

British Columbia Lottery Corporation

2019/20 **Annual Service Plan Report**

July 2020



For more information on British Columbia Lottery Corporation (BCLC) contact:

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

250-828-5500

or visit our website at

www.bclc.com

Published by BCLC

Board Chair's Accountability Statement



The *BCLC 2019/20 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2019/20 – 2021/22 Service Plan* created in February 2019. I am accountable for those results as reported.

A handwritten signature in black ink, appearing to read "Peter Kappel", with a stylized flourish at the end.

Peter Kappel
Board Chair
June 25, 2020

Table of Contents

Board Chair's Accountability Statement	3
Letter from the Board Chair & CEO.....	5
Purpose of the Annual Service Plan Report.....	6
Purpose of the Organization.....	6
Strategic Direction	7
Operating Environment.....	7
Report on Performance: Goals, Objectives, Measures and Targets.....	8
Financial Report.....	17
Discussion of Results	17
Financial Summary	17
Capital Expenditures	21
Auditor's Report	22
Audited Financial Statements	26
Appendix A: Additional Information.....	68
Appendix B: Subsidiaries and Operating Segments	69
Active Subsidiaries	69
Appendix C.....	70

Letter from the Board Chair & CEO

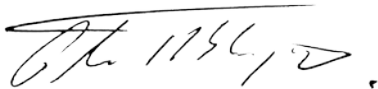
On behalf of the Board of Directors and the employees of BCLC, we are pleased to present BCLC's Annual Service Plan Report for the 2019/20 fiscal year. BCLC is focused on delivering entertainment in a socially responsible manner to generate revenue for the Province of British Columbia, which supports healthcare, education and community programs.

In fiscal 2019/20, BCLC generated \$1.347 billion in net income, \$59 million below budget and \$69 million less than the prior year. BCLC's business activities were negatively impacted by measures put in place to support public safety during the COVID-19 pandemic. The most significant negative impact arose from the temporary closure of all casinos and bingo halls, effective March 16, 2020. In addition, a number of lottery retailers made the decision to suspend sales as a precautionary action. While many players moved their play to our online channel, PlayNow.com, this migration was unable to make up for the revenue lost from brick-and-mortar channels. Prior to the outbreak of the pandemic, enhanced product offerings across BCLC's diverse portfolio helped to mitigate table game revenue declines experienced since the implementation of the Source of Funds declaration in January 2018. BCLC had been on track to meet the service plan net income target.

BCLC remains committed to growing and managing our business in the best interest of British Columbians and delivering on the strategic priorities outlined by the Government of B.C. in the 2019/20 Mandate Letter. BCLC's Board of Directors and leadership team work closely with the Ministry of Attorney General to ensure effective communication and alignment with B.C. government priorities. BCLC's President & CEO, Jim Lightbody, began an extended medical leave in September 2019 and Greg Moore stepped down from the Board of BCLC to assume the role of Interim President & CEO. In January 2020, the Board of Directors reached a significant milestone with the approval of a new corporate strategic plan. The plan will guide BCLC's efforts over the coming years, with a focus on becoming a more player-centric company and driving responsible growth by growing revenue from healthy play.

COVID-19 has presented unprecedented times for the province, our organization and the industry. With the full support of the Board, our employees are dedicated to navigating through the pandemic and leveraging innovative approaches to our business so that BCLC can continue to achieve its mandate on behalf of the people and communities of British Columbia.

Peter Kappel



Board Chair, BCLC
June 25, 2020

Greg Moore



Interim CEO and President, BCLC
June 25, 2020

Purpose of the Annual Service Plan Report

The Annual Service Plan Report 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 a socially responsible manner for the benefit of British Columbians. This includes casinos, lottery, bingo and sports betting through multiple channels of distribution. Through agreements with private-sector service providers, BCLC offers slot machines, table games, and bingo at 16 casinos, two racecourse casinos, 17 community gaming centres and three commercial bingo halls. BCLC's national and provincial lottery and sports betting products are sold at over 3,500 retail locations operated by private-sector retailers through Lottery Retailer Agreements. 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 530,000 B.C. adults who are registered to play directly with BCLC. 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. In addition, BCLC licenses its GameSense responsible gambling program to partners across North America.

The Province of B.C. uses gambling revenue generated by BCLC to help benefit British Columbians through investments in areas such as education, healthcare, community, and cultural programs and services. BCLC is striving to have an even greater positive impact on the province by adopting a social purpose as part of its business strategy¹.

As a Crown corporation, BCLC reports into the Ministry of the Attorney General and is governed by B.C.'s [Gaming Control Act](#) (2002). 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 its annual business planning process. The financial operations, management and oversight of Lottotech are consolidated within BCLC operations.

¹ [Conference Board of Canada](#): Social purpose companies are profit-driven businesses whose core purpose is to contribute positively to society. They use their products, supply chains, people, capital, influence, relationships, real estate, and scale to accelerate positive impacts. As a positive force for change in everything they do, they become multipliers for responsible business practices and sustainable development in society.

Strategic Direction

The strategic direction set by government in 2019/20 and expanded upon in the Board Chair's [Mandate Letter](#) from the Minister Responsible in 2019 shaped the [2019/20 BCLC Service Plan](#) and results reported in this annual report.

BCLC is aligned with government's key priorities:

Government Priorities	BCLC aligns with these priorities by:
Delivering the services people count on	<ul style="list-style-type: none"> Promoting responsible gambling programs that encourage positive gambling choices (Objective 1.1) Becoming leaders in diversity and inclusion (Strategy under Objective 2.1) Defining and integrating the innovative experiences our players want (Strategy under Objective 4.1)
A strong, sustainable economy	<ul style="list-style-type: none"> Being a partner for socio-economic growth in communities (Strategy under Objective 3.1) Optimizing net income by investing to sustain the long-term health of our business (Goal 4)

Operating Environment

Increasing the understanding around the actions BCLC and the Province have taken to reduce the risk of money laundering in BCLC's operations is important to building and maintaining the community support that BCLC depends upon in order to operate its business. In May 2019, the B.C. government announced the Commission of Inquiry into Money Laundering in British Columbia (the Inquiry) and BCLC was granted standing as a participant. BCLC supports the Inquiry and will cooperate throughout the process, which is expected to continue into 2021. BCLC is committed to help the public better understand BCLC's mandate and the actions it has taken to improve anti-money laundering controls as part of its ongoing efforts to safeguard B.C. casinos and players from illicit activity.

BCLC experienced significant changes at the executive level in 2019/20. In mid September, President & CEO, Jim Lightbody, began an extended medical leave. BCLC Board member Greg Moore stepped down from the Board and assumed the role of Interim President & CEO.

Following extensive executive searches, BCLC appointed a new Chief Financial Officer and Vice President of Finance & Corporate Services, Alan Kerr, in January 2020; and Vice President of Social Purpose & Stakeholder Engagement, Peter ter Weeme, in February 2020. Two further executive appointments will take place in the next fiscal year.

In January 2020, BCLC's Board of Directors approved a new corporate strategic plan. BCLC recognizes that player expectations are being shaped by leading consumer and gaming/entertainment companies, which are investing heavily in elevating the customer experience and bringing increased meaning and purpose to customer interactions. The corporate strategic plan will guide BCLC's decisions in order to transform into a more player-centric company, remain competitive and position the organization for responsible growth based on healthy play. The plan is also underpinned by

OneBCLC, a focus on working as one organization in order to create better experiences for players and employees.

In March 2020, the COVID-19 pandemic significantly impacted BCLC's business. In order to ensure the safety of the most vulnerable, patrons and employees, and in compliance with a directive issued by the Attorney General and announced by the Provincial Health Officer, BCLC worked with service providers for an orderly, temporary shutdown and suspension of operations at all casinos, community gaming centres and bingo halls across B.C., which took effect March 16, 2020.

Additionally, a number of lottery retailers decided to temporarily suspend lottery sales. The wide spread closure within the hospitality industry and temporary cessation of sit-in dining at bars and pubs had a further impact on these sales. BCLC supported retailers' decisions and made adjustments to its business. This included temporarily closing prize claim offices and transitioning to a remote prize claim process.

As all casino and lottery retail locations closed, more players began to visit PlayNow.com to play lottery and casino games. Several professional sports leagues also made the decision to postpone or cancel major sporting events around the world. As a result, BCLC temporarily suspended all Sports Action betting and limited its product offerings on PlayNow.com. BCLC's corporate offices temporarily closed to the public and most employees began working remotely – a transition that was made quickly and seamlessly because of BCLC's proactive business continuity management planning.

Report on Performance: Goals, Objectives, Measures and Targets

The 2019/20 [Mandate Letter](#) provides specific actions for BCLC to ensure alignment with Government of B.C. goals and objectives. A detailed summary of BCLC's work to fulfill the 2019/20 Mandate Letter is provided in Appendix C.

BCLC's 2019/20 Annual Service Plan Report compares actual results to the expected results identified in the 2019/20 – 2021/22 Service Plan. The following section summarizes how BCLC measures and reports performance against four corporate goals.

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

Objective 1: Promote responsible gambling programs that encourage positive gambling choices.

