



2016/17
ANNUAL SERVICE PLAN REPORT



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Board Chair's Accountability Statement



On behalf of the Board of Directors, management and our employees, I'm pleased to present BCLC's 2016/17 Annual Service Plan Report for the twelve months ended March 31, 2017. The Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*.

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

Significant decisions and changes to BCLC's strategies, measures, targets or data, as of March 31, 2017, are identified in the report. All significant assumptions, events and identified risks have been considered in the preparation of this report. Estimates and interpreted information represent the best judgement of management.

The BCLC 2016/17 Annual Service Plan Report outlines how BCLC has met the objectives as set out in the 2016/17 Mandate Letter and how we are aligning our business with the Taxpayer Accountability Principles. It compares the corporation's actual results to the expected results identified in the 2016/17 – 2018/19 Service Plan. I am accountable for those results as reported.

Respectfully,

A handwritten signature in black ink, appearing to read "Bud Smith". The signature is fluid and cursive, written over a white background.

Bud Smith
Board Chair

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Chair/CEO Report Letter



In fiscal 2016/17, BCLC generated more than \$1.3 billion in net income for the Province of British Columbia, which is \$96 million over budget and \$26 million ahead of last year, marking another outstanding year of financial performance.

These strong financial results were achieved through innovation and capitalizing on strategic investments primarily in the slots category in both our bricks-and-mortar and online casinos. This successfully offset the volatility experienced in casino high-limit table game revenue and the expected normalization of lottery jackpot rolls from the prior year.



BCLC's diverse portfolio of products, combined with the ability to be flexible and responsive to changing consumer demands and dynamic market conditions, have been the key drivers of achieving stronger than expected financial results. While our results are strong, the dynamic nature of the gambling business has continued to put pressure on operating costs as our reliance on technology increases and related accounting standards shift expenditures from capital to operating costs. Despite this, BCLC achieved a comprehensive cost ratio (the measure of total business costs, excluding prizes and taxes, as a percentage of total net win) of 42.0%. This result was below the target of 43.4% primarily due to success in high-margin products and a continued focus on operational efficiency.

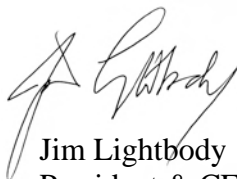
Along with our focus on growing our business in a responsible manner, including a new player health strategy, we remain committed to managing our business in the best interests of British Columbians. To that end, we continue to deliver on the strategic priority items outlined by Government in the 2016/17 Mandate Letter. A list of actions to fulfill this direction can be found in Appendix C.

Through a strategic engagement plan, we continue to have meaningful dialogue with the Ministry of Finance regarding our implementation of the Taxpayer Accountability Principles. Our Board of Directors and Executive team have become proficient in the accountability framework and their respective roles and responsibilities. Additionally, through our Standards of Ethical Business Conduct and other means of internal communication, we have outlined the principles for our employees and explained how they are expected to apply these values to their daily work.

We're proud of our performance this year and confident that our people will continue to strike the right balance between creating great entertainment experiences, upholding our social responsibility promise, and meeting our financial targets, to deliver on our commitments to the Province of British Columbia.



Bud Smith
Board Chair



Jim Lightbody
President & CEO

Purpose of the Organization

BCLC conducts and manages gambling in B.C. including casino, lottery, bingo and sports betting through multiple channels of distribution. Our slot machines, table games and bingo are operated through operational service contracts with private sector service providers at 15 casinos, two racecourse casinos, 18 community gaming centres and six commercial bingo venues. Our national and provincial lottery and sports betting products are sold at approximately 3,500 retail locations, operated by private sector retailers who earn a commission based on product sales. PlayNow.com is BCLC's secure, regulated online and mobile channel, with a growing selection of lottery games, sports betting, slots, table games and bingo entertainment for approximately 370,000 registrants. PlayNow.com also provides online gambling services and web-based and smartphone platforms to the Province of Manitoba through an operating contract with Manitoba Liquor & Lotteries.

BCLC is a Crown corporation, established on April 1, 1985, and is governed by B.C.'s [Gaming Control Act](#) (2002). We manage and conduct gaming and grow net income in a socially responsible manner, adhering to the [Taxpayer Accountability Principles](#), for the benefit of British Columbians. The Gaming Policy and Enforcement Branch (GPEB) has regulatory oversight of gambling in B.C., including all commercial gaming operated by BCLC, as well as horse racing and charitable gaming. BCLC adheres to requirements set out in federal anti-money laundering legislation, and is monitored by the Financial Transactions and Reports Analysis Centre of Canada 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 and lease of capital assets for BCLC. Lottotech's budget is renewed and approved through our annual business planning process. The financial operations, management and oversight of Lottotech are consolidated within BCLC operations.

Strategic Direction and Context

Specific direction from Government to BCLC was provided in the Government's 2016/17 Mandate Letter directing BCLC to take actions in accordance with the best interest of the Province and taxpayers.

The Mandate Letter outlined specific actions to deliver high quality services within the Taxpayer Accountability Principles Framework (TAP). TAP is designed to strengthen accountability and promote controlled spending in an environmentally sustainable manner.

Read the full letter outlining BCLC's mandate here:

<http://corporate.bclc.com/content/dam/bclc/corporate/documents/service-plan-2016-17.pdf>

B.C.'s gambling market is nearing a mature stage. BCLC's traditional distribution channels such as our retail network, casinos and community gaming facilities are close to meeting existing market demand. There are few options remaining to expand our distribution footprint. Overall, there has been a shift from a supply-driven to a demand-driven environment. In addition, our gaming product portfolio is facing relevance challenges with certain demographics and their expectations for entertainment. Our current product mix is less relevant to younger generations while we are

encountering competition from other entertainment options such as professional sports leagues, online gaming, fantasy sports, social gaming, and high-end restaurants. Consumer expectations for entertainment and services is driven by their experiences across all entertainment options. This requires BCLC to meet the preferences of customers who have a wide range of entertainment and gambling options from which to choose. This shift has created a critical need to challenge the status quo through investments in innovation, especially in new products and services.

In conjunction with the maturing market, the convergence of physical and digital experiences continues to occur at a pace and magnitude that is disrupting traditional ways of doing business. Businesses across all consumer product sectors are improving the digital experience for their customers and leveraging their bricks-and-mortar presences to enhance the overall experience. In order to continue to grow revenue and remain relevant, BCLC must adopt new ways of delivering our products in order to meet customer expectations.

BCLC is focused on attracting new players and increasing participation from light and moderate player segments through the creation of new content and better integrating our digital and bricks-and-mortar experiences. Additionally, we are working with our casino service providers to build or redevelop casino properties and attract a broader customer base through wider and better customer experiences.

We continue to address aging infrastructure that places our ability to sustain current revenues at risk. After completing the replacement of our legacy casino management system infrastructure in fiscal 2014/15, we have planned a multi-year program to replace our aging lottery infrastructure and introduce new capabilities that will allow for new product content delivery in our retail setting.

As predicted, in 2016/17, there were fewer high lottery jackpot rollovers in our national lottery games compared to the prior year, which impacted lottery revenue; however, BCLC exceeded its total lottery revenue budget through strong performance in other lottery categories. Strategic investment in refreshing our slot product in our casinos successfully offset the volatility experienced in high-limit table game revenue, resulting in our casino business exceeding budget and the previous year's revenue. Our eGaming business performance was also very strong, exceeding budget, and seeing double digit growth over previous year's revenue, due primarily to popularity in the casino and sports betting categories.

BCLC depends on maintaining and growing our social license to operate gambling on behalf of British Columbians. This year, BCLC has embarked on new community engagement initiatives, including working with Public Health officials, to engage with communities where we may be opening a new casino. A healthy customer base is an important component in improving the overall customer experience. We are evolving our approach to responsible gambling by changing our strategic focus from awareness to reducing gambling related harm.

Report on Performance

The [2016/17 Mandate Letter](#) provides specific actions for BCLC to ensure alignment with government goals and objectives.

BCLC has made significant progress on each of the strategic actions set out by Government and continues to optimize financial performance and sustain net income to the province by seeking new revenue opportunities and responding to marketplace demands. BCLC has completed implementation of the recommendations from the Review of the British Columbia Lottery Corporation (December 2014) and continues to make progress to implement the commitments it made in the Plan for Public Health and Gambling (February 2015). In addition, BCLC has contributed to and supported implementing the government's Anti-Money Laundering (AML) strategy.

A detailed summary of BCLC's work to fulfill the 2016/17 Mandate Letter appears in Appendix C.

In 2016/17, BCLC achieved strong growth across all lines of business through a diverse portfolio of products and the ability to be flexible and responsive to changing consumer demands and dynamic market conditions. BCLC continues to evolve the business by offering relevant, accessible entertainment experiences and leveraging PlayNow.com in order to attract a broader player base.

The 2016/17 BCLC Annual Service Plan Report compares actual results to the expected results identified in the 2016/17 – 2018/19 Service Plan. The following section summarizes how BCLC measures and reports performance through four corporate goals.

