

2014-2015 Annual Report
New Brunswick Lotteries and Gaming
Corporation

2014-2015 Annual Report

Published by:

New Brunswick Lotteries and Gaming Corporation
Province of New Brunswick
P.O. Box 6000
Fredericton, New Brunswick
E3B 5H1
Canada
<http://www2.gnb.ca/content/gnb/biling/fin.html>

March 2017

Cover:

Government Services

Printing and Binding:

Printing Services, NBISA

ISBN 978-1-4605-0529-8 (Print)

ISBN 978-1-4605-0530-4 (Online)

ISSN 1920-6925 (Print)

ISSN 1920-6933 (Online)

Printed in New Brunswick

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, 2015.



Nicole Picot
Director



Patrick Francis
Director

NEW BRUNSWICK LOTTERIES AND GAMING CORPORATION

Under the *Gaming Control 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.

As the business entity and operating mind for provincial gaming, the NBLGC

- is the Province's shareholder in the Atlantic Lottery Corporation, which operates the ticket lottery and video lottery programs on behalf of the Province;
- manages the service provider agreement with the casino operators, and
- is responsible for the development and implementation of the Province's responsible gaming initiatives.

GOVERNANCE

NBLGC 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 *Gaming Control Act* requires that one of the appointees be a senior official from the Department of Health.

At March 31, 2015, 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

NBLGC Officers and 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.

2014-2015 HIGHLIGHTS

Lines of Business

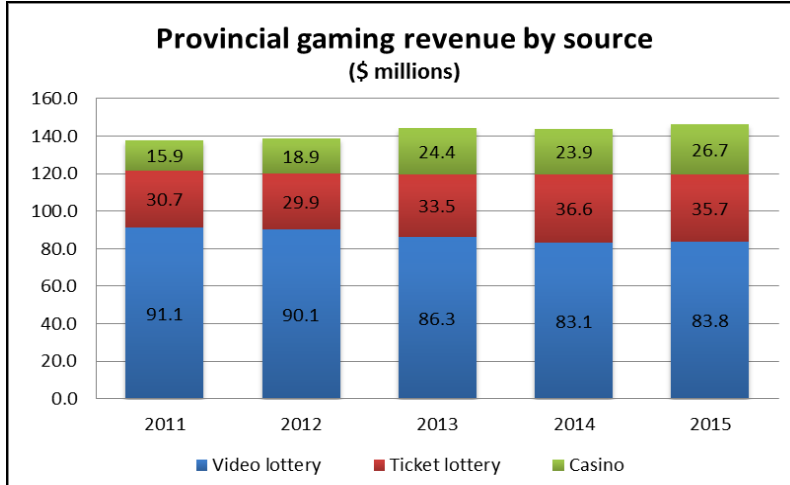
The NBLGC's three lines of business are video lottery, traditional lottery (or ticket lottery) and casino gaming.

The Atlantic Lottery Corporation operates the video lottery and traditional lottery programs. Casino gaming is operated by Sonco New Brunswick Limited Partnership (Casino New Brunswick) and Grey Rock Entertainment Center Inc. (Grey Rock Casino), through service provider agreements with the NBLGC.

The NBLGC receives the net profits (gross revenue – expense = net profits) of the Atlantic Lottery Corporation, 50% of the gross gaming revenue of Casino New Brunswick and 40% of the gross gaming revenue of Grey Rock Casino over the annual threshold of \$5 million (which was not reached in 2014-2015).

Gaming Revenue

A total of \$146.2 million of gaming revenue was received in 2014-2015.



In 2014-2015:

- NB's casino gaming revenue was \$26.7 million, which is \$2.8 million more than the previous year.
- NB's share of the video lottery and traditional lottery revenue was \$119.5 million, which is \$2 million more than the previous year.

Economic Impact of New Brunswick's Gaming Industry

Most revenues received by the NBLGC are treated like other provincial revenues by being immediately credited to the consolidated revenue fund and subsequently used to help fund important provincial programs such as health care and education programs.

Under section 78 of the *Gaming Control Act* (the *Act*), the NBLGC is authorized to pay the cost of administering the *Act* out of its proceeds (i.e., revenues). Costs include the administration and regulation of the *Act* (Department of Finance and Department of Public Safety, respectively).

In 2014-2015, the annual surplus of \$128 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 found in the NBLGC's 2014-2015 Financial Statements included in this report.

First Nations

The NBLGC shares gaming revenue with First Nations as provided in section 24 of the *Gaming Control Act*. The object of the revenue sharing arrangement 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.

