

British Columbia Lottery Corporation

2020/21 Annual Service Plan Report



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Board Chair's Accountability Statement



The *BCLC 2020/21 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2020/21 – 2022/23 Service Plan* created in February 2020. The Board is accountable for those results as reported.

A handwritten signature in black ink, appearing to be 'GM', written in a cursive style.

Greg Moore
Board Chair
July 30, 2021

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Letter from the CEO

On behalf of the employees of BCLC, I am pleased to present BCLC's Annual Service Plan Report for the 2020/21 fiscal year. BCLC is focused on delivering entertainment in a socially responsible manner to generate revenue for the Province of British Columbia, which uses it to fund the BC First Nations Gaming Revenue Sharing Agreement, public health care, education, charitable community programs, and other essential services the Province and Host Local Governments provide.

In fiscal 2020/21 brick-and-mortar gambling facilities remained closed following an order by the Attorney General and then-Minister responsible for BCLC to support public safety. Despite these temporary closures and the ongoing challenges of the COVID-19 pandemic, BCLC generated \$430 million in net income by capitalizing on our diversified product portfolio and managing costs to offset financial pressures as a result of decreased revenue from the closure of gambling facilities. Notably, revenue from eGaming grew year over year by 135 percent. While this could not offset the losses of a year of gambling facility closures, it demonstrated the value of having a competitive, regulated online gambling option. Unlike grey market sites, PlayNow.com is the only online gambling provider in the province whose profits go back to the Government of B.C. Despite several weeks of retail closures at the beginning of the fiscal year, the lottery business also achieved record revenues.

Over the past year, BCLC worked closely with our casino service providers to develop reopening plans and to ensure appropriate measures were in place to support the health and wellbeing of our players, employees and communities. This work enabled gambling facilities to reopen safely and efficiently in accordance with established public health guidelines on July 1, 2021. Some of the measures in place to support the health and wellbeing of employees and players included restrictions on the number of players to support physical distancing, plexiglass barriers and enhanced sanitization protocols.

This year, BCLC undertook a reorganization, aligning resources to support the strategy of becoming a more player-centric company and driving responsible growth through healthy play. We remain committed to managing our business in the best interests of British Columbians and delivered on the strategic priority items outlined in the [2020/21 Mandate Letter](#). BCLC's Board of Directors and leadership team continue to work closely with the Government of B.C. to ensure effective communication and alignment with government priorities. In this context, this year BCLC launched its Diversity, Inclusion & Belonging strategy and policy which support our values of respect, integrity and social responsibility and align with the Province's commitments to equity, inclusion and anti-racism.

In a year of many challenges, we are proud of our results and the tremendous resilience and innovation on the part of our employees. Supporting the health and wellbeing of our players, employees and communities will continue to be a priority as we look to the future and brick-and-mortar gambling facilities returning to pre-pandemic levels of operations. We are confident in the way we have navigated these unprecedented times and will continue to work closely with government to achieve our mandate for the people of British Columbia.

A handwritten signature in black ink, appearing to read 'Lynda Cavanaugh', with a long horizontal flourish extending to the right.

Lynda Cavanaugh
Interim President & CEO, BCLC
July 30, 2021

Purpose of the Annual Service Plan Report

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

Purpose of the Organization

BCLC conducts and manages commercial gambling in a socially responsible manner for the benefit of British Columbians. This includes gambling facilities (casinos and community gaming centres), lottery, bingo and sports betting through multiple channels of distribution. Through agreements with private-sector service providers, BCLC offers slot machines, table games and bingo at 16 casinos, two racecourse casinos, 17 community gaming centres and one commercial bingo hall. BCLC's 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. PlayNow.com is BCLC's secure and regulated online and mobile channel, with a growing portfolio of lottery games, sports betting, slots, table games and bingo entertainment. As of March 31, 2021, there were approximately 715,000 B.C. adults registered to play directly with BCLC on PlayNow.com. BCLC also provides online gambling services, and web-based and mobile platforms to the Province of Manitoba through an operating contract with Manitoba Liquor & Lotteries. In addition, BCLC licenses its GameSense responsible gambling program to partners across North America.

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

As a Crown corporation, BCLC reports into the Ministry of Finance through the Crown Agencies Secretariat and is governed by B.C.'s *Gaming Control Act* (2002). The Gaming Policy and Enforcement Branch (GPEB) in the Ministry of Public Safety and Solicitor General has regulatory oversight of all gambling in B.C., including all commercial gambling operated by BCLC. BCLC also adheres to requirements set out in federal anti-money laundering legislation and is monitored by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) for compliance with those requirements.

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

Strategic Direction

The strategic direction set by Government in 2017, and expanded upon in the Board Chair's 2020 [Mandate Letter](#) from the Minister Responsible, shaped the goals, objectives, performance measures and financial plan outlined in the [2020/21 BCLC Service Plan](#) and actual results reported on in this annual report.

The global COVID-19 pandemic resulted in many shifts in priorities, structures and operations across the public sector. Any changes to BCLC's goals, objectives, performance measures or financial plan to align with the strategic direction established by Government in late 2020 are presented in the 2021/22 Service Plan.

Operating Environment

Measures taken to reduce the spread of the COVID-19 pandemic have directly and significantly impacted BCLC's ability to generate revenue. In March 2020, the Attorney General and then-minister responsible for BCLC issued a directive ordering the temporary closure of all gambling facilities managed by BCLC across B.C. to support public safety. This order remained in effect for the entirety of the 2020/21 fiscal year and resulted in zero revenue from brick-and-mortar gambling facilities, which historically generate over 70 per cent of BCLC's revenues. At the outset of the pandemic, a number of lottery retailers also decided to temporarily suspend sales between mid-March and mid-May 2020 and the wide-spread closure within the hospitality industry and temporary cessation of indoor seated dining at bars and pubs also impacted lottery sales.

With gambling facilities closed and public health orders aimed at encouraging people to stay home to slow the spread of COVID-19, British Columbians began to seek new entertainment options from home and there was a significant increase in players visiting PlayNow.com to play lottery and casino games. The pandemic also forced major sports leagues to cancel major sporting events around the world. As a result, during the first quarter of 2020/21, BCLC temporarily suspended all Sports Action betting and limited its product offerings on PlayNow.com.

In response to public health guidelines and recommendations that employers encourage workers to work from home, BCLC closed its head office and corporate office to the public and successfully moved most of its employees to work remotely from home beginning in mid-March 2020. BCLC quickly adapted its processes and procedures in order to continue to support the business remotely in a COVID-19 environment. This included temporarily closing BCLC's prize claim offices and transitioning to a remote prize claim process.

Increasing the understanding around the actions BCLC has taken to reduce the risk of money laundering in BCLC's operations is important to building and maintaining the community support that BCLC depends upon in order to operate its business. BCLC has addressed all of the recommendations for which it was responsible from Dr. Peter German's "Dirty Money" 2018 independent report and was granted standing and participated in the ongoing Commission of

Inquiry into Money Laundering in British Columbia with relation to the gaming and horse racing sectors. The Commission's final report is expected in late 2021.

In June 2020, BCLC undertook a reorganization to align resources to its strategic priorities. BCLC's strategic plan is focused on transforming the organization into a player-centric company, remaining competitive and positioning the organization for responsible growth based on healthy play. Previously, there was a separate division for each of BCLC's business lines – Lottery, Casino and Community Gaming and eGaming. As part of the reorganization, the three divisions were consolidated into a single Operations division. As a result, BCLC eliminated two of its nine executive positions.

Lynda Cavanaugh joined the company as Interim President & CEO in January 2021, replacing Greg Moore, who stepped down from the same role at that time. BCLC completed the hiring of its executive complement this year, including a new Chief People Officer, Yabome Gilpin-Jackson in April 2020 and Chief Compliance Officer & VP Legal, Compliance and Security, Marie-Noelle Savoie in June 2020. Four executive roles are based in the head office in Kamloops, the other three are located in the corporate office in Vancouver.

Report on Performance: Goals, Objectives, Measures and Targets

The 2020/21 Mandate Letter provides specific actions for BCLC to ensure alignment with Government of B.C. goals and objectives. A detailed summary of BCLC's work to fulfill the 2020/21 Mandate Letter is provided in Appendix C.

BCLC's 2020/21 Annual Service Plan Report compares actual results to the expected results identified in the 2020/21 – 2022/23 Service Plan. The following section summarizes how BCLC measures and reports performance against five corporate goals.

Goal 1: No one is harmed from gambling offered by BCLC

The pursuit of our vision to offer exceptional gambling entertainment is underpinned by a commitment to the well-being of all players and looking for opportunities that make products and environments safer. BCLC is committed to offering safe gambling and supporting all players, especially those who are at risk of developing a gambling problem.

Objective 1: Reduce the percentage of players who scored as high risk on the Problem Gambling Severity Index (PGSI)

Key Highlights

- Expanded the GameSense Advisor (GSA) program¹ beyond the brick-and-mortar environment to offer player support services through telephone and live chat online through PlayNow.com, BCLC.com and GameSense.com.
- Launched PlayNow.com's first Voluntary Self-Exclusion (VSE) awareness campaign to remind players that self-exclusion from PlayNow.com is available and implemented a targeted marketing campaign for at-risk players on taking back control of their gambling and key strategies for healthier play.
- Conducted online interviews with players to develop a richer understanding of our player base and to inform what BCLC can do to reduce stigma and barriers associated with individuals seeking help for gambling-related concerns.
- Conducted over 1,100 player health assessments on BCLC marketing campaigns, promotions and games to reduce risks and create safer products and environments.
- Continued to explore and assess how to leverage player data to support player health, including advanced predictive modeling and customized messaging to select players, and identification of play behaviours associated with risky and problem-gambling levels.
- Hosted the ninth annual New Horizons in Responsible Gambling conference, shifting the experience online which brought together over 300 responsible gambling researchers, policy makers, regulators and industry representatives from around the world to discuss developments in prevention, response and best practices in responsible gambling.

¹ GSAs maintain professional training in mental health, cultural sensitivity and appropriate response to provide customers with support and assistance to access community and gambling help resources.

Performance Measure	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
1.1 Percentage of BCLC Players who scored as high risk on the PGSI index ¹	8%	7%	9%	6%	5%

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

¹ The 2021/22 and 2022/23 targets for this performance measure were updated in the [2021/22 – 2023/24 Service Plan](#).

