

Prince Edward Island  
Lotteries Commission  
Annual Report  
2020 – 2021



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, 2021.

Respectfully submitted,

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a horizontal line.

Darlene Compton  
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, 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* 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 Honorable Darlene Compton, Minister of Finance, served as Chair for the Commission. Dan Campbell, Deputy Minister of Finance, served as Vice-Chair, and Cindy Harris was Secretary-Treasurer. 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;
3. on July 4, 2000, an agreement to amend and restate the Unanimous Shareholders Agreement on conduct and management of lottery schemes, and
4. an update to the Unanimous Shareholder Agreement was authorized (EC2019-142) on March 12, 2019, by the Province of Prince Edward Island.

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

The 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.

The Commission's activities managed by ALC include the following results for the year ended March 31, 2021:

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

	Total	
	2021	2020
<b>Revenues</b>		
Retail Lottery Ticket & Internet Sales	\$53,865	\$40,426
Less Ticket Prizes	<u>(35,417)</u>	<u>(24,226)</u>
Net	18,448	16,200
Net - Video Lottery Receipts	14,692	21,019
Red Shores	<u>13,515</u>	<u>18,688</u>
<b>Net Revenues</b>	<b>46,655</b>	<b>55,907</b>
Total Direct Expenses	<u>7,042</u>	<u>8,673</u>
Gross Profit	39,613	47,234
Other Expenses	<u>24,907</u>	<u>28,559</u>
<b><u>Net Profit</u></b>	<b><u>\$14,706</u></b>	<b><u>\$18,675</u></b>
<b><u>Profit Distribution</u></b>		
Tickets	\$ 7,455	\$ 4,961
Video Lottery	8,061	12,228
Red Shores	<u>(810)</u>	<u>1,486</u>
	<b><u>\$14,706</u></b>	<b><u>\$18,675</u></b>

- Overall net revenues for the year are \$9.3 M or 16.5% lower than net revenue achieved in 2019-20. The reduction in net revenue were a direct result of the gathering restrictions and shuttering of in person gaming activities required by COVID-19 Public Health Guidelines in effect during the year.
- Sales at Red Shores and video lottery receipts were the most impacted lines of business. Collectively these two lines of business on a net basis were \$11.5M lower than 2019-20.
- Despite the lower than anticipated in person gaming revenue, online ticket sales proved to be a popular option for customers. Net revenue derived from retail and internet ticket sales increased by \$2.2M.

During the 2020-2021 fiscal year, ALC launched online casino-style games on its website (ALC.CA) for the residents of New Brunswick. While ALC.CA is live to all Atlantic Canadians, only players in New Brunswick can access iCasino games at this time.

Given the ongoing concerns about the growth of these sites, as well as their increased accessibility during the pandemic, on December 22, 2020, Executive Council gave authorization for the Prince Edward Island Lotteries Commission to explore the parameters of what exactly the addition of regulated online casino-style games might look like for Island players if ALC were granted permission to offer them here. In early 2021, the Province of Nova Scotia also signaled its intention to join the platform.

As Government efforts are still focused on mitigating the spread and impact of the COVID-19 pandemic, the end of the 2020-2021 fiscal year saw limited progress on developing technical standards and determining parameters around what the platform could look like for Island players.

From the funds ALC generated in 2021, \$2,491,000 was used to assist the PEI Harness Racing Industry Association (2020- \$2,480,000). This amount reflects the importance of creating and maintaining growth in the industry, which draws off-Island visitors year-round. The Commission also provided financial assistance to help support the harness racing industry in the form of grants related to sales taxes due from pari-mutuel wagering in the amount of \$316,911 (2020 - \$535,150). These grants helped offset the revenue lost after tracks across Canada had to close during COVID-19 and were unable to offer betting on their own races, or through simulcast events.

## **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 2021 fiscal year, the Commission had a \$4.0M shareholder equity position which increased to \$6.8M.

Appendix

Audited Financial Statements

2020 - 2021

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Financial Statements  
March 31, 2021

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Opinion**

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, 2021, 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 my opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2021, and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards.

### **Basis for Opinion**

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

### **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**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee

that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the 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.

