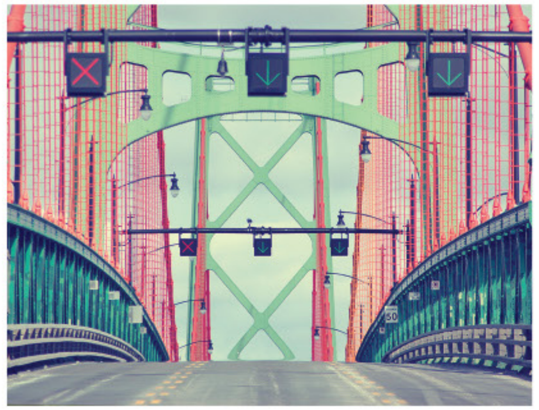
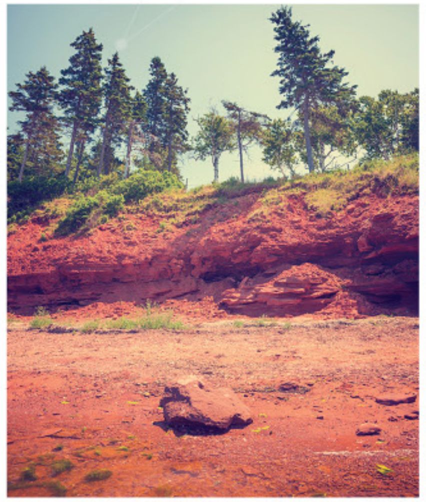
Atlantic Lottery

2015·2016 Annual Report





President's Message

Atlantic Lottery is a company owned by all Atlantic Canadians in all four provinces. It has delivered responsible games for our friends and neighbours who choose to game for the past 39 years. Over that time, it has generated strong returns for its provincial shareholders. In fact, to date the total stands in excess of $8.9 billion dollars. We're proud of that. But, the 506 employees (FTEs) who are the heart, spirit and operating mind of this company are particularly proud of our results of this past year. Our people are without question our path forward. On behalf of all of them, I am pleased to share with you Atlantic Lottery's 2015/16 business results – our most profitable year ever. Despite a challenging economy, the hard work of our employees has allowed us to return $431.6M to our shareholders to build better communities, services and infrastructure. This exceeds our target by over $53M. It won't happen every year, but 2015/16 was an exceptional year.

Atlantic Lottery's mandate is clear. It aims to enhance the economic prosperity and quality of life in our region. In fact, our vision statement says it all in one line, "Building a Stronger Atlantic Canada, one Player Experience at a Time". What does this mean? 100% of our profits are returned to our shareholders to provide the services we all want. 93 cents of every dollar we spend stays right here in prizes, goods and services, retailer commissions, investments in technology and yes, taxes. However, building a stronger Atlantic Canada is more than that. It is supporting a broader gaming ecosystem that creates good jobs and opportunities through other companies. In fact, our operations contribute indirectly to more than 9,621 jobs and $1.2 billion in economic activity across Atlantic Canada.

This is not a one-year story. For the past four years, we have been on a trajectory of responsible growth. We have turned the corner. This past year was exceptional – the result of good strategy, good planning and yes, even good luck. However, we believe, in fact we know that with the right strategy centered on our players, a tight and efficient operational plan, and the support of our shareholders, we can continue to provide responsibly generated growth through the balance of this decade.

Our top line sales were strong in 2015/16 at $1.19B and in fact, set an all-time record for Atlantic Lottery. Strong performance in all four lines of our business including retail lottery, video lottery, iLottery and our Red Shores operations all produced solid growth. Central to this was the outstanding performance of our national draw games, LOTTO MAX and LOTTO 6/49, which benefitted from unusually large jackpots. Strong results were recorded in video lottery stemming from our investment in new terminals and games, and the discontinuation of the My-Play program in Nova Scotia, a system that had not met the objectives established for it.

There's no doubt that the retail sector is the backbone of our business. It likely always will be. In fact, it represents 58.9% of our business. However, we have to focus on ensuring we are dominant in the digital sphere as well, particularly in mobile. We are facing a very real challenge with younger adults and have seen participation rates decline dramatically. New entertaining, skill based and social interactive games are simply a prerequisite of ensuring that these players have a responsible alternative to the plethora of illegal offerings now readily available. This is a necessary and critical change for this company and for each of us as Atlantic Canadians who own it. There are literally thousands of international illegal gaming companies operating in our space that do not return profits to the region.

While a relevant product portfolio in the right channels is critical to success, so is operating a tight and well-run business. We have to be cost-competitive if we are to meet our mandate. We need to invest to generate returns. We need the right skilled talent, the right technology, the right sales and marketing and the right processes and metrics to ensure we are meeting the mark. This is a work in progress. We know we have the right team. We are confident in our new technology. We are on the right track in building the right brands delivered through the right channels and we are working hard to be globally efficient. In fact, since 2012, we have reduced our discretionary spending by 22%.

Our world has changed. To be successful, we must look at our environment through a global lens. Our competitors are global in scale. They are not lotteries but rather illegal gaming companies providing an array of products that marry gaming and gambling. To provide that safe and responsible alternative that we must offer, our products and services have to be competitive with the best the global industry has to offer. We can and will compete.

Once a monopoly, Atlantic Lottery now finds itself in the unique position as a Crown Corporation having to compete for market share. This has required a change to our business model. Today, we are establishing ourselves as a commercially competitive Crown. To get us there, we have a solid five-year plan with strong deliverables and metrics. We're measuring ourselves against leading lottery, gaming and commercial operations worldwide, establishing clear and equitable performance benchmarks.

We are unique. We operate proudly on behalf of four governments. We do business in a competitive environment. We are a commercially competitive Crown Corporation, proud of our roots, committed to 2,000,000 owners and dedicated to building the stronger Atlantic Canada we all want.

I invite you to read this report intently. I would like you to understand where we have been and more importantly, where we are taking the company. Ask questions. Challenge us. This is your lottery company. Together, we can build the future.

Sincerely,

Brent Scrimshaw
@BrentScrimshaw

Executive members who contributed to Atlantic Lottery's success in Fiscal 2015/16 include:

Patrick Daigle, Chief Financial Officer
Jim Porter, Chief Operating Officer
Alison Stultz, Vice President, People
Kristen Killen, Vice President, Information Technology
Phil Holmes, Vice President, Strategy and Planning
Scott MacWilliam, Vice President, Marketing

Board Chair Message

This year's record-breaking financial results are a testament of the strength of Atlantic Lottery's people, strategy and implementation efforts. They also reinforce the trust that our customers, the people of Atlantic Canada, place in us and our products. Entering its 40th year, Atlantic Lottery is in the midst of bold modernization and transformation of the business. It is an exciting time to be serving on Atlantic Lottery's Board of Directors as Atlantic Lottery moves forward, putting the right framework in place to ensure the company will thrive for the next 40 years.

As a corporation owned by four Atlantic Canadian provinces, Atlantic Lottery fulfills a dual commercial and social mandate. Decisions must balance the organizations' player protection commitment with the need for sustainable long-term growth. Decision-making must be based on sound business intelligence, be challenged by healthy debate, respect the desires and demands of today's consumer, and be rooted in a commitment to help build a stronger Atlantic Canada. In some ways, this is a more complex decision environment than that of a purely commercial company, but one we are proud to navigate for the benefit of all Atlantic Canadians.

The reality is however, that technology and an evolving global gaming marketplace have created increased competition and new market and player demands. Customers are demanding access to products that reflect their changing tastes and on platforms that fit the reality of instant access and customer control. Atlantic Lottery has responded by undertaking the biggest player-facing changes in its history.

Investments in new central systems that power our Retail lottery, Video Lottery and iLottery lines of business will allow the company to offer the types of games and experiences that our players expect. Further, significant investments in innovation capability, both inside the walls of Atlantic Lottery and through a new Innovation Outpost in Halifax, are positioning the company to better focus its efforts on the emerging adult player. This new player centricity is fueled by the company's commitment to market analytics supported by new enterprise resource planning technology.

It is the Board's continuing role to oversee Atlantic Lottery's strategic direction, and to help facilitate the company's transformation to a quicker, more responsive and competitive company. To reflect this reality, the Board has undertaken a comprehensive review of its own governance practices and made a number of recommendations to the provinces to further modernize and evolve governance. Our focus has been on modernizing governance to align with best practices and improving the speed and relevance with which Atlantic Lottery can respond to increased competition and increasingly dynamic market. I am pleased to report that the provinces have accepted many of those recommendations.

It has been a privilege to work with Board members who so aptly exemplify notably strong ethics and integrity, and with such diverse backgrounds and skill sets. Diversity of thought and experience are crucial to constructive debate, independence, and delivery of quality governance in the broadest understanding of that term. Atlantic Lottery enters its fourth decade with a strong record of acting with integrity, transparency and responsibility to both protect and benefit Atlantic Canadians. It holds fast to these commitments as it strives to become a different company, a stronger company, by diversifying and reinventing lottery.

Together, we are setting the groundwork for the sustainable, long-term growth of Atlantic Lottery and the benefits that lottery delivers to Atlantic Canadians.

Sincerely,
Sean O'Connor

Board members who contributed to Atlantic Lottery's success in Fiscal 2015/16 include:

Patricia J. Mella, Vice Chair
Kevin Breen, Secretary
Dan Campbell
Jean Brousseau
Les Barker
Jay Griffin
Bob MacKinnon
Jean-Marc Dupuis
Wallace Floyd

Management Discussion and Analysis

This MD&A contains forward-looking statements about our expected or potential performance. These include, but are not limited to, statements about strategic initiatives, future revenue and profits, and other statements about future events and conditions. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results to differ materially from these projections. These risks and uncertainties include, but are not limited to changes in consumer demands, uncertain economic climate, changes in government policy and regulations and the competitive gaming landscape.

Although forward-looking statements are based on Management's current estimates and expectations, and currently available financial, environmental and economic data, these statements are inherently uncertain. The reader is cautioned that a variety of factors could cause business conditions and results to differ materially from what is contained herein.

Delivering Results:
Growth through responsible change and commercial modernization

A variety of factors contributes to Atlantic Lottery's ability to consistently deliver results that change the day-to-day lives of Atlantic Canadians. The development and delivery of responsible gaming products played by approximately 75% of the Atlantic Canadian adult population demands innovation, discipline and rigour across every function of the organization.

Driving responsible change through accelerated continuous improvement allows Atlantic Lottery to tackle the challenges of a changing player base, domestic and foreign competition and regulatory complexity in order to ensure the delivery of profits to Atlantic Canada year-over-year.

