



2017/18
ANNUAL SERVICE PLAN REPORT

July 2018



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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 2017/18 Annual Service Plan Report for the twelve months ended March 31, 2018. 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, 2018, 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 2017/18 Annual Service Plan Report compares the corporation's actual results to the expected results identified in the 2017/18 - 2019/20 Service Plan created in September 2017. I am accountable for those results as reported.

A handwritten signature in black ink, which appears to read "Peter Kappel". The signature is written in a cursive style and is positioned above the printed name.

Peter Kappel
Board Chair

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Chair/CEO Report Letter



In fiscal 2017/18, BCLC earned more than \$1.4 billion in net income for the Province of British Columbia, which is \$89.2 million over budget and \$61.5 million ahead of last year. These financial results are the outcome of successful efforts to ensure both our staff and leadership remain motivated by our vision, mission and values, and adhere to the organization's four goals for measuring success. As a result, we have strong revenue achievement in all three lines of the business, casino, lottery and eGaming, and were able to continue a regime of prudent expense management.



BCLC's strong financial results were achieved through critical operational execution of our business strategies, especially around new content and the distribution of key product categories. Refining and introducing new games in our slot machines in casino formats, our Scratch & Win games in retail lottery formats and our casino-style games in our eGaming format drove significant revenue growth and bucked the trend seen in other markets. Our total revenue after prizes grew over \$100 million and is testimony to a well-balanced product portfolio.

Despite the strong financial performance, BCLC's corporate reputation has been impacted by the money laundering issue affecting many sectors in the B.C. economy. BCLC remains steadfast in our commitment to be part of the solution, working collaboratively with the multiple agencies and organizations, to combat this insidious issue impacting our communities. The Board of Directors and Management fully support and accept the interim recommendations made by Dr. Peter German in December.

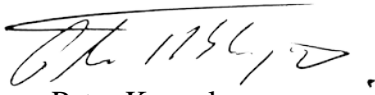
The dynamic nature of a customer-driven gambling business has continued to put pressure on operating costs. Even with this, BCLC achieved a comprehensive cost ratio, the measure of total business costs, excluding prizes and taxes, as a percentage of total net win (revenue after prizes) plus non-gaming revenue of 41.7%. This positive result was below the target of 43.6% and attributable to lower operating expenses and lower direct costs.

BCLC continues to invest in research and leverage these insights to inform and evolve our operations and programs to deliver on one of our most important corporate social responsibilities, to help players make healthy play decisions. We have implemented a new strategy and evaluation framework shifting emphasis from promoting risk awareness to focusing on player health outcomes. Our work includes evaluating how our products are offered and minimizing risk, and we continue to engage public health stakeholders to reflect best practices in harm reduction.

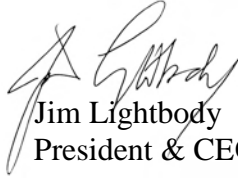
We are committed to continue delivering on the strategic priority items outlined by Government in the [2017/18 Mandate Letter](#). Our Board of Directors and Executive team communicates regularly with the Ministry of Attorney General regarding our performance.

We would like to recognize the significant contributions of our former Board Chair, Bud Smith, whose steady hand helped guide the organization during his six year tenure. We're proud of our results this year and the fact that our people continue to be strongly engaged in supporting BCLC's role as a catalyst for economic growth in our Province. With our commitment to creating outstanding

entertainment experiences for our players and upholding our social responsibility, BCLC will continue to benefit the people and communities of British Columbia.



Peter Kappel
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 which as of March 31, 2018 consisted of 15 casinos, two racecourse casinos, 18 community gaming centres and five commercial bingo halls. Our national and provincial lottery and sports betting products are sold at approximately 3,500 retail locations, operated by private sector retailers through Lottery Retailer Agreements (LRA). 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 adults who are registered to play directly with us. BCLC also provides online gambling services and web-based and mobile platforms to the Province of Manitoba through an operating contract with Manitoba Liquor & Lotteries.

BCLC is a Crown corporation, established on April 1, 1985, and is governed by [*B.C.'s Gaming Control Act \(2002\)*](#). Our mission is to manage and conduct gaming in a socially responsible manner for the benefit of British Columbians. The Gaming Policy and Enforcement Branch (GPEB) has regulatory oversight of all gambling in B.C., including all commercial gaming operated by BCLC. BCLC also adheres to requirements set out in federal anti-money laundering legislation, and is monitored by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) for compliance with those requirements.

The consolidated financial statements of BCLC include a wholly-owned subsidiary, B.C. Lottotech International Inc. (Lottotech). The primary business of Lottotech is the purchase 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 Operating Environment

Specific direction from Government to BCLC was provided in the Government's 2017/18 Mandate Letter directing BCLC to take actions in accordance with the best interest of the Province and the people of British Columbia. Read the full letter outlining BCLC's mandate [here](#).

Since 1998 and up until 2010, BCLC had been operating in a largely supply-driven environment, where the market for gambling entertainment was under-supplied and hence revenue increased as supply was added. As of 2010, the supply gap has been largely filled, and since then there has been a shift from a supply-driven to a demand-driven environment that requires BCLC to meet the demands and preferences of customers who now have a wide range of entertainment and gambling options to choose from. This shift to a demand-driven environment is driving a critical need for innovation, challenging the status quo and requires investments in developing new products and services.

Mature markets and relevance of our products to a changing player base

BCLC's major lines of business (lottery and casino) are maturing, and innovation is critical to sustaining and growing revenues. The industry remains customer-driven and dynamic, with impacts from many competitive and market forces. With fewer new distribution opportunities, we are focused on customer relationship management, enhancing current gambling facilities and amenities for our customers, and new product development. Importantly, BCLC is leveraging and enhancing our online and mobile platforms to deliver a more tailored customer experience with relevant offerings.

Changing demographics and consumer expectations, combined with increasing direct competition from other gambling entertainment options such as nearby casino competitors, off-shore online gambling sites, fantasy sports and social gaming, underscore the need for BCLC to continue to be agile and responsive to the marketplace. BCLC's traditional bricks-and-mortar distribution channels are close to meeting existing market demand and some of our gambling product portfolio is facing declining relevance due to changing demographics and expectations. For instance, our product mix is less relevant, in particular, to younger adults who have different expectations for entertainment and service. Ensuring product relevance and a strong entertainment value proposition is critical to our future success. BCLC is focused on continuing to serve our core players' expectations, and increasing participation from light and casual player segments through the creation of new content and better integration with our digital and bricks-and-mortar experiences.

Evolving player expectations for new content and experiences

Driven largely by advances in technology, consumers are demanding more from the products, services and experiences they engage with. The line between physical and digital is blurring, as demonstrated in the retail sector where retailers are leveraging the capabilities of both environments together with personalization to deliver a better experience for their customers. Trends in entertainment are also changing in that experiences related to social connectivity and competition are driving the entertainment choices for many. Mobile devices are providing a convenient means for consumers to access entertainment or shopping opportunities, whether they are at home or away.

BCLC has embraced these changes and is addressing player needs by investing to deliver a seamless customer experience across channels and touchpoints. We also continue to invest to refine our core products and our existing properties in order to meet and exceed our players' expectations.

A key aspect of a positive customer experience is minimizing any potential harms associated with the use of our products through the promotion of responsible gambling and a focus on player health. Over-consumption of any product can potentially cause harmful consequences to the consumer, which is why BCLC continues to invest in [GameSense](#), the corporation's communication platform for responsible gambling awareness and support for player health. BCLC also licenses GameSense to SaskGaming, Saskatchewan Indian Gaming Authority, Alberta Gaming and Liquor Commission, Manitoba Liquor & Lotteries, Massachusetts Gaming Commission, Connecticut Lottery Corporation and MGM Resorts International, creating an international community of practice for player health.