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



**Darren Noonan, CPA, CA**  
**Auditor General**



**Elvis Alisic, CPA, CA**  
**Audit Director**

**Charlottetown, Prince Edward Island**  
**June 28, 2021**



**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Comprehensive Income  
for the year ended March 31, 2021

	2021	2020
	\$	\$
<b>Revenues</b>		
Distributions of Atlantic Lottery Corporation Inc. net profit (Note 15)		
Lottery ticket sales - in person	4,740,737	4,241,421
Lottery ticket sales - online	2,713,632	720,560
Video lottery sales	8,061,256	12,227,986
Entertainment centres net profit (loss)		
Red Shores at Charlottetown Driving Park	(230,416)	1,706,858
Red Shores at Summerside Raceway	(579,170)	(221,787)
Entertainment centres net profit (loss)	(809,586)	1,485,071
	14,706,039	18,675,038
Other	1,200	2,295
<b>Total Revenues</b>	<u>14,707,239</u>	<u>18,677,333</u>
<b>Expenses</b>		
Grants to the harness racing industry (Note 10)	3,135,499	3,255,165
Grant to the City of Charlottetown (Note 12)	345,333	400,000
Grant to PEI Provincial Exhibition Inc.	-	59,000
Responsible Gaming Strategy (Note 13)	213,310	200,533
Other	1,256	5,298
<b>Total Expenses</b>	<u>3,695,398</u>	<u>3,919,996</u>
<b>Net income</b>	11,011,841	14,757,337
<b>Other comprehensive income</b>		
Commission share of other comprehensive income of Atlantic Lottery Corporation Inc. (Note 8)	<u>2,807,833</u>	<u>1,206,148</u>
<b>Comprehensive income</b>	<u>13,819,674</u>	<u>15,963,485</u>

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

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Financial Position  
March 31, 2021

	2021	2020
	\$	\$
<b>Assets</b>		
<b>Current Assets</b>		
Cash	24,904,977	14,466,759
Accounts receivable (Note 11)	<u>-</u>	<u>-</u>
	24,904,977	14,466,759
<b>Non Current Assets</b>		
Investment in Interprovincial Lottery Corporation	1	1
Investment in Atlantic Lottery Corporation Inc. (Note 8)	<u>6,775,701</u>	<u>3,967,868</u>
	<u>6,775,702</u>	<u>3,967,869</u>
<b>Total Assets</b>	<u>31,680,679</u>	<u>18,434,628</u>
<b>Liabilities and Shareholder Equity</b>		
<b>Current Liabilities</b>		
Accounts payable		
Province of Prince Edward Island	24,813,842	13,776,380
Atlantic Lottery Corporation Inc.	41,816	686,635
Other	<u>49,319</u>	<u>3,744</u>
	<u>24,904,977</u>	<u>14,466,759</u>
<b>Shareholder Equity</b>		
Contributed surplus (Note 5)	101	101
Accumulated other comprehensive loss	(49,132)	(490,803)
Retained earnings	<u>6,824,733</u>	<u>4,458,571</u>
	<u>6,775,702</u>	<u>3,967,869</u>
<b>Total Liabilities and Shareholder Equity</b>	<u>31,680,679</u>	<u>18,434,628</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 Changes in Shareholder Equity  
for the year ended March 31, 2021

	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income / (Loss)</b>	<b>Retained Earnings</b>	<b>2021 Shareholder Equity</b>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Balance, beginning of year</b>	101	(490,803)	4,458,571	3,967,869
Net income	-	-	11,011,841	11,011,841
Other comprehensive income	-	441,671	2,366,162	2,807,833
Comprehensive income	-	441,671	13,378,003	13,819,674
Distributions to the Province of Prince Edward Island	-	-	(11,011,841)	(11,011,841)
<b>Balance, end of year</b>	<u>101</u>	<u>(49,132)</u>	<u>6,824,733</u>	<u>6,775,702</u>

	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income / (Loss)</b>	<b>Retained Earnings</b>	<b>2020 Shareholder Equity</b>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Balance, beginning of year</b>	101	(122,556)	1,785,113	1,662,658
Impact of changes in accounting policy (Note 3(d))	-	-	(291,201)	(291,201)
<b>Adjusted balance, beginning of year</b>	101	(122,556)	1,493,912	1,371,457
Net income	-	-	14,757,337	14,757,337
Other comprehensive income	-	(368,247)	1,574,395	1,206,148
Comprehensive income	-	(368,247)	16,331,732	15,963,485
Distributions to the Province of Prince Edward Island	-	-	(13,367,073)	(13,367,073)
<b>Balance, end of year</b>	<u>101</u>	<u>(490,803)</u>	<u>4,458,571</u>	<u>3,967,869</u>

