

**2017-2018 Annual Report**  
**New Brunswick Lotteries and Gaming Corporation**

## **2017-2018 Annual Report**

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Hon. Ernie L. Steeves  
Minister of Finance and Treasury Board  
Province of New Brunswick

We are pleased to submit to you the Annual Report of the New Brunswick Lotteries and Gaming Corporation for the fiscal year ended March 31, 2018.



David Nowlan  
Director



Cheryl Hansen  
Vice-Chair



## **NEW BRUNSWICK LOTTERIES AND GAMING CORPORATION**

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Under the *Gaming Control Act* (the *Act*), the New Brunswick Lotteries and Gaming Corporation (NBLGC) was established as a Crown corporation responsible for developing, organizing, conducting and managing all provincial gaming as required by paragraph 207(1)(a) of the *Criminal Code* of Canada.

Section 5 of the *Act* lays out the objects of the NBLGC:

- To develop, organize, undertake and conduct and manage lottery schemes on behalf of the government of the Province (or on behalf of the government of the Province and another Provincial government)
- Ensure those lottery schemes are conducted and managed in accordance with the *Criminal Code* of Canada, the *Act* and applicable regulations, and;
- To do such other things in respect of lottery schemes as the Lieutenant Governor in Council may require.

The NBLGC has two additional areas of responsibility in addition to its core “conduct and management of lottery schemes” mandate:

- The development and implementation of a responsible gaming policy and;
- The management of the gaming revenue sharing arrangements with First Nations

The NBLGC’s three current lines of business (i.e. approved lottery schemes) are: video lottery, ticket lotteries and casino gaming. The Atlantic Lottery Corporation (ALC) operates the video lottery and ticket lottery lines of business on behalf of its shareholder, the NBLGC. As the provincial shareholder, the NBLGC is responsible for managing the oversight and accountability relationship with the ALC and appointing directors to represent the shareholder on the board of the ALC.

Casino gaming is operated by two private service providers via contractual service provider agreements: Great Canadian Gaming New Brunswick, Inc. (Casino New Brunswick) and Grey Rock Entertainment Center Inc. (Grey Rock Casino). The NBLGC exercises its conduct and manage responsibility through the management of those service provider agreements and the oversight of casino operations.

## **GOVERNANCE**

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### **Board of Directors**

The business and affairs of the NBLGC are administered by a board of directors, which consists of the Minister of Finance, the Deputy Minister of Finance, and two senior civil servants appointed by the Lieutenant-Governor in Council. The *Act* requires that one of the appointees be a senior official from the Department of Health. The NBLGC, through its board, is ultimately responsible to the Government of New Brunswick.

At March 31, 2018, the members of the board of directors were:

- Hon. Cathy Rogers, Minister of Finance (Chair)
- Nicole Picot, Deputy Minister of Finance (Vice-Chair)
- Tom Maston, Deputy Minister of Health
- David Nowlan, Assistant Comptroller

### **Officers and Support Staff**

There are three officers of the corporation as established by the by-laws:

- Chief Operating Officer (COO)
- Secretary
- Treasurer

These officers have specific duties as laid out in the by-laws as well as any other duties as may be stipulated by the board. Currently, all three officers of the corporation are employees of the Province

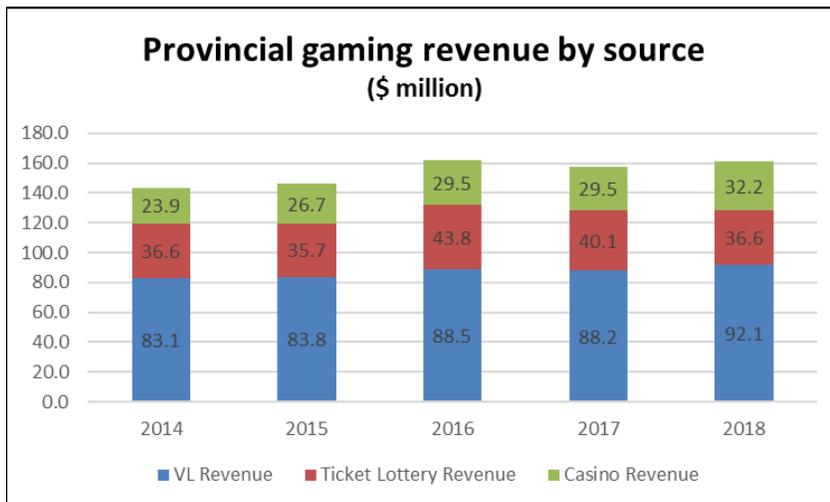
of the New Brunswick. The NBLGC also receives additional support and staff services from the Agency Relations and Corporate Services division of the Department of Finance.

## 2017-2018 HIGHLIGHTS

The NBLGC receives the net profits from the operations of the Atlantic Lottery Corporation in New Brunswick and an allocation of gross gaming revenue from provincial casino operations (Casino New Brunswick and Grey Rock Casino) as per the terms of the service provider agreements.

### Gaming Revenue

A total of \$160.9 million of gaming revenue was received in 2017-2018.



In 2017-2018:

- NBLGC's casino gaming revenue was \$32.2 million, a slight increase from the previous year.
- NBLGC's revenue from the video lottery and traditional lottery was \$128.7 million, which is \$0.4 million more than the previous year.