Key Highlights:

- BCLC expanded the GameSense Advisor Program, including doubling the number of GameSense advisors. There are now 41 GameSense advisors working across all casinos and community gaming centres in B.C.

- BCLC deployed PlayPlanner to every casino and community gaming centre in B.C. This budgeting tool allows Encore Rewards members to set and manage daily time and money limits when playing slot machines or eTable games.
- BCLC continued to enhance player health safeguards and messaging is now available to players across all electronic gaming machines.
- BCLC began implementing customized responsible gambling messaging to at-risk PlayNow.com account holders and launched a new player dashboard.
- BCLC delivered specialized player health training to casino and community gaming staff to enhance knowledge, awareness, and attitudes so staff can respond meaningfully and without judgement to players requiring assistance.
- BCLC hosted the eighth annual New Horizons in Responsible Gambling conference, which brought together nearly 250 responsible gambling researchers, policy makers, regulators and industry representatives from around the world to discuss developments in prevention, response and best practices in responsible gambling.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
1.1a Positive Play Scale: Gambling Literacy ¹	50%	52%	49%	56%	58%
1.1b Positive Play Scale: Pre-commitment ¹	52%	56%	51%	58%	60%

Data source: Continuous tracking survey conducted online by a third-party research professional. Study uses market research industry standard techniques to randomize the sample while retaining gender, age and regional balance that is consistent with B.C. population figures available from Statistics Canada's Census. To qualify for these measures, a respondent will need to have played a BCLC game in the past month.

¹ This performance measure was replaced in the [2020/21 – 2022/23 Service Plan](#).

Discussion of Results

These metrics take into account two components of BCLC's Player Health Strategy: Informed Decisions and Positive Play. The gambling literacy measure assesses the extent to which a player has ample information to make fully informed decisions and the pre-commitment measure assesses the extent to which a player considers how much money and time they should spend gambling. These two measures determine, in part, how effective BCLC is at influencing healthy play among its players.

In 2019/20, both measures underperformed against targets and require further analysis. This will involve examining the information provided to players to support them to make informed decisions. BCLC will also conduct a more in-depth analysis of GameSense marketing metrics and GameSense Advisor tracking data to identify opportunities for improvement. Lastly, BCLC will explore ways to enhance positive play tools and behaviors.

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

Key Highlights:

- BCLC, in conjunction with the other Interprovincial Lottery Corporation partners, enhanced the Lotto Max experience with an additional weekly draw and increased the jackpot cap to \$70 million from \$60 million.
- BCLC launched a new compensation program for lottery retailers with a focus on increasing engagement of retailers and improving the experience for players in the retail environment.
- BCLC continued to work towards replacing aging lottery equipment and infrastructure, which it anticipates will occur in 2021/22 and will lay the foundation for future enhancements to the lottery experience.
- BCLC continued to enhance its mobile services and experiences offered on PlayNow.com, bclc.com and the Lotto App, making it easier for players to access BCLC's products.
- BCLC improved the digital player experience by merging the CasinoBC and Encore websites and improving the mobile PlayNow.com experience with single sign-on functionality and a responsive website.
- BCLC modernized its sports betting platform on PlayNow.com, which enables faster deployment of new features for players, is fully responsive and provides a consistent experience to players on mobile, tablet and desktop devices.
- BCLC enhanced the Live Casino player experience on PlayNow.com by adding game variants, extending hours of operation, adjusting limits and making multi-table configurations.
- BCLC's investment in PlayNow.com helped the organization compete with the unregulated, websites, which do not pay taxes in B.C., support jobs or deliver profits to the Province.
- BCLC explored new ways of offering games to players through pilot projects. These projects included Casino Your Way, which reduced barriers for players who are new to table games at casinos and packaged play and amenity experiences through Groupon.
- BCLC also reorganized casino floors at select sites by introducing themed zones, stadium gaming and gaming lounges.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
1.2a Player Experience Index ^{1,2}	72.31	73.00	72.65	75.00	78.00
1.2b Revenue per Capita ^{2,3}	\$533	\$536	\$515	\$540	\$541

¹ **Data source:** Quarterly tracking survey conducted online by a third-party research professional. Study uses market research industry standard techniques to randomize the sample while retaining gender, age and regional balance that is consistent with B.C. population figures available from Statistics Canada's Census.

² This performance measure was removed in the [2020/21 – 2022/23 Service Plan](#).

³ **Data source:** Actual Revenue per Capita 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. A consistent population number was used for 2019/20 target and actuals to ensure 2019/20 changes in revenue per capita are not caused by changes in population estimate. Revenue Per Capita is indicative of the overall trends despite the timing difference.

Discussion of Results

Player Experience Index

The Player Experience Index 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 our players as it relates to both their product and purchase experience.

In 2019/20, the Player Experience Index increased from 2018/19 and was very close to the 2019/20 target of 73.00. Slight improvements in performance were seen in the casino and lottery businesses, while PlayNow.com held fairly steady, albeit slightly softer compared to last year.

Revenue per Capita

Revenue per Capita tells the organization how successful BCLC is in growing revenue in relation to the provincial population. B.C. has been successful in attracting tourists to gambling facilities, contributing to BCLC's revenue; however, tourism is not considered part of the population count for B.C.

In 2019/20, BCLC's Revenue per Capita was behind the previous year's results and behind target, primarily due to the impact of COVID-19 as visits to all B.C. casinos, community gaming centres, bingo halls and some lottery retailers began to decline in early March before being temporarily closed starting mid-March 2020. Casino and Community Gaming generates an average of \$5 million of revenue per day. With the gambling facilities shut down for 15 days, this equates to a reduction of approximately \$75 million in lost revenue during the shutdown in 2019/20.

Pre-COVID-19, BCLC revenue was tracking close to budget and higher than the previous year. Casino slot revenue recovered from last year's labour disputes at five casinos; however, this recovery was partially offset by table revenue declines observed since the implementation of the Source of Funds declaration in January 2018. On a full year basis, Casino and Community Gaming table games revenue was \$64.2 million lower than budget, approximately 66 per cent of this decline was observed prior to March when gambling facilities were impacted by COVID-19.

Lottery successfully launched enhancements to the national game Lotto Max (see Objective 1.2, Key Highlights for details); generating higher revenue versus prior year performance while minimizing any cannibalization of other lottery products. Despite the COVID-19 impact at the end of fiscal year, the lottery brick-and-mortar business outperformed budget in every major category (Big Lotto, Instant, and Social).

eGaming continued to achieve year-over-year revenue growth through the continued delivery of enhanced digital content that appeals to new and existing players (See Objective 1.2, Key Highlights for details). Since brick-and-mortar gambling facilities temporarily closed and retailers began suspending lottery due to COVID-19, PlayNow.com experienced a significant increase in players.

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 renamed its Human Resources division People & Culture to emphasize its focus on the workforce and a unified culture, which BCLC now refers to as OneBCLC.
- BCLC reinforced the company's values of respect, integrity, and social responsibility by introducing Values in Action, a comprehensive new program which articulates the behaviours intended to support a positive culture and achievement of the corporate strategy.
- BCLC launched a new employee recognition program focused on recognizing employees who demonstrate BCLC's Values in Action, and exceptional service and performance achievements.
- BCLC developed a new leadership training program focused on equipping leaders to impact the corporate culture positively and deliver BCLC's strategy successfully.
- BCLC's Diversity & Inclusion Committee created a new roadmap for its continued focus on practices and processes to ensure inclusivity within the organization. The roadmap includes items such as onboarding, recruitment, performance evaluations, unconscious bias training and office building accessibility requirements.
- BCLC continued to focus on building strong partnerships with various post-secondary institutions and participating 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 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 focused its wellness efforts on a variety of mental health initiatives including establishing an employee-driven mental health committee, mental health training for leaders and employees, and targeted communication and workshops to create a deeper awareness of mental health in the workforce.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
2.1 Employee Engagement ¹	83%	86%	N/A	86%	86%

Data Source: Annual anonymous online census survey of BCLC employees conducted by an independent third-party professional.

¹ This performance measure was removed in the [2020/21 – 2022/23 Service Plan](#).

Discussion of Results

Employee Engagement measures 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.

Ensuring an engaged workforce continues to be a priority for the organization. In order to ensure that the organization is using the most up-to-date methodologies and that the questions remain relevant, BCLC is reassessing its engagement survey strategy. For this reason, in 2019/20, BCLC did not administer an Employee Engagement survey.

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

Objective 3.1: Build awareness of BCLC's positive contributions to the community.

Key Highlights:

- In 2019/20, BCLC ran community outreach programs in 12 host communities across the province to educate and engage with the public and stakeholders on how proceeds from gambling and sponsorships benefit communities.
- BCLC's Play it Forward marketing campaign supported these activities by highlighting the various community-specific benefits that make an impact on all British Columbians across the province.
- Province-wide, BCLC supported many local communities through events and sponsorships. In 2019/20, BCLC sponsored 146 community organizations, groups and events across the province.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
3.1 Public Recognition of Positive Contributions	68%	72%	68%	74%	76%

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 $\pm 1.69\%$ at the 95% confidence level (19 times out of 20).