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

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Cash Flow  
March 31, 2021

	2021	2020
	\$	\$
<b>Cash provided (used) by:</b>		
<b>Operating Activities</b>		
Cash received from Atlantic Lottery Corporation Inc.	14,061,220	19,558,259
Cash received from other revenue	1,200	2,295
Cash paid to the harness racing industry	(3,077,079)	(3,239,233)
Cash paid to the City of Charlottetown	(345,333)	(400,000)
Cash paid for the Responsible Gaming Strategy	(200,534)	-
Cash paid to the PEI Provincial Exhibition Inc.	-	(59,000)
Cash paid for other expenses	(1,256)	(5,298)
<b>Cash provided by operating activities</b>	<u>10,438,218</u>	<u>15,857,023</u>
<b>Financing Activities</b>		
Deficit repayment	-	(1,153,062)
IFRS 16 adoption repayment (Note 3(d))	-	(237,202)
<b>Cash used by financing activities</b>	<u>-</u>	<u>(1,390,264)</u>
<b>Change in cash</b>	10,438,218	14,466,759
Cash, beginning of year	<u>14,466,759</u>	<u>-</u>
<b>Cash, end of year</b>	<u>24,904,977</u>	<u>14,466,759</u>

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



# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2021

---

## 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 23, 2021.

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2021

---

## 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, 2021. 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) Continuity of Operations

On March 11, 2020, the World Health Organization declared the Coronavirus COVID-19 (COVID-19) outbreak a pandemic. This has resulted in governments worldwide, including the Canadian and provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, closures of non-essential businesses, and physical distancing, have caused material disruption to businesses in Atlantic Canada and globally, resulting in an economic slowdown.

On March 15, 2020, ALC ceased all video lottery operations and closed its entertainment centre. Operations resumed on June 26, 2020 when the Province moved into Phase 4 of the Renew PEI Together plan. Operations were again halted for a number of days in December and March as a result of province wide circuit breaker measures.

The COVID-19 situation is dynamic, causing significant uncertainty regarding when video lottery operations and the entertainment centre will operate. The ultimate duration and magnitude of the impact on the economy and the financial effect on ALC's future revenues, operating results, and overall financial performance is not known at this time; however, the impact could be material. At the reporting date, ALC determined that COVID-19 had no impact on its significant accounting policies, and its consolidated financial statements were prepared on a going concern basis.

# **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements  
March 31, 2021

---

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

### **d) Adoption of Accounting Standard**

#### **IFRS 16 Leases (IFRS 16)**

The Commission has adopted IFRS 16 effective April 1, 2019. IFRS 16 replaces International Accounting Standard 17, Leases, and requires lessees to recognize assets and liabilities for all leases with a term greater than one year in length.

The Commission is not party to any lease contracts, and therefore it has determined that the changes had no impact on the underlying accounting.

The Commission's exposure to leases is through ALC. ALC applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at April 1, 2019. Accordingly, the comparative information presented for ALC for 2019 is not restated.

As a result of the transition to IFRS 16, ALC recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition for ALC was a reduction in opening retained earnings of \$851,230, and the Commission's share was a reduction in opening retained earnings of \$291,201. During fiscal year 2019-20, ALC withheld a one-time payment of \$237,202 from profit distributions to the Commission to correct the resulting retained earnings deficit.

### **e) 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.

### **f) 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.



# **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements  
March 31, 2021

---

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

### **g) International Financial Reporting Standards 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, 2021. 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.

### **h) 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.

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 \$98,075 (2020 - \$99,275), 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.



# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2021

---

## 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 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 revenue and expenses generated by the national games. As described in Note 3(f) 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 have been due from the associate company Atlantic Lottery Corporation. Expected credit losses are reviewed at each financial statement date.

The Commission has an impaired receivable totalling \$98,075 (2020 - \$99,275) as described in Note 11. During fiscal year 2020-21, the Commission received \$1,200 (2020 - \$2,295) 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.

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2021

---

## 7. Financial Risk Management (continued...)

### 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.

## 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>2021</u> \$ (in thousands)	<u>2020</u> \$ (in thousands)
Current assets	64,252	63,788
Non current assets	205,037	200,648
Current liabilities	(75,430)	(116,380)
Non current liabilities	<u>(103,982)</u>	<u>(82,613)</u>
Shareholder equity	<u>89,877</u>	<u>65,443</u>
Commission portion of shareholder equity	<u>6,776</u>	<u>3,968</u>

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2021

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

	<u>2021</u> \$ (in thousands)	<u>2020</u> \$ (in thousands)
Revenues (net)	637,926	725,484
Expenses	(245,608)	(279,176)
Other losses	<u>(45,744)</u>	<u>(50,625)</u>
Net income	346,574	395,683
Other comprehensive income	<u>24,813</u>	<u>13,089</u>
Comprehensive income	371,387	408,772
Income allocated to shareholders	(346,703)	(395,427)
Dividends Paid	<u>(250)</u>	<u>-</u>
Undistributed income to shareholders	<u>24,434</u>	<u>13,345</u>
<b>Commission portion of undistributed income</b>	<u>2,808</u>	<u>1,206</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 \$14,069,710 as at March 31, 2021 (2020 - \$14,006,723).