Competition for Talent

The Government of B.C. is projecting that, starting in 2019, there will be a province-wide labour shortage and by 2022 there will be at least a 28,400-person workforce deficit.¹ Statistics Canada is also reporting a projected decrease in the unemployment rate nationally as the labour force participation rate decreases due to the aging population.

The Conference Board of Canada² indicates that the most anticipated challenges for B.C. employers will be recruiting in the market for:

- skilled trades
- computer and information science
- engineering and electronics
- business and management

This means it will be a job-seeker's market and BCLC continues to focus on retention and knowledge transfer as key internal strategies in order to remain competitive and to recruit within key areas including computer and information technology, business and marketing. The cost of living also continues to rise so BCLC must compete with rewarding and interesting work and leverage our Kamloops head office.

Report on Performance

The [2017/18 Mandate Letter](#) provides specific actions for BCLC to ensure alignment with government goals and objectives.

BCLC has made progress on each of the strategic actions set out by Government. Within the Plan for Public Health and Gambling (2015), BCLC has primary responsibility for seven commitments. BCLC has completed four of those commitments and has made significant progress on the remaining three commitments. BCLC also continues to work with GPEB to formalize an evaluation framework for new games. The purpose of the evaluation framework is to improve the consistency of decision making when developing new games to ensure appropriate analysis and consideration is given prior to introduction in British Columbia. In addition, we provide quarterly reports to the Attorney General regarding the implementation of Government's Anti-Money Laundering Strategy.

¹ [British Columbia Labour Market Outlook](#). See Appendix 1, Table 2.

² [Skills for Success: Developing Skills for a Prosperous B.C.](#)

In 2017/18, BCLC delivered strong results through a diverse portfolio of products which allows for flexibility and the ability to respond 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 2017/18 BCLC Annual Service Plan Report compares actual results to the expected results identified in the 2017/18 – 2019/20 Service Plan. The following section summarizes how BCLC measures and reports performance through four corporate goals.

Goals, Strategies, Measures and Targets

Inherent in BCLC's mandate is to grow net income responsibly for the benefit of British Columbians. BCLC aims to build public trust and 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

Focus on Player Health.

BCLC is committed to reducing the negative health impacts our business may have on people and communities. BCLC has implemented a new strategy and evaluation framework moving away from risk awareness and focusing on player health. Our strategy incorporates key findings from research and the harm reduction approaches applied to other types of addictions. We are moving towards outcome-based performance measures of responsible gambling programs in order to track and better gauge effectiveness. Across all our games, we focus on programming that encourages healthy gambling decisions, and we continue to engage public health stakeholders to ensure that our programs reflect best practices in harm reduction. Additionally, we are expanding the GameSense Advisor program to all facilities in order to enable operational efficiencies, stronger oversight, enhanced customer service and greater alignment with our player health strategy.

Improve the gambling entertainment experience with new content and enhanced facilities.

A major focal point of our strategy is improving the gambling experience through new content. Content represents the entertainment experience that players seek when they engage with us and includes our games, amenities at facilities and the relationships we have with our customers. BCLC is developing a more detailed understanding of customer preferences, the entertainment industry, and gambling trends to increase the entertainment value we aim to deliver. This understanding allows us to make decisions on new content and the best way to engage our players with fun and entertaining experiences. We believe that enhancing the content we offer will be key to realizing our vision and serve as a catalyst for growth.

Improve customer relationships.

We continue to build on the customer relationship management (CRM) foundation recently implemented to optimize customer communications across email, mobile push and social touchpoints to engage in relevant, personalized conversations with our players. This will deliver customized and relevant BCLC promotions, content and service to players based on an improved understanding of interactions across all BCLC touchpoints. We continue to enhance the services delivered through the customer support centre and embrace social responsibility in how we engage customers by integrating a player health lens into our CRM approach.

Optimize our points of distribution and simplify the way our players access and experience our products.

We continue to leverage investments in our digital and technology infrastructure to deliver exciting games and experiences to our players in facilities and through lottery retailers. We continue to ensure that current facilities are in the right locations and deliver the experiences our customers expect in order to capture the full potential of each facility. BCLC's competitive advantage is that, unlike competitors who operate solely online or solely in bricks-and-mortar, we manage products and channels in retail, hospitality, casino, community gaming centres, web and mobile to create a comprehensive customer entertainment experience. We continue to simplify the way players access and experience our products. Our objective is to enhance the gambling experience everywhere that players choose to engage with our products and services.

Performance Measure 1.1: Player Satisfaction

Performance Measure	2014/15 Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
1.1 Player Satisfaction ¹	78%	77%	80%	80%	81%	80%	N/A

Data Source: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures as per Statistics Canada's Census. The margin of error is $\pm 2.22\%$ at the 95% confidence level (19 times out of 20). Future Player Satisfaction Targets are from BCLC 2018/19 – 2020/21 Service Plan. 2017/18 Targets are from BCLC 2017/18 – 2019/20 Service Plan.

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

¹In 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 2017/18, player satisfaction saw growth from 2016/17 and we slightly exceeded our target. We have worked to maintain player satisfaction by:
 - Continuing the development of our technology to improve our player's purchasing and gambling experience by upgrading and refining initiatives. This includes mobile-optimized player experiences on PlayNow.com, player game education, user experience upgrades and online registration for our casino business' Encore Rewards membership to offer a more user-friendly experience;

- Introducing new product offerings and updating content 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.
- Our call centre continued to enhance their service by launching a call back process and growing the ‘chat’ capability.
- We remain focused on growing player satisfaction through understanding player expectations and by developing and utilizing technology, people and processes to deliver an enhanced entertainment experience across all products and distribution channels.

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

Performance Measure	2014/15 Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
1.2 Player Participation	51%	52%	53%	53%	51%	52%	N/A

Data Source: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures as per Statistics Canada’s Census. The margin of error is $\pm 1.79\%$ at the 95% confidence level (19 times out of 20). Future Player Participation Targets are from BCLC 2018/19 – 2020/21 Service Plan. 2017/18 Targets are from BCLC 2017/18 – 2019/20 Service Plan.

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 2017/18, Player Participation decreased slightly from 2016/17 and we were slightly under target. This result may be because of overall lower jackpots for the national lottery products. Lotto Max and Lotto 6/49 have the highest impact on player participation because they are the most popular games in our portfolio. They are also dependent on high jackpot rolls to drive participation.
- BCLC will redefine the Player Participation measure in the 2019/2020 Service Plan. The Player Participation metric is being transitioned from a percentage basis of at least monthly play, to an average number of players that made at least one transaction, regardless of frequency. This results in an improved indicator of our progress in being located in the places where our players choose to engage with our products.

Performance Measure 1.3: Player Awareness of Responsible Gambling activities

Performance Measure	2014/15 ¹ Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
1.3 Player Awareness of Responsible Gambling Activities	79%	77%	79%	78%	80%	78%	N/A

Data Source: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance 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). Future Player Awareness of Responsible Gambling Activities Targets are from BCLC 2018/19 – 2020/21 Service Plan. 2017/18 Targets are from BCLC 2017/18 – 2019/20 Service Plan.

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

¹In 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 positive gambling choices.
- In 2017/18, player awareness of responsible gambling activities was above target and above the previous year. Based on recommendations made in the [Crown Review Report](#) on BCLC and the [Plan for Public Health and Gambling](#), we expect to introduce new performance measures and targets of harm reduction after fiscal 2019/20 to better align with our player health strategy.

Performance Measure 1.4: Net Win Per Capita

Performance Measure	2014/15 Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
1.4 Net Win per Capita	\$482	\$501	\$503	\$506	\$516	\$510	\$512

Data Source and Data Reliability: Actual Net Win is from BCLC Audited Financial Statements. Future Net Win Targets are from BCLC 2018/19 – 2020/21 Service Plan. 2017/18 Targets are from BCLC 2017/18 – 2019/20 Service Plan. Total BCLC net win is divided by B.C.'s total population based on Statistics Canada population figures to obtain per capita metrics. Population statistics are estimated based on calendar year and not available on BCLC's fiscal year. Net Win Per Capita is indicative of the overall trends despite the timing difference.