Goals, Strategies, Measures and Targets

BCLC's mandate is to conduct and manage gaming in B.C. on behalf of government. BCLC grows net income responsibly for the benefit of British Columbians while applying the Taxpayer Accountability Principles. BCLC aims to build public understanding of our business through transparency and to manage costs efficiently and effectively, investing wisely in order to sustain long-term business health.

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

Strategies:

Develop responsible gambling programs that are effective in reducing gambling related harm.

Across all our games, we continue to focus on programming that encourages healthy gambling decisions. We will develop a performance framework for our responsible gambling programs that enables evidence-based decision-making to better support reducing harm and outcomes for our players. We will continue to provide tools for players to make healthy decisions through our GameSense program and provide gaming workers with enhanced training to support referring players to appropriate support services.

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

We will introduce new content and experiences to appeal to our light and moderate players. We will continue to enhance our ability to leverage customer insights to create the experiences players are seeking whether they are online, in gambling facilities, or at lottery retail locations.

Grow and diversify the player base to strengthen our business.

We will strengthen our business by enhancing the value of our entertainment offering and diversifying our player base. We will expand our player communication abilities and increase our customer understanding by continuing to improve our customer relationship management and business intelligence capabilities.

Optimize our distribution channels.

We will continue to leverage investments in our digital and technology infrastructure in order to deliver exciting games and experiences to our players in our facilities and through our retailers. We will enhance BCLC's current distribution reach by leveraging our mobile presence and the convenience of Lotto Express, which makes lottery tickets available with grocery purchase at check-out lanes in major grocery store chains. We will continue to support casino facility redevelopments and improvements to create destinations with broader appeal.

Performance Measure 1.1: Player Satisfaction

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Player Satisfaction ¹	81%	78%	77%	79%	80%	80%	80%

Data Source: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures as per Statistics Canada's Census. The margin of error is $\pm 2.22\%$ at the 95% confidence level (19 times out of 20).

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

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

Discussion:

- Player satisfaction gauges our success in offering products and amenities that provide great value for money so that we achieve positive outcomes for British Columbians.
- In 2016/17, player satisfaction saw growth from 2015/16 and we managed to achieve our target. We have worked to increase player satisfaction by:
 - Using technology to improve our players' purchasing and gambling experience, by introducing initiatives such as mobile-optimized player experiences on PlayNow.com, easier and more convenient lottery prize payout options for retail, and refreshed EncoreRewards.ca to offer a more user-friendly experience;
 - Diversifying product offerings online and offline to better engage with our new and existing players; and
 - Using targeted marketing initiatives to deliver relevant and engaging content for players across all channels.
- We will remain focused on growing player satisfaction through understanding player expectations and by developing and utilizing technology, people and processes to deliver enhanced entertainment experience across all products and distribution channels.

Performance Measure 1.2: Player Participation (percent at least monthly)

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Player Participation	54%	51%	52%	50%	53%	51%	51%

Data Source: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures as per Statistics Canada’s Census. The margin of error is $\pm 1.79\%$ at the 95% confidence level (19 times out of 20).

Discussion:

- Player participation measures the percentage of adult British Columbians who play a BCLC game in any of BCLC’s gambling channels at least once a month. This measure is an indicator of how successful we are in creating entertaining and relevant experiences so players purchase our products and visit our properties.
- In 2016/17, player participation increased slightly from 2015/16 and exceeded target. This result may be attributed to our efforts in the following:
 - Introducing new games to complement our existing product lines in all channels and marketing campaigns to engage with our players;
 - Promoting cross-play through multichannel products to provide players with the option to engage across different channels; and
 - Our ability to market lottery jackpots in a year with substantially fewer jackpots than the previous year.
- We plan to continue to manage player participation by researching and responding to player feedback in order to deliver new products that are relevant and entertaining and refine our existing product line.

Performance Measure 1.3: Player Awareness of Responsible Gambling activities

Performance Measure	2013/14 Actual	2014/15 ² Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Player Awareness of Responsible Gambling Activities	68%	79%	77%	74%	79%	76%	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 $\pm 2.07\%$ at the 95% confidence level (19 times out of 20).

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

²In 2014/15, we revised the survey statements for Player Awareness of Responsible Gambling Activities to better reflect our responsible gambling priorities; 2014/15 results are not comparable to previous years.

Discussion:

- Player Awareness of Responsible Gambling (RG) Activities measures the percentage of players who are aware of at least one of the following responsible gambling activities: Voluntary Self-Exclusion, GameSense brand, GameSense Info Centres, RG messaging in retail locations and RG messaging on PlayNow.com. This measure determines how effective we are at educating our players about responsible gambling, so that players can make informed and healthy gambling choices.
- In 2016/17, player awareness of responsible gambling activities was above target and above the prior year.
- BCLC is currently planning the implementation of our new responsible gambling strategy that will adopt a harm reduction approach that has been used in program development for other types of addictions. The Player Health Strategy includes the following aspects:
 - Positive Play: Encouraging players to adopt positive playing behaviours and attitude that can reduce risk of developing gambling problems, such as pre-commitment and honesty with friends and family.
 - Informed decision-making: Providing the tools and information to enable players to make informed playing decisions and to be aware of the risks associated with gambling and the resources available to support healthy play behaviours.
 - Reduced problem gambling prevalence with BCLC products: Making appropriate business decisions in terms of products offered, approaches to advertising/marketing, and markets served, to reduce the incidence of players with gambling problems using BCLC products.
 - Effective referral to treatment and support: Ensuring that responsible and problem gambling support is viewed as a key component of the customer service model, enabling players to receive effective referral to the right resources at the right time.
- This strategy and its implementation is aligned with BCLC's commitment to the [Plan for Public Health and Gambling](#). In future years, we will further develop a harm reduction evaluation framework based on research and outcomes, to determine the effectiveness of our responsible gambling programs in changing player behaviour.

Performance Measure 1.4: Net Win Per Capita

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Net Win Per Capita	\$468	\$482	\$501	\$482	\$503	\$496	\$497

Data Source and Data Reliability: Net Win is from BCLC Audited Financial Statements. B.C. population projections are from Statistics Canada.

Discussion:

- Net Win per Capita tells us how successful we are in growing revenue in relation to the provincial population. B.C. has been successful in attracting tourism to our facilities contributing to our net win; however tourism is not considered part of the population counts for B.C.
- In 2016/17, BCLC’s net win per capita increased over the previous year and exceeded our target. This is due to a higher rate of growth in net win compared to the population growth.
- 2016/17 net win increase was achieved through innovation and capitalizing on strategic investments primarily in the bricks-and-mortar and online channels of the slots category. This successfully offset the volatility experienced in high-limit table game revenue and the expected normalization in jackpot rolls in Lotto Max and Lotto 6/49 from the previous year.
- Slots in the bricks-and-mortar channel grew due to continued success of facility enhancements, strategic investments in slot product variety and improved speed to market with new slot products.
- Slots available on our online channel, Playnow.com, achieved its growth primarily due to content innovation through the continuous introduction of new content while optimizing game mix.

Goal 2: People – We are building an engaged workforce and strong culture.

We strive to demonstrate the value of our work by complying with a rigorous and standardized approach to performance management and employee compensation, consistent with Government's [Taxpayer Accountability Principles](#) and other provincial Crown corporations in B.C.

Strategies:

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

Our human resources programs will continue to nurture a culture and environment that supports BCLC's business strategy. We will continue to invest in leadership and employee development to provide the training and resources needed to sustain and grow net income to Government. We are building talent from within and preparing our staff for future roles. We have implemented a human resources management system with enabling capabilities to anticipate and manage our future skill and resource requirements.

We are an employer of choice.

For nine consecutive years BCLC has been selected as a top employer in British Columbia. Competition for qualified talent is strong and therefore we continue to pursue excellence in the programs, services and experiences we offer to our workforce.

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

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

Performance Measure 2.1: Employee Engagement

Performance Measure	2013/14 ³ Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Employee Engagement	n/a	78%	83%	83%	87%	83%	83%

Data Source: Annual anonymous online survey of BCLC employees conducted by an independent a third-party professional. The margin of error is $\pm 2.88\%$ at the 95% confidence level (19 times out of 20).

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

³In 2013/14, BCLC did not conduct the Employee Engagement survey, hence no results are available.

Discussion:

- Employee Engagement is defined as the intellectual and emotional commitment employees have to an organization. A passionate, productive and engaged workforce will help to drive the success of our business, delivering the great entertainment experiences our players expect.
- In 2016/17, BCLC's employee engagement level exceeded our target and has increased compared to the previous year. This increase in engagement can be attributed to employees feeling more inspired and motivated to go above and beyond.
- While fluctuations in engagement results occur from year to year, BCLC is committed to maintaining a consistently high level of employee engagement moving forward.