Under section 78 of the *Act*, the cost of administering the *Act* shall be paid out of proceeds (i.e., revenues) of the NBLGC. Costs include the administration and regulation of the *Act* (Department of Finance and Department of Public Safety, respectively).

In 2017-2018, the annual surplus of \$138.1 million was provided to the Province of New Brunswick and used to fund important provincial programs such as health care and education programs.

Additional details can be found in the NBLGC's 2017-2018 Financial Statements included in this report.

<b>2017-2018</b>	
<b>Where does the money go?</b>	(million)
• Surplus to the Province	\$138.1
• Arts Development Trust Fund	\$0.7
• Sports Development Trust Fund	\$0.5
• Payments to First Nations	\$13.6
• Other	\$4.7

### Casino Gaming

#### Casino New Brunswick

The NBLGC manages the service provider agreement with the casino operator for *Casino New Brunswick*. Great Canadian Gaming (NB) Limited is the casino service provider for *Casino New Brunswick*. This was the seventh year of operation for *Casino New Brunswick* which is located in Moncton along the Trans-Canada Highway on Mountain Road.

The destination casino complex is comprised of three distinct buildings integrated into one linear design: a hotel, a multifunction entertainment and convention centre hosting a variety of events including concerts and conferences, and the casino.

In 2017-2018, the casino offered approximately 635 slots, 18 table games and 6 Poker tables and had over 1.5 million visitors.

### **Grey Rock Casino**

The NBLGC manages the service provider agreement with the casino operator for the *Grey Rock Casino*, located on the Madawaska Maliseet First Nation (Edmundston). Grey Rock Entertainment Center Inc. is the casino service provider for the Grey Rock Casino and this was the casino's third year of operation.

In 2017-2018, the casino offered approximately 173 slots, 2 electronic table games and 4 Poker tables and had over 199,000 visitors.

### **Video Lottery and Traditional Lottery**

The New Brunswick government does not directly operate lotteries but is a shareholder in the Atlantic Lottery Corporation (ALC) and the Interprovincial Lottery Corporation (ILC). The NBLGC is the Province's shareholder in the ALC.

The ALC, a jointly-owned corporation of the four Atlantic provinces, operates the video lottery program and traditional lottery on behalf of the NBLGC.

The ALC also handles and markets the products of the ILC. The ILC is a jointly owned corporation of the 10 Canadian provinces. In 2017-2018, ILC Draw products were Lotto Max, Lotto 6/49 and Daily Grand. – all national lottery games. In 2017-2018, ILC Instant products were The Walking Dead, Dream Makeover, Classic Sapphire, Super Set for Life, Cash Explosion, Instant Lotto 6/49, Holiday Diamonds, 100x Multiplier, Mega Cash, X Money, and Multi-Millionaire

In 2017-2018, in the New Brunswick market, the ALC offered the following products:

- **Video Lottery games**
- **National draw games:** Lotto 6/49, Lotto Max and Daily Grand
- **Regional draw games:** Atlantic 49, Keno Atlantic, Bucko, Lotto 4, Poker Lotto, Salsa Bingo, TAG and TWIST
- **Sports games:** PRO•LINE, PRO•LINE Stadium Parlay, PRO•LINE Fantasy and PRO•LINE Futures
- **Scratch'n Win games** at various price points, including Lucky 7, Bingo, Crossword, Set for Life! and Super Pack
- **Breakopen games** at various price points, including Super Bar, Criss Cross, Bar 10 Bonus and Flaming 7's
- **iBingo:** various games such as Atlantic Bingo, Kitchen Party Bingo, East Coast Bingo, Lighthouse Bingo, Wave Bingo and Oceanside Bingo
- **Mini Games:** various games such as Money Mayhem, Tropical 8's, VIP Gold, Crossword Riches and Colour Cubes
- **Pick'n Click:** various games such as Lobster Chase, Diamond Hunt, Lucky Dice, 3 Card Poker, Shootout and Crossword
- **Digital Instants:** various games such as Casino Roll, Crossword, Instant Lotto 649, Monopoly, Cash Buster, Slingo and Lucky Lines

## Responsible Gaming

The NBLGC is responsible for the development and implementation of the Province's responsible gaming policy. The responsible gaming activities in 2017-2018 included:

### Funding to Addiction and Mental Health Services

From the annual surplus provided to the Province, over \$1 million was made available to fund addiction services programs with a focus on prevention, treatment and rehabilitation services at the Department of Health.

### Responsible Gaming Information Area at Grey Rock Casino

The unmanned Responsible Gaming information area at the Grey Rock Casino includes a variety of informative responsible gaming materials, provided by the NBLGC, and a seating area where patrons, casino staff and others can learn about responsible gaming.

### Responsible Gaming Information Centre (RGIC)

The RGIC is located at Casino New Brunswick and is a service established by the NBLGC through a contracted service provider.

The RGIC is staffed, managed and trained by Morneau Shepell.

The RGIC is available to casino patrons, casino staff, members of the public, and other professionals wishing information about responsible gaming.

In 2017-2018, a total of 2,433 people visited the RGIC.