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 2017/18, 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.
- 2017/18 net win increase was achieved through innovation and the introduction and refinement of new content into all three of our distribution channels.
- Slots in the bricks-and-mortar casino channel grew due to continued success of facility enhancements (for example, Parq in Vancouver which replaced Edgewater Casino), strategic investments in new slot product offerings, and refining our marketing strategy in partnership with our casino and community gaming service providers. Scratch & Win games in our lottery retail channel continued to grow with our emphasis on new game introductions and collaborating with our national lottery partners to create more exciting prizing. Casino-style games offered on our online site, Playnow.com, achieved strong growth from the continued delivery of new digital content that appeals to new and existing players. The increased availability of slot content on mobile devices also fueled growth as players again increased their use of mobile for slot gaming entertainment.
- The decrease in the target for Net Win per Capita in fiscal 2018/19 results from the assumption in our 2018/19 – 2020/21 Service Plan that BCLC's casino business will experience an impact due to potential changes in anti-money laundering requirements.

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 other provincial Crown corporations in B.C.

Strategies

We hire and develop the right talent.

BCLC continued our focus on employee development and leadership to prepare for changing workforce demographics, and to ensure BCLC has the right talent to deliver exceptional business results in an environment of changing demands and evolution of the business. We are developing a Strategic Workforce Plan to meet longer term business needs. This is supported by enhancing leadership and employee development programs to support career progression opportunities.

We attract, retain and engage through a competitive employee value proposition.

For twelve 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. BCLC continues to provide a competitive total rewards program that includes rewards, recognition and developmental opportunities

that meet both our workforce planning needs and individual career progression while being consistent with the Public Sector Employers' Council guidelines. In addition, we have created a diversity and inclusion strategy which will provide employees and leaders with the information and tools needed to create a more inclusive workplace, fostering greater innovation and customer focus.

Performance Measure 2.1: Employee Engagement

Performance Measure	2014/15 Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
2.1 Employee Engagement	78%	83%	87%	85%	86%	85%	85%

Data Source: Annual anonymous online census survey of BCLC employees conducted by an independent third-party professional. The response rate of the survey was 87% with 752 of a possible 863 eligible employees participating. Future Employee Engagement Targets are from BCLC 2018/19 – 2020/21 Service Plan. 2017/18 Targets are from BCLC 2017/18 – 2019/20 Service Plan.

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

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.
- BCLC's engagement remains strong at 86%, although we have plateaued after three years of trending up. The maintenance of our positive scores in engagement can be attributed to employees continuing to feel supportive of how BCLC conducts its business and their positive employee experience at BCLC.
- The largest percentage increases in the 2018 engagement survey were in areas related to how the company and various departments took action and made progress from the previous year's survey. The results show that 54% of employees feel that BCLC has made progress on issues raised in the previous year's employee survey (increase of 9% over the previous year), and 60% of employees feel that their department took action based on the employee survey results (increase of 8% over last year).
- In the past year, we also addressed employee feedback from our Advisory Committee of Employees on areas where we can improve engagement, such as our recognition program and our employee giving program.

Performance Measure 2.2: Employee Turnover Rate

Performance Measure	2014/15 Actuals ¹	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
2.2 Employee Turnover Rate	24.7%	9.6%	5.5%	8%	7.3%	6%	6%

Data Source: BCLC internal sources. Data is measured on a monthly basis with the year-end calculated by averaging the monthly rates. Future Employee Turnover Rate Targets are from BCLC 2018/19 – 2020/21 Service Plan. 2017/18 Targets are from BCLC 2017/18 – 2019/20 Service Plan.

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

¹ 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.
- 2017/18 employee turnover remained below target but slightly higher than the Canadian average of 6%.³ Our relatively low turnover rate is a reflection of our consistently high employee engagement scores. Low turnover reduces recruiting and development costs to orient new employees. In late 2017, BCLC began to deliver on an updated People Strategy. The four pillars for the new strategy are:
 - Know, understand and engage employees;
 - Become leaders in diversity and inclusion;
 - Determine future talent acquisition and talent management experience; and
 - Create an integrated, value-added total rewards experience.

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

Strategies

We are a partner for socio-economic growth in communities.

BCLC continues to make business decisions that reflect and include local perspectives, and provide benefits to the community that are broader than the bottom line.

We are open and accountable.

We are committed to sharing information with municipal, business and community stakeholders and the public about BCLC and the gambling industry to create awareness and understanding, and to support the municipal government’s decision making process. We proactively disclose relevant information about BCLC via bclc.com and the BCLC Social Responsibility Report. We proactively communicate major corporate initiatives and activities to the public, the media and our employees in order to be transparent, accountable and build awareness and understanding of our organization.

Our games are fair, our facilities and platforms are safe and secure.

³ Conference Board of Canada 2012/13 – Last publicly reported information. Voluntary or Involuntary Turnover Combined.

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.

As a priority, BCLC strives to protect its casinos from money laundering threats through a comprehensive anti-money laundering program built to meet or exceed federal requirements under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, and through formal cooperative efforts with our regulators and police. BCLC has committed to continuously improving its anti-money laundering efforts and conducts annual and independent reviews of its program, and through a strong professional working relationship with the federal regulatory body responsible for anti-money laundering – the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) and the provincial gaming regulator – the Gaming Policy & Enforcement Branch (GPEB). We fully support the interim recommendations made by Dr. Peter German and the Province's review on money laundering in casinos, and are working proactively and in collaboration to take action to combat an issue affecting our business and many sectors of the economy.

We continue to support police efforts, including the Joint Illegal Gaming Investigation Team (JIGIT), whose objective is to disrupt organized crime and gang involvement in illegal gambling, and prevent criminals who may seek to legalize the proceeds of crime from using B.C. gambling facilities.

Performance Measure 3.1: Public Recognition of Positive Contributions

Performance Measure	2014/15 Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
3.1 Public Recognition of Positive Contributions	68%	68%	73%	74%	70%	74%	75%

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). Future Public Recognition of Positive Contributions Targets are from BCLC 2018/19 – 2020/21 Service Plan. 2017/18 Targets are from BCLC 2017/18 – 2019/20 Service Plan.

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 2017/18, results for this measure decreased compared to the previous year and fell short of our target. This may be due to the increased media coverage of alleged money laundering around B.C. casinos.
- Despite the softer metric, BCLC ran multiple successful community outreach programs in various cities across British Columbia to educate the public on contributions BCLC makes to their communities.

- Province-wide, BCLC supported local communities through events and sponsorships, in fiscal 2017/18 BCLC sponsored over 106 organizations, groups and events across the province.
- In response to the interim recommendations made by Dr. Peter German and the Province's review on money laundering in casinos, we have expanded the source of funds declarations to all casino buy-ins of \$10,000 or more and increased controls on bank drafts.

Performance Measure 3.2: Public Perception of BCLC's Transparency

Performance Measure	2014/15 Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
3.2 Public Perception of BCLC's Transparency	57%	60%	64%	64%	60%	61%	62%

Data Source: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance consistent with B.C. population as per Statistics Canada's Census. The margin of error is $\pm 1.74\%$ at the 95% confidence level (19 times out of 20). Future Public Perception of BCLC's Transparency Targets are from BCLC 2018/19 – 2020/21 Service Plan. 2017/18 Targets are from BCLC 2017/18 – 2019/20 Service Plan.

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 2017/18, the target for Public Perception of BCLC's transparency was not met, the assumption is that this is in part due to the impact of increased media attention about B.C.'s casinos. As a result we have adjusted future targets.

