Consolidated Financial Statements

Atlantic Lottery Corporation Inc.

March 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Atlantic Lottery Corporation Inc.

We have audited the accompanying consolidated financial statements of **Atlantic Lottery Corporation Inc.**, which comprise the consolidated balance sheet as at March 31, 2011 and the consolidated statements of operations, comprehensive income and accumulated other comprehensive income, retained earnings and allocation of profit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Atlantic Lottery Corporation Inc.** as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Moncton, Canada,
June 16, 2011

Chartered Accountants

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of
Atlantic Lottery Corporation Inc.

The consolidated financial statements presented in this Annual Report are the responsibility of the management of the Atlantic Lottery Corporation Inc. They have been approved by its Board of Directors.

Management prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles. The financial information contained in the Annual Report is consistent with the data presented in the consolidated financial statements.

The Atlantic Lottery Corporation Inc. maintains books of account, systems of information, systems of financial and management control, as well as a comprehensive internal audit program which provide reasonable assurance that accurate financial information is available, that assets are protected and that resources are managed efficiently.

The Board of Directors oversees external and internal audit activities through its audit committee. The committee reviews matters related to accounting, auditing, internal control systems, the consolidated financial statements and reports of the internal and independent external auditors.

Brent Scrimshaw
Interim CEO

Larry Doherty, CMA, CIA
Vice President, Finance & Risk Management

ATLANTIC LOTTERY CORPORATION INC.
CONSOLIDATED BALANCE SHEET
AS AT MARCH 31

		2011		2010
		In thousands of dollars		
ASSETS				
Current				
Cash *[note 3]*	$	**22,648**	$	20,487
Accounts receivable		**24,963**		9,645
Due from shareholders *[note 8]*		**4,168**		-
Prepaid expenses and deposits		**2,732**		9,084
Inventory *[note 4]*		**5,858**		5,352
		60,369		44,568
Employee future pension benefits *[note 12]*		**14,328**		7,886
Property and equipment *[note 5]*		**103,525**		96,317
TOTAL ASSETS	$	**178,222**	$	148,771
LIABILITIES				
Current				
Line of credit *[note 6]*	$	**22,942**	$	93,700
Accounts payable and accrued liabilities		**25,900**		15,363
Deferred revenue		**2,571**		1,097
Liabilities for unclaimed prizes *[note 7]*		**17,685**		12,765
Due to shareholders *[note 8]*		**-**		2,865
Current portion of long-term debt *[note 10]*		**18,024**		2,610
Current portion of long-term lease payable *[note 9]*		**2,507**		-
		89,629		128,400
Employee future other post-employment benefits *[note 12]*		**7,173**		6,696
Long-term debt *[note 10]*		**75,491**		13,515
Long-term lease payable *[note 9]*		**5,861**		-
Other long-term liabilities *[note 11]*		**1,419**		1,350
		89,944		21,561
SHAREHOLDERS' DEFICIENCY				
Share capital *[note 13]*		**-**		-
Accumulated other comprehensive loss *[note 11]*		**(1,419)**		**(1,350)**
Retained earnings		**68**		160
		(1,351)		(1,190)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	$	**178,222**	$	148,771

Commitments *[note 16]*

See accompanying notes

On behalf of the Board:

Director

Director

ATLANTIC LOTTERY CORPORATION INC.
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31

		2011		2010
		In thousands of dollars		
Revenue				
Gross ticket sales	$	**646,428**	$	592,319
Net video lottery receipts		**411,596**		427,931
Entertainment centre revenue		**15,002**		13,606
		1,073,026		1,033,856
Prizes on ticket sales		**366,827**		342,794
Net revenue		**706,199**		691,062
Direct Expenses				
Commissions		**127,666**		129,925
Direct costs		**20,966**		18,881
		148,632		148,806
Gross profit		**557,567**		542,256
Expenses				
Operating		**128,144**		101,633
Depreciation *[note 5]*		**21,863**		19,928
Interest *[note 10]*		**2,971**		2,390
		152,978		123,951
Profit before the following		**404,589**		418,305
Other expenses (income)		**705**		(852)
Payments to the Government of Canada *[note 14]*		**4,141**		4,196
Taxes *[note 15]*		**28,609**		25,593
		33,455		28,937
Net profit	$	**371,134**	$	389,368

See accompanying notes

ATLANTIC LOTTERY CORPORATION INC.