#### **RGIC at Casino New Brunswick**

The RGIC provides a variety of materials designed to help inform and educate players and others:

- about gambling in general (e.g., odds, randomness, myths);
- on how to gamble responsibly (e.g., tips for keeping gambling fun, best practices);
- about the signs of problem gambling and available treatment services; and
- on the casino's Voluntary Self-Exclusion program.

## First Nations

The NBLGC shares gaming revenue with First Nations as provided for in section 24 of the Gaming Control Act. The object of the revenue sharing agreement is to encourage compliance with provincial gaming policy and to foster economic and community development. The NBLGC is responsible for the management of the gaming revenue sharing agreements with First Nations.

### Summary of recommendations from the office of the Auditor General: Section 1

Name and year of audit area	Recommendations
	Total
Audit of the NBLGC Financial Statements 2017-2018, 2016-2017	3

Recommendations	Current Status
<p><b>We again recommend the Department of Finance and NBLGC resolve recovery of the unauthorized overpayments that were made to First Nations prior to January 1, 2016 as a result of an error in the calculation of gaming revenue.</b></p>	<p>NBLGC will seek direction from government on this issue.</p>
<p><b>We recommend management of NBLGC and its Board discuss and document risk regarding the entity's portion of ALC debt and Casino Revenue, and take appropriate steps to mitigate and monitor those risks. Management and the Board should consider including these items on the corporate risk register for regular monitoring and future follow-up.</b></p>	<p>In collaboration with the ALC, NBLGC has worked to assess the legal and financial implications of ALC's debt for the NBLGC and its own operations.</p> <p>NBLGC will amend its corporate risk register to more accurately reflect and monitor the implications of ALC debt risk for the NBLGC.</p>
<p><b>We again recommend NBLGC obtain and review support for third party journal entries used to calculate significant amounts. This review should be documented and retained for audit purposes.</b></p>	<p>The NBLGC works with staff of the Department of Justice and Public Safety to jointly review support for journal entries which may be used to calculate significant amounts in the NBLGC financial statements.</p>

**Summary of Recommendations from the Office of the Auditor General Previous Years:  
Section 2**

Name and year of audit area	Recommendations	
	Total	Accepted
<p><b>Audit of the NBLGC Financial statements 2015-2016</b></p>	4	4
<p><b>Audit of the NBLGC Financial statements 2014-2015</b></p>	3	3
<p><b>Special Examination of the Financial Audit of New Brunswick Lotteries and Gaming Corporation 2014-2015</b> <a href="https://www2.gnb.ca/content/dam/agnb-vgnb/pdf/Reports-Rapports/2015V3/Chap5e.pdf">https://www2.gnb.ca/content/dam/agnb-vgnb/pdf/Reports-Rapports/2015V3/Chap5e.pdf</a></p>	6	6
<p><b>Audit of the NBLGC Financial statements 2013-2014</b></p>	3	3



FINANCIAL STATEMENTS

NEW BRUNSWICK LOTTERIES AND GAMING CORPORATION

31 MARCH 2018



## INDEPENDENT AUDITOR'S REPORT

To the Chairperson and Board of Directors of the New Brunswick Lotteries and Gaming Corporation

I have audited the accompanying financial statements of New Brunswick Lotteries and Gaming Corporation, which comprise the statement of financial position as at March 31, 2018, and the statement of operations, statement of change in accumulated surplus, statement of change in net financial assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the New Brunswick Lotteries and Gaming Corporation as at March 31, 2018, and the results of its operations, changes in its accumulated surplus, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in blue ink that reads "Kim MacPherson". The signature is written in a cursive, flowing style.

Kim MacPherson, FCPA, CA, ICD.D  
Auditor General

Fredericton, NB  
March 25, 2019

## Management Report

March 31, 2018

The preparation of the financial information is an integral part of management's responsibilities and the accompanying financial statements are the responsibility of the management of the New Brunswick Lotteries and Gaming Corporation (NBLGC).

The NBLGC has an accounting system and related controls to provide management and the Board of Directors with reasonable assurance that transactions are executed and recorded as authorized, that assets are properly safeguarded and accounted for, and that financial records are reliable for the preparation of financial statements in accordance with Canadian public sector accounting standards.

It is the responsibility of the NBLGC's Board of Directors to oversee management's performance of its financial reporting responsibilities and to review and approve the financial statements. The Board reviews and recommends approval of the financial statements, and meets periodically with management and the external auditors concerning internal controls and other financial matters.



Cheryl Hansen  
Deputy Minister, Finance  
Vice-Chairperson, NBLGC



Patricia Steeves  
Chief Operating Officer, NBLGC



**New Brunswick Lotteries and Gaming Corporation**  
**Statement of Financial Position**  
**as at 31 March**

<b>Financial Assets</b>	<b>2018</b>	<b>2017</b>
Due from Province of New Brunswick - Note 4a	\$ 1,591,233	\$ 1,984,765
Accounts Receivable - Note 4b	5,170,880	4,415,243
Investments:		
Investment in Atlantic Lottery Corporation Inc. - Note 6	8,883,945	4,396,521
Investment in share capital of Interprovincial Lottery Corporation	1	1
<b>Total Financial Assets</b>	<b>\$ 15,646,059</b>	<b>\$ 10,796,530</b>

<b>Liabilities</b>		
Accounts Payable - Note 5	\$ 6,421,948	\$ 5,961,046
HST Payable	118,830	272,371
Deferred revenue	221,335	166,591
<b>Total Liabilities</b>	<b>\$ 6,762,113</b>	<b>\$ 6,400,008</b>

<b>Net Financial Assets</b>	<b>\$ 8,883,946</b>	<b>\$ 4,396,522</b>
<b>Accumulated Surplus</b>	<b>\$ 8,883,946</b>	<b>\$ 4,396,522</b>

Contingent Liabilities - Note 12

The accompanying notes are an integral part of these Financial Statements.

