of British Columbians. The Gaming Policy and Enforcement Branch (GPEB) has regulatory oversight of all gambling in B.C., including all commercial gambling operated by BCLC. BCLC also adheres to requirements set out in federal anti-money laundering legislation and is monitored by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) for compliance with those requirements.

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 of capital assets for lease to BCLC. Lottotech's budget is renewed and approved through our annual business planning process. The financial operations, management, and oversight of Lottotech are consolidated within BCLC operations.

Strategic Direction

The strategic direction set by Government in 2017 and expanded upon in the Board Chair's Mandate Letter from the Minister Responsible in 2018, shaped the 2018/19 Service Plan and the results reported in this ASPR.

The following table highlights the key goals, objectives or strategies that support the key priorities of Government identified in the 2018/19 BCLC Service Plan:

Government Priorities	**BCLC Aligns with These Priorities By:**
Delivering the services people count on	• Promoting responsible gambling programs that encourage positive gambling choices (Objective 1.1) • Becoming leaders in diversity and inclusion (Objective 2.1) • Defining and integrating the innovative experiences our players want (Strategy under Objective 4.1)
A strong, sustainable economy	• Being a partner for socio-economic growth in communities (Objective 3.1) • Optimizing net income through investing to sustain the long-term health of our business (Goal 4)

Operating Environment

BCLC routinely monitors marketplace trends within its business, the gambling industry and other industries. Through ongoing monitoring and observations, BCLC has seen that consumer behaviour and expectations are changing. Driven largely by advances in technology, convenience is increasingly a factor in customers' choices, and they are demanding more from products, services and experiences.

While consumers are enjoying digital experiences at home or wherever and whenever they want, they are also seeking greater options for social interactions within a hospitality or entertainment setting[1]. BCLC's model for land-based casino gambling has been focused for many years on enhanced amenities in addition to gambling offerings. For example, in spring 2018, the redeveloped Elements Casino View Royal opened, with additional food and beverage choices alongside greater gambling options, in response to the shift in consumer preferences.

A key aspect of customer experience is the promotion of player health. BCLC continues to develop a deeper understanding of its player base and the indicators of healthy play to create timely, targeted and relevant player communications and effective programming. In April 2018, BCLC assumed management and fiscal responsibility for the GameSense Advisor Program and began the expansion of the program province-wide into all casino and community gaming centres, with expected completion in the fall of 2019.

In 2018/19, business was interrupted at five casino and community gaming locations as a result of

[1] Cashing in on the US experience economy

labour disputes between private sector service providers and their employees. BCLC's casino revenue was impacted during that time but has recovered substantially since the resolution of the disputes.

In June 2018, Government released Dr. Peter German's review of B.C.'s anti-money laundering policies and practices in Lower Mainland casinos. BCLC continues to work with GPEB and the Ministry of Attorney General to address all recommendations for which it is responsible.

Concerns regarding money laundering poses a risk to the building and maintaining of community support that BCLC depends upon in order to operate its business. In July 2018, BCLC obtained municipal approval for the new Cascades Casino Delta. In January 2019, the City of Victoria postponed indefinitely any decision regarding its interest in hosting a casino. While each of these local governments came to different decisions regarding a gambling facility in their communities, both expressed concerns regarding money laundering. Additionally, the City of Delta and the City of Richmond both passed motions asking for the Federal and Provincial governments to address concerns regarding money laundering and asked BCLC to share further information on its actions. BCLC is committed to ongoing dialogue and engagement with these and other communities across B.C. in order to build the understanding of its business and activities.

Report on Performance

The 2018/19 Mandate Letter provides specific actions for BCLC to ensure alignment with Government goals and objectives.

A detailed summary of BCLC's work to fulfill the 2018/19 Mandate Letter is provided in Appendix C.

BCLC's 2018/19 Annual Service Plan Report compares actual results to the expected results identified in the 2018/19 – 2020/21 Service Plan. The future targets beyond 2018/19 reflect those in the 2019/20 – 2021/22 Service Plan. The following section summarizes how BCLC measures and reports performance through four corporate goals.

Goals, Objectives, Measures and Targets

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

Objective 1.1: Promote responsible gambling programs that encourage positive gambling choices.

Key Highlights:

- A major initiative last year was the transfer of the fiscal responsibility and management of the GameSense Advisor program from GPEB to BCLC. With this added responsibility, BCLC invested in enhancing the GameSense information centres and extending the GameSense

Advisor presence to 12 community gaming centres, with expansion into the remaining six expected to be complete by the fall of 2019.

- BCLC hosted the New Horizons in Responsible Gaming conference, which brought together responsible gambling researchers, policy makers, regulators and industry representatives from around the world to discuss developments in prevention, response and best practices in responsible gaming.

- BCLC refreshed the GameSense program, which engages players with healthy gambling tips and factual information about the risks associated with gambling. The refresh included updated and simplified content made more relevant and accessible to a wide demographic.

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
1.1 Player Awareness of Responsible Gambling Activities	79%	80%	78%	80%	N/A	N/A

Data Source: 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 that is consistent with B.C. population figures as per Statistics Canada's Census. The margin of error is ± 2.07% at the 95% confidence level (19 times out of 20).

Discussion

Player Awareness of Responsible Gambling (RG) Activities measures the percentage of players who are aware of at least one of the five following responsible gambling activities: Voluntary Self-Exclusion, GameSense brand, GameSense Info Centres, RG messaging in retail locations and RG messaging on PlayNow.com. This measure determines how effective BCLC is at educating its players about responsible gambling, so that they can make positive gambling choices.

In 2018/2019, Player Awareness of RG activities exceeded the fiscal year target. This was achieved through initiatives such as the rebranding of GameSense, continual expansion of the GameSense Advisor Program and enhancement of the GameSense Info Centres.

In the 2019/20 – 2021/22 BCLC Service Plan, this measure was replaced by two new measures to better align with our player health strategy. The new measures will be reported in the 2019/20 Annual Service Plan Report. These two measures take into account two components of our player health strategy: informed play which is reflected in the Positive Play Scale: Gambling Literacy, and positive play, reflected in the Positive Play Scale: Pre-commitment measure. Gambling Literacy assesses the extent to which a player has ample information to make fully informed decisions. Pre-commitment assesses the extent to which a player considers how much money and time they should spend gambling.

Objective 1.2: Improve the gambling entertainment experience everywhere players choose to engage with our products.

Key Highlights:

- BCLC completed enhancements to the Encore Rewards loyalty program offered to casino customers, including introducing the ability to earn points on food and beverage purchases at casinos and launching loyalty program kiosks as a self-service option, making it easier for players to update and access their loyalty program information and promotions. In addition, BCLC continued to build out its customer relationship management (CRM) system to deliver customized and relevant customer promotions, content and service to players via email, direct marketing and social media.

- In 2018/19, the majority of BCLC's service providers transitioned to a new OSA. A key component of the new OSA is to encourage the introduction of new amenities into facilities thereby enhancing the overall entertainment within facilities.

- In the spring of 2018, the redeveloped Elements Casino View Royal opened, offering additional food and beverage choices alongside greater gambling options.

- BCLC piloted stadium gaming at the River Rock Casino in Richmond. Stadium gaming brings together multiple table games into the convenience of an electronic terminal. It allows players to wager at their own pace.

- BCLC continued to enhance its mobile services and experiences offered on PlayNow.com, bclc.com and the Lotto App, making it easier to play BCLC's products.

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
1.2a Player Satisfaction[1]	80%	81%	80%	84%	N/A	N/A
1.2b Player Participation[2]	53%	51%	52%	51%	N/A	N/A
1.2c Revenue per Capita[3,4]	$503	$516	$510	$533	$536	$540

[1] **Data Source:** 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 that is consistent with B.C. population figures as per Statistics Canada's Census. The margin of error is ± 2.22% at the 95% confidence level (19 times out of 20).
[2] **Data Source:** 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 that is consistent with B.C. population figures as per Statistics Canada's Census. The margin of error is ± 1.79% at the 95% confidence level (19 times out of 20).
[3] **Data Source:** Actual Revenue is from BCLC Audited Financial Statements. Total BCLC Revenue is divided by B.C.'s total population based on Statistics Canada population figures to obtain per capita metrics. Population statistics are

estimated based on calendar year and not available on BCLC's fiscal year. Revenue Per Capita is indicative of the overall trends despite the timing difference.
[4] International Financial Reporting Standards (IFRS) 15 *Revenue from Contracts with Customers* and 9 *Financial Instruments* are effective for annual reporting periods beginning on or after January 1, 2018. BCLC adopted this standard for its fiscal year ending March 31, 2019, on a full retrospective basis. The Corporation has identified that this standard will have a material impact on the presentation of its consolidated financial statements. Revenue is now presented net of prizes on the statement of comprehensive income. See note 3(B) in the consolidated financial statements. The 2017/18 measure was recalculated with the impact of IFRS 15 and 9; however, resulted in no change to previously reported figure. 2016/17 has not been restated.

Discussion

Player Satisfaction
Player Satisfaction gauges BCLC's success in offering products and amenities that provide great value for money so that the Corporation achieves positive outcomes for British Columbians.

In 2018/19, Player Satisfaction saw an increase from 2017/18 and exceeded the 2018/19 target. Lottery players in both the retail network and hospitality network reported significant increases in player satisfaction, while PlayNow and casino were relatively steady when compared to the previous year.

In the next Annual Service Plan Report, this measure will be replaced by the Player Experience Index. The Player Experience Index, which was introduced in the BCLC 2019/20 – 2021/22 Service Plan, provides a single measure that incorporates various elements of the customer experience, such as customer service, convenience, relevance and fairness. This measure provides BCLC with an understanding of the extent to which BCLC is currently meeting the expectations of its customers in relation to both their product and purchase experiences, while offering actionable insights related to customer experience.

Player Participation
Player Participation measures the percentage of adult British Columbians who play a BCLC game in any of BCLC's gambling channels at least once a month. This measure is an indicator of how successful BCLC is in creating entertaining and relevant experiences so that players purchase its products and visit its properties.

The actual results of 51 per cent in the 2018/19 fiscal year were very close to the 2018/19 target of 52 per cent. In future reports, new measures will replace this measure to reflect more accurately BCLC's objective to increase both the frequency of play and the number of games played by BCLC's intended player base, which are those who exhibit healthy play behaviours and those who do not pose a criminal risk to our business.