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

YEAR ENDED MARCH 31

		2011		2010
		In thousands of dollars		
Accumulated other comprehensive income, beginning	**$**	**(1,350)**	$	-
Other comprehensive loss:				
Loss on derivative designated as cash flow hedge *[note 11]*		**(69)**		(1,350)
Accumulated other comprehensive income, ending		**(1,419)**		(1,350)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED MARCH 31

		2011		2010
		In thousands of dollars		
Net profit		**371,134**		389,368
Other comprehensive loss		**(69)**		(1,350)
Comprehensive income	**$**	**371,065**	**$**	**388,018**

See accompanying notes

ATLANTIC LOTTERY CORPORATION INC.
CONSOLIDATED STATEMENT OF RETAINED EARNINGS AND ALLOCATION OF PROFIT
AS AT MARCH 31

	2011	2010
	In thousands of dollars	
Retained earnings, beginning of year	**$ 160**	$ 56
Net profit	**371,134**	389,368
Profit available for distribution to shareholders	**371,294**	389,424
Allocation of profit: *[note 8]*		
New Brunswick Lotteries and Gaming Corporation	**121,823**	130,760
Province of Newfoundland and Labrador	**106,393**	109,161
Nova Scotia Gaming Corporation	**129,808**	134,606
Prince Edward Island Lotteries Commission	**13,202**	14,737
	371,226	389,264
Retained earnings, end of year	**$ 68**	$ 160

See accompanying notes

ATLANTIC LOTTERY CORPORATION INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31

	2011	2010
	In thousands of dollars	
Cash provided by (used for)		
Operating activities		
Net profit	$ **371,134**	$ 389,368
Add non-cash items:		
Depreciation *[note 5]*	**25,865**	24,412
Loss on disposal of property, plant and equipment	**4,769**	2,800
Impairment of long-lived assets *[note 5]*	**1,483**	-
	403,251	416,580
Net change in non-cash components of working capital *[note 17]*	**426**	9,382
	403,677	425,962
Investing activities		
Purchase of property, plant and equipment	**(39,483)**	(32,749)
Proceeds on disposal of property, plant and equipment	**10,253**	242
	(29,230)	(32,507)
Financing activities		
(Decrease) increase in line of credit	**(70,758)**	14,823
Proceeds of long-term debt	**80,000**	-
Repayment of long-term debt	**(2,610)**	(10,851)
Repayment of long-term lease payable	**(1,727)**	
Decrease in employee future benefits	**(5,965)**	(4,664)
	(1,060)	(692)
Distribution to shareholders *[note 8]*	**(371,226)**	(389,264)
Increase in cash	**2,161**	3,499
Cash, beginning of year	**20,487**	16,988
Cash, end of year *[note 3]*	$ **22,648**	$ 20,487

See accompanying notes

1. NATURE OF OPERATIONS

The Atlantic Lottery Corporation Inc. ["the Corporation"] was incorporated under the *Canada Business Corporations Act* on September 3, 1976. The Corporation's shareholders are the New Brunswick Lotteries and Gaming Corporation, Province of Newfoundland and Labrador, Nova Scotia Gaming Corporation, and Prince Edward Island Lotteries Commission.

The profit of the Corporation is distributed on a monthly basis to each of the shareholders. The distribution to each province consists of the calculated profit in each province as determined by the Amended and Restated Unanimous Shareholders' Agreement.

The Corporation has been appointed to undertake, conduct and manage lotteries by and on behalf of the provinces of New Brunswick, Newfoundland and Labrador and Prince Edward Island. The Corporation has been appointed to operate lotteries in the province of Nova Scotia by the Nova Scotia Gaming Corporation ["NSGC"].

The Corporation has entered into a formal operating agent agreement ["Agreement"] with NSGC that requires the Corporation to obtain the prior approval of NSGC before making certain changes related to lottery schemes in Nova Scotia. The Agreement provides that all assets acquired by the Corporation exclusively for the operation of lotteries in Nova Scotia are held by the Corporation in trust for and on behalf of NSGC, and that all liabilities incurred to acquire those assets are also the liabilities of NSGC. These assets and liabilities are included on the Corporation's consolidated balance sheet.