Discussion of Results

The Problem Gambling Severity Index (PGSI) is a self-reported, standardized measure of assessing at-risk gambling behaviours. It is a tool used globally based on research of common signs and consequences of problematic gambling. Players who score eight or higher are considered to be at high risk for problem gambling. Measuring PGSI allows BCLC to monitor the proportion of high-risk players in our player base.

In 2020/21, the PGSI score was higher than target. With the closing of gambling facilities, players have migrated to PlayNow.com. Generally, PlayNow.com players skew younger and male, a profile that tends to engage in riskier behaviour with respect to gambling. In addition, the pandemic has increased a number of risk factors associated with gambling-related problems, including mental-health issues, loneliness and financial distress. BCLC and GPEB commissioned two studies to gain a better understanding of online problem gambling prevalence and the impact the pandemic has on gambling. The research provided recommendations and direction for further enhancing programs to ensure safer play and reduce harms.

BCLC is committed to the continuous improvement in identifying players at high risk and responding to reduce this risk. We continue to explore and evaluate ways to leverage player data to support player health, through technological advancements and programming. In addition, we continue to enhance our VSE and GameSense Advisor programs, ensuring that we are providing our players with enough gambling information and support to make informed decisions to manage play and are committed to supporting referrals to Gambling Support BC. We are continuing to advance staff education and training so they are equipped to support our players. Player safety continues to be a priority for the organization; therefore, understanding PGSI scores and how best to lower these scores will remain important for BCLC for the foreseeable future.

Goal 2: Our business does not create opportunities for criminal activity

Any criminal activity related to gambling and BCLC’s business is a concern for British Columbians and BCLC will take action to eliminate these risks.

Objectives

2.1a: Reduce the number of incidents related to potential crime in and near BCLC’s facilities (both brick-and-mortar and online) and/or related to BCLC managed gambling products.

2.1b: Improve public perceptions about the safety and security of gambling in casinos in B.C.

Key Highlights:

- Participated in the Cullen Inquiry and shared information pertaining to BCLC’s role in the anti-money laundering (AML) regime.
- Addressed all of the recommendations for which BCLC was responsible from Dr. Peter German’s “Dirty Money” 2018 independent report.
- Initiated procurement of an automated AML solution which, once implemented, will increase the effectiveness of BCLC’s AML system and maintain compliance with evolving requirements.
- Collaborated with law enforcement and lottery retailers to improve awareness of fraud events across the province, including updating law enforcement and informing GPEB of retailer incidents and keeping retailers apprised of incidents in their communities.
- Continued to meet regularly with the Gaming Integrity Group (GIG), comprised of representatives from BCLC, GPEB, and the Joint Illegal Gaming Investigations Team (JIGIT), to identify items of concern and proactively work on solutions to ensure continued integrity and compliance in the B.C. gaming industry as a whole.
- Continued to work with financial institutions through the International Association of Financial Crimes Investigators (IAFCI) to share intelligence (where applicable) and stay current with various fraud trends in the province.

Performance Measures	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
2.1 Number of incidents of reports of potential crime ^{1,2}	4,782	4,355	552	4,138	3,930
2.2 Perception of gambling in BC casinos being safe and secure ³	52%	51%	57%	52%	53%

¹Data Source: BCLC iTrak (an internal software platform used for daily log reporting and incident management) and Salesforce Database

² The 2021/22 and 2022/23 targets for this performance measure were updated in the [2021/22 – 2023/24 Service Plan](#).

³Data Source: Continuous tracking survey conducted online by a third-party market research professional. The study uses market research industry standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures available from Statistic’s Canada Census. Population base used – 2016 Census BC 19+.

Discussion of Results

Gambling facilities remained closed for the whole of fiscal year 2020/21. The business closure correspondingly resulted in a significant decrease in the number of incidents of reports of potential crime, markedly below target. Perceptions of gambling in B.C. casinos being safe and secure was notably ahead of targets at 57 per cent for fiscal year 2020/21, which was driven by the significant increases in Q1 and Q2 results. These increases were attributed to potential assumptions around “safe and secure” being related to COVID-19 safety measures, as BCLC worked with service providers to safely and efficiently close all gambling facilities during the early stages of the pandemic in response to an order by the Attorney General. Despite closures,

BCLC continued to work with law enforcement, regulators, service providers, retailers and other stakeholders to define and implement security controls in order to eliminate the risk of potential criminal activities in our business.

Goal 3: BCLC is respected for how we operate

Government has entrusted BCLC to operate gambling within the province. BCLC depends on building and maintaining community support to operate gambling on behalf of British Columbians.

Objectives

3.1 Improve the public perceptions of how BCLC conducts business based on the following four areas:

- Integrity: BCLC operates fairly and honestly.
- Social Responsibility: BCLC is a good corporate citizen.
- Well Managed: BCLC is a well- managed corporation.
- Trust: The public has trust and confidence in the games offered by BCLC.

Key Highlights:

- Developed a robust health and safety plan for the reopening of gambling facilities based on recommended practices from the Provincial Health Officer and WorkSafeBC and innovated our lottery prize-claim process to make it safer and easier for our players to claim their prizes remotely during the pandemic.
- Assisted GPEB and government in meeting its responsibilities for the overall integrity of gambling and horse racing through ongoing collaboration and participation in working groups such as the RCMP-led Counter Illicit Finance Alliance (CIFA) BC.
- Proactively communicated major corporate initiatives and activities to the public, the media and employees in order to be transparent, accountable and build awareness and understanding of BCLC's operations, including the ongoing practice of proactive postings of Freedom of Information and Protection of Privacy Request responses, audits, research and reports.
- Shared information with municipal, business and community stakeholders and the public to create awareness and understanding of BCLC and the gambling industry, including how Host Local Government revenue benefits communities.
- Finalized BCLC's Diversity, Inclusion & Belonging Strategy in order to benefit the business and align with government's commitment in this regard.
- Collaborated with stakeholders to explore a Social Purpose² which articulates the impact we wish to have on our communities.

² Social Purpose Business Definition (2019), Social Purpose Institute: A Social Purpose Business is a company whose enduring reason for being is to create a better world. It is an engine for good, creating societal benefits by the very act of conducting business. Its growth is a positive force in society.

Performance Measures	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
3.1a Integrity ¹	61%	63%	62%	66%	68%
3.1b Social Responsibility	62%	63%	61%	64%	66%
3.1c Well Managed	61%	63%	61%	65%	68%
3.1d Trust ¹	64%	64%	66%	66%	67%

Data Source: Continuous tracking survey conducted online by a third-party market research professional. The study uses market research industry standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures available from Statistic’s Canada Census. Population base used – 2016 Census BC 19+.

¹ The 2021/22 and 2022/23 targets for this performance measure were updated in the [2021/22 – 2023/24 Service Plan](#).

Discussion of Results

The above performance measures assess the percentage of the B.C. adult population that agrees with the above corresponding four statements in relation to BCLC’s operations. BCLC is committed to operating according to our values of respect, integrity and social responsibility. In fiscal year 2020/21, perception metrics started the year on a high note due to an advertising campaign focused on promoting awareness of how money generated by BCLC goes back to the Province to support healthcare, education and other essential programs. The campaign resulted in a noticeable decline in the amount of negative media coverage of our business in that timeframe. However, as the Cullen Commission hearings proceeded, resulting in significant negative media coverage, perception metrics started to decline. BCLC research confirms over half of B.C. adults are aware of the Cullen Commission and a further half of these players have a negative perception of BCLC due to the coverage.

We will continue to engage our stakeholders in conversations about our business and our impacts. We will also continue to proactively share disclosures and information on our website and will amplify this information on our social channels, with the media and the public. BCLC is in the process of adopting a Social Purpose which is further focusing the organization on how it can positively impact society. Through these efforts, BCLC intends to improve these measures over the next few years.

Goal 4: BCLC delivers our promised financial return to the Province of B.C.

The net income generated by BCLC is used to support a wide range of provincial and community programs that British Columbians rely upon.

Objective

4.1: Optimize net income through investing to sustain the long-term health of the business.

Key Highlights:

- Capitalized on our diversified portfolio of service and channel offerings to help mitigate revenue loss by migrating players to our online platform during gaming facility closures as a result of COVID-19.
- Managed expenses through program rationalization and deferral measures to offset incremental costs to comply with health and safety protocols, and to maintain the integrity of the casino gaming system during the temporary closure.
- Continued to upgrade the lottery and casino systems and technology to support the long-term health and integrity of the business.
- Enhanced revenue generating activities through investments such as promoting PlayNow.com to BCLC’s Encore Rewards members who traditionally play in land-based facilities and through introducing several new vendors to leverage their capabilities and provide innovative game content that appeals to players on PlayNow.com.
- Continued to invest in understanding customer needs and expectations to deliver relevant products and experiences and increased availability of content on mobile devices.

Performance Measures	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
4.1 Net Income (\$ millions) ¹	1,347	1,374	430	1,376	1,413

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

¹ The 2021/22 and 2022/23 targets for this performance measure were updated in the [2021/22 – 2023/24 Service Plan](#)

Discussion of Results

In fiscal 2020/21, BCLC achieved total net income of \$430 million, with \$419 million delivered to the Province of B.C. and \$11 million to the federal government, from total revenue of \$966 million. The revenue generated by BCLC and delivered to the Province of B.C. is used to fund healthcare, education, charitable community programs and other essential provincial and local services, in addition to the BC First Nations Gaming Revenue Sharing Agreement.

BCLC’s 2020/21 net income of \$430 million was \$944 million below budget and \$917 million below the previous year. The significant decrease in net income compared to budget and the prior year was primarily due to the closure of all gambling facilities effective March 16, 2020 in response to the COVID-19 pandemic.

Along with the temporary gambling facility closures, in the latter half of March 2020, a number of lottery retailers temporarily suspended lottery sales as a precautionary measure to respond to the pandemic. Lottery retailers resumed sales in mid-May 2020 and lottery revenue rebounded quickly and exceeded the revenue budget in the fiscal 2020/21 Service Plan by 8 per cent. This set a new revenue record for the Lottery business with the favourable performance primarily driven by the Instant category and Keno product.

PlayNow.com more than doubled its revenue over last year, resulting in a record-breaking year in revenue for this product line. The strong performance is attributable to a significant increase in active players and new account creations over the course of the fiscal year as many players migrated their play to PlayNow.com as a result of the casino closures. However, the higher eGaming growth did not make up for the revenue lost from the brick-and-mortar casino channel.

