

2019-2020 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, 2020.

A handwritten signature in blue ink, appearing to read 'D. Nowlan', with a stylized, cursive script.

David Nowlan
Director

A handwritten signature in blue ink, appearing to read 'Cheryl Hansen', with a stylized, cursive script.

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, 2020, 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)
- René Boudreau, Associate Deputy Minister of Corporate Services, Department of Health
- David Nowlan, ERP Business Solution Owner, Service New Brunswick

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.

2019-2020 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.

COVID-19 and Gaming in New Brunswick

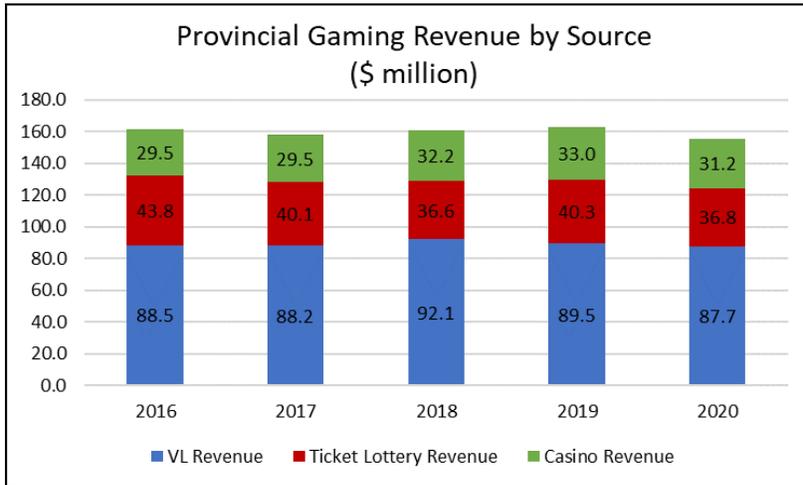
In response to the COVID-19 global pandemic, the Government of New Brunswick declared a state of emergency under the *Emergency Measures Act* on March 19, 2020.

As a result, both casinos and video lottery siteholders were required to close, though both casinos had closed voluntarily as of March 15, 2020.

Cessation of gaming activities for the last two weeks of fiscal year 2019-2020 negatively impacted revenues. It is anticipated that the negative revenue pressure will continue into 2020-2021 and as long as Public Health guidelines remain necessary.

Gaming Revenue

A total of \$156.3 million of gaming revenue was received in 2019-2020.



In 2019-2020:

NBLGC's casino gaming revenue was \$31.2 million, a slight decrease from the previous year.

NBLGC's revenue from video lottery and traditional lottery was \$124.6 million, which is \$5.4 million less 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 2019-2020, the annual surplus of \$133.7 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 2019-2020 Financial Statements included in this report.

2019-2020	
Where does the money go?	(million)
Surplus to the Province	\$133.7
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 2019-2020, the casino offered approximately 646 slots, 18 table games and 6 Poker tables and had over 1.4 million visitors. The facility also hosted 49 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 2019-2020, the casino offered approximately 193 slots, 10 electronic table games and 4 Poker tables and had over 111,600 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 2019-2020, in the New Brunswick market, the ALC offered the following products:

- **Video Lottery games:** various games including Royal Spins, Wild Life and Bonus 7s Wild
- **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 and Hit or Miss
- **Sports games:** PRO•LINE, PRO•LINE Stadium Bets, 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 Jungle Tumble, Prospector's Gold, Winter Tumble, Leprechaun Wishes
- **iBingo:** various games such as Kitchen Party Bingo, Turbo Bingo and Oceanside Bingo

Responsible Gaming

The NBLGC is responsible for the development and implementation of the Province's responsible gaming policy and ensures that partners are upholding their responsible gaming obligations through their contractual relationship. In addition, the NBLGC is a member of the Responsible Gambling Council of Canada. Responsible gaming activities in 2019-2020 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, Morneau Shepell, which staffs and manages the RGIC at a cost of \$230,000.

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

In 2019-2020, a total of 2155 people visited the RGIC.

Staff Training

Staff who have interactions with patrons at both casinos are required to have responsible gaming training, including myths and facts about problem gambling and behavioral red flags. Staff with advanced training may approach patrons to discuss their gaming habits and make health gaming suggestions.

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.