Casino Gaming

Casino New Brunswick

The NBLGC manages the service provider agreement with the casino operator for *Casino New Brunswick*. At March 31, 2015, the casino service provider was Sonco Gaming New Brunswick Limited Partnership. This was the fifth year of operation for *Casino New Brunswick* which is located in Moncton along the Trans-Canada Highway on Mountain Road.

2014-2015	
Where does the money go?	(million)
• Surplus to the Province	\$128
• Arts Development Trust Fund	\$0.7
• Sports Development Trust Fund	\$0.5
• Payments to First Nations	\$13.1
• Other	\$3.9

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 2014-2015, the casino offered approximately 600 slots, 21 table games and 5 Poker tables and had over 1.3 million visitors. In addition, over 40 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 Grey Rock Casino.

The casino opened on March 1, 2015 and offered 100 slots and 2 electronic table games. Grey Rock Casino had over 5,800 visitors during its first month of operation.

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 acts as 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 Province.

The ALC also handles and markets the products of the ILC. The ILC is a jointly owned corporation of the 10 Canadian provinces. In 2014-2015, ILC Draw products were Lotto Max and 6/49 – all national lottery games. In 2014-2015, ILC Instant products were \$200 million\$ Supreme, Classic White, Classic Gold, \$100 Million Prestige, \$100 million \$Fortune, Royal Treasure, and \$200 Million Extraordinaire.

In 2014-2015, in the New Brunswick market, the ALC offered the following products:

- **Video Lottery games**
- **Electronic Poker Tables**
- **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

On March 31, 2015, there were 1,969 VLTs and 227 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.

Video Lottery Payout Percentage

Reconciliation of the results of operations to the payout percentages specified in the *Video Lottery Scheme Regulation 2008-112* can be found in **Appendix A**. The regulation requires that prize payouts from the video lottery program be not less than 80% and not more than 96% of the money put into the video lottery machines.

Responsible Gaming

The NBLGC is responsible for the development and implementation of the Province's responsible gaming policy. The responsible gaming activities in 2014-2015 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 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 2014-2015, a total of 1,957 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.

FINANCIAL STATEMENTS

NEW BRUNSWICK LOTTERIES AND GAMING CORPORATION

31 MARCH 2015



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, 2015, 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, 2015, 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
Auditor General

Fredericton, NB
December 22, 2016

Management Report

March 31, 2015

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	2015	2014
Due from Province of New Brunswick - Note 4a	\$ 2,575,916	\$ 3,600,641
Accounts Receivable - Note 4b	3,769,837	1,323,071
Investments:		
Investment in share capital of Interprovincial Lottery Corporation	1	1
Total Financial Assets	\$ 6,345,754	\$ 4,923,713
Liabilities		
Accounts Payable - Note 5	\$ 5,829,383	\$ 3,133,015
HST Payable	290,887	269,911
Deferred revenue	225,483	266,829
Casino capital reserve - Note 6	-	1,253,957
Investment in Atlantic Lottery Corporation Inc.-Deficit - Note 7	12,127,223	14,162,614
Total Liabilities	\$ 18,472,976	\$ 19,086,326
Net Debt	\$ (12,127,222)	\$ (14,162,613)
Accumulated Deficit	\$ (12,127,222)	\$ (14,162,613)

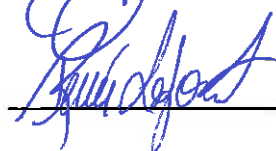
Contingent Liabilities - Note 14

Subsequent Events - Note 17

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

Revenue	2015 Budget	2015	2014
Investment Income from ALC Inc. - Note 7	\$ 120,300,000	\$ 119,560,309	\$ 119,769,886
Casino New Brunswick - Note 9	25,500,000	26,674,387	23,870,115
Other revenue	500,000	530,435	437,547
Casino Capital Reserve revenue - Note 6	630,000	1,944,586	3,280,617
Total Revenue	\$ 146,930,000	\$ 148,709,717	\$ 147,358,165
Expense			
Payments to First Nations under Revenue Sharing Agreements - Note 10	\$ 14,000,000	\$ 13,053,573	\$ 12,737,132
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	396,825	1,543,322	2,603,664
Taxes - Note 12	2,263,175	2,927,723	2,833,091
Provision for uncollectible accounts from First Nations - Note 10	-	1,867,339	1,894,696
Other	-	132,731	-
Total Expenses	\$ 17,860,000	\$ 20,724,688	\$ 21,268,583
Annual Surplus	\$ 129,070,000	\$ 127,985,029	\$ 126,089,582