Approved by the Corporation

  
 \_\_\_\_\_ Director

  
 \_\_\_\_\_ Director

**New Brunswick Lotteries and Gaming Corporation**  
**Statement of Operations**  
**for the year ended 31 March**

<b>Revenues</b>	<b>2018 Budget</b>	<b>2018</b>	<b>2017</b>
Investment Income from ALC Inc. - Note 6	\$ 121,957,000	\$ 128,673,219	\$ 128,246,111
Casino New Brunswick - Note 7	30,200,000	30,252,903	29,241,854
Grey Rock Casino - Note 7	1,000,000	1,918,080	225,128
Other revenue	500,000	466,395	558,711
<b>Total Revenues</b>	<b>\$ 153,657,000</b>	<b>\$ 161,310,597</b>	<b>\$ 158,271,804</b>
<b>Expenses</b>			
Payments to First Nations under Revenue Sharing Agreements - Note 8	\$ 14,000,000	\$ 13,623,747	\$ 14,245,204
Contribution to Arts Development Trust Fund - Note 9	700,000	700,000	700,000
Contribution to Sports Development Trust Fund - Note 9	500,000	500,000	500,000
Taxes - Note 10	4,500,000	4,679,133	4,112,277
Distribution to the Province of New Brunswick - Note 11	130,257,000	138,056,941	134,994,835
<b>Total Expenses</b>	<b>\$ 149,957,000</b>	<b>\$ 157,559,821</b>	<b>\$ 154,552,316</b>
<b>Annual Surplus - Note 2c</b>	<b>\$ 3,700,000</b>	<b>\$ 3,750,776</b>	<b>\$ 3,719,488</b>

The accompanying notes are an integral part of these Financial Statements.

**New Brunswick Lotteries and Gaming Corporation**  
**Statement of Change in Net Financial Assets/(Debt)**  
**for the year ended 31 March**

	2018 Budget	2018	2017
<b>Net Financial Assets/(Debt) - Beginning of Year</b>	\$ 4,396,522	\$ 4,396,522	\$ (2,653,955)
<b>Changes in Year</b>			
Annual Surplus	\$ 3,700,000	\$ 3,750,776	\$ 3,719,488
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value - Note 6	-	884,172	260,458
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits - Note 6	-	(147,524)	3,070,531
<b>Increase in Net Financial Assets</b>	<u>\$ 3,700,000</u>	<u>\$ 4,487,424</u>	<u>\$ 7,050,477</u>
<b>Net Financial Assets - End of year</b>	<u><u>\$ 8,096,522</u></u>	<u><u>\$ 8,883,946</u></u>	<u><u>\$ 4,396,522</u></u>

**New Brunswick Lotteries and Gaming Corporation**  
**Statement of Change in Accumulated Surplus/(Deficit)**  
**for the year ended 31 March**

	2018 Budget	2018	2017
<b>Accumulated Surplus/(Deficit) - Beginning of Year</b>	\$ 4,396,522	\$ 4,396,522	\$ (2,653,955)
Annual Surplus	\$ 3,700,000	\$ 3,750,776	\$ 3,719,488
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value - Note 6	-	884,172	260,458
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits - Note 6	-	(147,524)	3,070,531
<b>Accumulated Surplus - End of Year</b>	<u>\$ 8,096,522</u>	<u>\$ 8,883,946</u>	<u>\$ 4,396,522</u>

The accompanying notes are an integral part of these Financial Statements.

**New Brunswick Lotteries and Gaming Corporation**  
**Statement of Cash Flow**  
**for the year ended 31 March**

	2018	2017
<b>Cash and Cash Equivalents Generated by (used in):</b>		
<b>Operating Activities</b>		
Annual Surplus	\$ 3,750,776	\$ 3,719,488
Decrease (Increase) to Accounts Receivable	\$ (755,637)	\$ (1,777,121)
(Decrease) Increase to Accounts Payable	460,902	1,545,341
(Decrease) Increase to HST Payable	(153,541)	15,148
(Decrease) Increase to Deferred Revenue	54,744	(83,534)
<b>Net Cash Used in Operating Activities</b>	<b>\$ 3,357,244</b>	<b>\$ 3,419,322</b>
<b>Investing Activities</b>		
Increase in Investments	\$ (4,487,424)	\$ (7,050,477)
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value	884,172	260,458
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits	(147,524)	3,070,531
<b>Net Cash Used in Investing Activities</b>	<b>\$ (3,750,776)</b>	<b>\$ (3,719,488)</b>
<b>Decrease in Cash and Cash Equivalents During The Year</b>	<b>\$ (393,532)</b>	<b>\$ (300,166)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>\$ 1,984,765</b>	<b>\$ 2,284,931</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,591,233</b>	<b>\$ 1,984,765</b>
	2018	2017
<b>Cash and Cash Equivalents represented by:</b>		
Due From Province of New Brunswick	\$ 1,591,233	\$ 1,984,765

The accompanying notes are an integral part of these Financial Statements.