In response to the significant decrease in revenue, BCLC managed costs closely while continuing to make investments in programs that support and enhance revenue from lottery and eGaming product lines as well as making the necessary investments to ensure the long term health of the organization. In addition, investments were made to support the safe and healthy reopening of brick-and-mortar gambling facilities in accordance with public health guidelines.

Although BCLC experienced cost pressures due to the pandemic throughout the year, BCLC achieved overall cost savings as a result of gambling facility closures and pandemic-imposed restrictions. As a result, total gaming support costs and operating expenses were 4 per cent below budget due to decreases in areas such as casino marketing activities, casino gaming support activities, travel and meetings as well as implementing a temporary external hiring freeze.

Goal 5: Players are entertained

BCLC is shifting from products and distribution to focus on player experience and seeking opportunities to offer omnichannel experiences and products which deliver enhanced entertainment.

Objective

5.1 Increase the Player Entertainment Needs Index Score

Key Highlights:

- Continued to introduce games and content which seek to increase affinity with BCLC and offered relevant play recommendations and promotions in communications to players.
- Leveraged new technologies that enhance the player experience in retail environments, including touchless terminals and embarked on foundational technology initiatives that will make it easier for BCLC to enhance the player experience through greater personalization and player health supports.
- Doubled the number of second chance contests offered on Scratch & Win tickets and launched a new promo mechanism on PlayNow.com that allows players to “spin to win” an offer from eCasino, Live Casino and Lotto.
- Integrated offline player purchases with online engagement by adding QR codes to direct mail promotions.
- Expanded the Encore Loyalty program to PlayNow.com, allowing players to earn Encore Reward points in both brick-and-mortar gambling facilities and through play on PlayNow.com

Performance Measures	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
5.1 Player Entertainment Needs Index Score ¹	58	60	56	61	62

¹ **Data source:** Survey conducted online by a third-party research professional. Study uses market research industry standard techniques to randomize the sample while retaining gender, age and regional balance that is consistent with B.C. population figures available from Statistics Canada’s Census. To qualify for these measures, a respondent will need to have played at least one BCLC game in the past year.

¹ The 2021/22 and 2022/23 targets for this performance measure were updated in the [2021/22 – 2023/24 Service Plan](#)

Discussion of Results

Gambling facilities were closed for the entire fiscal year, eliminating a gambling entertainment option for a significant number of players. This is the main reason why this past year’s results were below target. A key strategic focus for our business is to provide products with high entertainment value. In addition, PlayNow.com is continually improving its platform to showcase a world-class online gambling entertainment experience. BCLC invested in health and safety measures so that gambling facilities were prepared to reopen.

Going forward, BCLC will continue to study player entertainment preferences through insights obtained by our customer support center and by listening to player feedback on how to improve the entertainment experience. BCLC is making significant investments in technology which, once completed, will facilitate more personalization and support a greater player experience overall. Through these efforts, we expect to steadily improve the Player Entertainment Needs Index Score in the years to come.

Financial Report

For the auditor's report and audited financial statements, [see Appendix D](#). These can also be found on the BCLC website corporate.bclc.com.

Discussion of Results

In fiscal year 2020/21, while navigating the impacts of the COVID-19 pandemic, BCLC delivered total net income of \$429.9 million – \$419.3 million to the Province of B.C. and \$10.6 million to the federal government – from total revenue of \$965.6 million. On March 16, 2020, as directed by B.C.'s Attorney General and then-minister responsible for BCLC, all BCLC gambling facilities were temporarily closed. As a result of these facilities remaining closed for the entire 2020/21 fiscal year, net income decreased by \$917.0 million from the previous year and is \$944.5 million lower than projected in the 2020/21 service plan.

BCLC's diversified product portfolio mitigated the overall impact of gambling facility closures, as record-breaking revenue of \$544.0 million in Lottery and \$421.4 million in eGaming marginally softened the impact from the loss of brick-and-mortar gambling facility revenues.

In response to the overall decrease in revenue, BCLC closely managed its expenditures through reductions in areas such as casino marketing activities, travel and meetings as well as implementing a temporary external hiring freeze, achieving operating costs \$12 million lower than budget.

Capital expenditures were also impacted by the pandemic, with global supply chain delays driving the majority of the \$32.0 million variance from planned spending. Much of this required capital investment cascades into subsequent fiscal years.

During the past year, BCLC utilized the closure of facilities to continue to invest in gaming system upgrades to support future growth. The company worked closely with casino service providers to develop reopening plans and to ensure the appropriate measures were in place to support the health and wellbeing of our players, employees and communities. Overall, BCLC was well-positioned to reopen gambling facilities safely and efficiently on July 1, 2021.

Highlights

- Record Lottery revenues of \$544.0 million were driven by the strong performance of the Instant category and Keno product. Fiscal year 2020/21 revenues represent an increase of \$24.8 million from prior year and exceed budget by \$40.0 million.
- Record eGaming (PlayNow.com) revenues of \$421.4 million were driven by the strong performance of eSlot and eTable games. Closure of gaming facilities resulted in migration of some casino players to the eGaming channel. Fiscal year 2020/21 revenues represent an increase of \$242.4 million from prior year and exceed budget by \$230.7 million.

Financial Summary

(\$ millions)	2019/20 Actual	2020/21 Budget	2020/21 Actual	2020/21 Variance ¹
Total Revenue	\$ 2,530.9	\$ 2,631.1	\$ 965.6	\$ (1,665.5)
Direct Costs	801.7	851.4	177.5	673.9
Gaming Support Costs	48.0	50.8	53.6	(2.8)
Operating Costs	182.3	195.1	183.1	12.0
Amortization and Other	91.1	91.7	79.8	11.9
Total Expenses	1,123.1	1,189.0	494.0	695.0
Net Income before Taxes	1,407.8	1,442.1	471.6	(970.5)
Indirect tax	60.9	67.7	41.7	26.0
NET INCOME	\$ 1,346.9	\$ 1,374.4	\$ 429.9	\$ (944.5)
Total Liabilities	\$ 526.2	\$ 537.0	\$ 530.9	\$ 6.1
Accumulated Deficit	25.5	25.5	25.5	-
Accumulated Other Comprehensive Loss	6.7	39.5	23.5	16.0
Total Deficit	\$ 32.2	\$ 65.0	\$ 49.0	\$ 16.0
Capital Expenditures	\$ 101.8	\$ 105.0	\$ 73.0	\$ 32.0

¹ Favourable (unfavourable)

Variance and Trend Analysis

Revenue

Revenue recognized for the year ending March 31, 2021 was \$965.6 million, a decrease of \$1,565.3 million from fiscal 2019/20 and \$1,665.5 million lower than budget. While facility closures had a negative impact on casino and community gaming revenues, this impact was marginally offset by record-breaking revenue levels for Lottery and eGaming.

Direct costs

The majority of direct costs, which vary with revenue, relate to commissions paid to private sector gambling facility service providers and lottery retailer partners. Fiscal year 2020/21 actuals of \$177.5 million represent a \$624.2 million decrease from prior year and are \$673.9 million lower than budget. The difference from prior year and from budget is due to the impact of casino facility closures as there were no commissions paid to casino and community gaming service providers. This impact is partially offset by increases in lottery retailer commissions and eGaming revenue share payments to PlayNow.com gaming content providers as a result of higher Lottery and eGaming revenue.

Gaming support costs

These costs are largely for gaming systems maintenance and upkeep and do not vary significantly with gaming activity and were therefore not directly impacted by facility closures. Fiscal year 2020/21 actuals of \$53.6 million represent a \$5.6 million increase from prior year and exceed budget by \$2.8 million. The variance from budget is due to upgrades and maintaining the integrity of the casino gaming equipment during the casino closures.

Operating costs

These costs are made up of items such as salaries and benefits, marketing and advertising, professional fees, cost of premises and equipment. The fiscal year 2020/21 actuals of \$183.1 million represent a decrease of \$12.0 million from budget and are due primarily to reduced expenditures as a result of the pandemic.

Amortization and Other

This balance relates primarily to depreciation of property and equipment and amortization of software costs. The fiscal year 2020/21 actuals of \$79.8 million represent a decrease of \$11.9 million from budget and are primarily driven by lower than anticipated capital expenditures as a result of supply chain delays from the pandemic.

Indirect tax

These costs relate to GST and PST paid on purchases. The fiscal year 2020/21 actuals of \$41.7 million represent a decrease of \$26.0 million from budget and are primarily driven by lower than anticipated expenditures.

Capital Expenditures

(\$millions)	2019/20 Actual	2020/21 Budget	2020/21 Actual	2020/21 Variance ¹
Casino & Community Gaming	61.7	40.0	30.8	9.2
Lottery & eGaming	20.5	41.0	27.7	13.3
Corporate	19.6	24.0	14.5	9.5
Capital Expenditures	\$101.8	\$105.0	\$73.0	\$32.0

¹Favourable (unfavourable)

In fiscal year 2020/21, capital spending of \$73.0 million was \$32.0 million less than budget and \$28.8 million less than in fiscal 2019/20. The variance of \$32.0 million is primarily due to delays in project spend as a result of supply chain impacts from the pandemic.

Significant IT Projects (over \$20 million in total)	Year of Completion	Project Cost to March 31, 2021 (\$m)	Estimated Cost to Complete (\$m)	Anticipated Total Cost (\$m)
Lottery Terminals and Systems Replacement	2022/23	31.6	9.2	40.8
This project involves the replacement of legacy retail lottery equipment and supporting systems. This equipment supports the majority of lottery revenue and is nearing end-of-life.				

Operating Segments

BCLC's operating segments consist of Casino and Community Gaming, Lottery, and eGaming business units. BCLC's casino and community gaming operations are results from land-based gaming facilities offering slots, tables and bingo games. Lottery operations are results from brick-and-mortar retail sales of lottery draw-based games, lottery instant tickets and sports betting. eGaming operations are results of BCLC's website PlayNow.com, which extends all of BCLC's product offerings for play online. Operating costs for any departments that are not directly dedicated to supporting one of these areas of operations are allocated proportionally across these areas based on their revenues.