Atlantic Lottery Corporation

The ALC has a wide variety of responsible gaming programs and initiatives both corporately and for players.

ALC conducts a Social Responsibility Assessment on all games, promotion and advertising. In addition, ALC promotes responsible gaming through its social media platforms, in advertisements and on alc.ca. The ALC has achieved a Level 4 Responsible Gambling Certification from the World Lottery Association.

The ALC has a variety of responsible gaming tools and mechanisms baked into their player experience. For example:

ALC.ca	
<p>Education</p> <ul style="list-style-type: none"> • Age verification • Mandatory weekly deposit limit • Optional daily wager limit • Optional daily time limit • Session timer displayed • Pop-up reminders: every 60 minutes • Forced log out • Playwise program including quizzes and myth busting 	<p>Support</p> <ul style="list-style-type: none"> • 24 hour pause • Self-exclusion & reinstatement program <ul style="list-style-type: none"> ○ Reinstatement requires successful completion of a tutorial • Access to community support information • Access to customer care centre/chimo • Playwise rating: low, moderate & high rating
Destination and Video Lottery	
<p>Education</p> <ul style="list-style-type: none"> • Maximum cash-in limits: \$60.00 • Clock continuously displayed on every screen • Screen displays in cash, not credits • Pop-up play reminders: 30, 60 & 90 minutes • Forced cash-out: 150 minutes • Player service management tool: time & money • Setting • Healthy play pamphlets onsite: Game Odds & Facts 	<p>Support</p> <ul style="list-style-type: none"> • Mandatory retailer training • NB gambling support line information on terminals (always on screen) • Support line materials throughout facility • Access to customer care centre/CHIMO

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. In 2019-2020, First Nations received \$14.2 million in gaming revenue.

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, 2019-2020	4	

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.	Direction has been provided from Government for the Department of Finance and Treasury board to ensure the overpayment issue is considered as a part of the larger First Nations strategy.
We recommend that the NBLGC (with the Department of Justice and Public Safety) obtain a signed request for the deadline extension of the GREC key internal control procedures report. We recommend NBLGC enforce compliance with Regulation 2009-24 (Section 39.1) of the <i>Gaming Control Act</i> requirements prior to the next audit cycle.	The NBLGC will work with Department of Justice and Public Safety and GREC to ensure compliance with the <i>Gaming Control Act</i> regulatory requirements prior to the next audit cycle.
We recommend NBLGC undertake a more robust analysis of the allowance for doubtful accounts of its Grey Rock Entertainment Centre accounts receivable balance.	The NBLGC will provide documentation for the analysis of the collectability of its Grey Rock Entertainment Centre accounts receivable balance.
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.

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 2017-2018	2	1
Audit of the NBLGC Financial statements 2016-2017	3	2
Audit of the NBLGC Financial statements 2015-2016	4	3

FINANCIAL STATEMENTS

NEW BRUNSWICK LOTTERIES AND GAMING CORPORATION

31 MARCH 2020

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

I 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, 2020, 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 my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, 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

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

Emphasis of Matter

I draw users' attention to Note 2(f) – Impact of Coronavirus COVID-19 Pandemic and Note 14 – Subsequent Events describing the uncertainty in the Entities subsequent financial statements as a result of the COVID-19 global pandemic. My opinion is not modified in respect of this matter.

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

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my 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.

I 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 I identify during my audit.



Janice Leahy, CPA, CA, CIA
Acting Auditor General

Fredericton, New Brunswick
May 4, 2021

Management Report

March 31, 2020

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	2020	2019
Due from Province of New Brunswick - Note 4a	\$ 2,376,357	\$ 2,834,405
Accounts Receivable - Note 4b	2,824,608	4,130,922
Investments:		
Investment in Atlantic Lottery Corporation Inc. - Note 6	17,684,492	11,315,470
Investment in share capital of Interprovincial Lottery Corporation	1	1
Total Financial Assets	\$ 22,885,458	\$ 18,280,798
Liabilities		
Accounts Payable - Note 5	\$4,942,852	\$6,311,932
HST Payable - Note 4a	129,113	493,300
Deferred revenue - Note 4a	129,000	160,095
Total Liabilities	\$ 5,200,965	\$ 6,965,327
Net Financial Assets	\$ 17,684,493	\$ 11,315,471
Accumulated Surplus	\$ 17,684,493	\$ 11,315,471