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 \$1,805,298 as at March 31, 2021 (2020 - \$2,335,472). This amount includes leasehold improvements of \$469,641 (2020 - \$608,277), and the right-to-use leased property of \$876,259 (2020 - \$1,139,137). Previously, the lease was classified as an operating lease. During fiscal year 2019-20, it was converted to a right-of-use asset as part of the adoption of IFRS 16.

ALC carried a loan related to the Charlottetown and Summerside gaming entertainment centres. During fiscal year 2020-21, ALC exercised its early repayment option, and has fully repaid the loan (2020 - \$5,795,000).

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.



## PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2021

---

### 10. Grants to the Harness Racing Industry

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

	<u>2021</u> \$	<u>2020</u> \$
Grant to PEI Harness Racing Industry Association	2,491,000	2,480,000
Grant to Prince County Horsemen's Club	122,500	115,000
Grant to Atlantic Provinces Harness Racing Commission	110,567	111,233
Grants to support the Matinee Racetracks	25,946	13,782
Grants for sales tax due from pari-mutuel wagering	316,911	535,150
Grants for other expenses	<u>68,575</u>	<u>-</u>
	<u>3,135,499</u>	<u>3,255,165</u>

### 11. Accounts Receivable

	<u>2021</u> \$	<u>2020</u> \$
Other receivables	98,075	99,275
Less: Expected credit losses	<u>(98,075)</u>	<u>(99,275)</u>
	<u>-</u>	<u>-</u>

### 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. Although the agreement expired in 2020, the Commission agreed to extend the grant by one year and included a \$400,000 grant to the City of Charlottetown in the 2021 budget. This amount is subject to adjustment if the Charlottetown gaming entertainment centre operates less than 300 days in a given year. Due to the public health circumstances resulting from the COVID-19 pandemic the facility was not open for the required 300 days and as a result the amount payable for 2020-21 was determined to be \$345,333.

### 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. Activities carried out by the Department of Health and Wellness amounted to \$213,310 (2020 - \$200,533).

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2021

---

## 14. Commitments

### a) Responsible Gaming Strategy

The Commission has committed a maximum of \$305,000 in 2020-21 to support the on-going implementation of a Responsible Gaming Strategy.

### 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>
	\$
2022	100,849
2023	100,849
2024	100,849
2025	100,849
2026	100,616
Thereafter	110,062

### 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 five years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
	\$
2022	1,008,000
2023	460,800
2024	247,400
2025	-
2026	-

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2021

---

## 15. 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.

In prior years, the Commission did not have a separate bank account, and all transactions were processed through the Province's bank account. At the beginning of fiscal year 2019-20, the Commission opened a separate bank account for processing all Commission transactions.

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</u>		<u>Net Profit</u>	<u>Net Profit</u>
	<u>Profit</u>	<u>Expenses</u>	<u>2021</u>	<u>2020</u>
Lottery ticket sales - in person	11,793,684	(7,052,947)	4,740,737	4,241,421
Lottery ticket sales - online	3,496,018	(782,386)	2,713,632	720,560
Video lottery sales	12,146,594	(4,085,338)	8,061,256	12,227,986
Red Shores at Charlottetown Driving Park	10,632,132	(10,862,548)	(230,416)	1,706,858
Red Shores at Summerside Raceway	<u>1,615,365</u>	<u>(2,194,535)</u>	<u>(579,170)</u>	<u>(221,787)</u>
Total	<u>39,683,793</u>	<u>(24,977,754)</u>	<u>14,706,039</u>	<u>18,675,038</u>

Included in the net profit distribution is an expense of \$288,146 (2020 - \$285,000) 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.

## 16. 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 \$430,307 (2020 - \$713,794) and \$180,325 (2020 - \$180,598) related to future employee benefits.

# **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements

March 31, 2021

---

## **17. 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.

## **18. Subsequent Events**

The COVID-19 situation is dynamic, causing significant uncertainty. Video lottery operations and the gaming entertainment centres in Prince Edward Island may, in accordance with all provincial health directives, be subject to intermittent closures and restricted operational capacity. The ultimate duration and magnitude of the impact on the economy and the financial effect on both ALC and the Commission's future revenues, operating results, and overall financial performance is not known at this time; however, the impact could be material.

## **19. Prior Period Comparative Figures**

Certain prior period comparatives have been restated to conform to the presentation format adopted in the current period.