The Corporation has conduct and manage agent agreements with the provinces of New Brunswick, Newfoundland and Labrador and Prince Edward Island which include similar provisions.

The Articles of Incorporation restrict the number of shareholders to four and any invitations to the public to subscribe for securities of the Corporation are prohibited. Because of these restrictions, the Corporation manages capital through working capital and debt to ensure sufficient liquidity to manage current and future operations. The acquisition of debt requires the approval of the Corporation's Board of Directors and NSGC.

The Corporation is also restricted under the *Gaming Control Acts* of each province for the management of prize funds. The Corporation is required to maintain cash on hand equivalent to the amount of prize liabilities outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation
The financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles [GAAP]. The consolidated financial statements include the accounts of the Corporation and the Corporation's 100% owned subsidiary, Atlantic Gaming Equipment Limited.

Cash
Cash is represented by deposits on account less outstanding cheques.

Inventory
Inventory is valued at the lower of cost, determined on an average cost basis, and net realizable value.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Property and equipment
The Corporation capitalizes any major purchase with a useful life beyond the current year. The cost of internally developed intangible assets comprises development costs that are directly attributable to creation, production, and preparation of the asset to be capable of operating in the manner intended by management. These costs are capitalized if they meet all the following criteria:

- The technical feasibility of completing the software for use has been demonstrated,
- The Corporation has demonstrated its intention to use the software,
- The Corporation has demonstrated its ability to use the software,
- The usefulness of the software in generating probable future economic benefit has been demonstrated,
- There are adequate technical, financial and other resources to complete the development of the software, and
- The expenditure attributable to the software can be measured reliably during its development.

Assets are recorded at their original cost and are amortized on the straight-line basis according to their estimated useful lives. Amortization is taken at the following annual rates:

Asset	Rate
Building	10 and 20 years
Automotive equipment	3 years
Furniture and equipment	5, 10 and 15 years
Traditional gaming system and terminals	2-6 years
Video lottery gaming system and terminals	3-7 years
Computer equipment	3-6 years
Leasehold improvements	Remaining lease term
Entertainment centre building and equipment	5, 10 and 25 years
Assets under capital lease	4 years

Revenues and expenses
The recognition of lottery sales revenue and the corresponding direct expenses for all draw games is at the date of the draw. Receipts for lottery tickets sold on or before March 31 for draws held subsequent to that date are recorded as deferred revenue. Direct costs such as ticket printing and retailer commissions relating to the deferred revenue are recorded as prepaid expenses.

The recognition of lottery sales revenue and the corresponding direct expenses for all instant ticket games is at the time of activation, which determines the transfer of legal ownership to the retailer.

The recognition of lottery sales revenue for net video lottery receipts is at the time of play and is recorded net of credits paid out.

Entertainment centre revenue includes net receipts from electronic gaming devices, recorded net of credits paid out at the time of play, table games, and restaurant sales.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Prize expense
Effective April 1, 2010, lottery prize expenses are recorded based on the actual prize liability experienced for each online game, and theoretical prize liabilities for Scratch'N Win ticket games. In addition to cash prizes, the Corporation also awards free tickets. The value ascribed to free ticket prizes is equal to the sale price, sales are recorded excluding free ticket prizes.

For Scratch'N Win ticket games, the actual expense incurred each year will vary from theoretical estimates based on the nature of games of chance. Over the life of a game, the actual prize expenses will equal the theoretical expenses

Commissions
Commissions paid to retailers are based on revenue earned. ALC recognizes these commissions as the revenue is earned.

Unclaimed prizes
All unclaimed prizes from regional lottery games are retained in a prize fund for twelve months from the announced beginning date of the draw and Sports games are retained in the prize fund for 744 days from the date of purchase of the ticket. Unclaimed prizes remaining after the respective claiming periods are transferred to a special prize fund and are recorded as a reduction to prize expense and/or used for prizes in subsequent draws.

Scratch 'N Win lottery games are retained in a prize fund for thirty-six months from the date of launch of the game. Unclaimed prizes remaining after thirty-six months are transferred to a special prize fund and are recorded as a reduction to prize expense and/or used for prizes in subsequent draws. Although Scratch 'N Win prizes do not expire for accounting purposes thirty-six months was selected as historically there have been minimal validations after this period.

