British Columbia Lottery Corporation

Consolidated Financial Statements

Year ended March 31, 2017

KPMG LLP
200-206 Seymour Street
Kamloops BC V2C 6P5
Canada
Telephone (250) 372-5581
Fax (250) 828-2928

INDEPENDENT AUDITORS' REPORT

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG LLP

Chartered Professional Accountants

Kamloops, Canada
May 11, 2017

British Columbia Lottery Corporation

Consolidated Statement of Financial Position

March 31, 2017, with comparative information for 2016
(in thousands of Canadian dollars)

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

Commitments and contingencies (notes 17, 18 and 21)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

Bud Smith
Chair, Board of Directors

Robert Holden
Chair, Audit Committee

British Columbia Lottery Corporation

Consolidated Statement of Comprehensive Income

Year ended March 31, 2017, with comparative information for 2016
(in thousands of Canadian dollars)

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

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Changes in Deficit

Year ended March 31, 2017, with comparative information for 2016
(in thousands of Canadian dollars)

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

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation

Consolidated Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016
(in thousands of Canadian dollars)

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

See accompanying notes to consolidated financial statements.

1. Reporting entity:

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

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

2. Basis of preparation:

A. STATEMENT OF COMPLIANCE:

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

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

B. BASIS OF MEASUREMENT:

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

C. FUNCTIONAL AND PRESENTATION CURRENCY:

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

2. Basis of preparation (continued):

D. USE OF ESTIMATES AND JUDGMENTS:

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

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

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

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

3. Significant accounting policies:

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

A. BASIS OF CONSOLIDATION:

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

3. Significant accounting policies (continued):

B. CASH AND CASH EQUIVALENTS:

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

C. FINANCIAL INSTRUMENTS:

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

i. Non-derivative financial assets:

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

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

3. Significant accounting policies (continued):

C. FINANCIAL INSTRUMENTS (continued):

i. Non-derivative financial assets (continued):

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

Loans and receivables

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

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

ii. Non-derivative financial liabilities:

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

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

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

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

iii. Offsetting:

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

3. Significant accounting policies (continued):

D. INVENTORIES:

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

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

E. EMPLOYEE BENEFITS:

i. Short-term employee benefits:

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

ii. Termination benefits:

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

3. Significant accounting policies (continued):

E. EMPLOYEE BENEFITS (continued):

iii. Defined benefit plans:

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

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

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

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

3. Significant accounting policies (continued):

F. PROPERTY AND EQUIPMENT:

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

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

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

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

Asset	Rate
Corporate facilities, systems and equipment	3 to 20 years
Lottery gaming systems and equipment	5 to 10 years
eGaming systems and equipment	3 to 5 years
Casino and community gaming systems and equipment	3 to 10 years

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

3. Significant accounting policies (continued):

G. INTANGIBLE ASSETS:

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

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

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

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

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

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

H. IMPAIRMENT:

i. Financial assets:

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

3. Significant accounting policies (continued):

H. IMPAIRMENT (continued):

ii. Non-financial assets:

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

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

I. PROVISIONS:

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

3. Significant accounting policies (continued):

J. REVENUE:

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

The Corporation's revenue recognition policies are as follows:

i. Revenue:

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

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

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

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

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

ii. Customer loyalty programs:

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

iii. Net win:

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

3. Significant accounting policies (continued):

K. PRIZES:

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

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

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

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

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

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

L. COMMISSIONS:

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

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

3. Significant accounting policies (continued):

M. LEASES:

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

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

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

N. NEW STANDARDS ISSUED BUT NOT YET ADOPTED:

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

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

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

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

3. Significant accounting policies (continued):

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

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

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

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

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

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

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

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

4. Financial risk management:

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

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

A. GENERAL:

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

The Board's role includes oversight of the Corporation's enterprise risk management program, and the integrity of the Corporation's internal control and management systems. The Board, with the support of its Risk Committee, monitors the Corporation's risk appetite and tolerance levels and considers strategic risks as part of the annual strategic planning process. The Board's Audit Committee supports the Board in its oversight of the effectiveness of the Corporation's systems of internal control over financial information.

The Corporation has a corporate security and compliance division, as well as an internal audit services department. Further, the Corporation has a dedicated risk advisory services department (RAS) to support the enterprise risk management program for the identification, assessment and management of strategic and operational risks. RAS reports quarterly on its activities and on the Corporation's risk profile for the review of the Executive Committee, the Risk Committee, and the Board as a whole.

B. CREDIT RISK:

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its contractual obligations to the Corporation. Credit risk arises principally from the Corporation's trade receivables, net win less commissions outstanding, gaming cash floats, and cash and cash equivalents.

