

2015-2016 Annual Report  
New Brunswick Lotteries and Gaming  
Corporation

## **2015-2016 Annual Report**

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Hon. Cathy Rogers  
Minister of Finance  
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, 2016.



Nicole Picot  
Director



Tom Maston  
Director



## **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, 2016, the members of the board of directors were:

- Hon. Roger Melanson, Minister of Finance (Chair)
- Jean-Marc Dupuis, Deputy Minister of Finance (Vice-Chair)
- Patrick Francis, Deputy Minister, Aboriginal Affairs Secretariat
- Renée Laforest, Assistant Deputy Minister, Department of Health

### **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

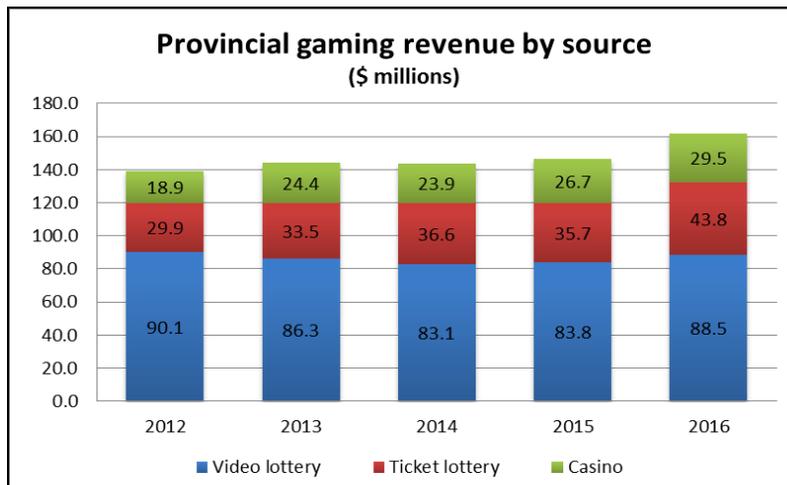
of the New Brunswick. The NBLGC also receives additional support and staff services from the Agency Relations and Corporate Services division of the Department of Finance.

## 2015-2016 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 \$161.8 million of gaming revenue was received in 2015-2016.



In 2015-2016:

- NBLGC's casino gaming revenue was \$29.5 million, which is \$2.8 million more than the previous year.
- NBLGC's revenue from the video lottery and traditional lottery was \$132.3 million, which is \$12.8 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 2015-2016, the annual surplus of \$142.6 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 2015-2016 Financial Statements included in this report.

<b>2015-2016</b>	
<b>Where does the money go?</b>	<b>(million)</b>
• Surplus to the Province	\$142.6
• Arts Development Trust Fund	\$0.7
• Sports Development Trust Fund	\$0.5
• Payments to First Nations	\$13.7
• Other	\$4.3

### Casino Gaming

#### Casino New Brunswick

The NBLGC manages the service provider agreement with the casino operator for *Casino New Brunswick*. At March 31, 2016, the casino service provider was Great Canadian Gaming (NB) Limited who purchased the casino from Sonco New Brunswick Limited Partnership on October 1, 2015. This was the sixth 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, and the casino.

In 2015-2016, the casino offered approximately 600 slots, 21 table games and 5 Poker tables and had over 1.5 million visitors. In addition, over 45 ticketed events were presented at the centre including concerts and performances.

### **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 on March 1, 2015.

In 2015-2016, the casino offered approximately 125 slots and 2 electronic table games and had over 103,000 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 2015-2016, ILC Draw products were Lotto Max and 6/49 – all national lottery games. In 2015-2016, ILC Instant products were \$100 million \$Fortune, Royal Treasure, \$200 Million Extraordinaire, Classic Ruby, Classic White 2, Extreme Millions, Instant Lotto Max, \$100 Million Prestige, and Silver Bells.