Unclaimed prizes of national lottery games are administered by the Interprovincial Lottery Corporation.

Employee future benefits
The Corporation has a defined benefit pension plan covering substantially all of its employees. The benefits are based on length of service and the average of the 60 consecutive months of highest pensionable earnings. The cost of the registered plan is funded by employee and employer contributions.

The Corporation accrues its obligations under employee benefit plans as the employees render the services necessary to earn the pension. The Corporation has adopted the following policies:

- The cost of pensions earned by employees is actuarially determined using the projected benefit method and management's best estimate of expected plan investment performance, salary escalation, membership data and expected health care costs.
- The expected return on plan assets is based on the fair value of plan assets.
- The amortization of past service costs emerging from plan amendments is made on a linear basis over the average remaining service life for active members expected to receive benefits under the plan.
- Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market-related value of plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plan.
- There were no changes in plan provisions, actuarial costs methods or the asset valuation method since the last disclosure as of March 31, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Financial instruments and comprehensive income
The Corporation is required to designate its financial instruments into one of the following five categories: (i) held-for-trading, (ii) available-for-sale, (iii) held-to-maturity, (iv) loans and receivables, or (v) other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held-for-trading or available-for-sale are subsequently measured at fair value with any change in fair value recorded in net profit and other comprehensive loss, respectively. All other financial instruments are subsequently measured at amortized cost using the effective interest rate method.

The Corporation has designated its financial instruments as follows:

a) Cash and deposits, and line of credit are classified as held-for-trading. Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value.
b) Accounts receivable are classified as loans and receivables. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Corporation, the carrying value approximates fair value. Credit risk arises from the potential that the counterparty will fail to perform its obligations. The Corporation performs a thorough assessment of debtors prior to granting credit and actively monitors the financial health of its debtors on an ongoing basis.
c) Accounts payable and accrued liabilities, liabilities for unclaimed prizes, amounts due to shareholders, long-term debt, and other liabilities are classified as other financial liabilities. Initial measurement is at fair value with any transaction costs included in the fair value amount. Subsequently, they are measured at amortized cost using the effective interest rate method. For the Corporation, the carrying value approximates fair value.

Transaction costs are expensed as incurred.

Derivatives and hedge accounting
The Corporation holds a derivative in the form of an interest rate swap which is used as a hedge against fluctuating interest rates. The Corporation uses hedge accounting and documents the identification, designation and effectiveness of this hedging relationship throughout the term of the hedge. The change in the fair value of the effective portion of the hedging derivative is recognized in other comprehensive loss, while the ineffective portion is recognized in interest charges.

Use of estimates
The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles ["GAAP"] requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved with making such estimates, actual results in future years could differ from those estimates.

Future accounting pronouncements
International Financial Reporting Standards [IFRS]
All publicly accountable enterprises will be required to apply IFRS, in full and without modification, on fiscal years beginning on or after January 1, 2011. The Corporation will adopt IFRS beginning April 1, 2011 with restatement, for comparative purposes, of amounts reported for the year ended March 31, 2011, and of the opening consolidated balance sheet as at April 1, 2010.

3. CASH

Cash is represented by deposits on account, less outstanding cheques.

	2011	2010
Deposits on account	**$ 23,603**	$ 21,998
Outstanding cheques	**955**	1,511
Cash, end of year	**$ 22,648**	$ 20,487

Pursuant to provincial regulations Atlantic Lottery maintains restricted cash accounts in an amount equivalent to current game liabilities. The Corporation has a cash balance in the amount of $17,668 [2010-$12,652] to fund prizes. Withdrawals from these accounts are restricted to payment of prizes.

Funds held for alc.ca wallets represent funds provided to Atlantic Lottery through player wallets on alc.ca. These amounts are deposited into a separate bank account and are internally restricted by ALC exclusively for funding the alc.ca wallet liability. The Corporation has a cash balance of $399 [2010-$420] to fund player wallets.

4. INVENTORY

	2011	2010
Ticket stock	**$ 5,780**	$ 5,231
Food and beverage	**78**	121
Total inventory	**$ 5,858**	$ 5,352

During the year ended March 31, 2011, the Corporation recorded inventory write-offs in the amount of $1,176 [2010 – $994].

