

2018-2019 Annual Report
New Brunswick Lotteries and Gaming Corporation

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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, 2019.



David Nowlan
Director



Cheryl Hansen
Vice-Chair

NEW BRUNSWICK LOTTERIES AND GAMING CORPORATION

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

Board of Directors

The business and affairs of the NBLGC are administered by a board of directors, which consists of the Minister of Finance and Treasury Board, the Deputy Minister of Finance and Treasury Board, 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, 2019, the members of the board of directors were:

- Hon. Ernie Steeves, Minister of Finance and Treasury Board (Chair)
- Cheryl Hansen, Deputy Minister of Finance and Treasury Board (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. All three officers of the corporation are employees of the Province of the New

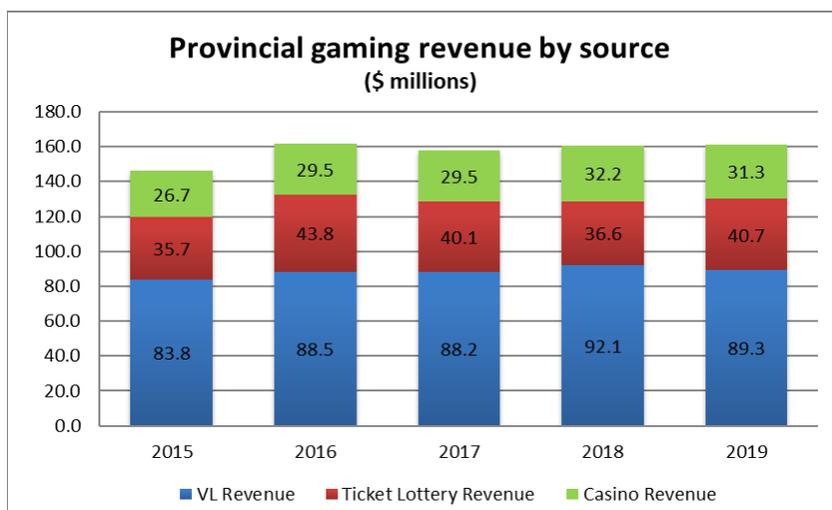
Brunswick. The NBLGC also receives additional support and staff services from the Agency Relations Branch of the Department of Finance and Treasury Board.

2018-2019 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 \$161.3 million of gaming revenue was received in 2018-2019.



In 2018-2019:

- NBLGC's casino gaming revenue was \$31.3 million, a slight decrease from the previous year.
- NBLGC's revenue from video lottery and traditional lottery was \$130.0 million, which is \$1.3 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 Treasury Board and Department of Public Safety, respectively).

In 2018-2019, the annual surplus of \$137.9 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 2018-2019 Financial Statements included in this report.

2018-2019	
Where does the money go?	(million)
• Surplus to the Province	\$137.9
• Arts Development Trust Fund	\$0.7
• Sports Development Trust Fund	\$0.5
• Payments to First Nations	\$14.2
• Other	\$4.8

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*, which is located in Moncton along the Trans-Canada Highway on Mountain Road and opened in 2010.

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 2018-2019, the casino offered approximately 646 slots, 18 table games and 6 Poker tables and had over 1.4 million visitors. The facility also hosted 47 concerts.

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* which opened in 2015.

In 2018-2019, the casino offered approximately 193 slots, 2 electronic table games and 4 Poker tables and had over 244,000 visitors.

Video Lottery and Traditional Lottery

The NBLGC does not directly operate lotteries but is a shareholder in the Atlantic Lottery Corporation (ALC) and the Interprovincial Lottery Corporation (ILC).

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. In 2018-2019, in the New Brunswick market, the ALC offered the following products:

- **Video Lottery games**
- **National draw games:** Lotto Max, Lotto 6/49 and Daily Grand
- **Regional draw games:** Atlantic 49, TAG, KENO Atlantic, BUCKO, Salsa Bingo, Twist, Lotto 4 and Poker Lotto
- **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
- **Digital Instant** games at various price points including Cash Buster, Crossword, Monopoly, and Bingo
- **iBingo:** various games such as Kitchen Party Bingo, Turbo Bingo and Oceanside Bingo
- **Mini Games:** various games such as Money Mayhem, Lil Lady Bingo, Tropical 8's and VIP Gold

Responsible Gaming

The NBLGC is responsible for the development and implementation of the Province's responsible gaming policy. Responsible gaming activities in 2018-2019 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 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 2018-2019, a total of 2615 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:
<ul style="list-style-type: none">• 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.

