

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING



The financial statements of British Columbia Lottery Corporation have been prepared by management in accordance with generally accepted accounting principles. The financial statements present fairly the financial position of the Corporation as at March 31, 2004, and the results of its operations and the changes in its financial position for the year then ended.

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

KPMG, LLP, Chartered Accountants have performed an independent audit of British Columbia Lottery Corporation. The Auditors' Report outlines the scope of this independent audit and expresses an opinion of the financial statements of British Columbia Lottery Corporation.

A handwritten signature in black ink, appearing to read 'Vic Poleschuk', is written in a cursive style.

Vic Poleschuk
President and CEO

A handwritten signature in black ink, appearing to read 'Doug Penrose', is written in a cursive style.

Doug Penrose
Vice-President, Finance and Corporate Services

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, 2004 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, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act, (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Kamloops, Canada

April 16, 2004

CONSOLIDATED BALANCE SHEET

March 31, 2004, with comparative figures for 2003

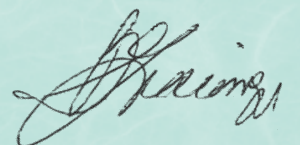
(in thousands of dollars)	2004	2003
ASSETS		
Cash and short-term investments	\$ 72,761	\$ 93,970
Accounts receivable (note 3)	44,032	48,617
Prepaid expenses	6,945	7,351
Accrued pension plan asset (note 4)	5,265	3,883
Property, plant and equipment (note 5)	55,106	30,855
	\$ 184,109	\$ 184,676
LIABILITIES		
Prizes payable	\$ 40,944	\$ 55,113
Accounts payable and accrued liabilities	54,789	55,439
Accrued post retirement benefit obligation (note 4)	16,163	13,807
Payable to Interprovincial Lottery Corporation	1,797	2,212
Due to Government of British Columbia	70,416	58,105
	\$ 184,109	\$ 184,676

See accompanying notes to consolidated financial statements.

Approved:



T. Richard Turner
Director



Bruna Giacomazzi
Director

CONSOLIDATED STATEMENT OF INCOME

Year ended March 31, 2004, with comparative figures for 2003

(in thousands of dollars)	2004	2003
Revenues (note 6)	\$ 1,889,637	\$ 1,792,411
Direct expenses:		
Prizes	643,098	650,183
Commissions	356,777	321,744
Ticket printing and bingo paper	15,133	15,118
	1,015,008	987,045
Revenues less direct expenses	874,629	805,366
Operating expenses (note 14):		
Administrative expenses	90,597	83,031
Special operating costs (note 7)	1,205	500
Amortization	24,724	20,905
Less: Interest and other income	(1,316)	(2,906)
	115,210	101,530
Income before special policing costs and GST expense	759,419	703,836
Special policing costs (note 8)	543	—
GST expense	31,233	32,899
Net income	\$ 727,643	\$ 670,937
Allocation of net income:		
Government of British Columbia	\$ 719,731	\$ 659,862
Government of Canada (note 9)	7,912	7,767
Payments pursuant to ministerial direction (note 10)	—	3,308
	\$ 727,643	\$ 670,937

Segmented information (note 14)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF AMOUNTS DUE TO GOVERNMENT OF BRITISH COLUMBIA

Year ended March 31, 2004, with comparative figures for 2003

(in thousands of dollars)	2004	2003
Balance, beginning of year	\$ 58,105	\$ 50,074
Net income	727,643	670,937
	785,748	721,011
Payments to Government of British Columbia	707,420	655,139
Allocation of income to Government of Canada	7,912	7,767
	715,332	662,906
Due to Government of British Columbia	\$ 70,416	\$ 58,105

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2004, with comparative figures for 2003

(in thousands of dollars)	2004	2003
Cash provided by (used in):		
OPERATIONS :		
Net income	\$ 727,643	\$ 670,937
Adjustments for:		
Amortization of property, plant and equipment	24,724	20,905
	752,367	691,842
Changes in non-cash operating items	(9,269)	13,653
	743,098	705,495
FINANCING :		
Payments to Government of British Columbia	(707,420)	(655,139)
Allocation of income to Government of Canada	(7,912)	(7,767)
	(715,332)	(662,906)
INVESTMENTS :		
Additions to property, plant and equipment	(48,975)	(29,592)
Increase (decrease) in cash	(21,209)	12,997
Cash, beginning of year	93,970	80,973
Cash, end of year	\$ 72,761	\$ 93,970

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2004 and 2003

(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.

(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
Building and leasehold improvements	5 years
Furniture and equipment	5 years
Computer systems	3 years
Online gaming terminals	3 years
Pull tab vending machines	3 years
Signs and fixtures:	
Computer	3 years
Non-computer	5 years
Bingo equipment	3 years
Casino equipment	3 years

Amortization is prorated in the year the assets are put in use.

(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.

