

Prince Edward Island  
Lotteries Commission  
Annual Report  
2015 – 2016



The Honourable Antoinette Perry  
Lieutenant Governor of Prince Edward Island  
PO Box 846  
Charlottetown, PE C1A 7L9

May it Please Your Honour:

In accordance with the *Lotteries Commission Act* [R.S.P.E.I. 1988, Cap. L-17], I am pleased to present to you the Annual Report of the Prince Edward Island Lotteries Commission for the fiscal year ending March 31, 2016.

Respectfully submitted,



Allen F. Roach  
Minister of Finance



## Introduction

The Prince Edward Island Lotteries Commission was established in 1976 under the *Lotteries Commission Act*. The Commission's mandate is to develop, organize, undertake, conduct and manage lottery schemes on behalf of the Province. The Commission has, in turn, delegated these duties to its agent, the Atlantic Lottery Corporation.

The Atlantic Lottery Corporation was incorporated in 1976 under the *Canada Business Corporations Act*. The Corporation is jointly owned by the four Atlantic Provinces. Each Province has lottery and gaming legislation in place, with supporting regulations, which must be complied with by the Atlantic Lottery Corporation in its operation of lottery games in each jurisdiction.

## Introduction

En 1976, la Commission des loteries de l'Île du Prince Édouard a été établie en vertu de la *Lotteries Commission Act* (Loi sur la Commission des loteries). Le mandat de la Commission est de développer, d'organiser, d'exploiter, de diriger et de gérer le système de loterie pour le compte de la province. À son tour, la Commission a délégué ces tâches à son agent, la Société des loteries de l'Atlantique.

En 1976, la Société des loteries de l'Atlantique a été constituée en société en vertu de la Loi canadienne sur les sociétés par actions. Les quatre provinces de l'Atlantique en sont copropriétaires. Chaque province possède des dispositions législatives portant sur les jeux de hasard et d'argent, y compris des règlements qui s'y appliquent. La Société des loteries de l'Atlantique se doit d'observer ces dispositions en ce qui concerne l'exploitation des jeux de loterie dans chaque province.

## **Legislative Framework**

Gaming in Canada is governed by the Criminal Code of Canada and generally gambling is unlawful unless conducted and managed by a Province or a body licensed by a provincial government. The “Gaming Centers Control Regulations” established under the *Lotteries Commission Act* provide the legislative framework for the conduct and management of gaming activities on Prince Edward Island.

On behalf of the Province and the Provinces of Nova Scotia, Newfoundland and Labrador and New Brunswick, the Atlantic Lottery Corporation (ALC) is responsible for operating lotteries in each of the four Atlantic Provinces. ALC was incorporated under the *Canada Business Corporations Act* on September 3, 1976. The Commission is one of four shareholders of ALC.

## **Officers and Board Members**

The Honourable Allen F. Roach was appointed (EC2015-320 and EC2015-322) May 21, 2015 as Chair of the Commission and Minister of Finance. He replaced the Honourable H. Wade MacLauchlan, who had been appointed on February 23, 2015. David Arsenault served as Vice-Chair and Dan Campbell was Secretary-Treasurer.

Mr. Dan Campbell and Ms. Patricia A. Mella were Prince Edward Island’s representatives on the Board of Directors of the Atlantic Lottery Corporation (ALC). Ms. Mella served as Vice-Chair of ALC during the 2015-2016 year.

## **Atlantic Lottery Corporation**

The Commission has entered into the following agreements with the four shareholders of ALC:

1. an agreement to establish and operate a regional lottery in 1976;
2. the Unanimous Shareholders' Agreement dated November 15, 1976 governing the manner in which proceeds from lottery schemes would be distributed; and
3. on July 4, 2000 an agreement to amend and restate the Unanimous Shareholders Agreement on conduct and management of lottery schemes.

The Commission is also a shareholder of the Interprovincial Lottery Corporation.

The Corporation is mandated to provide profits to the four shareholders. It has a dual commercial and social responsibility purpose, whereby a player protection commitment is balanced against the need for sustainable long-term growth. The evolving global gaming marketplace has created increased competition which requires technology investment decisions for the benefit of Atlantic Canadians.

In Atlantic Canada, ALC operates retail lotteries, internet sales, Destination and Red Shores. Retail includes the national games – Lotto Max and Lotto 6/49, administered through the Interprovincial Lottery Corporation, plus many other draw games that are sold through licensed retailers. Destination includes the video lottery network in age restricted sites. Red Shores includes casino games, harness racing, food and beverage, and lottery tickets offered at two facilities on Prince Edward Island.

