

Audited Consolidated Financial Statements of

**BRITISH COLUMBIA LOTTERY
CORPORATION**

Year ended March 31, 2007



KPMG LLP
200 – 206 Seymour Street
Kamloops BC V2C 6P5
Canada

Telephone (250) 372-5581
Fax (250) 828-2928
Internet www.kpmg.ca

AUDITORS' REPORT

To the Directors of
British Columbia Lottery Corporation:

We have audited the consolidated balance sheet of British Columbia Lottery Corporation as at March 31, 2007 and the consolidated statements of income, amounts due to Government of British Columbia, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Kamloops, Canada
April 20, 2007

BRITISH COLUMBIA LOTTERY CORPORATION

Consolidated Balance Sheet

March 31, 2007, with comparative figures for 2006

(in thousands of dollars)

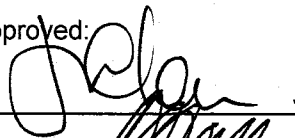
	2007	2006
Assets		
Cash and short-term investments (note 3)	\$ 107,546	\$ 81,310
Accounts receivable (note 4)	82,443	73,967
Prepaid expenses	9,483	7,504
Accrued pension plan asset (note 5)	11,933	6,646
Property, plant and equipment (note 6)	119,910	140,887
	\$ 331,315	\$ 310,314

Liabilities

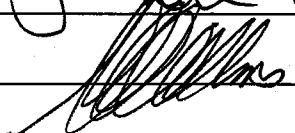
Prizes payable	\$ 40,514	\$ 42,475
Accounts payable and accrued liabilities	53,652	67,095
Accrued post retirement benefit obligation (note 5)	27,454	23,541
Payable to Interprovincial Lottery Corporation	4,161	1,669
Due to Government of British Columbia	205,534	175,534
Commitments and contingencies (notes 13 and 14)		
	\$ 331,315	\$ 310,314

See accompanying notes to consolidated financial statements.

Approved:



Director



Director

BRITISH COLUMBIA LOTTERY CORPORATION

Consolidated Statement of Income

Year ended March 31, 2007, with comparative figures for 2006

(in thousands of dollars)

	2007	2006
Revenue (note 7):		
Lottery	\$ 997,414	\$ 967,358
Casino	1,208,891	1,085,346
Bingo	218,903	208,002
	<u>2,425,208</u>	<u>2,260,706</u>
Direct expenses:		
Prizes	650,846	641,477
Commissions	528,446	483,665
Ticket printing and bingo paper	19,586	20,637
	<u>1,198,878</u>	<u>1,145,779</u>
Revenue less direct expenses	<u>1,226,330</u>	<u>1,114,927</u>
Operating expenses:		
Administrative expenses	106,728	103,161
Amortization	64,024	52,777
Interest and other expense	2,586	3,823
Marketing Trust Account (note 8):		
Marketing Trust Account income	(9,715)	(3,223)
Marketing Trust Account expenditures	9,715	3,223
Net income from operations	<u>1,052,992</u>	<u>955,166</u>
Non-operating income (expense):		
Net horse racing betting fees (note 9)	1,878	1,878
Integrated Illegal Gaming Enforcement Team expenses (note 10)	(1,600)	(1,474)
Goods and Services Tax expense	(34,472)	(32,873)
Net income	<u>\$ 1,018,798</u>	<u>\$ 922,697</u>
Allocation of net income:		
Government of British Columbia	\$ 1,010,387	\$ 914,410
Government of Canada (note 11)	8,411	8,287
	<u>\$ 1,018,798</u>	<u>\$ 922,697</u>

Sector activity information (note 17)

See accompanying notes to consolidated financial statements.

BRITISH COLUMBIA LOTTERY CORPORATION

Consolidated Statement of Amounts Due to Government of British Columbia

Year ended March 31, 2007, with comparative figures for 2006

(in thousands of dollars)

	2007	2006
Balance, beginning of year	\$ 175,534	\$ 178,783
Net income	1,018,798	922,697
	1,194,332	1,101,480
Payments to Government of British Columbia	980,387	917,659
Allocation of income to Government of Canada	8,411	8,287
	988,798	925,946
Due to Government of British Columbia	\$ 205,534	\$ 175,534

See accompanying notes to consolidated financial statements.