Contingent Liabilities - Note 12

Susequent Events - 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

Revenues	2020 Budget- Note 13	2020	2019
Investment Income from ALC Inc. - Note 6	\$ 129,800,000	\$ 124,614,361	\$ 130,013,648
Casino New Brunswick - Note 7	30,200,000	29,157,905	29,252,454
Grey Rock Casino - Note 7	2,300,000	2,040,876	2,079,321
Other revenue	500,000	525,980	527,368
Total Revenues	\$ 162,800,000	\$ 156,339,122	\$ 161,872,791
Expenses			
Payments to First Nations under Revenue Sharing Agreements - Note 8	\$ 13,500,000	\$ 14,218,661	\$ 14,260,330
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	5,200,000	4,731,089	4,761,337
Compliance and Admin	140,000	42,027	-
Distribution to the Province of New Brunswick - Note 11	142,760,000	133,747,606	137,902,860
Total Expenses	\$ 162,800,000	\$ 153,939,383	\$ 158,124,527
Annual Surplus - Note 2c	\$ -	\$ 2,399,739	\$ 3,748,264

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

	2020 Budget- Note 13	2020	2019
Net Financial Assets - Beginning of Year	\$ 11,315,471	\$ 11,315,471	\$ 8,883,946
Changes in Year			
Annual Surplus	\$ -	\$ 2,399,739	\$ 3,748,264
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value - Note 6	-	(677,468)	(476,584)
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits - Note 6	-	4,646,751	(840,155)
Increase in Net Financial Assets	<u>\$ -</u>	<u>\$ 6,369,022</u>	<u>\$ 2,431,525</u>
Net Financial Assets - End of year	<u><u>\$ 11,315,471</u></u>	<u><u>\$ 17,684,493</u></u>	<u><u>\$ 11,315,471</u></u>

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

	2020 Budget- Note 13	2020	2019
Accumulated Surplus - Beginning of Year	\$ 11,315,471	\$ 11,315,471	\$ 8,883,946
Annual Surplus	\$ -	\$ 2,399,739	\$ 3,748,264
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value - Note 6	-	(677,468)	(476,584)
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits - Note 6	-	4,646,751	(840,155)
Accumulated Surplus - End of Year	<u>\$ 11,315,471</u>	<u>\$ 17,684,493</u>	<u>\$ 11,315,471</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

	2020	2019
Cash and Cash Equivalents Generated by (used in):		
Operating Activities		
Annual Surplus	\$ 2,399,739	\$ 3,748,264
Decrease to Accounts Receivable	\$ 1,306,314	\$ 1,039,958
Decrease to Accounts Payable	(1,369,080)	(110,016)
(Decrease) Increase to HST Payable	(364,187)	374,470
Decrease to Deferred Revenue	(31,095)	(61,240)
Net Cash Used in Operating Activities	\$ 1,941,691	\$ 4,991,436
Investing Activities		
Increase in Investments	\$ (6,369,022)	\$ (2,431,525)
Change in ALC Accumulated Other Comprehensive Income - Mark to Market Fair Value - Note 6	(677,468)	(476,584)
Change in ALC Accumulated Other Comprehensive Income - Employee Future Benefits - Note 6	4,646,751	(840,155)
Net Cash Used in Investing Activities	\$ (2,399,739)	\$ (3,748,264)
Decrease in Cash and Cash Equivalents During The Year	\$ (458,048)	\$ 1,243,172
Cash and Cash Equivalents, Beginning of Year	\$ 2,834,405	\$ 1,591,233
Cash and Cash Equivalents, End of Year	\$ 2,376,357	\$ 2,834,405
	2020	2019
Cash and Cash Equivalents represented by:		
Due From Province of New Brunswick	\$ 2,376,357	\$ 2,834,405

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

New Brunswick Lotteries and Gaming Corporation
Notes to the Financial Statements
31 March 2020

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, iLottery 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, 2020. 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, payments to the Province of New Brunswick 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

New Brunswick Lotteries and Gaming Corporation
Notes to the Financial Statements
31 March 2020

Note 2c 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. 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.

f) Impact of Coronavirus COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic (“the pandemic”). The pandemic has caused significant disruptions to both the operations of ALC and NBLGC’s casino service providers.