Atlantic Lottery Corporation

Responsible gambling is one of Atlantic Lottery's core values. This commitment contributed to the achievement of a Level 4 recertification from the World Lottery Association's Responsible Gaming Framework, representing the highest level of certification available globally. Atlantic Lottery's Social Responsibility strategy consists of six pillars: Players & Products; Retailers; Employees; Communities; Supply Chain; and Environmental Stewardship. A commitment to Social Responsibility is an essential part of every game they offer, every event they sponsor and every decision they make.

Revenue Sharing with 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 2018-2019, 2017-2018	3

Recommendations	Current Status
We again recommend the Department of Finance and Treasury Board 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.	NBLGC will again seek direction from government on this issue.
The shareholder governments should complete the ongoing review of the Council of Atlantic Premiers pension plan and implement required changes.	The NBLGC is aware that in late 2019, Regional Treasury Board (composed of the 4 Atlantic Provinces Ministers of Finance) have directed the CAP pension plan Working Committee to

	implement specific actions with respect to the CAP pension plan to address issues around the plan governance and administration. The Working Committee is currently developing an implementation plan to strengthen the governance and administration of the CAP plan. The NBLGC and other ALC shareholders will continue to receive updates on the progress of implementation.
We recommend management of NBLGC and its board discuss and document risk regarding the entity's portion of ALC debt, and take appropriate steps to mitigate and monitor the risks. Management and the Board should consider including this item on the corporate risk register for regular monitoring and future follow up.	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. NBLGC will amend its corporate risk register to more accurately reflect and monitor the implications of ALC debt risk for the NBLGC.

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

Name and year of audit area	Recommendations	
	Total	Implemented
Audit of the NBLGC Financial statements 2016-2017	3	2
Audit of the NBLGC Financial statements 2015-2016	4	3
Audit of the NBLGC Financial statements 2014-2015	3	2
Special Examination of the Financial Audit of New Brunswick Lotteries and Gaming Corporation 2014-2015 https://www2.gnb.ca/content/dam/agnb-vqnb/pdf/Reports-Rapports/2015V3/Chap5e.pdf	6	5

FINANCIAL STATEMENTS

NEW BRUNSWICK LOTTERIES AND GAMING CORPORATION

31 MARCH 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of New Brunswick Lotteries and Gaming Corporation (the Entity), which comprise the statement of financial position as at March 31, 2019, and the statements of operations, change in accumulated surplus, change in net financial assets and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, and the results of its operations, changes in its net financial assets, changes in its accumulated surplus, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they

could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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

Fredericton, New Brunswick
January 8, 2020

Management Report

March 31, 2019

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 and Treasury Board
Vice-Chairperson, NBLGC



Ian Hollohan
Chief Operating Officer, NBLGC

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

Financial Assets	2019	2018
Due from Province of New Brunswick - Note 4a	\$ 2,834,405	\$ 1,591,233
Accounts Receivable - Note 4b	4,130,922	5,170,880
Investments:		
Investment in Atlantic Lottery Corporation Inc. - Note 6	11,315,470	8,883,945
Investment in share capital of Interprovincial Lottery Corporation	1	1
Total Financial Assets	\$ 18,280,798	\$ 15,646,059

Liabilities		
Accounts Payable - Note 5	\$ 6,311,932	\$ 6,421,948
HST Payable	493,300	118,830
Deferred revenue	160,095	221,335
Total Liabilities	\$ 6,965,327	\$ 6,762,113

Net Financial Assets	\$ 11,315,471	\$ 8,883,946
Accumulated Surplus	\$ 11,315,471	\$ 8,883,946