Revenue per Capita
Revenue per Capita indicates how successful BCLC is in growing revenue in relation to the provincial population. This allows for comparisons across other markets. Previously this measure was called Net Win per Capita, and was renamed to Revenue per Capita to reflect the adoption of International Financial Reporting Standards (IFRS) 15 and 9. For additional information see note 3(B) in the consolidated financial statements.

In 2018/19, BCLC's Revenue per Capita increased over the previous year and was ahead of target for the fiscal year. This is due to a higher rate of growth in revenue compared to the population growth.

The 2018/19 revenue increase reflects strong slot performance in online and in brick-and-mortar facilities, as well as higher than expected jackpot rolls experienced in Lotto Max and Lotto 6/49. While brick-and-mortar facilities performed well overall, growth rates were negatively impacted by the labour disputes in five casinos and a changing table game landscape.

Slot revenue in the brick-and-mortar channel of casino and community gaming centres grew from the prior year due to the continued success of facility enhancements, strategic investments in slots resulting in an optimized network and diversified product offerings, and refinement of BCLC's marketing strategy in partnership with casino and community gaming service providers.

Lottery revenue grew significantly in 2018/19 as half of the weekly Lotto Max jackpots were $50 million or greater while Lotto 6/49 had its bi-weekly jackpots at $20 million or greater for 20 per cent of the year. This year also marked the highest sales (prior to prizing) on record for the Scratch & Win category and Keno brand.

eCasino games, available on BCLC's Playnow.com platform, exceeded the year-over-year growth target from the continued delivery of new digital content that appeals to new and existing players. BCLC's Live Casino offering, a new interactive online table game experience that was introduced in late fiscal 2017/18 attracted strong player participation. eSlots grew as a result of improved player experiences, effective customer relationship management programs and increased availability of content on mobile.

Goal 2: People – we have the right talent to deliver exceptional business results.

Objective 2.1: Build an engaged workforce and strong culture.

Key Highlights:

- BCLC developed and launched a new internal training program to equip its workforce for greater empowerment, collaboration and creative problem solving.

- BCLC completed a review of its leadership training programs and is currently refreshing them to equip leaders and employees to deliver on BCLC's strategy.

- BCLC's Diversity & Inclusion Committee continued to look at its practices and processes to ensure inclusivity within BCLC, including implementing inclusive leadership training and practices and removing unconscious bias in processes and systems.

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
2.1 Employee Engagement	87%	86%	85%	83%	86%	86%

Data Source: Annual anonymous online census survey of BCLC employees conducted by an independent third-party professional. The response rate of the survey was 83% with 820 of a possible 977 eligible employees participating.

Discussion

Employee Engagement is defined as the intellectual and emotional commitment employees have to an organization. A passionate, productive and engaged workforce will help to drive the success of BCLC's business, delivering the great entertainment experiences that players expect.

In 2018/2019, BCLC achieved a strong engagement score of 83%, however, it did not meet the target of 85%. While BCLC recognizes that maintaining high results is a challenge, BCLC did achieve a score of 86% in 2017/18 and is focused on increasing engagement score levels in future years based on its commitment to being an employer of choice and creating an engaging employment experience for all staff. Specifically, BCLC is assessing the results by division and developing targeted action plans to increase engagement and address any declines within each group. In the 2019/20 Service Plan, BCLC increased future Employee Engagement targets from 85% to 86%.

Objective 2.2: Enhance our employee value proposition to prepare for changing workforce demographics.

Key Highlights:

- BCLC focused on building strong partnerships with various post-secondary institutions and participated in targeted job fairs in order to meet future workforce needs and recruitment efforts for specific skillsets.
- Comprehensive succession and development plans were created for a number of senior-level positions and individuals within BCLC. In addition, BCLC completed a comprehensive review of critical roles and identified and created development plans to ensure role stability.
- BCLC launched a new eLearning platform with customized learning paths to ensure all employees have access to training and development opportunities.
- BCLC began designing new recognition and wellness programs, including conducting a design thinking workshop to gain a better understanding of its employees' wellness needs and completing a request for proposal for a new employee recognition tool and provider.
- BCLC changed benefits providers and rolled out an enhanced benefits plan including an optional Wellness Account and Critical Illness insurance.

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
2.2 Employee Turnover Rate	5.5%	7.3%	6.0%	8.9%	N/A	N/A

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

Discussion

Employee Turnover Rate measures the combined percentage of voluntary and involuntary turnover relative to BCLC's total headcount. This measure determines how successful BCLC is in attracting and retaining a workforce to drive the continuous optimization of its business, and gauges BCLC's competitiveness in the labour market. It also evaluates the effectiveness of BCLC's training, development, and retention programs.

In 2018/2019, BCLC did not meet the target for the Employee Turnover measure. The majority of the employees who left this past year indicated the reason was to pursue other career development opportunities.

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

Objective 3.1: Awareness of BCLC positive contributions to the community.

Key Highlights:

- In 2018/19, BCLC ran community outreach programs in 13 host communities across the province to educate and engage with the public and stakeholders on how proceeds from gambling and BCLC's sponsorships benefit communities. Activities included municipal information sessions, sponsorships of local events, receptions at local gambling facilities and presentations to local community groups and business associations. A Play it Forward advertising campaign supported these activities, highlighting the various community-specific benefits.

- BCLC's Stakeholder Engagement team traveled across the province to meet and engage with municipal elected officials and senior staff at regional conferences to share how Host Local Government revenue benefits their communities.

- Province-wide, BCLC supported local communities through events and sponsorships. In fiscal 2018/19 BCLC sponsored over 114 organizations, groups and events across the province.

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
3.1 Public Recognition of Positive Contributions	73%	70%	74%	68%	72%	74%

Data Source: 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 ± 1.69% at the 95% confidence level (19 times out of 20).

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 BCLC gauge its success in building public understanding and recognition of the public contributions it makes.

In 2018/19, results for this measure decreased slightly compared to the previous year and fell short of our target. This may be due to the ongoing media coverage of alleged money laundering in B.C. casinos throughout 2018/19. As a result, BCLC adjusted the 2019/20 and 2020/21 targets in the 2019/20 – 2021/22 Service Plan.

Despite the softer metric, BCLC is committed to ongoing dialogue and engagement with stakeholders across B.C. and in 2018/19 BCLC ran successful outreach programs in various communities to educate and engage with the public on the contributions BCLC makes to their communities. BCLC will continue these efforts moving forward, and will evaluate their effectiveness throughout the year.

Objective 3.2: BCLC is perceived as transparent.

Key Highlights:

- BCLC is implementing the recommendations in Dr. Peter German's independent review of B.C.'s anti-money laundering policies and practices in Lower Mainland casinos. To date, BCLC has completed 6 of the 11 recommendations for which it is the lead. This includes the interim recommendation to ensure that service providers complete a Source of Funds Declaration for any buy-in of $10,000 or more.
- BCLC continued to share information with municipal, business and community stakeholders and the public about BCLC and the gambling industry to create awareness and understanding. BCLC proactively disclosed relevant information about its business via bclc.com and the BCLC Social Responsibility Report.
- BCLC continued to proactively communicate major corporate initiatives and activities to the public, the media and its employees, in order to be transparent, accountable and build awareness and understanding of the organization.

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
3.2 Public Perception of BCLC's Transparency	64%	60%	61%	56%	60%	62%

Data Source: 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 ± 1.74% at the 95% confidence level (19 times out of 20).

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 BCLC gauge its success in becoming increasingly transparent so that BCLC's business and its benefits are understood and supported by British Columbians.

In 2018/19, the target for Public Perceptions of BCLC's transparency was not met. The survey indicated that this was largely due to the impact of ongoing publicity of alleged money laundering in B.C.'s casinos. As a result, BCLC adjusted the 2019/20 and 2020/21 targets in the 2019/20 – 2021/22 Service Plan. Despite adjustments to future targets, BCLC is committed to enhancing its efforts to increase public understanding and transparency of the business. In fiscal 2018/19, BCLC continued to expand the information and number of reports/disclosures it makes available on bclc.com, and remains committed to continuing these efforts on an ongoing basis. In February 2019, BCLC also began posting updates on bclc.com with regard to our anti-money laundering programs, including new actions and controls, to better inform the public.

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

Objective 4.1: Generate net income for the benefit of all British Columbians efficiently.

Key Highlights:

- The continued success of facility enhancements and strategic investments in the slots category resulted in an optimized network and diversified product offerings, and refinement of BCLC's marketing strategy in collaboration with casino and community gaming service providers. In addition, to ensure long-term private-sector investment and sustained revenues to the Province and communities, BCLC transitioned the majority of casino service providers to a new OSA to encourage investment into facilities.

- BCLC capitalized on the higher than expected lotto jackpot rolls and continued to engage players through advertising and digital services.

- BCLC continued to invest in understanding customer needs and expectations to deliver relevant products and experiences and increased availability of content on mobile.

- To support the long-term health and integrity of the business, BCLC began upgrading legacy lottery and casino systems and technology.

- BCLC introduced several new vendors to leverage their capabilities and provide innovative game content that appeals to players on PlayNow. BCLC's Live Casino offering, a new table product type that was introduced in late fiscal 2017/18, attracted strong player participation throughout fiscal 2018/19.

Performance Measure	2016/17[3] Actuals	2017/18[4] Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
4.1a Net Income[1,2] (millions)	$1,339	$1,400	$1,310	$1,415	$1,406	$1,427
4.1b Comprehensive Cost Ratio (% of Revenue) [1]	42.0%	41.7%	44.5%	42.9%	44.1%	44.2%

[1] **Data Source: BCLC Audited Financial Statements. Actual results are calculated in accordance with International** Financial Reporting Standards.
[2] BCLC's net income is distributed to the Provincial and Federal governments. Distributions in the amount of $10.2M were distributed to the Federal government in fiscal year 2018/19. See Consolidated Statement of Changes in Deficit and Note 19 of the Consolidated Financial Statements for further information.
[3] 2016/17 has not been restated for the impact of adopting IFRS 15 and 9.
[4] The 2017/18 measure was restated with the impact of IFRS 15 and 9; however, resulted in no material change to previously reported figures.

Discussion

Net Income
Net Income, net of payments to the Federal government (see Consolidated Statement of Changes in Deficit and Note 19 of the Consolidated Financial Statements for further information), is the amount of money generated by BCLC and delivered to the Province of B.C., which uses it to support provincial, charitable and community programs.