(in thousands of dollars)

2. Significant accounting policies (continued):

(D) EMPLOYEE FUTURE BENEFITS (CONTINUED):

- For the purpose of calculating expected return on plan assets, those assets are valued at fair market value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.
- 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.

(E) REVENUE RECOGNITION:

Lottery games:

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

Bingo games:

Revenue from the operation of paper, electronic, and linked Bingo and the associated selling costs and prize expenses are included in the statement of income in the same period the game is played.

Casinos:

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

(F) PRIZE EXPENSES:

Lottery prize expenses are recorded based on the theoretical prize liability expected for each game. The actual expense incurred each year will vary from this estimate 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. Expired prize funds are to be paid out to the player in the form of bonus prizes and/or bonus draw promotions.

(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. At year end, the Corporation has not deferred any software development costs.

(H) 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, prizes payable and expense, and GST liability and expense. Actual results could differ from those estimates.

(I) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (PAGE 3)

Years ended March 31, 2004 and 2003

(in thousands of dollars)

3. Accounts receivable:

	2004	2003
Retail	\$ 42,407	\$ 44,963
Other	1,625	3,654
	<u>\$ 44,032</u>	<u>\$ 48,617</u>

4. 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	
	2004	2003	2004	2003
ACCRUED BENEFIT OBLIGATION				
Balance at beginning of year	\$ 40,589	\$ 34,901	\$ 20,011	\$ 12,991
Adjustment for supplementary plan at October 1, 2003	1,172	-	-	-
Adjustment for Early Retirement Program	-	1,700	-	-
Current service cost	1,532	1,403	1,099	919
Interest cost	3,139	2,787	1,413	1,038
Employee contributions	1,361	1,267	-	-
Benefits paid	(1,250)	(1,469)	(298)	(212)
Actuarial loss (gain)	7,835	-	3,061	5,275
Balance at end of year	<u>54,378</u>	<u>40,589</u>	<u>25,286</u>	<u>20,011</u>
PLAN ASSETS				
Fair value at beginning of year	35,578	39,117	-	-
Annual return on plan assets	8,324	(5,162)	-	-
Employer contributions	3,904	1,825	298	212
Employee contributions	1,361	1,267	-	-
Benefits paid	(1,250)	(1,469)	(298)	(212)
Balance at end of year	<u>47,917</u>	<u>35,578</u>	<u>-</u>	<u>-</u>
Funded status - surplus (deficit)	(6,461)	(5,011)	(25,286)	(20,011)
Unamortized past service cost	1,113	-	-	-
Unamortized net actuarial loss (gain)	10,613	8,894	9,123	6,204
Accrued pension plan benefit asset (liability)	<u>\$ 5,265</u>	<u>\$ 3,883</u>	<u>\$ (16,163)</u>	<u>\$ (13,807)</u>

(in thousands of dollars)

4. Employee future benefits (continued):

Every three years an actuarial valuation is performed to assess the financial position of the pension plan. An actuarial valuation was made as of April 1, 2003 by Mercer Human Resource Consulting, a firm of consulting actuaries and then extrapolated to March 31, 2004. The Corporation will be having a valuation completed as of March 31, 2006. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows:

	Pension Plans		Post Retirement Benefit Plans	
	2004	2003	2004	2003
<u>AT BEGINNING OF PERIOD:</u>				
Discount rate	7.5%	7.5%	7.5%	7.5%
Expected rate of return on plan assets	7.0%	7.0%	—	—
Rate of compensation increase	5.0%	5.0%	—	—
Health care cost trend rate:				
2004/2003	—	—	6.17%	5.10%
Ultimate	—	—	4.21%	4.10%
Year ultimate reached	—	—	2010	2005
<u>AT END OF PERIOD:</u>				
Discount rate	6.5%	7.5%	6.5%	7.5%
Rate of compensation increase	4.5% for RPP	5.0%	—	—

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

	Pension Plans		Post Retirement Benefit Plans	
	2004	2003	2004	2003
Current service cost, net of employees' contributions (including provision for plan expenses)	\$ 1,532	\$ 1,403	\$ 1,099	\$ 919
Interest cost	3,139	2,787	1,413	1,038
Expected return on plan assets	(2,553)	(2,786)	—	—
Amortization of net actuarial loss (gain)	345	—	142	—
Amortization of past service cost	59	—	—	—
Net benefit plan expense	\$ 2,522	\$ 1,404	\$ 2,654	\$ 1,957

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (PAGE 5)

Years ended March 31, 2004 and 2003

(in thousands of dollars)

5. Property, plant and equipment:

			2004	2003
	Cost	Accumulated amortization	Net	Net
Land	\$ 700	\$ —	\$ 700	\$ 700
Building and leasehold improvements	23,715	21,897	1,818	2,390
Furniture and equipment	4,706	4,151	555	679
Computer systems	33,775	24,730	9,045	1,783
On-line gaming terminals	47,926	40,960	6,966	3,040
Pull tab vending machines	8,345	8,131	214	347
Signs and fixtures	9,540	7,260	2,280	1,890
Bingo equipment	22,834	18,831	4,003	4,687
Casino equipment	86,577	57,052	29,525	15,339
	\$ 238,118	\$ 183,012	\$ 55,106	\$ 30,855