The Commission's activities managed by ALC include the following results for the year ended March 31, 2016:

**Table 1**  
**Atlantic Lottery Corporation**  
**Prince Edward Island Profit by Program**  
**(000's)**

|  | <b>Total</b>               |                            |
|--|----------------------------|----------------------------|
|  | <b>2016</b>                | <b>2015</b>                |
| <b>Revenues</b>                        |                            |                            |
| Retail Lottery Ticket & Internet Sales | \$ 37,614                  | \$ 32,503                  |
| Less Ticket Prizes                     | <u>(21,064)</u>            | <u>(18,444)</u>            |
| Net                                    | 16,550                     | 14,059                     |
| Net - Video Lottery Receipts           | 19,121                     | 17,401                     |
| Red Shores                             | <u>18,520</u>              | <u>17,216</u>              |
| Net Revenues                           | 54,191                     | 48,676                     |
| <br>Total Direct Expenses              | <br><u>8,927</u>           | <br><u>8,164</u>           |
| Gross Profit                           | 45,264                     | 40,512                     |
| <br>Other Expenses                     | <br><u>27,363</u>          | <br><u>25,249</u>          |
| <br><b><u>Net Profit</u></b>           | <br><b><u>\$17,901</u></b> | <br><b><u>\$15,263</u></b> |
| <br><b><u>Profit Distribution</u></b>  |                            |                            |
| Tickets                                | \$ 5,988                   | \$ 4,529                   |
| Video Lottery                          | 11,298                     | 10,051                     |
| Red Shores                             | <u>615</u>                 | <u>683</u>                 |
|  | <b><u>\$17,901</u></b>     | <b><u>\$15,263</u></b>     |

In summary, the highlights are:

- Revenues are higher in all lines of business with the largest increase over the prior year being in lottery ticket sales;
- Total expenses are higher by \$2.9M over the prior year; and
- Net profit is up by \$2.6M over the prior year to \$17.9M

From the funds which ALC generated, \$2,100,000 was used in 2016 and \$2,170,000 in 2015 to assist the PEI Harness Racing Industry Association. The Commission also provided financial assistance to support the harness racing industry in the form of grants related to sales taxes due from pari-mutuel wagering in the amount of \$615,994 (2015 - \$626,169).

## **Financial Statements**

The Financial Statements of the Prince Edward Island Lotteries Commission, as audited by the Auditor General's Office, follow as an Appendix to this report. The Commission's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS).

The Commission's investment in ALC is accounted for using the equity method, whereby it is initially recorded at cost and the carrying amounts are increased or decreased to recognize income or loss and reduced as distributions are received by the Commission. At the beginning of the 2016 year, the Commission had a \$12.4M shareholder deficiency which was reduced to \$5.6M resulting from comprehensive income of \$14.9M, less distributions of \$8.1M.

The shareholder deficiency for the commission results from adjustments on conversion to IFRS and the employee future liability including pensions. This shareholder deficiency is being funded by monthly reductions of profit distributions (\$158,208) that commenced September 2013, and continue until March 2019. The amount remaining to be withheld as of April 1, 2016, is \$5.7M.

The Commission also invested \$4.3M as an equity interest in Geonomics Global Games Limited, which was recognized as an impairment loss in prior periods, and the shares were liquidated during 2016. A total of \$4.3M in profit distributions was withheld during 2016 to repay the loan related to this investment.

Appendix

Audited Financial Statements

2015 - 2016



**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Financial Statements  
March 31, 2016



# Prince Edward Island Île-du-Prince-Édouard

Office of the  
Auditor General

PO Box 2000, Charlottetown PE  
Canada C1A 7N8

Bureau du  
vérificateur général

C.P. 2000, Charlottetown PE  
Canada C1A 7N8

## INDEPENDENT AUDITOR'S REPORT

### To the Members of the Prince Edward Island Lotteries Commission

I have audited the accompanying financial statements of the **Prince Edward Island Lotteries Commission** which comprise the statement of financial position as at March 31, 2016, and the statements of comprehensive income, changes in shareholder deficiency, and cash flow 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 International Financial Reporting 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 the 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 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 significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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 Commission as at March 31, 2016, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