Through continued investment in its games and service offerings, BCLC has built a diversified portfolio that has delivered engaging gambling experiences to its players and resulted in record revenues this past year.

In 2018/19, BCLC exceeded its target and achieved more than $1.4 billion in net income, an increase of $15.6 million compared to the prior year. BCLC's financial results reflect an increase in revenue (see section 1.2c) and changes in cost structure to ensure the long-term health of the business (see below). BCLC's future Net Income targets were updated in the 2019/20 Service Plan and reflect an increase compared to those in the 2018/19 Service Plan.

Comprehensive Cost Ratio (CCR)

CCR is the sum of direct, gaming support, operating, amortization, and other costs (excluding interest and taxes), divided by revenue and expressed as a percentage. It is intended to gauge operational efficiency.

BCLC achieved a CCR of 42.9% reflecting BCLC's transition to the new OSA with a revised commission structure for its casino and community gaming service providers, and investments to ensure the long-term health of the business such as replacing lottery legacy systems and promoting player health.

Retailer and service provider commissions comprise the majority of the comprehensive cost base. As a result, CCR is most significantly impacted by shifts in BCLC's product mix sales as BCLC has a diversified portfolio of products which generates a wide range of gross margins. BCLC's future CCR targets were updated in the 2019/20 Service Plan and reflect a decrease compared to those in the 2018/19 Service Plan.

Financial Report

Discussion of Results

Resource Summary

$ millions	2017/18[1] Actual	2018/19 Budget	2018/19 Actual	2018/19 Variance
REVENUES				
Casino & Community Gaming	$ 1,906.2	$ 1,876.6	$ 1,904.0	$ 27.4
Lottery & eGaming	596.3	601.2	686.1	84.9
	2,502.5	**2,477.8**	**2,590.1**	**112.3**
EXPENDITURES[2]				
Casino & Community Gaming	788.6	813.4	821.9	(8.5)
Lottery & eGaming	187.9	213.2	222.0	(8.8)
Capital Asset Amortization & Depreciation	68.9	77.6	69.6	8.0
	1,045.4	**1,104.2**	**1,113.5**	**(9.3)**
Income before the undernoted	1,457.1	1,373.6	1,476.6	103.0
Indirect tax expense	57.2	63.1	61.1	2.0
NET INCOME				
Casino & Community Gaming	1,022.0	955.8	983.5	27.7
Lottery & eGaming	377.9	354.7	432.0	77.3
NET INCOME	**$ 1,399.9**	**$ 1,310.5**	**$ 1,415.5**	**$ 105.0**
Capital Expenditures	$ 82.1	$ 105.0	$ 75.2	$ 29.8
Total Liabilities	$ 527.5	$ 536.6	$ 446.4	$ 90.2
Total Deficit	$ 58.1	$ 40.4	$ 64.7	$ (24.3)

[1] Certain comparative figures have been restated for the adoption of IFRS 15 and 9.

[2] Please refer to the Consolidated Statement of Comprehensive Income for a detailed breakdown of actual expenditures. Includes funding of the Joint Illegal Gaming Investigation Team.

In 2018/19, BCLC achieved a record $1.415 billion net income on revenue of $2.590 billion, exceeding the previous records set last year by $15.6 million and $87.6 million, respectively.

This year, BCLC's strong performance was led by the Lottery business, where increased revenue from the big national lottery games produced an overall year-over-year improvement of almost 23 per cent in that category, which helped push the Lottery business' revenue performance 12.6 per cent above 2017/18. On the casino side of the business, revenue was close to flat compared with last year, with higher slot machine revenue offset by lower table game revenue. As a result of higher table game commission rates under the new casino Operational Services Agreement (OSA), as well as changes in sales volume and product mix, 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 direct costs, such as commissions, and are thus tightly correlated with sales performance and product mix.

Therefore, while total revenue exceeded budget by $112.3 million, the total operating costs, excluding direct costs, supporting that increase were under budget by $1.9 million. On a year-over-year basis, an $87.6 million increase in revenue was correlated with total expenditures that were $68.1 million higher than the previous year, primarily from direct gaming expenses, including commissions, leases, and licences.

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 2018/19 operational performance against the targets and budgets established in the Service Plan (bclc.com/service-plan). BCLC also compares its performance to other gambling organizations that make their results publicly available. These comparator organizations were selected from across Canada and internationally for the relevance of their operations in comparison to BCLC's.

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.

Economic Outlook:

Current economic indicators suggest that B.C.'s economic growth will continue to lead Canada's throughout 2019 and 2020; however, at a decelerating pace. Continued provincial economic health might not translate fully or directly into increased future revenue or net income for the corporation. The segment of our business that experienced the largest growth this year—national lottery games—is highly dependent upon the magnitude and frequency of large jackpots as well as players' disposable income, product design and variety, and general economic conditions. It is anticipated that imminent changes to the structure of Lotto Max will have a positive impact on next year's income from this segment of the business.

Over the next three years, growing net income from BCLC's core businesses, as well as increasing both the frequency and diversity of games played by healthy player segments will be priorities. In addition to product and service innovations, BCLC is continuing a multi-year initiative to modernize its technology infrastructure, strengthening relationships with private sector service providers, retailers and third-party vendors, and exploring strategic cost management opportunities.

BCLC has factored product performance and market trends, demographic factors, and general economic conditions into the targets set in its current, three-year service plan. A more detailed discussion of initiatives and opportunities can be found in the Service Plan and on BCLC's website, bclc.com.

Casino and Community Gaming Operations:

$ millions	2017/18[1] Actual	2018/19 Budget	2018/19 Actual	2018/19 Variance
Revenues				
Slot Machines	$ 1,366.7	$ 1,381.6	$ 1,403.3	$ 21.7
Table Games	492.7	451.4	454.1	2.7
Poker	22.5	19.9	23.6	3.7
Bingo	24.3	23.7	23.0	(0.7)
	1,906.2	**1,876.6**	**1,904.0**	**27.4**
Direct expenses[2]	674.2	689.3	691.1	(1.8)
Gaming support costs & operating expenses	168.7	187.1	186.6	0.5
Income before the undernoted	**1,063.3**	**1,000.2**	**1,026.3**	**26.1**
Indirect Tax expense	41.3	44.4	42.8	1.6
Net income	**$ 1,022.0**	**$ 955.8**	**$ 983.5**	**$ 27.7**

[1] Certain comparative figures have been restated for the adoption of IFRS 15 and 9.

[2] Direct expenses include commissions, equipment leases and licenses, and direct supplies.

This year saw the introduction of a new, 20-year casino operational services agreement (OSA) and 31 out of 35 new agreements have been signed by Casino and Community Gaming service providers and BCLC, representing 97% of casino revenues. Overall, the Casino and Community Gaming business generated revenue of $1.904 billion in 2018/19, which was $27.4 million more than budget but $2.2 million less than last year. Revenue from slot machines grew $36.6 million, or 2.7 per cent, from the previous year, while table games, including poker, declined by $37.5 million or 7.3 per cent over 2017/18.

Lottery and eGaming Operations:

$ millions	2017/18[1] Actual	2018/19 Budget	2018/19 Actual	2018/19 Variance
Revenues				
Lottery	$ 476.4	$ 469.5	$ 536.3	$ 66.8
eGaming	119.9	131.7	149.8	18.1
	596.3	**601.2**	**686.1**	**84.9**
Direct expenses[2]	105.3	113.3	122.7	(9.4)
Gaming support costs & operating expenses	97.2	114.5	113.1	1.4
Income before the undernoted	**393.8**	**373.4**	**450.3**	**76.9**
Indirect tax expense	15.9	18.7	18.3	0.4
Net income	**$ 377.9**	**$ 354.7**	**$ 432.0**	**$ 77.3**

[1] Certain comparative figures have been restated for the adoption of IFRS 15 and 9.

[2] Direct expenses include commissions, direct supplies and ticket printing, and equipment leases and licenses.

Lottery and eGaming net income of $ 432.0 million exceeded the previous year by $54.1 million and budget by $77.3 million. Overall revenue of $686.1 million was up $84.9 million from budget, and $89.8 million, or 15.1 per cent, from the previous year.

In 2018/19, year-over-year revenue was up in the Lotto category because there were significantly more major jackpots for the national lottery games than in the prior year. Revenues in the Lotto category were $49.0 million higher than budget and $58.4 million more than the previous year—an increase of 23.0%.

Large jackpots are a principal driver of lottery sales, and this year there were 26 Lotto Max jackpots of $50 million or more—12 more than last year, and 10 more than the projection for the year. This year there were 22 Lotto 6/49 jackpots of $20 million or more—8 more than last year.

During 2018/19, BCLC continued to invest in the PlayNow.com eGaming business, maintaining the frequency with which new casino-style games were introduced, and growing our online player base. Overall, eGaming revenue was up $29.9 million from a year ago—an increase of 24.9 per cent.

Capital Spending

$ millions	2017/18 Actual	2018/19 Budget	2018/19 Actual	2018/19 Variance
Casino & Community Gaming	$ 60.1	$ 44.8	$ 49.1	$ (4.3)
Lottery & eGaming	15.4	45.2	13.9	31.3
Corporate	6.6	15.0	12.2	2.8
Capital Expenditures	**$ 82.1**	**$ 105.0**	**$ 75.2**	**$ 29.8**

From year to year, capital spending varies significantly in response to revenue-generating and gambling facility initiatives. In 2018/19, capital spending of $75.2 million was $29.8 million less than budget and $6.9 million less than in 2017/18. The variance in the Lottery & eGaming actual versus budget resulted from a shift in timing of the replacement of legacy lottery equipment.

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, 2019, 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 Professional Accountants, have performed an independent audit of BCLC and expressed an unqualified opinion on the consolidated financial statements of BCLC.