5. PROPERTY AND EQUIPMENT

		2011	
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 1,686	$ -	$ 1,686
Building	3,837	3,005	832
Automotive equipment	2,656	1,766	890
Furniture and equipment	29,846	24,677	5,169
Traditional gaming system and terminals	50,436	35,210	15,226
Video lottery gaming system and terminals	155,763	125,820	29,943
Computer equipment	41,086	19,249	21,837
Leasehold improvements	6,661	4,955	1,706
Entertainment centre building and equipment	24,931	7,068	17,863
Software under capital lease	4,975	812	4,163
Hardware under capital lease	5,120	910	4,210
	$ 326,997	$ 223,472	$ 103,525

5. PROPERTY AND EQUIPMENT [Continued]

	2010 Cost	2010 Accumulated Depreciation	2010 Net Book Value
Land	$ 1,686	$ -	$ 1,686
Building	3,648	2,947	701
Automotive equipment	2,684	1,320	1,364
Furniture and equipment	20,097	10,780	9,317
Traditional gaming system and terminals	86,801	71,039	15,762
Video lottery gaming system and terminals	206,755	166,442	40,313
Computer equipment	21,142	15,201	5,941
Leasehold improvements	6,734	4,392	2,342
Entertainment centre building and equipment	25,634	6,743	18,891
Software under capital lease	-	-	-
Hardware under capital lease	-	-	-
	$ 375,181	$ 278,864	$ 96,317

Traditional gaming system and terminals, video lottery gaming system and terminals and computer equipment categories include hardware and software components. These assets are recorded in three classifications; hardware software and installation and services. Within these categories the hardware net book value was recorded as $35,184 [2010-$30,557], software net book value was recorded as $23,765 [2010-$9,524] and installation and services net book value was recorded as $8,057 [2010-$21,933].

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. The Corporation recorded impairment of $1,483 [2010-nil].

Depreciation expense includes property and equipment depreciation of $21,863 [2010 – $19,928], and direct costs include property and equipment depreciation in the amount of $4,002 [2010 –$4,484].

6. LINE OF CREDIT

The Corporation has available a $150,000 line of credit, which bears interest at prime less 0.50%, and charges a standby fee on the daily unadvanced portion of the credit facility at a rate of 0.20% per annum.

7. LIABILITIES FOR UNCLAIMED PRIZES

	2011	2010
Unclaimed prizes		
Current prizes	$ 17,015	$ 12,106
Special prize fund	653	546
Theoretical prize provision	-	(6,887)
Theoretical prize provision write-off	17	7,000
	$ 17,685	$ 12,765

	2011	2010
Special prize fund		
Balance, beginning of year	$ 546	$ 22
Unclaimed prizes expired during year	1,354	3,502
Prize payouts	(1,247)	(2,978)
Balance, end of year	$ 653	$ 546

8. DUE TO/FROM SHAREHOLDERS

		2011	
	Profit Earned	Profit Paid	Profit Payable (Receivable)
New Brunswick Lotteries and Gaming Corporation	$ 121,823	$ 122,977	$ (1,154)
Province of Newfoundland and Labrador	106,393	107,501	(1,108)
Nova Scotia Gaming Corporation	129,808	131,242	(1,434)
Prince Edward Island Lotteries Commission	13,202	13,674	(472)
	$ 371,226	$ 375,394	$ (4,168)

		2010	
	Profit Earned	Profit Paid	Profit Payable (Receivable)
New Brunswick Lotteries and Gaming Corporation	$ 130,760	$ 130,612	$ 148
Province of Newfoundland and Labrador	109,161	106,378	2,783
Nova Scotia Gaming Corporation	134,606	134,263	343
Prince Edward Island Lotteries Commission	14,737	15,146	(409)
	$ 389,264	$ 386,399	$ 2,865

The amount due (from) to shareholders relates to the profit earned for the year, not yet (received) paid.

9. LONG-TERM LEASE PAYABLE

	2011	2010
Lease of computer hardware payable in monthly installments of $121 including interest at an imputed rate of 3.25% until April 2014	**$ 4,205**	$ -
Lease of computer software payable in monthly installments of $109 including interest at an imputed rate of 3.25% until July 2014	**4,163**	-
	8,368	-
Current portion of long-term lease	**2,507**	-
	$ 5,861	$ -

The aggregate payment of long-term lease payable for each of the five years subsequent to March 31, 2011 are approximately as follows: 2012 - $2,507; 2013 - $2,596; 2014 - $2,689; 2015 - $576 and 2016 - $0.

