

Prince Edward Island  
Lotteries Commission  
Annual Report  
2022 – 2023



## Message from the Chair of the PEI Lotteries Commission

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, 2023.



Respectfully submitted,

A handwritten signature in black ink that reads "Jill Burridge". The signature is fluid and cursive, with a large loop at the end of the last name.

Hon. Jill Burridge  
Minister of Finance



## Overview

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 the Atlantic Lottery Corporation in its operation of lottery games in each jurisdiction must follow.

## Overview

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.

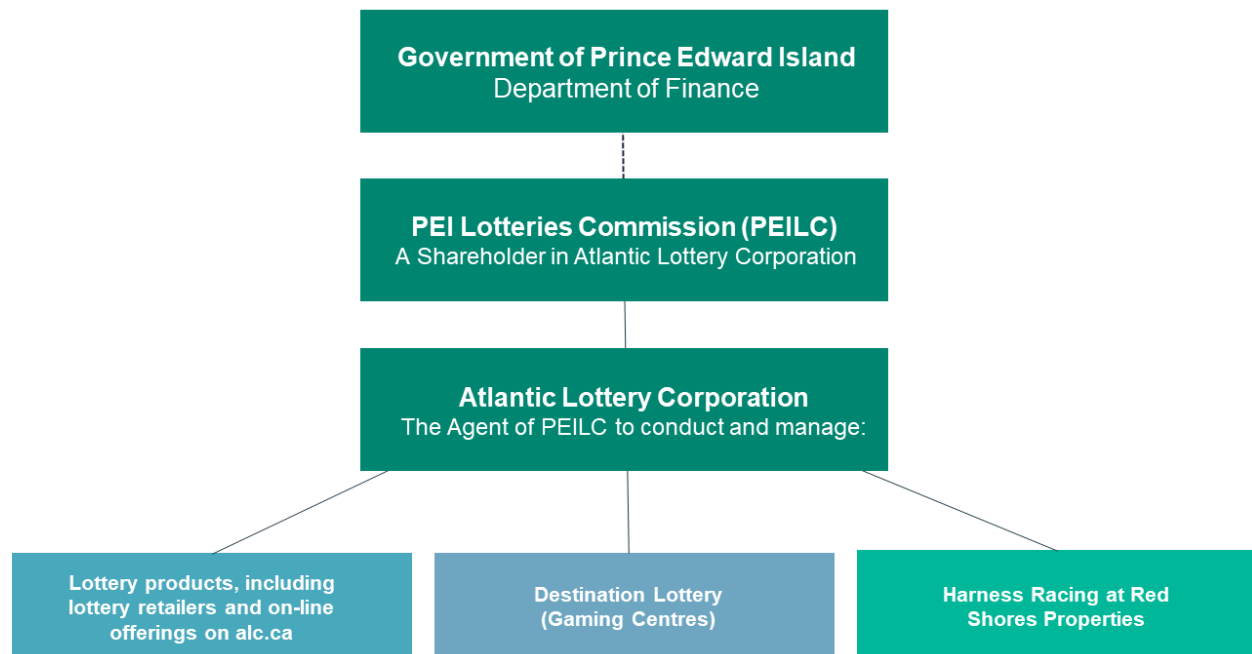
En 1976, la Société des loteries de l'Atlantique a été constituée en société en vertu de la Loi canadienne sur les sociétés par actions. Les quatre provinces de l'Atlantique en sont copropriétaires. Chaque province possède des dispositions législatives portant sur les jeux de hasard et d'argent, y compris 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, governed by the Criminal Code of Canada, is generally 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* provides 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.

## Relationship Structure



## Officers and Board Members of PEI Lotteries Commission

The Honorable Mark McLane, former Minister of Finance, served as Chair for the Commission at the end of the 2022-2023 fiscal year. Denise Lewis Fleming, Deputy Minister of Finance, served as Vice-Chair, and Gordon MacFadyen was Secretary-Treasurer, supported by Department of Finance staff resources. Dan Campbell, Gordon MacFarlane and Shaun MacIsaac were Prince Edward Island's representatives on the Board of Directors of Atlantic Lottery Corporation (ALC).

## 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. An update to the Unanimous Shareholder Agreement was authorized (EC2019-142) on March 12, 2019, and again on March 30, 2022, by the Province of Prince Edward Island. The agreement will be finalized once signing approval has been received from all provincial shareholders.