AHobson

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of British Columbia Lottery Corporation (the Entity), which are comprised of:

- the consolidated statement of financial position as at March 31, 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in deficit for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

KPMG

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Kamloops, Canada
May 15, 2019

British Columbia Lottery Corporation

Consolidated Statement of Financial Position

March 31, 2019, with comparative information for 2018
(in thousands of Canadian dollars)

		2019		2018[1]
ASSETS				
Cash and cash equivalents (note 6)	**$**	**28,437**	$	81,944
Accounts receivable (note 7)		**39,502**		60,283
Receivable from the Interprovincial Lottery Corporation		**2,587**		12,634
Prepaid and deferred expenses		**15,317**		15,407
Inventories (note 8)		**9,269**		9,196
Current assets		**95,112**		179,464
Employee benefits (note 9)		–		2,125
Property and equipment (note 10)		**238,812**		232,458
Intangible assets (note 11)		**47,769**		55,444
Non-current assets		**286,581**		290,027
Total assets	**$**	**381,693**	$	469,491
LIABILITIES				
Cheques issued in excess of funds on hand (note 6)	**$**	**4,539**	$	3,422
Prizes payable (note 12)		**25,041**		23,339
Accounts payable, accrued and other liabilities (note 13)		**90,341**		92,838
Short-term financing (note 14)		**100,029**		154,867
Deferred revenue (note 15)		**23,863**		20,270
Unsettled wagers (note 16)		**5,662**		6,087
Due to the Government of British Columbia (note 18)		**122,031**		161,347
Current liabilities		**371,506**		462,170
Employee benefits (note 9)		**74,887**		65,378
Non-current liabilities		**74,887**		65,378
Total liabilities		**446,393**		527,548
DEFICIT				
Accumulated deficit		**(25,463)**		(25,463)
Accumulated other comprehensive loss		**(39,237)**		(32,594)
Total deficit		**(64,700)**		(58,057)
Total liabilities and deficit	**$**	**381,693**	$	469,491

[1] Certain 2018 comparative figures have been restated – see note 3(C)

Commitments and contingencies (notes 21 and 22)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

Peter Kappel
Chair, Board of Directors

Joan Axford
Chair, Audit Committee

British Columbia Lottery Corporation

Consolidated Statement of Comprehensive Income

Year ended March 31, 2019, with comparative information for 2018
(in thousands of Canadian dollars)

		2019		2018[1]
Revenue (note 17)	**$**	**2,590,126**	$	2,502,510
Expenses				
Commissions and fees		**746,856**		723,463
Employee costs		**113,454**		97,519
Amortization and depreciation (notes 10 and 11)		**69,610**		68,952
Systems, maintenance, and ticket distribution		**47,677**		46,213
Gaming equipment, leases, and licenses		**53,670**		43,044
Advertising, marketing, and promotions		**26,212**		23,478
Ticket printing		**13,176**		13,008
Professional fees and services		**13,152**		13,491
Cost of premises		**7,946**		7,762
Loss on disposal of property and equipment and intangible assets		**6,454**		1,264
Other		**12,312**		4,213
		1,110,519		1,042,407
Income from operations before the undernoted		**1,479,607**		1,460,103
Indirect tax expense (note 24)		**61,139**		57,155
Funding of Joint Illegal Gaming Investigation Team (note 25)		**3,000**		3,000
Net income		**1,415,468**		1,399,948
Other comprehensive income				
Item that will never be reclassified to net income				
Net defined benefit plan actuarial losses (note 9)		**(6,643)**		(9,269)
Total comprehensive income	**$**	**1,408,825**	$	1,390,679

[1] Certain 2018 comparative figures have been restated – see note 3(C)

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Changes in Deficit

Year ended March 31, 2019, with comparative information for 2018
(in thousands of Canadian dollars)

		Accumulated Deficit[1]		Accumulated Other Comprehensive Loss		Total Deficit[1]
Balance, April 1, 2017	$	(24,924)	$	(23,325)	$	(48,249)
Net income		1,399,948		–		1,399,948
Net defined benefit plan actuarial losses (note 9)		–		(9,269)		(9,269)
Total comprehensive income						1,390,679
Distributions to the Government of British Columbia (note 18)		(1,390,693)		–		(1,390,693)
Distributions to the Government of Canada (note 19)		(9,794)		–		(9,794)
Balance, March 31, 2018	$	(25,463)	$	(32,594)	$	(58,057)
Net income		**1,415,468**		**–**		**1,415,468**
Net defined benefit plan actuarial losses (note 9)		**–**		**(6,643)**		**(6,643)**
Total comprehensive income						**1,408,825**
Distributions to the Government of British Columbia (note 18)		**(1,405,312)**		**–**		**(1,405,312)**
Distributions to the Government of Canada (note 19)		**(10,156)**		**–**		**(10,156)**
Balance, March 31, 2019	**$**	**(25,463)**	**$**	**(39,237)**	**$**	**(64,700)**

[1] Certain 2017 and 2018 comparative figures have been restated – see note 3(C)

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018
(in thousands of Canadian dollars)

		2019		2018[1]
Cash flows from operating activities:				
Net income	**$**	**1,415,468**	$	1,399,948
Items not involving cash:				
Depreciation of property and equipment (note 10)		**54,894**		53,033
Amortization of intangible assets (note 11)		**14,716**		15,919
Loss on disposal of property and equipment		**3,983**		1,242
Loss on disposal of intangible assets		**2,471**		22
Interest expense (note 14)		**1,466**		983
Net benefit plan expense (note 9)		**20,073**		16,003
		1,513,071		1,487,150
Changes in:				
Accounts receivable		**20,781**		(19,230)
Receivable from the Interprovincial Lottery Corporation		**10,047**		587
Prepaid and deferred expenses		**90**		(3,828)
Inventories		**(73)**		424
Employee benefits		**(15,082)**		(15,294)
Prizes payable		**1,702**		1,073
Accounts payable, accrued and other liabilities		**1,283**		3,876
Deferred revenue		**3,593**		(451)
Unsettled wagers		**(425)**		290
Net cash from operating activities		**1,534,987**		1,454,597
Cash flows from financing activities:				
Increase (decrease) in short-term financing (note 14)		**(54,845)**		9,679
Interest paid (note 14)		**(1,697)**		(1,039)
Distributions to the Government of British Columbia (note 18)		**(1,444,628)**		(1,377,447)
Distributions to the Government of Canada (note 19)		**(10,156)**		(9,794)
Net cash used in financing activities		**(1,511,326)**		(1,378,601)
Cash flows from investing activities:				
Additions to property and equipment		**(67,849)**		(67,657)
Additions to intangible assets		**(10,841)**		(9,407)
Net proceeds on disposal of property and equipment		**405**		277
Net cash used in investing activities		**(78,285)**		(76,787)
Net decrease in cash and cash equivalents		**(54,624)**		(791)
Cash and cash equivalents, beginning of year		**78,522**		79,313
Cash and cash equivalents, end of year (note 6)	**$**	**23,898**	$	78,522

[1] Certain 2018 comparative figures have been restated – see note 3(C)

See accompanying notes to consolidated financial statements.

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, 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 an agent of the crown, BCLC 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 15, 2019.

B. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on a historical cost basis except for employee benefit plan assets and unsettled wagers. Employee benefit plan assets are measured at the fair value of plan assets less the present value of the defined benefit obligation, as explained in note 4(E)(iii). Unsettled wagers are measured at fair value, as explained in note 4(C)(ii).

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.

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 the ability to exercise control over gaming facility service providers and lottery retailers (note 4(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 9(D)(i)).

3. Changes in accounting policies

Except for the changes below, the Corporation has consistently applied the accounting policies set out in note 4 to all periods presented in these consolidated financial statements.

The Corporation has adopted the following new standards, including any consequential amendments to other standards, as at April 1, 2018.

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*

The impact of adopting IFRS 9 and IFRS 15 on the opening consolidated statement of financial position as at April 1, 2017 is immaterial. The nature and effects of the changes are explained below.

3. Changes in accounting policies (continued)

A. FINANCIAL INSTRUMENTS

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

As a result of the adoption of IFRS 9, the Corporation has changed its classification of financial assets from loans and receivables under IAS 39 to measured at amortized cost. The new classification did not have a quantitative impact, since financial assets will continue to be measured initially at fair value and subsequently at amortized cost. There was no impact to the Corporation's classification of financial liabilities.

The Corporation has adopted a new policy on the impairment of financial assets in response to the adoption of IFRS 9. Impairment under IAS 39 followed an 'incurred loss' model which meant impairment losses were recognized only once an impairment event occurred. Under IFRS 9, impairment will be assessed under an 'expected credit loss' model, in which credit losses are recognized earlier than under IAS 39. Additionally, as a result of IFRS 9, the Corporation has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require the impairment of financial assets to be presented in a separate line item in the statement of profit or loss. The adoption of the new standard did not have a material impact on the measurement of impairment of financial assets held by the Corporation. Additional information on how BCLC measures the allowance for impairment is described in significant accounting policies (note 4(H)(i)).

3. Changes in accounting policies (continued)

B. REVENUE

The Corporation accounts for revenue in accordance with IFRS 15 and IFRS 9.

IFRS 15, which replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations, introduces a single model for recognizing revenue from contracts with customers, with the exception of certain contracts outside of the scope of the standard. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when or as the entity satisfies a performance obligation.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs.

The Corporation follows IFRS 15 to account for all transactions in which the Corporation administers a game amongst players (“Administered Games”).

The Corporation follows IFRS 9 to account for all transactions in which the Corporation and players are wagering against a specific outcome of an event (“Wagered Games”). These transactions expose the Corporation to gains or losses which are recognized in revenue.

The Corporation applied IFRS 15 and 9 retrospectively as at April 1, 2018.

The details and quantitative impact of the changes in accounting policies are disclosed below.

i. Presentation

Revenue is measured at the transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to customers, net of any consideration payable to customers.

As a result, gaming revenue is required to be reported net of expected cash prizes. This change results in all of the Corporation’s revenue being recorded net of prizes. The following table illustrates the impact of this change on the comparative figures.

(in thousands of Canadian dollars)

3. Changes in accounting policies (continued)

B. REVENUE (continued)

i. Presentation (continued)

Consolidated statement of comprehensive income

For the year ended March 31, 2018

		As previously reported
Revenue	$	3,267,132
Prizes		764,223
Net Win	$	2,502,909
Impact of adoption of IFRS 15[1]	$	(399)
		As restated
Revenue	$	2,502,510

[1] As quantified in note 3(C)

ii. Revenue Recognition

In accordance with IFRS 15, the Corporation recognizes instant ticket lottery revenue when a player purchases the ticket from a retailer. Previously, under IAS 18, revenue was recognized upon transfer of the instant tickets to the retailer. The change in the timing of revenue recognition has resulted in an adjustment to the Corporation's consolidated financial statements as quantified in note 3(C).

iii. Deferred Revenue and Unsettled Wagers

Under IFRS 15, advance wagers are presented either as deferred revenue, for Administered Games, or as unsettled wagers, for Wagered Games. Previously, under IAS 18, these wagers were recorded as deferred revenue until the draw or event took place.

iv. Free Play

In accordance with IFRS 15, when a player wins a free ticket on a lottery product, the Corporation has a second performance obligation to fulfill. The portion of the transaction price relating to the second performance obligation is deferred until the player redeems the free ticket. Previously, under IAS 18, no deferral was made for free ticket play won. The change in the timing of revenue recognition has resulted in an adjustment to the Corporation's consolidated financial statements as quantified in note 3(C).