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

Performance Measure	2014/15 Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
3.3 Level of Greenhouse Gas Emissions (GHG)	2014: 1,315	2015: 906	2016: 833	2017: 900	2017: 965	2018: 900	2019: 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. 2017/18 Targets are from BCLC 2017/18 – 2019/20 Service Plan.

Discussion

- In 2017/18, our emissions increased by 16% from 833 to 965 tonnes of carbon dioxide equivalent (tCO₂e).
- The main reason for the increase was the higher consumption of natural gas for heating, which is associated with the longer and colder winter in 2017. In addition, the BCLC fleet changed its composition by replacing two hybrid cars and adding an additional one (all three run on gas), resulting in an increase of 31% of fleet related emissions.
- Despite the increase in GHG emissions, we aim for effective management of the fleet. The addition of one gas vehicle, and the replacement of two hybrids with gas vehicles, was based on an internal analysis that hybrid technology was not being maximized and it was preferable to move to gas vehicles with improved highway mileage. As the use of fleet vehicles is primarily for travel between our head office in Kamloops and our Vancouver office, the analysis found gas vehicles were more fuel efficient for highway driving. Fleet usage and performance will be continually monitored, and maintenance will be regularly performed.

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

BCLC fosters a culture of cost-consciousness and is committed to operating efficiently and effectively to manage costs. As part of our mandate, we will optimize BCLC's financial performance and sustain net return to the Province in accordance with Government policy, directives under the *Gaming Control Act* and Treasury Board direction. Our mandate and business models offer BCLC the opportunity to garner strong profit margins and thus growing the top line revenue is the key to making a significant positive impact to our net income.

Strategies

Define and integrate the innovative experiences our players want.

We will leverage investments in the PlayNow.com infrastructure to provide the digital connection with our bricks-and-mortar environment in order to improve the player experience. 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 core capability and working with best-in-class partners, we will continue to invest in content innovation to deliver engaging gambling experiences to our players and grow net income in a socially responsible manner.

Improve operational efficiency and effectiveness.

We will invest in systems and technology required to support the long-term health and integrity of the business.

Collaborate and leverage the capabilities of our vendors, service providers and retailers.

We will continue to work with our contracted casino and community gaming facility service providers and lottery retailers to distribute our games to customers with outstanding service. The distribution of our games in the province spans bricks-and-mortar locations as well as through the web on PlayNow.com. These services will continue to evolve to serve the dynamic nature of our customers.

We will also leverage the innovation around products and services from our many vendors to deliver our games in an effective and responsible manner in our regulated market.

Performance Measure 4.1: Net Income (millions)

Performance Measure	2014/15 Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
4.1 Net Income (millions)	\$1,254.5	\$1,313.5	\$1,339.0	\$1,311.3	\$1,400.5	\$1,310.5	\$1,332.2

Data Source: Net Income is from BCLC Audited Financial Statements and is calculated in accordance with International Financial Reporting Standards. Future Net Income Targets are from BCLC 2018/19 – 2020/21 Service Plan. 2017/18 Targets are from BCLC 2017/18 – 2019/20 Service Plan.

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 of B.C., which uses it to support provincial, 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 2017/18, BCLC exceeded its target and achieved a result of \$1.401 billion in net income. The growth in net income represents a \$61.5 million increase over 2016/17. BCLC's strong financial results were achieved through innovation and strong execution of the development and distribution of new products into our various channels. In addition, BCLC made assumptions as to the timing of when the new Operational Services Agreement would be signed by our service providers. Commission increases, in return for enhanced accountability measures, were budgeted in direct costs. During the year, decisions were made to postpone implementing the new Operational Services Agreement, which resulted in lower actual direct costs as compared to budget.

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

Performance Measure	2014/15 Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
4.2 Comprehensive Cost Ratio (% of Net Win)	41.9%	42.0%	42.0%	43.6%	41.7%	44.5%	44.5%

Data Source: Comprehensive Cost Ratio is from BCLC Audited Financial Statements. Future Comprehensive Cost Ratio Targets are from BCLC 2018/19 – 2020/21 Service Plan. 2017/18 Targets are from BCLC 2017/18 – 2019/20 Service Plan.

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 interest and 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 41.7% which was below the budget of 43.6% and primarily driven by generating higher net win and lower than budgeted direct costs which resulted from postponing the implementation of the new Operational Services Agreement (OSA) with casino and community gaming service providers.
- Retailer and service provider commissions comprise the majority of the comprehensive cost base. As a result, CCR is most significantly impacted by shifts in BCLC's product mix sales as BCLC has a diversified portfolio of products which generate a wide range of gross margins.

Financial Report

Discussion of Results

Highlights

In 2017/18, BCLC achieved a record \$1.401 billion net income on record revenue of \$3.267 billion, exceeding the previous records set last year by \$61.5 million and \$123.2 million, respectively.

This year, BCLC's strong performance was led by the casino business, where significantly increased revenue from slot machines and growth in the table games category combined to produce an overall year-over-year improvement of more than five per cent. While sales of national lottery games were down over last year due to fewer large jackpots, the strong performance of Scratch & Win games and Keno resulted in aggregate revenue being up slightly from 2016/17. Our eGaming channel, under the PlayNow.com banner, continued to grow significantly driven by the services and our execution of continuous product development and replenishment.

Commensurate with sales volume, prizes, commissions and related operating costs were higher this year.

Each year, BCLC prepares a three-year Service Plan against which its results are measured. As part of this annual process, and in response to specific direction from Government, BCLC committed to a focused cost containment initiative that began in 2013/14; however, many of BCLC's costs are tightly correlated with sales performance. Thus, while total revenue exceeded budget by \$103.4 million, the operating costs supporting that increase were lower than budget by \$17.8 million. On a year-over-year basis, a \$123.2 million increase in revenue was correlated with total operating costs that were \$35.8 million higher than the previous year, primarily from direct gaming expenses, including commissions.

Financial Overview

Financial Results	2013/14	2014/15	2015/16	2016/17	2017/18			
							VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
(\$ in millions)	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET ¹		
REVENUES								
Lottery & eGaming	\$ 1,123.5	\$ 1,103.4	\$ 1,287.1	\$ 1,285.5	\$ 1,315.6	\$ 1,265.0	\$ 50.6	\$ 30.1
Casino & Community Gaming	1,684.8	1,800.9	1,814.7	1,858.4	1,951.5	1,898.7	52.8	93.1
	2,808.3	2,904.3	3,101.8	3,143.9	3,267.1	3,163.7	103.4	123.2
Prizes	665.6	659.5	744.8	741.3	764.2	730.0	(34.2)	(22.9)
NET WIN	2,142.7	2,244.8	2,357.0	2,402.6	2,502.9	2,433.7	69.2	100.3
EXPENDITURES²								
Lottery & eGaming	189.9	175.4	204.7	197.6	202.6	203.7	1.1	(5.0)
Casino & Community Gaming	740.1	765.2	785.7	811.9	842.6	859.4	16.8	(30.7)
	930.0	940.6	990.4	1,009.5	1,045.2	1,063.1	17.9	(35.7)
Income before the undernoted	1,212.7	1,304.2	1,366.6	1,393.1	1,457.7	1,370.6	87.1	64.6
Indirect tax expense	38.1	49.7	53.1	54.1	57.2	59.3	2.1	3.1
NET INCOME								
Lottery & eGaming	304.1	304.2	369.1	377.8	378.2	359.2	19.0	0.4
Casino & Community Gaming	870.5	950.3	944.4	961.2	1,022.3	952.1	70.2	61.1
	\$ 1,174.6	\$ 1,254.5	\$ 1,313.5	\$ 1,339.0	\$ 1,400.5	\$ 1,311.3	\$ 89.2	\$ 61.5
Profit Margin	41.8%	43.2%	42.3%	42.6%	42.9%	41.4%	1.5%	0.3%
Debt	\$154.9	\$140.1	\$150.1	\$145.1	\$154.9	\$145.1	(9.8)	(9.8)
Capital Expenditures	\$100.3	\$69.5	\$68.2	\$86.2	\$82.1	\$90.0	\$7.9	\$4.1

¹ 2017/18 Budget represents the Service Plan completed September 2017.