B. Jane MacAdam, CPA, CA  
Auditor General

Charlottetown, Prince Edward Island  
November 4, 2016

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

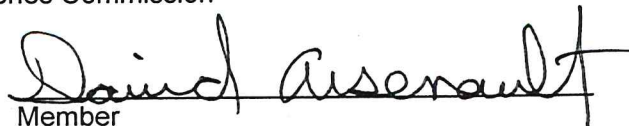
Statement of Financial Position  
March 31, 2016

|  | 2016               | Restated<br>2015    |
|--|--------------------|---------------------|
|  | \$                 | \$                  |
| <b>Assets</b>  |                    |                     |
| <b>Current Assets</b>                                    |                    |                     |
| Accounts receivable (Note 11)                            |                    |                     |
| Province of Prince Edward Island                         | 178,572            | -                   |
| Atlantic Lottery Corporation Inc.                        | -                  | 209,877             |
|  | <u>178,572</u>     | <u>209,877</u>      |
| <b>Non Current Assets</b>                                |                    |                     |
| Investment in Interprovincial Lottery Corporation        | <u>1</u>           | <u>1</u>            |
| <b>Total Assets</b>                                      | <u>178,573</u>     | <u>209,878</u>      |
| <b>Liabilities and Shareholder Deficiency</b>            |                    |                     |
| <b>Current Liabilities</b>                               |                    |                     |
| Accounts payable   |                    |                     |
| Province of Prince Edward Island                         | -                  | 209,877             |
| Atlantic Lottery Corporation Inc.                        | <u>178,572</u>     | -                   |
|  | <u>178,572</u>     | <u>209,877</u>      |
| <b>Non Current Liabilities</b>                           |                    |                     |
| Investment in Atlantic Lottery Corporation Inc. (Note 8) | <u>5,606,088</u>   | <u>12,446,735</u>   |
|  | 5,784,660          | 12,656,612          |
| <b>Shareholder Deficiency</b>                            |                    |                     |
| Contributed surplus (Note 5)                             | 101                | 101                 |
| Accumulated other comprehensive income                   | (1,000,207)        | (1,183,218)         |
| Deficit  | <u>(4,605,981)</u> | <u>(11,263,617)</u> |
|  | <u>(5,606,087)</u> | <u>(12,446,734)</u> |
| <b>Total Liabilities and Shareholder Deficiency</b>      | <u>178,573</u>     | <u>209,878</u>      |

(The accompanying notes are an integral part of these financial statements.)

Approved on behalf of the Prince Edward Island Lotteries Commission

  
Chairman

  
Member

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Comprehensive Income  
for the year ended March 31, 2016

|   | 2016              | Restated<br>2015   |
|---|-------------------|--------------------|
|   | \$                | \$                 |
| <b>Revenues</b>   |                   |                    |
| Distributions of Atlantic Lottery Corporation Inc. net profit (Note 16) |                   |                    |
| Lottery ticket sales  | 5,988,321         | 4,529,125          |
| Video lottery sales   | 11,298,160        | 10,050,861         |
| Entertainment centres net profit (loss)                                 |                   |                    |
| Red Shores Racetrack & Casino at Charlottetown                          |                   |                    |
| Driving Park  | 1,003,834         | 914,350            |
| Red Shores at Summerside Raceway  | (389,303)         | (231,120)          |
|   | <u>17,901,012</u> | <u>15,263,216</u>  |
| <b>Expenses</b>   |                   |                    |
| Grants to the harness racing industry (Note 10)                         | 2,919,361         | 2,992,747          |
| Grant to the City of Charlottetown (Note 12)                            | 400,000           | 300,000            |
| Responsible Gaming Strategy (Note 13)                                   | 232,873           | 227,950            |
| Professional services   | -                 | 1,112              |
| Impairment loss (Note 15)   | -                 | 3,805,397          |
| Other   | 5,400             | 17,350             |
|   | <u>3,557,634</u>  | <u>7,344,556</u>   |
| <b>Net income</b>   | 14,343,378        | 7,918,660          |
| <b>Other comprehensive income (loss)</b>                                |                   |                    |
| Commission share of other comprehensive income (loss) of                |                   |                    |
| Atlantic Lottery Corporation Inc. (Note 8)                              | <u>601,759</u>    | <u>(2,399,402)</u> |
| <b>Comprehensive income</b>   | <u>14,945,137</u> | <u>5,519,258</u>   |

(The accompanying notes are an integral part of these financial statements.)