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2018**

**1. Nature of the Corporation**

The New Brunswick Lotteries and Gaming Corporation (NBLGC) is a Crown Corporation under the Gaming Control Act established June 26, 2008.

The NBLGC is responsible for developing, organizing, conducting and managing provincial lottery schemes on behalf of the Province. The approval of those lottery schemes and the NBLGC's participation in any other business activities which fall outside of recognized lottery schemes, must be provided by the Lieutenant-Governor in Council. The NBLGC is also responsible for the development and implementation of the Province's responsible gaming policy and for managing agreements with casino service providers with private third parties for the operation of casinos in the province. The NBLGC is the Province's shareholder in the Atlantic Lottery Corporation Inc. (ALC Inc.), which is a jointly-owned corporation of the four Atlantic Provinces. ALC Inc. operates the ticket lottery and video lottery programs on behalf of the Province. ALC Inc. also markets and handles regionally the products of the Interprovincial Lottery Corporation (ILC) an organization that operates national lottery games in Canada, owned jointly by the ten provinces. The NBLGC also manages the provincial gaming revenue sharing agreements with First Nations.

**2. Summary of significant accounting policies**

**a) Basis of accounting**

These financial statements are prepared in accordance with Canadian public sector accounting standards.

**b) Specific Accounting Policies**

Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

Deferred Revenue

The Province of New Brunswick requires that charitable/non-profit groups pay a fee for licenses for gaming activities such as bingo, raffles, etc. In addition, gaming suppliers and gaming assistants, as defined by regulations under the *Gaming Control Act*, are required to be registered under the act and to pay a registration fee. A portion of these fees are unearned as at March 31, 2018. This amount is deferred and will be recognized as revenue as it is earned.

Government Transfers

Government transfers are transfers of money, such as grants, to an organization for which the NBLGC does not receive any goods or services directly in return. They are recognized in the NBLGC's financial statements as expenses in the period the events underlying the transfer occurred, as long as the transfer is authorized and eligibility criteria have been met. Government transfers are comprised of contributions to the Arts Development Trust Fund and the Sports Development Trust Fund.

**c) Changes in Accounting Policy**

Effective 1 April 2017, the NBLGC adopted the following Canadian public sector accounting standards: PS 3380 – Contractual Rights, PS 3210 – Assets, and PS 3320 – Contingent Assets. No additional recognition

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2018**

**Note 2 continued**

or disclosures were required as a result of the adoption of these standards. The NBLGC also adopted PS 3420 – Inter-entity Transactions. Changes have been reflected in the financial statements and the impacts of this change on the financial statements are described in Note 11. PS 2200 – Related Party Disclosures was also adopted resulting in additional disclosure in Note 11. The financial statements of prior periods, including comparative figures, have not been restated.

**d) Investments**

The NBLGC uses the modified equity method to account for its investment in ALC Inc. Under the modified equity method the investment is initially recognized at cost and subsequently the carrying amount is increased or decreased to recognize the NBLGC's share of income or losses from the investment and reduced by distributions received. The accounting policies of ALC Inc. are not adjusted to conform to those of NBLGC.

The NBLGC uses the cost method to account for its investment in the Interprovincial Lottery Corporation.

**e) Financial Instruments**

Financial instruments consist of amounts due from Province of New Brunswick, accounts receivable, accounts payable and HST payable, all of which are recognized at cost and are assumed to approximate their fair value due to the short term to maturity. Financial instruments are recognized when the NBLGC becomes a party to the contractual rights and obligations of the financial instrument.

Financial instruments are derecognized when the contractual rights to the cash flows from the financial asset have expired or have been transferred, and the NBLGC has transferred substantially all risks and rewards of ownership, or are derecognized when the contractual obligation has been discharged, cancelled, or has expired.

**f) Measurement Uncertainty**

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Items requiring the use of significant estimates include HST payable on gaming revenue, accounts receivable and allowance for doubtful accounts on the First Nations accounts receivable. Also, amounts recorded in ALC Inc. financial statements such as the useful lives of tangible and intangible assets, impairment of non-financial assets, accrued liabilities, employee future benefits, development costs, fair value of financial instruments and liabilities for unclaimed prizes, which all impact the net distribution and allocation of undistributed income or loss to the NBLGC. Actual results could differ from the estimates made by management in these financial statements, and these differences, which may be material, could require adjustments in subsequent reporting periods. Due to the unpredictability of future events, the extent of the measurement uncertainty cannot be reasonably estimated.

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2018**

**3. Risk Management**

An analysis of risk from the NBLGC's financial instruments is provided below:

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. Accounts receivable are disclosed in Note 4. The NBLGC's maximum exposure to credit risk at March 31, 2018 is equal to the accounts receivable balance of \$19,913,929 and amounts due from the Province of New Brunswick for \$1,591,233. An allowance for doubtful accounts in the amount of \$14,743,049 has been established. The remaining balances are due from related parties of the NBLGC and are considered low risk based on collection history.

b) Liquidity risk

Liquidity risk is the risk of not being able to settle or meet an obligation on time or at a reasonable price. Liquidity risk is managed through the Province's consolidated fund in order to meet operating and capital requirements. Management has determined liquidity risk to be insignificant.

c) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The NBLGC's management considers exposure to interest rate risk to be insignificant.

d) Currency risk

Currency risk arises on financial instruments denominated in a foreign currency. The NBLGC's management considers exposure to currency risk to be insignificant.