The Commission is also a shareholder of the Interprovincial Lottery Corporation (ILC) which was established in 1976 to operate joint lottery games across Canada. ILC is owned jointly by the five provincial lottery commissions in Canada, which are Atlantic Lottery Corporation, British Columbia Lottery Corporation, Ontario Lottery and Gaming Corporation, Loto-Quebec and Western Canada Lottery Corporation (MB, SK, AB, NU, NWT and YK). Each provincial organization is responsible for marketing the national games within their own jurisdiction, and revenues are returned to each province in proportion to generated sales.

The Atlantic Lottery Corporation was given a mandate by the Commission to provide safe and responsible lottery products and services and, through that effort, deliver optimized and responsible profits to the shareholders. To meet that objective, ALC must ensure its long-term

growth is sustainably balanced with a strong commitment to social responsibility and player protection.

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

The Commission continues to share ALC's concerns about unregulated, offshore gambling sites. These sites do not necessarily offer the same standard of player protection as ALC, which is regulated by the four Atlantic provincial governments, and subject to their laws and policies. These unregulated sites also do not return profit to the provincial governments to fund important programs and services for the people of this region.

## **Highlights of the 2022-2023 Fiscal Year**

The PEI Lotteries Commission continued to work with the three other Atlantic Canadian government shareholders of ALC, and with the Corporation itself, to ensure that regulated gambling operations in the region remained well-managed. This included ongoing progress to implement recommendations made by the four Atlantic Auditors General in their 2016 joint audit.

An updated pension Committee was put in place in 2021 to administer the Council of Atlantic Premiers pension plan (comprised mostly of ALC employees) and action required amendments. The Committee continued efforts to ensure the plan's long-term sustainability and affordability and in 2022-23, reforms were made to the pension plan's benefits, after giving appropriate notice to employees, that implemented conditional indexation similar to the Public Section Pension Plan and were effective January 1, 2023.

A working group with representatives from the four provinces finalized its review of the Unanimous Shareholder agreement and agreed to an updated draft agreement. Executive Council granted authority (EC2022-215) for the Minister of Finance, as Chair of the PEI Lotteries Commission, to sign the agreement upon the approval of all Shareholders.

The Commission made progress on plans to implement recommendations from the Auditor General's 2021 Management letter, including allocating a staff resource to develop funding agreements to ensure the provisions of Treasury Board were followed. In 2022-23, PEILC signed annual funding agreements with the PEI Harness Racing Industry Association and the Prince County Horsemen's Club, and a three-year funding agreement with the Department of Health Gambling Support Unit (GSU) 2022-2025.

The PEI Lotteries Commission understands that the gambling landscape has shifted considerably in the years since PEI released the first responsible gambling strategy in 2008. During the 2021-2022 fiscal year, following an invitation to bid process, the Commission retained consulting firm MRSB to conduct an independent third-party review of the current strategy. MRSB was given a mandate to engage with a broad range of people and organizations, including mental health and addictions professionals; government and harness racing partners; industry organizations; and people from the general public most affected by gambling. The consultant held virtual public meetings, open to anyone who wanted to share input, and launched online surveys - including one specifically with groups who offer charitable lottery games on the Island. Work to develop and finalize the strategy continued throughout the fiscal year 2022-23.

The Commission's activities managed by ALC include the results for the year ended March 31, 2023 in Table 1.

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

	Total	
	2023	2022
<b>ALC Revenues from PEI</b>		
Gross Retail Lottery Ticket & Internet Sales	\$50,805	\$47,882
Less Ticket Prizes	<u>(27,401)</u>	<u>(27,012)</u>
Net Revenues from PEI	23,404	20,870
Net - Video Lottery Receipts	17,718	15,792
Red Shores	<u>22,121</u>	<u>17,475</u>
<b>Net Revenues</b>	<b>\$63,243</b>	<b>\$54,137</b>
Total Direct Expenses	<u>\$4,097</u>	<u>\$3,738</u>
Gross Profit	\$59,146	\$50,399
Other Expenses	<u>29,842</u>	<u>26,909</u>
<b><u>Net Profit</u></b>	<b><u>\$29,304</u></b>	<b><u>\$23,490</u></b>
<b><u>Net Profit Distribution to PEI</u></b>		
Tickets	\$11,543	\$10,465
Video Lottery	\$12,036	10,253
Red Shores	<u>5,725</u>	<u>2,772</u>
<b>Net Profits to PEI</b>	<b><u>\$29,304</u></b>	<b><u>\$23,490</u></b>

- Overall net revenues for the year are \$9.1M or 17% higher than net revenue achieved in 2021-22, a similar growth rate to last year (\$7.5M or 16% higher in 2021-22 than 2020-21).
- Sales at Red Shores and lottery ticket and internet sales were the lines of business that increased most during the 2022-23 year, with a collective increase on a net basis of \$7.2M over 2021-22.
- Video lottery continued to be a popular option for customers. Net revenue derived from this business line increased by \$1.9M.