Performance Measure 2.2: Employee Turnover Rate

Performance Measure	2013/14 Actual	2014/15 Actual ⁴	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Employee Turnover Rate	12.4%	24.7%	9.6%	10.0%	5.5%	10.0%	10.0%

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

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

⁴ Cost management activities, including organizational restructuring, contributed to the higher results in 2014/15.

Discussion:

- Employee Turnover Rate measures the combined percentage of voluntary and involuntary turnover relative to BCLC's total headcount. This measure determines how successful we are in attracting and retaining a workforce to drive the continuous optimization of our business and gauges our competitiveness in the labour market. It also evaluates the effectiveness of our training, development and retention programs.
- In 2016/17, BCLC's employee turnover rate falls comfortably below target, which is a very positive result that reflects the high employee engagement levels within our workforce. Low turnover reduces recruiting and development costs to orient new employees.
- We plan to maintain this positive level by continuing to enhance employee experience and programs, building talent from within our workforce and implementing initiatives to sustain a strong company culture. Our future targets are based on the historical average turnover rate.

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

Strategies

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

More than \$1 billion is delivered each year to the Province of B.C. for health care, education, community initiatives and other programs. Building the trust of our players, the public and our stakeholders is critical to the long-term success of our business and provides BCLC with the social license to operate.

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

Sustaining net income depends on BCLC's ability to build the public's understanding, trust and support of our business by being a good corporate citizen, demonstrating integrity in what we deliver and how we deliver it, and being transparent in how we manage and conduct our business. It is paramount the public understands our products are fair and our facilities are safe. We will continue to communicate with respect and openness with municipalities when we propose or make changes to gambling facilities.

As part of our mandate, we will continue to participate in a coordinated approach with the [Gaming Policy and Enforcement Branch](#) and law enforcement to prevent money laundering in B.C. gambling facilities by focusing on compliance best practices.

Performance Measure 3.1: Public Recognition of Positive Contributions

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Public Recognition of Positive Contributions	61%	68%	68%	68%	73%	71%	72%

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).

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

Discussion:

- Public Recognition of Positive Contribution measures the percentage of adult British Columbians who agree that BCLC makes positive contributions to the Province of British Columbia. This measure helps us gauge our success in building public understanding and recognition of the public contributions we make.
- In 2016/17, results for this measure increased compared to the previous year and exceeded our target.
- In the coming year, we plan to maintain this positive level and continue to communicate BCLC's positive contributions both on a province-wide level as well as on a community-specific level through various mediums, such as sponsorship of events and engagement with stakeholders.
- BCLC launched a new Online Sponsorship Application program to provide an efficient communication channel for community organizations seeking sponsorship.
- Province wide, BCLC supports local communities through events and sponsorships, in fiscal 2016/17 BCLC sponsored over 40 organizations.

Performance Measure 3.2: Public Perception of BCLC's Transparency

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Public Perception of BCLC's Transparency	52%	57%	60%	60%	64%	62%	63%

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).

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

Discussion:

- 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 us gauge our success in becoming increasingly transparent so that our business and its benefits are understood and supported by British Columbians.
- In 2016/17, Public Perception of BCLC's Transparency exceeded target and increased compared to the year before.
- We plan to continue to speak to communities about what they feel is most important. We will continue to create new opportunities to connect in every community we do business with information that is relevant and specific to each community and with transparency and integrity regarding our business operations and plans.
- We will continue to enhance the information available on our website, providing easier access to details about our business.

Performance Measure 3.3: Level of Greenhouse Gas Emissions (GHG)

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Level of Greenhouse Gas Emissions	2013: 1,374	2014: 1,315	2015: 906	2016: 1,119	2016: 833	2017: 900	2018: 900

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

Discussion:

- In 2016/17, our emissions dropped by 8% from 906 to 833 tonnes of carbon dioxide equivalent (tCO₂e).
- This decrease in GHG emissions is the result of an 11% reduction in natural gas consumption compared to the previous year, due to warmer March and November temperatures in Kamloops.
- Natural gas consumption in our Kamloops office building is our biggest GHG emissions source. We have begun to address these emissions through our commitment to upgrading our Kamloops facility to an energy efficient LEED-certified building.
- Since we have already exceeded our original reduction targets, we have revised our annual targets to reflect our current GHG emissions levels.

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

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

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

Strategies:

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

We continue to monitor consumer trends so that we can deliver relevant products and experiences that meet player expectations and provide value for money. With player understanding as a cornerstone and working with best-in-class partners, we will continue to invest in innovative products and services that deliver engaging gambling experiences to our players and grow net income in a socially responsible manner.

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

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

Performance Measure 4.1: Net Income (millions)

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Net Income (millions)	\$1,174.6	\$1,254.5	\$1,313.5	\$1,242.8	\$1,339.0	\$1,294.3	\$1,311.3

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

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

Discussion:

- Net Income is the total amount of money generated by BCLC and delivered to the Province, which uses it to benefit British Columbians via funding for health care, education and charitable and community programs.
- Through continued investment in our games and service offerings, we have built a diversified portfolio that has delivered engaging gambling experiences to our players and resulted in record revenues this past year.
- In 2016/17, BCLC exceeded its target and achieved a result of \$1,339.0 million in net income. The growth in net income represents \$25.5 million increase over 2015/16. BCLC's strong financial results were achieved through innovation and capitalizing on strategic investments in our slots offerings in casinos and online. The value of BCLC's diversified portfolio of games allowed us to successfully offset the volatility experienced in high-limit table game revenue and the expected normalization in jackpot rolls in Lotto Max and Lotto 6/49 from the previous year.
- BCLC's 2017/18 net income target and the underlying budget reflects a responsible goal. BCLC has had incredible success in the last two years with record-breaking net income; however, we continue to see uncertainty in the market environment for slots and high-limit tables. In addition, we are undertaking significant stabilization efforts in our lottery business. BCLC's 2017/18 and 2018/19 net income forecasts are responsible and prudent plans that consider such factors. One outstanding risk that has not been recognized in the 2017/18 and 2018/19 net income forecasts is the potential for a decrease in net income as BCLC transitions to a new commission structure in its Casino and Community Gaming division.

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

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Comprehensive Cost Ratio (% of Net Win)	43.4%	41.9%	42.0%	43.4%	42.0%	43.4%	43.5%

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

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

Discussion:

- The Comprehensive Cost Ratio (CCR) is the sum of direct, gaming support, operating, amortization and other costs (excluding taxes), divided by net win and expressed as a percentage. It is intended to gauge operational efficiency. During 2016/17, CCR was amended to exclude interest so that it better reflects operational efficiency from areas within BCLC's control. Prior year actual results have been restated for comparability purposes.
- BCLC achieved a CCR of 42.0% which was below the budget of 43.4% primarily driven by success in high-margin products and a continued focus on operational efficiency.
- The dynamic nature of the gambling business is expected to continue to put pressure on operating costs in future years. Targets reflect increased strategic capital investments, a commitment to focus on innovation. Future investment, and its attendant amortization cost reflect player preference shifting to more expensive products. There is an expectation that future targets will be impacted as BCLC transitions to a new commission structure in its Casino and Community Gaming division.

Financial Report

Discussion of Results

Financial Overview:

In 2016/17, BCLC achieved a record \$1.339 billion net income on record revenue of \$3.144 billion, exceeding the previous records set last year by \$25.5 million and \$42.1 million, respectively.

This year, BCLC benefited most notably from strong performance in the Casino business, led by increased revenue from slot machines, which more than offset continuing declines in casino table games. While the Lottery business did not experience the same record-breaking number of high-dollar-value jackpots as last year, sales of all categories of lottery products did exceed expectations.

Commensurate with sales volume, prizes, commissions, and related operating costs were higher this year. While total revenue exceeded budget by \$173.6 million, the operating costs supporting that increase exceeded budget by only \$15.9 million, primarily from increased commissions associated with the increased sales volume experienced. On a year-over-year basis, a \$42.1 million increase in revenue correlated with total operating costs that were \$19.1 million higher than the previous year, primarily from direct gaming expenses, including commissions.