Foundational to these efforts are our employees who put their skills, experience and commitment into their workday. As Atlantic Canadians, they know they are delivering for their friends, family and neighbours. Each brings a sense of social responsibility to their role, knowing that Atlantic Lottery products must be safe and secure, as well as entertaining, in an industry that demands nothing less.

We are unrelenting in our focus to improve not only the way we do business, but improving the lives of Atlantic Canadians. Serving Atlantic Canadians is truly a privilege and a responsibility that is not taken for granted. Public trust is essential to our success. Atlantic Lottery operates with integrity and transparency, motivated every day to be a better, stronger and a more commercially competitive company for the benefit of Atlantic Canadians. It is reflected in the depth of community involvement, in the well-rounded social responsibility and responsible gambling programs, and perhaps most importantly, in everyday business practices.

Some recent examples of this commitment include:

- Reducing discretionary costs by 22% since 2012.
- Improving our back office processes with the implementation of an integrated financial planning and supply chain system using the latest ORACLE technology.
- Implementing project management best practices that guide decision rigour, speed to market, and cost of development to support the foundational technological transformation program.
- Investing to support the replacement of legacy technology: including the replacement of key back-end systems, the Video Lottery system, and soon, a new Retail and iLottery system, and website eco-system.

To ensure continued success requires more than a commitment to operating efficiency. Fiscal accountability also requires a focus on the top line – the revenue we generate.

Atlantic Lottery's retail channel remains a strong player touchpoint, responsible for 58.9% of all lottery sales. However, a significant risk, and more importantly an opportunity for responsible growth, lies with the company building a broader footprint in the digital delivery of its products. It is necessary for growth, and in the longer term, our very ability to provide sustainable returns for the shareholders.

As evidence, Atlantic Lottery's player participation rates among core and regular players have fallen 30% over the past 10 years as gaming alternatives continue to attract players of all ages. In fact, looking at millennials, the decline is even greater. To provide the safe and responsible alternative for those who choose to game, the company must expand its presence. The objective is to capture share from those gaming providers that do not share our passion for responsible gaming and that do not return the financial benefits of gaming back to all Atlantic Canadians. Atlantic Lottery has demonstrated that it can provide safe and regulated alternatives in the digital space, and is already moving further in that direction.

Management Discussion and Analysis

In the spring of 2017, the company will be launching a new retail lottery and iLottery system that will allow Atlantic Lottery to develop a new relationship with gamers by introducing a new roster of products – gaming experiences that are social, interactive and entertaining. Players will be able to play the Atlantic Lottery games they want, when they want and where they want. It will be the biggest player-facing change ever introduced by this company.

Atlantic Lottery recognizes that the game roster must be refreshed continually, introducing games involving social engagement, entertainment and skill that can range from digital instants, enhanced sports offerings and games catering to social communities of players. This is the competitive environment in which we, the regulated provider of gaming operates, and the standard that is demanded by Atlantic Canadian players.

On the back end, Atlantic Lottery is upskilling for this new gaming environment, building competencies to support new technology, social marketing and data analytics. Undoubtedly, as a company dedicated to player safety and fiscal responsibility, every new element will conform to strong player protection requirements; every investment will be measured against its potential ROI.

Every decision made to support growth, ensure rapid improvement, and drive responsible change is not taken lightly. Every decision is made in recognition of the fact that Atlantic Lottery is accountable to Atlantic Canadians and committed to safe, relevant, lottery experiences and long-term sustainable lottery profits that will continue to benefit Atlantic Canadians and this region for years to come.

Delivering on Our Mandate:

Since 1976, Atlantic Lottery's mandate has been to provide safe and responsible gaming products for those Atlantic Canadians who choose to game and, through that effort, deliver 100% of profits to Atlantic Lottery's shareholders.

Lottery profits are reinvested in all four Atlantic provinces by their respective provincial governments to fund essential services and infrastructure. More than $8.96 billion has been returned to Atlantic Canadians in Atlantic Lottery's 39-year history. The organization is proud of that achievement and confident that it will continue to improve on its performance going forward.

Atlantic Lottery's business plan for 2015/16 projected profit of $378.3M. This plan was based on a trajectory of responsible growth as set forward in the corporation's five-year strategic plan, a trajectory that has seen net profit grow from $361M to $368M to $376M over fiscal's F'12-13 to F'14-15. In F'15-16, a combination of sound strategy, excellent execution and a dose of good luck delivered an all-time record of $431.6M to Atlantic Canadians through their governments. The result of hard work and dedication, strong business principles, an enhanced focus on cost control, and numerous high jackpots all contributed to this landmark performance. Specifically, performance was fuelled by:

- Operating efficiencies in key areas including:
  - Improved Facilities Management providing cost reductions through reduced footprints.
  - Enhanced Distribution Management with the initiation of an outsourcing strategy.
- Improved management of technology assets through a focus on IT Vendor Management.
- Top line and profit across all lines of business; Lottery, Video Lottery, iLottery, Sports and Red Shores. Specifically;
  - Growth in ticket lottery as a result of unusually high jackpots for draw games and a strong performance in the Instant Category (Scratch &Win/Breakopen).
  - Responsible growth in Video Lottery supported by the replacement of dated technology terminals, the supply of new games and the removal of the My-Play system in Nova Scotia that was not meeting intended objectives.
  - Significantly improved results in the iLottery category in what is an increasingly competitive landscape, a good prognosticator for this regulated provider in the period that will follow the launch of the new platform.
  - Exceptional performance with the Red Shores properties in the delivery of its racing, dining and gaming products.

While this past year's record $431.6M should not be considered a launching point for the 2016/17 plan given the unusual jackpot activity, the company will continue on its planned responsible growth trajectory based on delivering the right products in the right channels when, where, and how players want.

Atlantic Lottery is the responsible and regulated provider of gaming options. Its plan is sound, its people capable and its results open to scrutiny. The balance of this report details results for all shareholders – all Atlantic Canadians.

2015/16 Corporate Performance Against Targets

Atlantic Lottery Corporation uses a Balanced Scorecard to measure and report on those metrics that are key to operating the business. Strategic objectives form the basis of the scorecard measures. The scorecard aligns business activities to Atlantic Lottery's vision and strategy, and monitors performance against strategic goals.

Table 1

Metric Name	Actual	Target
1 Perspective: Give Back		
Corporate Net Profit	$431.6	$378.3
NB Net Profit	$132.2	$120.2
NL Net Profit	$148.5	$126.8
NS Net Profit	$133.0	$116.0
PE Net Profit	$17.9	$15.4
Corporate Gross Profit	$632.8	$575.3
2 Perspective: Players		
Core & Regular Player Participation	44.9%	46.1%
3 Perspective: Operational Excellence		
Project Portfolio Health Index	89.00%	80.00%
Unfavorable Opinion Among Involved Atlantic Canadians	24.50%	22.00%
4 Perspective: People		
Retention Rate	93.17%	88.93%
Employee Experience Index	90.20%	84.00%

Note: *The table above shows overall results for 2015/16. Detailed discussion and explanation of targets and results follow. Financial Measures are rounded to the nearest million.*

Discussion on Corporate Scorecard results:

Consolidated Corporate Net Profit

Net profit was $431.6M, exceeding the targeted net profit by over $53.2M.

- Overall lottery sales for the year were $1,189.4M compared to a budget of $1,092.2M, a positive variance of $97.2M.
- The additional sales activity increased variable direct costs of commissions paid to retailers/site holders and ticket costs to be $10.6M over budget, yielding a positive gross profit budget variance of $57.5M.

- Financial results were led by exceptional performance in national draw games and their related spiel games such as Atlantic 49 and TAG, and strong performance in all provinces in the Video Lottery line of business. All lines of business produced better results year-over-year.
- Operating expenses for the year were $201.5M versus a budget of $197.4M, which is a negative variance of $4.1M. The increases over budget were due to:
  - Increased marketing activity due to higher than expected jackpot activity.
  - Higher than budgeted HST expense due to the higher commissions.
  - Ticket costs related to sales.
  - An adjustment to the remaining useful life of VLTs that are scheduled to be removed from the field during fiscal 2016/17.

Provincial Net Profit

Net profit is attributable to each province according to the terms of an Unanimous Shareholders Agreement, the document that defines the inter-provincial governance of Atlantic Lottery. During 2015/16, Atlantic Lottery exceeded targets for all provinces as demonstrated in Table 1.

Corporate Gross Profit

Gross profit exceeded budget by $57.5M. National games LOTTO 6/49 and LOTTO MAX and the related spiels (TAG and TWIST) exceeded budget by $28.1M, and Video Lottery by $25.7M.

Core and Regular Player Participation

Core players are those who purchase lottery products weekly. Regular players are those who purchase lottery products monthly. Core and regular player participation ended the year at 44.9%, missing the 46.1% target established in planning. The target was based on holding participation flat as no new game launches were planned for the period.

The inability to achieve flat participation in a high jackpot environment further reinforces the need for the company to engage in new forms of gaming, to recapture share from unregulated operators active in this market.

Project Portfolio Health Index

The Project Portfolio Health index represents the health of the top three critical competitive technology renewal projects underway with investments totalling in excess of $32.5M.

The final score for this measure is 89%, exceeding the goal of 80% based on the factors of budget, scope, and schedule. Three technology-related projects factor into these results:

- Project 1: The implementation of an enterprise resource planning (ERP) system that will provide enhanced data analytics and operating efficiency modules that will significantly reduce the cost of delivery of Atlantic Lottery's games and services.
- Project 2: Roll out of a new technology services delivery model to ensure the efficient and cost-effective delivery of Atlantic Lottery's core IT services. This hybrid solution ensures that the competitive technology intellectual property remains with Atlantic Lottery while delivery is vested with a trusted supplier, in this case, Bell Aliant.
- Project 3: The technology systems project that will deliver new back end systems to both the retail and iLottery lines of business.

Out of a possible 30 points, Project 1 received 25 affected by scheduling, Project 2 met or exceeded in all categories resulting in a score of 35, and Project 3 received a score of 20 based on timeline changes, which also affected budget and scope.

These projects stand at different stages of development and are expected to continue into 2016/17.

2015/16 Corporate Performance Against Targets

Understanding our relationship with Involved Atlantic Canadians

Atlantic Lottery recognizes that stakeholder and shareholder engagement in its operations and plans for the future are critical to its ability to succeed. For the company to enjoy continued success, it requires the support of gamers and non-gamers alike.

Rather than measure favourability, Atlantic Lottery attacks the issues of concern to those that hold unfavourable views of the organization. Since the initial benchmark in 2009 and the launch of the AskAway program in 2011, this measure of unfavourable opinion has moved in a positive direction, from a high of 37% unfavourability to a significantly lower rate of 21% in January 2015. This year-end result did see some degree of slippage, however, it finished the year within the target range at 24.5%.