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

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

4. Financial risk management (continued):

B. CREDIT RISK (continued):

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

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

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

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

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

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

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

4. Financial risk management (continued):

B. CREDIT RISK (continued):

Cash and cash equivalents

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

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

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

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

C. LIQUIDITY RISK:

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

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

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

4. Financial risk management (continued):

C. LIQUIDITY RISK (continued):

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

Invested funds represent temporary surplus cash balances resulting from unclaimed prize money and money from normal operations, held in advance of its transfer to the Government of British Columbia (note 14). As a result of fluctuating cash flow requirements and to minimize financial risk, the Corporation maintains a high degree of liquidity.

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

D. MARKET RISK:

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

E. FAIR VALUES:

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

4. Financial risk management (continued):

F. OFFSETTING:

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

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

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

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

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

5. Cash and cash equivalents:

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

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

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

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

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

6. Accounts receivable:

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

7. Inventories:

The major components of inventories are as follows:

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

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

8. Employee benefits:

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

Registered Pension Plan (Plan A)

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

Supplementary Pension Plan (Plan B)

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

Non-Pension Post-Employment Plan (Plan C)

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

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

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

8. Employee benefits (continued):

A. FUNDING:

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

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

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

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

8. Employee benefits (continued):

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

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

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

Represented by:	**2017**	2016
Net defined benefit (asset) liability (Plan A)	**$ (23,994)**	$ 4,316
Net defined benefit liability (Plans B and C)	**77,270**	77,006
	$ 53,276	$ 81,322

8. Employee benefits (continued):

C. PLAN ASSETS:

Plan assets are comprised of:

2017		**Level 1[1]**		**Level 2[2]**		**Total**	**Asset Mix**
Pooled funds							
Canadian equity funds	**$**	**82,874**	**$**	**–**	**$**	**82,874**	**30%**
Global equity funds		**97,034**		**–**		**97,034**	**36%**
Fixed income funds		**64,421**		**–**		**64,421**	**24%**
Debt securities							
Canada real return bonds		**–**		**27,974**		**27,974**	**10%**
	$	**244,329**	**$**	**27,974**	**$**	**272,303**	**100%**

2016		Level 1[1]		Level 2[2]		Total	Asset Mix
Pooled funds							
Canadian equity funds	$	71,604	$	–	$	71,604	30%
Global equity funds		84,202		–		84,202	35%
Fixed income funds		61,091		–		61,091	25%
Debt securities							
Canada real return bonds		–		24,373		24,373	10%
	$	216,897	$	24,373	$	241,270	100%

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

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

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

8. Employee benefits (continued):

D. DEFINED BENEFIT OBLIGATION:

i. Actuarial valuation and assumptions:

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

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

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

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

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

8. Employee benefits (continued):

D. DEFINED BENEFIT OBLIGATION (continued):

i. Actuarial valuation and assumptions (continued):

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

ii. Sensitivity analysis:

Changes at March 31, 2017 to one of the relevant actuarial assumptions, holding the other assumptions constant, would have affected the defined benefit obligation by the following amounts:

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

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

8. Employee benefits (continued):

D. DEFINED BENEFIT OBLIGATION (continued):

iii. Maturity profile of plan membership:

The breakdown of the defined benefit obligation at March 31, 2017 (as a percentage of the total) in respect of active employees, former employees who have not yet started receiving a pension (deferred vested), and former employees and other beneficiaries receiving a pension (retirees), is as follows:

	Defined benefit obligation	
	2017	2016
Active members	**46%**	46%
Deferred vested members	**5%**	5%
Retirees	**49%**	49%
Total	**100%**	100%

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

9. Property and equipment:

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

10. Intangible assets:

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

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

11. Prizes payable:

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

12. Accounts payable, accrued and other liabilities:

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

13. Short-term financing:

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

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

14. Distributions to the Government of British Columbia:

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

15. Distributions to the Government of Canada:

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

16. Interprovincial Lottery Corporation:

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

17. Commitments:

Operating leases

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

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

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

17. Commitments (continued):

Operating leases (continued)

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

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

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

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

Capital commitments

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

18. Contingencies:

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

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

19. Related party transactions:

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

All transactions with the Government of British Columbia ministries, agencies and Crown corporations occurred in the normal course of operations and are on terms comparable to those with other entities that are not government-related. Transactions that are considered to be individually or collectively significant include loan agreements (note 13) and distributions to the Government of British Columbia (note 14). The Corporation pays Provincial Sales Tax on its taxable purchases and also collects and remits Provincial Sales Tax to the Government of British Columbia on its taxable sales (note 20).

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

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

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

20. Indirect tax expense:

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

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

21. Joint Illegal Gaming Investigation Team:

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