## Details on Funding Commitments and Grants

The Commission provides funding to the Department of Health and Wellness's Gambling Support Unit for programs and services aimed at reducing gambling harms for residents of Prince Edward Island. In this fiscal year, funding for the Gambling Support Unit was \$191,920 down from 2021-22 funding of \$237,950 primarily due to fluctuation in staffing and leadership roles within the unit. Key initiatives of the Gambling Support Unit in 2022-23 included, island wide community education and engagement, finalized the PEI focus group data collection, established the PEI Gambling Ecosystem, assisted Health PEI with the implementation of PEI model of stepped care, designed and launched a social media education campaign and created a new Gambling Support website *peigamblingsupport.princedwardisland.ca*.

From the funds ALC generated in 2023, \$4,371,000 was used to assist the PEI Harness Racing Industry Association (2022- \$3,202,000) in enhancing and growing the positive economic and cultural contributions of the industry – and to advance its sustainability. Noting that an additional \$1,000,000 was provided early 2023, through an amendment to the funding agreement, for improved stake and overnight purses and incentives to enhance/expand the breeding stock of trotters. Grants were additionally provided to the Prince County Horsemen's Club for \$143,037 (2022-\$110,000) to maintain high-quality infrastructure in support of harness racing at Red Shores Summerside. Another grant is allocated in support of the Island's Matinee Racetracks for \$7,745 (2022 - \$18,280).

The Commission also supports the harness racing in the form of grants related to sales taxes due from pari-mutuel wagering in the amount of \$420,172 (2022 - \$418,236).

This funding for harness racing reflects the importance of creating and maintaining growth in the industry, which draws off-Island visitors year-round.

## 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.

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 2022-23 fiscal year, the Commission had a balance of \$10.4M in shareholder equity and by end of fiscal year, a balance of \$9.6M.

Appendix

Audited Financial Statements

2022 - 2023



**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Financial Statements  
March 31, 2023



## **INDEPENDENT AUDITOR'S REPORT**

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

### **Opinion**

We have audited the accompanying financial statements of the **Prince Edward Island Lotteries Commission**, which comprise the statement of financial position as at March 31, 2023, and the statements of comprehensive income, changes in shareholder equity, and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2023, and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards.

### **Basis for Opinion**

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control that 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 Commission'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 an intention exists to liquidate or cease the operations of the Commission, or there is no realistic alternative but to do so.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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



always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

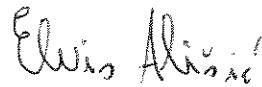
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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



Darren Noonan, CPA, CA  
Auditor General



Elvis Alisic, CPA, CA  
Assistant Auditor General

Charlottetown, Prince Edward Island  
June 29, 2023



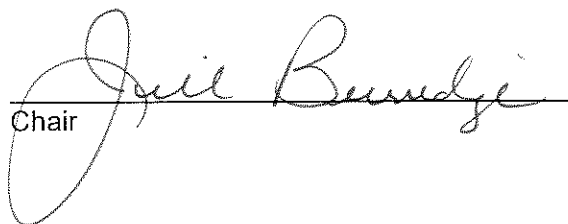
**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

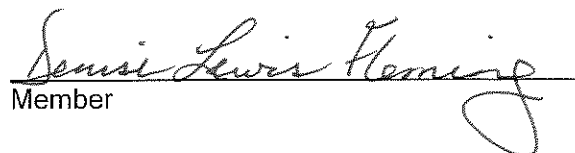
Statement of Financial Position  
March 31, 2023