² Please refer to page 31 for a detailed breakdown of 2017/18 actual expenditures. Includes Joint Illegal Gaming Investigation Team costs.

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 2017/18 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.

Variance and Trend Analysis

Lottery and eGaming Operations:

FINANCIAL RESULTS (\$ IN MILLIONS)	2013/14	2014/15	2015/16	2016/17	2017/18			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Revenue								
Lottery	\$ 1,032.5	\$ 994.3	\$ 1,151.6	\$ 1,127.9	\$ 1,135.0	\$ 1,090.5	\$ 44.5	\$ 7.1
eGaming	91.0	109.1	135.5	157.6	180.6	174.5	6.1	23.0
	1,123.5	1,103.4	1,287.1	1,285.5	1,315.6	1,265.0	50.6	30.1
Prizes	615.7	610.5	698.1	694.9	718.9	685.8	(33.1)	(24.0)
Net win	507.8	492.9	589.0	590.6	596.7	579.2	17.5	6.1
Direct expenses ¹	84.7	85.3	98.9	101.5	105.4	104.2	(1.2)	(3.9)
Gaming support costs & operating expenses	105.2	90.1	105.8	96.1	97.2	99.5	2.3	(1.1)
Income before the undernoted	317.9	317.5	384.3	393.0	394.1	375.5	18.6	1.1
Indirect tax expense	13.8	13.3	15.2	15.2	15.9	16.3	0.4	(0.7)
Net income	\$ 304.1	\$ 304.2	\$ 369.1	\$ 377.8	\$ 378.2	\$ 359.2	\$ 19.0	\$ 0.4
Lottery retailers	3,748	3,928	3,873	3,496	3,592			
Lottery terminals	3,707	3,691	3,632	3,530	3,481			

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

Lottery and eGaming net income of \$378.2 million exceeded the previous year by \$0.4 million and budget by \$19.0 million. Overall revenue of \$1.316 billion was up \$50.7 million from budget, and \$30.2 million, or 2.3 percent, from the previous year.

In 2017/18, the Scratch & Win category experienced its fourth consecutive record year, exceeding budget by \$30.6 million and the previous year by \$14.6 million, or 5.1%. 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 \$8.7 million lower than budget and \$19.5 million lower than the previous year—a decline of 3.8%.

Large jackpots are a principal driver of lottery sales, and this year there were 14 Lotto Max jackpots of \$50 million or more—eight fewer than last year, and two fewer than the statistical projection for the year. This year there were 14 Lotto 6/49 jackpots of \$20 million or more, which is two more than last year.

During 2017/18, 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 \$23.0 million from a year ago—an increase of 14.6 percent.

Casino and Community Gaming Operations:

FINANCIAL RESULTS (\$ IN MILLIONS)	2013/14	2014/15	2015/16	2016/17	2017/18			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Revenue								
Slot Machines	\$ 1,135.3	\$ 1,149.4	\$ 1,206.6	\$ 1,277.9	\$ 1,366.7	\$ 1,309.5	\$ 57.2	\$ 88.8
Table Games	452.1	555.1	516.5	488.1	492.7	501.5	(8.8)	4.6
Poker	20.7	21.1	19.8	21.3	22.5	19.8	2.7	1.2
Bingo	76.7	75.3	71.8	71.1	69.6	67.9	1.7	(1.5)
	1,684.8	1,800.9	1,814.7	1,858.4	1,951.5	1,898.7	52.8	93.1
Prizes	49.9	49.0	46.7	46.4	45.3	44.2	(1.1)	1.1
Net win	1,634.9	1,751.9	1,768.0	1,812.0	1,906.2	1,854.5	51.7	94.2
Direct expenses	580.8	633.3	635.7	648.3	673.9	683.8	9.9	(25.6)
Gaming support costs & operating expenses ¹	159.3	131.9	150.0	163.6	168.7	175.6	6.9	(5.1)
Income before the undernoted	894.8	986.7	982.3	1,000.1	1,063.6	995.1	68.5	63.5
Indirect Tax expense	24.3	36.4	37.9	38.9	41.3	43.0	1.7	(2.4)
Net income	\$ 870.5	\$ 950.3	\$ 944.4	\$ 961.2	\$ 1,022.3	\$ 952.1	\$ 70.2	\$ 61.1
Casinos	17	17	17	17	17			
Casino slot machines	9,907	9,811	9,637	9,949	10,717			
Tables	476	505	518	513	528			
Commercial halls	7	7	7	7	6			
Community gaming centers	19	18	19	18	18			
Community gaming slot machines	2,803	2,535	2,683	2,776	2,871			

This year saw the relocation and modernization of the Cascades Casino in Penticton and the opening of the new Parq casino in Vancouver. Overall, the Casino and Community Gaming business generated revenue of \$1.952 billion in 2017/18, which was \$52.8 million more than budget and \$93.1 million more than last year. Revenue from slot machines grew \$88.8 million, or 6.9 percent, from the previous year, while table games edged up \$4.6 million—an increase of 0.9 percent over 2016/17.

Risks and Uncertainties

Current economic indicators suggest that B.C.'s economic growth will continue to lead Canada throughout 2018 and 2019; however, at a slower pace than experienced this year. 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 players' disposable income, product availability and variety, demographics, and general economic conditions at home and abroad.

Capital Spending:

FINANCIAL RESULTS (\$ IN MILLIONS)	2013/14	2014/15	2015/16	2016/17	2017/18			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Lottery	\$ 7.8	\$ 4.8	\$ 7.7	\$ 11.5	\$ 11.3	\$ 22.2	\$ 10.9	\$ 0.2
eGaming	8.7	1.7	3.4	1.6	4.1	3.7	\$ (0.4)	\$ (2.5)
Casino & Community Gaming	67.2	47.2	45.0	64.0	60.1	56.6	\$ (3.5)	\$ 3.9
Corporate	16.6	15.8	12.1	9.1	6.6	7.5	\$ 0.9	\$ 2.5
Capital Expenditures ¹	\$ 100.3	\$ 69.5	\$ 68.2	\$ 86.2	\$ 82.1	\$ 90.0	\$ 7.9	\$ 4.1

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 2017/18, capital spending of \$82.1 million was \$7.9 million less than budget and \$4.1 million less than in 2016/17.

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, 2018, and the results of its consolidated financial performance and cash flows for the year then ended.

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

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



Amanda Hobson
CFO & Vice-President
Finance and Corporate Services



Jim Lightbody
President & CEO



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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, 2018, 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.

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.



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, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

Kamloops, Canada
May 15, 2018

British Columbia Lottery Corporation

Consolidated Statement of Financial Position

March 31, 2018, with comparative information for 2017
(in thousands of Canadian dollars)

	2018	2017
ASSETS		
Cash and cash equivalents (note 5)	\$ 81,944	\$ 83,127
Accounts receivable (note 6)	60,283	41,053
Receivable from the Interprovincial Lottery Corporation	12,634	13,221
Prepaid and deferred expenses	16,930	12,928
Inventories (note 7)	8,597	9,055
Current assets	180,388	159,384
Employee benefits (note 8)	2,125	23,994
Property and equipment (note 9)	232,458	213,416
Intangible assets (note 10)	55,444	62,834
Non-current assets	290,027	300,244
Total assets	\$ 470,415	\$ 459,628
LIABILITIES		
Cheques issued in excess of funds on hand (note 5)	\$ 3,422	\$ 3,814
Prizes payable (note 11)	34,495	32,460
Accounts payable, accrued and other liabilities (note 12)	92,838	83,994
Short-term financing (note 13)	154,867	145,130
Due to the Government of British Columbia (note 14)	161,347	148,101
Deferred revenue	7,806	9,328
Current liabilities	454,775	422,827
Employee benefits (note 8)	65,378	77,270
Non-current liabilities	65,378	77,270
Total liabilities	520,153	500,097
DEFICIT		
Accumulated deficit	(17,144)	(17,144)
Accumulated other comprehensive loss	(32,594)	(23,325)
Total deficit	(49,738)	(40,469)
Total liabilities and deficit	\$ 470,415	\$ 459,628