In 2015-2016, in the New Brunswick market, the ALC offered the following products:

- **Video Lottery games** (see **Appendix A** for further details)  
On March 31, 2016, there were 2,000 Video Lottery Terminals (VLTs) and 222 VLT sites in New Brunswick. The number of VLTs and VLT sites fluctuates from month to month based on business performance and resulting addition/removal of terminals within the video lottery program.
- **National draw games:** Lotto 6/49 and Lotto Max
- **Regional draw games:** Pik 4, KENO Atlantic, TAG, Atlantic 49, Salsa Bingo, Twist, Bucko and ShaBam
- **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
- **Pick'n Click:** various games such as Lobster Chase, Diamond Hunt, Lucky Dice, 3 Card Poker, Shootout and Crossword

## **Responsible Gaming**

The NBLGC is responsible for the development and implementation of the Province's responsible gaming policy. The responsible gaming activities in 2015-2016 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 NBLGC established the Responsible Gaming information area at the Grey Rock Casino. The unmanned space is located on the gaming floor and includes a variety of informative responsible gaming materials 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 2015-2016, a total of 2,145 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.

FINANCIAL STATEMENTS

NEW BRUNSWICK LOTTERIES AND GAMING CORPORATION

31 MARCH 2016





## INDEPENDENT AUDITOR'S REPORT

To the Chairperson and Members of the Board of Directors  
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, 2016, and the statement of operations, statement of change in net debt, statement of change in accumulated deficit, 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, 2016, and the results of its operations, changes in net debt, changes in its accumulated deficit and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Fredericton, NB  
July 13, 2017

## Management Report

March 31, 2016

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.



Nicole Picot  
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**

Financial Assets	2016	2015
Due from Province of New Brunswick - Note 4a	\$ 2,284,931	\$ 2,575,916
Accounts Receivable - Note 4b	2,638,122	3,769,837
Investments:		
Investment in share capital of Interprovincial Lottery Corporation	1	1
<b>Total Financial Assets</b>	<b>\$ 4,923,054</b>	<b>\$ 6,345,754</b>

Liabilities		
Accounts Payable - Note 5	\$ 4,415,705	\$ 5,829,383
HST Payable	257,223	290,887
Deferred revenue	250,125	225,483
Investment in Atlantic Lottery Corporation Inc.-Deficit - Note 7	2,653,956	12,127,223
<b>Total Liabilities</b>	<b>\$ 7,577,009</b>	<b>\$ 18,472,976</b>

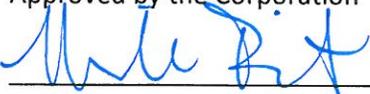
<b>Net Debt</b>	<b>\$ (2,653,955)</b>	<b>\$ (12,127,222)</b>
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<b>Accumulated Deficit</b>	<b>\$ (2,653,955)</b>	<b>\$ (12,127,222)</b>
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Contingent Liabilities - Note 14

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>2016 Budget</b>	<b>2016</b>	<b>2015</b>
Investment Income from ALC Inc. - Note 7	\$115,100,000	\$132,227,032	\$119,560,309
Casino New Brunswick - Note 9	25,500,000	29,457,266	26,674,387
Grey Rock Casino - Note 9	400,000	-	-
Other revenue	500,000	511,477	530,435
Casino Capital Reserve revenue - Note 6	-	-	1,944,586
<b>Total Revenues</b>	<b>\$141,500,000</b>	<b>\$162,195,775</b>	<b>\$148,709,717</b>
<b>Expenses</b>			
Payments to First Nations under Revenue Sharing Agreements - Note 10	\$14,600,000	\$13,743,247	\$13,053,573
Contribution to Arts Development Trust Fund - Note 11	700,000	700,000	700,000
Contribution to Sports Development Trust Fund - Note 11	500,000	500,000	500,000
Casino Capital Reserve - Note 6	-	-	1,543,322
Taxes - Note 12	2,250,000	3,213,587	2,927,723
Provision for uncollectible accounts from First Nations - Note 10	-	1,413,956	1,867,339
Other	-	-	132,731
<b>Total Expenses</b>	<b>\$18,050,000</b>	<b>\$19,570,790</b>	<b>\$20,724,688</b>
<b>Annual Surplus</b>	<b>\$ 123,450,000</b>	<b>\$ 142,624,985</b>	<b>\$ 127,985,029</b>