Due to government mandated closures of non-essential businesses, ALC experienced temporary business interruptions within their Video Lottery (VLT) network. VLT sites were closed prior to year-end, resulting in a negative impact on ALC’s net profit and therefore NBLGC’s financial results.

NBLGC’s Casino service providers were also exposed to the uncertainty and disruption as a result of the pandemic. Prior to year-end, both provincial gaming centers were subject to mandated closures. The

New Brunswick Lotteries and Gaming Corporation
Notes to the Financial Statements
31 March 2020

Note 2f continued

result was substantially reduced GGR for the month of March, having a negative impact on NBLGC's financial results.

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, 2020 is equal to the accounts receivable balance of \$17,567,657 and amounts due from the Province of New Brunswick for \$2,376,357. 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. The amount due from ALC Inc of \$1,119,711 is considered low risk and the amount from Grey Rock Entertainment Center Inc. of \$1,704,897 is considered high 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. NBLGC's maximum exposure to interest rate risk at March 31, 2020 is equal to ALC's mark to market long-term debt interest rate swap fair value of (\$310,843)

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>2020</u>	<u>2019</u>
HST Payable	\$129,113	\$493,300
Deferred Revenue	129,000	160,095
Payables to First Nations	859,412	1,406,010
Payable to GCGC	1,258,832	-
Payable Sports Development Trust Fund	-	325,000
Payable Arts Development Trust Fund	-	450,000
Due from Province of New Brunswick	<u>\$2,376,357</u>	<u>\$2,834,405</u>

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b) Accounts Receivable

	<u>2020</u>	<u>2019</u>
ALC Inc.	\$1,119,711	\$2,229,530
First Nations	14,743,049	14,743,049
Grey Rock Entertainment Center Inc.	1,704,897	1,900,708
Great Canadian Gaming (New Brunswick) Ltd. (GCGNB)	-	684
	<u>17,567,657</u>	<u>18,873,971</u>
Less: Allowance for Doubtful Accounts	<u>14,743,049</u>	<u>14,743,049</u>
	<u>\$2,824,608</u>	<u>\$4,130,922</u>

5. Accounts Payable

	<u>2020</u>	<u>2019</u>
Distributions to Province of New Brunswick	\$2,824,608	\$4,130,922
Payable to First Nations	859,412	1,406,010
Payable to GCGNB	1,258,832	-
Payable Sports Development Trust Fund	-	325,000
Payable Arts Development Trust Fund	-	450,000
	<u>\$4,942,852</u>	<u>\$6,311,932</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>2020</u>		<u>2019</u>	
	<u>ALC Inc.</u>	<u>NBLGC Share</u>	<u>ALC Inc.</u>	<u>NBLGC Share</u>
Balance Sheet				
(\$ thousands)				
Assets	\$264,436	-	\$228,591	-
Liabilities	198,993	-	185,181	-
Shareholders' Equity				
Retained Earnings	66,865	17,995	42,433	10,949
Accumulated Other	-	-	-	-
Comprehensive Income/(Loss)	(1,423)	(311)	976	366
Share capital	1	-	1	-
Total Retained Earnings	\$65,443	\$17,684	\$43,410	\$11,315
Total Liabilities and Shareholders' Equity	\$264,436	-	\$228,591	-

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Note 6.1 continued

	2020		2019	
	ALC Inc.	NBLGC Share	ALC Inc.	NBLGC Share
<u>Statement of Operations</u>				
(\$ thousands)				
Gross Profit	\$591,034		\$621,705	
Expenses	(144,726)		(146,544)	
Other income (expenses)	(155)		(52)	
Taxes & Payments to Federal Government	(50,470)		(52,868)	
Net profit	\$395,683	\$124,614	\$422,241	\$130,014
Investment Income from ALC Inc.		\$124,614		\$130,014
<u>Changes in Retained Earnings</u>				
<u>(Calculation of Retained Earnings)</u>				
(\$ thousands)				
Retained Earnings, Beginning of Year	\$42,433	\$10,949	\$31,131	\$8,041
Impact of changes in accounting policy	(851)	(187)	-	-
Adjusted balance, beginning of year	\$41,582	\$10,762	\$31,131	8,041
Net Profit	395,683	124,614	422,241	130,014
Employee Future Benefits	-	-	-	-
Change in Actuarial Assumptions	15,488	4,647	(2,800)	(840)
Distributed to Shareholders	(385,888)	(122,028)	(408,139)	(126,266)
Retained Earnings, End of Year	\$66,865	\$17,995	\$42,433	\$10,949
<u>Changes in Accumulated Other Comprehensive Income (Loss)</u>				
(\$ thousands)				
Accumulated Other Comprehensive Income (Loss), Beginning of Year	\$976	\$366	\$2,633	\$843
Mark to Market Instruments				
Change in Fair Value	(2,399)	(677)	(1,657)	(477)
Accumulated Other Comprehensive Income(Loss), End of Year	\$(1,423)	\$(311)	\$976	\$366
Investment in ALC Inc.		\$17,684		\$11,315