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Changes in Shareholder Deficiency  
for the year ended March 31, 2016

|  | <b>Contributed<br/>Surplus</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Deficit</b>     | <b>2016<br/>Shareholder<br/>Deficiency</b> |
|--|--------------------------------|--|--------------------|--|
|  | <u>\$</u>                      | <u>\$</u>  | <u>\$</u>          | <u>\$</u>                                  |
| <b>Balance, beginning of year, restated</b>              | 101                            | (1,183,218)  | (11,263,617)       | (12,446,734)                               |
| Net income   | -                              | -  | 14,343,378         | 14,343,378                                 |
| Other comprehensive income (loss)                        | -                              | 183,011  | 418,748            | 601,759                                    |
| Comprehensive income                                     | -                              | 183,011  | 14,762,126         | 14,945,137                                 |
| Distributions to the Province of<br>Prince Edward Island | -                              | -  | (8,104,490)        | (8,104,490)                                |
| <b>Balance, end of year</b>                              | <u>101</u>                     | <u>(1,000,207)</u>   | <u>(4,605,981)</u> | <u>(5,606,087)</u>                         |

|  | <b>Contributed<br/>Surplus</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Deficit</b>      | <b>Restated<br/>2015<br/>Shareholder<br/>Deficiency</b> |
|--|--------------------------------|--|---------------------|---|
|  | <u>\$</u>                      | <u>\$</u>  | <u>\$</u>           | <u>\$</u>   |
| <b>Balance, beginning of year</b>                        | 101                            | 791,404  | (8,931,941)         | (8,140,436)   |
| Net income   | -                              | -  | 7,918,660           | 7,918,660   |
| Other comprehensive income (loss),<br>restated           | -                              | (1,974,622)  | (424,780)           | (2,399,402)   |
| Comprehensive income (loss)                              | -                              | (1,974,622)  | 7,493,880           | 5,519,258   |
| Distributions to the Province of<br>Prince Edward Island | -                              | -  | (9,825,556)         | (9,825,556)   |
| <b>Balance, end of year, restated</b>                    | <u>101</u>                     | <u>(1,183,218)</u>   | <u>(11,263,617)</u> | <u>(12,446,734)</u>                                     |

(The accompanying notes are an integral part of these financial statements.)



**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Cash Flow  
March 31, 2016

|   | 2016                | 2015                |
|---|---------------------|---------------------|
|   | \$                  | \$                  |
| <b>Cash provided (used) by:</b>                       |                     |                     |
| <b>Operating Activities</b>                           |                     |                     |
| Cash received from Atlantic Lottery Corporation Inc.  | 18,289,462          | 14,966,307          |
| Cash paid to the harness racing industry              | (2,919,361)         | (2,992,747)         |
| Cash paid to the City of Charlottetown                | (400,000)           | (400,000)           |
| Cash paid for the Responsible Gaming Strategy         | (232,873)           | (227,950)           |
| Cash paid for professional services                   | -                   | (1,112)             |
| Cash paid for other services                          | (5,400)             | (17,350)            |
| <b>Cash provided by operating activities</b>          | <u>14,731,828</u>   | <u>11,327,148</u>   |
| <b>Financing Activities</b>                           |                     |                     |
| Distributions to the Province of Prince Edward Island | (8,492,940)         | (9,428,647)         |
| Deficit repayment (Note 8)                            | (1,898,496)         | (1,898,501)         |
| Geonomics repayment (Note 15)                         | (4,340,392)         | -                   |
| <b>Cash used by financing activities</b>              | <u>(14,731,828)</u> | <u>(11,327,148)</u> |
| <b>Change in cash</b>                                 | -                   | -                   |
| Cash, beginning of year                               | -                   | -                   |
| <b>Cash, end of year</b>                              | <u>-</u>            | <u>-</u>            |

(The accompanying notes are an integral part of these financial statements.)

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements

March 31, 2016

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## 1. Nature of Operations

The Government of Prince Edward Island operates no lotteries but the province, through its ownership of the Prince Edward Island Lotteries Commission (the Commission), is a shareholder in the Atlantic Lottery Corporation Inc. (ALC) and the Interprovincial Lottery Corporation (ILC). ALC is jointly owned by the four Atlantic Provinces or their lottery agency with each having 25 percent ownership. ALC is responsible to develop, organize, undertake, conduct, and manage lotteries in Atlantic Canada. ALC also markets, and handles regionally, the products of the ILC, which is jointly owned by the ten Canadian provinces. Net profits (losses) of ALC and ILC are distributed to the shareholders.

An agreement between the Commission and ALC provides for ALC to develop, organize, conduct, manage, and operate gaming entertainment centres as agent for and on behalf of the Commission. In the event this agreement is terminated, all assets held by ALC on behalf of the Commission shall be transferred to the Commission and any related loans or other liabilities shall be assumed by and become obligations of the Commission.

ALC's net profit is distributed to each of the four Atlantic Provinces or their lottery agency in accordance with the Amended and Restated Unanimous Shareholders' Agreement. Distributions during the year are based on the estimated net profit for each province, less any distributions made by ALC on behalf of the provinces, with an adjustment subsequent to year-end to reflect the actual net profit for the year.