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

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

	2016	2015
<b>Net Debt - Beginning of Year</b>	\$ (12,127,222)	\$ (14,162,613)
<b>Changes in Year</b>		
Annual Surplus	\$ 142,624,985	\$ 127,985,029
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value - Note 7	1,251,179	(433,561)
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits - Note 7	132,060	(1,283,100)
Distribution to the Province of New Brunswick	(134,534,958)	(124,232,977)
<b>Increase in Net Debt</b>	<u>\$ 9,473,267</u>	<u>\$ 2,035,391</u>
<b>Net Debt - End of year</b>	<u><u>\$ (2,653,955)</u></u>	<u><u>\$ (12,127,222)</u></u>

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

	2016	2015
<b>Accumulated Deficit - Beginning of Year</b>	\$ (12,127,222)	\$ (14,162,613)
Annual Surplus	\$ 142,624,985	\$ 127,985,029
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value - Note 7	1,251,179	(433,561)
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits - Note 7	132,060	(1,283,100)
Distribution to the Province of New Brunswick	(134,534,958)	(124,232,977)
<b>Accumulated Deficit - End of Year</b>	<u>\$ (2,653,955)</u>	<u>\$ (12,127,222)</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**

	2016	2015
<b>Cash and Cash Equivalents Generated by (used in):</b>		
<b>Operating Activities</b>		
Annual Surplus	\$ 142,624,985	\$ 127,985,029
Decrease (Increase) to Accounts Receivable	1,131,715	(2,446,767)
(Decrease) Increase to Accounts Payable	(1,413,678)	2,696,369
(Decrease) Increase to HST Payable	(33,664)	20,976
(Decrease) Increase to Deferred Revenue	24,642	(41,346)
(Decrease) Increase to Casino Capital Reserve	-	(1,253,957)
<b>Net Cash Used in Operating Activities</b>	<b>\$ 142,334,000</b>	<b>\$ 126,960,304</b>
<b>Financing Activities</b>		
Distribution of Surplus to the Province of New Brunswick	\$ (134,534,958)	\$ (124,232,977)
<b>Net Cash Used in Financing Activities</b>	<b>\$ (134,534,958)</b>	<b>\$ (124,232,977)</b>
<b>Investing Activities</b>		
Increase in Investments	\$ (9,473,266)	\$ (2,035,391)
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value	1,251,179	(433,561)
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits	132,060	(1,283,100)
<b>Net Cash Used in Investing Activities</b>	<b>\$ (8,090,027)</b>	<b>\$ (3,752,052)</b>
<b>Decrease in Cash and Cash Equivalents During The Year</b>	<b>\$ (290,985)</b>	<b>\$ (1,024,725)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>\$ 2,575,916</b>	<b>\$ 3,600,641</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 2,284,931</b>	<b>\$ 2,575,916</b>
<b>Cash and Cash Equivalents represented by:</b>		
Due From Province of New Brunswick	\$ 2,284,931	\$ 2,575,916

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

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2016**

**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. It is responsible for the development and implementation of the Province's responsible gaming policy and for managing the casino service provider agreement (CSPA) with a private third party for the operation of a casino 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. In order to participate in business activities which fall outside of the recognized lottery schemes, approval must be provided by the Lieutenant-Governor in Council.

The NBLGC also researches and undertakes analysis of gaming policy and other related issues with respect to First Nations in New Brunswick and manages the provincial gaming revenue sharing agreements with First Nations. In addition, the NBLGC develops policy options, provides information, advice and recommendations, and implements legislative measures in support of the government's gaming policy priorities.

**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, commencing in 2009-2010, 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, 2016. 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 and Sports Development Trust Funds.

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2016**

**Note 2 continued**

**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 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 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 and 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.

**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

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2016**

**Note 3 continued**

exposure to credit risk at March 31, 2016 is equal to the accounts receivable balance of \$17,381,171 and amounts due from the Province of New Brunswick for \$2,284,931. 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>2016</u>	<u>2015</u>
HST Payable	\$257,223	\$290,887
Deferred Revenue	250,125	225,483
Payables to First Nations	1,307,083	1,288,046
Payable Sports Development Trust Fund	20,500	71,500
Payable Arts Development Trust Fund	450,000	700,000
Due from Province of New Brunswick	<u>\$2,284,931</u>	<u>\$2,575,916</u>