British Columbia Lottery Corporation (BCLC)

Financial Overview

Financial Results	2012/13 ¹	2013/14	2014/15	2015/16	2016/17			
							VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
(\$ in millions)	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET		
REVENUES								
Lottery & eGaming	\$ 1,093.8	\$ 1,123.5	\$ 1,103.4	\$ 1,287.1	\$ 1,285.5	\$ 1,174.5	\$ 111.0	\$ (1.6)
Casino & Community Gaming	1,638.1	1,684.8	1,800.9	1,814.7	1,858.4	1,795.8	62.6	43.7
	2,731.9	2,808.3	2,904.3	3,101.8	3,143.9	2,970.3	173.6	42.1
Prizes	649.6	665.6	659.5	744.8	741.3	681.9	(59.4)	3.5
NET WIN	2,082.3	2,142.7	2,244.8	2,357.0	2,402.6	2,288.4	114.2	45.6
EXPENDITURES²								
Lottery & eGaming	177.6	189.9	175.4	204.7	197.6	198.5	0.9	7.1
Casino & Community Gaming	682.7	740.1	765.2	785.7	811.9	795.1	(16.8)	(26.2)
	860.3	930.0	940.6	990.4	1,009.5	993.6	(15.9)	(19.1)
Income before the undermoted	1,222.0	1,212.7	1,304.2	1,366.6	1,393.1	1,294.8	98.3	26.5
Indirect tax expense	96.8	38.1	49.7	53.1	54.1	52.0	(2.1)	(1.0)
NET INCOME								
Lottery & eGaming	297.4	304.1	304.2	369.1	377.8	322.0	55.8	8.7
Casino & Community Gaming	827.8	870.5	950.3	944.4	961.2	920.8	40.4	16.8
	\$ 1,125.2	\$ 1,174.6	\$ 1,254.5	\$ 1,313.5	\$ 1,339.0	\$ 1,242.8	\$ 96.2	\$ 25.5
Profit Margin	41.2%	41.8%	43.2%	42.3%	42.6%	41.8%	0.8%	0.3%
Debt	\$131.7	\$154.9	\$140.1	\$150.1	\$145.1	\$156.1	11.0	5.0
Capital Expenditures	\$96.6	\$100.3	\$69.5	\$68.2	\$ 86.2	\$ 90.0	\$ 3.8	(18.0)

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

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

² Please refer to page 33 for a detailed breakdown of 2016/17 actual expenditures.

Performance Measurement:

BCLC's performance measurement framework is updated annually as part of its business planning process. This framework guides decision-making at all levels of the organization and has been used to assess 2016/17 operational performance against the targets and budgets established in the Service Plan (bclc.com/service-plan). BCLC also compares its performance to other gambling organizations that make their results publicly available. These comparator organizations were selected from across Canada and internationally for the relevance of their operations in comparison to BCLC's.

International Financial Reporting Standards (IFRS):

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

Economic Outlook:

Current economic indicators suggest that B.C.'s economy will continue to experience modest growth throughout 2017 and 2018; however, continued general economic growth in the province might not translate fully or directly into increased future revenue or net income for the corporation. The segment of our business that contributed most to our net income this year—casino slot machines—is dependent upon the players' disposable income, product availability and variety, facility improvements, demographics, and general economic conditions at home and abroad.

Over the next three years, growing net income from our core businesses as well as expanding and diversifying our player base will continue to be priorities. In addition to product and service innovations, we are continuing a multi-year initiative to modernize our technology infrastructure, reviewing our relationships with our private sector service providers and third-party vendors, and exploring strategic cost management opportunities.

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

British Columbia Lottery Corporation (BCLC)

LOTTERY & eGAMING OPERATIONS:

FINANCIAL RESULTS (\$ IN MILLIONS)	2012/13	2013/14	2014/15	2015/16	2016/17			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Revenue								
Lottery	\$ 1,020.5	\$ 1,032.5	\$ 994.3	\$ 1,151.6	\$ 1,127.9	\$ 1,039.2	\$ 88.7	\$ (23.7)
eGaming	73.3	91.0	109.1	135.5	157.6	135.3	22.3	22.1
	1,093.8	1,123.5	1,103.4	1,287.1	1,285.5	1,174.5	111.0	(1.6)
Prizes	594.2	615.7	610.5	698.1	694.9	639.0	(55.9)	3.2
Net win	499.6	507.8	492.9	589.0	590.6	535.5	55.1	1.6
Direct expenses ¹	81.2	84.7	85.3	98.9	101.5	96.3	(5.2)	(2.6)
Gaming support costs & operating expenses	96.4	105.2	90.1	105.8	96.1	102.2	6.1	9.7
Income before the undernoted	322.0	317.9	317.5	384.3	393.0	337.0	56.0	8.7
Indirect tax expense	24.6	13.8	13.3	15.2	15.2	15.0	(0.2)	0.0
Net income	\$ 297.4	\$ 304.1	\$ 304.2	\$ 369.1	\$ 377.8	\$ 322.0	\$ 55.8	\$ 8.7
Lottery retailers	3,805	3,748	3,928	3,873	3,496			
Lottery terminals	3,765	3,707	3,691	3,632	3,530			

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

Lottery and eGaming net income of \$ 377.8 million exceeded the previous year by \$8.7 million and budget by \$55.8 million. Overall revenue of \$1.286 billion was up \$111.0 million from budget, but was down \$1.6 million, or 0.1 percent, from the previous year.

Year-over-year revenue was down in the Lotto category because there were fewer major jackpots for the national lottery games than in the prior year. Sales in the Lotto category were up \$17.1 million over budget but were \$49.6 million lower than the previous year.

This year there were 22 LottoMax jackpots of \$50 million or more—8 fewer than the record set in 2015/16, but 5 more than the statistical projection for the year. Similarly, there were 12 Lotto 6/49 jackpots of \$20 million or more, compared with 21 comparable jackpots in last year.

During 2016/17, 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 \$22.1 million from 2015/16—an increase of 16 percent.

British Columbia Lottery Corporation (BCLC)

CASINO & COMMUNITY GAMING OPERATIONS

FINANCIAL RESULTS (\$ IN MILLIONS)	2012/13	2013/14	2014/15	2015/16	2016/17			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Revenue								
Slot Machines	\$ 1,140.1	\$ 1,135.3	\$ 1,149.4	\$ 1,206.6	\$ 1,277.9	\$ 1,184.9	\$ 93.0	\$ 71.3
Table Games	390.2	452.1	555.1	516.5	488.1	526.6	(38.5)	(28.4)
Poker	21.3	20.7	21.1	19.8	21.3	18.6	2.7	1.5
Bingo	86.5	76.7	75.3	71.8	71.1	65.7	5.4	(0.7)
	1,638.1	1,684.8	1,800.9	1,814.7	1,858.4	1,795.8	62.6	43.7
Prizes	55.4	49.9	49.0	46.7	46.4	42.9	(3.5)	0.3
Net win	1,582.7	1,634.9	1,751.9	1,768.0	1,812.0	1,752.9	59.1	44.0
Direct expenses	556.0	580.8	633.3	635.7	648.3	631.9	(16.4)	(12.6)
Gaming support costs & operating expenses ¹	126.7	159.3	131.9	150.0	163.6	163.2	(0.4)	(13.6)
Income before the undernoted	900.0	894.8	986.7	982.3	1,000.1	957.8	42.3	17.8
Income tax expense	72.2	24.3	36.4	37.9	38.9	37.0	(1.9)	(1.0)
Net income	\$ 827.8	\$ 870.5	\$ 950.3	\$ 944.4	\$ 961.2	\$ 920.8	\$ 40.4	\$ 16.8
Casinos	17	17	17	17	17			
Casino slot machines	9,740	9,907	9,811	9,637	9,949			
Tables	472	476	505	518	513			
Commercial halls	7	7	7	7	7			
Community gaming centers	19	19	18	19	18			
Community gaming slot machines	2,484	2,803	2,535	2,683	2,776			

The Casino and Community Gaming business generated revenue of \$1.858 billion in 2016/17, up \$43.7 million from 2015/16, and \$62.6 million over budget. Revenue from slot machines grew \$71.3 million from the previous year driven by innovation and strategic investments in slot capital, while table games and poker fell short of budget by \$35.8 million – a decline of \$26.9 million from the previous year primarily due to the inherent volatility in high limit games.

CAPITAL SPENDING

FINANCIAL RESULTS (\$ IN MILLIONS)	2012/13	2013/14	2014/15	2015/16	2016/17			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Lottery	\$ 6.3	\$ 7.8	\$ 4.8	\$ 7.7	\$ 11.5	\$ 20.7	\$ 9.2	\$ (3.8)
eGaming	10.0	8.7	1.7	3.4	1.6	4.5	2.9	\$ 1.8
Casino & Community Gaming	63.5	67.2	47.2	45.0	64.0	49.5	(14.5)	\$ (19.0)
Corporate	16.8	16.6	15.8	12.1	9.1	15.3	6.2	\$ 3.0
Capital Expenditures ¹	\$ 96.6	\$ 100.3	\$ 69.5	\$ 68.2	\$ 86.2	\$ 90.0	\$ 3.8	\$ (18.0)

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

From year to year, capital spending varies significantly in response to revenue-generating and gambling facility initiatives. In 2016/17, capital spending of \$86.2 million was \$3.8 million less than budget but was \$18.0 million more than in 2015/16. The small variance from budget reflects improved planning and a focus on active portfolio management.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of BCLC have been prepared by management in accordance with International Financial Reporting Standards. The consolidated financial statements present fairly the consolidated financial position of BCLC as at March 31, 2017, and the results of its consolidated financial performance and cash flows for the year then ended.

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

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



Amanda Hobson
CFO & Vice-President
Finance and Corporate Services



Jim Lightbody
President & CEO



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Fax (250) 828-2928

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of British Columbia Lottery Corporation, which are comprised of the consolidated statement of financial position as at March 31, 2017, the consolidated statements of comprehensive income, changes in deficit and cash flows for the year then ended, and notes, which are comprised of a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of British Columbia Lottery Corporation as at March 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants

Kamloops, Canada
May 11, 2017

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.