BRITISH COLUMBIA LOTTERY CORPORATION

Consolidated Statement of Cash Flows

Year ended March 31, 2007, with comparative figures for 2006

(in thousands of dollars)

	2007	2006
Cash provided by (used in):		
Operations:		
Net income	\$ 1,018,798	\$ 922,697
Adjustments for:		
Amortization of property, plant and equipment	64,024	52,777
Loss (gain) on disposal of property, plant and equipment	(485)	426
	1,082,337	975,900
Changes in non-cash operating items:		
Increase in accounts receivable	(8,476)	(20,609)
Increase in prepaid expenses	(1,979)	(1,080)
Increase in accrued pension plan asset	(5,287)	(657)
Increase (decrease) in prizes payable	(1,961)	10,175
Increase (decrease) in accounts payable and accrued liabilities	(13,443)	10,069
Increase in accrued post retirement benefit obligation	3,913	4,095
Increase in payable to Interprovincial Lottery Corporation	2,492	91
	1,057,596	977,984
Financing:		
Payments to Government of British Columbia	(980,387)	(917,659)
Allocation of income to Government of Canada	(8,411)	(8,287)
	(988,798)	(925,946)
Investments:		
Additions to property, plant and equipment	(43,927)	(82,880)
Proceeds on disposal of property, plant and equipment	1,365	793
	(42,562)	(82,087)
Increase (decrease) in cash and short-term investments	26,236	(30,049)
Cash and short-term investments, beginning of year	81,310	111,359
Cash and short-term investments, end of year	\$ 107,546	\$ 81,310

See accompanying notes to consolidated financial statements.

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements

Years ended March 31, 2007 and 2006

(in thousands of dollars)

1. Nature of the Corporation:

The British Columbia Lottery Corporation ("BCLC") is a Crown corporation. BCLC was incorporated under the *Company Act* of British Columbia on October 25, 1984, and is continued under the *Gaming Control Act* (August 2002). As an agent of the Crown, the Province has designated the Corporation as the authority to conduct, manage and operate lottery schemes on behalf of the Province, including lottery, casino and bingo. BCLC is also the regional marketing organization for national lottery games which are joint undertakings by the provinces acting through the Interprovincial Lottery Corporation.

2. Significant accounting policies:

(a) Basis of presentation:

- (i) The financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles.
- (ii) The consolidated financial statements include B.C. Lottotech International Inc., a wholly owned subsidiary of the British Columbia Lottery Corporation, as well as the Marketing Trust Account, a variable interest entity (see note 8).

(b) Short-term investments

Short-term investments are valued at the lower of cost and market.

(c) Property, plant and equipment:

The Corporation's policy on capital purchases is that any major purchase which has a future useful life beyond the current year will be capitalized.

The Corporation's property, plant and equipment are recorded at their original cost and are amortized on the straight-line basis over their estimated useful lives, as follows:

Asset	Rate
Corporate facilities and equipment	5 years
Corporate information systems	3 years
Lottery gaming systems and equipment	5 years
Casino gaming systems and equipment	3 years
Bingo gaming systems and equipment	3 years

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

2. Significant accounting policies (continued):

(d) Employee future benefits:

The Corporation has defined benefit pension plans covering substantially all of its employees. The benefits are based on years of service and the highest 60 consecutive months of pensionable earnings. The cost of this program is being funded currently by employee and employer contributions.

The Corporation also sponsors post retirement benefit life insurance and health care plans for substantially all retirees. The Corporation measures the costs of its obligation based on its best estimate.

The Corporation accrues its obligations under employee benefit plans as the employees render the services necessary to earn the pension and other employee future benefits. The Corporation has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages and expected health care costs.
- For the purpose of calculating expected return on plan assets, those assets are valued at fair value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active members expected to receive benefits under the plan.
- Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets are amortized over the average remaining service period ("EARSL") of active members expected to receive benefits under the plans. The EARSL for the Registered Plan is 15 years.
- An unfunded liability may be amortized over no more than 15 years through special payments as required under the Pension Benefits Standards Act. A funding excess may be applied immediately to reduce required employer current service contributions, however, the reduction in contributions may not cause the funding excess to drop below 5% of the pension plan benefit obligation. Further, the use of a funding excess must be amortized over a minimum of 5 years.