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2016**

**Note 4 continued**

b) Accounts Receivable

	<u>2016</u>	<u>2015</u>
ALC Inc.	\$1,588,757	\$3,004,445
First Nations	14,743,049	13,329,093
Sonco/Great Canadian Gaming New Brunswick (GCGNB)	1,049,365	765,392
	<u>17,381,171</u>	<u>17,098,930</u>
Less: Allowance for Doubtful Accounts	14,743,049	13,329,093
	<u>\$2,638,122</u>	<u>\$3,769,837</u>

**5. Accounts Payable**

	<u>2016</u>	<u>2015</u>
Distributions to Province of New Brunswick	\$2,638,122	\$3,769,837
Payable to First Nations	1,307,083	1,288,046
Payable Sports Development Trust Fund	20,500	71,500
Payable Arts Development Trust Fund	450,000	700,000
	<u>\$4,415,705</u>	<u>\$5,829,383</u>

The \$1,307,083 payable to First Nations is composed of amounts payable of \$1,610,793 less accounts receivable of \$303,710 related to the collection of overpayments. See Note 10 for further details.

**6. Casino Capital Reserve**

Pursuant to the CSPA, a reserve was established with restricted use for the subsequent development, improvement or refurbishment of the Casino, including gaming equipment. The agreement stated that 3% of Gross Gaming Revenue would be added to this reserve. The casino service provider would recommend expenditures to be made from the Capital Reserve and, with the consent of the NBLGC, may undertake significant capital expenditures. Funds from the Capital Reserve account were recognized as revenue in the period that the corresponding expenditures were incurred. The Capital Reserve was at all times the property of the NBLGC. As of September 17, 2014, the Casino Capital Reserve provisions in the CSPA have been deleted and there were no further deposits. Further details are included in Note 9.

	<u>2016</u>	<u>2015</u>
Opening Capital Reserve balance	-	\$1,253,957
3% of Gross Gaming Revenue added to Capital Reserve	-	798,159
Interest earned on unused Capital Reserve balance	-	3,232
Other	-	(512,026)
Expenditures from Capital Reserve	-	(1,543,322)
Closing Capital Reserve balance	<u>-</u>	<u>\$ -</u>

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2016**

**7. Investment in Atlantic Lottery Corporation Inc. – Deficit**

7.1 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.

	2016		2015	
	ALC Inc.	NBLGC Share	ALC Inc.	NBLGC Share
<b><u>Balance Sheet</u></b>				
<b>(\$ thousands)</b>				
<b>Assets</b>	<b>\$241,793</b>		<b>\$229,797</b>	
<b>Liabilities</b>	250,436		265,987	
<b>Equity</b>				
Deficit	(6,738)	(2,353)	(33,706)	(11,694)
Accumulated Other Comprehensive Loss	(1,906)	(301)	(2,485)	(433)
Share capital	1	-	1	-
<b>Total Deficit</b>	<b>\$(8,643)</b>	<b>\$(2,654)</b>	<b>\$(36,190)</b>	<b>\$(12,127)</b>
<b>Total Liabilities and Deficit</b>	<b>\$241,793</b>		<b>\$229,797</b>	
<b><u>Statement of Operations</u></b>				
<b>(\$ thousands)</b>				
Gross Profit	\$632,819		\$700,351	
Expenses	(151,189)		(272,884)	
Other income (expenses)	295		(2,578)	
Loss on Impairment of Investment	-		(8,681)	
Taxes & Payments to Federal Government	(50,346)		(47,992)	
<b>Net profit</b>	<b>\$431,579</b>	<b>\$132,227</b>	<b>\$368,216</b>	<b>\$115,219</b>
<b><i>Reconciling items for NBLGC's Net Profit Share:</i></b>				
Impairment of Geonomics*		-		4,341
<b>Investment Income from ALC Inc.</b>		<b>\$132,227</b>		<b>\$119,560</b>

\*See Note 8 for explanation of this reconciling item.