**4. Accounts Receivable**

a) Due from Province of New Brunswick (PNB) – Cash and Cash Equivalents

The NBLGC uses the provincial consolidated fund as its bank account. Funds are deposited to and cheques are issued from this account to meet NBLGC's obligations. The amounts in the table below are not available to PNB for general purposes. A receivable from PNB has been recorded for these amounts as detailed below:

	<u><b>2018</b></u>	<u><b>2017</b></u>
HST Payable	\$118,830	\$272,371
Deferred Revenue	221,335	166,591
Payables to First Nations	1,251,068	1,445,803
Payable Sports Development Trust Fund	-	100,000
Due from Province of New Brunswick	<u><u>\$1,591,233</u></u>	<u><u>\$1,984,765</u></u>

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2018**

**Note 4 continued**

b) Accounts Receivable

	<u><b>2018</b></u>	<u><b>2017</b></u>
ALC Inc.	\$2,592,078	\$3,362,494
First Nations	14,743,049	14,743,049
Grey Rock Entertainment Center Inc.	1,918,080	225,128
Great Canadian Gaming (New Brunswick) Ltd. (GCGNB)	660,722	827,621
	<u>19,913,929</u>	<u>19,158,292</u>
Less: Allowance for Doubtful Accounts	<u>14,743,049</u>	<u>14,743,049</u>
	<u><u>\$5,170,880</u></u>	<u><u>\$4,415,243</u></u>

**5. Accounts Payable**

	<u><b>2018</b></u>	<u><b>2017</b></u>
Distributions to Province of New Brunswick	\$5,170,880	\$4,415,243
Payable to First Nations	1,251,068	1,445,803
Payable Sports Development Trust Fund	-	100,000
	<u>\$6,421,948</u>	<u>\$5,961,046</u>

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**6. Investment in Atlantic Lottery Corporation Inc. – Surplus**

6.1 The following tables present condensed financial information of the Atlantic Lottery Corporation Inc. (ALC Inc.) and NBLGC's share of its investment in ALC Inc.

<b>Balance Sheet</b> (\$ thousands)	<b>2018</b>		<b>2017</b>	
	<b>ALC Inc.</b>	<b>NBLGC Share</b>	<b>ALC Inc.</b>	<b>NBLGC Share</b>
<b>Assets</b>	<b>\$249,252</b>		<b>\$259,702</b>	
<b>Liabilities</b>	215,487		242,865	
<b>Shareholders' Equity</b>				
Retained Earnings	31,131	8,041	17,503	4,437
Accumulated Other Comprehensive Income/(Loss)	2,633	843	(667)	(41)
Share capital	1	-	1	-
<b>Total Retained Earnings</b>	<b>\$33,765</b>	<b>\$8,884</b>	<b>\$16,837</b>	<b>\$4,396</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$249,252</b>		<b>\$259,702</b>	

**Statement of Operations**

(\$ thousands)

Gross Profit	\$607,625		\$614,008	
Expenses	(136,187)		(140,918)	
Other income (expenses)	69		1,284	
Taxes & Payments to Federal Government	(52,282)		(52,442)	
<b>Net profit</b>	<b>\$419,225</b>	<b>\$128,673</b>	<b>\$421,932</b>	<b>\$128,246</b>
<b>Investment Income from ALC Inc.</b>		<b>\$128,673</b>		<b>\$128,246</b>

**New Brunswick Lotteries and Gaming Corporation**  
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**Note 6.1 continued**

	2018		2017	
	ALC Inc.	NBLGC Share	ALC Inc.	NBLGC Share
<b><u>Changes in Retained Earnings</u></b>				
<b><u>(Calculation of Retained Earnings)</u></b>				
<b>(\$ thousands)</b>				
<b>Retained Earnings, Beginning of Year</b>	<b>\$17,503</b>	<b>\$4,437</b>	<b>\$(6,738)</b>	<b>\$(2,353)</b>
Net Profit	419,225	128,673	422,067	128,246
Employee Future Benefits				
Change in Actuarial Assumptions	(492)	(147)	10,235	3,071
Distributed to Shareholders	(405,105)	(124,922)	(408,061)	(124,527)
<b>Retained Earnings, End of Year</b>	<b>\$31,131</b>	<b>\$8,041</b>	<b>\$17,503</b>	<b>\$4,437</b>
<b><u>Changes in Accumulated Other</u></b>				
<b><u>Comprehensive Income (Loss)</u></b>				
<b>(\$ thousands)</b>				
Accumulated Other Comprehensive Loss, Beginning of Year	\$(667)	\$(41)	\$(1,906)	\$(301)
Mark to Market Instruments				
Change in Fair Value	3,300	884	1,239	260
<b>Accumulated Other Comprehensive Income(Loss), End of Year</b>	<b>\$2,633</b>	<b>\$843</b>	<b>\$(667)</b>	<b>\$(41)</b>
<b>Investment in ALC Inc. – Surplus</b>		<b>\$8,884</b>		<b>\$4,396</b>

The Shareholder deficiency that was on ALC Inc.'s 15-16 statements was a result of various adjustments required in the conversion of its accounting framework to International Financial Reporting Standards. The most significant portion of the deficit relates to employee future benefit liability.