(in thousands of Canadian dollars)

3. Changes in accounting policies (continued)

B. REVENUE (continued)

v. Commissions

In accordance with IFRS 15, costs incurred for fulfilling a contract with a customer that do not meet the criteria for a contract asset are expensed as incurred; as a result, the Corporation will no longer recognize commission expenses based on when revenue is earned. The change in the timing of the commission expense recognition has resulted in an adjustment to the Corporation's consolidated financial statements as quantified in note 3(C).

C. SUMMARY OF QUANTITATIVE IMPACTS

The following tables summarize the impacts of the adoption of IFRS 15 and 9 on the Corporation's statement of financial position, statement of comprehensive income, and statement of cash flows.

Excerpt from consolidated statement of financial position

As at April 1, 2017

The specific financial statement items impacted are as follows:

	As previously reported	Impact of adoption of IFRS 15	As restated
Prepaid and deferred expenses	$ 12,928	$ (1,348)	$ 11,580
Inventories	9,055	565	9,620
Impact on total assets	$ 459,628	$ (783)	$ 458,845
Prizes payable	$ 32,460	$ (10,193)	$ 22,267
Deferred revenue	9,328	11,393	20,721
Unsettled wagers	-	5,797	5,797
Impact on total liabilities	500,097	6,997	507,094
Accumulated deficit	(17,144)	(7,780)	(24,924)
Impact on total deficit	(40,469)	(7,780)	(48,249)
Impact on total liabilities and deficit	$ 459,628	$ (783)	$ 458,845

(in thousands of Canadian dollars)

3. Changes in accounting policies (continued)

C. SUMMARY OF QUANTITATIVE IMPACTS (continued)

Excerpt from consolidated statement of financial position

As at March 31, 2018

The specific financial statement items impacted are as follows:

	As previously reported	Impact of adoption of IFRS 15	As restated
Prepaid and deferred expenses	$ 16,930	$ (1,523)	$ 15,407
Inventories	8,597	599	9,196
Impact on total assets	$ 470,415	$ (924)	$ 469,491
Prizes payable	$ 34,495	$ (11,156)	$ 23,339
Deferred revenue	7,806	12,464	20,270
Unsettled wagers	-	6,087	6,087
Impact on total liabilities	520,153	7,395	527,548
Accumulated deficit	(17,144)	(8,319)	(25,463)
Impact on total deficit	(49,738)	(8,319)	(58,057)
Impact on total liabilities and deficit	$ 470,415	$ (924)	$ 469,491

(in thousands of Canadian dollars)

3. Changes in accounting policies (continued)

C. SUMMARY OF QUANTITATIVE IMPACTS (continued)

Excerpt from consolidated statement of comprehensive income

For the year ended March 31, 2018

The specific financial statement items impacted are as follows:

	As previously reported	Impact of adoption of IFRS 15	As restated
Revenue	$ 2,502,909	$ (399)	$ 2,502,510
Commissions and fees	723,289	174	723,463
Ticket printing	13,042	(34)	13,008
Total expenses	1,042,267	140	1,042,407
Impact on net income	1,400,487	(539)	1,399,948
Impact on total comprehensive income	$ 1,391,218	$ (539)	$ 1,390,679

(in thousands of Canadian dollars)

3. Changes in accounting policies (continued)

C. SUMMARY OF QUANTITATIVE IMPACTS (continued)

Excerpt from consolidated statement of cash flows

For the year ended March 31, 2018

The specific financial statement items impacted are as follows:

	As previously reported	Impact of adoption of IFRS 15	As restated
Net income	$ 1,400,487	$ (539)	$ 1,399,948
Changes in:			
Prepaid and deferred expenses	(4,002)	174	(3,828)
Inventories	458	(34)	424
Prizes payable	2,035	(962)	1,073
Deferred revenue	(1,522)	1,071	(451)
Unsettled wagers	-	290	290
Impact on net cash from operating activities	1,454,653	-	1,454,653

4. Significant accounting policies

Except as set out in note 3, 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.

4. Significant accounting policies (continued)

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments and form an integral part of the Corporation's cash management. They consist of readily convertible instruments having a maturity of three months or less from the acquisition date and are subject to insignificant risk of changes in fair value.

C. FINANCIAL INSTRUMENTS

The Corporation classifies its financial instruments into the following categories: financial assets and liabilities subsequently measured at amortized cost, financial assets subsequently measured at fair value through other comprehensive income, and financial assets and liabilities subsequently measured at fair value through profit or loss.

i. Financial assets

The Corporation initially recognizes financial assets on the dates on which they originate, or 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 any such derecognized financial asset that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial assets subsequently measured at amortized cost are financial assets that are held in order to collect the contractual cash flows. The contractual cash flows related to these financial instruments solely represent payments of principal and interest. Such assets are measured initially at fair value plus any directly attributable transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price. Subsequent to initial recognition, such assets are measured at amortized cost using the effective interest method, less any allowance for expected losses (see note 4(H)(i)).

Financial assets subsequently measured at amortized cost are comprised of cash and cash equivalents, accounts receivable, and the receivable from the Interprovincial Lottery Corporation.

4. Significant accounting policies (continued)

C. FINANCIAL INSTRUMENTS (continued)

ii. 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. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid is recognized in profit or loss.

The Corporation classifies financial liabilities as measured at amortized cost or fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at fair value, and net gains and losses, including any interest expense, are recognized in profit or loss.

Financial liabilities at amortized cost 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. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gains or losses on derecognition are also recognized in profit or loss.

The Corporation's financial liabilities measured at fair value through profit or loss are comprised of unsettled wagers, which are derivative liabilities. The Corporation's financial liabilities measured at amortized cost are comprised of cheques issued in excess of funds on hand, prizes payable, accounts payable, accrued and other liabilities, short-term financing, and amounts due to the Government of British Columbia.

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, legally enforceable 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.

4. Significant accounting policies (continued)

D. INVENTORIES

Inventories are measured at the lower of cost, determined on a weighted average (for spare parts inventories), or first-in, first-out (for instant ticket inventories) basis, and net realizable value. For spare parts, net realizable value is the estimated value in use; for instant ticket inventories, net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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.

E. 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.

4. Significant accounting policies (continued)

E. EMPLOYEE BENEFITS (continued)

iii. Defined benefit plans

The Corporation's obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of the 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. The calculation of the defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method.

The fair value of any plan assets is deducted from the obligation to determine the net defined benefit liability (asset). 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. 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 benefits that relates to past service, or the gain or loss on curtailment, is recognized immediately in the defined benefit cost (income). The Corporation recognizes gains or losses on the settlement of a defined benefit plan when the settlement occurs.

4. Significant accounting policies (continued)

F. 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 and bringing the asset to the location and condition for its intended use. 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 suitable 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 to 10 years
eGaming systems and equipment	3 to 5 years
Casino and community gaming systems and equipment	3 to 10 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

4. Significant accounting policies (continued)

G. 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) beginning when they are available for use. Amortization methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

H. IMPAIRMENT

i. Financial assets

Financial assets not classified at fair value through profit or loss are assessed under an expected credit loss model, which requires the recognition of an allowance for expected losses upon recognition of the asset. The Corporation measures loss allowances at an amount equal to the lifetime expected credit losses, which are the losses that result from all possible default events over the expected life of a financial instrument. To measure the expected credit loss, reasonable and supportable information that is relevant and available without undue cost or effort is considered. This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience and informed credit assessment, which includes forward-looking information.

4. Significant accounting policies (continued)

H. IMPAIRMENT (continued)

i. Financial assets (continued)

At each reporting date, the Corporation assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the future cash flows of the financial asset have occurred.

The Corporation considers expected credit risk for these assets at both an individual asset and a collective level. All individually significant assets are assessed for expected credit losses. Assets that are not individually significant are assessed collectively for expected credit losses by grouping together assets with similar risk characteristics.

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

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. difference between the cash flows due to the Corporation in accordance with the contract and the cash flows that the Corporation expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset. Losses are recognized in profit or loss. If the amount of the credit loss subsequently decreases and the decrease can be related objectively to an event occurring after the expected credit loss was recognized, then the previously recognized credit loss is reversed through profit or loss.

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. 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 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.

4. Significant accounting policies (continued)

I. 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. Provisions are included in accounts payable, accrued and other liabilities.

J. REVENUE

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

The Corporation follows IFRS 15 to account for all transactions in which the Corporation administers a game amongst players ("Administered Games"). In these games, the Corporation recognizes the portion of the wagers retained, and not distributed as prizes, as revenue from operating the game.

The Corporation follows IFRS 9 to account for all transactions in which the Corporation and players are wagering against a specific outcome of an event ("Wagered Games"). These transactions expose the Corporation to gains or losses which are recognized in revenue.

Transactions in which the Corporation administers a game amongst players and earns a variable commission are accounted for under both IFRS 9 and IFRS 15. In these games, the variable commission exposes the Corporation to a gain or loss depending on the actual amount of the payout versus the expected prize percentage, which is initially accounted for under IFRS 9 as a financial liability.

Revenue from slot machines and table games, generated through contracted gaming facility service providers and online at PlayNow.com, is recognized, net of financial liabilities under customer loyalty programs, in the same period in which the games are played.

Revenue from lottery draw-based games, which are sold through contracted lottery retailers and online at PlayNow.com, 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 with a corresponding financial liability for the portion to be paid as prizes for Administered Games, or as unsettled wagers for Wagered Games.

4. Significant accounting policies (continued)

J. REVENUE (continued)

Revenue for all lottery instant ticket games, which are sold through contracted lottery retailers, is recognized at the point of sale to a player. Instant ticket game prizes are recorded as a financial liability at the expected prize percentage concurrently with the recognition of revenue.