10. LONG-TERM DEBT

	2011	2010
Bank term loan, amortized over 55 months, bearing interest at variable rates based on 30-day Bankers Acceptances, hedged by fixed interest rate swaps bearing interest at 2.58%, maturing October 2015.	**$ 80,000**	$ -
Bank term loan, amortized over 5 years, bearing interest at variable rates based on 30-day Bankers' Acceptances, hedged by fixed interest rate swaps bearing interest at 4.86%, maturing August 2011.	**420**	2,178
Bank term loan, amortized over 20 years, bearing interest at variable rates based on 30-day Bankers' Acceptances, hedged by a fixed interest rate swap bearing interest at 5.13%, maturing August 2016.	**13,095**	13,947
	93,515	16,125
Current portion of long-term debt	**18,024**	2,610
	$ 75,491	$ 13,515

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2011 are approximately as follows: 2012 - $18,024; 2013 - $17,995; 2014 - $18,396; 2015 - $18,807 and 2016 - $11,458.

Included in interest expense is $925 [2010 - $1,089] relating to long-term debt, $1,805 [2010 - $1,301] relating to line of credit, and $241 [2010- $0] related to software under capital lease.

The Corporation has a debt covenant limiting cash payments to shareholders to be less than or equivalent to profit earned. The Corporation is in compliance with this covenant.

11. OTHER LONG-TERM LIABILITIES

	2011	2010
Other long-term liabilities	**$ 1,419**	$ 1,350

During the year ended March 31, 2011, the Corporation recorded the fair value of its cash flow hedge as a long-term liability, while the effective portion of the hedging derivative was recognized in other comprehensive loss.

12. EMPLOYEE FUTURE BENEFITS

Pension benefits

The Corporation participates in a multi-employer defined benefit contributory pension plan. Benefits of the pension plan are based on employees' length of service and the average of the 60 consecutive months of highest pensionable earnings prior to termination or retirement. The Corporation's share of the multi- employer plan assets and the related accrued benefit obligation have been actuarially measured for accounting purposes as at March 31, 2011 using the projected benefit method prorated on service and management's best estimate of expected plan performance, salary escalation and retirement ages of employees.

The most recent actuarial valuation for funding purposes was performed as at December 31, 2009 by Mercer, a firm of consulting actuaries. This valuation disclosed an unfunded liability of $56,123 for the entire plan of which Atlantic Lottery is one of the participating employers. Pursuant to the Act, Atlantic Lottery will pay their share of special payments, on average $7,500 annually, into the Plan in addition to the employer contribution for current service cost. These payments will continue until 2018 or until the benefits under the Act are fully funded as determined by an actuarial valuation whichever comes first. The additional amount paid during the fiscal year ended March 31, 2011 was $6,481 [2010- 3,577].

As a result of the CGI outsourcing agreement *[note 16]* a partial pension plan wind-up was required on July 18, 2010 resulting in a curtailment loss on the defined benefit pension plan of $275 [2010- nil].

Other post-employment benefits

The Corporation also sponsors the following post-employment benefits:

1. Long-service award which covers all employees of the Corporation who retire from active service. The award is one week of pay for each year of service [up to a maximum of 25] based on earnings at retirement.
2. Extended health and dental benefits.
3. Life insurance and ad-hoc supplementary pensions.

The most recent actuarial valuation of the other post-employment benefits liabilities was conducted as at March 31, 2009 and those results were extrapolated to March 31, 2011. Actuarial reports prepared for the current year are based on projections of employees' compensation levels to the time of retirement and future health care costs based on management's best estimate.

As a result of the CGI outsourcing agreement [note 17] a partial pension plan wind-up was required on July 18, 2010 resulting in a curtailment gain on other post-employment benefits of $148 [2010- nil].