Financial Summary

CASINO & COMMUNITY GAMING OPERATIONS:

(\$ millions)	2019/20 Actual	2020/21 Budget	2020/21 Actual	2020/21 Variance ¹
Total Revenue	\$ 1,832.7	\$ 1,936.4	\$ 0.2	\$ (1,936.2)
Direct Costs	665.7	704.0	0.4	703.6
Gaming Support Costs	25.5	26.0	17.7	8.3
Operating Costs	100.6	113.3	26.3	87.0
Amortization and Other	69.4	73.1	52.8	20.3
Total Expenses	861.2	916.4	97.2	819.2
Net Income before Taxes	971.5	1,020.0	(97.0)	(1,117.0)
Indirect tax	42.2	45.8	11.1	34.7
NET INCOME	\$ 929.3	\$ 974.2	\$ (108.1)	\$ (1,082.3)

¹ Favourable (unfavourable)

LOTTERY OPERATIONS:

(\$ millions)	2019/20 Actual	2020/21 Budget	2020/21 Actual	2020/21 Variance ¹
Total Revenue	\$ 519.2	\$ 504.0	\$ 544.0	\$ 40.0
Direct Costs	99.0	104.2	107.3	(3.1)
Gaming Support Costs	15.2	16.1	22.5	(6.4)
Operating Costs	61.1	60.7	91.9	(31.2)
Amortization and Other	18.3	14.9	19.1	(4.2)
Total Expenses	193.6	195.9	240.8	(44.9)
Net Income before Taxes	325.6	308.1	303.2	(4.9)
Indirect tax	12.7	14.2	17.0	(2.8)
NET INCOME	\$ 312.9	\$ 293.9	\$ 286.2	\$ (7.7)

¹ Favourable (unfavourable)

eGAMING OPERATIONS:

(\$ millions)	2019/20 Actual	2020/21 Budget	2020/21 Actual	2020/21 Variance ¹
Total Revenue	\$ 179.0	\$ 190.7	\$ 421.4	\$ 230.7
Direct Costs	37.0	43.2	69.8	(26.6)
Gaming Support Costs	7.2	8.7	13.4	(4.7)
Operating Costs	20.7	21.1	64.9	(43.8)
Amortization and Other	3.4	3.7	7.9	(4.2)
Total Expenses	68.3	76.7	156.0	(79.3)
Net Income before Taxes	110.7	114.0	265.4	151.4
Indirect tax	6.0	7.7	13.6	(5.9)
NET INCOME	\$ 104.7	\$ 106.3	\$ 251.8	\$ 145.5

¹ Favourable (unfavourable)

Appendix A: Additional Information

Organizational Overview

For an organizational overview of BCLC, please visit <https://corporate.bclc.com/>

Corporate Governance

[Governance and Oversight](#)

[BCLC Senior Executive](#)

Contact Information

T: 250-828-5500

E: consumerservices@bclc.com

Appendix B: Subsidiaries and Operating Segments

Active Subsidiaries

BC Lottotech International, Inc.

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

Financial Summary

\$ millions	2019/20 Actual	2020/21 Budget	2020/21 Actual
Total Revenue	\$ 64.0	\$ 79.2	\$ 65.4
Total Expenses	68.1	80.0	66.2
Net Loss	\$ 4.1	\$ 0.8	\$ 0.8

Capital expenditures for Lottotech International Inc. are included in the Financial Report section on BCLC's consolidated results.

Appendix C: BCLC Mandate and Actions Summary

In the 2020/21 Mandate Letter, BCLC received direction on strategic priorities for the 2020/21 fiscal year. These priorities and BCLC’s resulting actions are summarized below:

Mandate Letter Direction	BCLC’s Action
<p>1. BCLC will continue to make anti-money laundering (AML) a priority and take action to eradicate illicit behaviour in casinos.</p> <p>a) Continue to implement and support government’s response to recommendations arising from Dr. Peter German’s 2018 “Dirty Money” report and the “Dirty Money – Part 2” follow up report.</p> <p>b) Provide information to the Deputy, ADM’s Office, and the Gaming Policy Enforcement Branch (GPEB) and when necessary to help support the review of the ‘conduct and manage’ AML responsibility and associated gambling reporting for BC casinos.</p> <p>c) Work with industry partners and provide support to GPEB in the development of new regulatory gambling standards and the transition to a standards-based model.</p> <p>d) Support the Cullen Commission of Inquiry into Money Laundering in BC as appropriate and requested and where required under legal obligations.</p>	<p>As of March 31, 2021, BCLC has addressed all of the recommendations for which we were responsible and the Anti-Money Laundering Deputy Minister Committee (AML DMC) has signed off on all final completion reports.</p> <p>BCLC provided information to Government through both formal and informal channels. BCLC, in collaboration with GPEB, provided material for the AML DMC while also contributing to the ongoing AML thematic work through the BCLC/GPEB AML Risk Management Committee. Informally, BCLC met regularly with GPEB Executive Directors for Audit and Investigations and at an operational/tactical level, participated in the weekly Gaming Integrity Group meetings with GPEB and JIGIT.</p> <p>BCLC consulted with GPEB on a new <i>Gaming Control Act</i> and implementation of a standards-based model. The consultations are ongoing.</p> <p>BCLC applied for participant status in the Cullen Commission of Inquiry into Money Laundering in British Columbia and was granted standing with respect to the gaming and horse racing sectors in September 2019. BCLC participated and numerous BCLC witnesses contributed evidence in the proceedings.</p>

<p>2. Continue to seek opportunities to improve the efficacy of Game Sense Advisor (GSA) activities in BC casinos to mitigate the impacts of gambling products and behaviours.</p>	<p>During the COVID-19 pandemic, BCLC made it easier for players to access GSAs by expanding their supports to telephone and online chat on PlayNow.com. All GSAs were provided training to receive customer calls or respond via live chat. GSAs were available seven days per week from 8:00 AM to midnight to provide information and support appropriate to each player’s situation. Efforts to increase awareness of GSA availability included a paid media campaign promoting the benefits of connecting to GSA gambling specialists. Additional training was provided to customer service agents in order to increase their understanding of when customers should be connect with support from GSAs.</p>
<p>3. Proactively and responsively share information with the Deputy Minister, ADM’s Office and GPEB that assists the ministry and branch in meeting its responsibilities for the overall integrity of gambling and horse racing and providing advice on broad policy, standards and regulatory issues.</p>	<p>As noted above, BCLC provided information to Government through both formal and informal channels. BCLC provided material to the AML DMC as needed and worked with GPEB through a joint AML Risk Management Committee. Informally, BCLC met regularly with GPEB Executive Directors for Audit and Investigations and at an operational/tactical level, participated in the weekly Gaming Integrity Group meetings with GPEB and JIGIT.</p>
<p>4. Develop a plan to ensure continuing operations of BCLC’s headquarters in Kamloops, including the ongoing commitment for senior executive positions at the location. In addition, continue to seek out opportunities in engaging the community and local government in this matter, including use of adjacent properties.</p>	<p>Four of six company Vice Presidents are permanently based in Kamloops and the CEO continues to have an office and presence in the community. During the past fiscal year, the Interim CEO and the VP Corporate Services & Chief Financial Officer met with the Mayor of Kamloops semi-annually and addressed matters of mutual interest. BCLC’s VP Corporate Services & Chief Financial Officer and the Director of Corporate Services met on a quarterly basis with the City’s Chief Administrative Officer, Director Community and Protective Services and Director Development, Engineering and Sustainability on a quarterly basis to discuss BCLC’s impact and contribution to the community and local government including plans for the use of the adjacent property. As outlined in the Company’s Service Plan, BCLC is developing a multi-year program for the revitalization of the Company’s headquarters in Kamloops with a stated vision to develop a workplace that reflects the new,</p>

	<p>flexible needs of employees to support our workforce and enhances the company’s presence in downtown Kamloops.</p>
<p>5. Optimize BCLC’s financial performance in accordance with government policy and directives under the Gaming Control Act and Treasury Board direction to achieve a net income in line with service plan projections.</p>	<p>Starting early March 2020, measures taken to reduce the spread of the COVID-19 pandemic directly and significantly impacted BCLC’s ability to generate revenue. On March 16th, 2020, the Attorney General and then-minister responsible for BCLC ordered the temporary closure of all gambling facilities across B.C. As this order remained in effect for the whole of fiscal year 2020/21, it resulted in the elimination of all revenue generated from brick-and-mortar gaming facilities which historically generated over 70 per cent of BCLC’s revenue.</p> <p>In response to the temporary closure of gaming facilities, BCLC embarked on a cost rationalization program. The goal of the program was to constrain spending through the cancelation or deferral of planned spending while continuing to invest in core business operational programs. This program maintained the continuity or enhancement of revenue from Lottery and eGaming product lines while making appropriate investments to support the safe and healthy reopening of gambling facilities on July 1, 2021.</p> <p>Throughout the 2020/21 fiscal year, BCLC submitted revised net income projections to the Treasury Board signaling lower net income versus service plan projections and reallocated resources into the Lottery and eGaming channels to optimize the revenue from the lines of business still operating. Lottery rebounded back to pre-pandemic levels and eGaming revenue more than doubled prior year results. BCLC worked closely with the Crown Agencies Secretariat to evaluate options to support the gambling facility service providers during this closure period and to ensure service providers were financially viable to continue to operate BCLC’s gambling facilities when deemed safe to reopen.</p>

Appendix D: Auditor's Report and Audited Financial Statements

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, 2021, and the results of its consolidated financial performance and cash flows for the year then ended.