¹ This performance measure was removed in the [2020/21 – 2022/23 Service Plan](#).

Discussion of Results

Public Recognition of Positive Contributions measures the percentage of adult British Columbians who agree that BCLC makes positive contributions to the province. This measure helps BCLC gauge its success in building public understanding and recognition of the public contribution its business and commercial gambling revenues make.

In 2019/20, results for this measure remained stable compared to the previous year but fell short of the target. These public perception measures may have been negatively impacted by ongoing media commentary of alleged money laundering in B.C. casinos over the last two years and will take time to shift.

Over the past year, BCLC has been committed to ongoing dialogue and engagement with stakeholders across B.C. In 2019/20, BCLC's Stakeholder Engagement team met and engaged with municipal elected officials and senior staff at regional conferences to share how all 33 host local governments

allocate their revenue from gambling to benefit their individual communities. Additionally, more than 47 community groups were engaged in educational presentations and outreach initiatives across B.C.

Objective 3.2: BCLC is perceived as transparent.

Key Highlights:

- BCLC was granted standing as a participant in the Commission of Inquiry into Money Laundering in British Columbia and provided its opening statement in February 2020. BCLC has cooperated and will continue to support efforts of the Cullen Commission as requested.
- BCLC continued to implement the recommendations in Dr. Peter German's "Dirty Money" 2018 independent report. As of March 31, 2020, BCLC has addressed 7 of the 11 recommendations in the report for which it is the lead. It also completed the one interim recommendation for which it is responsible.
- 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 to build awareness and understanding of the organization.
- BCLC launched a section on bclc.com dedicated to providing public information on the organization's anti-money laundering role, program and efforts.
- 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](#).

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
3.2a Public Perception of BCLC's Transparency ¹	56%	60%	56%	62%	65%

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 $\pm 1.74\%$ at the 95% confidence level (19 times out of 20).

¹ This performance measure was replaced in the [2020/21 – 2022/23 Service Plan](#).

Discussion of Results

Public Perception 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 its actions to become increasingly transparent so that BCLC's business and its benefits are understood and supported by British Columbians.

In 2019/20, the target for Public Perception of BCLC's transparency was not met but held steady compared to last year. Again, this may be due to the impact of the ongoing publicity of alleged money laundering in B.C. casinos and the start of the Cullen Inquiry.

As with other public perception measures, this will take time to shift and BCLC will continue to foster relationships and proactively share information on its website and directly with key community stakeholders including host local governments, service providers, business associations and local charitable groups. Additionally, through its participation in the Inquiry, BCLC looks forward to helping the public better understand BCLC's role and controls as part of our ongoing efforts to safeguard B.C. casinos from money laundering.

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:

- BCLC's continued success of facility enhancements and strategic investments in the slots category resulted in an optimized network and diversified product offerings, as well as refinement of BCLC's marketing strategy in collaboration with casino and community gaming service providers.
- BCLC capitalized on the Lotto Max enhancement 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 devices.
- 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.com.

Performance Measures	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
4.1a Net Income (\$ millions)	1,415	1,406	1,347	1,427	1,439
4.1b Comprehensive Cost Ratio (% of Revenue) ^{1, 2}	42.9%	44.1%	44.3%	44.2%	44.4%

Data Source: BCLC's financial plan, see page 18. Actual results are calculated in accordance with International Financial Reporting Standards (IFRS).

¹ The Comprehensive Cost Ratio (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.

² This performance measure was removed in the [2020/21 – 2022/23 Service Plan](#).

Discussion of Results

Net Income

Net Income, net of payments to the federal government (see Consolidated Statement of Changes in Deficit and Note 18 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 games and service offerings, BCLC has built a diversified portfolio that has delivered engaging gambling experiences to its players to mitigate downside risk.

In 2019/20, BCLC achieved a net income of \$1.347 billion, which was \$59 million below budget and \$69 million less than the prior year. BCLC's financial results reflect a decrease in revenue (see section 1.2b) as well as changes in cost structure designed to ensure the long-term health of the business (see below).

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's CCR in 2019/20 was 44.3%, reflecting two key drivers: the unexpected decrease in revenue due to the impact of COVID-19 leading to the temporary closure of all B.C. gambling facilities and some lottery retailers starting in mid-March 2020 and investments made during the year to ensure the long-term health of the organization such as transitioning to the new Lottery Retailer Agreement with a revised incentive structure for lottery retailers, investing in the replacement of lottery legacy systems and casino gaming equipment and investing in the promotion of player health. These investments resulted in changes to BCLC's cost structure.

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 because BCLC has a diversified portfolio of products, which have a wide range of gross margins.

Financial Report

Discussion of Results

Financial Summary:

\$ millions	2018/19 Actual	2019/20 Budget	2019/20 Actual	2019/20 Variance
Revenue				
Casino & Community Gaming	\$ 1,904.0	\$ 1,984.9	\$ 1,832.7	\$ (152.2)
Lottery & eGaming	686.1	652.6	698.2	45.6
Total Revenue	2,590.1	2,637.5	2,530.9	(106.6)
EXPENDITURES ¹				
Casino & Community Gaming	821.9	852.8	802.7	50.1
Lottery & eGaming	222.0	236.6	245.7	(9.1)
Capital Asset Amortization & Depreciation	69.6	76.5	74.7	1.8
Total Expenses	1,113.5	1,165.9	1,123.1	42.8
Income before the undernoted	1,476.6	1,471.6	1,407.8	(63.8)
Indirect tax expense	61.1	65.3	60.9	4.4
NET INCOME				
Casino & Community Gaming	983.5	1,023.1	929.3	(93.8)
Lottery & eGaming	432.0	383.2	417.6	34.4
NET INCOME	\$ 1,415.5	\$ 1,406.3	\$ 1,346.9	\$ (59.4)
Total Liabilities	\$ 446.4	\$ 516.0	\$ 526.2	\$ (10.2)
Capital Expenditures	\$ 75.2	\$ 105.0	\$ 101.8	\$ 3.2
Total Deficit	\$ 64.7	\$ 50.0	\$ 32.2	\$ 17.8

¹ Please refer to the Consolidated Statement of Comprehensive Income for a detailed breakdown of actual expenditures.

In 2019/20, BCLC delivered net income of \$1.347 billion, \$1.336 billion to the Province of B.C. and \$10.5 million to the federal government, from total revenue of \$2.531 billion. Net income fell from the previous year's record high net income; however, the Corporation's performance was impacted by the measures put in place to respond to the COVID-19 pandemic.

Earlier in the fiscal year, modest gains in slot machine revenue were offset by softness in casino table play. In mid-March 2020, all B.C. casinos were temporarily closed, and many lottery retailers suspended sales in response to the COVID-19 pandemic.

Commensurate with the decline in revenue, expenses were lower than budgeted this year.

Annually, BCLC prepares a three-year Service Plan, against which its results are measured. The majority of BCLC's costs are closely correlated with sales performance and product mix. Thus, while total revenue in 2019/20 fell short of budget by \$106.6 million, the net income impact was much less at \$59.4 million.

Performance Measurement:

BCLC's performance measurement framework is updated annually as part of its business planning process. This framework guides decision-making and has been used to assess 2019/20 operational performance against the targets and budgets established in the Service Plan.

International Financial Reporting Standards (IFRS):

The *Budget Transparency and Accountability Act* specifies that the B.C. 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.

Economic Outlook:

Most forecasters are predicting markedly softer economic performance across all regions and sectors in the wake of the COVID-19 pandemic. March 2020 forecasts vary in their predictions from marginal GDP growth to modest contraction; however, current events are unprecedented and the forecasts themselves are in a state of flux. Consumer discretionary spending, which is the basis of BCLC's revenue, will vary according to individual circumstances as well as general economic conditions and, in uncertain times like these, might not translate fully or directly into increased future revenue or net income for the corporation, nor follow historical patterns and trends. It should also be noted that the segment of BCLC's business that experienced the most stability this year—national lottery games—is highly dependent upon the magnitude and frequency of large jackpots, product design and game variety, in addition to players' disposable income and the general state of the economy.

Over the next three years, restoring and growing net income from BCLC's core lines of business, as well as expanding and diversifying the player base, will continue to be priorities. In addition to product and service innovations, BCLC is continuing a multi-year initiative to modernize its technology infrastructure, reviewing relationships with private sector service providers and third-party vendors and exploring 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 which can be found in the Service Plan and on BCLC's website, bclc.com. It should be noted, however, that the current Service Plan was developed, submitted and approved prior to the COVID-19 pandemic and does not take into account these recent events.