6. Revenues:

	2004	2003
LOTTERY:		
Keno	\$ 221,219	\$ 226,335
Scratch & Win	185,255	183,321
Lotto 6/49	161,000	171,682
Lotto Super 7	119,662	111,156
Pull Tab	87,611	94,433
Extra	70,551	72,184
BC/49	60,988	64,656
Sports Action	33,692	30,384
Living Large Lottery	8,705	7,989
Daily 3	4,262	4,393
Chaser	3,065	2,076
Special Event	4,421	—
	960,431	968,609
BINGO:		
Bingo paper retail	107,497	116,214
Starship Bingo	64,852	55,816
SuperStar Gold	10,226	11,867
Handheld Bingo	13,146	11,781
	195,721	195,678
CASINO - NET WIN:		
Slot machines	463,547	373,627
Table games	269,938	254,497
	733,485	628,124
Total revenues	\$1,889,637	\$1,792,411

(in thousands of dollars)

7. Special operating costs:

Special operating costs relate to the estimated restructuring costs associated with the Corporation's Core Services Review. Included in the costs are employee severance and early retirement costs and other costs related to the restructuring of the business.

8. Special policing costs:

In February 2003, based on direction from the provincial government, the Integrated Illegal Gaming Enforcement team (IIGET) was established. The financial resources required to operate 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.

9. Payments to Government of Canada:

The Interprovincial Lottery Corporation (I.L.C.) 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 I.L.C. Payments under this agreement are estimated to be \$8,200 for the next fiscal year ending March 31, 2005.

10. Payments pursuant to ministerial direction:

Pursuant to Section 22 of the Financial Administration Act, in fiscal 2002/03, the Corporation was directed to pay expenditures for the Problem Gambling Program.

11. Interprovincial Lottery Corporation expenses and interest revenue:

The Corporation's share of the Interprovincial Lottery Corporation (I.L.C.) prize and ticket printing costs for national games is recognized in the appropriate category of direct expenses. The Corporation's share of the I.L.C.'s interest income less operating expenses is included in interest and other income.

12. Lease obligations:

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

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

2005	\$ 1,730
2006	1,456
2007	466
2008	239
2009	145

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (PAGE 7)

Years ended March 31, 2004 and 2003

(in thousands of dollars)

13. Financial instruments:

The carrying value of accounts receivable, prizes payable, accounts payable and accrued liabilities, and the payable to the Interprovincial Lottery Corporation are recorded at cost, which approximates fair value.

14. Segmented information:

Year ended March 31, 2004

Sector of activity	Lotteries	Casinos	Bingos	Consolidated
Revenues	\$ 960,431	\$ 733,485	\$ 195,721	\$ 1,889,637
<u>DIRECT EXPENSES:</u>				
Prizes	524,527	–	118,571	643,098
Commissions	64,954	252,293	39,530	356,777
Ticket printing and bingo paper	13,075	–	2,058	15,133
	602,556	252,293	160,159	1,015,008
Revenue less direct expenses	357,875	481,192	35,562	874,629
<u>OPERATING EXPENSES:</u>				
Administrative expenses	55,171	28,633	6,793	90,597
Special operating costs	421	710	74	1,205
Amortization	4,978	16,102	3,644	24,724
Less: Interest and other income	(3,203)	1,576	311	(1,316)
	57,367	47,021	10,822	115,210
Income before special policing costs and GST expense	300,508	434,171	24,740	759,419
Special policing costs	190	319	34	543
GST expense	11,394	15,524	4,315	31,233
Net income	\$ 288,924	\$ 418,328	\$ 20,391	\$ 727,643

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (PAGE 8)

Years ended March 31, 2004 and 2003

(in thousands of dollars)

14. Segmented information (continued):

Year ended March 31, 2003				
Sector of activity	Lotteries	Casinos	Bingos	Consolidated
Revenues	\$ 968,609	\$ 628,124	\$ 195,678	\$1,792,411
<u>DIRECT EXPENSES:</u>				
Prizes	532,016	–	118,167	650,183
Commissions	65,404	218,328	38,012	321,744
Ticket printing and bingo paper	12,856	–	2,262	15,118
	610,276	218,328	158,441	987,045
Revenue less direct expenses	358,333	409,796	37,237	805,366
<u>OPERATING EXPENSES:</u>				
Administrative expenses	51,020	25,365	6,646	83,031
Special operating costs	191	275	34	500
Amortization	5,014	11,687	4,204	20,905
Less: Interest and other income	(2,840)	(121)	55	(2,906)
	53,385	37,206	10,939	101,530
Income before GST expense	304,948	372,590	26,298	703,836
GST expense	11,402	17,966	3,531	32,899
Net income	\$ 293,546	\$ 354,624	\$ 22,767	\$ 670,937



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