Retention Rate

The high performer retention rate represents the percentage of employees who have achieved a rating of fully meeting or exceeding expectations, as a result of the annual performance management process, and who chose to remain with the Atlantic Lottery team during the fiscal year.

Atlantic Lottery's retention is 93.2% compared to a target of 89%. The high score is attributable to engaging projects, a focused emphasis on change management and improvements made in performance management. Our skilled team is engaged in the company's new journey and is transitioning to apply its experience and expertise to a competitive, commercial Crown Corporation able to compete and win.

Employee Experience Index

A competent, adaptable and engaged workforce is the heart of Atlantic Lottery's growth strategy and is a critical enabler at its foundation. When Atlantic Lottery achieves its long-term people goal of having employees define their work experience at Atlantic Lottery as the best of their career, that will be a solid foundation to achieve overall corporate success.

The Employee Experience Index measures employees' perceptions of Atlantic Lottery's performance management program and other variable topics such as career opportunities, work/life balance and internal communications.

The Employee Experience Index score is 90.2% exceeding the target of 84%. Contributing factors in the Index score include Performance Management completion statistics for the year and Employee Survey scores.

Financial Overview

With the best year ever recorded on Atlantic Lottery's books, the organization continues to move forward with responsible growth. The global gaming market is competitive and highly agile. Atlantic Lottery must be aggressive in providing commercial competitive products, rooted in integrity and responsibility, at the speed of the market and in recognition of rapidly changing player preferences. One need look no further than Pokémon GO, a multi-generational interactive gaming phenomenon, to understand the rapid changes in the industry.

Just as the organization has demonstrated this year, the combination of player insight, strategic investment and sound fiscal management of operating expenses must work hand in hand to deliver successful results and sustainability. Solid leadership and business practices have led to strong results in many areas of the business. For example:

- Red Shores has exceeded budgeted revenue, gross profit and net profit with 8% year-over-year growth in total lottery sales and significant increases in racing wagers and dining room revenue. A number of high profile events, renovations and new gaming opportunities have contributed to this growth.

- In Destination (the video lottery network and traditional products located in age restricted social sites), Atlantic Lottery experienced lottery sales of $442.1M compared to a budget of $410.8M, which is growth in excess of $40.6M over the previous year. This was achieved by successfully leveraging new systems, terminals and game experiences introduced in 2014 as part of a multi-year technology investment strategy.

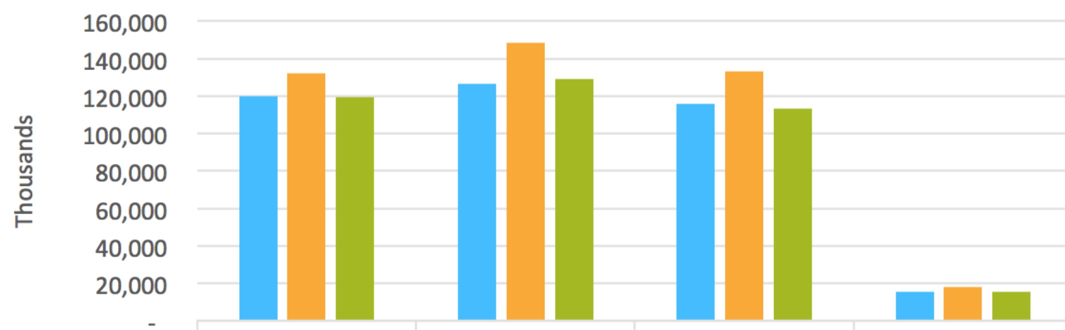
- On the iLottery side, more than $27.5M in lottery sales, compared to a budget of $22.2M, which represents annual growth of 29%. More than 46,000 unique customers made purchases on alc.ca, compared to a target of 36,000. These results are fuelled by a combination of several large jackpots, the introduction of mobile-optimized lottery wagering and strong customer acquisition and retention programs.

- In the Retail line of business, all game categories demonstrated year over year growth: national and regional draw games, Breakopen, Scratch'N Win and Sports.
  - Record sales on the national game LOTTO MAX alone accounted for $54.6M in gross profit, which was driven from an unusually high number of MAXMILLION jackpot events (30). The number of jackpot events was double the budget forecasted at 14.
  - Strong performance in LOTTO 6/49 accounted for an additional $47.8M in gross profit.
  - Sports once again outperformed expectations. PRO•LINE experienced 8.5% lottery sales growth, the largest jump since 2012. The category delivered $33.1M in lottery sales compared to a budget of $32.6M.

Distribution of profits by province

With the budgeted 2015/16 profit set at $378.3M, the actual net profit performance was $431.6, an overage of $53.3M balanced between the Retail and Destination lines of business.

As indicated in the chart below, all provinces benefitted in this significant year experienced by Atlantic Lottery.



	NB Net Profit	NL Net Profit	NS Net Profit	PE Net Profit
2016 Budget	120,165	126,803	115,996	15,384
2016 Actual	132,221	148,474	132,963	17,901
2015 Actual	119,552	128,886	113,167	15,263

Notes: *$ in 000's*

Financial Overview

Breaking Down the Lottery Dollar

Atlantic Lottery gives back to the four shareholder governments 100% of unconsolidated profits every year but that is only part of the story. Driving results through responsible growth and continuous improvement is clearly demonstrated through the breakdown of each and every Atlantic Lottery dollar with **93¢** staying in Atlantic Canada. Except for some out-of-region operational costs and taxes, all the revenue generated by Atlantic Lottery stays within the four provinces.

36¢ Profits back to Atlantic Canada

In 2015-16, Atlantic Lottery returned $431.6M in profit to the four Atlantic provinces to fund things like roads, schools, and hospitals.

34¢ Winners in Atlantic Canada

In 2015-16, Atlantic Lottery paid out more than $405.5M* in prizes to winners in every corner of Atlantic Canada.

12¢ Retailers in Atlantic Canada

More than 4,000 Atlantic Canadian businesses earn part of their income from sales of Atlantic Lottery products.

4¢ Salaries and Benefits

Atlantic Lottery employs more than 600 Atlantic Canadians in all four provinces. They live here, work here and spend their salaries here.

7¢ Operations in Atlantic Canada

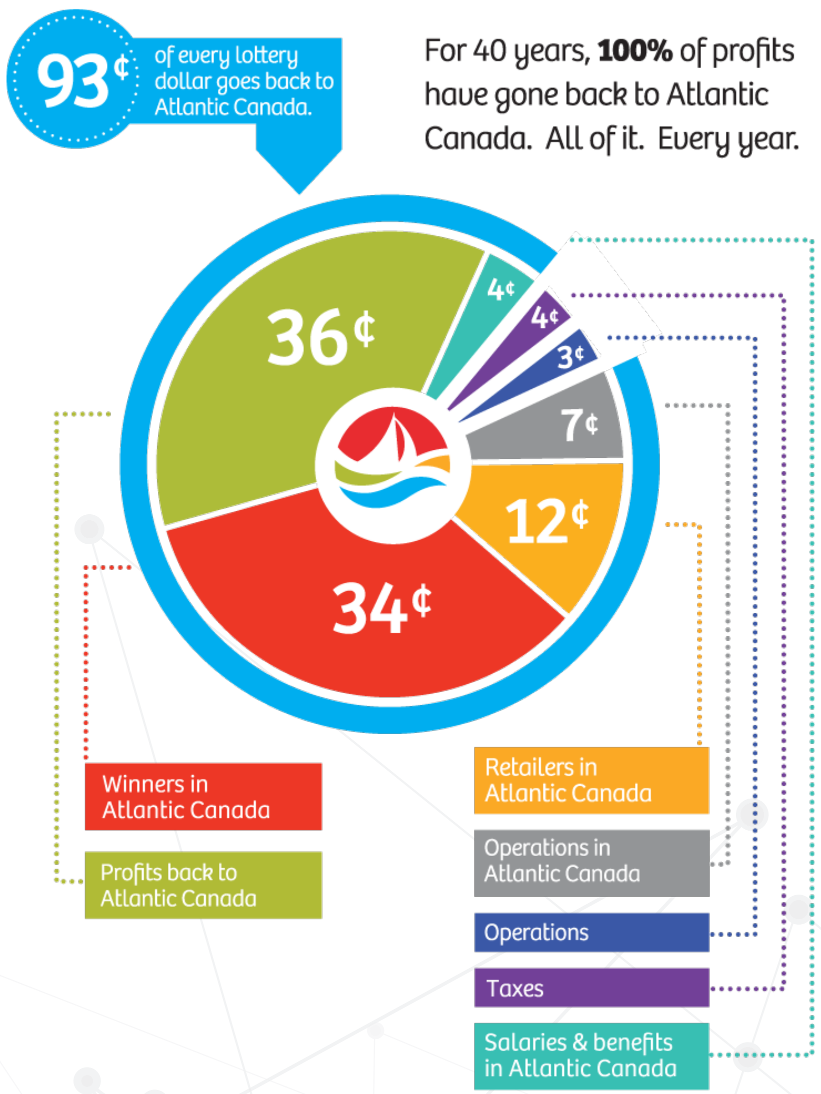
Operations contribute indirectly to more than 9,621 jobs and $1.2B in economic activity.

3¢ Operations

There are times when Atlantic Lottery needs to partner with companies outside of Atlantic Canada depending on the needs and the availability of third parties and the services they provide.

4¢ Taxes

Yes, Atlantic Lottery pays them too. And the organization knows that a portion of the taxes do go back to Atlantic Canada which means that even more than 93¢ of every lottery dollar stays here.



Notes: *The actual money paid out to winners was a total of $406.5M. The number above reflects the amount paid to Atlantic Canadians. All numbers/percentages presented are based on 2015/16 audited financial results.

Financial Overview

Consolidated Financial Position – Liquidity, Capital and Debt

The liquidity requirements for Atlantic Lottery Corporation are managed through a combination of cash generated through operations, an operating line of credit and term loans with fixed interest rates. The table below outlines the three sources and uses of funds:

Net Cash Flows provided by:	2016	2015
Operating activities	$478,302	$374,947
Investing activities	$(43,798)	$(15,842)
Financing activities	$(432,391)	$(359,128)
Net Increase/(Decrease) Cash	2,113	(23)
Long Term Debt	$149,971	$170,497

Notes: *$ in 000's*

The significant increase in cash from operating activities is aligned to the solid profits generated in 2016. The $63.4M consolidated year-over-year increase in profit combined with a net positive change in working capital contributed to the $100M increase from operations.

The uses of funds are realized in the investing and financing activities. The $43.8M of invested capital in 2016 represents both physical assets and software. Of the total, $10.5M was used for the purchase video lottery terminals and $8.7M for computer hardware deployed for the Lottery Central System project (which will introduce a new retail and iLottery platform) and the enhanced technology services program. These represent significant physical asset investments and are part of Atlantic Lottery's continued strategy to modernize its operations.