Casino and Community Gaming Operations:

\$ millions	2018/19 Actual	2019/20 Budget	2019/20 Actual	2019/20 Variance
Revenues				
Slot Machines	\$ 1,403.3	\$ 1,457.9	\$ 1,370.7	\$ (87.2)
Table Games	454.1	481.4	417.2	(64.2)
Poker	23.6	22.4	24.0	1.6
Bingo	23.0	23.2	20.8	(2.4)
	1,904.0	1,984.9	1,832.7	(152.2)
Direct expenses ¹	691.1	726.3	665.7	60.6
Gaming support costs & operating expenses	186.6	191.4	195.5	(4.1)
Income before the undernoted	1,026.3	1,067.2	971.5	(95.7)
Indirect tax expense	42.8	44.1	42.2	1.9
Net income	\$ 983.5	\$ 1,023.1	\$ 929.3	\$ (93.8)

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

Overall, the Casino and Community Gaming business generated revenue of \$1.833 billion in 2019/20, which was \$152.2 million less than budget and \$71.3 million less than last year. Much of the budget shortfall occurred in March following the provincially-mandated closure of all gaming facilities due to the COVID-19 pandemic. One fiscal period prior to year end, Casino and Community Gaming was \$51.8 million less than budget largely due to the continued decline in tables games revenue observed since the implementation of the Source of Funds declaration in January 2018. By the end of 2019/20, Casino and Community Gaming was \$152.2 million less than budget. The further shortfall in budget can be attributed to the gaming facilities starting to experience a slowdown of player visits due to concerns over COVID-19 before the eventual shutdown of all gaming facilities.

Prior to the facility closures, Casino and Community Gaming revenue had been virtually flat compared to the prior year, with a modest 2.4 per cent increase in slot machine play being offset by table game revenue that was down 4.3 per cent.

Lottery and eGaming Operations:

\$ millions	2018/19 Actual	2019/20 Budget	2019/20 Actual	2019/20 Variance
Revenues				
Lottery	\$ 536.3	\$ 494.7	\$ 519.2	\$ 24.5
eGaming	149.8	157.9	179.0	21.1
	686.1	652.6	698.2	45.6
Direct expenses ¹	122.7	132.1	136.0	(3.9)
Gaming support costs & operating expenses	113.1	116.1	125.9	(9.8)
Income before the undernoted	450.3	404.4	436.3	31.9
Indirect tax expense	18.3	21.2	18.7	2.5
Net income	\$ 432.0	\$ 383.2	\$ 417.6	\$ 34.4

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

Lottery and eGaming net income of \$417.6 million exceeded the budget by \$34.4 million and fell short of the previous year by \$14.4 million. Overall revenue of \$698.2 million was up \$12.1 million from the previous year and \$45.6 million from budget.

In 2019/20, year-over-year revenue was down in the Lotto category (sold through brick-and-mortar locations and on PlayNow.com) because there were fewer major jackpots for the national lottery games (as a percentage of total draws) than in the prior year, and because sales were curtailed significantly in the latter half of March due to the COVID-19 pandemic. Sales in the Lotto category were \$19.0 million higher than budget but lagged 2018/19 by \$9.3 million – a decrease of 3.0 per cent.

Large jackpots are a principal driver of lottery sales, and this year there were seven Lotto 6/49 jackpots of \$20 million or more, 15 fewer than last year. 33 per cent of Lotto Max jackpots were \$50 million or more compared to 50 per cent of jackpots the previous year; however, the number of Lotto Max jackpots are not comparable year over year due to Lotto Max moving to twice weekly draws starting in mid-May from once weekly draws in the prior year.

During 2019/20, BCLC continued to invest in the PlayNow.com eGaming business, maintaining the frequency with which new casino-style games were introduced and making product enhancements. Overall, eGaming revenue was up \$29.2 million from a year ago, an increase of 19.5 per cent.

Capital Expenditures:

\$ millions	2018/19 Actual	2019/20 Budget	2019/20 Actual	2019/20 Variance
Casino & Community Gaming	\$ 49.1	\$ 63.0	\$ 61.7	\$ 1.3
Lottery & eGaming	13.9	27.0	20.5	6.5
Corporate	12.2	15.0	19.6	(4.6)
Capital Expenditures	\$ 75.2	\$ 105.0	\$ 101.8	\$ 3.2

From year to year, capital spending varies significantly in response to revenue-generating and gaming facility initiatives. In 2019/20, capital spending of \$101.8 million was \$3.2 million less than budget but \$26.2 million more than in 2018/19.

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, 2020, 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.



Alan Kerr
CFO & Vice-President
Finance and Corporate Services



Greg Moore
Interim President & CEO



KPMG LLP
560 Victoria Street
Kamloops BC V2C 2B2
Canada
Telephone (250) 372-5581
Fax (250) 828-2928

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, 2020
- 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, 2020, 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



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.



- 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

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants

Kamloops, Canada
May 14, 2020

British Columbia Lottery Corporation

Consolidated Statement of Financial Position

March 31, 2020, with comparative information for 2019
(in thousands of Canadian dollars)

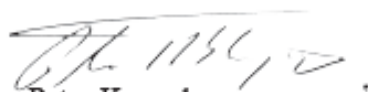
	2020	2019
ASSETS		
Cash and cash equivalents (note 6)	\$ 42,294	\$ 28,437
Accounts receivable (note 7)	36,350	39,502
Receivable from the Interprovincial Lottery Corporation	1,357	2,587
Prepaid and deferred expenses	24,521	15,317
Inventories (note 8)	10,852	9,269
Current assets	115,374	95,112
Prepaid and deferred expenses	5,780	–
Right-of-use assets (note 9)	50,355	–
Property and equipment (note 10)	265,782	238,812
Intangible assets (note 11)	46,594	47,769
Employee benefits (note 12)	10,091	–
Non-current assets	378,602	286,581
Total assets	\$ 493,976	\$ 381,693
LIABILITIES		
Cheques issued in excess of funds on hand (note 6)	\$ –	\$ 4,539
Prizes payable (note 13)	33,409	25,041
Accounts payable, accrued and other liabilities (note 14)	105,419	90,341
Short-term financing (note 15)	179,996	100,029
Deferred revenue (note 16)	23,045	23,863
Unsettled wagers (note 17)	4,940	5,662
Lease liabilities (note 9)	5,988	–
Due to the Government of British Columbia (note 18)	68,523	122,031
Current liabilities	421,320	371,506
Lease liabilities (note 9)	46,519	–
Employee benefits (note 12)	58,325	74,887
Non-current liabilities	104,844	74,887
Total liabilities	526,164	446,393
DEFICIT		
Accumulated deficit	(25,463)	(25,463)
Accumulated other comprehensive loss	(6,725)	(39,237)
Total deficit	(32,188)	(64,700)
Total liabilities and deficit	\$ 493,976	\$ 381,693

Commitments and contingencies (notes 9, 10 and 22)

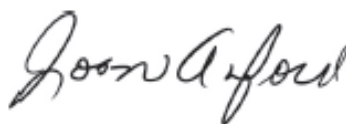
Subsequent events (note 26)

See the accompanying notes to the 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, 2020, with comparative information for 2019
(in thousands of Canadian dollars)

	2020	2019
Revenue (note 19)	\$ 2,530,882	\$ 2,590,126
Expenses		
Commissions and fees	729,550	746,856
Employee costs	126,341	113,454
Amortization and depreciation (notes 9, 10, and 11)	74,718	69,610
Systems, maintenance, and ticket distribution	53,711	47,677
Gaming equipment leases and licenses	58,686	53,670
Advertising, marketing, and promotions	26,506	26,212
Ticket printing	13,450	13,176
Professional fees and services	12,778	13,152
Cost of premises	6,223	7,946
Loss on disposal of property and equipment and intangible assets	5,810	6,454
Other	15,342	12,312
	1,123,115	1,110,519
Income from operations before the undernoted	1,407,767	1,479,607
Indirect tax expense (note 24)	60,879	61,139
Funding of Joint Illegal Gaming Investigation Team (note 25)	–	3,000
Net income	1,346,888	1,415,468
Other comprehensive income		
<i>Item that will never be reclassified to net income</i>		
Net defined benefit plan actuarial gain (loss) (note 12)	32,512	(6,643)
Total comprehensive income	\$ 1,379,400	\$ 1,408,825

See the accompanying notes to the consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Changes in Deficit

Year ended March 31, 2020, with comparative information for 2019
(in thousands of Canadian dollars)

	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Deficit
Balance, April 1, 2018	\$ (25,463)	\$ (32,594)	\$ (58,057)
Net income	1,415,468	–	1,415,468
Net defined benefit plan actuarial loss (note 12)	–	(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 20)	(10,156)	–	(10,156)
Balance, March 31, 2019	\$ (25,463)	\$ (39,237)	\$ (64,700)
Net income	1,346,888	–	1,346,888
Net defined benefit plan actuarial gain (note 12)	–	32,512	32,512
Total comprehensive income	1,346,888	32,512	1,379,400
Distributions to the Government of British Columbia (note 18)	(1,336,364)	–	(1,336,364)
Distributions to the Government of Canada (note 20)	(10,524)	–	(10,524)
Balance, March 31, 2020	\$ (25,463)	\$ (6,725)	\$ (32,188)

See the accompanying notes to the consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Cash Flows

Year ended March 31, 2020, with comparative information for 2019
(in thousands of Canadian dollars)