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

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



Alan Kerr
CFO & Vice-President
Finance and Corporate Services



Lynda Cavanaugh
Interim President & CEO

British Columbia Lottery Corporation
Consolidated Financial Statements
Year ended March 31, 2021



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

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

- the consolidated statement of financial position as at March 31, 2021
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in deficit for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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



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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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



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

KPMG LLP

Chartered Professional Accountants

Kamloops, Canada
May 13, 2021

British Columbia Lottery Corporation

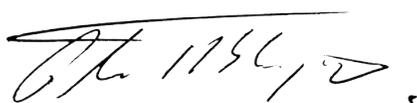
Consolidated Statement of Financial Position

March 31, 2021, with comparative information for 2020
(in thousands of Canadian dollars)

	2021	2020
ASSETS		
Cash and cash equivalents (note 5)	\$ 45,155	\$ 42,294
Accounts receivable (note 6)	47,002	37,707
Prepaid and deferred expenses	16,831	24,521
Inventories (note 7)	9,753	10,852
Current assets	118,741	115,374
Prepaid and deferred expenses	4,440	5,780
Right-of-use assets (note 8)	45,301	50,355
Property and equipment (note 9)	268,564	265,782
Intangible assets (note 10)	44,853	46,594
Employee benefits (note 11)	-	10,091
Non-current assets	363,158	378,602
Total assets	\$ 481,899	\$ 493,976
LIABILITIES		
Prizes payable (note 12)	\$ 35,488	\$ 33,409
Accounts payable, accrued and other liabilities (note 13)	112,163	105,419
Short-term financing (note 14)	179,896	179,996
Deferred revenue (note 15)	27,254	23,045
Unsettled wagers (note 16)	8,452	4,940
Lease liabilities (note 8)	6,362	5,988
Due to the Government of British Columbia (note 17)	48,050	68,523
Current liabilities	417,665	421,320
Lease liabilities (note 8)	41,877	46,519
Employee benefits (note 11)	71,350	58,325
Non-current liabilities	113,227	104,844
Total liabilities	530,892	526,164
DEFICIT		
Accumulated deficit (note 18)	(25,463)	(25,463)
Accumulated other comprehensive loss	(23,530)	(6,725)
Total deficit	(48,993)	(32,188)
Total liabilities and deficit	\$ 481,899	\$ 493,976

Commitments and contingencies (notes 8, 9 and 21)
Temporary closure of land-based gaming facilities and subsequent events (note 2(A))
See the accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors:



Peter Kappel
Chair, Board of Directors



Joan Axford
Chair, Audit Committee

British Columbia Lottery Corporation

Consolidated Statement of Comprehensive Income

Year ended March 31, 2021, with comparative information for 2020
(in thousands of Canadian dollars)

	2021	2020
Revenue (note 19)	\$ 965,593	\$ 2,530,882
Expenses		
Employee costs	126,830	126,341
Commissions and fees	93,070	729,550
Amortization and depreciation (notes 8, 9, and 10)	76,606	74,718
Gaming equipment leases and licenses	70,886	58,686
Systems, maintenance, and ticket distribution	59,594	53,711
Advertising, marketing, and promotions	26,761	26,506
Professional fees and services	15,567	12,778
Ticket printing	13,515	13,450
Cost of premises	6,056	6,223
Loss on disposal of property and equipment and intangible assets	791	5,810
Other	4,289	15,342
	493,965	1,123,115
Income from operations before the undernoted	471,628	1,407,767
Indirect tax expense (note 23)	41,689	60,879
Net income	429,939	1,346,888
Other comprehensive income		
<i>Item that will never be reclassified to net income</i>		
Net defined benefit plan actuarial gain (loss) (note 11)	(16,805)	32,512
Total comprehensive income	\$ 413,134	\$ 1,379,400

See the accompanying notes to the consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Changes in Deficit

Year ended March 31, 2021, with comparative information for 2020
(in thousands of Canadian dollars)

	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Deficit
Balance, April 1, 2019	\$ (25,463)	\$ (39,237)	\$ (64,700)
Net income	1,346,888	–	1,346,888
Net defined benefit plan actuarial gain (note 11)	–	32,512	32,512
Total comprehensive income	1,346,888	32,512	1,379,400
Distributions to the Government of British Columbia (note 17)	(1,336,364)	–	(1,336,364)
Distributions to the Government of Canada (note 20)	(10,524)	–	(10,524)
Balance, March 31, 2020	\$ (25,463)	\$ (6,725)	\$ (32,188)
Net income	429,939	–	429,939
Net defined benefit plan actuarial loss (note 11)	–	(16,805)	(16,805)
Total comprehensive income	429,939	(16,805)	413,134
Distributions to the Government of British Columbia (note 17)	(419,335)	–	(419,335)
Distributions to the Government of Canada (note 20)	(10,604)	–	(10,604)
Balance, March 31, 2021	\$ (25,463)	\$ (23,530)	\$ (48,993)

See the accompanying notes to the consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Cash Flows

Year ended March 31, 2021, with comparative information for 2020
(in thousands of Canadian dollars)

	2021	2020
Cash flows from operating activities:		
Net income	\$ 429,939	\$ 1,346,888
Items not involving cash:		
Depreciation (notes 8 and 9)	64,772	62,496
Amortization (note 10)	11,834	12,222
Loss on disposal of property and equipment	790	5,205
Loss on disposal of intangible assets	1	605
Interest expense (notes 8 and 14)	892	2,079
Net benefit plan expense (note 11)	18,426	21,430
	526,654	1,450,925
Changes in:		
Accounts receivable	(9,295)	4,382
Prepaid and deferred expenses	9,030	(14,984)
Inventories	1,099	(1,583)
Employee benefits	(12,115)	(15,571)
Prizes payable	2,079	8,368
Accounts payable, accrued and other liabilities	12,472	13,201
Deferred revenue	4,209	(818)
Unsettled wagers	3,512	(722)
Net cash from operating activities	537,645	1,443,198
Cash flows from financing activities:		
Short-term financing (note 14)	28	79,937
Interest paid (notes 8 and 14)	(1,043)	(2,399)
Payments on lease liabilities (note 8)	(5,506)	(5,479)
Distributions to the Government of British Columbia (note 17)	(439,808)	(1,389,872)
Distributions to the Government of Canada (note 20)	(10,604)	(10,524)
Net cash used in financing activities	(456,933)	(1,328,337)
Cash flows from investing activities:		
Additions to property and equipment	(69,052)	(86,131)
Additions to intangible assets	(9,615)	(11,603)
Net proceeds on disposal of property and equipment	816	1,269
Net cash used in investing activities	(77,851)	(96,465)
Net increase in cash and cash equivalents	2,861	18,396
Cash and cash equivalents, beginning of year	42,294	23,898
Cash and cash equivalents, end of year (note 5)	\$ 45,155	\$ 42,294

See the accompanying notes to the consolidated financial statements.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements

Year ended March 31, 2021

(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.) incorporated under the *Company Act* (B.C.) on October 25, 1984 and continued under the *Gaming Control Act* (B.C.). The Government of British Columbia has designated BCLC the authority to conduct, manage, and operate lottery schemes, including lottery, casino, bingo, and internet gaming (eGaming) activities. These consolidated financial statements (hereinafter referred to as the ‘financial statements’) include B.C. Lottotech International Inc., a wholly-owned Canadian subsidiary of BCLC.

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).

The address of BCLC’s registered office is 74 West Seymour Street, Kamloops, B.C., Canada.

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

2. Basis of preparation

A. TEMPORARY CLOSURE OF LAND-BASED GAMING FACILITIES

On March 11, 2020, the World Health Organization declared the Coronavirus 2019 (COVID-19) outbreak a pandemic. This has resulted in governments worldwide, including the Canadian and B.C. governments, enacting public health directives to combat the spread of the virus. These measures, which include the implementation of travel restrictions, quarantine periods, closure and/or restrictions of non-essential business activities, and physical distancing, have caused material disruption to businesses in B.C. and globally, resulting in an economic slowdown.

Impacts to BCLC operations

On March 16, 2020, in line with a directive issued by B.C.’s Attorney General, all gaming facilities (casino and bingo) were temporarily closed and, as of March 31, 2021, remain temporarily closed based on the orders of the Provincial Health Officer. The financial effect of gaming facility closures on the Corporation’s revenues, operating results and overall financial performance has been significant with a decline in revenue and operating cash flow of 62% and 63%, respectively, from the prior year. The Corporation continues to monitor the impact of the gaming facility closures on its financial results.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

2. Basis of preparation (continued)

A. TEMPORARY CLOSURE OF LAND-BASED GAMING FACILITIES (CONTINUED)

Impacts to BCLC operations (continued)

The Corporation, in collaboration with gaming facility service providers, is prepared for a safe re-opening of gaming facilities through implementation of physical distancing measures and other protocols to protect the health and safety of players, employees and the public. Despite these preparations, there remains significant uncertainty regarding the timing of the re-opening of gaming facilities across B.C. Upon re-opening, there will be additional uncertainty with respect to customer demand for land-based casino and bingo gaming, capacity restrictions and physical distancing requirements, internal systems readiness and trained labour supply, all of which may impact the Corporation's financial performance.

The Corporation's other operations continued to generate positive operating cash flows and net income.

Impacts to financial risk management

Despite the impacts of COVID-19, the Corporation's exposure to credit risk remains largely unchanged as the amounts receivable are primarily due from lottery retailers with continuing operations (note 4). The Corporation monitors the credit risk associated with key counterparties in order to manage credit risk exposure.

The Corporation continues to monitor liquidity risk by forecasting and assessing cash flow requirements on an ongoing basis. As at March 31, 2021, the Corporation continues to meet its contractual obligations within normal payment terms.

Other impacts

As at March 31, 2021, the Corporation performed impairment testing of its property and equipment and intangible assets that had become idle due to gaming facility closures. The estimated recoverable amounts were compared to the carrying amounts of the idle assets as outlined in note 3(I)(ii). In estimating the recoverable amount, consideration was given to potential re-opening timelines and the estimated future cash flows used in the calculation were based on the current status of B.C.'s vaccination program and ongoing discussions with the Provincial Health Officer. The assessment did not result in the recognition of an impairment loss.

At the reporting date, the Corporation determined that COVID-19 had no significant impact on its accounting policies, contracts or lease agreements, the assessment of provisions and contingent liabilities, or the timing of revenue recognition.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

2. Basis of preparation (continued)

A. TEMPORARY CLOSURE OF LAND-BASED GAMING FACILITIES (CONTINUED)

Other impacts (continued)

The Corporation obtained an increase in its Fiscal Agency Loan borrowing limit (note 4(D)) which was not utilized during the year ended March 31, 2021 or up to the reporting date of May 13, 2021. The additional borrowing capacity anticipated cash flow uncertainty around effects of the closures, as well as potential support measures regarding the re-opening of gaming facilities. The Corporation is working with gaming facility service providers and the B.C. Gaming Industry Association regarding these support measures. Subsequent to March 31, 2021, the Corporation communicated the opportunity for gaming facility service providers to request a repayable advance against future not-yet-earned commissions. The Corporation also approved a temporary provision of gaming cash floats on behalf of the gaming facility service providers once the re-opening of gaming facilities has been confirmed. The Corporation anticipates that amounts provided under these measures will not exceed \$39 million and \$50 million, respectively. No amounts have been advanced as at May 13, 2021.