The Commission is owned by the Province of Prince Edward Island and is therefore a non-taxable entity under the provisions of the federal *Income Tax Act*. The head office of the Commission is located at:

Office of the Minister of Finance  
Second Floor South, Shaw Building  
95 Rochford Street, P.O. Box 2000  
Charlottetown, PE, C1A 7N8

## 2. Statement of Compliance and Approval

The financial statements of the Commission have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

These financial statements were authorized for issuance by the Board of Commissioners on November 4, 2016.

# **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements  
March 31, 2016

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## **3. Summary of Significant Accounting Policies**

### **a) International Financial Reporting Standards (IFRS)**

The financial statements have been prepared using the accounting policies specified by IFRS, issued and in effect as of March 31, 2016. The significant accounting policies used in the preparation of these financial statements are summarized below.

These accounting policies have been used throughout all of the periods presented.

An overview of the standards, amendments, and interpretations on the conversion to IFRS, which are issued but not yet in effect, are presented in Note 3(e).

### **b) Presentation of the Financial Statements**

The financial statements are presented in accordance with International Accounting Standard 1 (IAS 1), "*Presentation of Financial Statements*". The Commission has elected to present a single statement of comprehensive income. The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the functional currency of the Commission.

### **c) 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.

### **d) Investments**

Investment in the Atlantic Lottery Corporation Inc. (ALC) is an equity investment accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and subsequently the carrying amount is increased or decreased to recognize the Commission's share of income or losses from the investment and reduced by distributions received. Income and losses from the investment are recognized in the statement of comprehensive income.

Investment in the Interprovincial Lottery Corporation (ILC) is an equity investment with no quoted price on an active market whose fair value cannot be reliably measured. Investment in ILC is therefore carried at cost.



# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2016

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## 3. Summary of Significant Accounting Policies (continued...)

### e) International Financial Reporting Standards Not Yet in Effect

At the date of signing these statements, certain new standards, amendments, and interpretations to existing standards have been published but are not yet in effect. The Commission has chosen not to early adopt as allowed by International Financial Reporting Standards (IFRS). Management anticipates that all relevant pronouncements shall be adopted as the Commission's policy in the first period following their effective date. A list of applicable pronouncements and their effective dates are as follows:

*IFRS 9 Financial Instruments: Recognition and Measurement* permits two classifications for financial assets - fair value through profit or loss and amortized cost. *IFRS 9* has an effective date of the first fiscal period beginning on or after January 1, 2018.

*IFRS 15 Revenue from Contracts with Customers* provides a more structured approach to measuring and recognizing revenues arising from contracts with customers. *IFRS 15* has an effective date of the first fiscal period beginning on or after January 1, 2018.

*IAS 27 Separate Financial Statements* includes the entities which use the equity method to account for investments in associates. Additional guidance in regards to financial statement preparation is provided for such entities. *IAS 27* has an effective date of the first fiscal period beginning on or after January 1, 2016.

Management is currently reviewing these changes.

### f) Financial Risk Management Objectives and Policies

The Commission's risk management policies are part of the overall management of the entity's operations. Management's direct involvement in day-to-day operations identifies risks and variations from expectations leading to changes in risk management activities, requirements, and actions. As part of the overall management of the entity's operations, management considers avoidance of undue concentrations of risk in managing the Commission's exposure.

## 4. Significant Accounting Judgments and Estimates

The preparation of financial statements in conformity with IFRS requires the use of judgments, assumptions, and estimates as at the date of the financial statements that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities, and the reported amounts of revenues and expenses during the reporting periods presented.

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2016

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## 4. Significant Accounting Judgments and Estimates (continued...)

Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Some accounting measurements require management's best estimate, based on assumptions as at the financial statement date that reflects the most probable set of economic conditions and planned courses of action.

Items requiring the use of significant estimates include provisions for doubtful accounts of \$102,042 (2015 - \$102,042), impairment loss of nil (2015 - \$3,805,397), and amounts recorded in Atlantic Lottery Corporation Inc. (ALC) financial statements such as the useful lives of tangible and intangible assets, impairment of financial and non financial assets, accrued liabilities, employee future benefits, development costs, fair value of financial instruments, liabilities for unclaimed prizes, and Player Loyalty Program which all impact the net distribution and allocation of undistributed income or loss to the Commission. 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.

## 5. Contributed Surplus

Contributed surplus represents amounts paid by the Province of Prince Edward Island on behalf of the Commission to the Atlantic Lottery Corporation Inc. and the Interprovincial Lottery Corporation in exchange for share capital.