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006

(in thousands of dollars)

2. Significant accounting policies (continued):

(e) Revenue recognition:

Lottery games:

Revenue from the sale of lottery tickets and the associated selling costs and prize expenses are included in the consolidated statement of income in the period the ticket is sold.

Bingo games:

Revenue from the operation of paper, electronic, linked, and handheld Bingo and the associated selling costs and prize expenses are included in the consolidated statement of income in the same period the game is played. Revenue from bingo slot machines is recorded in the consolidated statement of income, net of prizes paid, in the same period the game is played. Related operating costs are recorded in the consolidated statement of income in the period they are incurred.

Casinos:

Revenues from casino slot machines and table games are recorded in the consolidated statement of income, net of prizes paid, in the same period the game is played. Related operating costs are recorded in the consolidated statement of income in the period they are incurred.

(f) Prize expenses:

The Corporation has changed its accounting policy for prize expenses. Lottery prize expenses are recorded based on the actual prize liability experienced for each game. The adoption of this policy better reflects the actual results of the lottery business unit.

Prior to fiscal 2006-2007, Lottery prizes were based on the theoretical prize liability. The actual expense incurred each year will vary from theoretical prize expense based on the nature of games of chance. Over a long period of time, it is expected that the actual prize expense will approximate the theoretical expense. The effect of this change on both the 2006 and 2007 fiscal years presented in these consolidated financial statements is not significant. As a result, there is no restatement of the prior period.

Expired prize funds are to be paid out to the player in the form of bonus prizes and/or bonus draw promotions.

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006

(in thousands of dollars)

2. Significant accounting policies (continued):

(g) Software development costs:

Software development costs are deferred if they meet certain criteria specified by Canadian generally accepted accounting principles, otherwise they are expensed as incurred.

(h) Income taxes:

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

(i) Estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant areas of estimate include pension plan assets, liabilities and expenses, and Goods and Services Tax liability and expense. Actual results could differ from those estimates.

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

3. Cash and short-term investments:

The Corporation considers deposits in banks and short-term investments with original maturities of one year or less as cash and short-term investments. The Corporation's short-term investments are recorded at cost, which approximates current market value. The major components of cash and short-term investments are as follows:

	2007	2006
Cash (overdraft)	\$ (4,338)	\$ (2,568)
Short-term investments with the British Columbia Investment Management Corporation	111,884	83,878
	<u>\$ 107,546</u>	<u>\$ 81,310</u>

Cash and short-term investments include an amount of \$6,163 (2006 - \$3,478) held in trust in accordance with the Casino Operational Services Agreement (COSA) between BCLC and the participating Service Providers.

A corresponding trust liability in the amount of \$6,163 (2006 - \$3,478) is also included in accounts payable and accrued liabilities (see note 8).

4. Accounts receivable:

	2007	2006
Trade accounts receivable:		
Lottery retailers	\$ 24,499	\$ 21,030
Casino service providers	15,698	13,060
Bingo service providers	3,426	2,025
	<u>43,623</u>	<u>36,115</u>
Casino cash floats	32,075	32,925
Other	6,745	4,927
Total accounts receivable	<u>\$ 82,443</u>	<u>\$ 73,967</u>

Casino cash floats provided by the Corporation are secured by Irrevocable Standby Letters of Credit.

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

5. Employee future benefits:

The Corporation has a defined benefit pension plan (RPP) and a post retirement benefit life insurance and health care plan covering substantially all of its employees.