B. BASIS OF ACCOUNTING

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

These financial statements were authorized for issue by BCLC's Board of Directors (the Board) on May 13, 2021.

C. BASIS OF MEASUREMENT

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

D. FUNCTIONAL AND PRESENTATION CURRENCY

These 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, 2021

(in thousands of Canadian dollars)

2. Basis of preparation (continued)

E. USE OF ESTIMATES AND JUDGMENTS

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

Information about judgments made that have the most significant effects on the amounts recognized in the financial statements include:

- the determination of the ability to exercise control over gaming facility service providers and lottery retailers (note 3(A));
- whether the Corporation is reasonably certain to exercise extension options under lease agreements (note 3(F)).

Areas of significant estimation uncertainty that may have a significant effect on the amounts recognized in the financial statements, and could result in a material adjustment within the next fiscal year, include key actuarial assumptions used in the measurement of defined benefit obligations (note 11(D)(i)).

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

3. Significant accounting policies

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

A. BASIS OF CONSOLIDATION

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation is exposed to, or has rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Intercompany transactions and balances are eliminated on consolidation.

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(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 their carrying amount approximates their fair value.

C. FINANCIAL INSTRUMENTS

i. Financial assets

The Corporation initially recognizes financial assets on the trade dates, which is when the Corporation becomes a party to the contractual provisions of the instruments.

Financial assets are classified as subsequently measured at amortized cost, fair value through profit or loss or fair value through other comprehensive income. Financial assets subsequently measured at amortized cost are comprised of cash and cash equivalents and accounts receivable. The Corporation does not have financial assets subsequently measured at fair value through profit or loss or fair value through other comprehensive income.

Financial assets subsequently measured at amortized cost are those held in order to collect contractual cash flows. The contractual cash flows related to these financial instruments solely represent payments of principal and interest. Such assets are measured initially at fair value plus any directly attributable transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price. Subsequent to initial recognition, such assets are measured at amortized cost using the effective interest method, less any allowance for expected losses (see note 3(I)(i)). Interest income, foreign exchange gains and losses, and impairment are recognized in profit or loss.

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.

Gains or losses on derecognition are recognized in profit or loss.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

C. FINANCIAL INSTRUMENTS (CONTINUED)

ii. Financial liabilities

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.

Financial liabilities are classified as subsequently measured at amortized cost or at fair value through profit or loss. The Corporation's financial liabilities measured at amortized cost are comprised of prizes payable, accounts payable, accrued and other liabilities, short-term financing, lease liabilities, and amounts due to the Government of British Columbia. The Corporation's financial liabilities measured at fair value through profit or loss are comprised of unsettled wagers, which are derivative liabilities.

Financial liabilities at amortized cost are measured initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss.

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

The Corporation derecognizes a financial liability when its contractual obligations expire, are discharged, or are cancelled. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid is recognized in profit or loss.

iii. Offsetting

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

D. INVENTORIES

Inventories include slot machine spare parts and lottery instant tickets. Inventories are measured at the lower of cost, determined on a weighted average 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 necessary to make the sale.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

E. EMPLOYEE BENEFITS

i. Short-term employee benefits

Short-term employee benefits are employee benefits, other than termination benefits, that are expected to be settled wholly within 12 months after the end of the reporting period in which the benefit is earned. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided.

ii. Termination benefits

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

iii. Defined benefit plans

The Corporation's obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of the benefit, payable in the future, that employees have earned in return for their service in the current and prior periods. That benefit is then discounted to determine its present value. The calculation of the defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method.

The fair value of any plan assets is deducted from the obligation to determine the net defined benefit liability (asset). When the calculation results in a potential asset for the Corporation, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of future economic benefits, consideration is given to any applicable minimum funding requirements.

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

E. EMPLOYEE BENEFITS (CONTINUED)

iii. Defined benefit plans (continued)

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

F. LEASES

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

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

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

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

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

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

F. LEASES (CONTINUED)

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

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

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

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

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

G. PROPERTY AND EQUIPMENT

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

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

G. PROPERTY AND EQUIPMENT (CONTINUED)

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

Asset	Rate
Corporate facilities, systems, and equipment	3 to 25 years
Lottery gaming systems and equipment	5 to 10 years
eGaming systems and equipment	3 to 5 years
Casino and community gaming systems and equipment	3 to 10 years

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

H. INTANGIBLE ASSETS

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

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

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 wages 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. When intangible assets are available for use they are amortized using the straight-line method over their estimated useful lives (three to ten years). Amortization 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, 2021

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

I. IMPAIRMENT

i. Financial assets

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

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

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

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

I. IMPAIRMENT (CONTINUED)

ii. Non-financial assets

The carrying amounts of non-financial assets, other than inventories and employee benefit plan assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. 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.

J. PROVISIONS

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

K. REVENUE

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

In transactions in which the Corporation administers a game amongst players ("Administered Games"), the Corporation recognizes the portion of the wagers retained, and not distributed as prizes, as revenue from operating the game. Administered Games include lottery instant tickets, bingo, certain lottery draw-based games and certain sports betting games.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

K. REVENUE (CONTINUED)

In transactions in which the Corporation and players are wagering against a specific outcome of an event (“Wagered Games”), the Corporation is exposed to gains or losses, which are recognized in revenue. Wagered Games include slot and table games, certain lottery draw-based games and certain sports betting games.

In Administered Games where the Corporation earns a variable commission, the variable commission exposes the Corporation to a gain or loss depending on the actual amount of the payout versus the expected prize percentage, which is initially accounted for as a financial liability.

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

Revenue from lottery draw-based games, which are sold through contracted lottery retailers and online at PlayNow.com, is recognized at the date of the draw. Receipts for lottery tickets sold before March 31 for draws held subsequent to that date are recorded as deferred revenue with a corresponding financial liability for the portion to be paid as prizes for Administered Games, or as unsettled wagers for Wagered Games.

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

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

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

Gains on unclaimed prizes arising from regional lottery games are recognized as revenue when they expire. Unclaimed prizes arising from national lottery games are administered by the Interprovincial Lottery Corporation and, accordingly, are not recognized by the Corporation.

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

L. COMMISSIONS

Commissions paid to lottery retailers are based on revenue generated and prize payments to players, in accordance with underlying lottery retailer agreements. BCLC recognizes commission expenses at the point of sale to a player for revenue-based commissions and at the point of ticket validation for prize payment-based commissions.

Commissions paid to gaming facility service providers, including commissions for facility investment, are based on revenue generated in accordance with underlying operational services agreements. BCLC recognizes commission expenses in the same period in which the revenues are generated.

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 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 to support the enterprise risk management program in the identification, assessment, and management of strategic and operational risks. The risk advisory services department reports quarterly on its activities and on the Corporation's risk profile for review by the Executive Committee, the Risk Committee, and the Board as a whole.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

4. Financial risk management (continued)

B. CREDIT RISK

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its contractual obligations to the Corporation. Credit risk arises principally from the Corporation's trade receivables and cash and cash equivalents.

Trade receivables

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

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

	2021	2020
Maximum exposure	\$ 47,002	\$ 37,707
Collateral	(4,626)	(5,742)
Net exposure	\$ 42,376	\$ 31,965

Normal credit terms for trade receivables are payment within 30 days or less. As at March 31, 2021 and 2020, there were no significant invoiced trade receivables outstanding for more than 30 days.

Accounts receivable are net of expected credit losses, which consist of a specific allowance estimated based on assessment of the current economic environment and past experience. Historically the Corporation has not experienced any significant losses on trade receivables which are primarily comprised of amounts owing from lottery retailers and gaming facility service providers. The Corporation has assessed the expected credit loss and no material expected credit losses resulted for lottery retailers as this year these amounts have continued to be short-term in nature and collected through bank sweeps without any significant losses. However, the financial impact of the closure of gaming facilities on gaming facility service providers has been factored into the estimate of the impairment loss.

At March 31, 2021, an allowance for expected credit losses of \$1,000 (2020: \$nil) has been recognized (note 6). The estimated allowance for impairment loss is reflective of the related credit risk.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

4. Financial risk management (continued)

B. CREDIT RISK (CONTINUED)

Trade receivables (continued)

Lottery retailers

The Corporation has arrangements with approximately 3,500 lottery retailers, but is not materially exposed to any individual lottery retailer. The objectives of the Corporation's lottery retailer credit policies are to provide retailers with adequate time to sell lottery products before payment is requested, while not exposing the Corporation to unacceptable risks. Credit assessments are completed for new retailers and may also be completed for retailers who have experienced insufficient fund occurrences on bank sweeps, or in cases where there are concerns that retailers might be experiencing financial difficulties. Security is obtained from lottery retailers who are considered to be high financial risks or from lottery retailers where minimal credit information is available. Security may include irrevocable standby letters of credit, security deposits, or personal guarantees.

Gaming facility service providers

The Corporation has arrangements with 14 gaming facility service providers. The Corporation has a concentrated credit risk exposure primarily in relation to significant gaming facility service providers. As at March 31, 2021, the amount owed to the Corporation by the two largest gaming facility service providers accounts for \$9,324 (2020: \$9,362) of the accounts receivable carrying amount.

As at March 31, 2021, the amounts receivable from gaming facility service providers are largely related to player funds held for outstanding chips. These balances, which represent the Corporation's liability to players, are held in trust and are not invoiced because they will be relieved through the normal course of operations once gaming facilities reopen.

Cash and cash equivalents

Cash and cash equivalents are held with banks and counterparties that have high credit ratings and minimal market risk. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

4. Financial risk management (continued)

C. 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 subject to interest rate risk when it renews its short-term financing at rates determined by current market conditions.

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

D. LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions.

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 (note 14). Under this agreement, the Corporation may, until January 1, 2022, borrow up to an aggregate amount of \$400 million, thereafter \$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 (2020: prime rate).

As described in note 2(A), gaming facilities are temporarily closed which has had a negative impact on the Corporation's revenues and associated cash inflows. The Corporation manages liquidity risk by forecasting and assessing cash flow requirements on an ongoing basis to ensure that sufficient funds are available to meet the Corporation's financial obligations.