## 6. Financial Instruments

Financial instruments reported on the Commission's statement of financial position are classified as follows:

|                     |                             |
|---------------------|-----------------------------|
| Accounts receivable | Loans and receivables       |
| Accounts payable    | Other financial liabilities |

All financial instruments are initially recognized at fair market value. Subsequent measurement of financial instruments is dependent on their classification.

Loans and receivables are financial assets with fixed or determinate payments that are not quoted on an active market. They are measured at amortized cost using the effective interest rate method less a provision for any impairment. Due to their short-term nature, they are considered to be carried at amounts which approximate their fair value.

Other financial liabilities are financial liabilities that are measured at amortized cost using the effective interest rate method. Due to their short-term nature, they are considered to be carried at amounts which approximate their fair value.

The Commission has adopted a policy of recognizing all transaction costs in comprehensive income as incurred.

# **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements  
March 31, 2016

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## **7. Financial Risk Management**

### **Credit risk management**

The Commission is exposed to credit risk through its trade receivables. The Commission mitigates this risk through a regular monitoring process. Credit risk is also mitigated due to the fact that most of the non impaired receivables are due from the province, which controls the Commission. Allowance for doubtful accounts is reviewed at each financial statement date.

The Commission has an impaired receivable totalling \$102,042 (2015 - \$102,042) as described in Note 11. The Commission has reviewed this receivable for collectability and assessed that based on the lack of collectability to date, and the financial situation of the parties owing, that no funds will be collected.

### **Liquidity risk management**

Liquidity risk is the risk that the Commission will not be able to meet all its cash outflow obligations as they come due. The Commission mitigates this risk by monitoring cash activities and expected outflows. The Commission does not have material liabilities that can be called unexpectedly at the demand of a lender or claimant. The Commission has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of operations. All current liabilities are fully funded by the current assets of the Commission.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures, and methods used to measure the risk.



# **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements  
March 31, 2016

## **8. Investment in Atlantic Lottery Corporation Inc. (ALC)**

The Commission uses the equity method to account for its investment in ALC which involves recognizing its share of income and losses less distributions. ALC reported the following results in its financial statements:

|   | <u>2016</u><br>\$<br>(in thousands) | <u>Restated</u><br><u>2015</u><br>\$<br>(in thousands) |
|---|-------------------------------------|--|
| Current assets                                      | 66,130                              | 69,866   |
| Non current assets                                  | 175,663                             | 159,931  |
| Current liabilities                                 | (181,280)                           | (175,329)  |
| Non current liabilities                             | <u>(69,156)</u>                     | <u>(90,658)</u>  |
| Shareholder deficiency                              | <u>(8,643)</u>                      | <u>(36,190)</u>  |
| <b>Commission portion of shareholder deficiency</b> | <u>(5,606)</u>                      | <u>(12,447)</u>  |
|   | <u>2016</u><br>\$<br>(in thousands) | <u>Restated</u><br><u>2015</u><br>\$<br>(in thousands) |
| Revenues (net)                                      | 782,914                             | 700,351  |
| Expenses  | (301,284)                           | (272,884)  |
| Other losses  | <u>(50,051)</u>                     | <u>(59,251)</u>  |
| Net income  | 431,579                             | 368,216  |
| Other comprehensive income (loss)                   | <u>4,750</u>                        | <u>(7,730)</u>   |
| Comprehensive income                                | 436,329                             | 360,486  |
| Income allocated to shareholders                    | <u>(431,558)</u>                    | <u>(376,867)</u>                                       |
| Undistributed income (loss) to shareholders         | <u>4,771</u>                        | <u>(16,381)</u>  |
| <b>Commission portion of undistributed income</b>   | <u>602</u>                          | <u>(2,399)</u>   |

The shareholder deficiency on ALC's financial statements is a result of various adjustments related to the conversion of its accounting framework to International Financial Reporting Standards and the variation in the employee future benefit liability. ALC has recommended and received board approval that shareholders fund their portion of the deficit as a deduction of monthly profit payments which would reverse the deficit on the statement of financial position. An amount of \$158,208 has been withheld from the monthly profit distribution to the Commission to fund the deficit. This arrangement commenced effective September 15, 2013, and will continue until March 31, 2019. For the March 31, 2016, year-end, the total amount withheld was \$1,898,496.

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2016

## 9. Gaming Entertainment Centres

On behalf of the province, the Atlantic Lottery Corporation Inc. (ALC) constructed and operates Red Shores Racetrack & Casino at Charlottetown Driving Park. ALC's consolidated financial statements include capital assets related to the Charlottetown gaming entertainment centre having a net book value of \$16,228,604 as at March 31, 2016, (2015 - \$16,166,595). Included in this are assets of \$750,000 relating to the construction of a stabling barn and parking lot at Red Shores Racetrack & Casino at Charlottetown Driving Park. ALC is carrying a loan of \$463,000 related to the stabling barn, with a fixed interest rate of 3.5 percent.