Commitments and contingencies (notes 17, 18 and 21)
Subsequent events (note 22)

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, 2018, with comparative information for 2017
(in thousands of Canadian dollars)

	2018	2017
Revenue	\$ 3,267,132	\$ 3,143,877
Prizes	764,223	741,276
Net win	2,502,909	2,402,601
Expenses		
Commissions and fees	723,289	698,095
Employee costs	97,519	95,838
Amortization and depreciation (notes 9 and 10)	68,952	64,933
Systems, maintenance and ticket distribution	46,213	41,644
Gaming equipment, leases and licenses	43,044	39,353
Advertising, marketing and promotions	23,478	23,922
Ticket printing	13,042	12,390
Professional fees and services	13,491	12,248
Cost of premises	7,762	7,896
Other	5,477	11,369
	1,042,267	1,007,688
Income from operations before the undernoted	1,460,642	1,394,913
Indirect tax expense (note 20)	57,155	54,078
Funding of Joint Illegal Gaming Investigation Team (note 21)	3,000	1,800
Net income	1,400,487	1,339,035
Other comprehensive income		
<i>Item that will never be reclassified to net income</i>		
Net defined benefit plan actuarial gains (losses) (note 8)	(9,269)	33,228
Total comprehensive income	\$ 1,391,218	\$ 1,372,263

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Changes in Deficit

Year ended March 31, 2018, with comparative information for 2017
(in thousands of Canadian dollars)

	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Deficit
Balance, April 1, 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)
Net income	1,400,487	–	1,400,487
Net defined benefit plan actuarial losses (note 8)	–	(9,269)	(9,269)
Total comprehensive income	1,400,487	(9,269)	1,391,218
Distributions to the Government of British Columbia (note 14)	(1,390,693)	–	(1,390,693)
Distributions to the Government of Canada (note 15)	(9,794)	–	(9,794)
Balance, March 31, 2018	\$ (17,144)	\$ (32,594)	\$ (49,738)

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017
(in thousands of Canadian dollars)

	2018	2017
Cash flows from operating activities:		
Net income	\$ 1,400,487	\$ 1,339,035
Items not involving cash:		
Depreciation of property and equipment (note 9)	53,033	48,998
Amortization of intangible assets (note 10)	15,919	15,935
Loss on disposal of property and equipment	1,242	748
Loss on disposal of intangible assets	22	1,356
Net benefit plan expense (note 8)	16,003	17,051
	1,486,706	1,423,123
Changes in:		
Accounts receivable	(19,230)	(4,652)
Receivable from the Interprovincial Lottery Corporation	587	4,673
Prepaid and deferred expenses	(4,002)	(2,012)
Inventories	458	(55)
Employee benefits	(15,294)	(11,869)
Prizes payable	2,035	(664)
Accounts payable, accrued and other liabilities	4,915	10,609
Deferred revenue	(1,522)	(3,965)
Net cash from operating activities	1,454,653	1,415,188
Cash flows from financing activities:		
Increase (decrease) in short-term financing (note 13)	9,737	(4,961)
Interest paid (note 13)	(1,039)	(490)
Distributions to the Government of British Columbia (note 14)	(1,377,447)	(1,311,111)
Distributions to the Government of Canada (note 15)	(9,794)	(9,643)
Net cash used in financing activities	(1,378,543)	(1,326,205)
Cash flows from investing activities:		
Additions to property and equipment	(67,771)	(70,369)
Additions to intangible assets	(9,407)	(9,079)
Net proceeds (costs) on disposal of property and equipment	277	(545)
Net cash used in investing activities	(76,901)	(78,903)
Net (decrease) increase in cash and cash equivalents	(791)	10,080
Cash and cash equivalents, beginning of year	79,313	69,233
Cash and cash equivalents, end of year (note 5)	\$ 78,522	\$ 79,313

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements

Year ended March 31, 2018

(in thousands of Canadian dollars)

1. Reporting entity:

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

As 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 15, 2018.

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, 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, 2018

(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, 2018

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

B. CASH AND CASH EQUIVALENTS:

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

C. FINANCIAL INSTRUMENTS:

The Corporation classifies its financial instruments into the following categories: fair value through income, loans and receivables, held-to-maturity financial assets, available-for-sale financial assets, and other financial liabilities.

i. 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, 2018

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

C. FINANCIAL INSTRUMENTS (continued):

i. Financial assets (continued):

The Corporation has the following 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 impairment losses (see note 3(H)).

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

ii. Financial liabilities:

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

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

The Corporation classifies financial liabilities as other financial liabilities. 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.

The Corporation's 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, legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(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 (for spare parts inventories), or first-in, first-out (for instant ticket inventories) basis, and net realizable value. For spare parts, net realizable value is the estimated value in use; for instant ticket inventories, net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

E. EMPLOYEE BENEFITS:

i. Short-term employee benefits:

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

ii. Termination benefits:

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(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 future benefit 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 obligation 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, 2018

(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 and bringing the asset to the location and condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a 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, 2018

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

H. IMPAIRMENT:

i. Financial assets:

Financial assets not classified as at fair value through income are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes, but is not limited to, default or delinquency by a debtor or indications that a debtor will enter bankruptcy.

The Corporation considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

H. IMPAIRMENT (continued):

i. Financial assets (continued):

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.

ii. Non-financial assets:

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

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

I. PROVISIONS:

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(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, which are sold through contracted lottery retailers and online at PlayNow.com, is recognized when the related draw occurs. 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, which are sold through contracted lottery retailers, is recognized at the time of the transfer to a retailer.

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

Revenue from sports betting, generated through contracted lottery retailers and online at PlayNow.com, is recognized in the period in which the bets settle. Receipts for bets that are received before March 31 for 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, 2018

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

K. PRIZES:

Lottery and bingo prize expenses are recognized when the related draw or game occurs, and are recorded based on the actual prize liability experienced for each game.

Instant ticket games prize expenses are recorded at the theoretical prize liability for each game, including the expected cost of annuity based prizing, 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 and any differences are recognized upon the final accounting for the game.

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 recognized when the last wagered event occurs and 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, 2018

(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, and will apply these changes retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except for certain exemptions allowed in transition to the new standard.

The Corporation's preliminary assessment of the new standard is that it is not anticipated to have a material impact on the Corporation's consolidated financial statements.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(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 guidance is required to be applied either retrospectively to each prior reporting period presented (“full retrospective method”), or retrospectively with the cumulative effect of initially applying the new standard recognized at the date of initial application (“modified retrospective method”). The Corporation plans to adopt this standard for its fiscal year ending March 31, 2019, on a full retrospective basis.

The Corporation anticipates this standard will have a material impact on the presentation of its consolidated financial statements and is currently in the process of assessing all potential impacts. At this time, the Corporation expects the most significant effects of the new standard will be related to the timing of revenue recognition for instant ticket games, as these products will need to be recognized at the time of sale to a player instead of at the time of shipment receipt at the lottery retailer location; however, due to the complexity and nature of the gaming industry, the quantitative effects of these changes have not yet been determined and are still being analyzed.

Upon adoption, management expects the new standard to change the presentation of revenue on the consolidated statement of comprehensive income. These changes will result in all revenue being presented net of prizes.

Additionally, the new standard will increase revenue disclosure requirements including disaggregation of revenue and further explanation of deferred revenue.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

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

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. The Corporation plans to adopt this standard for its fiscal year ending March 31, 2020.