As of March 31, 2018, New Brunswick's share of ALC Inc.'s debt is \$42.8M (2017 - \$48.7M)

**6.2 Investment Income from ALC Inc.**

The profit of ALC Inc. is distributed to each of the four provincial shareholders. The NBLGC's share for the current year, as illustrated in Note 6.1 (Statement of Operations table) represents the calculated profit of ALC Inc. in New Brunswick as determined by the *Amended and Restated Unanimous Shareholders' Agreement* ("the Agreement") signed August 8, 2000. Under the Agreement, ALC Inc.'s costs incurred for NBLGC activities such as VLT terminals, investments, interest costs, and overhead costs are deducted from the allocation of revenue for NBLGC.

During 2017-18 and 2016-17 ALC Inc. withheld a portion of this profit. The following table illustrates the net ALC Inc. profit distributed to NBLGC. Withholdings are reimbursements back to ALC which in turn increase ALC Inc.'s shareholders' equity, and increase NBLGC's investment in ALC.

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**Note 6.2 continued**

<b>Investment Income From ALC Inc.:</b>	<b>2018</b>	<b>2017</b>
<b>(\$ thousands)</b>		
NBLGC's share of Net Profit (Note 6.1)	\$128,673	\$128,246
Withheld - Special Pension Payments (Note 6.3)	(3,743)	(3,743)
Unallocated Profit	(8)	(17)
<b>Net Distribution to NBLGC</b>	<b>\$124,922</b>	<b>\$124,486</b>

**6.3 Special Pension Payments**

Between fiscal year 2006-07 and August 2013, ALC Inc. financed pension special payments through its operating line of credit. The ALC Inc.'s Board of Directors approved that, commencing in September 2013, shareholders would fund their portion of the deficit over 7 years, by way of a reduction to monthly profit payments. The impact on profit distributions for NBLGC is a decrease of approximately \$3,700,000 annually for a total impact of \$20,900,022. Repayments in 2017-18 were \$3,743,292 (2016-17- \$3,743,292) and were withheld from NBLGC's share of ALC's Net Profit payable to NBLGC as illustrated in Note 6.2

**7. Agreements with Casino Service Providers**

In 2008, the NBLGC signed a casino service provider agreement (CSPA) with Sonco Gaming New Brunswick Limited Partnership (Sonco). In October 2015, as permitted under the CSPA and approved by the NBLGC, Casino NB was sold and the CSPA transferred to a new casino service provider, Great Canadian Gaming (New Brunswick) Limited (GCGNB), a wholly owned subsidiary of Great Canadian Gaming Corporation (GCGC), a publicly traded gaming company.

In September 2014, the NBLGC signed an agreement with Grey Rock Entertainment Center, Inc. (GREC, Inc.) regarding the establishment of a casino facility at Madawaska Maliseet First Nation. The Grey Rock Casino opened on March 1st, 2015.

Effective for fiscal 2017-18 the service provider agreements were amended to eliminate variable allocation ratios at specific Gross Gaming Revenue thresholds.

In fiscal 2017-18, casino gaming revenue from GCGNB to NBLGC was \$30,252,903 (2016-17 - \$29,241,854). Total allocation of revenue to GCGNB for operational services at Casino New Brunswick was \$31,649,565; this included \$680,454 representing the retention of leased slots.

In fiscal 2017-18, casino gaming revenue from GREC to NBLGC was \$1,918,080 (2016-17 - \$225,128). Total allocation of revenue to GREC Inc. for operational services was \$8,142,447; this included \$94,026 representing the retention of leased slots.

**8. Revenue Sharing Agreements with First Nations**

Pursuant to provisions under the *Gaming Control Act*, as at 31 March 2018, eight First Nations have agreements with the Minister of Finance and have active gaming commissions and thereby receive a payment with respect to video lottery and/or breakopen ticket lottery schemes conducted on reserve. Payments to First Nations under Revenue Sharing Agreements are as follows:

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**Note 8 continued**

	<u>2018</u>	<u>2017</u>
St. Mary's First Nation	\$6,901,402	\$6,490,856
Madawaska Maliseet First Nation	9,481	1,278,967
Woodstock First Nation	2,245,007	2,214,845
Oromocto First Nation	1,646,371	1,448,107
Kingsclear First Nation	118,860	76,020
Elsipogtog First Nation	892,577	934,723
Eel River Bar First Nation	1,074,169	1,093,285
Esgenoôpetitj First Nation	735,880	708,401
Total	<u>\$13,623,747</u>	<u>\$14,245,204</u>

A review by management of the payments to First Nations identified calculation errors that resulted in overpayments of \$14,743,049 for the period 2003-2016. A provision for uncollectable accounts has been set up for the full amount of overpayments made before January 1, 2016. As of January 1, 2016, the calculation errors which lead to the overpayment have been corrected and no overpayments were made in 2016-17 or in 2017-18.

**9. Trust Funds**

Annual lottery profits designated for the Arts Development Trust Fund and the Sports Development Trust Fund have each been set through the *Gaming Control Act* at \$700,000 and \$500,000 respectively.