ALC commenced operating Red Shores at Summerside Raceway in August 2009, occupying facilities which are being leased from the City of Summerside. ALC's consolidated financial statements include capital assets related to the Summerside gaming entertainment centre having a net book value of \$1,924,850 as at March 31, 2016, (2015 - \$1,908,341). This amount includes leasehold improvements of \$944,392 (2015 - \$1,059,839), but it does not include any amount for future lease payments. ALC's consolidated financial statements report the lease as an operating lease having future minimum lease payments of \$335,000 for each of the next five years and minimum future aggregate lease payments to the end of the 15 year lease term totalling \$2,819,583.

ALC is carrying a loan related to the Charlottetown and Summerside gaming entertainment centres in the amount of \$8,835,000 (2015 - \$9,687,000) amortized over 20 years, repayable in monthly installments of \$71,000 plus interest at variable interest rates and hedged by a fixed interest rate swap bearing interest at 5.13 percent, maturing in August 2016, and a fixed interest rate swap bearing interest at 2.88 percent, beginning August 2016 and maturing August 2026.

ALC is recovering its debt amortization costs through depreciation charges which, along with the loan interest and Summerside centre lease charges, are included in the cost of operating the gaming entertainment centres. ALC's profit distributions to the Commission are adjusted to reflect any profit or loss resulting from its operation of the gaming entertainment centres and the stabling barn.

## 10. Grants to the Harness Racing Industry

Grants to the harness racing industry provided through the Commission consist of the following:

|   | <u>2016</u>      | <u>2015</u>      |
|---|------------------|------------------|
|   | \$               | \$               |
| Grant to PEI Harness Racing Industry Association      | 2,100,000        | 2,170,000        |
| Grant to Prince County Horsemen's Club                | 87,000           | 80,000           |
| Grant to Maritime Provinces Harness Racing Commission | 116,367          | 116,578          |
| Grants for sales tax due from pari-mutuel wagering    | <u>615,994</u>   | <u>626,169</u>   |
|   | <u>2,919,361</u> | <u>2,992,747</u> |

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2016

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## 11. Accounts Receivable

The Commission received an assignment of judgment from Harness Racing PEI Inc. in the amount of \$102,042 during a previous fiscal period. A provision for the full amount has been recorded.

## 12. Grant to the City of Charlottetown

The grant to the City of Charlottetown is pursuant to an arrangement between the City and the Province of Prince Edward Island, whereby the City was to receive \$400,000 per annum for ten years beginning with the year ended December 31, 2005. The original agreement ended in December 2014. Treasury Board authorized a five year extension of the agreement for fiscal year 2015-16 to 2019-20. This amount is subject to adjustment when the Charlottetown gaming entertainment centre operates less than 300 days in a given year.

## 13. Responsible Gaming Strategy

Implementation of the Province's Responsible Gaming Strategy began in 2010. The objective of the strategy is to prevent and reduce problems associated with gaming, while maximizing its potential social and economic aspects for Islanders.

The following is a summary of the Responsible Gaming Strategy costs incurred by the Commission:

|  | <u>2016</u>    | <u>2015</u>    |
|--|----------------|----------------|
|  | \$             | \$             |
| Gaming strategy project officer service contract | -              | 3,900          |
| Activities carried out by:                       |                |                |
| The Department of Health and Wellness            | 232,873        | -              |
| Health PEI                                       | -              | 223,996        |
| Other  | -              | 54             |
|  | <u>232,873</u> | <u>227,950</u> |

## 14. Commitments

### a) Responsible Gaming Strategy

The Commission has committed a maximum of \$300,000 on an annual basis to support the implementation of the Responsible Gaming Strategy.

### b) Deficit Repayment

The Commission has entered into an arrangement with ALC in which an amount of \$158,208 will be withheld monthly from profit distribution in order to fund their portion of ALC's deficit. The total amount remaining to be withheld between April 1, 2016 and March 31, 2019 is \$5,695,488.



## **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements  
March 31, 2016

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### **15. Investment in Geonomics Global Games Limited (Formerly Roboreus Limited)**

During the 2011-12 fiscal year the Atlantic Lottery Corporation Inc. (ALC) invested \$4.3 million on behalf of the province for an equity interest in Geonomics Global Games Limited (formerly Roboreus Limited, a privately owned UK based internet gaming vendor). The investment was made on behalf of the Prince Edward Island Lotteries Commission and held in ALC's subsidiary company 7865813 Canada Inc. The Commission was responsible for the loan relating to the investment and for all costs related to the investment. Costs were deducted by ALC from the net distribution paid to the Commission. Costs deducted from the Commission's net distribution for the year ending March 31, 2016 were \$31,698 (2015 - \$79,508). No income has been earned to date on this investment.