Information about the Corporation's employee future benefits as at March 31, in aggregate, is as follows:

	Defined benefit pension plan - Corporation's share (funded)		Other post-employment benefits (unfunded)	
	2011	2010	**2011**	2010
Change in accrued benefit obligation				
Balance, beginning of year	**$ 75,987**	$ 44,455	**$ 8,164**	$ 5,513
Current service cost (employer portion)	**3,714**	781	**519**	365
Employees' contributions	**2,008**	2,168	**-**	-
Benefits paid	**(5,094)**	(4,810)	**(480)**	(134)
Interest on accrued benefit obligation	**5,294**	3,960	**473**	447
Decrease in obligation due to curtailment	**(1,928)**		**(539)**	
Actuarial (gain)/ loss	**19,300**	29,433	**237**	1,973
Balance, end of year	**$ 99,281**	$ 75,987	**$ 8,374**	$ 8,164
Change in fair value of plan assets				
Balance, beginning of year	**$ 75,062**	$ 57,301	**$ -**	$ -
Actual return on plan assets net of actual expenses	**8,591**	13,516	**-**	-
Employer contributions	**10,701**	6,887	**480**	134
Employees' contributions	**2,008**	2,168	**-**	-
Benefits paid	**(5,094)**	(4,810)	**(480)**	(134)
Balance, end of year	**$ 91,268**	$ 75,062	**$ -**	$ -
Reconciliation of accrued benefit obligation to accrued benefit liability				
Accrued benefit obligation	**$ (99,281)**	$ (75,987)	**$ (8,374)**	$ (8,164)
Market value of plan assets	**91,268**	74,245	**-**	-
Surplus (deficiency)	**(8,013)**	(1,742)	**(8,374)**	(8,164)
Unamortized transitional obligation	**11,596**	12,703	**268**	395
Unamortized past service costs	**-**	-	**(904)**	(1,077)
Unamortized net actuarial loss (gain)	**10,745**	(3,075)	**1,837**	2,150
Accrued benefit asset/(liability) as at March 31	**$ 14,328**	$ 7,886	**$ (7,173)**	$ (6,696)
Reconciliation of expense				
Current service cost	**$ 3,714**	$ 782	**$ 519**	$ 365
Interest on accrued benefit obligation	**5,294**	3,960	**473**	447
Expected return on plan assets	**(5,038)**	(3,863)	**-**	-
Amortization of transitional obligation	**832**	847	**104**	110
Amortization of actuarial losses (gains)	**-**	(1,007)	**124**	20
Amortization of past service gain	**-**	-	**(115)**	(120)
Curtailment loss (gain)	**275**	-	**(148)**	-
Settlement cost	**2,580**	-	**-**	-
	$ 7,657	$ 719	**$ 957**	$ 822
Significant assumptions				
Discount rate - expense determination	6.50%	8.80%	6.00%	8.00%
Discount rate - accrued benefit obligation	5.90%	6.50%	5.80%	6.00%
Long-term rate of return on plan assets	6.50%	6.50%	-	-
Increases in pensionable earnings	3.90%	3.90%	4.00%	4.00%
Health care cost increases	-	-	6.00%	6.00%
Dental care cost increases	-	-	3.50%	3.50%

13. SHARE CAPITAL

Authorized and issued on incorporation is one common share to each of the provinces or their agencies for cash consideration of one hundred dollars per share.

14. PAYMENTS TO THE GOVERNMENT OF CANADA

Under federal/provincial agreements, the Government of Canada agreed to withdraw from the sale of lottery tickets and to refrain from re-entering the field of gaming and betting. In consideration, all provinces and territories of Canada pay $24,000 annually, in 1979 dollars, adjusted by the consumer price index each year. The amount for the current year was $66,576 for all provinces and territories.

The Corporation, as the Regional Marketing Organization of the Interprovincial Lottery Corporation, remits its member provinces' share of the above payments to the Interprovincial Lottery Corporation. The payment is included in the consolidated statement of operations as a deduction from profit and was allocated to the Corporation's member provinces based upon relative population, as follows:

	2011	2010
New Brunswick Lotteries and Gaming Corporation	**$ 1,331**	$ 1,344
Province of Newfoundland and Labrador	**895**	900
Nova Scotia Gaming Corporation	**1,685**	1,719
Prince Edward Island Lotteries Commission	**230**	233
	$ 4,141	$ 4,196

15. TAXES

	2011	2010
Harmonized sales tax [HST]/goods and services tax [GST]	**$ 28,609**	$ 25,593

In lieu of the collection of HST/GST on lottery ticket sales to the consumer, the Corporation pays tax based on specific formulas. In addition to the HST/GST paid by the Corporation, HST/GST paid on goods and services purchased is not recoverable and is recorded with the cost to which it relates. HST is paid in New Brunswick, Newfoundland and Labrador, and Nova Scotia, and GST is paid in Prince Edward Island.