British Columbia Lottery Corporation

Consolidated Statement of Financial Position

March 31, 2017, with comparative information for 2016

(in thousands of Canadian dollars)

	2017	2016
ASSETS		
Cash and cash equivalents (note 5)	\$ 83,127	\$ 73,651
Accounts receivable (note 6)	41,053	36,401
Receivable from the Interprovincial Lottery Corporation	13,221	17,894
Prepaid and deferred expenses	12,928	10,916
Inventories (note 7)	9,055	9,000
Current assets	159,384	147,862
Employee benefits (note 8)	23,994	–
Property and equipment (note 9)	213,416	188,366
Intangible assets (note 10)	62,834	69,685
Non-current assets	300,244	258,051
Total assets	\$ 459,628	\$ 405,913
LIABILITIES		
Cheques issued in excess of funds on hand (note 5)	\$ 3,814	\$ 4,418
Prizes payable (note 11)	32,460	33,124
Accounts payable, accrued and other liabilities (note 12)	83,994	67,538
Short-term financing (note 13)	145,130	150,095
Due to the Government of British Columbia (note 14)	148,101	129,820
Deferred revenue	9,328	13,293
Current liabilities	422,827	398,288
Employee benefits (note 8)	77,270	81,322
Non-current liabilities	77,270	81,322
Total liabilities	500,097	479,610
DEFICIT		
Accumulated deficit	(17,144)	(17,144)
Accumulated other comprehensive loss	(23,325)	(56,553)
Total deficit	(40,469)	(73,697)
Total liabilities and deficit	\$ 459,628	\$ 405,913

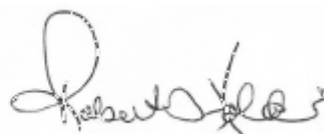
Commitments and contingencies (notes 17, 18 and 21)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:



Bud Smith
Chair, Board of Directors



Robert Holden
Chair, Audit Committee

British Columbia Lottery Corporation

Consolidated Statement of Comprehensive Income

Year ended March 31, 2017, with comparative information for 2016

(in thousands of Canadian dollars)

	2017	2016
Revenue	\$ 3,143,877	\$ 3,101,782
Prizes	741,276	744,841
Net win	2,402,601	2,356,941
Expenses		
Commissions and fees	698,095	689,381
Employee costs	95,838	91,038
Amortization and depreciation (notes 9 and 10)	64,933	73,659
Systems, maintenance and ticket distribution	41,644	37,300
Gaming equipment, leases and licenses	39,353	32,708
Advertising, marketing and promotions	23,922	25,932
Ticket printing	12,390	12,618
Professional fees and services	12,248	7,859
Cost of premises	7,896	7,849
Other	11,369	11,994
	1,007,688	990,338
Income from operations before the undernoted	1,394,913	1,366,603
Indirect tax expense (note 20)	54,078	53,112
Funding of Joint Illegal Gaming Investigation Team (note 21)	1,800	–
Net income	1,339,035	1,313,491
Other comprehensive income		
<i>Item that will never be reclassified to net income</i>		
Net defined benefit plan actuarial gains (note 8)	33,228	1,313
Total comprehensive income	\$ 1,372,263	\$ 1,314,804

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Changes in Deficit

Year ended March 31, 2017, with comparative information for 2016

(in thousands of Canadian dollars)

	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Deficit
Balance, April 1, 2015	\$ (17,144)	\$ (57,866)	\$ (75,010)
Net income	1,313,491	–	1,313,491
Net defined benefit plan actuarial gains (note 8)	–	1,313	1,313
Total comprehensive income	1,313,491	1,313	1,314,804
Distributions to the Government of British Columbia (note 14)	(1,303,996)	–	(1,303,996)
Distributions to the Government of Canada (note 15)	(9,495)	–	(9,495)
Balance, March 31, 2016	\$ (17,144)	\$ (56,553)	\$ (73,697)
Net income	1,339,035	–	1,339,035
Net defined benefit plan actuarial gains (note 8)	–	33,228	33,228
Total comprehensive income	1,339,035	33,228	1,372,263
Distributions to the Government of British Columbia (note 14)	(1,329,392)	–	(1,329,392)
Distributions to the Government of Canada (note 15)	(9,643)	–	(9,643)
Balance, March 31, 2017	\$ (17,144)	\$ (23,325)	\$ (40,469)

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

(in thousands of Canadian dollars)

	2017	2016
Cash flows from operating activities:		
Net income	\$ 1,339,035	\$ 1,313,491
Items not involving cash:		
Depreciation of property and equipment (note 9)	48,998	51,519
Amortization of intangible assets (note 10)	15,935	22,140
Loss on disposal of property and equipment	748	1,479
Loss on disposal of intangible assets	1,356	–
Net benefit plan expense (note 8)	17,051	17,960
	1,423,123	1,406,589
Changes in:		
Accounts receivable	(4,652)	3,514
Receivable from the Interprovincial Lottery Corporation	4,673	(2,766)
Prepaid and deferred expenses	(2,012)	(5,764)
Inventories	(55)	43
Employee benefits	(11,869)	(14,674)
Prizes payable	(664)	4,373
Accounts payable, accrued and other liabilities	10,609	(4,315)
Deferred revenue	(3,965)	2,188
Net cash from operating activities	1,415,188	1,389,188
Cash flows from financing activities:		
Increase (decrease) in short-term financing (note 13)	(4,961)	10,023
Interest paid (note 13)	(490)	(699)
Distributions to the Government of British Columbia (note 14)	(1,311,111)	(1,317,862)
Distributions to the Government of Canada (note 15)	(9,643)	(9,495)
Net cash used in financing activities	(1,326,205)	(1,318,033)
Cash flows from investing activities:		
Additions to property and equipment	(70,369)	(64,262)
Additions to intangible assets	(9,079)	(12,032)
Net proceeds (costs) on disposal of property and equipment	545	(239)
Net cash used in investing activities	(78,903)	(76,533)
Net increase (decrease) in cash and cash equivalents	10,080	(5,378)
Cash and cash equivalents, beginning of year	69,233	74,611
Cash and cash equivalents, end of year (note 5)	\$ 79,313	\$ 69,233

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements

Year ended March 31, 2017

(in thousands of Canadian dollars)

1. Reporting entity:

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

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

2. Basis of preparation:

A. STATEMENT OF COMPLIANCE:

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

These consolidated financial statements were authorized for issue by BCLC's Board of Directors (the Board) on May 11, 2017.

B. BASIS OF MEASUREMENT:

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

C. FUNCTIONAL AND PRESENTATION CURRENCY:

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

2. Basis of preparation (continued):

D. USE OF ESTIMATES AND JUDGMENTS:

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

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

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements includes the determination of the ability to exercise control over gaming facility service providers and lottery retailers (note 3(A)).

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

3. Significant accounting policies:

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

A. BASIS OF CONSOLIDATION:

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

B. CASH AND CASH EQUIVALENTS:

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

C. FINANCIAL INSTRUMENTS:

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

i. Non-derivative financial assets:

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

C. FINANCIAL INSTRUMENTS (continued):

i. Non-derivative financial assets (continued):

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

Loans and receivables

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

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

ii. Non-derivative financial liabilities:

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

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

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

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

iii. Offsetting:

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

D. INVENTORIES:

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

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

E. EMPLOYEE BENEFITS:

i. Short-term employee benefits:

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

ii. Termination benefits:

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

E. EMPLOYEE BENEFITS (continued):

iii. Defined benefit plans:

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

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

Re-measurements of the net defined benefit liability (asset), which are comprised of actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. 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 income. The Corporation recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

F. PROPERTY AND EQUIPMENT:

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

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

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

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

Asset	Rate
Corporate facilities, systems and equipment	3 to 20 years
Lottery gaming systems and equipment	5 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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

G. INTANGIBLE ASSETS:

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

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

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

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

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

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

H. IMPAIRMENT:

i. Financial assets:

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

H. IMPAIRMENT (continued):

ii. Non-financial assets:

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

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

I. PROVISIONS:

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

J. REVENUE:

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

The Corporation's revenue recognition policies are as follows:

i. Revenue:

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

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

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

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

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

ii. Customer loyalty programs:

The Corporation has customer loyalty programs whereby players can receive free or discounted goods and services. Certain loyalty programs allow players to earn points based on the volume of play during gaming sessions. Revenue is allocated between the loyalty program and the other components of the transaction based on the fair value of the undelivered goods and services. The amount allocated to the loyalty program is deferred, and is recognized as revenue when the Corporation has fulfilled its obligation to supply the free or discounted goods and services or when the points expire.

iii. Net win:

Net win is defined as gaming revenue net of prizes paid.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

K. PRIZES:

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

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

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

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

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

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

L. COMMISSIONS:

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

M. LEASES:

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

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

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

N. NEW STANDARDS ISSUED BUT NOT YET ADOPTED:

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

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

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation plans to adopt this standard for its fiscal year ending March 31, 2019.