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

	2015	2014
Net Debt - Beginning of Year	\$(14,162,613)	\$(22,211,017)
Changes in Year		
Annual Surplus	\$127,985,029	\$126,089,582
Profit Withheld -Note 7	(3,743,292)	(2,183,587)
Unallocated Profit (subsidiary ALC Inc.)	(8,760)	(14,922)
Change in Shareholder Deficit of ALC Inc.	2,035,391	8,048,404
Distribution to the Province of New Brunswick	(124,232,977)	(123,891,073)
Increase in Net Debt	<u>\$ 2,035,391</u>	<u>\$ 8,048,404</u>
Net Debt - End of year	<u>\$(12,127,222)</u>	<u>\$(14,162,613)</u>

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

	2015	2014
Accumulated Deficit - Beginning of Year	\$(14,162,613)	\$(22,211,017)
Annual Surplus	\$127,985,029	\$126,089,582
Profit Withheld -Note 7	(3,743,292)	(2,183,587)
Unallocated Profit (subsidiary ALC Inc.)	(8,760)	(14,922)
Change in Shareholder Deficit of ALC Inc.	2,035,391	8,048,404
Distribution to the Province of New Brunswick	(124,232,977)	(123,891,073)
Accumulated Deficit - End of Year	<u>\$(12,127,222)</u>	<u>\$(14,162,613)</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

	2015	2014
Cash and Cash Equivalents Generated by (used in):		
Operating Activities		
Annual Surplus	\$ 127,985,029	\$ 126,089,582
Profit Withheld -Note 7	(3,743,292)	(2,183,587)
Unallocated Profit (subsidiary ALC Inc.)	(8,760)	(14,922)
Distribution to the Province of New Brunswick	(124,232,977)	(123,891,073)
	<u>\$ -</u>	<u>\$ -</u>
Decrease (Increase) to Accounts Receivable	\$ (2,446,767)	\$ 702,678
(Decrease) Increase to Accounts Payable	2,696,369	(224,416)
(Decrease) Increase to HST Payable	20,976	44,600
(Decrease) Increase to Deferred Revenue	(41,346)	89,314
(Decrease) Increase to Casino Capital Reserve	(1,253,957)	(1,779,879)
Increase in Cash and Cash Equivalents	<u>\$ (1,024,725)</u>	<u>\$ (1,167,703)</u>
Cash and Cash Equivalents, Beginning of Year	\$ 3,600,641	\$ 4,768,344
Cash and Cash Equivalents, End of Year	\$ 2,575,916	\$ 3,600,641
Cash and Cash Equivalents represented by:		
	2015	2014
Due From Province of New Brunswick	<u>\$ 2,575,916</u>	<u>\$ 3,600,641</u>

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

New Brunswick Lotteries and Gaming Corporation
Notes to the Financial Statements
31 March 2015

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 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, 2015. 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 2015

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 exposure to credit risk at March 31, 2015 is equal to the accounts receivable balance of \$17,098,930 and

New Brunswick Lotteries and Gaming Corporation
Notes to the Financial Statements
31 March 2015

Note 3 continued

amounts due from the Province of New Brunswick for \$2,575,916. An allowance for doubtful accounts in the amount of \$13,329,093 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>2015</u>	<u>2014</u>
HST Payable	290,887	269,911
Deferred Revenue	225,483	266,829
Cash deposits to the Casino Capital Reserve	-	1,253,957
Payables to First Nations	1,288,046	1,809,944
Payable Sports Development Trust Fund	71,500	-
Payable Arts Development Trust Fund	700,000	-
Due from Province of New Brunswick	<u>\$2,575,916</u>	<u>\$3,600,641</u>

b) Accounts Receivable

	<u>2015</u>	<u>2014</u>
ALC Inc.	\$3,004,445	\$769,749
First Nations	13,329,093	11,461,754
Sonco	765,392	553,322
	<u>17,098,930</u>	<u>12,784,825</u>
Less: Allowance for Doubtful Accounts	13,329,093	11,461,754
	<u>\$3,769,837</u>	<u>\$1,323,071</u>

New Brunswick Lotteries and Gaming Corporation
Notes to the Financial Statements
31 March 2015

5. Accounts Payable

	<u>2015</u>	<u>2014</u>
Distributions to Province of New Brunswick	\$3,769,837	\$1,323,071
Payable to First Nations	1,288,046	1,809,944
Payable Sports Development Trust Fund	71,500	-
Payable Arts Development Trust Fund	700,000	-
	<u>\$5,829,383</u>	<u>\$3,133,015</u>