Revenue from sports betting, generated through contracted lottery retailers and online at PlayNow.com, is recognized in the period in which the bets settle. Receipts for bets that are received before March 31 for events that occur subsequent to that date are recorded as deferred revenue with a corresponding financial liability for the portion to be paid as prizes for Administered Games, or as unsettled wagers for Wagered Games.

Revenue from the operation of bingo games, generated through contracted gaming facility service providers and online at PlayNow.com, is recognized in the same period in which the games are played.

Gains on unclaimed prizes are recognized as revenue when they legally expire. Unclaimed prizes of national lottery games are administered by the Interprovincial Lottery Corporation.

Liabilities under customer loyalty programs are reported as unsettled wagers due to their potential to be discharged through the redemption of free play on Wagered Games.

K. COMMISSIONS

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

Commissions paid to gaming facility service providers, including commissions for facility investment, are based on revenue generated in accordance with underlying operating service agreements. BCLC recognizes commission expenses as incurred.

In accordance with the new operational services agreements (OSAs) (note 5(B)), commissions paid for facility development have been revised to facility investment commissions.

4. Significant accounting policies (continued)

L. 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 in order 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.

M. 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. The standard which may be relevant to the Corporation is set out below. The Corporation does not plan to adopt this standard early.

i. IFRS 16 *Leases* (IFRS 16)

IFRS 16, published in January 2016, establishes principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 introduces a single, on-balance-sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 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.*

4. Significant accounting policies (continued)

M. NEW STANDARDS ISSUED BUT NOT YET ADOPTED (continued)

i. IFRS 16 *Leases* (IFRS 16) (continued)

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted only if IFRS 15 is applied at or before the date of initial application of IFRS 16. The Corporation plans to adopt this standard for its fiscal year ending March 31, 2020.

The Corporation currently is reviewing and assessing all lease arrangements to determine the impacts that the new standard will have on the consolidated financial statements.

5. 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

The Corporation's Board of Directors has the responsibility to oversee the conduct of the Corporation's business and to supervise management, which is responsible for the day-to-day operation of the Corporation.

The Board's role includes oversight of the Corporation's enterprise risk management program, and the integrity of the Corporation's internal control and management systems. The Board, with the support of its Risk Committee, monitors the Corporation's risk tolerance and considers strategic risks as part of the annual strategic planning process. The Board's Audit Committee supports the Board in its oversight of the effectiveness of the Corporation's systems of internal control over financial information.

The Corporation has a corporate security and compliance division, as well as an internal audit services department. Furthermore, the Corporation has a dedicated risk advisory services (RAS) department to support the enterprise risk management program in the identification, assessment, and management of strategic and operational risks. The RAS department reports quarterly on its activities and on the Corporation's risk profile for review by the Executive Committee, the Risk Committee, and the Board as a whole.

5. Financial risk management (continued)

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, revenue less commissions outstanding, and cash and cash equivalents.

Trade receivables, revenue less commissions outstanding, and gaming cash floats

Third parties transacting with the Corporation that handle gaming proceeds, 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 has arrangements with approximately 3,500 lottery retailers. The Corporation is not materially exposed to any 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 in cases where there are concerns that retailers might be experiencing financial difficulties. Security is obtained from lottery retailers who are considered to be 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 has arrangements with 15 gaming facility service providers. During the current fiscal year, new OSAs were signed with most gaming facility service providers. The Corporation plans for all remaining gaming facility service providers to sign new OSAs as soon as is practicable. The Corporation has mitigated the risk associated with the revenue less commissions outstanding from gaming facility service providers that have transitioned to the new OSA by requiring daily deposits of the estimated revenue collected into a bank account owned by the Corporation. Additionally, these gaming facility service providers are required to supply all gaming cash floats. The Corporation has credit risk exposure primarily in relation to two significant gaming facility service providers, both of which have transitioned to the new OSA.

As at March 31, 2019, the revenue less commissions owed to the Corporation by the two largest gaming facility service providers accounts for $7,889 (2018: $22,504) of the accounts receivable carrying amount.

(in thousands of Canadian dollars)

5. Financial risk management (continued)

B. CREDIT RISK (continued)

Trade receivables, revenue less commissions outstanding, and gaming cash floats (continued)

The Corporation's exposure to credit risk for accounts receivable at the reporting date is represented by the carrying amounts less any Irrevocable Standby Letters of Credit or security deposits. These amounts are listed as follows:

		2019		2018
Maximum exposure	$	**40,372**	$	104,347
Collateral		**(4,652)**		(65,955)
Net exposure	$	**35,720**	$	38,392

Normal credit terms for trade receivables or the balance of revenue less commissions outstanding are payment within 30 days. As at March 31, 2019 and 2018, there were no invoiced trade receivables or revenue less commissions outstanding for more than 60 days. At any time, balances receivable from gaming facility service providers include receivables for player funds held for outstanding chips. These balances, which represent the Corporation's liability to players, are not invoiced because they will be relieved through the normal course of operations.

The Corporation's trade receivables are largely comprised of amounts owing from lottery retailers and gaming facility service providers. These receivables are short term in nature and are collected through bank sweeps and daily deposits, making the likelihood of a credit loss very low. The Corporation has assessed the expected credit loss and no material expected credit losses resulted.

Cash and cash equivalents

Cash and cash equivalents, excluding gaming cash floats, are held with banks and counterparties that have high credit ratings and 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.

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 6).

5. Financial risk management (continued)

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 program. Under this agreement, the Corporation may borrow up to an aggregate amount of $250,000. 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 other than the requirement that no single loan may have a duration of more than 365 days. 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 an unused $10,000 demand operating credit facility with a Canadian commercial bank that is unsecured. Interest is payable at the bank's commercial prime lending rate (2018: prime rate).

The Corporation manages liquidity risk by forecasting and assessing actual cash flow requirements on an ongoing 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 surplus cash balances resulting from unclaimed prize money and money from normal operations held in advance of its transfer to the Government of British Columbia (note 18). As a result of fluctuating cash flow requirements and in order to minimize financial risk, the Corporation maintains a high degree of liquidity.

The contractual maturities of all financial liabilities as at March 31, 2019 and 2018 are 90 days or less.

(in thousands of Canadian dollars)

5. Financial risk management (continued)

D. MARKET RISK

Market risk, including interest rate risk, is the risk that changes in market prices will affect the fair value of, or future cash flows from, a financial instrument. The Corporation is not exposed to interest rate risk since all of its interest-bearing financial instruments are held in fixed-rate instruments.

The Corporation does not account for any fixed-rate financial liabilities at fair value through profit or loss, and does not utilize interest rate swaps. Therefore, a change in interest rates at the reporting date would not affect income.

E. FAIR VALUES

The carrying amounts of financial assets and financial liabilities not classified as fair value through profit or loss 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.

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, 2019	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	$ 38,354	$ (12,314)	$ 26,040	$ –	$ 26,040
Gaming facility service providers	26,004	(15,889)	10,115	–	10,115
Other	–	–	–	3,347	3,347
	$ 64,358	$ (28,203)	$ 36,155	$ 3,347	$ 39,502

As at March 31, 2019	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	$ 723	$ (1,893)	$ (1,170)	$ (89,171)	$ (90,341)

(in thousands of Canadian dollars)

5. Financial risk management (continued)

F. OFFSETTING (continued)

As at March 31, 2018	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	$ 38,316	$ (12,324)	$ 25,992	$ –	$ 25,992
Gaming facility service providers	54,612	(23,719)	30,893	–	30,893
Other	–	–	–	3,398	3,398
	$ 92,928	$ (36,043)	$ 56,885	$ 3,398	$ 60,283

As at March 31, 2018	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	$ 758	$ (2,040)	$ (1,282)	$ (91,556)	$ (92,838)

6. Cash and cash equivalents

	2019	2018
Canadian high interest savings account (overnight deposits)	**$ 16,000**	$ 25,000
Funds held for player accounts	**7,874**	7,072
Funds held for security deposits	**3,693**	5,808
Gaming cash floats	**870**	44,064
Cash and cash equivalents in the statement of financial position	**28,437**	81,944
Cheques issued in excess of funds on hand in the statement of financial position	**(4,539)**	(3,422)
Cash and cash equivalents in the statement of cash flows	**$ 23,898**	$ 78,522

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 $7,874 (2018: $7,072) is included in accounts payable, accrued and other liabilities.

(in thousands of Canadian dollars)

6. Cash and cash equivalents (continued)

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 $3,693 (2018: $5,808) is included in accounts payable, accrued and other liabilities.

Under the new OSAs with the gaming facility service providers, gaming cash floats are now supplied by the service providers. The outstanding balance in fiscal year 2019 represents cash floats provided by the Corporation to gaming facility service providers who have not yet transitioned to the new OSA. These 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 previous operational services agreements). These floats are located at the gaming facilities and are not available for other purposes.

Select gaming facility 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 consolidated financial statements for these gaming accounts. The gaming facility service providers are legally liable for the player funds held in these accounts.

7. Accounts receivable

		2019		2018
Trade receivables and revenue less commissions outstanding:				
Lottery retailers	**$**	**26,040**	$	25,992
Gaming facility service providers		**10,115**		30,893
		36,155		56,885
Other		**3,347**		3,398
	$	**39,502**	$	60,283

The accounts receivable balances presented include accounts receivable from the sale of both Administered Games and Wagered Games.

(in thousands of Canadian dollars)

8. Inventories

The major components of inventories are as follows:

		2019		2018[1]
Slot machine spare parts	**$**	**5,022**	$	4,701
Instant tickets		**3,358**		3,013
Other		**889**		1,482
	$	**9,269**	$	9,196

For the year ended March 31, 2019, inventories recognized as an expense amounted to $18,713 (2018: $20,124[1]).

[1] Certain 2018 comparative figures have been restated – see note 3(C)

9. Employee benefits

The Corporation contributes to and controls the following pension and post-retirement 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 (Canada)* maximum pension rules.

Post-Retirement Benefit Plan – Non-Pension (Plan C)

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

9. Employee benefits (continued)

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.

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, which are based on a separate actuarial valuation for funding purposes, 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 $13,922 to Plan A in the year ending March 31, 2020.