	2023	2022
	\$	\$
<b>Assets</b>		
<b>Current Assets</b>		
Cash	41,484,181	28,667,168
Accounts receivable (Note 11)		
Atlantic Lottery Corporation Inc.	<u>1,323,792</u>	<u>1,576,470</u>
	<u>42,807,973</u>	<u>30,243,638</u>
<b>Non Current Assets</b>		
Investment in Interprovincial Lottery Corporation	1	1
Investment in Atlantic Lottery Corporation Inc. (Note 8)	<u>9,650,252</u>	<u>10,446,490</u>
	<u>9,650,253</u>	<u>10,446,491</u>
<b>Total Assets</b>	<u>52,458,226</u>	<u>40,690,129</u>
<b>Liabilities and Shareholder Equity</b>		
<b>Current Liabilities</b>		
Accounts payable		
Province of Prince Edward Island	42,807,973	30,224,519
Other	-	19,119
	<u>42,807,973</u>	<u>30,243,638</u>
<b>Shareholder Equity</b>		
Contributed surplus (Note 5)	101	101
Accumulated other comprehensive income	326,277	225,365
Retained earnings	<u>9,323,875</u>	<u>10,221,025</u>
	<u>9,650,253</u>	<u>10,446,491</u>
<b>Total Liabilities and Shareholder Equity</b>	<u>52,458,226</u>	<u>40,690,129</u>

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

Approved on behalf of the Prince Edward Island Lotteries Commission

  
Chair

  
Member

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Comprehensive Income  
for the year ended March 31, 2023

	2023	2022
	\$	\$
<b>Revenues</b>		
Distributions of Atlantic Lottery Corporation Inc. net profit (Note 14)		
Lottery ticket sales - in person	7,099,830	7,242,402
Lottery ticket sales - online	4,443,059	3,222,198
Video lottery sales	12,036,333	10,253,304
Entertainment centres net profit (loss)		
Red Shores at Charlottetown Driving Park	5,783,206	3,205,785
Red Shores at Summerside Raceway	(58,613)	(433,327)
Entertainment centres net profit	<u>5,724,593</u>	<u>2,772,458</u>
	29,303,815	23,490,362
Other	<u>1,375</u>	<u>1,950</u>
<b>Total Revenues</b>	<u>29,305,190</u>	<u>23,492,312</u>
<b>Expenses</b>		
Grants to the harness racing industry (Note 10)	5,061,928	3,892,659
Grant to the City of Charlottetown (Note 12)	376,000	400,000
Responsible Gaming Strategy (Note 13(a))	191,920	237,950
Other	<u>2,748</u>	<u>32,803</u>
<b>Total Expenses</b>	<u>5,632,596</u>	<u>4,563,412</u>
<b>Net income</b>	23,672,594	18,928,900
<b>Other comprehensive income</b>		
Commission share of other comprehensive income (loss) of Atlantic Lottery Corporation Inc. (Note 8)	<u>(796,238)</u>	<u>3,670,789</u>
<b>Comprehensive income</b>	<u>22,876,356</u>	<u>22,599,689</u>

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

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Changes in Shareholder Equity  
for the year ended March 31, 2023

	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings</b>	<b>2023 Shareholder Equity</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of year	101	225,365	10,221,025	10,446,491
Net income	-	-	23,672,594	23,672,594
Other comprehensive income	-	100,912	(897,150)	(796,238)
Comprehensive income	-	100,912	22,775,444	22,876,356
Distributions to the Province of Prince Edward Island	-	-	(23,672,594)	(23,672,594)
Balance, end of year	<u>101</u>	<u>326,277</u>	<u>9,323,875</u>	<u>9,650,253</u>

	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Retained Earnings</b>	<b>2022 Shareholder Equity</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of year	101	(49,132)	6,824,733	6,775,702
Net income	-	-	18,928,900	18,928,900
Other comprehensive income	-	274,497	3,396,292	3,670,789
Comprehensive income	-	274,497	22,325,192	22,599,689
Distributions to the Province of Prince Edward Island	-	-	(18,928,900)	(18,928,900)
Balance, end of year	<u>101</u>	<u>225,365</u>	<u>10,221,025</u>	<u>10,446,491</u>

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

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Cash Flow  
March 31, 2023

	2023	2022
	\$	\$
<b>Cash provided (used) by:</b>		
<b>Operating Activities</b>		
Cash received from Atlantic Lottery Corporation Inc.	29,556,493	21,872,076
Cash received from other revenue	1,375	1,950
Cash paid to the harness racing industry	(5,082,316)	(3,902,065)
Cash paid to the City of Charlottetown	(376,000)	(400,000)
Cash paid for the Responsible Gaming Strategy	(237,950)	(213,309)
Cash paid for other expenses	(2,748)	(32,803)
<b>Cash provided by operating activities</b>	<u>23,858,854</u>	<u>17,325,849</u>
<b>Financing Activities</b>		
Distributions to the Province of Prince Edward Island	(11,041,841)	(13,563,658)
<b>Change in cash</b>	12,817,013	3,762,191
Cash, beginning of year	<u>28,667,168</u>	<u>24,904,977</u>
<b>Cash, end of year</b>	<u>41,484,181</u>	<u>28,667,168</u>

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

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2023

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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 June 21, 2023.