Information about the Corporation's defined benefit plans is as follows:

	Pension Plans		Post Retirement Benefit Plans	
	2007	2006	2007	2006
Accrued benefit obligation:				
Balance at beginning of year	\$ 68,658	\$ 62,570	\$ 33,128	\$ 32,189
Current service cost	2,912	2,908	1,792	1,893
Interest cost	3,813	3,802	2,073	2,036
Employee contributions	1,451	1,508	–	–
Past service cost	–	–	–	(5,704)
Benefits paid	(3,493)	(3,142)	(458)	(429)
Curtailments	–	–	–	(2,915)
Actuarial loss	8,161	1,012	3,384	6,058
Balance at end of year	81,502	68,658	39,919	33,128
Plan assets:				
Fair value at beginning of year	65,829	55,660	–	–
Actual return on plan assets	6,889	7,811	–	–
Employer contributions	7,377	3,992	458	429
Employee contributions	1,451	1,508	–	–
Benefits paid	(3,493)	(3,142)	(458)	(429)
Balance at end of year	78,053	65,829	–	–
Funded status - deficiency	(3,449)	(2,829)	(39,919)	(33,128)
Employer contributions after measurement date	179	–	–	–
Unamortized past service cost	762	879	(5,297)	(5,704)
Unamortized net actuarial loss	14,441	8,596	17,762	15,291
Accrued pension plan benefit asset (liability)	\$ 11,933	\$ 6,646	\$ (27,454)	\$ (23,541)

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

5. Employee future benefits (continued):

Plan assets by asset category:

	2007	2006
Equity securities	64%	59%
Debt securities	36%	41%
	100%	100%

Every three years an actuarial valuation is performed to assess the financial position of the pension plan. The most recent actuarial valuation of the pension plan for funding purposes was made as of March 31, 2006 by Mercer Human Resource Consulting, a firm of consulting actuaries. The next required valuation will be as of March 31, 2009, with results available in late 2009. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows:

	Pension Plans		Post Retirement Benefit Plans	
	2007	2006	2007	2006
At beginning of period:				
Discount rate	5.5%	6.0%	5.5%	6.0%
Expected rate of return on plan assets	7.0%	7.0%	–	–
Rate of compensation increase	3.0%	4.0%	–	–
Health care cost trend rate:				
2006/2007	–	–	7.02%	6.82%
Ultimate	–	–	4.52%	4.49%
Year ultimate reached	–	–	2012	2011
At end of period:				
Discount rate	5.3%	5.5%	5.4%	5.5%
Rate of compensation increase	5.0%	3.0%	–	–
Health care cost trend rate:				
2007/2008	–	–	6.60%	7.02%
Ultimate	–	–	4.50%	4.52%
Year ultimate reached	–	–	2012	2012

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

5. Employee future benefits (continued):

The Corporation's net benefit plan expense is as follows:

	Pension Plans		Post Retirement Benefit Plans	
	2007	2006	2007	2006
Current service cost, net of employees' contributions (including provision for plan expenses) \$	2,912	\$ 2,908	\$ 1,792	\$ 1,893
Interest cost	3,813	3,802	2,073	2,036
Actual return on plan assets	(6,889)	(7,811)	–	–
Actuarial loss on accrued benefit obligation	8,161	1,012	3,384	6,058
(Negative) past service cost	–	–	–	(5,704)
Costs arising in the year	7,997	(89)	7,249	4,283
Differences between costs arising in the year and costs recognized in the year in respect of:				
Return on plan assets	2,194	3,828	–	–
Actuarial gain	(8,039)	(602)	(2,471)	(5,463)
Plan amendment	117	117	–	–
(Negative) past service cost	–	–	(407)	5,704
Net benefit cost recognized	\$ 2,269	\$ 3,254	\$ 4,371	\$ 4,524

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

6. Property, plant and equipment:

			2007	2006
	Cost	Accumulated amortization	Net	Net
Land	\$ 700	\$ –	\$ 700	\$ 700
Corporate facilities and equipment	28,058	25,336	2,722	3,184
Corporate information systems	28,184	22,153	6,031	4,867
Lottery gaming systems and equipment	95,980	56,338	39,642	43,234
Casino gaming systems and equipment	176,836	119,035	57,801	75,963
Bingo gaming systems and equipment	44,049	31,035	13,014	12,939
	\$ 373,807	\$ 253,897	\$ 119,910	\$ 140,887