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

(in thousands of Canadian dollars)

9. Employee benefits (continued)

B. MOVEMENT IN NET DEFINED BENEFIT LIABILITY (ASSET)

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

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	2019	2018	**2019**	2018	**2019**	2018
Balance at April 1	**$ 355,100**	$ 325,579	**$ (291,847)**	$ (272,303)	**$ 63,253**	$ 53,276
Included in income						
Current service cost	**15,900**	12,961	**–**	–	**15,900**	12,961
Past service cost	**1,024**	–	**–**	–	**1,024**	–
Interest cost (income)	**13,408**	13,386	**(10,779)**	(10,914)	**2,629**	2,472
Administration cost	**–**	–	**520**	570	**520**	570
	30,332	26,347	**(10,259)**	(10,344)	**20,073**	16,003
Included in other comprehensive income						
Re-measurements loss (gain):						
Actuarial loss (gain) arising from:						
Financial assumptions	**11,309**	4,036	**–**	–	**11,309**	4,036
Experience adjustments	**104**	8,801	**–**	–	**104**	8,801
Return on plan assets excluding interest income	**–**	–	**(4,770)**	(3,568)	**(4,770)**	(3,568)
	11,413	12,837	**(4,770)**	(3,568)	**6,643**	9,269
Other						
Contributions paid by the employer	**–**	–	**(15,082)**	(15,295)	**(15,082)**	(15,295)
Contributions paid by the employee	**2,833**	2,730	**(2,833)**	(2,730)	**–**	–
Benefits paid	**(12,246)**	(12,393)	**12,246**	12,393	**–**	–
	(9,413)	(9,663)	**(5,669)**	(5,632)	**(15,082)**	(15,295)
Balance at March 31	**$ 387,432**	$ 355,100	**$ (312,545)**	$ (291,847)	**$ 74,887**	$ 63,253

Represented by:	**2019**	2018
Net defined benefit liability (asset) (Plan A)	**$ 6,969**	$ (2,125)
Net defined benefit liability (Plans B and C)	**67,918**	65,378
	$ 74,887	$ 63,253

(in thousands of Canadian dollars)

9. Employee benefits (continued)

C. PLAN ASSETS

Plan assets are comprised of:

2019		**Level 1[1]**		**Level 2[2]**		**Total**	**Asset Mix**
Pooled funds							
Canadian equity funds	**$**	**94,787**	**$**	**–**	**$**	**94,787**	**31%**
Global equity funds		**112,974**		**–**		**112,974**	**36%**
Fixed income funds		**72,289**		**–**		**72,289**	**23%**
Debt securities							
Canada real return bonds		**–**		**32,495**		**32,495**	**10%**
	$	**280,050**	**$**	**32,495**	**$**	**312,545**	**100%**

2018		Level 1[1]		Level 2[2]		Total	Asset Mix
Pooled funds							
Canadian equity funds	$	89,351	$	–	$	89,351	31%
Global equity funds		104,189		–		104,189	36%
Fixed income funds		67,706		–		67,706	23%
Debt securities							
Canada real return bonds		–		30,601		30,601	10%
	$	261,246	$	30,601	$	291,847	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 of 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% equities and 40% 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% equity securities, 30 to 50% investment funds and debt securities, and up to 5% cash and cash equivalents.

(in thousands of Canadian dollars)

9. Employee benefits (continued)

D. DEFINED BENEFIT OBLIGATION

i. Actuarial valuation and assumptions

An actuarial valuation for funding purposes 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 performed by Morneau Shepell Ltd. (Morneau), an independent firm of consulting actuaries, as at December 31, 2016. The defined benefit obligation for Plan A has been based on this valuation, with adjustments made for cash flows and material events since that date. In addition, certain assumptions have been updated to reflect market conditions as at March 31, 2019. The next required actuarial valuation for funding purposes will be completed as of December 31, 2019 with a determination of the funded status of the pension plan available in mid-2020.

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 at March 31, 2019.

There is no statutory actuarial valuation requirement for Plan C; however, a full actuarial valuation is completed every three years on Plan C. A full actuarial valuation of Plan C was performed by Morneau as at December 31, 2018. The defined benefit obligation for Plan C has been based on this valuation, with adjustments made for cash flows and material events since that date.

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

	Plans A and B		Plan C	
	2019	2018	**2019**	2018
Discount rate:				
Defined benefit obligation	**3.40%**	3.65%	**3.40%**	3.65%
Benefit cost	**3.65%**	4.00%	**3.65%**	4.00%
Rate of compensation increase for the fiscal year	**2.00%**	2.00%	-	-
Future compensation increases	**2.00%**	2.00%	-	-
Inflation	**1.70%**	2.00%	-	-
Initial weighted-average health care trend rate	-	-	**4.27%**	5.00%
Ultimate weighted-average health care trend rate	-	-	**3.47%**	3.70%
Year ultimate reached	-	-	**2040**	2026
Assumed life expectations on retirement at age 65				
Current pensioners				
Male	**23.3**	23.2	**23.3**	23.2
Female	**25.2**	25.1	**25.2**	25.1
Retiring in 20 years				
Male	**24.3**	24.2	**24.3**	24.2
Female	**26.1**	26.0	**26.1**	26.0

(in thousands of Canadian dollars)

9. Employee benefits (continued)

D. DEFINED BENEFIT OBLIGATION (continued)

ii. Sensitivity analysis

Changes at March 31, 2019 to one of the relevant actuarial assumptions, holding the other assumptions constant, would have affected the defined benefit obligation by the following amounts:

	Effect on the defined benefit obligation			
	2019		2018	
	Increase in rate	**Decrease in rate**	Increase in rate	Decrease in rate
Discount rate (1% movement)	**$ (55,703)**	**$ 72,045**	$ (51,341)	$ 66,315
Future compensation increase (1% movement)	**15,381**	**(12,769)**	10,745	(8,973)
Inflation (1% movement)	**19,119**	**(17,403)**	16,542	(15,064)
Health care cost trend rate (1% movement)	**5,069**	**(4,854)**	5,205	(4,925)
Future mortality (10% movement)	**(6,461)**	**7,009**	(5,639)	6,108

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

iii. Maturity profile of plan membership

The breakdown of the defined benefit obligation at March 31, 2019 (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	
	2019	2018
Active members	**51%**	49%
Deferred vested members	**5%**	5%
Retirees	**44%**	46%
Total	**100%**	100%

At March 31, 2019, the weighted-average duration of the defined benefit obligation was 16.2 years (2018: 16.2 years).

(in thousands of Canadian dollars)

10. 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, 2017	$ 2,779	$ 100,515	$ 116,479	$ 7,651	$ 436,509	$ 22,931	$ 686,864
Additions	217	2,588	6,900	1	34,220	29,668	73,594
Transferred to systems and equipment	–	1,422	1,075	–	16,504	(19,001)	–
Disposals and retirements	–	(904)	(2,011)	–	(26,199)	–	(29,114)
Balance at March 31, 2018	2,996	103,621	122,443	7,652	461,034	33,598	731,344
Additions	**1,736**	**6,021**	**2,807**		**28,404**	**26,670**	**65,638**
Transferred to systems and equipment	**–**	**2,026**	**4,459**	**–**	**23,452**	**(29,937)**	**–**
Disposals and retirements	**–**	**(2,888)**	**(4,887)**	**–**	**(30,098)**	**–**	**(37,873)**
Balance at March 31, 2019	**$ 4,732**	**$ 108,780**	**$ 124,822**	**$ 7,652**	**$ 482,792**	**$ 30,331**	**$ 759,109**
Accumulated depreciation							
Balance at April 1, 2017	$ –	$ 77,869	$ 101,528	$ 7,263	$ 286,788	$ –	$ 473,448
Depreciation for the year	–	6,426	4,626	253	41,728	–	53,033
Disposals and retirements	–	(877)	(1,760)	–	(24,958)	–	(27,595)
Balance at March 31, 2018	–	83,418	104,394	7,516	303,558	–	498,886
Depreciation for the year	**–**	**6,621**	**5,487**	**101**	**42,685**	–	**54,894**
Disposals and retirements	**–**	**(2,692)**	**(2,917)**	–	**(27,874)**	–	**(33,483)**
Balance at March 31, 2019	**$ –**	**$ 87,347**	**$ 106,964**	**$ 7,617**	**$ 318,369**	**$ –**	**$ 520,297**
Carrying amounts							
At March 31, 2018	$ 2,996	$ 20,203	$ 18,049	$ 136	$ 157,476	$ 33,598	$ 232,458
At March 31, 2019	**$ 4,732**	**$ 21,433**	**$ 17,858**	**$ 35**	**$ 164,423**	**$ 30,331**	**$ 238,812**

(in thousands of Canadian dollars)

11. Intangible assets

	Software	Assets under development	Total
Cost			
Balance at April 1, 2017	$ 160,489	$ 17,346	$ 177,835
Acquisitions - separately acquired	4,547	778	5,325
Acquisitions - internally generated	999	2,227	3,226
Transferred to software	10,562	(10,562)	–
Disposals and retirements	(25)	–	(25)
Balance at March 31, 2018	176,572	9,789	186,361
Acquisitions – separately acquired	**2,329**	**4,530**	**6,859**
Acquisitions – internally generated	**18**	**2,636**	**2,654**
Transferred to software	**4,208**	**(4,208)**	**–**
Disposals and retirements	**(4,869)**	**–**	**(4,869)**
Balance at March 31, 2019	**$ 178,258**	**$ 12,747**	**$ 191,005**
Accumulated amortization			
Balance at April 1, 2017	$ 115,001	$ –	$ 115,001
Amortization for the year	15,919	–	15,919
Disposals and retirements	(3)	–	(3)
Balance at March 31, 2018	130,917	–	130,917
Amortization for the year	**14,716**	–	**14,716**
Disposals and retirements	**(2,397)**	–	**(2,397)**
Balance at March 31, 2019	**$ 143,236**	**$ –**	**$ 143,236**
Carrying amounts			
At March 31, 2018	$ 45,655	$ 9,789	$ 55,444
At March 31, 2019	**$ 35,022**	**$ 12,747**	**$ 47,769**

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

(in thousands of Canadian dollars)

12. Prizes payable

		2019		2018[1]
Lottery games	**$**	**16,284**	$	15,991
Progressive jackpots		**8,404**		7,055
Other		**353**		293
	$	**25,041**	$	23,339

[1] Certain 2018 comparative figures have been restated – see note 3(C)