The contractual maturities of all financial liabilities except lease liabilities as at March 31, 2021 and 2020 are 90 days or less. The contractual maturities of the Corporation's lease liabilities are included in note 8.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

4. Financial risk management (continued)

E. FAIR VALUES

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

F. OFFSETTING

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

As at March 31, 2021	Gross amounts	Amounts set off in the statement of financial position	Net amounts presented in the statement of financial position
Financial Assets			
Accounts receivable			
Lottery retailers	\$ 40,326	\$ (10,437)	\$ 29,889
Gaming facility service providers	10,689	-	10,689
Other	10,515	(4,091)	6,424
	<u>\$ 61,530</u>	<u>\$ (14,528)</u>	<u>\$ 47,002</u>
Financial Liabilities			
Accounts payable, accrued and other liabilities	\$ 126,691	\$ (14,528)	\$ 112,163
As at March 31, 2020			
Financial Assets			
Accounts receivable			
Lottery retailers	\$ 25,585	\$ (5,057)	\$ 20,528
Gaming facility service providers	11,858	-	11,858
Other	6,514	(1,193)	5,321
	<u>\$ 43,957</u>	<u>\$ (6,250)</u>	<u>\$ 37,707</u>
Financial Liabilities			
Accounts payable, accrued and other liabilities	\$ 111,669	\$ (6,250)	\$ 105,419

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

5. Cash and cash equivalents

	2021	2020
Cash	\$ 24,746	\$ 28,284
Funds held for player accounts	16,743	10,361
Funds held for security deposits	3,666	3,649
	\$ 45,155	\$ 42,294

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 \$16,743 (2020: \$10,361) is included in accounts payable, accrued and other liabilities.

Funds held for security deposits include security deposit amounts provided by lottery retailers and gaming facility service providers to the Corporation. These funds are deposited into a separate bank account. All security deposit amounts are internally restricted by the Corporation exclusively for funding the security deposit liability. A corresponding security deposit liability in the amount of \$3,666 (2020: \$3,649) 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 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, 2021

(in thousands of Canadian dollars)

6. Accounts receivable

	2021	2020
Lottery retailers	\$ 29,889	\$ 20,528
Gaming facility service providers, net of allowance for impairment loss of \$1,000 (2020 - \$nil)	10,689	11,858
Interprovincial Lottery Corporation	3,035	1,357
Other	3,389	3,964
	\$ 47,002	\$ 37,707

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

The Corporation's exposure to credit risk and impairment losses related to accounts receivable is disclosed in note 4(B).

7. Inventories

The major components of inventories are as follows:

	2021	2020
Lottery instant tickets	\$ 4,644	\$ 4,913
Slot machine spare parts	2,824	4,451
Other	2,285	1,488
	\$ 9,753	\$ 10,852

For the year ended March 31, 2021, inventories recognized as an expense amounted to \$25,717 (2020: \$24,331).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

8. Leases

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

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

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

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

i. Right-of-use assets

	Real estate	Lottery retail locations	Gaming equipment	Fleet vehicles and other	Total
Balance at April 1, 2019	\$ 41,468	\$ 9,944	\$ -	\$ 390	\$ 51,802
Additions	63	2,949	1,410	33	4,455
Depreciation	(2,778)	(2,862)	(16)	(141)	(5,797)
Derecognition	-	(105)	-	-	(105)
Balance at March 31, 2020	\$ 38,753	\$ 9,926	\$ 1,394	\$ 282	\$ 50,355
Additions	375	1,817	-	122	2,314
Depreciation	(2,791)	(2,864)	(498)	(139)	(6,292)
Derecognition	(340)	(28)	(708)	-	(1,076)
Balance at March 31, 2021	\$ 35,997	\$ 8,851	\$ 188	\$ 265	\$ 45,301

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

8. Leases (continued)

ii. Lease liabilities

	2021		2020
Balance at April 1	\$ 52,507	\$	53,636
Additions	2,314		4,455
Interest expense	756		752
Derecognized	(1,076)		(105)
Interest paid	(756)		(752)
Principal payments	(5,506)		(5,479)
	\$ 48,239	\$	52,507
Current	\$ 6,362	\$	5,988
Non-current	\$ 41,877	\$	46,519
Balance at March 31	\$ 48,239	\$	52,507

	2021		2020
Maturity analysis – undiscounted cash flows			
Less than one year	\$ 7,057	\$	6,763
One to five years	19,110		21,011
More than five years	27,265		30,282
Total undiscounted lease liabilities at March 31	\$ 53,432	\$	58,056

iii. Amounts recognized in profit or loss

	2021		2020
Expense relating to short-term leases ¹	\$ -	\$	18,808
Depreciation of right-of-use assets	6,292		5,797
Variable lease payments not included in the measurement of the lease liabilities ²	2,553		2,765
Interest on lease liabilities	756		752

¹ Due to the temporary closure of gaming facilities, payments relating to short-term leases of casino and community gaming equipment were not required in 2021.

² These amounts do not include variable lease payments for the use of the gaming floors as they are recorded as part of the total commissions paid to gaming facility service providers.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(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, 2019	\$ 4,732	\$ 108,780	\$ 124,822	\$ 7,652	\$ 482,792	\$ 30,331	\$ 759,109
Additions	517	3,885	8,295	57	46,261	31,127	90,142
Transferred to systems and equipment	–	3,605	2,898	–	17,551	(24,054)	–
Disposals and retirements	–	(3,336)	(9,551)	(136)	(30,103)	–	(43,126)
Balance at March 31, 2020	5,249	112,934	126,464	7,573	516,501	37,404	806,125
Additions (derecognition)	(222)	1,203	2,786	-	20,812	38,289	62,868
Transferred to systems and equipment	–	5,829	5,055	-	14,355	(25,239)	–
Disposals and retirements	–	(2,402)	(5,724)	-	(29,205)	–	(37,331)
Balance at March 31, 2021	\$ 5,027	\$ 117,564	\$ 128,581	\$ 7,573	\$ 522,463	\$ 50,454	\$ 831,662
Accumulated depreciation							
Balance at April 1, 2019	\$ –	\$ 87,347	\$ 106,964	\$ 7,617	\$ 318,369	\$ –	\$ 520,297
Depreciation for the year	–	7,414	5,930	56	43,299	–	56,699
Disposals and retirements	–	(3,303)	(7,458)	(136)	(25,756)	–	(36,653)
Balance at March 31, 2020	–	91,458	105,436	7,537	335,912	–	540,343
Depreciation for the year	–	7,293	6,372	23	44,792	–	58,480
Disposals and retirements	–	(2,374)	(5,667)	-	(27,684)	–	(35,725)
Balance at March 31, 2021	\$ –	\$ 96,377	\$ 106,141	\$ 7,560	\$ 353,020	\$ –	\$ 563,098
Carrying amounts							
At March 31, 2020	\$ 5,249	\$ 21,476	\$ 21,028	\$ 36	\$ 180,589	\$ 37,404	\$ 265,782
At March 31, 2021	\$ 5,027	\$ 21,187	\$ 22,440	\$ 13	\$ 169,443	\$ 50,454	\$ 268,564

As of March 31, 2021, the Corporation is committed to incur capital expenditures relating to property and equipment and intangible assets of \$11,982 (2020: \$28,448). These commitments are expected to be settled in the following year.

As of March 31, 2021, property and equipment and intangible assets (note 10) with a carrying value of \$182,781 (2020: \$197,959) are idle due to the temporary closure of gaming facilities.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

10. Intangible assets

	Software	Assets under development	Total
Cost			
Balance at April 1, 2019	\$ 178,258	\$ 12,747	\$ 191,005
Acquisitions - separately acquired	4,428	6,301	10,729
Acquisitions - internally generated	–	923	923
Transferred to software	8,776	(8,776)	–
Disposals and retirements	(3,819)	–	(3,819)
Balance at March 31, 2020	187,643	11,195	198,838
Acquisitions – separately acquired	1,376	6,786	8,162
Acquisitions – internally generated	–	1,932	1,932
Transferred to software	553	(553)	–
Disposals and retirements	(130)	–	(130)
Balance at March 31, 2021	\$ 189,442	\$ 19,360	\$ 208,802
Accumulated amortization			
Balance at April 1, 2019	\$ 143,236	\$ –	\$ 143,236
Amortization for the year	12,222	–	12,222
Disposals and retirements	(3,214)	–	(3,214)
Balance at March 31, 2020	152,244	–	152,244
Amortization for the year	11,834	–	11,834
Disposals and retirements	(129)	–	(129)
Balance at March 31, 2021	\$ 163,949	\$ –	\$ 163,949
Carrying amounts			
At March 31, 2020	\$ 35,399	\$ 11,195	\$ 46,594
At March 31, 2021	\$ 25,493	\$ 19,360	\$ 44,853

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, 2021

(in thousands of Canadian dollars)

11. Employee benefits

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

Registered Pension Plan (Plan A)

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

Supplementary Pension Plan (Plan B)

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

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

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

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

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

A. FUNDING

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

11. Employee benefits (continued)

A. FUNDING (CONTINUED)

The Corporation expects to contribute \$11,357 to Plan A in the year ending March 31, 2022.