The Corporation currently has a plan to review and assess all lease arrangements to determine the impacts that the new standard will have on the consolidated financial statements.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(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 tolerance and considers strategic risks as part of the annual strategic planning process. The Board's Audit Committee supports the Board in its oversight of the effectiveness of the Corporation's systems of internal control over financial information.

The Corporation has a corporate security and compliance division, as well as an internal audit services department. Furthermore, the Corporation has a dedicated risk advisory services department (RAS) to support the enterprise risk management program for the identification, assessment and management of strategic and operational risks. The 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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(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 in cases 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 the net win less commissions that would be outstanding from gaming facility service providers through security deposits or Irrevocable Standby Letters of Credit and may similarly secure 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 significant gaming facility service providers that has been mitigated by letters of credit and daily cash sweeps made by the Corporation.

As at March 31, 2018, the net win less commissions owing to the Corporation from the two largest gaming facility service providers accounts for \$22,504 (2017: \$7,844) 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:

	2018	2017
Maximum exposure	\$ 104,347	\$ 85,188
Collateral	(65,955)	(62,702)
Net exposure	\$ 38,392	\$ 22,486

Normal credit terms for trade receivables or net win less commissions outstanding are payment within 30 days. As at March 31, 2018 and 2017, 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, 2018

(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. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

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

The maximum exposure to credit risk for cash and cash equivalents, excluding gaming cash floats, is represented by the carrying amounts at the reporting date (note 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 program. Under this agreement, the Corporation may borrow up to an aggregate amount of \$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 other than the requirement that no single loan may have a duration of more than 365 days. The terms are set by the Government of British Columbia each time a loan is requested under this agreement. To date the durations of the loans have not exceeded 90 days.

The Corporation also has an unused \$10 million demand operating credit facility with a Canadian commercial bank that is unsecured. Interest is payable at the bank's commercial prime lending rate (2017: prime rate).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(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 in order to minimize financial risk, the Corporation maintains a high degree of liquidity.

The contractual maturities of all financial liabilities as at March 31, 2018 and 2017 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 since all of its interest-bearing financial instruments are held in fixed-rate instruments.

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

E. FAIR VALUES:

The carrying amounts of financial assets and financial liabilities not classified as fair value through 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, 2018

(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, 2018	Gross financial assets set off	Gross financial liabilities set off	Net financial assets	Related financial assets not set off	Net amount
Accounts receivable					
Lottery retailers	\$ 38,316	\$ (12,324)	\$ 25,992	\$ –	\$ 25,992
Gaming facility service providers	54,612	(23,719)	30,893	–	30,893
Other	–	–	–	3,398	3,398
	\$ 92,928	\$ (36,043)	\$ 56,885	\$ 3,398	\$ 60,283

As at March 31, 2018	Gross financial assets set off	Gross financial liabilities set off	Net financial liabilities	Related financial liabilities not set off	Net amount
Accounts payable, accrued and other liabilities					
	\$ 758	\$ (2,040)	\$ (1,282)	\$ (91,556)	\$ (92,838)

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)

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(in thousands of Canadian dollars)

5. Cash and cash equivalents:

	2018	2017
Gaming cash floats	\$ 44,064	\$ 44,135
Funds held for security deposits	5,808	5,833
Funds held for player accounts	7,072	5,892
Canadian high interest savings account (overnight deposits)	25,000	24,099
Canadian money market funds (overnight deposits)	-	3,168
Cash and cash equivalents in the statement of financial position	81,944	83,127
Cheques issued in excess of funds on hand in the statement of financial position	(3,422)	(3,814)
Cash and cash equivalents in the statement of cash flows	\$ 78,522	\$ 79,313

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 \$5,808 (2017: \$5,833) 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 \$7,072 (2017: \$5,892) is included in accounts payable, accrued and other liabilities.

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(in thousands of Canadian dollars)

6. Accounts receivable:

	2018	2017
Trade receivables and net win less commissions outstanding:		
Lottery retailers	\$ 25,992	\$ 21,754
Gaming facility service providers	30,893	12,027
	56,885	33,781
Other	3,398	7,272
	\$ 60,283	\$ 41,053

7. Inventories:

The major components of inventories are as follows:

	2018	2017
Slot machine spare parts	\$ 4,701	\$ 4,685
Instant tickets	2,414	2,512
Other	1,482	1,858
	\$ 8,597	\$ 9,055

For the year ended March 31, 2018, inventories recognized as an expense amounted to \$20,158 (2017: \$19,736).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(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 eligible BCLC 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, 2018

(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, which are based on a separate actuarial valuation for funding purposes, may differ from the assumptions herein.

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

The Corporation expects to contribute \$13,020 to Plan A in the year ending March 31, 2019.

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, 2018

(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)	
	2018	2017	2018	2017	2018	2017
Balance at April 1	\$ 325,579	\$ 322,592	\$ (272,303)	\$ (241,270)	\$ 53,276	\$ 81,322
Included in income						
Current service cost	12,961	13,174	–	–	12,961	13,174
Interest cost (income)	13,386	12,658	(10,914)	(9,231)	2,472	3,427
Administration cost	–	–	570	450	570	450
	26,347	25,832	(10,344)	(8,781)	16,003	17,051
Included in other comprehensive income						
Re-measurements loss (gain):						
Actuarial loss (gain) arising from:						
Financial assumptions	4,036	(12,475)	–	–	4,036	(12,475)
Experience adjustments	8,801	(298)	–	–	8,801	(298)
Return on plan assets excluding interest income	–	–	(3,568)	(20,455)	(3,568)	(20,455)
	12,837	(12,773)	(3,568)	(20,455)	9,269	(33,228)
Other						
Contributions paid by the employer	–	–	(15,295)	(11,869)	(15,295)	(11,869)
Contributions paid by the employee	2,730	2,763	(2,730)	(2,763)	–	–
Benefits paid	(12,393)	(12,835)	12,393	12,835	–	–
	(9,663)	(10,072)	(5,632)	(1,797)	(15,295)	(11,869)
Balance at March 31	\$ 355,100	\$ 325,579	\$ (291,847)	\$ (272,303)	\$ 63,253	\$ 53,276
Represented by:					2018	2017
Net defined benefit asset (Plan A)					\$ (2,125)	\$ (23,994)
Net defined benefit liability (Plans B and C)					65,378	77,270
					\$ 63,253	\$ 53,276

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(in thousands of Canadian dollars)

8. Employee benefits (continued):

C. PLAN ASSETS:

Plan assets are comprised of:

2018	Level 1 ¹	Level 2 ²	Total	Asset Mix
Pooled funds				
Canadian equity funds	\$ 89,351	\$ –	\$ 89,351	31%
Global equity funds	104,189	–	104,189	36%
Fixed income funds	67,706	–	67,706	23%
Debt securities				
Canada real return bonds	–	30,601	30,601	10%
	\$ 261,246	\$ 30,601	\$ 291,847	100%
<hr/>				
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%

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 5% cash and cash equivalents.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(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 Morneau Shepell Ltd. (Morneau), an independent firm of consulting actuaries, as of December 31, 2016. The defined benefit obligation for Plan A has been based on this valuation, with adjustments made for cash flows and material events since this date. In addition, certain assumptions have been updated to reflect market conditions as at March 31, 2018. The next required actuarial valuation will be completed as of December 31, 2019 with a determination of the funded status of the pension plan available in mid-2020.

There is no statutory actuarial valuation requirement for Plan B. The defined benefit obligation for Plan B is based on data collected for those members as of March 31, 2018.