Complementing the investment in physical assets is $19.6M used for the purchase of software. This investment area sustained three key projects: the Enterprise Resource Planning project ($9.2M), the Lottery Central System ($6.7M) and new VL content ($2.5M). All three are key contributors to improved process capabilities, both in the gaming and back office environments.

The uses of funds for financing activities are consolidated into three areas: proceeds from long-term debt, repayment of long-term debt and the distribution of profits to shareholders. The substantial uses of these funds, approximately $408.8M as described in the Statement of Cash Flows, were for the distribution of payments to our shareholders.

The long-term debt of $150.0M is reduced by $20.5M over last year, with debt repayments exceeding debt proceeds. Atlantic Lottery holds three debt facilities: $60.6M in outstanding debt acquired in 2012 to fund the Video Lottery project, $9.3M in outstanding debt to fund Red Shores construction and enhancements and an $80.0M Bankers' Acceptance, which represents a consolidation of capital assets.

No assets have been pledged as security against any of the debt facilities.

Business Overview

Retail

**Results do not include sales or revenue from social sites or alc.ca sales.*

Retail outlets remain the most popular channel for purchasing Atlantic Lottery products, representing 58.9% of all annual sales. A network of more than 3,000 retail outlets carry Atlantic Lottery products.

The main objectives of the Retail line of business for 2015/16 were continued responsible growth, with a focus on solidifying our core brands and stabilizing our player metrics. 2015/16 saw all categories meet or exceed expected sales targets as well as the stabilization of player participation across both the national games (LOTTO 6/49 and LOTTO MAX) and Scratch'N Win categories. Lottery sales were strong with all categories significantly exceeding budget expectations:

- +$35.9M above budget on national games ($29.0M LOTTO MAX and $6.9 LOTTO 6/49)
- +$14.1M on regional games, primarily ($13.6M) coming from add-on or spiel games such as TAG and Twist
- +$8.9M on Breakopen tickets
- +$0.5M for Sports
- +$0.6M for Scratch'N Win

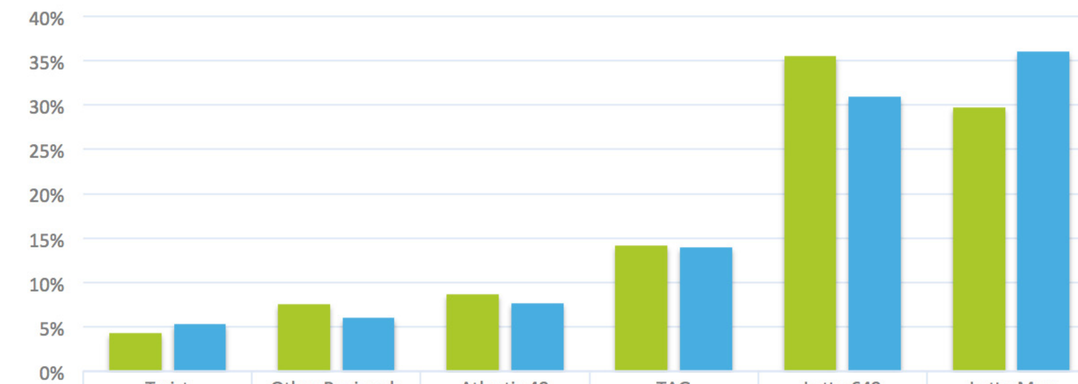
Also of note, all categories experienced year-over-year growth.

Draw Games

Jackpots have certainly been the lead story in 2015/16; Atlantic Lottery experienced record jackpots on both LOTTO 6/49 and LOTTO MAX, including a record number of MAXMILLION events. The jackpot activity contributed to record sales on LOTTO MAX. However, jackpots aren't the only story. Many initiatives and programs drove these positive results:

- LOTTO MAX jackpot cap change: This year LOTTO MAX was enhanced to allow jackpots to grow past $50 (to $55M and $60M). The change generated $6.7M in additional sales and $3.5M in additional profit for the brand.
- Extension of sales window: The purchase cut-off for draw games was extended by 1.5 hours, as part of a national initiative, giving players more time to get in on their favourite draw games.
- Super Draws: Four Super Draw events were held, which offered additional prizing and opportunities to win with selected LOTTO 6/49 draws. Atlantic Lottery performed above the national average on these events.
- New advertising creative for LOTTO 6/49 and LOTTO MAX hit the market.

Percentage of Total Sales by Draw Game Year-Over-Year



	Twist	Other Regionals	Atlantic 49	TAG	Lotto 649	Lotto Max
FY14-15	4.3%	7.6%	8.7%	14.2%	35.5%	29.7%
FY15-16	5.3%	6.0%	7.7%	14.0%	31.0%	36.0%

Notes: *Chart shows percentage of total sales by draw game year-over-year. The two national games – LOTTO 6/49 and LOTTO MAX represent 67.0% of Atlantic Lottery's total national and regional sales. A record number of high jackpots and a record number of MAXMILLION events helped to fuel sales of LOTTO 6/49 and LOTTO MAX. Regional spiel games, (Atlantic 49, Twist and TAG) available as add-ons to LOTTO 6/49 and/or LOTTO MAX, represent 27.0% of regional sales.*

**Does not include social sites or alc.ca sales.*

Business Overview

Instant Tickets

It was a good year in the Instant category, which includes Scratch'N Win and Breakopen tickets.

- Increased play of Scratch products among Millennials this year: Products and programs like Cash Tag proved appealing to this group.
- Support efforts of core Scratch brands (Crossword, Bingo and Set for Life) resulted in stabilization of formerly decreasing player measures on Crossword, and drove increases in player participation on Bingo.
- Naturally, the Scratch category continued to offer new, unique themes to meet the changing interests of players (i.e. $10 Dream Decade, $2 Bingo Go).
- Breakopen saw significant growth of $5.6M in year-over-year sales, fuelled by growth in the $1 product.

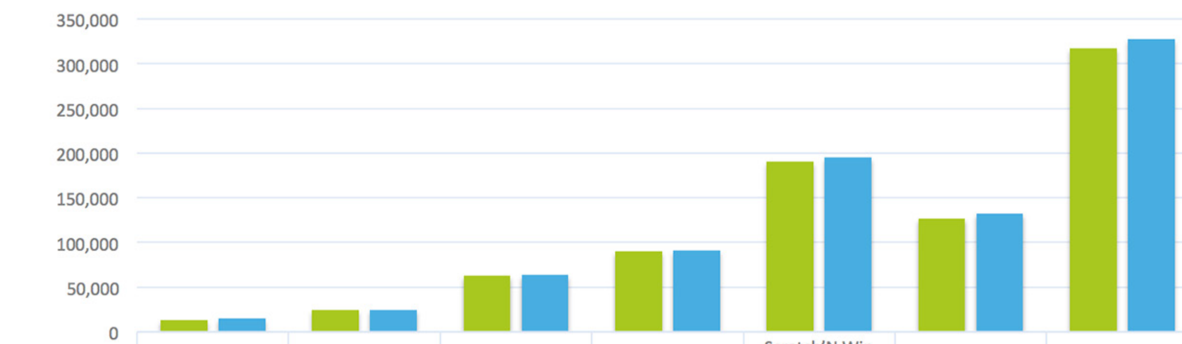
Sports

The Sports category is consistently a strong performer, offering sports and novelty bet wagering on four products; PRO•LINE, PRO•LINE FANTASY, PRO•LINE FUTURES and STADIUM BETS. This year, the $33.1M in sales set a PRO•LINE revenue record for the seventh consecutive year, exceeding the sales budget for sports by 1.6%. In particular, sales suggested strong interest in Toronto's baseball playoff run and in college and pro basketball.

Sports achieved a 6.6% revenue growth over last year's results. Channel sales (all channels) collectively grew 8.5%, well above the national average of 1.4%. This category delivered $9.5M towards overall gross profit. Other highlights that indicate strong performance include:

- Increased internet sports revenue by 20.4% versus last year. 15.02% of sport sales are generated online, via prolinestadium.ca.
- Sports ended the year with a Facebook audience up more than 60% over last year while the Twitter account saw a 383% spike in followers.

Year-Over-Year Instant Sales by Game Type



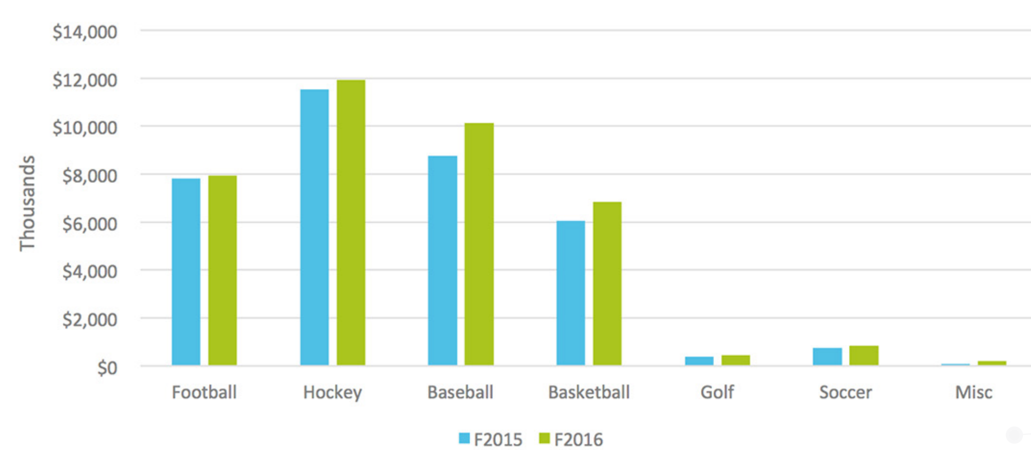
	Bingo	Extended Play	Crossword	Quick Play	Scratch'N Win Total	Breakopen Total	Instant Total
FY14-15	13,282	24,513	62,835	89,919	190,549	127,031	317,579
FY15-16	15,445	24,810	63,575	91,261	195,091	132,626	327,717

Notes: *Instant sales include both Scratch'N Win and Breakopen tickets. Year-over-year growth was experienced in the Scratch'N Win category, primarily driven by Crossword, Bingo and Set for Life. The Breakopen category experienced a growth in year-over-year sales of $5.6M over 2014/15 results. This increase is attributed to growth in the $1 product where we are seeing players trade up to a higher price point.*