	2020	2019
Cash flows from operating activities:		
Net income	\$ 1,346,888	\$ 1,415,468
Items not involving cash:		
Depreciation of property and equipment (notes 9 and 10)	62,496	54,894
Amortization of intangible assets (note 11)	12,222	14,716
Loss on disposal of property and equipment	5,205	3,983
Loss on disposal of intangible assets	605	2,471
Interest expense (notes 9 and 15)	2,079	1,466
Net benefit plan expense (note 12)	21,430	20,073
	1,450,925	1,513,071
Changes in:		
Accounts receivable	3,152	20,781
Receivable from the Interprovincial Lottery Corporation	1,230	10,047
Prepaid and deferred expenses	(14,984)	90
Inventories	(1,583)	(73)
Employee benefits	(15,571)	(15,082)
Prizes payable	8,368	1,702
Accounts payable, accrued and other liabilities	13,201	1,283
Deferred revenue	(818)	3,593
Unsettled wagers	(722)	(425)
Net cash from operating activities	1,443,198	1,534,987
Cash flows from financing activities:		
Increase (decrease) in short-term financing (note 15)	79,937	(54,845)
Interest paid (notes 9 and 15)	(2,399)	(1,697)
Payments on lease liabilities (note 9)	(5,479)	-
Distributions to the Government of British Columbia (note 18)	(1,389,872)	(1,444,628)
Distributions to the Government of Canada (note 20)	(10,524)	(10,156)
Net cash used in financing activities	(1,328,337)	(1,511,326)
Cash flows from investing activities:		
Additions to property and equipment	(86,131)	(67,849)
Additions to intangible assets	(11,603)	(10,841)
Net proceeds on disposal of property and equipment	1,269	405
Net cash used in investing activities	(96,465)	(78,285)
Net increase (decrease) in cash and cash equivalents	18,396	(54,624)
Cash and cash equivalents, beginning of year	23,898	78,522
Cash and cash equivalents, end of year (note 6)	\$ 42,294	\$ 23,898

See the accompanying notes to the consolidated financial statements.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements

Year ended March 31, 2020

(in thousands of Canadian dollars)

1. Reporting entity

British Columbia Lottery Corporation (BCLC or the Corporation) is a crown corporation of British Columbia (B.C.). BCLC was incorporated under the *Company Act* (B.C.) on October 25, 1984 and is continued under the *Gaming Control Act* (B.C.). The address of BCLC's registered office is 74 West Seymour Street, 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. CONTINUITY OF OPERATIONS

On March 11, 2020, the World Health Organization declared the Coronavirus COVID-19 (COVID-19) outbreak a pandemic. This has resulted in governments worldwide, including the Canadian and B.C. governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, closures of non-essential businesses, and physical distancing, have caused material disruption to businesses in B.C. and globally, resulting in an economic slowdown. Based on this, the following impacted the Corporation's operations:

Closure of Gaming Facilities

On March 15, 2020, Great Canadian Gaming Corporation announced the closure of its B.C. gaming facilities.

On March 16, 2020, B.C.'s Attorney General issued a directive ordering the closure of all gaming facilities across B.C.

Closure of Lottery Retail Locations

On March 24, 2020, the Corporation provided lottery retailers with the option to suspend services until further notice as a result of the recommendations made by the Provincial Health Officer. This provided lottery retailers the opportunity to assess their operations on an individual basis and determine the most suitable measures for their locations and communities. Additionally, the Corporation suspended all Lotto Express sales across the province to allow businesses that offer Lotto Express the opportunity to focus on providing essential services. As of March 31, 2020, approximately 1,400 of 3,500 lottery retailers had temporarily suspended operations.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

2. Basis of preparation (continued)

A. CONTINUITY OF OPERATIONS (CONTINUED)

Significant impacts

The COVID-19 situation is dynamic, causing significant uncertainty regarding when gaming facilities will re-open. The ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation's future revenues, operating results and overall financial performance is not known at this time; however, the impact could be material. At the reporting date, the Corporation determined that COVID-19 had no impact on its significant accounting policies, contracts or lease agreements, the assessment of provisions and contingent liabilities, or the timing of revenue recognition.

As at March 31, 2020, the Corporation tested for impairment the recoverable amount of assets that had become idle as a result of the gaming facility and lottery retail closures. The Corporation's assessment did not result in any impairment loss being recognized as the assets will recover their value relatively quickly when operations resume.

The closures of gaming facilities and some lottery retailers have affected the Corporation's cash flow. The Corporation continues to manage liquidity risk by forecasting and assessing cash flow requirements on an ongoing basis. As at March 31, 2020, the Corporation continues to meet its contractual obligations within normal payment terms.

Despite the impacts of COVID-19, the Corporation's exposure to credit risk remains largely unchanged. The Corporation has extended credit terms beyond 30 days for some outstanding amounts due from lottery retailers. The length of the extension period is uncertain and the ultimate collection deadline will be determined once lottery retail operations resume; however, the amounts are still considered to be collectible.

As a result of COVID-19, there has been significant volatility in equity prices, bond yields, and foreign exchange rates, which have impacted the defined benefit pension plan assets and obligations as outlined in note 12(B). Although the plan assets lost market value, changes arising from financial assumptions also resulted in a reduced defined benefit obligation, the net effect of which was an actuarial gain of \$32,512.

B. 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 14, 2020.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

2. Basis of preparation (continued)

C. 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).

D. 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.

E. 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)) and whether the Corporation is reasonably certain to exercise extension options under lease agreements (note 4(F)).

Information about assumptions and estimation uncertainties regarding estimates that could result in a material adjustment to the amounts recognized in the consolidated financial statements includes key actuarial assumptions used in the measurement of defined benefit obligations (note 12(D)(i)).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

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 IFRS 16 *Leases*, including any consequential amendments to other standards, as at April 1, 2019.

IFRS 16, which replaced IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, and related interpretations, 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. The Corporation applied IFRS 16 using the modified retrospective approach; accordingly, the comparative information presented for March 31, 2019 is not restated. Additionally, the disclosure requirements of IFRS 16 have not been applied to comparative information. The details of the changes in accounting policies are disclosed below.

i. Definition of a lease

The Corporation assesses whether a contract is or contains a lease based on the IFRS 16 definition of a lease, as explained in note 4(F).

ii. As a lessee

As a lessee, the Corporation leases assets including real estate, lottery retail space, gaming equipment, and fleet vehicles. The Corporation previously classified all leases as operating leases because the lease agreements were not assessed to transfer significantly all of the risks and rewards incidental to ownership of the underlying assets to the Corporation. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for those leases that fall under the scope and application of the standard.

On transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at April 1, 2019 (see note 3(iv)).

All right-of-use assets have been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. Adjustments resulted in a \$1,834 reduction to the right-of-use assets.

The Corporation tested its right-of-use assets for impairment as at the date of transition and concluded that there was no indication that the right-of-use assets were impaired.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

3. Changes in accounting policies (continued)

i. As a lessee (continued)

The Corporation used practical expedients when applying IFRS 16. In particular, the Corporation:

- Applied the exemption not to recognize right-of-use assets and lease liabilities for leases with terms of less than 12 months; and
- Accounted for each lease component and any non-lease components within an agreement as a single lease component.

ii. As a lessor

There was no significant impact for contracts where the Corporation was a lessor.

iii. Impact on financial statements¹

On transition to IFRS 16, the Corporation recognized right-of-use assets and lease liabilities. The impact on transition is summarized below.

	April 1, 2019
Right-of-use assets	\$ 51,802
Lease liabilities	53,636

When measuring lease liabilities, the Corporation discounted lease payments using its incremental borrowing rate as at April 1, 2019. The weighted average discount rate applied is 1.6%.

	April 1, 2019
Operating lease commitments as at March 31, 2019 as disclosed under IAS 17 in the Corporation's consolidated financial statements	\$ 27,279
Discounted using the incremental borrowing rate as at April 1, 2019	25,882
Extension options reasonably certain to be exercised	27,754
Lease liabilities recognized as at April 1, 2019	\$ 53,636

¹ For the impact of IFRS 16 on the consolidated financial statements for the period, see note 9. For the details of accounting policies under IFRS 16 and IAS 17, see note 4(F).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

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.

The Corporation does not control gaming facility service providers or lottery retailers and therefore these consolidated financial statements do not include the financial results of those entities.

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 risks 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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

4. Significant accounting policies (continued)

C. FINANCIAL INSTRUMENTS (CONTINUED)

i. Financial assets (continued)

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(I)(i)). Interest income, foreign exchange gains and losses, and impairment are recognized in profit or loss. Any gains or losses on derecognition are also recognized in profit or loss.

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

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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

4. Significant accounting policies (continued)

C. FINANCIAL INSTRUMENTS (CONTINUED)

ii. Financial liabilities (continued)

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, lease liabilities, 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 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.

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 services are 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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

4. Significant accounting policies (continued)

E. EMPLOYEE BENEFITS (CONTINUED)

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 values when they are not expected to be settled wholly within 12 months of the reporting date.