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

B. MOVEMENT IN NET DEFINED BENEFIT LIABILITY (ASSET)

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

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	2021	2020	2021	2020	2021	2020
Balance at April 1	\$ 361,672	\$ 387,432	\$ (313,438)	\$ (312,545)	\$ 48,234	\$ 74,887
Included in income						
Current service cost	15,897	17,920	–	–	15,897	17,920
Interest cost (income)	14,576	13,667	(12,322)	(10,727)	2,254	2,940
Administration cost	–	–	275	570	275	570
	30,473	31,587	(12,047)	(10,157)	18,426	21,430
Included in other comprehensive income						
Re-measurements loss (gain):						
Actuarial loss (gain) arising from:						
Financial assumptions	45,087	(46,589)	–	–	45,087	(46,589)
Experience adjustments	9,287	(278)	–	–	9,287	(278)
Return on plan assets excluding interest income	–	–	(37,569)	14,355	(37,569)	14,355
	54,374	(46,867)	(37,569)	14,355	16,805	(32,512)
Other						
Contributions paid by the employer	–	–	(12,115)	(15,571)	(12,115)	(15,571)
Contributions paid by the employee	2,985	3,026	(2,985)	(3,026)	–	–
Benefits paid	(15,284)	(13,506)	15,284	13,506	–	–
	(12,299)	(10,480)	184	(5,091)	(12,115)	(15,571)
Balance at March 31	\$ 434,220	\$ 361,672	\$ (362,870)	\$ (313,438)	\$ 71,350	\$ 48,234
Represented by:					2021	2020
Net defined benefit liability (asset) (Plan A)					\$ 4,223	\$ (10,091)
Net defined benefit liability (Plans B and C)					67,127	58,325
					\$ 71,350	\$ 48,234

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

11. Employee benefits (continued)

C. PLAN ASSETS

Plan assets are comprised of:

2021	Level 1 ¹	Level 2 ²	Total	Asset Mix
Pooled funds				
Global equity funds	\$ 227,220	\$ –	\$ 227,220	63%
Debt securities				
Long term bonds	–	74,155	74,155	20%
Real return bonds	–	61,495	61,495	17%
	\$ 227,220	\$ 135,650	\$ 362,870	100%
<hr/>				
2020	Level 1 ¹	Level 2 ²	Total	Asset Mix
Pooled funds				
Global equity funds	\$ 180,945	\$ –	\$ 180,945	58%
Debt securities				
Long term bonds	–	75,787	75,787	24%
Real return bonds	–	56,706	56,706	18%
	\$ 180,945	\$ 132,493	\$ 313,438	100%

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

² The fair values of long term bonds and real return bonds are determined based on price quotations; however, since the underlying market in which these instruments are traded is not considered active, the bonds are classified as Level 2 in the fair value hierarchy.

Plan contributions are invested in equities and bonds. With consideration of the long-term nature of the plan liabilities, and the shorter-term liquidity needs for payments to retirees, the Corporation has a general target allocation of 60% return seeking assets and 40% liability hedging assets. As a general policy, and in accordance with the relevant regulations, the Corporation has adopted the investment guidelines of the PBSA for defining permissible investment activities for money held in trust. Overall, the portfolio of Plan A's assets are managed within the parameters of the strategic asset mix comprising 40% to 70% return seeking assets, 30% to 50% liability hedging assets, and up to 5% cash and cash equivalents.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

11. Employee benefits (continued)

D. DEFINED BENEFIT OBLIGATION

i. Actuarial valuation and assumptions

An actuarial valuation for funding purposes is required, at a minimum, every three years to assess the financial position of Plan A. An actuarial valuation of Plan A for funding purposes was performed as at December 31, 2019, by Morneau Shepell Ltd. (Morneau), an independent firm of consulting actuaries. The defined benefit obligation for Plan A has been based on this valuation, with adjustments made for cash flows and material events since that date. In addition, certain assumptions have been updated to reflect market conditions as at March 31, 2021. The next required actuarial valuation is as of December 31, 2022 with a determination of the funded status of the pension plan available in mid-2023.

There is no statutory actuarial valuation requirement for Plan B. The defined benefit obligation for Plan B is based on data collected for those members as at March 31, 2021.

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

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

	Plans A and B		Plan C	
	2021	2020	2021	2020
Discount rate:				
Defined benefit obligation	3.40%	3.90%	3.40%	3.90%
Benefit cost	3.90%	3.40%	3.90%	3.40%
Rate of compensation increase for the fiscal year	2.50%	2.00%	-	-
Future compensation increases	2.50%	2.00%	-	-
Inflation	2.10%	1.45%	-	-
Initial weighted-average health care trend rate	-	-	4.27%	4.27%
Ultimate weighted-average health care trend rate	-	-	3.47%	3.47%
Year ultimate weighted-average health care trend rate reached	-	-	2040	2040
Assumed life expectations on retirement at age 65				
Current pensioners				
Male	23.4	23.4	23.4	23.4
Female	25.3	25.2	25.3	25.2
Retiring in 20 years				
Male	24.4	24.3	24.4	24.3
Female	26.2	26.1	26.2	26.1

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

11. Employee benefits (continued)

D. DEFINED BENEFIT OBLIGATION (CONTINUED)

ii. Sensitivity analysis

Changes at March 31, 2021 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			
	2021		2020	
	Increase in rate	Decrease in rate	Increase in rate	Decrease in rate
Discount rate (1% movement)	\$ (64,831)	\$ 84,051	\$ (49,618)	\$ 63,570
Future compensation increase (1% movement)	16,864	(14,500)	15,170	(12,606)
Inflation (1% movement)	25,858	(23,503)	17,956	(16,391)
Health care cost trend rate (1% movement)	6,094	(5,758)	5,037	(4,822)
Future mortality (10% movement)	(7,736)	8,485	(5,766)	6,283

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, 2021 (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	
	2021	2020
Active members	55%	50%
Deferred vested members	5%	5%
Retirees	40%	45%
Total	100%	100%

At March 31, 2021, the weighted-average duration of the defined benefit obligation was 16.5 years (2020: 15.6 years).

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

12. Prizes payable

	2021		2020
Lottery games	\$ 26,686	\$	23,826
Progressive jackpots	8,760		9,541
Other	42		42
	\$ 35,488	\$	33,409

13. Accounts payable, accrued and other liabilities

	2021		2020
Accrued expenses	\$ 46,999	\$	44,509
Trade payables	22,660		25,055
Player accounts liability	16,743		10,361
Indirect tax payable	3,905		5,158
Security deposits payable	3,666		3,649
Interprovincial Lottery Corporation	2,148		-
Other	16,042		16,687
	\$ 112,163	\$	105,419

The Corporation's exposure to liquidity risk related to accounts payable, accrued and other liabilities is disclosed in note 4(D).

14. Short-term financing

	2021		2020
Government of British Columbia, loans, payable in single instalments ranging from \$29,945 to \$50,044, non-interest bearing, unsecured, due between April 1, 2021 and April 22, 2021 ¹	\$ 179,896	\$	-
Government of British Columbia, loans, payable in single instalments ranging from \$40,000 to \$50,000 including interest ranging from \$32 to \$114 at rates ranging from 1.00% to 1.62%, unsecured, due between April 9, 2020 and April 23, 2020	-		179,996
	\$ 179,896	\$	179,996

¹ Repaid and refinanced within the normal course of operations subsequent to March 31, 2021

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

14. Short-term financing (continued)

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

	2021	2020
Balance at April 1	\$ 179,996	\$ 100,029
Changes from financing cash flows		
Proceeds from borrowings	2,034,932	1,229,383
Repayment of borrowings	(2,034,904)	(1,149,446)
Total changes from financing cash flows	28	79,937
Other changes		
Interest expense	136	1,327
Interest paid	(287)	(1,647)
Capitalized borrowing costs	23	350
Total other changes	(128)	30
Balance at March 31	\$ 179,896	\$ 179,996

The Corporation's exposure to liquidity risk related to short-term financing is disclosed in note 4(D).

15. Deferred revenue

Deferred revenue includes revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date as described in note 3(K). The amounts recorded below are expected to be recognized as revenue by the Corporation within 12 months.

	2021	2020
Lottery games	\$ 25,570	\$ 20,944
Other	1,684	2,101
	\$ 27,254	\$ 23,045

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

16. Unsettled wagers

Unsettled wagers include revenue expected to be recognized in the future related to outcomes that have not yet occurred at the reporting date as described in note 3(K). The amounts recorded below are expected to be recognized as revenue by the Corporation within 12 months.

	2021	2020
Customer loyalty programs	\$ 6,415	\$ 3,330
Lottery games	805	688
Sports betting	550	656
Other	682	266
	\$ 8,452	\$ 4,940

17. Distributions to the Government of British Columbia

In accordance with the *Gaming Control Act* (B.C.), net income in each fiscal year, after deducting contractual amounts due to the Government of Canada (note 20), is paid into the consolidated revenue fund of the Government of British Columbia in the manner directed by the Lieutenant Governor in Council. The Corporation's transfer to the Government of British Columbia occurs four to five weeks after each fiscal month-end. The Corporation does not retain any earnings.

18. Accumulated deficit

Upon adoption of IFRS and subsequent adoption of new or amended IFRS standards, the Corporation was required to adjust amounts previously reported in its financial statements. These adjustments did not reduce the amounts distributed to the Government of British Columbia and therefore resulted in the Corporation recognizing an accumulated deficit.

	Accumulated Deficit
Adoption of IFRS ¹	\$ (17,728)
Adoption of amended IAS 19 <i>Employee Benefits</i> ²	584
Adoption of IFRS 15 <i>Revenue from Contracts with Customers</i> ³	(8,319)
	\$ (25,463)

¹ IFRS was adopted for the fiscal year ended March 31, 2012.

² Amended IAS 19 was adopted for the fiscal year ended March 31, 2014.

³ IFRS 15 was adopted for the fiscal year ended March 31, 2019.

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

19. Revenue

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

	2021	2020
Slot and table games ¹	\$ 321,620	\$ 1,942,895
Lottery games	589,956	528,654
Sports betting	23,902	25,326
Bingo games ¹	4,524	23,406
Other	25,591	10,601
	\$ 965,593	\$ 2,530,882
Revenue from Wagered Games	\$ 549,327	\$ 2,119,544
Revenue from Administered Games	416,266	411,338
	\$ 965,593	\$ 2,530,882

¹ Due to the temporary closure of gaming facilities, slot and table games revenue and bingo revenue for the fiscal year ended March 31, 2021 was generated entirely through online products offered on PlayNow.com.

For the year ended March 31, 2021, gains on the expiry of prizes payable of \$7,874 (2020: \$7,457) are included in revenue.

20. Distributions to the Government of Canada

The Corporation is required to make an annual payment 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.

21. Contingencies

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

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

British Columbia Lottery Corporation

Notes to the Consolidated Financial Statements (continued)

Year ended March 31, 2021

(in thousands of Canadian dollars)

22. Related party transactions

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

All transactions with the Government of British Columbia ministries, agencies, and crown corporations occurred in the normal course of operations. Transactions that are considered to be individually or collectively significant include loan agreements (note 14) and distributions to the Government of British Columbia (note 17). 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 23).

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

	2021	2020
Short-term employee benefits	\$ 2,376	\$ 2,576
Pension and post-retirement benefits	232	206
Termination benefits	778	850
	\$ 3,386	\$ 3,632

The Corporation is also related to the pension and post-retirement defined benefit plans. Transactions with these plans are disclosed in note 11.

23. Indirect tax expense

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

Provincial Sales Tax is calculated and remitted to the Province of B.C. pursuant to the *Provincial Sales Tax Act*.