16. COMMITMENTS

The Corporation is committed to payments for the lease of equipment and premises occupied by its head office, as well as operations in Nova Scotia and Newfoundland and Labrador. The minimum future annual lease payments over the next five years are as follows: 2012 - $3,639; 2013 - $3,303; 2014 - $3,249; 2015 - $3,132 and 2016 - $3,059. Aggregate lease payments to the end of the lease terms total $21,735.

On July 18, 2010, the Corporation entered into a seven year outsourcing agreement with CGI, with the option of three one year renewable terms. The scope of the agreement is for Infrastructure Services, Application Services, Project Services and the purchase of most non-gaming IT assets.

16. COMMITMENTS [Continued]

The minimum future annual payments to CGI over the next five years are as follows: 2012 - \$21,493; 2013 - \$18,997; 2014 - \$18,082; 2015 - \$16,184 and 2016 - \$15,126. Aggregate payments to the end of the contract in 2018 total \$109,164.

17. NET CHANGE IN NON-CASH COMPONENTS OF WORKING CAPITAL

	2011	2010
(Increase) decrease		
Accounts receivable	**$ (15,318)**	$ 11,046
Prepaid expenses and deposits	**6,352**	(4,969)
Due from shareholder	**(4,168)**	-
Inventory	**(506)**	(169)
	(13,640)	5,908
Increase (decrease)		
Accounts payable and accrued liabilities	**10,537**	(2,863)
Deferred revenue	**1,474**	(555)
Liabilities for unclaimed prizes	**4,920**	7,200
Due to shareholders	**(2,865)**	(308)
	14,066	3,474
Net change	**$ 426**	$ 9,382

18. SUPPLEMENTAL CASH FLOW INFORMATION

	2011	2010
Cash paid during the year for interest	**$ 2,971**	$ 2,390
Cash received during the year for interest	**$ 158**	$ 58

19. INCOME TAXES

The Corporation is owned by the four Atlantic Provincial Governments and is exempt from income tax.

20. FINANCIAL INSTRUMENT RISK

The Corporation's financial instruments are exposed to several financial risks, which include:

a) Interest rate risk: The Corporation manages interest rate risk with respect to long-term debt through the use of fixed rate hedges. The line of credit, which bears interest at a floating rate, is exposed to interest rate risk

20. FINANCIAL INSTRUMENT RISK [Continued]

through the fluctuations in the Prime rate. Fluctuations in the Prime rate by plus or minus 1% could impact the Corporation's net profit by an amount of $214 based on the line of credit balance as at March 31, 2011.

b) Credit risk: The Corporation is subject to credit risk due to the nature of its operations where retail partners collect the Corporation's revenue. This risk is managed through frequent collection of revenue and the control to pull funds from retailers' bank accounts and through retaining security deposits where the individual risk is assessed as high. The average balance for any one retail location outstanding is approximately $5.

c) Liquidity risk: The Corporation maintains committed credit facilities to ensure sufficient funds are available to meet current and foreseeable future financial requirements at a reasonable cost. This allows the Corporation to manage the liquidity risk of not having cash available to satisfy financial liabilities as they come due.

21. CAPITAL MANAGEMENT

The Corporation does not retain any earnings. Net income, after deducting contractual amounts due to the Government of Canada, is returned to the Province of Newfoundland, Province of Prince Edward, Province of Nova Scotia and Province of New Brunswick.

The Corporation's policy is to maintain a structure which allows the Corporation to have sufficient liquidity to meet both operational demands and payments to the Provinces. Earnings are advanced to the shareholder provinces bi-monthly.

As a result of fluctuating cash flow requirements and to minimize market risk, the Corporation maintains a high degree of liquidity and has a line of credit available. Corporate assets are financed through debt borrowings in the form of bank term loans and a line of credit.

The Board of Directors is responsible for the oversight of management including its policies related to financial and risk management issues.

There were no changes in the Corporation's approach to capital management during the year.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.