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	
	2018	2017	2018	2017
Discount rate:				
Defined benefit obligation	3.65%	4.00%	3.65%	4.00%
Benefit cost	4.00%	3.80%	4.00%	3.80%
Rate of compensation increase for the fiscal year	2.00%	2.00%	-	-
Future compensation increases	2.00%	2.00%	-	-
Inflation	2.00%	1.75%	-	-
Initial weighted-average health care trend rate	-	-	5.00%	5.25%
Ultimate weighted-average health care trend rate	-	-	3.70%	4.21%
Year ultimate reached	-	-	2026	2026
Assumed life expectations on retirement at age 65				
Current pensioners				
Male	23.2	23.2	23.2	23.2
Female	25.1	25.0	25.1	25.0
Retiring in 20 years				
Male	24.2	24.2	24.2	24.2
Female	26.0	26.0	26.0	26.0

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(in thousands of Canadian dollars)

8. Employee benefits (continued):

D. DEFINED BENEFIT OBLIGATION (continued):

ii. Sensitivity analysis:

Changes at March 31, 2018 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			
	2018		2017	
	Increase in rate	Decrease in rate	Increase in rate	Decrease in rate
Discount rate (1% movement)	\$ (51,341)	\$ 66,315	\$ (46,170)	\$ 59,965
Future compensation increase (1% movement)	10,745	(8,973)	6,083	(5,244)
Inflation (1% movement)	16,542	(15,064)	13,656	(12,028)
Health care cost trend rate (1% movement)	5,205	(4,925)	9,825	(8,367)
Future mortality (10% movement)	(5,639)	6,108	(5,372)	5,823

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

iii. Maturity profile of plan membership:

The breakdown of the defined benefit obligation at March 31, 2018 (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	
	2018	2017
Active members	49%	46%
Deferred vested members	5%	5%
Retirees	46%	49%
Total	100%	100%

At March 31, 2018, the weighted-average duration of the defined benefit obligation was 16.2 years (2017: 18.0 years).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(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, 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
Additions	217	2,588	6,900	1	34,220	29,668	73,594
Transferred to systems and equipment	–	1,422	1,075	–	16,504	(19,001)	–
Disposals and retirements	–	(904)	(2,011)	–	(26,199)	–	(29,114)
Balance at March 31, 2018	\$ 2,996	\$ 103,621	\$ 122,443	\$ 7,652	\$ 461,034	\$ 33,598	\$ 731,344
Accumulated depreciation							
Balance at April 1, 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
Depreciation for the year	–	6,426	4,626	253	41,728	–	53,033
Disposals and retirements	–	(877)	(1,760)	–	(24,958)	–	(27,595)
Balance at March 31, 2018	\$ –	\$ 83,418	\$ 104,394	\$ 7,516	\$ 303,558	\$ –	\$ 498,886
Carrying amounts							
At March 31, 2017	\$ 2,779	\$ 22,646	\$ 14,951	\$ 388	\$ 149,721	\$ 22,931	\$ 213,416
At March 31, 2018	\$ 2,996	\$ 20,203	\$ 18,049	\$ 136	\$ 157,476	\$ 33,598	\$ 232,458

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(in thousands of Canadian dollars)

10. Intangible assets:

	Software	Assets under development	Total
Cost			
Balance at April 1, 2016	\$ 164,121	\$ 12,880	\$ 177,001
Acquisitions - separately acquired	3,396	6,174	9,570
Acquisitions - internally generated	500	371	871
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
Acquisitions – separately acquired	4,547	778	5,325
Acquisitions – internally generated	999	2,227	3,226
Transferred to software	10,562	(10,562)	–
Disposals and retirements	(25)	–	(25)
Balance at March 31, 2018	\$ 176,572	\$ 9,789	\$ 186,361
Accumulated amortization			
Balance at April 1, 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
Amortization for the year	15,919	–	15,919
Disposals and retirements	(3)	–	(3)
Balance at March 31, 2018	\$ 130,917	\$ –	\$ 130,917
Carrying amounts			
At March 31, 2017	\$ 45,488	\$ 17,346	\$ 62,834
At March 31, 2018	\$ 45,655	\$ 9,789	\$ 55,444

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, 2018

(in thousands of Canadian dollars)

11. Prizes payable:

	2018		2017	
Lottery	\$	27,167	\$	27,015
Casino and community gaming		7,328		5,445
	\$	34,495	\$	32,460

12. Accounts payable, accrued and other liabilities:

	2018		2017	
Trade payables	\$	26,185	\$	22,947
Accrued expenses		39,022		33,313
Player accounts liability		7,072		5,892
Security deposits payable		5,808		5,833
Indirect tax payable		5,359		4,862
Other		9,392		11,147
	\$	92,838	\$	83,994

13. Short-term financing:

	2018		2017	
Government of British Columbia, loans, payable in single instalments including interest ranging from \$31 to \$78 at rates ranging from 0.86% to 1.18%, unsecured, due between April 9, 2018 and May 24, 2018	\$	154,867	\$	–
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
	\$	154,867	\$	145,130

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(in thousands of Canadian dollars)

13. Short-term financing (continued):

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

Balance at April 1, 2017	\$ 145,130
Changes from financing cash flows	
Proceeds from borrowings	1,414,084
Repayment of borrowings	(1,404,405)
Total changes from financing cash flows	9,679
Other changes	
Interest expense	983
Interest paid	(1,039)
Capitalized borrowing costs	114
Total other changes	58
Balance at March 31, 2018	\$ 154,867

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.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(in thousands of Canadian dollars)

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:

2019	\$5,072
2020	4,408
2021	3,719
2022	3,624
2023	3,315
Thereafter	9,065

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.

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, 2018, \$24,071 (2017: \$23,262) 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 \$3,140 (2017: \$3,057) in respect of rent under cancellable operating agreements with lottery retailers. These expense and income amounts are included in gaming equipment, leases and licenses, cost of premises, and other.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2018

(in thousands of Canadian dollars)

17. Commitments (continued):

Capital commitments

As of March 31, 2018, the Corporation is committed to incur capital expenditures relating to property and equipment and intangible assets of \$9,814 (2017: \$11,412). 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, 2018

(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:

	2018	2017
Short-term employee benefits	\$ 2,475	\$ 2,538
Pension and post-employment benefits	211	179
Termination benefits	-	(18)
	\$ 2,686	\$ 2,699

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, 2018

(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 began recording funding 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 recorded \$3 million in funding for the current fiscal year and is committed to fund \$3 million for the fiscal year ending March 31, 2019. Funding for the remaining two years of the mandate is also estimated to be \$3 million annually.

22. Subsequent events:

A. NEW OPERATIONAL SERVICES AGREEMENTS:

The Corporation signed new operational services agreements (OSAs) with some of its gaming facility service providers subsequent to the current fiscal year end with effective dates during the upcoming fiscal year. The Corporation plans for all gaming facility service providers to sign new OSAs as soon as is practicable. Based on projected revenues, BCLC anticipates increased costs related to the new OSAs of approximately \$30 million annually once all gaming facility service providers have transitioned to new agreements. The new agreements provide for increased commissions in exchange for strengthened accountability measures and investment commitments, which are expected to improve strategic alignment and drive incremental market growth in the long term.

B. ANTI-MONEY LAUNDERING REVIEW:

In the 2018 fiscal year, the Attorney General for British Columbia commissioned an independent review of British Columbia's anti-money laundering policies and practices. As at the date of these consolidated financial statements, the results of this review have not been made public and the impact of any related recommendations on future operations, if any, is not known at this time.

Appendix A – Additional Information

Corporate Governance

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

Organizational Overview

<http://corporate.bclc.com/who-we-are.html>

<http://corporate.bclc.com/what-we-do.html>

<http://corporate.bclc.com/social-responsibility.html>

Contact Information

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Appendix B – Subsidiaries and Operating Segments

BC Lottotech International, Inc.

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

	2015/16	2016/17	2017/18
Revenue (\$ thousands)			
Lease revenue	65,642	59,153	63,201
Expenses			
Depreciation and amortization	65,475	59,005	63,044
Other expense	1,231	1,698	1,019
	66,706	60,703	64,063
Net loss	(1,064)	(1,550)	(862)