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 future 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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

4. Significant accounting policies (continued)

F. LEASES

The Corporation has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from April 1, 2019

At inception of a contract, the Corporation determines whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and any estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

A right-of-use asset is depreciated from the commencement date to the end of the lease term, which includes the initial lease term and any optional renewal period if the Corporation is reasonably certain to exercise an option, using the straight-line method. A right-of-use asset will be reduced by impairment losses, if any, and adjusted for the remeasurement of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Generally, the Corporation uses its incremental borrowing rate as the discount rate.

The Corporation determines its incremental borrowing rate on a lease-by-lease basis by obtaining Government of Canada bond rates and making adjustments to reflect the term of the lease.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- lease payments in an optional renewal period if the Corporation is reasonably certain to exercise an extension option.

Variable lease payments based on revenues or usage are recognized in profit or loss in the period in which the expenses are incurred.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

4. Significant accounting policies (continued)

F. LEASES (CONTINUED)

Policy applicable from April 1, 2019 (continued)

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an applicable index or rate, if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option, or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the right-of-use asset; or if the carrying amount of the right-of-use asset has been reduced to zero, the adjustment is recorded in profit or loss.

The Corporation has elected not to separate non-lease components from lease components within a contract and accounts for these as a single lease component.

The Corporation has elected not to recognize right-of-use assets and lease liabilities for short-term leases with terms of less than 12 months. The Corporation recognizes the payments associated with these leases as an expense, on a straight-line basis, over the lease term.

Policy applicable before April 1, 2019

For contracts entered into before April 1, 2019, the Corporation determined whether the arrangement was or contained a lease based on the following:

Leases in which the Corporation assumed substantially all the risks and rewards of ownership were classified as financing leases. Upon initial recognition, a leased asset was 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 was accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under financing leases were apportioned between the financing expense and the reduction of the outstanding liability. The financing expense was 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 were classified as operating leases and were not recognized in the consolidated statement of financial position. Payments made under operating leases were recognized in income on a straight-line basis over the terms of the leases.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

4. Significant accounting policies (continued)

G. PROPERTY AND EQUIPMENT

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

Cost includes expenditures that are directly attributable to the acquisition of the asset 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 25 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.

H. INTANGIBLE ASSETS

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

4. Significant accounting policies (continued)

H. INTANGIBLE ASSETS (CONTINUED)

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.

I. 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.

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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

4. Significant accounting policies (continued)

I. IMPAIRMENT (CONTINUED)

i. Financial assets (continued)

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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

4. Significant accounting policies (continued)

J. PROVISIONS

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

K. REVENUE

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

In transactions in which the Corporation administers a game amongst players (“Administered Games”), the Corporation recognizes the portion of the wagers retained, and not distributed as prizes, as revenue from operating the game.

In transactions in which the Corporation and players are wagering against a specific outcome of an event (“Wagered Games”), the Corporation is exposed to gains or losses, which are recognized in revenue.

In Administered Games where the Corporation earns a variable commission, 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 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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

4. Significant accounting policies (continued)

K. 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 and as a 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.

L. COMMISSIONS

Commissions paid to lottery retailers are based on revenue earned by BCLC. BCLC recognizes 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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

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 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.

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 and cash and cash equivalents.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

5. Financial risk management (continued)

B. CREDIT RISK (CONTINUED)

Trade receivables

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, but 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. The Corporation has mitigated the risk associated with the revenue outstanding from gaming facility service providers by sweeping estimated average daily commissionable revenue on a semi-weekly basis. The maximum outstanding days of commissionable revenue is four. Additionally, these gaming facility service providers are required to supply all gaming cash floats. The Corporation has credit risk exposure primarily in relation to significant gaming facility service providers.

As at March 31, 2020, the amount owed to the Corporation by the two largest gaming facility service providers accounts for \$9,362 (2019: \$7,889) of the accounts receivable carrying amount.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

5. Financial risk management (continued)

B. CREDIT RISK (CONTINUED)

Trade receivables (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:

	2020	2019
Maximum exposure ¹	\$ 37,220	\$ 40,372
Collateral	(5,742)	(4,652)
Net exposure	\$ 31,478	\$ 35,720

¹ The maximum exposure includes accounts receivable (note 7) and gaming cash floats (note 6). Gaming cash floats, owned by the Corporation, are provided by the Corporation to certain gaming facility service providers.

Normal credit terms for trade receivables are payment within 30 days or less. As of March 31, 2020, normal credit terms have been extended for certain receivables as discussed in note 2A. As at March 31, 2020 and 2019, there were no invoiced trade receivables 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 semi-weekly bank sweeps, making the likelihood of a credit loss very low. The Corporation has assessed the expected credit loss and determined there were no material expected credit losses.

Cash and cash equivalents

Cash and cash equivalents 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 is represented by the carrying amounts at the reporting date (note 6).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

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 (2019: 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 except lease liabilities as at March 31, 2020 and 2019 are 90 days or less. The contractual maturities of the Corporation's lease liabilities are included in note 9.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

5. Financial risk management (continued)

D. OFFSETTING

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

	Gross amounts	Gross amounts set off in the statement of financial position	Net amounts presented in the statement of financial position
As at March 31, 2020			
Financial Assets			
Accounts receivable			
Lottery retailers	\$ 25,585	\$ (5,057)	\$ 20,528
Gaming facility service providers	11,858	–	11,858
Other	5,157	(1,193)	3,964
	<u>\$ 42,600</u>	<u>\$ (6,250)</u>	<u>\$ 36,350</u>
Financial Liabilities			
Accounts payable, accrued and other liabilities	\$ 111,669	\$ (6,250)	\$ 105,419
As at March 31, 2019			
Financial Assets			
Accounts receivable			
Lottery retailers	\$ 38,354	\$ (12,314)	\$ 26,040
Gaming facility service providers	26,004	(15,889)	10,115
Other	4,070	(723)	3,347
	<u>\$ 68,428</u>	<u>\$ (28,926)</u>	<u>\$ 39,502</u>
Financial Liabilities			
Accounts payable, accrued and other liabilities	\$ 119,267	\$ (28,926)	\$ 90,341

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

5. Financial risk management (continued)

E. 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.

F. 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.

6. Cash and cash equivalents

	2020	2019
Cash	\$ 27,414	\$ 16,000
Funds held for player accounts	10,361	7,874
Funds held for security deposits	3,649	3,693
Gaming cash floats	870	870
Cash and cash equivalents in the statement of financial position	42,294	28,437
Cheques issued in excess of funds on hand in the statement of financial position	-	(4,539)
Cash and cash equivalents in the statement of cash flows	\$ 42,294	\$ 23,898

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 \$10,361 (2019: \$7,874) is included in accounts payable, accrued and other liabilities.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(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 \$3,649 (2019: \$3,693) is included in accounts payable, accrued and other liabilities.

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

	2020	2019
Lottery retailers	\$ 20,528	\$ 26,040
Gaming facility service providers	11,858	10,115
Other	3,964	3,347
	\$ 36,350	\$ 39,502

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

8. Inventories

The major components of inventories are as follows:

	2020	2019
Instant tickets	\$ 4,913	\$ 3,358
Slot machine spare parts	4,451	5,022
Other	1,488	889
	\$ 10,852	\$ 9,269

For the year ended March 31, 2020, inventories recognized as an expense amounted to \$24,331 (2019: \$18,713).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

9. Leases

The Corporation leases office and warehouse real estate, lottery retail locations, vehicles and equipment. Leases of real estate have lease terms between 8 and 25 years, while lottery retail locations, vehicles, and equipment generally have lease terms of 5 years. Real estate and lottery retail location lease agreements frequently include extension options, which have been included in the term of the leases after consideration of the likelihood of the Corporation exercising the options. Generally, the lease payments under the extensions will be negotiated upon exercise of the option.

The Corporation leases casino and community gaming equipment with lease terms between less than one year and two years. The Corporation has elected not to recognize right-of-use assets and lease liabilities for the leases of less than one year.

The Corporation leases space within the casino and community gaming service provider facilities for gaming purposes. Lease payments for the gaming floors are fully variable; as such, right-of-use assets and lease liabilities have not been recognized.