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2016**

**Note 7.1 continued**

	2016		2015	
	ALC Inc.	NBLGC Share	ALC Inc.	NBLGC Share
<b><u>Changes in Deficit</u></b>				
<b><u>(Calculation of Deficit)</u></b>				
<b>(\$ thousands)</b>				
<b>Deficit, Beginning of Year</b>	<b>\$(33,706)</b>	<b>\$(11,694)</b>	<b>\$(34,874)</b>	<b>\$(9,822)</b>
Net Profit	431,579	132,227	368,216	115,219
OCI Employee Future Benefits - Change in Actuarial Assumptions	4,171	1,251	(4,277)	(1,283)
Distributed to Shareholders	(408,782)	(124,137)	(362,772)	(115,808)
<b>Deficit, End of Year</b>	<b>\$(6,738)</b>	<b>\$(2,353)</b>	<b>\$(33,706)</b>	<b>\$(11,694)</b>
<b><u>Accumulated Other</u></b>				
<b><u>Comprehensive Income (Loss)</u></b>				
<b>(\$ thousands)</b>				
Accumulated Other Comprehensive Loss, Beginning of Year	<b>\$(2,485)</b>	<b>\$(433)</b>	<b>\$968</b>	<b>\$74</b>
Mark to Market Instruments Change in Fair Value	579	132	(3,453)	(507)
Accumulated Other Comprehensive Loss, End of Year	<b>\$(1,906)</b>	<b>\$(301)</b>	<b>\$(2,485)</b>	<b>\$(433)</b>
<b>Investment in ALC Inc. - Deficit</b>		<b><u>\$(2,654)</u></b>		<b><u>\$(12,127)</u></b>

The Shareholder deficiency on ALC Inc.'s statements is 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, 2016, New Brunswick's share of ALC Inc.'s debt is \$49M (2015 - \$57M)

**7.2 Investment Income from ALC Inc.**

The profit of ALC Inc. is distributed to each of the four Atlantic Provinces or their lottery agencies. The NBLGC's share for the current year, as illustrated in Note 7.1 (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.

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2016**

**Note 7.2 continued**

During 2015-16 and 2014-2015 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 decrease ALC Inc.'s deficit, and decrease NBLGC's deficit in ALC.

<b>Investment Income From ALC Inc.:</b>	<b>2016</b>	<b>2015</b>
<b>(\$ thousands)</b>		
NBLGC's share of Net Profit - Note 7.1	\$132,227	\$119,560
Withheld - Special Pension Payments - Note 7.3	(3,743)	(3,743)
Withheld - Investment in Geonomics - Note 8	(4,332)	
Unallocated Profit	(15)	(9)
<b>Net Distribution to NBLGC</b>	<b>\$124,137</b>	<b>\$115,808</b>

**7.3 Special Pension Payments**

Between fiscal year 2006-2007 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 future profit distributions for NBLGC is a decrease of approximately \$3,700,000 annually for a total impact of \$20,900,022. Repayments in 2015-16 were \$3,743,292 (2014-15- \$3,743,292) and were withheld from NBLGC's share of ALC's Net Profit payable to NBLGC as illustrated in note 7.2

**8. Investment in Geonomics Global Games Limited (Geonomics)**

During the 2011-2012 fiscal year, the Lieutenant-Governor in Council approved the NBLGC's participation in an investment by the ALC Inc. in Geonomics, a UK-based on-line gaming company. NBLGC's participation in ALC Inc.'s share of the investment is \$4,000,000 plus financing and interest costs.

In 2013, NBLGC recorded a provision for the write down of their share of the investment, including associated professional fees, of \$4,340,000.

In March 2015, ALC Inc. recorded a full impairment of the investment in Geonomics. As this impairment had been previously recorded in NBLGC's statement of operations, it was a reconciling item to ALC's gross profit in 2015 as illustrated in Note 7.1.

In March 2016, NBLGC's Board approved that ALC Inc. be instructed to retire the loan for the same amount that was initially used to purchase NBLGC's portion of the shares in Geonomics and to deduct it from the 2015-16 profit payments. During 2016 the full amount of \$4,331,645 was repaid to ALC through withholding a portion of NBLGC's share of ALC's Net Profit payable to NBLGC as illustrated in note 7.2.

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2016**

**9. Casino Service Provider Agreement (CSPA)**

In 2008, the NBLGC signed a casino service provider agreement (CSPA) with Sonco Gaming New Brunswick Limited Partnership (Sonco). Under the CSPA, the casino service provider agreed to design, finance, construct, equip, operate and own a destination casino complex, and to manage casino gaming on behalf of the NBLGC. The complex consists of a casino, hotel and meeting/performance facility.