Definitions: *Quick Play – A Scratch'N Win ticket that can be played in a short amount of time typically consisting of matching numbers, symbols or prize amounts. Examples of Quick Play tickets would be Lucky 7 and Set for Life. Extended Play – A Scratch'N Win ticket that provides longer entertainment value through more complex game mechanics such as word games and maze games. Examples of Extended Play tickets include Lucky Lines, Holiday Mega Pack and Dollar Quest.*

**Does not include social sites or alc.ca sales. $ in 000's*

Year-Over-Year Key Contributors to PRO•LINE Sales*

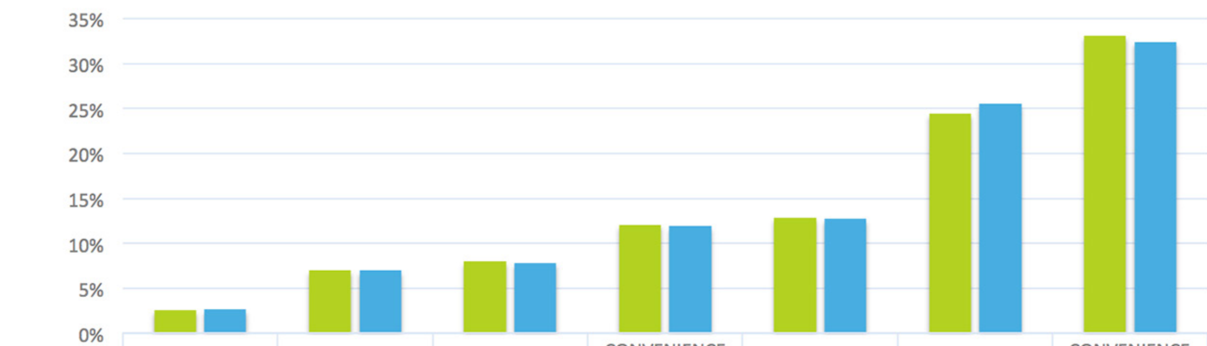


Notes: *While there was growth across the board with all sports, Baseball and Basketball sales were the driving force behind PRO•LINE exceeding sales budgets in F2016. Baseball's growth was a direct result of the mid-to-late season success of Toronto.*

**Reflects both retail and iLottery channels. $ in 000's*

Business Overview

Share of Retail Sales by Channel Year-Over-Year*



	OTHER	KIOSK	DRUG	CONVENIENCE CHAIN	GROCERY	PETROLEUM	CONVENIENCE INDEPENDENT
FY2014-15	2.6%	7.0%	8.0%	12.1%	12.9%	24.4%	33.1%
FY2015-16	2.6%	6.9%	7.9%	11.9%	12.7%	25.5%	32.4%

Notes: *The share of overall sales by retail channel has remained consistent year-over-year. All channels benefited from sales increases due to the strong sales results in 2015/16. Independent Convenience Stores, Convenience Chain Stores and Petroleum (gas station) locations represent 69.8% of retail sales.*

Over the past two fiscal years, Atlantic Lottery's independent convenience store channel has decreased by 131 stores (-10.4%). Changing shopping patterns and increasing competition are affecting independent convenience stores. Big box stores and mass merchandisers have created convenient one-stop shopping experiences reducing foot traffic to smaller independent convenience stores.

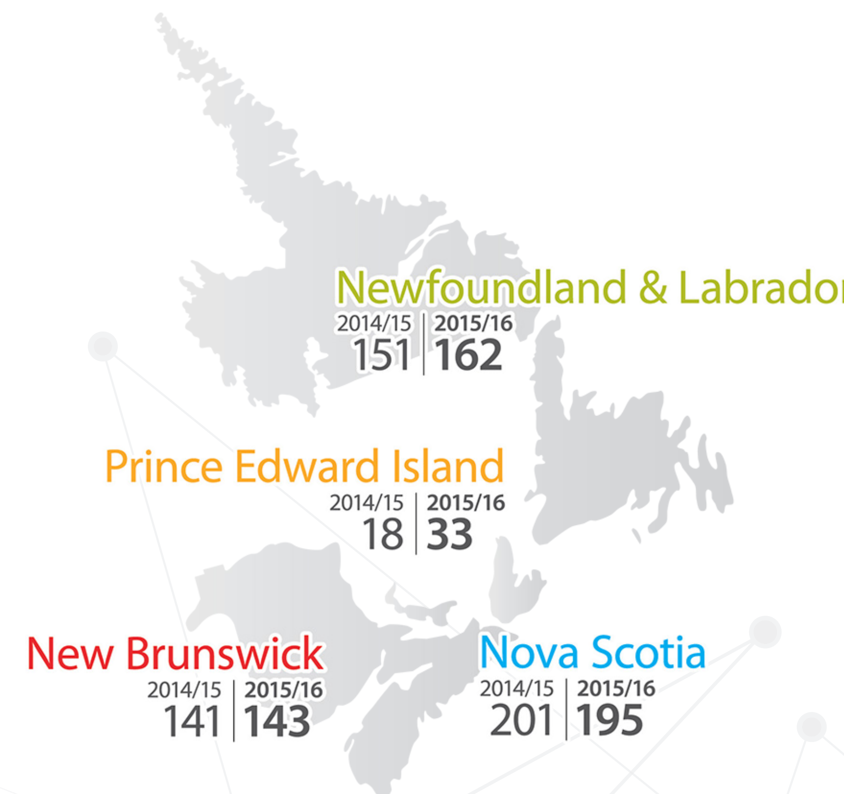
Average lottery store sales in 2015/16 were lower for independent convenience ($211, 296) vs. corporate convenience ($368,960) and vs petroleum ($280,633). Despite this, independent convenience stores still hold the largest share of Atlantic Lottery's retail network at 32.4%.

Atlantic Lottery continues to support its retailer network, including independent convenience, via investment in lottery merchandising, lottery incentive programs and promotions. Through positive working relationships with retailers, Atlantic Lottery keeps informed on their unique business challenges.

Does not include social sites or alc.ca sales.

Winners Map: Number of prizes over $10,000

The winners' communication strategy continues to drive awareness of wins in the region and has had a positive impact on sales. Map reflects wins as awarded by Province of Residence. Any groups claiming prizes are reflected in the map as one prize.



Exceptions not included in 2014/15 map:

- *British Columbia winner who purchased a Crossword Deluxe ticket in Newfoundland and Labrador and claimed a $30,000 prize.*
- *Two Ontario winners who purchased Atlantic 49 tickets, one in Newfoundland and Labrador and the other in New Brunswick, and each won $25,649.*
- *A Manitoba winner who purchased a Holiday Mega Pack in Newfoundland and Labrador and claimed a $10,000 prize.*
- *A Leyte resident who purchased an Atlantic 49 ticket in Nova Scotia and claimed a $64,904 prize.*

Exceptions not included in 2015/16 map:

- *Alberta winner who bought a Set for Life ticket in New Brunswick and claimed the top prize of $675,000.*
- *Ontario winner who bought a Cash In ticket in Newfoundland and Labrador and won $50,000.*
- *British Columbia winner who bought a TAG ticket in Newfoundland and Labrador and won 100,000.*
- *Alberta winner who bought a Cash Words ticket in Newfoundland and Labrador and won $30,000.*

Supporting Factors

This level of success does not happen without the network of retail partners, who earned more than $51.4M in commissions. 2015/16 was a busy year at retail with the significant amount of jackpot activity. Retailers not only supported Atlantic Lottery brands this year, they also supported the organization's commitment to social responsibility by achieving 100% completion of the Retailer Responsible Gambling training. They also improved their performance on Age of Majority compliance by 10 points over last year's results, to finish the year with an overall compliance rate of 86%.

The foundation built for 2016/17 is strong. Replicating this year's jackpot streak is neither probable nor within Atlantic Lottery's control. However, the 2016/17 plans in place will continue to tackle existing player base challenges.

With a current average profit margin for retail products at 23.1% for 2015/16, the cost of delivering products through the Retail channel will come under increasing pressure. Building player loyalty and attracting new players are key to maintaining sales growth.

With the development of new promotion and marketing programs and the development of new products, the cost model of this portfolio will be challenged.

Atlantic Lottery expects 2016/17 to be characterized by continued responsible growth combined with clearly defined objectives focused on modernizing its current portfolio of games and enhancing the roster of games that offer skill, entertainment and interactivity. The lines between Retail and iLottery will continue to blurr as 'traditional' products become more readily available in both channels. Atlantic Lottery will continue to introduce innovative twists to traditional line-ups that will bring new experiences to players.

Longer term, the launch of a new Retail and iLottery platform scheduled for spring 2017 will bring in a host of exciting products and services. Designed to evolve with the market and player demands, the technology is flexibile, responsive and vital to Atlantic Lottery's ability to deliver sustainable profits by delivering engaging player experiences to age-of-majority Atlantic Canadians.