Information about leases for which the Corporation is a lessee is presented below.

i. Right-of-use assets

	Real estate	Lottery retail locations	Gaming equipment	Fleet vehicles and other	Total
Balance at April 1, 2019	\$ 41,468	\$ 9,944	\$ -	\$ 390	\$ 51,802
Additions	63	2,949	1,410	33	4,455
Depreciation	(2,778)	(2,862)	(16)	(141)	(5,797)
Derecognition	-	(105)	-	-	(105)
Balance at March 31, 2020	\$ 38,753	\$ 9,926	\$ 1,394	\$ 282	\$ 50,355

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

9. Leases (continued)

ii. Lease liabilities

	2020
Maturity analysis – undiscounted cash flows	
Less than one year	\$ 6,763
One to five years	21,011
More than five years	30,282
Total undiscounted lease liabilities at March 31, 2020	58,056
Lease liabilities included in consolidated statement of financial position at March 31, 2020	52,507
Current	\$ 5,988
Non-current	\$ 46,519

iii. Amounts recognized in profit or loss

	2020	2019
Expense relating to short-term leases	\$ 18,808	\$ -
Depreciation of right-of-use assets	5,797	-
Variable lease payments not included in the measurement of the lease liabilities ¹	2,765	-
Interest on lease liabilities	752	-
Lease expense under IAS 17	-	25,069
Sub-lease income	-	(3,437)

¹ The variable commission payments to casino service providers for the lease of casino gaming floors have not been included within the total reported. The total commissions paid to service providers in 2020 was \$643,777 (2019: \$668,298) of which a portion represents the variable lease payment for use of the gaming floors.

iv. Amounts recognized in consolidated statement of cash flows

	2020
Total cash outflow for leases	\$ 6,231

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(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, 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
Additions	517	3,885	8,295	57	46,261	31,127	90,142
Transferred to systems and equipment	–	3,605	2,898	–	17,551	(24,054)	–
Disposals and retirements	–	(3,336)	(9,551)	(136)	(30,103)	–	(43,126)
Balance at March 31, 2020	\$ 5,249	\$ 112,934	\$ 126,464	\$ 7,573	\$ 516,501	\$ 37,404	\$ 806,125
Accumulated depreciation							
Balance at April 1, 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
Depreciation for the year	–	7,414	5,930	56	43,299	–	56,699
Disposals and retirements	–	(3,303)	(7,458)	(136)	(25,756)	–	(36,653)
Balance at March 31, 2020	\$ –	\$ 91,458	\$ 105,436	\$ 7,537	\$ 335,912	\$ –	\$ 540,343
Carrying amounts							
At March 31, 2019	\$ 4,732	\$ 21,433	\$ 17,858	\$ 35	\$ 164,423	\$ 30,331	\$ 238,812
At March 31, 2020	\$ 5,249	\$ 21,476	\$ 21,028	\$ 36	\$ 180,589	\$ 37,404	\$ 265,782

As of March 31, 2020, the Corporation is committed to incur capital expenditures relating to property and equipment and intangible assets of \$28,448 (2019: \$8,965). These commitments are expected to be settled in the following year.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

11. Intangible assets

	Software	Assets under development	Total
Cost			
Balance at April 1, 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
Acquisitions – separately acquired	4,428	6,301	10,729
Acquisitions – internally generated	–	923	923
Transferred to software	8,776	(8,776)	–
Disposals and retirements	(3,819)	–	(3,819)
Balance at March 31, 2020	\$ 187,643	\$ 11,195	\$ 198,838
Accumulated amortization			
Balance at April 1, 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
Amortization for the year	12,222	–	12,222
Disposals and retirements	(3,214)	–	(3,214)
Balance at March 31, 2020	\$ 152,244	\$ –	\$ 152,244
Carrying amounts			
At March 31, 2019	\$ 35,022	\$ 12,747	\$ 47,769
At March 31, 2020	\$ 35,399	\$ 11,195	\$ 46,594

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

12. 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.

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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

12. Employee benefits (continued)

A. FUNDING (CONTINUED)

The Corporation expects to contribute \$14,333 to Plan A in the year ending March 31, 2021.

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

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)	
	2020	2019	2020	2019	2020	2019
Balance at April 1	\$ 387,432	\$ 355,100	\$ (312,545)	\$ (291,847)	\$ 74,887	\$ 63,253
Included in income						
Current service cost	17,920	15,900	—	—	17,920	15,900
Past service cost	—	1,024	—	—	—	1,024
Interest cost (income)	13,667	13,408	(10,727)	(10,779)	2,940	2,629
Administration cost	—	—	570	520	570	520
	31,587	30,332	(10,157)	(10,259)	21,430	20,073
Included in other comprehensive income						
Re-measurements loss (gain):						
Actuarial loss (gain) arising from:						
Financial assumptions	(46,589)	11,309	—	—	(46,589)	11,309
Experience adjustments	(278)	104	—	—	(278)	104
Return on plan assets excluding interest income	—	—	14,355	(4,770)	14,355	(4,770)
	(46,867)	11,413	14,355	(4,770)	(32,512)	6,643
Other						
Contributions paid by the employer	—	—	(15,571)	(15,082)	(15,571)	(15,082)
Contributions paid by the employee	3,026	2,833	(3,026)	(2,833)	—	—
Benefits paid	(13,506)	(12,246)	13,506	12,246	—	—
	(10,480)	(9,413)	(5,091)	(5,669)	(15,571)	(15,082)
Balance at March 31	\$ 361,672	\$ 387,432	\$ (313,438)	\$ (312,545)	\$ 48,234	\$ 74,887
Represented by:					2020	2019
Net defined benefit (asset) liability (Plan A)					\$ (10,091)	\$ 6,969
Net defined benefit liability (Plans B and C)					58,325	67,918
					\$ 48,234	\$ 74,887

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

12. Employee benefits (continued)

C. PLAN ASSETS

Plan assets are comprised of:

2020	Level 1 ¹		Level 2 ²		Total	Asset Mix
Pooled funds						
Global equity funds	\$	180,945	\$	—	\$ 180,945	58%
Debt securities						
Long term bonds		—		75,787	75,787	24%
Real return bonds		—		56,706	56,706	18%
	\$	180,945	\$	132,493	\$ 313,438	100%
2019	Level 1 ¹		Level 2 ²		Total	Asset Mix
Pooled funds						
Global equity funds	\$	112,974	\$	—	\$ 112,974	36%
Canadian equity funds		94,787		—	94,787	31%
Fixed income funds		72,289		—	72,289	23%
Debt securities						
Real return bonds		—		32,495	32,495	10%
	\$	280,050	\$	32,495	\$ 312,545	100%

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

² The fair values of long term and real return bonds are determined based on price quotations; however, since 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. Overall, the portfolio of Plan A's assets are managed 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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

12. 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. An actuarial valuation for funding purposes as of December 31, 2019 is in progress at the reporting date and a determination of the funded status of the pension plan will be available in mid-2020. The most recently completed 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, 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, 2020.

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	
	2020	2019	2020	2019
Discount rate:				
Defined benefit obligation	3.90%	3.40%	3.90%	3.40%
Benefit cost	3.40%	3.65%	3.40%	3.65%
Rate of compensation increase for the fiscal year	2.00%	2.00%	-	-
Future compensation increases	2.00%	2.00%	-	-
Inflation	1.45%	1.70%	-	-
Initial weighted-average health care trend rate	-	-	4.27%	4.27%
Ultimate weighted-average health care trend rate	-	-	3.47%	3.47%
Year ultimate reached	-	-	2040	2040
Assumed life expectations on retirement at age 65				
Current pensioners				
Male	23.4	23.3	23.4	23.3
Female	25.2	25.2	25.2	25.2
Retiring in 20 years				
Male	24.3	24.3	24.3	24.3
Female	26.1	26.1	26.1	26.1

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

12. Employee benefits (continued)

D. DEFINED BENEFIT OBLIGATION (CONTINUED)

ii. Sensitivity analysis

Changes at March 31, 2020 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			
	2020		2019	
	Increase in rate	Decrease in rate	Increase in rate	Decrease in rate
Discount rate (1% movement)	\$ (49,618)	\$ 63,570	\$ (55,703)	\$ 72,045
Future compensation increase (1% movement)	15,170	(12,606)	15,381	(12,769)
Inflation (1% movement)	17,956	(16,391)	19,119	(17,403)
Health care cost trend rate (1% movement)	5,037	(4,822)	5,069	(4,854)
Future mortality (10% movement)	(5,766)	6,283	(6,461)	7,009

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, 2020 (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	
	2020	2019
Active members	50%	51%
Deferred vested members	5%	5%
Retirees	45%	44%
Total	100%	100%

At March 31, 2020, the weighted-average duration of the defined benefit obligation was 15.6 years (2019: 16.2 years).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

13. Prizes payable

	2020	2019
Lottery games	\$ 23,826	\$ 16,284
Progressive jackpots	9,541	8,404
Other	42	353
	\$ 33,409	\$ 25,041

14. Accounts payable, accrued and other liabilities

	2020	2019
Accrued expenses	\$ 44,509	\$ 37,255
Trade payables	25,055	19,743
Player accounts liability	10,361	7,874
Indirect tax payable	5,158	5,665
Security deposits payable	3,649	3,693
Other	16,687	16,111
	\$ 105,419	\$ 90,341

15. Short-term financing

	2020	2019
Government of British Columbia, loans, payable in single instalments ranging from \$40,000 to \$50,000 including interest ranging from \$32 to \$114 at rates ranging from 1.00% to 1.62%, unsecured, due between April 9, 2020 and April 23, 2020	\$ 179,996	\$ –
Government of British Columbia, loans, payable in single instalments ranging from \$30,000 to \$35,000 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
	\$ 179,996	\$ 100,029

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

15. Short-term financing (continued)

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

	2020	2019
Balance at April 1	\$ 100,029	\$ 154,867
Changes from financing cash flows		
Proceeds from borrowings	1,229,383	1,313,750
Repayment of borrowings	(1,149,446)	(1,368,595)
Total changes from financing cash flows	79,937	(54,845)
Other changes		
Interest expense	1,327	1,466
Interest paid	(1,647)	(1,697)
Capitalized borrowing costs	350	238
Total other changes	30	7
Balance at March 31	\$ 179,996	\$ 100,029

16. 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(K). The amounts recorded below are expected to be recognized as revenue by the Corporation within 12 months.