The agreement originally provided that 47% of Gross Gaming Revenue (GGR) was allocated to Sonco, and 3% of GGR was deposited to a Capital Reserve. GGR is defined as the aggregate of all wagers placed by customers of the Casino less winnings paid to customers, plus the rake from rake games. As of September 17, 2014, by mutual agreement, the Casino Capital Reserve provisions in the CSPA have been deleted and there were no further deposits. The allocation to the casino service provider was adjusted to 50%.

During the fiscal 2011-2012 the NBLGC and Sonco agreed to modify the CSPA respecting support for the retention of up to 55 leased slot games for a period of up to five years.

In October 2015, as permitted under the CSPA and approved by the NBLGC, the casino complex 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 June 2016, the NBLGC and GCGNB agreed to an amended arrangement with respect to the allocation of GGR from leased slot games. This arrangement was effective retroactively to October 1, 2015 for the remaining term of the CSPA.

In fiscal 2015-2016, total allocation of revenue to Sonco and GCGNB for operational services at Casino New Brunswick was \$29,229,891; this included \$307,819 representing the retention of leased slots. As a result, Casino gaming revenue to NBLGC for fiscal 2015-2016 was \$29,457,266 (2014-2015 - \$26,674,387).

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 establishment of Grey Rock Casino was the result of negotiations between the band, the operator (GREC, Inc.), the NBLGC and Sonco which, at the time, operated Casino New Brunswick in Moncton and held exclusivity provisions for casino gaming in the province. The Grey Rock Casino opened on March 1st, 2015. The agreement with GREC Inc. provides for 40% of the Gross Gaming Revenue to be allocated to NBLGC and 60% to the operator over an established annual threshold. For fiscal 2015-16 the threshold of \$5 million was not reached, and NBLGC received no revenue from the operation.

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2016**

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

Pursuant to provisions under the *Gaming Control Act*, as at 31 March 2016, seven First Nations have agreements with the Minister of Finance and have active gaming commissions and thereby receive a payment with respect to gaming activity (lottery schemes) on reserve. These include: Woodstock First Nation, St. Mary's First Nation, Elsipogtog First Nation, Oromocto First Nation, Esgenoôpetitj First Nation, Eel River Bar First Nation and Madawaska Maliseet First Nation.

A review by management of the payments to First Nations has identified calculation errors that resulted in overpayments of \$1,564,327 in 2013 and \$8,002,730 in aggregate over a period from 2003 through 2012. The correction was recorded in 2013 on the statement of operations as Overpayment to First Nations under Revenue Sharing Agreements of \$8,002,730 and a provision for uncollectable accounts of \$9,567,057, represented by the current year and prior period overpayment amounts. The amount of the overpayment in 2016 is \$1,413,956 and is recorded as a provision expense in the statement of operations bringing the total amount of the overpayments and provision for uncollectable accounts to \$14,743,049 for the period 2003-2016.

The calculation of expenses which lead to the overpayment was disputed by several First Nations. The NBLGC and those First Nations voluntarily entered into a dispute resolution process with respect to the calculation of expenses used to determine the NBLGC's net profit from the video lottery program and the application of that amount to the subsequent calculation of payments made by the NBLGC to the First Nations.

On April 18<sup>th</sup>, 2016, subsequent to these financial statements, as a result of the dispute process, the NBLGC has agreed to cap the amount of overhead at 20% of the total per VLT cost for use in the calculation of payments made to First Nations. The agreed to calculation methodology was implemented for May 2016 payments to First Nations and applied retroactively to January 1, 2016. This resulted in \$303,710 accounts receivable from the First Nations overpayments subsequent to January 1, 2016. This accounts receivable will be collected from future payments to First Nations in 2017 and has been netted against the accounts payable balance outstanding at March 31, 2016 – see Note 5. This resolution will have no impact on the recovery of \$14,743,049 in outstanding receivables related to overpayments made before January 1, 2016.