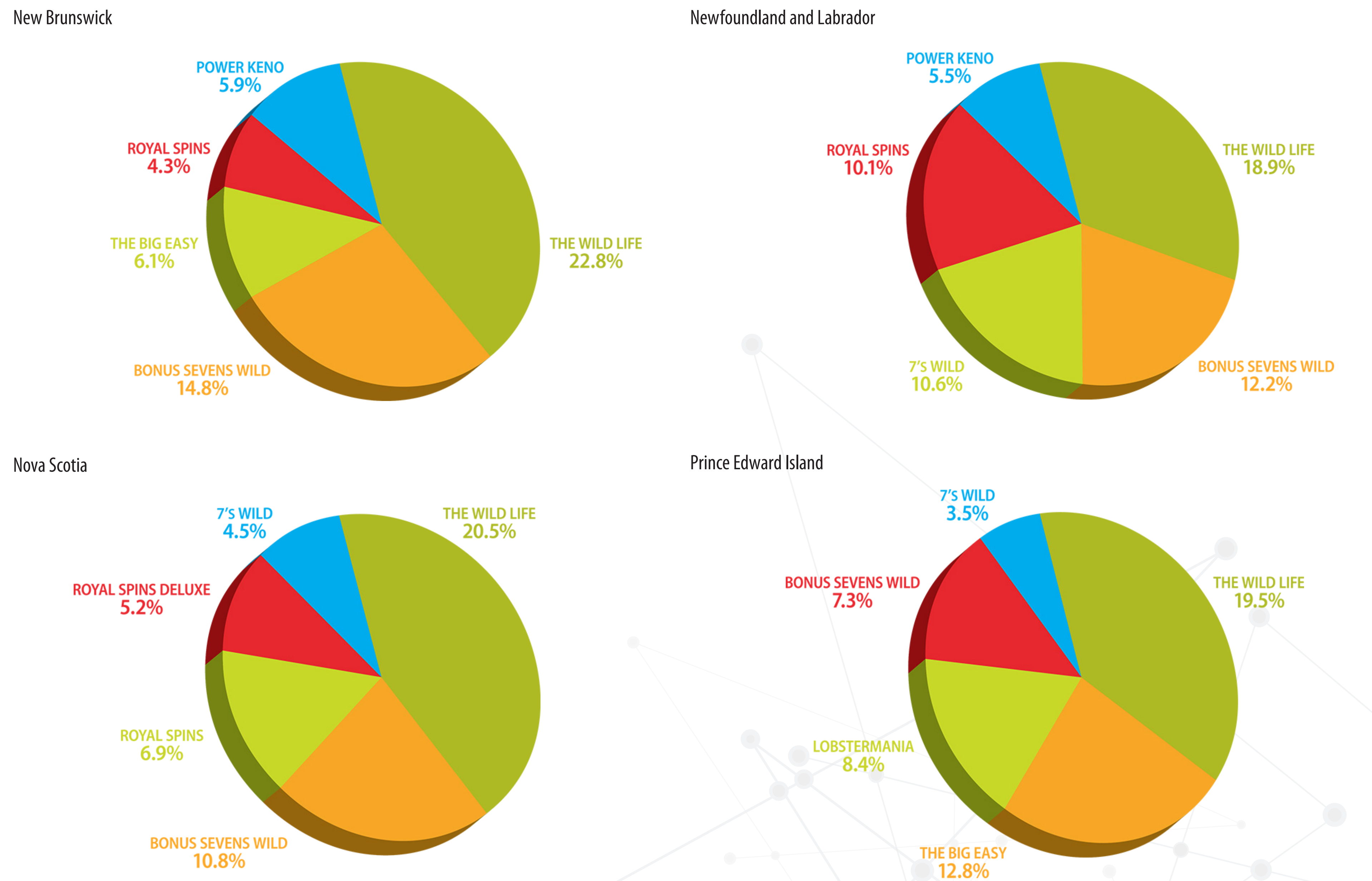
Destination

The Destination line of business includes more than 960 age-restricted social sites that offer video lottery and traditional products in Atlantic Canada. Additionally, in New Brunswick selected franchise retailers under the Coasters banner deliver an enhanced entertainment experience for players, grounded in superior site standards.

Video Lottery has been an essential element in Atlantic Lottery's product mix since 1990 when Atlantic Lottery was asked to assume responsibility for delivery of a regulated program, ending a period of unrestricted distribution, an absence of responsible gaming safeguards, and inconsistent game conditions.

The Video Lottery program in Atlantic Canada offers a variety of games including line games, poker games, and keno games. With the completion of a multi-year investment strategy for this line of business in 2014/15, the gaming options have broadened to offer experiences that are more diverse for adult Atlantic Canadians who choose to play. Video Lottery offers an alternative for those players who would otherwise play online with unregulated providers.

Top five Video Lottery games by percentage of game play



Notes: *Percentage of games played rather than revenue more accurately accounts for play of the game and player appeal. All terminal types will also have an "anchor" game, which generates a significant majority of play on that platform. The program consistently reflects a few significant games generating the majority of play; these results are normal. Top performing games tend to remain stable over time however new games, like The Wild Life, will reach the top from time to time.*

Destination

Video Lottery celebrated 25 years of responsible gambling in December 2015 with another year of strong performance. Investments in new terminal technologies, and new games introduced over the past two years continue to offer a revitalized entertainment experience for the player. Strong product performance and data driven terminal placement has contributed to revenue growth in excess of $40M over the previous year.

Growth has been evident in all provinces including Nova Scotia, which has seen play returned to more normal levels resulting from the new terminals, new games and the removal of the My-Play system which was not meeting intended objectives. While My-Play was removed, world-class responsible gambling features remain on every Atlantic Lottery machine. Efforts continue to refine processes around the central gaming system, terminal and game software technology with a focus on enabling a safer and more entertaining gaming experience and increasing the efficiency of operations.

The 2016/17 fiscal year is expected to see Destination building on the successful program delivered over the past two years. Plans call for a number of VLTs to be replaced, predominately in Nova Scotia. This will remove the Techlink Blast product from the field, which is now unsupported.

Additionally, seven new games will be introduced as the provision of engaging content for players continues. This would not have been as easy under the former system however, the new terminals allow for the introduction of broader, more diverse experiences and interaction.

In 2016/17 for the first time, the Atlantic Lottery brand will extend beyond the internal walls of Destination locations with plans for external signage at social sites that reinforces the integrity of an Atlantic Lottery gaming experience in the bar environment. Additionally, site standards in Newfoundland and Labrador and Nova Scotia will be updated to match New Brunswick and Prince Edward Island and deliver a more consistent product presentation for players in 2017/18.

The Coasters network in New Brunswick will see refreshment of external signage, investments in capital improvements and player-focused promotions to continue enhancing the value proposition of this brand. Atlantic Lottery will also be launching new Coasters locations in 2016/17 to continue solidifying this highly valuable gaming concept.

Overall 2016/17 will see further enhancement of the video lottery product offerings for the Destination channel.

Video Lottery network breakdown by manufacturer

Manufacturer	Model	Total Count
IGT	Prodigi Vu	3,145
IGT	GL-20	1,592
SG	V22/22	1,460
Techlink	Blast	704
Total		6,901

Notes: *Bally, Spielo and GTECH do not appear in the list of manufacturers, as other gaming vendors have acquired each. Bally is owned by SG, and Spielo and GTECH by IGT.*

iLottery

Launched in 2004, ALC.CA is the longest running lottery ecommerce site in North America. It offers age-of-majority Atlantic Canadians the ability to: purchase their favorite Lottery games; play iBingo with other Atlantic Canadians; play Pick'n Click games; and, make their Sports wagers online. All of this takes place within a regulated environment with many world-class responsible gambling features and a proven track record of player safety and consumer trust.

Universally, ecommerce continues to grow in popularity and ALC.CA is no different. In 2015/16, Atlantic Lottery achieved new records in revenues, customers and digital share. Growth was driven by several large jackpots, the addition of mobile-optimized lottery wagering, and the success of digital marketing programs in growing customer acquisition and retention.

ALC.CA results in 2015/16 exceeded target and showed significant growth versus last year.

- Over 46,000 active online customers compared to a target of 36,000, representing 36% annual growth.
- Over $27.5M in lottery sales versus a budget of $22.2M, representing 29.2% annual growth.
- All product lines – Lottery games, Sports, iBingo and Pick'n Click games – exceeded target and grew versus previous year's results:
    - Lottery draw games led the way with $13.2M in lottery sales, on a $9.2M budget, representing 55.2% annual growth
    - iBingo: $7.0M lottery sales on a budget of $6.5M, and 5.5% annual growth
    - Sports: $5.9M sales on a budget of $5.3M, and 20.4% annual growth
    - Pick N Click: $1.4M in lottery sales on a budget of $1.1M, and 12.8% annual growth
- 5% of lottery and sports wagers were transacted through ALC.CA.

Key focus areas in 2015/16 were mobile and the evolution of digital marketing programs. Key initiatives included:

- Making lottery wagering available on the IOS mobile APP.
- Increasing conversion effectiveness of digital media buys to drive transactions and registrations.
- Running several successful ALC.CA promotions.
- Increasing effectiveness of email marketing program to opted-in members.

A continuing key focus area is the modernization of Atlantic Lottery's technology. This in-flight project slated to launch in the spring of 2017 will improve the customer experience, refresh content and improve Atlantic Lottery's ability to operate and adapt in this digital age. Some of the guiding principles behind this modernization include:

- Customer-focused and user-centered design, supported by consumer usability testing feedback.
- Mobile-first design, recognizing mobile devices have surpassed desktop for accessing the web. Responsive website design will adapt to varying devices.
- Flexibility to adapt and evolve the customer experience and the content.
- Greater automation and efficiency.
- Deeper analytics to deliver optimal customer experience.

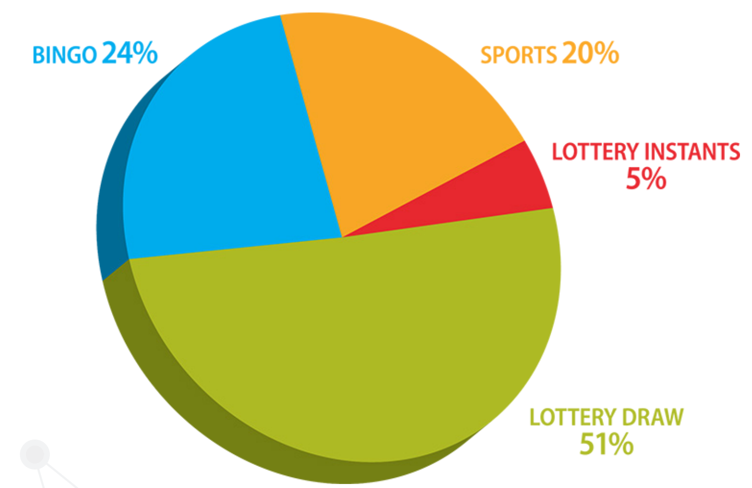
This is the largest player facing initiative in Atlantic Lottery's history. Delivery requires a team of subject matter experts who work closely with several valuable and talented vendor partners.

While the new ALC.CA will deliver refreshed content and experiences, there continue to be product gaps within the ALC.CA portfolio; namely casino-style and poker games. For these types of experiences, illegal offshore operators are filling the void without check. It's estimated that Atlantic Canadians wagered more than $35M on these two categories of products alone in 2015, without any local player protection or regulatory oversight. That number grows to more than $60M if you include offshore sports wagers, bingo and other products. While much focus has been placed on the organization's mobile and digital presence, Atlantic Lottery recognizes the opportunities of integrating the retail and digital channels to create an improved and seamless experience for players. The retail and the digital teams continue to work collaboratively to deliver cross-channel brand experiences.

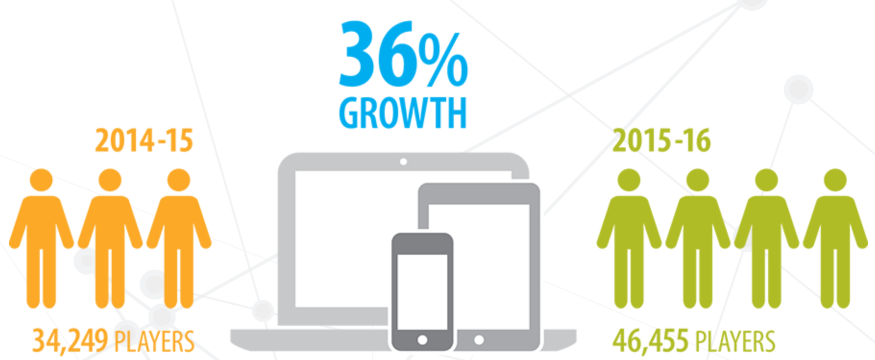
Further revenue and customer growth is expected in 2016/17, as Atlantic Lottery continues to evolve digital marketing programs to foster increasing consumer adoption.