13. Accounts payable, accrued and other liabilities

		2019		2018
Trade payables	**$**	**19,743**	$	26,185
Accrued expenses		**37,255**		39,022
Player accounts liability		**7,874**		7,072
Security deposits payable		**3,693**		5,808
Indirect tax payable		**5,665**		5,359
Other		**16,111**		9,392
	$	**90,341**	$	92,838

14. Short-term financing

		2019		2018
Government of British Columbia, loans, payable in single instalments including interest ranging from $41 to $87 at rates ranging from 1.46% to 1.60%, unsecured, due between April 9, 2019 and April 25, 2019	**$**	**100,029**	$	–
Government of British Columbia, loans, payable in single instalments including interest ranging from $31 to $78 at rates ranging from 0.86% to 1.18%, unsecured, due between April 9, 2018 and May 24, 2018		–		154,867
	$	**100,029**	$	154,867

(in thousands of Canadian dollars)

14. Short-term financing (continued)

Reconciliation of the movements of liabilities to cash flows arising from financing activities:

		2019		2018
Balance at April 1	**$**	**154,867**	$	145,130
Changes from financing cash flows				
Proceeds from borrowings		**1,313,750**		1,414,084
Repayment of borrowings		**(1,368,595)**		(1,404,405)
Total changes from financing cash flows		**(54,845)**		9,679
Other changes				
Interest expense		**1,466**		983
Interest paid		**(1,697)**		(1,039)
Capitalized borrowing costs		**238**		114
Total other changes		**7**		58
Balance at March 31	**$**	**100,029**	$	154,867

15. Deferred revenue

The following table includes revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date as described in note 4(J). The amounts recorded below are expected to be recognized as revenue by the Corporation within 12 months.

		2019		2018[1]
Lottery games	**$**	**21,303**	$	19,977
Other		**2,560**		293
	$	**23,863**	$	20,270

[1] Certain 2018 comparative figures have been restated – see note 3(C)

(in thousands of Canadian dollars)

16. Unsettled wagers

The following table includes unsettled wagers expected to be recognized in the future related to outcomes that have not yet occurred at the reporting date as described in note 4(J). The amounts recorded below are expected to be recognized as revenue by the Corporation within 12 months.

		2019		2018[1]
Customer loyalty programs	**$**	**4,193**	$	4,490
Lottery games		**872**		708
Sports betting		**443**		843
Other		**154**		46
	$	**5,662**	$	6,087

[1] Certain 2018 comparative figures have been restated – see note 3(C)

17. Revenue

The Corporation's revenue is disaggregated by major product lines as follows:

		2019		2018[1]
Slot machines and table games	**$**	**1,990,080**	$	1,967,860
Lottery games		**539,678**		479,944
Sports betting		**26,390**		20,852
Bingo games		**25,262**		26,227
Other		**8,716**		7,627
	$	**2,590,126**	$	2,502,510
Revenue from Wagered Games[2]	**$**	**2,177,101**	$	2,131,621
Revenue from Administered Games[2]		**413,025**		370,889
	$	**2,590,126**	$	2,502,510

[1] Certain 2018 comparative figures have been restated – see note 3(C)

[2] As described in note 4(J)

(in thousands of Canadian dollars)

18. 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 19), 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.

19. 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.

20. Interprovincial Lottery Corporation

The Corporation’s share of the ILC prize and ticket printing costs for national games is recognized as a reduction to revenue 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.

21. Commitments

Operating leases

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

2020	5,076
2021	4,388
2022	4,293
2023	3,990
2024	3,447
Thereafter	6,085

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

21. 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. 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 non-cancellable operating lease agreements. These leases generally have five-year terms.

The Corporation leases casino and community gaming equipment under cancellable operating leases. These leases typically run for a period of three years.

During the year ended March 31, 2019, $25,069 (2018: $24,071) 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 $3,437 (2018: $3,140) in respect of rent under cancellable operating agreements with lottery retailers. These expense and income amounts are included in gaming equipment, leases, and licenses, cost of premises, and other.

Capital commitments

As of March 31, 2019, the Corporation is committed to incur capital expenditures relating to property and equipment and intangible assets of $8,965 (2018: $9,814). These commitments are expected to be settled in the following year.

22. Contingencies

The Corporation is vigorously defending an action brought by a gaming facility service provider alleging that the Corporation improperly collected a marketing commission. The matter is currently being considered by the courts and the Corporation expects judgment in fiscal year 2020 or 2021. The Corporation has assessed it is probable that the judgment will be in its favour; therefore, no provision has been recorded in the consolidated financial statements. The potential undiscounted amount of the payments that the Corporation could be required to make if there was an adverse decision related to the lawsuit is estimated to be a maximum of $33,900 excluding interest and costs.

The Corporation is also party to additional legal proceedings and claims that arise in the ordinary course of business. A provision would only be recognized for these contingencies when it is probable that there will be an outflow of economic benefits and the amount can be estimated reliably.

(in thousands of Canadian dollars)

22. Contingencies (continued)

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 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 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.

23. Related party transactions

BCLC, as a wholly-owned crown corporation, is controlled by the Government of British Columbia. Included in these consolidated financial statements are transactions with various Government of British Columbia ministries, agencies, and crown corporations related to the Corporation by virtue of common control.

All transactions with the Government of British Columbia ministries, agencies, and crown corporations occurred in the normal course of operations. Transactions that are considered to be individually or collectively significant include loan agreements (note 14) and distributions to the Government of British Columbia (note 18). The Corporation pays Provincial Sales Tax on its taxable purchases and also collects and remits Provincial Sales Tax to the Government of British Columbia on its taxable sales (note 24).

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:

		2019		2018
Short-term employee benefits	**$**	**2,448**	$	2,475
Pension and post-retirement benefits		**234**		211
Termination benefits		**376**		-
	$	**3,058**	$	2,686

The Corporation is also related to the pension and post-retirement defined benefit plans. Transactions with these plans are disclosed in note 9.

24. 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 similarly to that for other GST registrants.

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

25. Joint Illegal Gaming Investigation Team

The Corporation, in combination with the federal government through the Provincial Police Service Agreement, funded the Joint Illegal Gaming Investigation Team in fiscal 2019. The Corporation began recording funding for the external policing costs related to this team (located within the Combined Forces Special Enforcement Unit of B.C.) in the 2017 fiscal year. The Corporation recorded $3,000 in funding for the current fiscal year.

Appendix A – Additional Information

Corporate Governance

http://corporate.bclc.com/who-we-are/governance-and-oversight/board-of-directors.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

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Appendix B – Subsidiaries and Operating Segments

Active Subsidiaries

BC Lottotech International, Inc.

The consolidated financial statements of the British Columbia Lottery Corporation include BC Lottotech International Inc., 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.

Resource Summary

$ millions	2017/18 Actual	2018/19 Budget	2018/19 Actual
Total Revenue	$ 63.2	$ 70.0	$ 64.4
Total Expenses	64.1	70.5	70.3
Net Loss	**$ 0.9**	**$ 0.5**	**$ 5.9**

Appendix C – BCLC Mandate and Actions Summary

In the 2018/19 Mandate Letter, BCLC received direction on strategic priorities for the 2018/19 fiscal year. These priorities and BCLC's resulting actions are summarized below:

Mandate Letter Direction	BCLC's Action
1. Implement the remaining commitments that BCLC is solely and jointly (with GPEB) responsible for in the Plan for Public Health and Gambling (February 2015). In addition, implement the regulatory guidelines for performance measure reporting of GameSense Advisor (GSA) activities in casinos and community gaming centres. Submit bi-annual progress reports to the General Manager, GPEB detailing the status of the implementation of these commitments.	BCLC and GPEB finalized plans to address all recommendations and plans and continue to meet regularly to review the status of all recommendations and update the progress report. GPEB shares progress with the ADM's Office as required. Within the Plan for Public Health and Gambling (2015), BCLC has primary responsibility for eight commitments. BCLC has completed four of those commitments and has partially completed the remaining four. Of the five commitments held jointly with GPEB, two are complete with the remainder in progress. The regulatory guidelines refer to the recommendation in the Responsible Gambling Council (RGC) review of the GSA Program to identify agreed upon performance measures for the GameSense Program. BCLC and GPEB have jointly identified a working group with the task of refining the existing performance measures. BCLC has recently completed a second study to track and analyze the program's results. BCLC submitted bi-annual reports to GPEB regarding the progress of the implementation.
2. Implement government's response to recommendations arising from the Peter German review of money laundering in British Columbia casinos. Provide a quarterly report to the Attorney General on the implementation of initiatives to mitigate money laundering and the use of proceeds of crime in BC gambling facilities.	BCLC has completed 6 of the 11 recommendations for which we are the lead, including one interim recommendation. BCLC is involved in an additional 12 recommendations of which two are complete and active work is being done on an additional eight. On an ongoing basis, BCLC monitors trends and meets with police and regulators to make sure any needed updates to the anti-money laundering program are implemented. BCLC has made changes to policies and procedures such as ensuring that BCLC service providers complete a Source of Funds Declaration for cash deposits or bearer monetary instruments of $10,000 or more. At a minimum, the declaration must outline a customer's identification and provide the source of funds, including the financial institution and account from which the cash or bond was

	sourced. After two consecutive transactions, cash can only be accepted from the customer once it has been determined that it is not of a suspicious or illegal nature. BCLC provided quarterly reports to the Attorney General regarding the implementation of Government's Anti-Money Laundering Strategy and is proactive in advising GPEB regarding trends in money laundering.
3. Proactively share information with GPEB that assists the branch in meeting its responsibilities for the overall integrity of gaming and horse racing and providing the Minister with advice on broad policy, standards and regulatory issues. This includes, but is not limited to:	BCLC is proactive in sharing information with GPEB that assists the branch in meeting its responsibilities for the overall integrity of gaming and horse racing.
a) Information about any new games (excluding variations of existing games or similar games already being offered by BCLC) that BCLC intends to introduce to determine whether additional responsible gambling standards are required or whether a game may be considered a new type of lottery scheme and requires written approval by the Minister under Section 7 of the *Gaming Control Act*; and	No new games were submitted to GPEB during fiscal year 2018/19 that required GPEB review as a new lottery scheme.
b) Information regarding any trends that may influence strategies to combat money laundering and keep the proceeds of crime out of British Columbia gambling facilities.	BCLC is proactive in advising GPEB regarding trends in money laundering.