The actual impact of adopting IFRS 9 on the consolidated financial statements is not known and cannot be reliably estimated because it will be dependent on the financial instruments the Corporation holds and economic conditions at that time, as well as accounting elections and judgments that will be made in the future. The Corporation is currently assessing the potential classification impacts on the financial assets and financial liabilities on its consolidated financial statements.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

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

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

IFRS 15, published in May 2014, establishes a comprehensive framework for revenue recognition from contracts with customers. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation plans to adopt this standard for its fiscal year ending March 31, 2019. The Corporation is currently assessing the potential impact of the adoption of IFRS 15 on its consolidated financial statements and available transition options. The Corporation has an implementation plan in place, which includes monitoring relevant gaming industry application guidance for IFRS 15 if and when it becomes available.

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

IFRS 16, published in January 2016, establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing lease guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC-15 *Operating Leases – Incentives*, and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

4. Financial risk management:

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

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

A. GENERAL:

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

The Board's role includes oversight of the Corporation's enterprise risk management program, and the integrity of the Corporation's internal control and management systems. The Board, with the support of its Risk Committee, monitors the Corporation's risk appetite and tolerance levels 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. Further, the Corporation has a dedicated risk advisory services department (RAS) to support the enterprise risk management program for the identification, assessment and management of strategic and operational risks. RAS reports quarterly on its activities and on the Corporation's risk profile for the review of 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, net win less commissions outstanding, gaming cash floats, and cash and cash equivalents.

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

4. Financial risk management (continued):

B. CREDIT RISK (continued):

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

The Corporation has arrangements with approximately 3,500 lottery retailers. The Corporation is not materially exposed to any individual lottery retailer. The objectives of the Corporation's lottery retailer credit policies are to provide retailers with adequate time to sell lottery products before payment is requested, while not exposing the Corporation to unacceptable risks. Credit assessments may be completed for new retailers (with the exception of registered charities), retailers who have experienced insufficient fund occurrences or where there are concerns that retailers might be experiencing financial difficulties. Security is obtained from lottery retailers who are considered high financial risks, or from lottery retailers where minimal credit information is available. Security may include Irrevocable Standby Letters of Credit, security deposits, or personal guarantees.

The Corporation has arrangements with 18 gaming facility service providers. The Corporation may secure net win less commissions that would be outstanding from gaming facility service providers through security deposits or Irrevocable Standby Letters of Credit. This security also covers gaming cash floats owned by the Corporation and provided by the Corporation to certain gaming facility service providers. The Corporation has credit risk exposure primarily in relation to two gaming facility service providers that has been mitigated by letters of credit and daily cash sweeps made by the Corporation.

As at March 31, 2017, the net win less commissions owing to the Corporation from the two largest gaming facility service providers accounts for \$7,844 (2016: \$11,449) of the accounts receivable carrying amount.

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

	2017	2016
Maximum exposure	\$ 85,188	\$ 79,444
Collateral	(62,702)	(65,215)
Net exposure	\$ 22,486	\$ 14,229

Normal credit terms for trade receivables or net win less commissions outstanding are payment within 30 days. As at March 31, 2017 and 2016, there were no trade receivables or net win less commissions outstanding for more than 60 days.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

4. Financial risk management (continued):

B. CREDIT RISK (continued):

Cash and cash equivalents

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

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

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

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

C. LIQUIDITY RISK:

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

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

The Corporation also has an unused \$10 million demand operating credit facility with a Canadian commercial bank that is unsecured. Interest is payable at the bank's commercial prime lending rate (2016: prime rate).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

4. Financial risk management (continued):

C. LIQUIDITY RISK (continued):

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

Invested funds represent temporary 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 14). As a result of fluctuating cash flow requirements and to minimize financial risk, the Corporation maintains a high degree of liquidity.

The contractual maturities of all financial liabilities as at March 31, 2017 and 2016 are three months or less.

D. MARKET RISK:

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

E. FAIR VALUES:

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

4. Financial risk management (continued):

F. OFFSETTING:

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

As at March 31, 2017	Gross financial assets set off	Gross financial liabilities set off	Net financial assets	Related financial assets not set off	Net amount
Accounts receivable					
Lottery retailers	\$ 33,460	\$ (11,706)	\$ 21,754	\$ –	\$ 21,754
Gaming facility service providers	36,020	(23,993)	12,027	–	12,027
Other	–	–	–	7,272	7,272
	\$ 69,480	\$ (35,699)	\$ 33,781	\$ 7,272	\$ 41,053

As at March 31, 2017	Gross financial assets set off	Gross financial liabilities set off	Net financial liabilities	Related financial liabilities not set off	Net amount
Accounts payable, accrued and other liabilities					
	\$ 578	\$ (1,668)	\$ (1,090)	\$ (82,904)	\$ (83,994)

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

5. Cash and cash equivalents:

	2017	2016
Gaming cash floats	\$ 44,135	\$ 43,043
Funds held for security deposits	5,833	5,685
Funds held for player accounts	5,892	4,889
Canadian high interest savings account (overnight deposits)	24,099	–
Canadian money market funds (overnight deposits)	3,168	20,034
Cash and cash equivalents in the statement of financial position	83,127	73,651
Cheques issued in excess of funds on hand in the statement of financial position	(3,814)	(4,418)
Cash and cash equivalents in the statement of cash flows	\$ 79,313	\$ 69,233

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

Funds held for security deposits include security deposit amounts provided by lottery retailers and gaming facility service providers to the Corporation. These funds are deposited into a separate bank account. All security deposit amounts are internally restricted by the Corporation exclusively for funding the security deposit liability. A corresponding security deposit liability in the amount of \$5,833 (2016: \$5,685) is included in accounts payable, accrued and other liabilities.

Funds held for player accounts represent funds provided to the Corporation through player accounts on PlayNow.com. These amounts are deposited into a separate bank account and are internally restricted by the Corporation exclusively for funding the player accounts liability. A corresponding player account liability in the amount of \$5,892 (2016: \$4,889) is included in accounts payable, accrued and other liabilities.

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

6. Accounts receivable:

	2017		2016
Trade receivables and net win less commissions outstanding:			
Lottery retailers	\$ 21,754	\$	19,780
Gaming facility service providers	12,027		15,300
	33,781		35,080
Other	7,272		1,321
	\$ 41,053	\$	36,401

7. Inventories:

The major components of inventories are as follows:

	2017		2016
Slot machine spare parts	\$ 4,685	\$	4,743
Instant tickets	2,512		2,890
Other	1,858		1,367
	\$ 9,055	\$	9,000

For the year ended March 31, 2017, inventories recognized as an expense amounted to \$19,736 (2016: \$17,702).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

8. Employee benefits:

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

Registered Pension Plan (Plan A)

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

Supplementary Pension Plan (Plan B)

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

Non-Pension Post-Employment Plan (Plan C)

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

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

8. Employee benefits (continued):

A. FUNDING:

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

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

The Corporation expects to contribute \$9,726 to Plan A in the year ending March 31, 2018.

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

8. Employee benefits (continued):

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

A reconciliation from the opening balances to the closing balances for 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)	
	2017	2016	2017	2016	2017	2016
Balance at April 1	\$ 322,592	\$ 319,306	\$ (241,270)	\$ (239,957)	\$ 81,322	\$ 79,349
Included in income						
Current service cost	13,174	13,864	–	–	13,174	13,864
Past service cost	–	1,054	–	–	–	1,054
Interest cost (income)	12,658	11,901	(9,231)	(9,159)	3,427	2,742
Administration cost	–	–	450	300	450	300
	25,832	26,819	(8,781)	(8,859)	17,051	17,960
Included in other comprehensive income						
Re-measurements loss (gain):						
Actuarial loss (gain) arising from:						
Demographic assumptions	–	(3,662)	–	–	–	(3,662)
Financial assumptions	(12,475)	(16,475)	–	–	(12,475)	(16,475)
Experience adjustments	(298)	4,375	–	–	(298)	4,375
Return on plan assets excluding interest income	–	–	(20,455)	14,449	(20,455)	14,449
	(12,773)	(15,762)	(20,455)	14,449	(33,228)	(1,313)
Other						
Contributions paid by the employer	–	–	(11,869)	(14,674)	(11,869)	(14,674)
Contributions paid by the employee	2,763	2,546	(2,763)	(2,546)	–	–
Benefits paid	(12,835)	(10,317)	12,835	10,317	–	–
	(10,072)	(7,771)	(1,797)	(6,903)	(11,869)	(14,674)
Balance at March 31	\$ 325,579	\$ 322,592	\$ (272,303)	\$ (241,270)	\$ 53,276	\$ 81,322
Represented by:					2017	2016
Net defined benefit (asset) liability (Plan A)					\$ (23,994)	\$ 4,316
Net defined benefit liability (Plans B and C)					77,270	77,006
					\$ 53,276	\$ 81,322