Longer term, there are plans to explore new and innovative content that will meet the ever-evolving demands of today's digital customer. Atlantic Lottery will continue working hard to maintain the privilege of being the gaming website of choice for tens of thousands of Atlantic Canadians.

Percentage of alc.ca sales by product line



Active player base growth year-over-year



Red Shores

Overall, Red Shores has exceeded budgeted lottery sales by $0.6M, gross profit by $0.3M and net profit by $0.3M for 2015/16.

As Atlantic Lottery's premier entertainment destination, Red Shores offers harness racing, award winning dining opportunities and live table games, and slots and Video Lottery experiences at locations in Charlottetown and Summerside. The Red Shores Charlottetown location opened in 2005 and Summerside in 2009. The venues carry on the time-honoured Island harness racing tradition.

Gaming revenues are up 8.0% year-over-year, after more than two years of declining or flat results. The racing wager is up 10% year-over-year, primarily driven by a 37% growth in off-site wager. Red Shores has a large number of out-of-province and out-of-region players wagering on our racing product through simulcast services.

With dining, Red Shores continues to see double digit growth in gross revenue, which has grown by $1M over the past three years.

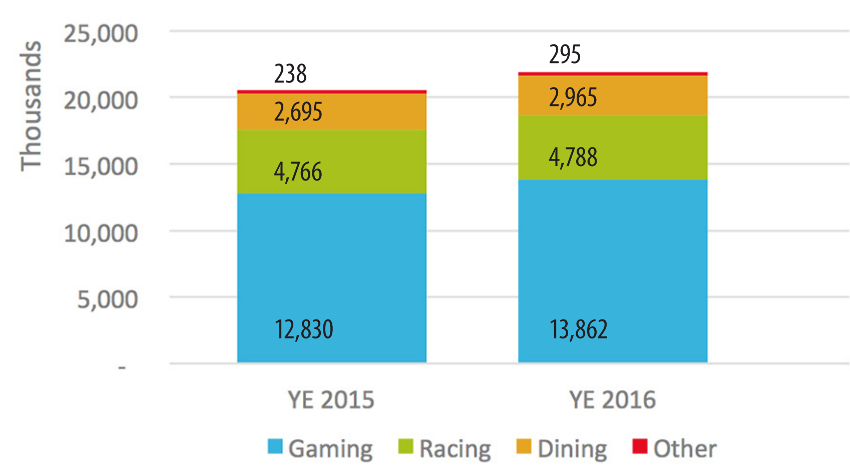
2015/16 saw the Red Shores team implement a number of key initiatives to enhance products and services, and most importantly the guest experience. Some highlights included:

- Upgrading the Casino Management System (CMS), the engine responsible for slot management and loyalty program. The new system also provides extensive reporting and analytics to guide better decision-making.
- Relaunching the Player Rewards Program, giving members access to new promotions now available with the new system.
- Racing upgrades including new track equipment; upgrades to stabling, paddock and ship-in barns; and box seating remediation.
- Amenity space improvements to: the Simulcast Theatre; Gaming Floor Lounge; Top of the Park Dining room; and to public Wi-Fi.
- Introducing new gaming products including: Let It Ride, Ultimate Texas Hold'em and Blackjack (Summerside only) table games; new themed and licensed slot machine products; and replacement of some slot machines with Video Lottery terminals in Summerside to offer a different play experience.
- Initiating replacement of the end-of-life Surveillance and Access Control Systems.
- Adding new events including RibFest, Harness Racing Karaoke Star, Rotary Dinner, and Christmas Holiday Group Sales.
- Increasing involvement by Addictions Services and related organizations in Red Shores Community Partnership Day, in support of the organization's efforts to endorse and encourage responsible gambling.

Delivering a fun, memorable and safe guest experience is the backbone of Red Shores' continued success. These efforts are being acknowledged: Red Shores was recognized by the world's number one travel site, TripAdvisor®, with their Certificate of Excellence Award. Red Shores also has moved up to #8 in TripAdvisor's® list of Things to Do in Charlottetown.

Directly related to the quality of the service is the quality of Red Shores' team. Red Shores' leadership believes that exceptional guest service is an output of an engaged and motivated workforce. Red Shores works hard to make the employee experience as positive as patrons. All employee engagement metrics (surveys, retention rates, internal promotion, etc.) are solid.

Year-over-year Red Shores revenues by line of business (Normalized)



Notes: *Normalized is defined as VLT revenues moved from Other to Gaming and Purse revenues ($21,910) added to Racing (provides like for like comparisons year-over-year). Gaming revenues are up 8.0% YoY due to investments in slot product/themes, VLTs, Blackjack added to Summerside, and new table games, Let It Ride and Ultimate Texas Hold'em. Dining revenues are up 10.0% over the previous year due to increases in group bookings, pricing increases, improved pricing and volume rebates for suppliers.*

$ in 000's

Since opening its doors, Red Shores has played host to some of the best racing and championship events. The combination of exceptional staff, great amenities and outstanding facilities continue to attract prestigious events. In 2017, Red Shores will see another significant racing event added to the line-up when it hosts the 2017 World Trotting Conference and World Driving Championships.

This global event coincides with the 150th anniversary of the creation of Canada and the 250th anniversary of horse racing in Canada. Standardbred Canada worked hard to bring this event to Canada, choosing Red Shores as host. This is direct recognition of the support provided by Atlantic Lottery to the harness racing industry and the quality of the amenities and hospitality provided by Red Shores.

The thrill of live harness racing remains embedded in Prince Edward Island's heritage, enjoyed by all who visit Red Shores. Red Shores takes great pride in helping to keep the tradition alive and incorporating harness racing into one of the leading entertainment experiences available in Atlantic Canada.

People

Atlantic Lottery is a company that operates in a specialized area and one undergoing transformative change. At the core of the organization's success is the need for top talent to allow us to compete, grow and innovate.

Atlantic Lottery will continue to aspire to offering employees a career-best work experience in a progressive results-oriented environment. 2015/16 marked the continued modernization of the business to meet the demands of players, providing opportunities for employees to both hone their skills and pursue new opportunities through learned skills.

Employee Experience

Several metrics measure the organization's efforts to support and build its people resources. People-focused results and initiatives in 2015/16 included:

- At the end of the 2015/16 fiscal year, Atlantic Lottery employed 607 employees (includes full and part-time positions) across the Atlantic provinces, achieving a retention rate of high performers of 93.2% and exceeding our 89% target. The high performer retention rate represents the percentage of employees who have achieved a rating of meeting or exceed ing expectations, as a result of the annual performance management process, and who have stayed at Atlantic Lottery (includes Atlantic Lottery and Red Shores) during the fiscal year.
- The Employee Experience Index continues to measure employees' perceptions of Atlantic Lottery's performance management program and other variable topics of interest including career opportunities, work/life balance and internal communications. The organization exceeded its target of 84%, ending the year with a score of 90.2%. These results are positive, as there were improved scores in managing the performance process. For 2016/17, this index will continue to be a people measure on Atlantic Lottery's corporate scorecard, with a target of 87%.
- As part of an improved employee experience, employees have two work streams in which to apply their skills and knowledge. In addition to the business core operations, there are opportunities to support the various large technology and innovation projects as part of a multi-functional team dedicated and embedded in the project environment.

A focused change management and communications program supports this dual environment. The broader employee base has been engaged in understanding the positive impacts these projects will have on their work processes, and reinforced the importance of the work being done by employees who continue to support regular business activities. Change impact assessments indicate that employees are adjusting to the changing environment and understand their roles within it.

Certification, Accreditation and Collaboration

Atlantic Lottery's commitment to Corporate Social Responsibility (CSR) is steadfast and reflected throughout its gaming products and programs. In 2015/16, updates to the organizations CSR Employee Certification program were made. Already reflecting the corporate commitment to social responsibility, the updates spoke to the organization's commitment to employee volunteerism, wellness and health and safety.

At Red Shores in Charlottetown, there was renewal of the RG Check Accreditation through the Responsible Gambling Council. This accreditation demonstrates Red Shores continued commitment to responsible gambling at this land-based venue.

Atlantic Lottery's overall responsible gambling efforts have been validated and acknowledged as world-class by the World Lottery Association (WLA). In 2010, Atlantic Lottery received the highest-level designation under the WLA's Responsible Gaming Framework (RGF). The framework is an internationally recognized certification program that assesses lottery's responsible gaming programs.

The certification has been successfully renewed every three years since attaining the designation, with another recertification application in 2016. Recertification requires demonstration of all responsible gambling efforts and principles in day-to-day operations and evidence of continuous improvement. A corporate dashboard tracks Atlantic Lottery's CSR efforts in various areas. The dashboard is posted on corp.alc.ca and is updated quarterly.

The organization continues to work closely with industry and community partners at local, national and international levels to help advance and align our collective efforts in the education and awareness of responsible play.

Employee Wellness

Consistent with companies across Canada, the overall well-being of Atlantic Lottery employees is also a priority. A corporate-wide wellness program in existence since 2011 encourages the physical, mental and emotional well-being of employees across the region. The program was recently recognized with the Goodlife Fitness Health and Wellness Leadership award.

Atlantic Lottery was one of three Canadian companies and the only Atlantic Canadian company to receive the award in recognition of its efforts toward making Canada the healthiest and fittest nation in the world.

The Wellness program continues to expand efforts in the area of mental health. As part of its Wellness program, Atlantic Lottery partnered with Shepell and Queen's University to offer a Workplace Mental Health Leadership Certificate Program to 23 people leaders.

Employees are one of Atlantic Lottery's most valuable resources and critical to continued success. The organization is committed to investing in its employees and providing opportunities that reflect and support Atlantic Lottery's current business priorities.

People

Fostering a Learning Culture
Recognizing that strong organizational learning cultures contribute to increased employee performance, higher employee engagement, employee retention and significantly increased organizational performance, Atlantic Lottery invests in different ways to promote and realize a learning culture, using the 70/20/10 learning model:

- 70% experiential learning occurs through on-the-job experience, practice, projects, conversations and reflection.
- 20% informal social learning involves drawing information from co-workers, shared learnings, directly or peer-to-peer networking
- 10% refers to formal structured training which includes online, in-person, and/or self-directed learning.