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2023

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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, 2023. 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.

### 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. The Commission has adopted Fair Value through Profit and Loss as the basis for valuation of this asset class.

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

A number of new standards, amendments to standards, and interpretations of standards have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after April 1, 2023. The Commission has chosen not to early adopt as allowed by the International Financial Reporting Standards. The impact of these new accounting pronouncements is unknown at this time.

# **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements  
March 31, 2023

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

### **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 Judgements and Estimates**

The preparation of financial statements in conformity with IFRS requires the use of judgements, 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.

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 expected credit losses of \$94,750 (2022 - \$96,125), 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 the 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 include cash, accounts receivable, accounts payable, and investment in Interprovincial Lottery Corporation.

All financial instruments are initially recognized at fair value. Cash is measured at fair value. Accounts receivable and payable are short-term in nature, and the net carrying value is

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## 6. Financial Instruments (continued...)

considered a reasonable approximation of fair value. Accounts receivable and payable are subsequently measured at amortized cost.

The Investment in ILC represents one share of the ten shares issued by ILC to the ten provinces in Canada. The outstanding ten common shares have no par value. It has been classified in level 3 of the fair value hierarchy, meaning the inputs into the determination of fair value are unobservable and require significant management judgement.

The Commission has determined that the fair value of the investment in ILC should remain at a nominal value. The investment in ILC allows for the coordination of national games, holding the unclaimed prize pools on behalf of the regional lottery authorities including ALC. ILC distributes its annual surplus to (recovers its deficit from) the regional lottery authorities. The Commission's participation in lotteries is conducted through the ALC and any value generated from its investment in ILC is distributed through ALC. The ALC is responsible for marketing the national games within PEI and for the recording of revenues and expenses generated by the national games. As described in Note 3(d) PEI's proportionate share of ALC is included in the financial statements of the Commission.

## 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 associate company Atlantic Lottery Corporation Inc. Expected credit losses are reviewed at each financial statement date.

The Commission has an impaired receivable totalling \$94,750 (2022 - \$96,125) as described in Note 11. During fiscal year 2022-23, the Commission received \$1,375 (2022 - \$1,950) in restitution as a result of a judgement placed on the impaired receivable. However, the Commission continues to consider the collectability of the remaining balance as doubtful.

### 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.

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## 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>2023</u> \$ (in thousands)	<u>2022</u> \$ (in thousands)
Current assets	86,585	74,170
Non current assets	247,273	231,189
Current liabilities	(154,359)	(97,781)
Non current liabilities	<u>(60,875)</u>	<u>(80,991)</u>
Shareholder equity	<u>118,624</u>	<u>126,587</u>
<b>Commission portion of shareholder equity</b>	<u>9,650</u>	<u>10,446</u>

	<u>2023</u> \$ (in thousands)	<u>2022</u> \$ (in thousands)
Revenues (net)	843,901	753,854
Expenses	(297,953)	(266,529)
Other losses	<u>(53,699)</u>	<u>(49,157)</u>
Net income	492,249	438,168
Other comprehensive income (loss)	<u>(7,980)</u>	<u>36,680</u>
Comprehensive income	484,269	474,848
Income allocated to shareholders	<u>(492,232)</u>	<u>(438,138)</u>
Undistributed income (loss) to shareholders	<u>(7,963)</u>	<u>36,710</u>
<b>Commission portion of undistributed income (loss)</b>	<u>(796)</u>	<u>3,671</u>

## 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 \$13,708,263 as at March 31, 2023 (2022 - \$13,728,854).

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## 9. Gaming Entertainment Centres (continued...)

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 \$1,044,072 as at March 31, 2023 (2022 - \$1,529,169). This amount includes leasehold improvements of \$209,383 (2022 - \$356,227), and the right-to-use leased property of \$350,504 (2022 - \$613,382).

ALC is recovering capital costs related to Red Shores Racetrack & Casino at Charlottetown Driving Park and Red Shores at Summerside Raceway through depreciation charges, which along with the Summerside gaming entertainment centre lease charges are included in the cost of operating the 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.