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>2015</u>	<u>2014</u>
Opening Capital Reserve balance	\$1,253,957	\$3,033,836
3% of Gross Gaming Revenue added to Capital Reserve	798,159	1,478,919
Interest earned on unused Capital Reserve balance	3,232	21,819
Other	(512,026)	(676,953)
Expenditures from Capital Reserve	<u>(1,543,322)</u>	<u>(2,603,664)</u>
Closing Capital Reserve balance	<u>\$ -</u>	<u>\$1,253,957</u>

7. Investment Income – 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 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 2015

Note 7 continued

The following is a summary of operations conducted by ALC Inc. on behalf of the NBLGC. Net profits distributed to the NBLGC from ALC Inc. are noted below:

	(thousands)			
			2015	2014
	Traditional Sales	Destination Sales	Total	Total
Gross Profit	\$60,055	\$105,251	\$165,306	\$165,655
Operating Expenses	(24,332)	(21,423)	(45,755)	(45,900)
ALC Inc. Net Profit	\$35,723	\$83,828	\$119,551	\$119,755
Subsidiary profit			9	15
Investment Income from ALC Inc.			\$119,560	\$119,770
Unallocated Profit (subsidiary ALC Inc.)			(9)	(15)
Profit withheld (Note 7)			(3,743)	(2,184)
Net Investment Income Received			\$115,808	\$117,571

The table below outlines NBLGC's portion of ALC Inc.'s Shareholder Deficit:

	(thousands)	
	2015	2014
Assets	\$229,797	\$250,938
Liabilities	(265,987)	(284,842)
Shareholder Deficit	\$(36,190)	\$ (33,904)
NBLGC Portion of Shareholder Deficit	(\$12,127)	(\$9,822)
Provision for write-down of investment (Note 8, 17)	-	(4,340)
Investment in ALC Inc.- Deficit	(\$12,127)	(\$14,162)

As of March 31, 2015, New Brunswick's share of ALC Inc.'s debt is \$57.4M.

Calculation of year-over-year change to Shareholder Deficit:

	(thousands)	
	2015	2014
Revenue (Net)	\$695,021	\$681,033
Expenses	(286,595)	(284,360)
Other Losses	(40,210)	(28,236)
Other Comprehensive Income (Loss)	(7,730)	23,145
Comprehensive Income	360,486	391,582
Income Allocated to Shareholders	(362,772)	(360,165)
Undistributed Amounts to Shareholders	\$(2,286)	\$ 31,417
NBLGC Portion year-over-year change	\$2,035	\$8,048

New Brunswick Lotteries and Gaming Corporation
Notes to the Financial Statements
31 March 2015

Note 7 continued

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.

Between fiscal year 06-07 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 future profit distributions for NBLGC is a decrease of approximately \$3,700,000 annually for a total impact of \$20,900,022. In 2014-15, these reductions in profit were \$3,743,292 (2013-14-\$2,183,587).

8. Investment in Geonomics Global Games Limited (Formerly Roboreus Limited)

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 Global Games Limited (formerly Roboreus Limited), 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. The investment was assessed as fully impaired by ALC Inc. and the loan that was initially used to purchase NBLGC's portion of the shares has been retired as described in Note 17. NBLGC has recorded a provision for the impairment of this investment in its 2012/13 and 2013/14 financial statements.

9. Agreements with Casino Service Providers

In 2008 the NBLGC signed a 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 was allocated to Sonco, and 3% of Gross Gaming Revenue was deposited to a Capital Reserve. Gross Gaming Revenue 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 fiscal 2014-2015, total allocation of revenue to Sonco was \$26,155,238; this included \$137,501 representing the retention of leased slots. As a result, Casino gaming revenue to NBLGC for fiscal 2014-2015 was \$26,674,387 (2013-2014 - \$23,870,115).

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)

New Brunswick Lotteries and Gaming Corporation
Notes to the Financial Statements
31 March 2015

Note 9 continued

Limited, 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 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 2014-15 the threshold of \$5 million was not reached, and NBLGC received no revenue from the operation.

10. Revenue Sharing Agreements with First Nations

Pursuant to provisions under the Gaming Control Act, as at 31 March 2014, 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, Esogenoôpetitj 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 2015 is \$1,867,339 and is recorded as a provision expense in the statement of operations bringing the provision for uncollectable accounts to \$13,329,093. The calculation of expenses which led to the overpayment has been disputed by several First Nations as described in Note 17.