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

7. Revenue:

	2007	2006
Lottery:		
Keno	\$ 230,023	\$ 231,619
Scratch & Win	169,684	185,544
Lotto 6/49	212,227	211,059
Lotto Super 7	86,243	84,934
Pull Tab	70,455	77,774
Extra	57,238	57,126
BC/49	53,105	57,452
Sports Action	45,259	38,351
Millionaire Life	11,555	-
Pacific Hold'em	35,558	-
Living Large Lottery	-	(178)
Daily 3	-	3,602
Chaser	-	3,942
Special Event	4,195	3,631
Payday	7,108	2,706
Racetrax	1,564	4,260
Sports Funder	12,453	5,519
Interactives	747	17
	997,414	967,358
Bingo:		
Bingo Paper	82,685	87,996
Electronic Bingo	70,234	70,508
Linked Bingo	11,078	11,001
Handheld Bingo	13,222	13,385
Bingo slot machines – net win	41,684	25,112
	218,903	208,002
Casino - net win:		
Slot machines	869,855	762,298
Poker	20,794	14,599
Table games	318,242	308,449
	1,208,891	1,085,346
Total revenue	\$ 2,425,208	\$ 2,260,706

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

8. Marketing Trust Account (MTA):

The Marketing Trust Account was implemented between BCLC and Casino Service Providers who are provided with more than 300 slot machines. Under the terms of the Casino Operational Services Agreement (COSA), Service Providers are required to contribute to this account for the purpose of funding casino marketing programs promoting the Corporation's casinos in a socially responsible manner.

In the event that the amount contributed to the Trust Account by the Casino Service Providers in any fiscal year of BCLC commencing April 1, 2006 is not expended on marketing programs promoting the casinos by the last day of the following fiscal year of BCLC, any such balance shall be repaid to the Casino Service Providers.

The Corporation has included the activities of the MTA in its consolidated financial statements pursuant to Accounting Guideline 15—Consolidation of Variable Interest Entities.

Amounts related to the MTA are as follows:

	2007	2006
MTA contributions and interest	\$ 12,400	\$ 4,984
MTA unearned contributions	(2,685)	(1,761)
MTA income	9,715	3,223
MTA expenditures	(9,715)	(3,223)
Net MTA income	\$ —	\$ —

Amounts included in cash (note 3) and accounts payable and accrued liabilities related to the MTA are as follows:

	2007	2006
Opening MTA trust assets and liabilities	\$ 3,478	\$ 1,717
Current year unearned MTA contributions	2,685	1,761
Ending MTA trust assets and liabilities	\$ 6,163	\$ 3,478

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

9. Net horse racing betting fees:

Pursuant to section 16 of the Gaming Control Act, BCLC is responsible for the collection and distribution of horse racing fees in the province of British Columbia. The rates of fee collection and the responsibility for their distribution are set forth in the Act. The amount shown as net horse racing betting fees in these statements is the portion of those fees collected by BCLC and then remitted to Government, and approximates the cost of regulating the industry as determined by the Gaming Policy Enforcement Branch (GPEB).

	2007	2006
Revenue collected from the horse racing industry	\$ 6,588	\$ 6,794
Less: revenue returned to the horse racing industry	(4,710)	(4,916)
Net horse racing betting fees	\$ 1,878	\$ 1,878

10. Integrated Illegal Gaming Enforcement Team expenses:

In February 2003, based on direction from the provincial government, the Integrated Illegal Gaming Enforcement Team (IIGET) was established. The expenditures required to fund the IIGET are provided by British Columbia Lottery Corporation pursuant to a Sponsoring Agreement with the Province. IIGET is a specialized division of the Royal Canadian Mounted Police that works cooperatively with Gaming Policy and Enforcement Branch to provide a comprehensive and integrated approach to the investigation and enforcement of the criminal code as it relates to illegal gaming activities in British Columbia.

11. Payments to Government of Canada:

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

12. Interprovincial Lottery Corporation expenses and interest revenue:

The Corporation's share of the ILC prize and ticket printing costs for national games is recognized as a direct expense. The Corporation's share of the ILC's interest income less operating expenses is included in interest and other expense.

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

13. Commitments:

The Corporation is committed to payments under operating leases for premises.