## 10. Grants to the Harness Racing Industry

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

	<u>2023</u> \$	<u>2022</u> \$
Grant to PEI Harness Racing Industry Association	4,371,000	3,202,000
Grant to Prince County Horsemen's Club	143,037	110,000
Grant to Atlantic Provinces Harness Racing Commission	118,605	111,233
Grants to support the Matinee Racetracks	7,745	18,280
Grants for sales tax due from pari-mutuel wagering	420,172	418,236
Grants for other expenses	1,369	32,910
	<u>5,061,928</u>	<u>3,892,659</u>

## 11. Accounts Receivable

	<u>2023</u> \$	<u>2022</u> \$
Atlantic Lottery Corporation Inc.	1,323,792	1,576,470
Other receivables	94,750	96,125
	1,418,542	1,672,595
Less: Expected credit losses	(94,750)	(96,125)
	<u>1,323,792</u>	<u>1,576,470</u>

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## 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 years 2015-16 to 2019-20. Although the agreement expired in 2020, the Commission agreed to extend the grant in 2021, 2022 and 2023 and included a \$400,000 grant to the City of Charlottetown in the 2021, 2022 and 2023 budgets. This amount is subject to adjustment if the Charlottetown gaming entertainment centre operates less than 300 days in a given year. The facility was not operational for 18 days during the 2022-23 fiscal year due to weather and other events, and as a result, the amount payable was determined to be \$376,000. As the facility was operational for more than 300 days during the 2021-22 fiscal year, a payment of \$400,000 was provided.

## 13. Commitments

### a) 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. An updated Responsible Gaming Strategy is currently being developed and is expected to be released in the near future.

The Commission entered into a funding agreement during the 2022-23 fiscal year with the Department of Health and Wellness to provide funding to the Provincial Gambling Support Unit to assist with the on-going implementation of a Responsible Gaming Strategy. The Commission has committed a maximum annual amount of \$500,000 per year over the agreement period of April 1, 2022 to March 31, 2025. Activities carried out by the Department of Health and Wellness amounted to \$191,920 (2022 - \$237,950).

### b) Operating Leases

The Commission, as a shareholder in ALC is responsible for a portion of the variable, low value, and short-term leases entered into by ALC. The following is a schedule of the portion of these lease payments pertaining to the operations of the Commission.

<u>Fiscal Year</u>	<u>Amount</u> \$
2024	138,553
2025	112,173
2026	109,882
2027	105,300
Thereafter	-

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## 13. Commitments (continued...)

### c) Other Commitments

The Commission, as a shareholder in ALC is responsible for a portion of the multiple agreements for infrastructure services, application services, and project services entered into by ALC. The Commission's portion of ALC's annual payments for other commitments over the next four years are as follows:

<u>Fiscal Year</u>	<u>Amount</u> \$
2024	1,534,096
2025	514,566
2026	304,516
2027	82,368
Thereafter	-

## 14. 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 equity. Other transactions with the Province, its Crown corporations, and agencies are recorded at rates as determined by the Province.

There are resources provided to the Commission 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 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:

	<u>Gross Profit</u> \$	<u>Expenses</u> \$	<u>Net Profit 2023</u> \$	<u>Net Profit 2022</u> \$
Lottery ticket sales-in person	12,581,136	(5,481,306)	7,099,830	7,242,402
Lottery ticket sales-online	6,725,018	(2,281,959)	4,443,059	3,222,198
Video lottery sales	17,718,385	(5,682,052)	12,036,333	10,253,304
Red Shores at Charlottetown Driving Park	19,615,002	(13,831,796)	5,783,206	3,205,785
Red Shores at Summerside Raceway	<u>2,505,892</u>	<u>(2,564,505)</u>	<u>(58,613)</u>	<u>(433,327)</u>
Total	<u>59,145,433</u>	<u>(29,841,618)</u>	<u>29,303,815</u>	<u>23,490,362</u>

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

Included in the net profit distribution is an expense of \$336,875 (2022 - \$305,879) that ALC remitted to the Interprovincial Lottery Corporation on behalf of the Commission.

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.

## 15. 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. For fiscal year 2022-23 there were no required special payments for pensions or future employee benefits. The portion of expenditures allocated to the Commission through ALC's profit distributions related to pensions is \$74,192 (2022 - (\$53,090)) and \$166,420 (2022 - \$209,580) related to future employee benefits. The income amount related to pensions in 2022 was the result of credit adjustments from the most recent actuarial valuation.

## 16. Capital Management

The Commission's capital is its equity which consists of the outstanding 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.