Payments to First Nations under Revenue Sharing Agreements:

	<u>2015</u>	<u>2014</u>
St. Mary's First Nation	\$5,769,928	\$5,372,065
Madawaska Maliseet First Nation	1,832,857	1,676,141
Woodstock First Nation	1,973,849	1,897,530
Oromocto First Nation	1,291,274	1,408,079
Elsipogtog First Nation	702,024	983,505
Eel River Bar First Nation	891,981	886,436
Esogenoôpetitj First Nation	591,660	513,376
Total	<u>\$13,053,573</u>	<u>\$12,737,132</u>

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.

New Brunswick Lotteries and Gaming Corporation
Notes to the Financial Statements
31 March 2015

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 of the 2015 figures have been reclassified to conform to the presentation adopted for 2016.

17. Subsequent Events

In March 2016, NBLGC's Board approved that ALC Inc. be instructed to retire the loan that was initially used to purchase NBLGC's portion of the shares in Geonomics and to deduct 4.34 million from the 2015-16 profit payments.

In August 2015, 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. As a result of that 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 will have no impact on the recovery of outstanding receivables related to overpayments made before this date.

APPENDIX A
Video Lottery New Brunswick Prize Payout Percentages
April 1, 2014 to March 31, 2015

VL Game Name	Actual Prize Payout	VL Game Name	Actual Prize Payout
7S WILD	94.9%	MIDNIGHT ROLLERS	90.3%
7'S WILD	93.9%	MONEY STORM	92.7%
AMERICAN ORIGINAL	92.8%	MYSTERY MANOR	92.8%
ARCTIC SPIRIT	92.7%	OLE JALAPENOS	94.4%
BLAZING SHOTS	92.9%	PICKEM POKER	89.5%
BONUS SEVENS WILD	94.7%	POWER KENO	94.8%
BUGSY	93.2%	QH TRIPLE BLAZING	94.8%
CASH'M IF YOU CAN	92.9%	QUICK HITS TRIPLE	95.1%
CATS 15 LINES	92.4%	QUICK PAY JACKPOTS	92.5%
CHERRY RAIN	92.9%	RAINBOW RICHES	92.4%
CHERRY RAIN DELUXE	92.9%	REEL FRUIT	92.7%
CRANK'S BASH	93.0%	RICH GIRL	92.7%
DAVINCI DIAMONDS	93.2%	ROYAL SPINS	94.0%
DEUCES WILD	93.3%	ROYAL SPINS (0.25)	95.2%
DIAMOND DAZE	92.2%	ROYAL SPINS DELUXE	92.9%
DOUBLE BONUS	94.9%	SIBERIAN STORM MULTIWAY	93.0%
DOUBLE DA VINCI DIAMONDS	92.7%	SMASH THE PIG	92.7%
DOUBLE JACKPOT TRIPLE 7'S	95.7%	SUPER CRAZY FRUIT POTS	92.3%
EMERALD FALLS	93.2%	SWAN LAKE	92.6%
ENCHANTED UNICORN	92.9%	TAILGATE PARTY	92.9%
FIREBALL KENO	94.5%	TEXAS TEA	93.0%
FIVE TIMES PAY	92.4%	THE BIG EASY	94.9%
GOLDEN GODDESS	93.0%	THE WILD LIFE	94.0%
HOT ROCKS	92.4%	TRIPLE BUCKS	92.3%
HULA MOOLAH	92.1%	TRIPLE IT	92.9%
JACKS OR BETTER	94.0%	TRIPLE RED HOT 7S	93.1%
JOKER'S VAULT POKER	90.4%	TRIPLE STAXX	93.0%
KITTY GLITTER	93.0%	TRIPLE TROUBLE KENO	94.8%
KNIGHT'S QUEST	91.5%	TROUBLE IN THE HENHOUSE	92.8%
LEOPARD SPOTS	91.2%	VALKYRIE	93.3%
LOBSTERMANIA	93.0%	WILD GOLD BARS	92.5%
LUCKY 8 LINES	92.7%	WILD WRANGLERS	92.9%
LUCKY LARRY'S LOBSTER	93.1%	WOLF RUN	92.9%
MAGIC MERLIN	93.0%	WOLF RUN 2	92.8%

Please Note:

- (1) This schedule includes only those games active at March 31, 2015.
- (2) Games with strong deviations from the required range have had insufficient play to demonstrate non-compliance.