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

Revenues	2019 Budget - Note 13	2019	2018
Investment Income from ALC Inc. - Note 6	\$ 127,400,000	\$ 130,013,648	\$ 128,673,219
Casino New Brunswick - Note 7	31,500,000	29,252,454	30,252,903
Grey Rock Casino - Note 7	1,500,000	2,079,321	1,918,080
Other revenue	500,000	527,368	466,395
Total Revenues	\$ 160,900,000	\$ 161,872,791	\$ 161,310,597
Expenses			
Payments to First Nations under Revenue Sharing Agreements - Note 8	\$ 14,000,000	\$ 14,260,330	\$ 13,623,747
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	5,000,000	4,761,337	4,679,133
Distribution to the Province of New Brunswick - Note 11	137,000,000	137,902,860	138,056,941
Total Expenses	\$ 157,200,000	\$ 158,124,527	\$ 157,559,821
Annual Surplus	\$ 3,700,000	\$ 3,748,264	\$ 3,750,776

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

New Brunswick Lotteries and Gaming Corporation
Statement of Change in Net Financial Assets
for the year ended 31 March

	2019 Budget - Note 13	2019	2018
Net Financial Assets - Beginning of Year	\$ 8,883,946	\$ 8,883,946	\$ 4,396,522
Changes in Year			
Annual Surplus	\$ 3,700,000	\$ 3,748,264	\$ 3,750,776
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value - Note 6	-	(476,584)	884,172
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits - Note 6	-	(840,155)	(147,524)
Increase in Net Financial Assets	<u>\$ 3,700,000</u>	<u>\$ 2,431,525</u>	<u>\$ 4,487,424</u>
Net Financial Assets - End of year	<u><u>\$ 12,583,946</u></u>	<u><u>\$ 11,315,471</u></u>	<u><u>\$ 8,883,946</u></u>

New Brunswick Lotteries and Gaming Corporation
Statement of Change in Accumulated Surplus
for the year ended 31 March

	2019 Budget - Note 13	2019	2018
Accumulated Surplus - Beginning of Year	\$ 8,883,946	\$ 8,883,946	\$ 4,396,522
Annual Surplus	\$ 3,700,000	\$ 3,748,264	\$ 3,750,776
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value - Note 6	-	(476,584)	884,172
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits - Note 6	-	(840,155)	(147,524)
Accumulated Surplus - End of Year	<u>\$ 12,583,946</u>	<u>\$ 11,315,471</u>	<u>\$ 8,883,946</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

	2019	2018
Cash and Cash Equivalents Generated by (used in):		
Operating Activities		
Annual Surplus	\$ 3,748,264	\$ 3,750,776
Decrease (Increase) to Accounts Receivable	\$ 1,039,958	\$ (755,637)
(Decrease) Increase to Accounts Payable	(110,016)	460,902
(Decrease) Increase to HST Payable	374,470	(153,541)
(Decrease) Increase to Deferred Revenue	(61,240)	54,744
Net Cash from Operating Activities	\$ 4,991,436	\$ 3,357,244
Investing Activities		
Increase in Investments	\$ (2,431,525)	\$ (4,487,424)
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value	(476,584)	884,172
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits	(840,155)	(147,524)
Net Cash Used in Investing Activities	\$ (3,748,264)	\$ (3,750,776)
Increase in Cash and Cash Equivalents During The Year	\$ 1,243,172	\$ (393,532)
Cash and Cash Equivalents, Beginning of Year	\$ 1,591,233	\$ 1,984,765
Cash and Cash Equivalents, End of Year	\$ 2,834,405	\$ 1,591,233
	2019	2018
Cash and Cash Equivalents represented by:		
Due From Province of New Brunswick	\$ 2,834,405	\$ 1,591,233

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

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, 2019. 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, the Sports Development Trust Fund and payments to First Nations under Revenue Sharing agreements.

c) 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

Note 2 continued

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.

d) 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.

e) 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.

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, 2019 is equal to the accounts receivable balance of \$18,873,971 and amounts due from the Province of New Brunswick for \$2,834,405. 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.