Minimum annual rental payments for the next five years are approximately as follows:

2008	2,314
2009	1,185
2010	884
2011	526
2012	162

14. Contingencies:

The Corporation has been named a defendant in several lawsuits. In the opinion of management, these matters are without substantial merit and no provision has been made for them in the accounts.

The Corporation periodically enters into agreements with suppliers that include limited indemnification obligations. These guarantees are customary in the industry and typically require the Corporation to compensate the other party for certain damages and costs incurred as a result of third party claims. The nature of these agreements prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay its suppliers. Historically, the Corporation has not made any significant indemnification payments under such agreements and no amount has been accrued in the financial statements for these indemnification guarantees.

15. Related party transactions:

The Corporation is related to various other government agencies, ministries and Crown corporations. All transactions with these related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

16. Financial instruments:

The carrying values of cash and short-term investments, accounts receivable, prizes payable, accounts payable and accrued liabilities, and the payable to the Interprovincial Lottery Corporation approximate their fair value due to the relatively short period to maturity of these items or because they are receivable or payable on demand.

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

17. Sector activity information:

Year ended March 31, 2007					
	<u>Lottery</u>	<u>Casino</u>	<u>Bingo</u>	<u>Horse Racing</u>	<u>Consolidated</u>
Revenue	\$ 997,414	\$ 1,208,891	\$ 218,903	\$ –	\$ 2,425,208
Direct expenses:					
Prizes	543,501	–	107,345	–	650,846
Commissions	67,836	408,897	51,713	–	528,446
Ticket printing and bingo paper	17,575	–	2,011	–	19,586
	628,912	408,897	161,069	–	1,198,878
Revenue less direct expenses	368,502	799,994	57,834	–	1,226,330
Operating expenses:					
Administrative expenses	58,790	39,782	8,156	–	106,728
Amortization	13,777	43,285	6,962	–	64,024
Interest and other expense	1,161	462	963	–	2,586
Marketing Trust Account:					
Marketing Trust Account income	–	(9,715)	–	–	(9,715)
Marketing Trust Account expenditures	–	9,715	–	–	9,715
Net income from operations	294,774	716,465	41,753	–	1,052,992
Non-operating income (expense):					
Net horse racing betting fees	–	–	–	1,878	1,878
Integrated Illegal Gaming Enforcement Team expenses	(409)	(1,090)	(101)	–	(1,600)
Goods and Services Tax expense	(12,712)	(16,813)	(4,947)	–	(34,472)
Net income	\$ 281,653	\$ 698,562	\$ 36,705	\$ 1,878	\$ 1,018,798

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

17. Sector activity information (continued):

Year ended March 31, 2006					
	<u>Lottery</u>	<u>Casino</u>	<u>Bingo</u>	<u>Horse Racing</u>	<u>Consolidated</u>
Revenue	\$ 967,358	\$ 1,085,346	\$ 208,002	\$ –	\$ 2,260,706
Direct expenses:					
Prizes	530,263	–	111,214	–	641,477
Commissions	64,754	369,879	49,032	–	483,665
Ticket printing and bingo paper	18,757	–	1,880	–	20,637
	613,774	369,879	162,126	–	1,145,779
Revenue less direct expenses	353,584	715,467	45,876	–	1,114,927
Operating expenses:					
Administrative expenses	57,756	37,203	8,202	–	103,161
Amortization	11,389	36,365	5,023	–	52,777
Interest and other expense	15	2,794	1,014	–	3,823
Marketing Trust Account:					
Marketing Trust Account income	–	(3,223)	–	–	(3,223)
Marketing Trust Account expenditures	–	3,223	–	–	3,223
Net income from operations	284,424	639,105	31,637	–	955,166
Non-operating income (expense):					
Net horse racing betting fees	–	–	–	1,878	1,878
Integrated Illegal Gaming Enforcement Team expenses	(398)	(989)	(87)	–	(1,474)
Goods and Services Tax expense	(12,747)	(16,474)	(3,652)	–	(32,873)
Net income	\$ 271,279	\$ 621,642	\$ 27,898	\$ 1,878	\$ 922,697

BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2007 and 2006
(in thousands of dollars)

18. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.