In prior periods, the Commission recognized impairments equal to the investment, increasing the Commission's investment liability in ALC by \$4.3 million. In 2016, profits totalling \$4.3 million were withheld by ALC to repay the loan relating to the Geonomics investment. The shares were liquidated in 2016 resulting in the Commission receiving \$81,176 which is included in the distributions of ALC net profit on the Statement of Comprehensive Income.

### **16. Related Party Transactions**

The Commission is owned by the Province of Prince Edward Island. Any excess revenues over expenses of the Commission are distributed to the province as shown on the statement of changes in shareholder deficiency. Other transactions with the province, its Crown corporations, and agencies are recorded at rates as determined by the province.

There are resources provided by the Province of Prince Edward Island such as office facilities, support services, salaries, and employee future benefits. These costs are assumed by the province and not reflected in these financial statements.

The Commission does not have a separate bank account. All transactions are processed through the province's bank account.

The following is a summary of operations conducted by the Atlantic Lottery Corporation Inc. (ALC) on behalf of the Commission. Net profits were distributed to the Commission as follows:

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2016

## 16. Related Party Transactions (continued...)

|              | <u>Lottery<br/>Ticket<br/>Sales</u><br>\$ | <u>Video<br/>Lottery<br/>Sales</u><br>\$ | <u>Red Shores<br/>Charlottetown</u><br>\$ | <u>Red Shores<br/>Summerside</u><br>\$ | <u>2016</u><br>\$   | <u>2015</u><br>\$   |
|--------------|---|--|---|--|---------------------|---------------------|
| Gross profit | 12,822,176                                | 15,556,447                               | 14,475,704                                | 2,409,256                              | 45,263,583          | 40,512,468          |
| Expenses     | <u>(6,833,855)</u>                        | <u>(4,258,287)</u>                       | <u>(13,471,870)</u>                       | <u>(2,798,559)</u>                     | <u>(27,362,571)</u> | <u>(25,249,252)</u> |
| Net profit   | <u>5,988,321</u>                          | <u>11,298,160</u>                        | <u>1,003,834</u>                          | <u>(389,303)</u>                       | <u>17,901,012</u>   | <u>15,263,216</u>   |

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of net profit attributable to the Commission as determined by the net profit of ALC in accordance with ALC's financial reporting framework.

## 17. Pensions and Employee Benefits

Atlantic Lottery Corporation Inc. participates in a multiple-employer defined benefit contributory pension plan. ALC also provides certain post-employment healthcare benefits, long service awards, extended health and dental benefits, life insurance, and ad-hoc supplementary pensions. The portion of expenditures allocated to the Commission through ALC's profit distributions related to pensions is \$932,278 (2015 - \$198,460) and \$167,065 (2015 - \$111,308) related to employee benefits.

In addition to the transactions above, ALC also made special pension payments during the year of \$14.1 million (2015 - \$9.5 million). The Commission's portion of these special payments is funded through monthly withholdings from future profit distribution as stated in Note 8.

## 18. Capital Management

The Commission's capital is made up of its equity and long-term debt which consists primarily of the outstanding deficit and the long-term liability resulting from the investment in the Atlantic Lottery Corporation Inc. The objective when managing capital is to provide an adequate return to enable it to meet its funding obligations. The Commission sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Commission may reduce its funding contributions to the province. The Commission is not subject to any externally imposed capital requirements or financial debt covenants and does not presently utilize any quantitative measures to maintain capital.



# **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements

March 31, 2016

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## **19. Restatement of Prior Period Amounts**

Atlantic Lottery Corporation Inc. (ALC) has undistributed amounts in its accumulated other comprehensive loss and deficit of which the Commission's portion is significantly different than originally calculated by the Commission. As a result, prior period figures have been restated. The other comprehensive income (loss) for the 2015 fiscal year decreased by \$2,467,141. The overall effect on the investment in ALC liability and shareholder deficiency at the end of the 2015 fiscal year was an increase of \$2,467,141.

## **20. Subsequent Event**

Subsequent to March 31, 2016, Atlantic Lottery Corporation Inc. terminated its Master Service Agreement with CGI Information Systems and Management Consultants Inc. The early termination will result in associated contractual fees of approximately \$7,617,000, of which ten percent will be deducted from the Commissions net distribution.