	2020	2019
Lottery games	\$ 20,944	\$ 21,303
Other	2,101	2,560
	\$ 23,045	\$ 23,863

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

17. 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(K). The amounts recorded below are expected to be recognized as revenue by the Corporation within 12 months.

	2020	2019
Customer loyalty programs	\$ 3,330	\$ 4,193
Lottery games	688	872
Sports betting	656	443
Other	266	154
	\$ 4,940	\$ 5,662

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 20), 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. Revenue

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

	2020	2019
Slot machines and table games	\$ 1,942,895	\$ 1,990,080
Lottery games	528,654	539,678
Sports betting	25,326	26,390
Bingo games	23,406	25,262
Other	10,601	8,716
	\$ 2,530,882	\$ 2,590,126
Revenue from Wagered Games	\$ 2,119,544	\$ 2,177,101
Revenue from Administered Games	411,338	413,025
	\$ 2,530,882	\$ 2,590,126

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

20. 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.

21. 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.

22. Contingencies

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

The Corporation periodically enters into agreements with suppliers that include limited indemnification obligations. BCLC is required to have all indemnification obligations approved by the B.C. Government Risk Management Branch. These indemnifications 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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

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 15) 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:

	2020	2019
Short-term employee benefits	\$ 2,576	\$ 2,448
Pension and post-retirement benefits	206	234
Termination benefits	850	376
	\$ 3,632	\$ 3,058

The Corporation is also related to the pension and post-retirement defined benefit plans. Transactions with these plans are disclosed in note 12.

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 B.C. pursuant to the *Provincial Sales Tax Act*.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2020

(in thousands of Canadian dollars)

25. Joint Illegal Gaming Investigation Team

The Corporation, in combination with the federal government through the Provincial Police Service Agreement, funded external policing costs for the Joint Illegal Gaming Investigation Team (located within the Combined Forces Special Enforcement Unit of B.C.) from fiscal 2017 to 2019. As of April 1, 2019, this funding is provided directly by the Government of British Columbia from the distributions it receives from the Corporation.

26. Subsequent events

As described in note 2(A), the COVID-19 situation is dynamic, causing significant uncertainty regarding when gaming facilities will re-open. The directive ordering the closure of gaming facilities remains in effect. The Corporation is working with gaming facility service providers to support them in re-opening gaming facilities across the province, in accordance with directives from provincial health authorities, to ensure the health and safety of players and employees.

On April 20, 2020, the Corporation reactivated the Lotto Express system across the province, allowing businesses that offer Lotto Express the opportunity to resume lottery sales at grocery checkout lanes. As of May 14, 2020, approximately 550 of the 1400 retailers who had suspended sales have resumed operations.

The Corporation has taken steps to mitigate liquidity risk by reviewing and reducing operating expenses and capital expenditures.

The Corporation, together with ILC, implemented a six-month expiry-date extension for lottery tickets that have an expiry date between March 17, 2020 and September 17, 2020 in recognition that physical-distancing requirements to help stop the spread of COVID-19 may affect our players' ability to claim prizes.

Appendix A: Additional Information

Organizational Overview

<https://corporate.bclbc.com/about-us/our-vision--mission-and-values.html>

<https://corporate.bclbc.com/what-we-do/lottery.html>

<https://corporate.bclbc.com/what-we-do/casinos.html>

<https://corporate.bclbc.com/what-we-do/sports.html>

<https://corporate.bclbc.com/what-we-do/online-gambling.html>

<https://corporate.bclbc.com/about-us/corporate-citizenship.html>

Corporate Governance

<https://corporate.bclbc.com/about-us/board-of-directors.html>

Contact Information

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

250-828-5500

consumerservices@bclbc.com

www.bclbc.com

Appendix B: Subsidiaries

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.

Financial Summary

\$ millions	2018/19 Actual	2019/20 Budget	2019/20 Actual
Total Revenue	\$ 64.4	\$ 69.1	\$ 64.0
Total Expenses	70.3	69.3	68.1
Net Loss	\$ 5.9	\$ 0.2	\$ 4.1

Appendix C – BCLC Mandate and Actions Summary

In the 2019/20 Mandate Letter, BCLC received direction on strategic priorities for the 2019/20 fiscal year. These priorities and BCLC's resulting actions are summarized below:

Mandate Letter Direction	BCLC's Action
<p>1. Implement government's response to recommendations arising from the Peter German review of money laundering in BC casinos. BCLC will provide a quarterly report to the Deputy Minister Committee on Anti-Money Laundering on the implementation of initiatives to mitigate money laundering and the use of proceeds of crime in B.C. gambling facilities.</p> <p>Provide support and information on horse racing to Dr. German as and when necessary to assist in his review related to money laundering and organized crime in the real estate, horse racing and luxury car sectors.</p>	<p>BCLC has been working collaboratively with members of the Anti-Money Laundering Deputy Minister's Committee and the Anti- Money Laundering Secretariat to respond to Dr. German's recommendations.</p> <p>As of March 31, 2020, BCLC has addressed 7 of the 11 recommendations for which it is the lead and is waiting for third-party direction on the remaining recommendations. It also addressed the one interim recommendation for which it is responsible. BCLC continues to support the additional recommendations.</p> <p>In October 2019, BCLC updated its standards to include the requirement to work with service providers and the Gaming Policy and Enforcement Branch (GPEB) and review the Source of Funds Declaration as needed, on an annual basis at a minimum, to see if refinements to the document are required.</p> <p>BCLC provided quarterly reports to the Attorney General regarding the implementation of BCLC's internal Anti-Money Laundering Strategy and is proactive in advising GPEB regarding trends in money laundering in the industry. Additionally, BCLC commissioned an independent analysis of anti-money laundering controls around the use of cheques at the River Rock Resort and Casino. BCLC was satisfied that there was no systemic pattern of money-laundering activity related to cheques being issued by River Rock Casino without gaming play during the three-year period from January 1, 2014 to December 31, 2016. A similar analysis is being conducted around the use of cheques at Grand Villa casino.</p>
<p>2. Complete implementation of the remaining commitments that BCLC is solely and jointly</p>	<p>As of March 31, 2020, BCLC has completed all but two of the recommendations that are its sole responsibility and one that is a joint responsibility with GPEB. Due to the</p>

<p>(with GPEB) responsible for in the Plan for Public Health and Gambling (February 2015). In addition, continue to implement the regulatory guidelines for performance measure reporting of GameSense Advisor (GSA) activities in casinos and community gaming centres.</p>	<p>closure of venues, aspects of two of the remaining public health commitments are on hold until venues are reopened.</p> <p>To date, BCLC has conducted three studies to track and analyze the program's results. This past year, GPEB received a presentation of the second study results on May 3, 2019. Data for the third study was recently completed and the results are currently being analysed. It is anticipated that GPEB will receive the latest results in mid-May 2020.</p>
<p>3. Proactively share information with GPEB that assists the branch in meeting its responsibilities for the overall integrity of gambling and horse racing and providing advice on broad policy, standards and regulatory issues. This includes, but is not limited to, the following:</p> <p>a) Any information about BCLC operations related to implementing the government's response to recommendations arising from the Peter German review of money laundering in B.C. casinos and any information requested by GPEB, the Anti-Money Laundering Secretariat, or the Associate Deputy Minister's Office as required by them at their sole discretion.</p> <p>b) 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</p>	<p>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.</p> <p>BCLC continues to work with GPEB, the Anti-Money Laundering Secretariat and the Associate Deputy Minister's Office on any actions taken as a result of the recommendations from the Peter German "Dirty Money" 2018 report.</p> <p>No new games were submitted to GPEB during fiscal year 2019/20 that required GPEB review as a new lottery scheme.</p>

<p>may be considered a new type of lottery scheme and requires written approval by the Minister under Section 7 of the <i>Gaming Control Act</i>.</p> <p>c) Information regarding any trends that may influence strategies to combat money laundering and keep the proceeds of crime out of British Columbia gambling facilities.</p> <p>d) Information regarding proposed upgrades related to the BCLC headquarters building in Kamloops.</p>	<p>BCLC is proactive in advising GPEB regarding trends in money laundering through regular meetings and communications.</p> <p>BCLC continued to monitor the Kamloops headquarters to ensure it met the needs of evolving business and staffing requirements. BCLC conducted an analysis to estimate the costs and consequential benefits of modernizing employee workstations and/or performing renovations to optimize the performance in the existing facility. BCLC decided in late 2019/20 to defer any significant updates to the head office facility.</p> <p>BCLC continues to work with its environmental consultant and the Ministry of the Environment to manage the remediation strategy associated with the acquired adjacent properties.</p>
<p>4. Optimize BCLC's financial performance in accordance with government policy and directives under the <i>Gaming Control Act</i> and Treasury Board direction in order to achieve a net income in line with service plan projections.</p>	<p>BCLC continues to optimize its financial performance by seeking new revenues opportunities and continued investment in games and service offering across its diversified portfolio.</p>