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

8. Employee benefits (continued):

C. PLAN ASSETS:

Plan assets are comprised of:

2017	Level 1 ¹	Level 2 ²	Total	Asset Mix
Pooled funds				
Canadian equity funds	\$ 82,874	\$ –	\$ 82,874	30%
Global equity funds	97,034	–	97,034	36%
Fixed income funds	64,421	–	64,421	24%
Debt securities				
Canada real return bonds	–	27,974	27,974	10%
	\$ 244,329	\$ 27,974	\$ 272,303	100%
<hr/>				
2016	Level 1 ¹	Level 2 ²	Total	Asset Mix
Pooled funds				
Canadian equity funds	\$ 71,604	\$ –	\$ 71,604	30%
Global equity funds	84,202	–	84,202	35%
Fixed income funds	61,091	–	61,091	25%
Debt securities				
Canada real return bonds	–	24,373	24,373	10%
	\$ 216,897	\$ 24,373	\$ 241,270	100%

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

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

8. Employee benefits (continued):

D. DEFINED BENEFIT OBLIGATION:

i. Actuarial valuation and assumptions:

An actuarial valuation is required, at a minimum, every three years to assess the financial position of Plan A. The most recent actuarial valuation of Plan A for funding purposes was made by Mercer (Canada) Limited, an independent firm of consulting actuaries, as of December 31, 2013. The defined benefit obligation for Plan A has been based on this valuation, with adjustments made for cash flows and material events since this date. The next required actuarial valuation will be made as of December 31, 2016 by Morneau Shepell Ltd. (Morneau), an independent firm of consulting actuaries, with a determination of the funded status of the pension plan available in mid-2017.

There is no statutory actuarial valuation requirement for Plan B. The defined benefit obligation for Plan B is based on data collected for those members as of March 31, 2017.

There is no statutory actuarial valuation requirement for Plan C; however, an actuarial valuation is completed every three years on Plan C. An actuarial valuation of Plan C was performed by Morneau as of December 31, 2015. The defined benefit obligation for Plan C has been based on this valuation, with adjustments made for cash flows and material events since this date.

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

	Plans A and B		Plan C	
	2017	2016	2017	2016
Discount rate:				
Defined benefit obligation	4.00%	3.80%	4.00%	3.80%
Benefit cost	3.80%	3.75%	3.80%	3.75%
Rate of compensation increase for the fiscal year	2.00%	2.00%	-	-
Future compensation increases	2.00%	2.00%	-	-
Inflation	1.75%	1.75%	-	-
Initial weighted-average health care trend rate	-	-	5.25%	5.25%
Ultimate weighted-average health care trend rate	-	-	4.21%	4.21%
Year ultimate reached	-	-	2026	2026
Assumed life expectations on retirement at age 65				
Current pensioners				
Male	23.2	23.1	23.2	23.1
Female	25.0	25.0	25.0	25.0
Retiring in 20 years				
Male	24.2	24.1	24.2	24.1
Female	26.0	25.9	26.0	25.9

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

8. Employee benefits (continued):

D. DEFINED BENEFIT OBLIGATION (continued):

i. Actuarial valuation and assumptions (continued):

A change in discount rate resulted in a decrease of approximately \$11,000 to the defined benefit obligation which has been treated as a change in estimate. The adjustment has been reflected in other comprehensive income.

ii. Sensitivity analysis:

Changes at March 31, 2017 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			
	2017		2016	
	Increase in rate	Decrease in rate	Increase in rate	Decrease in rate
Discount rate (1% movement)	\$ (46,170)	\$ 59,965	\$ (47,053)	\$ 60,815
Future compensation increase (1% movement)	6,083	(5,244)	6,991	(5,890)
Inflation (1% movement)	13,656	(12,028)	13,764	(11,910)
Health care cost trend rate (1% movement)	9,825	(8,367)	9,792	(8,297)
Future mortality (10% movement)	(5,372)	5,823	(5,430)	5,895

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

8. Employee benefits (continued):

D. DEFINED BENEFIT OBLIGATION (continued):

iii. Maturity profile of plan membership:

The breakdown of the defined benefit obligation at March 31, 2017 (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	
	2017	2016
Active members	46%	46%
Deferred vested members	5%	5%
Retirees	49%	49%
Total	100%	100%

At March 31, 2017, the weighted-average duration of the defined benefit obligation was 18.0 years (2016: 18.2 years).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

9. Property and equipment:

	Land	Corporate facilities, systems and equipment	Lottery gaming systems and equipment	eGaming systems and equipment	Casino and community gaming systems and equipment	Assets under construction	Total
Cost							
Balance at April 1, 2015	\$ 1,055	\$ 88,325	\$ 105,766	\$ 7,651	\$ 404,682	\$ 11,362	\$ 618,841
Additions	1,634	8,334	5,033	–	36,125	8,813	59,939
Transferred to systems and equipment	–	3,577	1,420	–	4,730	(9,727)	–
Disposals and retirements	–	(2,024)	(1,784)	–	(12,600)	–	(16,408)
Balance at March 31, 2016	2,689	98,212	110,435	7,651	432,937	10,448	662,372
Additions	90	4,322	5,581	–	43,457	22,260	75,710
Transferred to systems and equipment	–	1,705	1,583	–	6,489	(9,777)	–
Disposals and retirements	–	(3,724)	(1,120)	–	(46,374)	–	(51,218)
Balance at March 31, 2017	\$ 2,779	\$ 100,515	\$ 116,479	\$ 7,651	\$ 436,509	\$ 22,931	\$ 686,864
Accumulated depreciation							
Balance at April 1, 2015	\$ –	\$ 69,972	\$ 95,871	\$ 6,470	\$ 265,540	\$ –	\$ 437,853
Depreciation for the year	–	6,705	4,486	501	39,827	–	51,519
Disposals and retirements	–	(1,981)	(1,747)	–	(11,638)	–	(15,366)
Balance at March 31, 2016	–	74,696	98,610	6,971	293,729	–	474,006
Depreciation for the year	–	6,513	4,035	292	38,158	–	48,998
Disposals and retirements	–	(3,340)	(1,117)	–	(45,099)	–	(49,556)
Balance at March 31, 2017	\$ –	\$ 77,869	\$ 101,528	\$ 7,263	\$ 286,788	\$ –	\$ 473,448
Carrying amounts							
At March 31, 2016	\$ 2,689	\$ 23,516	\$ 11,825	\$ 680	\$ 139,208	\$ 10,448	\$ 188,366
At March 31, 2017	\$ 2,779	\$ 22,646	\$ 14,951	\$ 388	\$ 149,721	\$ 22,931	\$ 213,416

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

10. Intangible assets:

	Software	Assets under development	Total
Cost			
Balance at April 1, 2015	\$ 155,096	\$ 16,986	\$ 172,082
Acquisitions - separately acquired	3,276	2,660	5,936
Acquisitions - internally generated	1,934	411	2,345
Borrowing costs capitalized	2	25	27
Transferred to software	7,202	(7,202)	–
Disposals and retirements	(3,389)	–	(3,389)
Balance at March 31, 2016	164,121	12,880	177,001
Acquisitions – separately acquired	3,396	6,129	9,525
Acquisitions – internally generated	500	371	871
Borrowing costs capitalized	–	45	45
Transferred to software	2,079	(2,079)	–
Disposals and retirements	(9,607)	–	(9,607)
Balance at March 31, 2017	\$ 160,489	\$ 17,346	\$ 177,835
Accumulated amortization			
Balance at April 1, 2015	\$ 88,362	\$ –	\$ 88,362
Amortization for the year	22,140	–	22,140
Disposals and retirements	(3,186)	–	(3,186)
Balance at March 31, 2016	107,316	–	107,316
Amortization for the year	15,935	–	15,935
Disposals and retirements	(8,250)	–	(8,250)
Balance at March 31, 2017	\$ 115,001	\$ –	\$ 115,001
Carrying amounts			
At March 31, 2016	\$ 56,805	\$ 12,880	\$ 69,685
At March 31, 2017	\$ 45,488	\$ 17,346	\$ 62,834

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, 2017

(in thousands of Canadian dollars)

11. Prizes payable:

	2017		2016
Lottery	\$ 27,015	\$	28,123
Casino and community gaming	5,445		5,001
	\$ 32,460	\$	33,124

12. Accounts payable, accrued and other liabilities:

	2017		2016
Trade payables	\$ 22,947	\$	17,862
Accrued expenses	33,313		30,361
Indirect tax payable	4,862		5,747
Other	22,872		13,568
	\$ 83,994	\$	67,538

13. Short-term financing:

	2017		2016
Government of British Columbia, loans, payable in single instalments including interest ranging from \$6 to \$27 at rates ranging from 0.31% to 0.45%, unsecured, due between April 5, 2017 and May 19, 2017	\$ 145,130	\$	–
Government of British Columbia, loans, payable in single instalments including interest ranging from \$10 to \$26 at rates ranging from 0.35% to 0.42%, unsecured, due between April 14, 2016 and May 13, 2016	–		150,095
	\$ 145,130	\$	150,095

For the year ended March 31, 2017, interest on short-term financing of \$487 (2016: \$691) was recognized as an expense.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

14. Distributions to the Government of British Columbia:

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

15. Distributions to the Government of Canada:

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

16. Interprovincial Lottery Corporation:

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

17. Commitments:

Operating leases

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

2018	\$4,763
2019	4,197
2020	3,551
2021	3,211
2022	3,154
Thereafter	12,197

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

17. Commitments (continued):

Operating leases (continued)

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

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

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

During the year ended March 31, 2017, \$23,262 (2016: \$21,259) was recognized as an expense in the consolidated statement of comprehensive income in respect of non-cancellable and cancellable operating leases. The Corporation recognized income of \$3,057 (2016: \$3,115) in respect of rent under cancellable operating agreements with lottery retailers.