Note 3 continued

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. NBLGC's maximum exposure to interest rate risk at March 31, 2019 is equal to ALC's mark to market long-term debt interest rate swap fair value of \$366,000

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>2019</u>	<u>2018</u>
HST Payable	\$493,300	\$118,830
Deferred Revenue	160,095	221,335
Payables to First Nations	1,406,010	1,251,068
Payable Sports Development Trust Fund	325,000	-
Payable Arts Development Trust Fund	450,000	-
Due from Province of New Brunswick	<u>\$2,834,405</u>	<u>\$1,591,233</u>

b) Accounts Receivable

	<u>2019</u>	<u>2018</u>
ALC Inc.	\$2,229,530	\$2,592,078
First Nations	14,743,049	14,743,049
Grey Rock Entertainment Center Inc.	1,900,708	1,918,080
Great Canadian Gaming (New Brunswick) Ltd. (GCGNB)	684	660,722
	<u>18,873,971</u>	<u>19,913,929</u>
Less: Allowance for Doubtful Accounts	<u>14,743,049</u>	<u>14,743,049</u>
	<u>\$4,130,922</u>	<u>\$5,170,880</u>

5. Accounts Payable

	<u>2019</u>	<u>2018</u>
Distributions to Province of New Brunswick	\$4,130,922	\$5,170,880
Payable to First Nations	1,406,010	1,251,068
Payable Sports Development Trust Fund	325,000	-
Payable Arts Development Trust Fund	450,000	-
	<u>6,311,932</u>	<u>\$6,421,948</u>

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.

	<u>2019</u>		<u>2018</u>	
	<u>ALC Inc.</u>	<u>NBLGC Share</u>	<u>ALC Inc.</u>	<u>NBLGC Share</u>
<u>Balance Sheet</u>				
(\$ thousands)				
Assets	\$228,591		\$249,252	
Liabilities	185,181		215,487	
Shareholders' Equity				
Retained Earnings	42,433	10,949	31,131	8,041
Accumulated Other				
Comprehensive Income/(Loss)	976	366	2,633	843
Share capital	1		1	-
Total Retained Earnings	\$43,410	\$11,315	\$33,765	\$8,884
Total Liabilities and Shareholders' Equity	\$228,591		\$249,252	

Statement of Operations

(\$ thousands)

Gross Profit	\$621,705		\$607,625	
Expenses	(146,544)		(136,187)	
Other income (expenses)	(52)		69	
Taxes & Payments to Federal Government	(52,868)		(52,282)	
Net profit	\$422,241	\$130,014	\$419,225	\$128,673
Investment Income from ALC Inc.		\$130,014		\$128,673

note 6.1 continued

	2019		2018	
	ALC Inc.	NBLGC Share	ALC Inc.	NBLGC Share
<u>Changes in Retained Earnings</u>				
<u>(Calculation of Retained Earnings)</u>				
(\$ thousands)				
Retained Earnings, Beginning of Year	\$31,131	\$8,041	\$17,503	\$4,437
Net Profit	422,241	130,014	419,225	128,673
Employee Future Benefits				
Change in Actuarial Assumptions	(2,800)	(840)	(492)	(147)
Distributed to Shareholders	(408,139)	(126,266)	(405,105)	(124,922)
Retained Earnings, End of Year	\$42,433	\$10,949	\$31,131	\$8,041
<u>Changes in Accumulated Other</u>				
<u>Comprehensive Income (Loss)</u>				
(\$ thousands)				
Accumulated Other Comprehensive Income (Loss), Beginning of Year	\$2,633	\$843	\$(667)	\$(41)
Mark to Market Instruments				
Change in Fair Value	(1,657)	(477)	3,300	884
Accumulated Other Comprehensive Income(Loss), End of Year	\$976	\$366	\$2,633	\$843
Investment in ALC Inc.		\$11,315		\$8,884

As of March 31, 2019, New Brunswick's share of ALC Inc.'s debt is \$32.8M (2018 - \$42.8M)

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 2018-19 and 2017-18 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.

Note 6.2 continued

Investment Income From ALC Inc.:	2019	2018
(\$ thousands)		
NBLGC's share of Net Profit (Note 6.1)	\$130,014	\$128,673
Withheld - Special Pension Payments (Note 6.3)	(3,743)	(3,743)
Unallocated Profit	(5)	(8)
Net Distribution to NBLGC	<u>\$126,266</u>	<u>\$124,922</u>

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 2018-19 were \$3,743,292 (2017-18- \$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 2018-19, casino gaming revenue from GCGNB to NBLGC was \$29,252,454 (2017-18 - \$30,252,903). Total allocation of revenue to GCGNB for operational services at Casino New Brunswick was \$31,949,599; this included \$736,552 representing the retention of leased slots.