**10. Taxes**

As a prescribed HST registrant, the NBLGC makes tax payments to the Government of Canada pursuant to the Games of Chance regulations of the *Excise Tax Act* (the Regulations). An imputed tax on gaming expense is calculated according to a formula set out in the Regulations. The NBLGC is not currently involved in non-gaming commercial activities.

**11. Related Party Transactions**

The NBLGC is related to the Province and all departments, agencies, commissions, and Crown corporations under common control of the Province of New Brunswick.

Inter-entity transactions (transactions between commonly controlled entities) are recorded at the exchange amount when they are undertaken on similar terms and conditions as if the entities were dealing at arm's length.

Transactions with the Province of New Brunswick and entities under common control of the Province of New Brunswick have occurred and been settled on normal trade terms, with the exception of office space, information technology, human resources, legal, operational and financial administration services which NBLGC receives from the Province of New Brunswick at no charge.

The NBLGC transfers revenues in excess of its expenses to the Province of New Brunswick. As a result of adoption of PS 3420 – Inter-entity Transactions, the Distribution to the Province of New Brunswick is now presented in the statement of operations. Previously this was presented in the statements of change in

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**Note 11 continued**

net financial assets and change in accumulated surplus. Adoption of this new accounting policy resulted in a change to prior year annual surplus and prior year total expenses presented in the statement of operations. The distribution to the Province of New Brunswick is recorded as an expense on the Statement of Operations and was \$138,056,941 in 2017-18 (2016-17-\$134,994,835).

The Statement of Financial Position contains the following related entity amounts:

	<u>2018</u>	<u>2017</u>
Due from Province of New Brunswick	\$1,591,233	\$1,984,765
Due to Province of New Brunswick	<u>5,170,880</u>	<u>4,415,243</u>
<b>Net Due to Province of New Brunswick</b>	<b><u>\$3,579,647</u></b>	<b><u>\$2,430,478</u></b>

The Statement of Operations contains the following amounts that were paid to the Province of New Brunswick related entities:

	<u>2018</u>	<u>2017</u>
Expense	\$139,256,941	\$136,194,835

Related parties also include key management personnel having the authority and responsibility for planning, directing, and controlling the activities of the NBLGC, their close family members, and any entities closely affiliated with these individuals. Key management personnel for the NBLGC have been identified as members of the Board of directors along with the officers of the corporation. For the year ended March 31, 2018, there were no transactions to report between the NBLGC and key management personnel, their close family members, or any entities affiliated with them.

**12. Contingent Liabilities**

There are currently outstanding claims and potential claims against the Corporation. The likely outcome of these legal actions cannot be determined at this time. NBLGC was previously a co-defendant in a claim which was settled and recorded in the financial statements of the Province.

**13. Budget**

The budget figures included in these financial statements have been derived from the estimates approved by the Board of Directors of the NBLGC.

**14. Comparative Figures**

Certain 2017 figures have been re-classified to conform to the financial statement presentation adopted for 2018.

## APPENDIX A

### Video Lottery New Brunswick Prize Payout Percentages April 1, 2017 to March 31, 2018

Reconciliation of the results of operations to the payout percentages specified in the *Video Lottery Scheme Regulation 2008-112* can be found below.

VL Game Name	Actual Prize Payout	VL Game Name	Actual Prize Payout
7s Wild	93.04%	Polar Plunge D01	93.52%
American Original	92.86%	Power Keno	94.96%
Big City 5s	85.38%	QH Triple Blazing 7s	92.67%
Blazing Shots	92.99%	Quick Pay Jackpots	87.84%
Bonus Sevens Wild	92.96%	Raging Wild D01	93.02%
Candy Bars D05-PATTERN	N/A	Royal Spins	92.89%
Cash M If You Can	93.11%	Royal Spins Deluxe	92.92%
Cats 15Lines D03	92.50%	Run With The Pack	92.54%
Cherry Rain	92.82%	Siberian Storm MultiWay	93.09%
Cherry Rain Deluxe	92.94%	Smash The Pig	92.78%
Cranks Bash	92.74%	Sugar Sugar	92.79%
Dangerous Beauty D04	92.67%	Super Crazy Fruit Pots	N/A
Double Da Vinci Diamonds	92.67%	Swan Lake D02	93.05%
Emerald Falls	91.75%	The Big Easy	92.79%
Fiddlers Fortune	92.34%	The Wild Life	92.83%
Fireball Keno	92.60%	Triple Staxx	92.86%
Golden Goddess D04	92.88%	Triple Trouble Keno	94.77%
Golden Jungle T03	92.60%	Trouble In The Henhouse	92.94%
Hot Rocks	92.83%	Vegas 7s	90.29%
How The Bonus Was Won	92.88%	Wild Pride	92.79%
Kitty Glitter D02	92.62%	Wild Wranglers	92.96%
Lobstermania	93.05%	Wolf Run 2	93.64%
Magic Merlin	92.97%	Wolf Run D02	92.71%
Ole Jalapenos	92.94%		

**Please Note:**

- (1) This schedule includes only those games active at March 31, 2018.
- (2) All games are tested and certified to have payouts within percentages set by regulations. Actual payouts vary based on the level of play per game.