Payments to First Nations under Revenue Sharing Agreements:

	<u>2016</u>	<u>2015</u>
St. Mary's First Nation	\$6,560,874	\$5,769,928
Madawaska Maliseet First Nation	1,407,249	1,832,857
Woodstock First Nation	1,905,535	1,973,849
Oromocto First Nation	1,354,670	1,291,274
Elsipogtog First Nation	860,032	702,024
Eel River Bar First Nation	1,002,400	891,981
Esgenoôpetitj First Nation	652,486	591,660
Total	<u>\$13,743,246</u>	<u>\$13,053,573</u>

**New Brunswick Lotteries and Gaming Corporation**  
**Notes to the Financial Statements**  
**31 March 2016**

**11. Trust Funds**

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

**12. 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.

**13. Related Party Transactions**

As a division of the Department of Finance, the NBLGC obtains office space, information technology, human resources, legal and financial administration services from the Province of New Brunswick.

**14. 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.

**15. Budget**

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

**16. Comparative Figures**

Certain 2015 figures have been restated to conform to 2016 presentation.

**APPENDIX A**  
**Video Lottery New Brunswick Payout Percentages**  
**April 1, 2015 to March 31, 2016**

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
4X THE PAY KENO	95.28%	LOADS OF LOOT	88.58%
4X THE PAY KENO V2	96.33%	LOADS OF LOOT V2	90.45%
7 LUCKY LINES	90.70%	LOBSTERMANIA	93.04%
7 LUCKY LINES V2	92.83%	LOBSTERMANIA D03	93.32%
7S RUN WILD	91.19%	LUCKY 8 LINES	92.94%
7'S WILD D04	93.00%	MOB MONEY	94.77%
7'S WILD D05	92.84%	MOB MONEY V2	89.14%
AMERICAN ORIGINAL	92.79%	MYSTERY MANOR	92.61%
ARCTIC SPIRIT	92.68%	OLE JALAPENOS	93.03%
BLAZING SHOTS	92.84%	POWER KENO D03	94.88%
BONUS SEVENS WILD	92.96%	QH TRIPLE BLAZING 7S	92.89%
BUNGLER IN THE JUNGLE	90.05%	QUICK PAY JACKPOTS	92.68%
CASH'EM IF YOU CAN	93.28%	REBELS ON REELS	93.55%
CATS 15 LINES	92.52%	REEL FRUIT	90.12%
CATS 15LINES D03	92.74%	ROYAL SPINS	92.87%
CHERRY RAIN	92.99%	ROYAL SPINS DELUXE	92.98%
CHERRY RAIN DELUXE	92.89%	SIBERIAN STORM MULTIWAY	92.90%
COAL HARD CASH	92.26%	SIBERIANSTORMMULTIWAY D02	93.08%
COAL HARD CASH V3	91.18%	SMASH THE PIG	93.07%
CRANKS BASH	92.12%	SUPER CRAZY FRUIT POTS	92.63%
DANGEROUS BEAUTY	92.39%	SWAMPED WITH WILDS	94.83%
DANGEROUS BEAUTY D03	92.31%	SWAMPED WITH WILDS V3	89.86%
DOUBLE DA VINCI DIAMONDS	92.74%	SWAN LAKE	92.75%
DOUBLEDVINCI DIAMONDS02	93.08%	SWAN LAKE D02	93.44%
DR MAD MONEY	89.91%	THE BIG EASY	93.31%
EMERALD FALLS	93.05%	THE WILD LIFE	92.78%
FIDDLERS FORTUNE	92.66%	TRIPLE IT	92.92%
FIREBALL KENO	92.40%	TRIPLE STAXX	92.94%
GOLDEN GODDESS	92.76%	TRIPLE TROUBLE KENO	94.80%
GOLDEN GODDESS D03	92.89%	TROUBLE IN THE HENHOUSE	92.62%
HOT ROCKS	92.77%	WILD WRANGLERS	92.97%
HOW THE BONUS WAS WON	92.65%	WOLF RUN	92.77%
KITTY GLITTER	92.88%	WOLF RUN 2	93.17%
KITTY GLITTER D02	91.63%	WOLF RUN 2 D02	93.08%
LEIF THE LUCKY	97.21%	WOLF RUN D02	92.72%
LEIF THE LUCKY V2	95.23%		

**Please Note:**

- (1) This schedule includes only those games active at March 31, 2016.
- (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.