As of March 31, 2020, New Brunswick's share of ALC Inc.'s debt is \$36.8M (2019 - \$32.8M)

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'*

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Note 6.2 continued

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 2019-20 and 2018-19 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.

Investment Income From ALC Inc.:	2020	2019
(\$ thousands)		
NBLGC's share of Net Profit (Note 6.1)	\$124,614	\$130,014
Withheld - Special Pension Payments (Note 6.3)	(2,274)	(3,743)
Unallocated Profit	(77)	(5)
Change in accounting policy	(235)	
Net Distribution to NBLGC	<u>\$122,028</u>	<u>\$126,266</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. On June 18, 2019, as a result of an updated pension valuation, it was determined that an additional \$2,273,490 would be withheld from ALC profit distributions to NBLGC from July 2019 until March 2020. Repayments in 2019-20 were \$2,273,490 (2018-19- \$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 2019-20, casino gaming revenue from GCGNB to NBLGC was \$29,157,905 (2018-19 - \$29,252,454). Total allocation of revenue to GCGNB for operational services at Casino New Brunswick was \$31,910,793; this included \$765,757 representing the retention of leased slots.

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Note 7 continued

In fiscal 2019-20, casino gaming revenue from GREC to NBLGC was \$2,040,876 (2018-19 - \$2,079,321). Total allocation of revenue to GREC Inc. for operational services was \$8,695,049; this included \$106,309 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 2020, 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:

	<u>2020</u>	<u>2019</u>
St. Mary's First Nation	\$6,645,767	\$6,971,110
Madawaska Maliseet First Nation	8,518	10,167
Woodstock First Nation	2,527,868	2,531,785
Oromocto First Nation	1,884,130	1,633,042
Metepenagiag First Nation	1,372,980	1,115,740
Kingsclear First Nation	149,686	143,726
Elsipogtog First Nation	-	168,752
Eel River Bar First Nation	983,566	987,707
Esgenoôpetitj First Nation	646,146	698,301
Total	<u>\$14,218,661</u>	<u>\$14,260,330</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 2018-19 or in 2019-20.

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.

New Brunswick Lotteries and Gaming Corporation
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Note 11 continued

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. The distribution to the Province of New Brunswick is recorded as an expense on the Statement of Operations and was \$133,747,606 in 2019-20 (2018-19-\$137,902,860).

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

	<u>2020</u>	<u>2019</u>
Due from Province of New Brunswick	\$2,376,357	\$2,834,405
Due to Province of New Brunswick	2,824,608	4,130,922
Net Due to Province of New Brunswick	<u>\$448,251</u>	<u>\$1,296,517</u>

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

	<u>2020</u>	<u>2019</u>
Distribution to the Province of New Brunswick	\$133,747,606	\$137,902,860
Contribution to the Arts Development Trust Fund	700,000	700,000
Contribution to the Sports Development Trust Fund	500,000	500,000
	<u>\$134,947,606</u>	<u>\$139,102,860</u>

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, 2020, 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.

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14. Subsequent Events

Subsequent to March 31, 2020, the pandemic continues to evolve, creating both operational and financial uncertainties. ALC and NBLGC's service providers have been subject to temporary business interruptions and reduced customer capacity limits.

The ultimate duration and magnitude of the pandemic, and its corresponding impact on the NBLGC's financial position, are not fully known. Therefore, an estimate of the financial effect to the NBLGC is not practical at this time.