In fiscal 2018-19, casino gaming revenue from GREC to NBLGC was \$2,079,321 (2017-18 - \$1,918,080). Total allocation of revenue to GREC Inc. for operational services was \$8,800,581; this included \$96,659 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 2019, 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:

Note 8 continued

	<u>2019</u>	<u>2018</u>
St. Mary's First Nation	\$6,971,110	\$6,901,402
Madawaska Maliseet First Nation	10,167	9,481
Woodstock First Nation	2,531,785	2,245,007
Oromocto First Nation	1,633,042	1,646,371
Metepenagiag First Nation	1,115,740	-
Kingsclear First Nation	143,726	118,860
Elsipogtog First Nation	168,752	892,577
Eel River Bar First Nation	987,707	1,074,169
Esgenoôpetitj First Nation	698,301	735,880
Total	<u>\$14,260,330</u>	<u>\$13,623,747</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 2017-18 or in 2018-19.

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.

Note 11 continued

The NBLGC transfers revenues in excess of its expenses to the Province of New Brunswick. The distribution to the Province of New Brunswick is recorded as an expense on the Statement of Operations and was \$137,902,860 in 2018-19 (2017-18-\$138,056,941).

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

	<u>2019</u>	<u>2018</u>
Due from Province of New Brunswick	\$2,834,405	\$1,591,233
Due to Province of New Brunswick	<u>4,130,922</u>	<u>5,170,880</u>
Net Due to Province of New Brunswick	<u>\$1,296,517</u>	<u>\$3,579,647</u>

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

	<u>2019</u>	<u>2018</u>
Expense	\$139,102,860	\$139,256,941

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, 2019, 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.

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. Subsequent Events

On June 18, 2019, as a result of an updated pension valuation, it was determined that an additional \$2.3M will be withheld from ALC profit distributions to NBLGC from July 2019 until March 2020.

APPENDIX A
Video Lottery New Brunswick Prize Payout Percentages
April 1, 2018 to March 31, 2019

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	93.00%	Magic Merlin	92.56%
American Original	93.08%	Miss Kitty	93.19%
Big City 5s	91.48%	Ole Jalapenos	92.79%
Bigger City 5s	91.40%	Polar Plunge D01	93.82%
Blazing Shots	92.90%	Power Keno	94.91%
Bonus Sevens Wild	92.99%	QH Triple Blazing 7s	92.80%
Candy Bars D05-PATTERN	91.84%	Quick Pay Jackpots	92.41%
Captain Keno \$500	92.76%	Raging Wild D01	92.96%
Cash M If You Can	92.74%	Royal Spins	92.95%
Cats 15Lines D03	92.75%	Royal Spins Deluxe	92.81%
Cherry Rain	92.70%	Run With The Pack	93.28%
Cherry Rain Deluxe	92.87%	Siberian Storm MultiWay	92.97%
Chilli 7s	93.07%	Smash The Pig	92.66%
Double Da Vinci Diamonds	92.67%	Sun & Moon	93.12%
Dragon Magic	92.86%	The Big Easy	92.73%
Emerald Falls	92.77%	The Wild Life	92.91%
Fast Frankies \$500	92.45%	The Wild Life Extreme	92.87%
Fiddlers Fortune	92.78%	Triple Staxx	92.75%
Fireball Keno	92.82%	Triple Trouble Keno	94.97%
Flamin Hits \$500	93.09%	Trouble In The Henhouse	92.89%
Fortunes Of The Nile	93.18%	Vegas 7s	92.17%
Golden Goddess D04	92.95%	Viracocha	92.74%
Golden Jungle T03	93.06%	Wild Leprecoins	93.20%
Hong Fu Dao	93.01%	Wild Pride	92.51%
Hot Rocks	92.61%	Wild Wranglers	93.16%
How The Bonus Was Won	91.95%	Wild Yukon	92.70%
Kitty Glitter D02	92.80%	Wolf Run 2	92.89%
Lobstermania	92.98%	Wolf Run D02	92.84%

Please Note:

- (1) This schedule includes only those games active at March 31, 2019.
- (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.