Capital commitments

As of March 31, 2017, the Corporation is committed to incur capital expenditures relating to property and equipment and intangible assets of \$11,412 (2016: \$9,350). These commitments are expected to be settled in the following year.

18. Contingencies:

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

19. 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 and are on terms comparable to those with other entities that are not government-related. Transactions that are considered to be individually or collectively significant include loan agreements (note 13) and distributions to the Government of British Columbia (note 14). 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 20).

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:

	2017	2016
Short-term employee benefits	\$ 2,538	\$ 2,269
Pension and post-employment benefits	179	155
Termination benefits	(18)	306
	\$ 2,699	\$ 2,730

The Corporation is also related to the post-employment defined benefit plans. Transactions with these plans are disclosed in note 8.

20. Indirect tax expense:

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2017

(in thousands of Canadian dollars)

21. Joint Illegal Gaming Investigation Team:

The Corporation is committed to funding the Joint Illegal Gaming Investigation Team over its five-year mandate, in combination with funding from the federal government through the Provincial Police Service Agreement. The Corporation will provide funding, beginning in the 2017 fiscal year, for the external policing costs related to this team located within the Combined Forces Special Enforcement Unit of B.C. The Corporation is committed to fund \$3,000 annually for the fiscal years ended March 31, 2018 and 2019. Funding for the remaining two years of the mandate is estimated to be \$3,000 annually.

Appendix A – Subsidiaries and Operating Segments

BC Lottotech International, Inc.

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

	2016/17	2015/16	2014/15
Revenue (\$ thousands)			
Lease revenue	\$ 59,153	\$ 65,642	\$ 58,184
Expenses			
Depreciation and amortization	59,005	65,475	58,039
Other Expense	1,698	1,231	(404)
	60,703	66,706	57,635
Net loss	\$ (1,550)	\$ (1,064)	\$ 549

Appendix B – Additional Information

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

Appendix C – Crown Corporations Mandate and Actions Summary

In the 2016/17 Mandate Letter from the Minister of Finance, BCLC received direction on strategic priorities for the 2016/17 fiscal year. These priorities and BCLC's resulting actions are summarized below:

Mandate Letter Direction	BCLC's Action
<p>1. BCLC will optimize the Corporation's financial performance and sustain net return to the Province in accordance with government policy and directives under the <i>Gaming Control Act</i> and Treasury Board direction, and in alignment with the Taxpayer Accountability Principles by:</p> <ul style="list-style-type: none"> a) Responding to customer and marketplace demands seeking new business opportunities that are consistent with the approved framework. b) Each quarter, BCLC will provide reports to the Ministry of Finance staff that provide financial forecasts, and discuss and identify issues and risks. c) BCLC, in consultation with the Ministry of Finance, will complete the development of an implementation plan based on the direction provided by government resulting from the comprehensive cost containment and commission structure reviews, and market strategy work to address customer and marketplace demands. BCLC will submit the implementation plan for approval by the Minister of Finance by September 30, 2016. d) BCLC will provide a revised comprehensive cost containment ratio framework to the Ministry 	<p>1. BCLC continues to optimize our financial performance and sustain net return to the province by seeking new revenue opportunities and responding to marketplace demands in alignment with Taxpayer Accountability Principles.</p> <ul style="list-style-type: none"> a) We will continue to review ways to evolve our casino and lottery businesses and leverage our eGaming platform, PlayNow.com, so that we attract a broader player base by offering relevant, accessible entertainment experiences. b) Each quarter, we submit Board approved financial forecasts to the Treasury Board and the Ministry of Finance. c) BCLC has consulted with service providers and is drafting the new Operational Service Agreement (OSA), which defines the service and operating responsibilities of service providers and overall compensation structure. BCLC will present the finalized OSA to service providers in FY 17/18 and will continue to report to government on this process. d) BCLC completed a report-back on the comprehensive cost containment review that was accepted by Treasury Board on January 26, 2017. The report-back was signed by Minister de Jong on December 18, 2016.

<p>and Treasury Board for approval.</p>	
<p>2. BCLC will substantially complete implementation of the recommendations from the <i>Review of the British Columbia Lottery Corporation (December 2014)</i> by IAAS, by March 31, 2017. BCLC will provide written quarterly progress updates beginning March 31, 2016, and other information as required, to the Minister of Finance.</p>	<p>2. BCLC has completed all of the 25 Crown recommendations. BCLC provided written quarterly progress updates to the Ministry on the following dates:</p> <ul style="list-style-type: none"> - May 5, 2016 - July 29, 2016 - November 18, 2016 - January 31, 2017 <p>A final report was provided to the Ministry on June 7, 2017, along with a letter explaining BCLC's efforts and success to substantially complete all of the recommendations by the end of FY 2016/17.</p>
<p>3. Building on existing progress, BCLC will submit bi-annual progress reports to the Minister of Finance and the General Manager of GPEB on the implementation of the commitments BCLC is responsible for in the <i>Plan for Public Health and Gambling (February 2015)</i>. BCLC will also continue to participate with its partners in the implementation of all the commitments until complete.</p>	<p>3. BCLC met with senior leadership at GPEB on March 28, 2017 to review progress on all commitments in the <i>Plan for Public Health and Gambling (February 2015)</i>. BCLC has primary responsibility for eight of the 21 Plan commitments. Of these commitments, BCLC has completed three commitments, and is progressing on the remaining five commitments. Strategies are being developed and testing/trialing is underway to address the remaining commitments. BCLC is also working collaboratively with GPEB to complete the additional four commitments for which GPEB and BCLC share joint responsibility.</p>
<p>4. BCLC will provide a quarterly report to the Minister of Finance on the implementation of the government's Anti-Money Laundering (AML) Strategy and mitigation of related illegal activities. This will include, but not be limited to:</p> <ul style="list-style-type: none"> a) Activities undertaken to ensure the Corporation's compliance regime is focused on preserving the integrity and reputation of 	<p>4. BCLC, as of 2017, has completed, and is aligned with, all directions provided to it under the government's Anti-Money Laundering (AML) Strategy as set out in the Minister's letter of October 1, 2015.</p> <p>More specifically:</p> <ul style="list-style-type: none"> a) BCLC's regime is focused on ensuring the integrity and reputation of BC's gaming industry and is an industry leader in meeting AML requirements under the Proceeds of

<p>BC's gaming industry in the public interest;</p> <p>b) Participation in the development of, and provide funding to support, an enhanced coordinated enforcement approach with the Gaming Policy and Enforcement Branch, the RCMP and local police to mitigate the risk of criminal activities in the gaming industry;</p> <p>c) The implementation of anti-money laundering compliance best practices with appropriate consideration of evaluating the source of wealth and source of funds prior to cash acceptance within a risk based framework;</p> <p>d) Providing input to the Ministry of Finance in the development of a public information and education strategy and action plan for government's review and approval.</p>	<p>Crime (Money Laundering) and Terrorist Financing Act as well as FinTRAC guidance on AML. This has been verified by a recent FinTRAC audit of BCLC's program and a meeting in Edmonton of Provincial Lottery Corporation Compliance Officers from across Canada.</p> <p>b) BCLC is providing funding to the Joint Illegal Gaming Investigation Team over the next 3 years as directed by government. BCLC has amended its information sharing agreement with the RCMP to allow it to support JIGIT. BCLC has identified and established a formal liaison with JIGIT as well as AML staff to actively support and cooperate with JIGIT activities as needed.</p> <p>c) BCLC's AML program is built on a comprehensive risk-based framework as per FinTRAC and statutory requirements. Incorporated into BCLC's AML program are detailed on-going monitoring and special measures which utilize source of wealth and source of fund inquiry methodologies prior to cash acceptance as well as analysis of transaction patterns to help deter money laundering and keep individual player risk assessments current.</p> <p>d) BCLC provided a proposed communications plan to GPEB and the Ministry of Finance. BCLC has published extensive AML information on its website as well as a Compliance Commitment statement to British Columbians.</p>
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