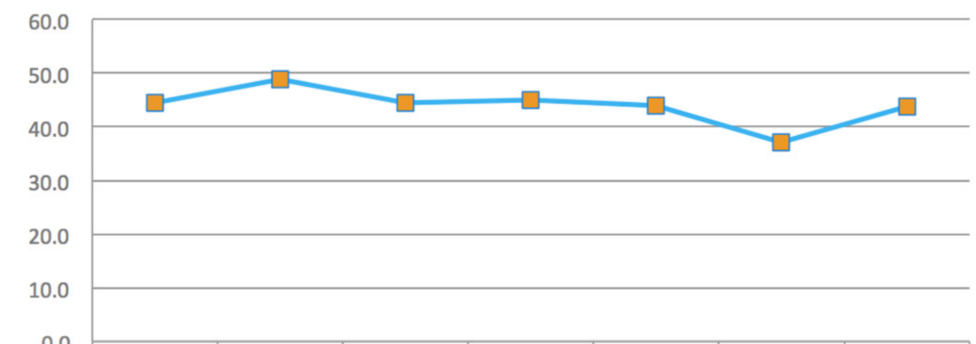
The corporate training options are aligned to support professional growth and Atlantic Lottery's strategy. Options include internal, self-paced training and development programs, professional memberships and job-specific certifications, and training for new skills development and competencies.

Compensation Philosophy
Atlantic Lottery believes its employees are some of the best in the industry, armed with solid skills and experience, augmented by their commitment to the business strategy and passion for the region. Atlantic Lottery is a commercially competitive agent of the Crown, and it is critical that it attracts and retains this talent through comparative compensation packages. To accomplish this, Atlantic Lottery's target is to be at the 50th percentile of a blend of public and commercial sector markets.

Atlantic Lottery's compensation philosophy is an integral and foundational part of the overall People Strategy. It offers a balanced mix of the different components of its total compensation program (i.e., base salary, short-term incentive, pension, benefits). A competitive salary structure allows Atlantic Lottery to access the expertise and experience required in key positions to enable the company to achieve responsible growth.

Performance based, it offers a structured approach to individual and corporate performance measurement, integrated with the performance planning process. Assessed annually against relevant comparator markets, it helps ensure ongoing market competitiveness. For more on compensation, please visit our website.

Employee Salaries and Benefits



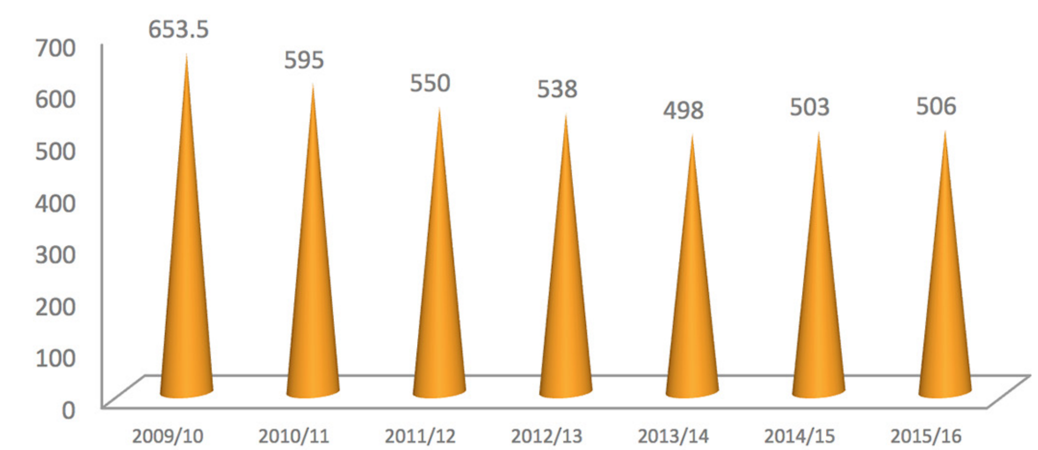
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Salaries & Benefits	44.5	48.9	44.5	45.0	44.0	37.1	43.7

Notes: *This metric is a combination of all salaries and benefits provided to employees. Benefits include all benefits (Pension, CPP, EI, WCB, etc.) and Group Health and Dental. Year-end results are $43.7M, below the budget of $44.4M. Salaries saw a gradual decline year-over-year with a slight increase in 2015/16 with the hire of information technology, project and leadership positions.*

Fiscal 2014/15 saw a larger decrease due to a favourable pension valuation (adjustment due to past service that reflected plan amendments made in 2013/14) as well as the elimination of the employee long service allowance. Fiscal 2015/16 also saw a higher short-term incentive payout due to over performance on the Corporate Balanced Scorecard.

Comparator market groups for both Atlantic Lottery executives and employees include National and Atlantic Broader Public Sector (BPS) and Commercial Industrial (CI) markets. For executive positions, the comparator market is 75% National BPS and 25% National CI weighting, at the 50th percentile. For all other positions, the comparator market is 75% Atlantic BPS and 25% Atlantic CI weighting, at the 50th percentile. The geographic difference for the comparator markets is due to the marketplace from which Atlantic Lottery recruits and loses its talent.

Full-time Equivalent



Notes: *This measure is the equivalent amount of employees working full-time hours. 2015/16 saw 506 full-time equivalent (Atlantic Lottery with 358 and Red Shores with 148), under the budget of 510 (Atlantic Lottery 362, and Red Shores 148). This is a slight increase over last year due to repatriation of information technology resources, which was offset by a voluntary retirement program.*

Future focused: Atlantic Lottery's Strategy Overview

Lottery and Gaming Industry Today

All successful businesses balance their time and attention on the state of their enterprise today and their future strategies and plans. Atlantic Lottery is no exception. The global lottery and gaming industry has been changing rapidly to keep pace with player preferences and the technologies that make meeting those preferences possible. The more Atlantic Lottery understands the trajectory of the industry, the more the company understands its players, and the more likely Atlantic Lottery is to make the right strategic choices and sound investments.

On a macro industry level, the lottery sector as well as the land based gambling sector are merging with the online gaming business, as consumer preferences change in line with technology and lifestyle evolutions. With increasing levels of connectivity around the world and the pervasiveness of computers, smart phones and tablets, a different generation of players is searching for more enhanced gaming and gambling experiences. Variables such as disruptive technologies, innovative delivery platforms, social gaming, digital entertainment, technology adoption rates, big data, and the internet of connected things will affect the nature and content of gaming, and will necessarily cause lotteries to adjust course if they are to remain relevant and sustainable.

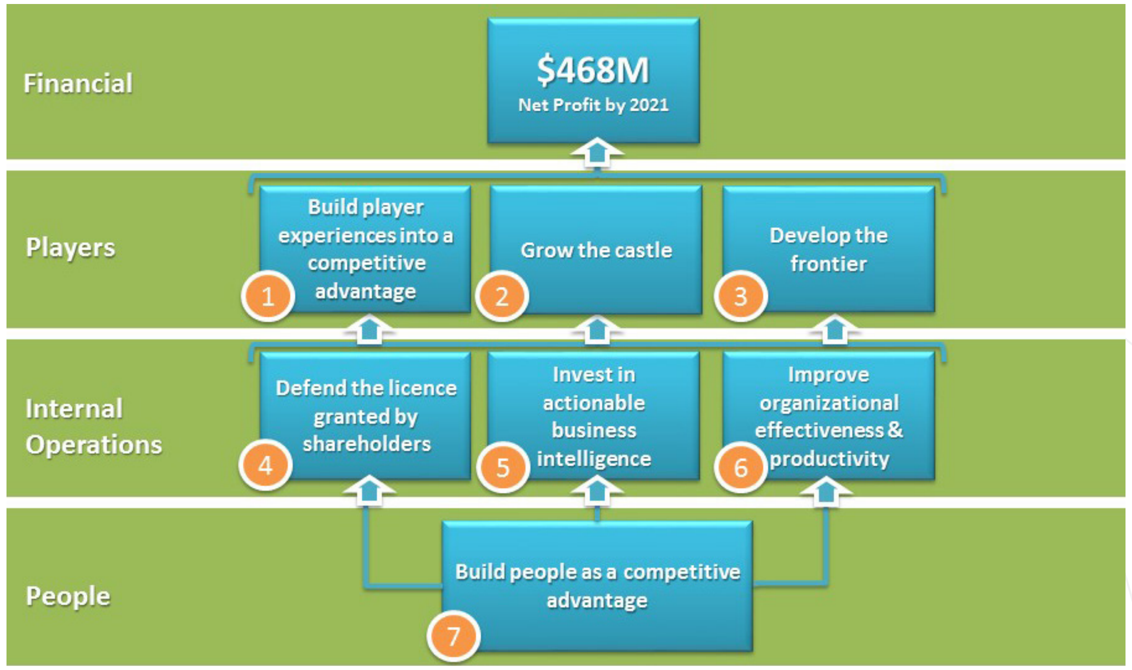
Like most entertainment businesses, lottery revenues are driven by the frequency and length of engagement with our products. When the economic climate in Atlantic Canada is weaker, we tend to see softness in our sales performance. While new games or higher jackpots may influence player engagement, factors that are outside of our control, such as employment and provincial GDP, may have a negative impact on our operations.

The economy was in good standing for much of fiscal year 2015/16; job growth began to soften around November. By the end of March, the economy had shed over 20,000 jobs, setting us up to start our 2016/17 fiscal year in a weaker economic environment compared to 2015/16.

Atlantic Lottery Strategic Approach

Balancing the short-term with the long-term presents three key challenges for Atlantic Lottery:

- How does the organization ensure that it's fulfilling its mandate of delivering a safe and responsible alternative for those Atlantic Canadians that choose to game?
- How does Atlantic Lottery responsibly optimize sales and develop products for its current market and player base?
- How does it engage with new players with new products to meet evolving preferences?



Future focused: Atlantic Lottery's Strategy Overview

The context of this strategy is based on many internal and external factors and continuous market analysis in order to strive towards Atlantic Lottery's vision of "Building a stronger Atlantic Canada, one player experience at a time". As a result, Atlantic Lottery's strategy focuses on achieving sustainable growth in, what is now, a very competitive industry. Atlantic Lottery's five-year strategy is defined under seven key pillars that will guide the organization through 2021:

1. Build player experiences into a competitive advantage:

Increased competition for the gaming dollar, technology changes and a new generation of players has transformed the gambling landscape entirely. Business sustainability depends on Atlantic Lottery's ability to differentiate its players' experiences from the competition. In addition, although its market position will continue to provide advantages in the short term, the comfort it once enjoyed has evaporated.

Only by understanding its player base and translating that understanding into game development and delivery, will Atlantic Lottery be able to achieve leadership in player experience. The right enabling technology coupled with operational agility are the means by which Atlantic Lottery is preparing itself for continuing its strong record as a competitive and commercial Crown Corporation.

2. Grow The Castle:

Players have many choices for their gaming dollar. With the influx of global operators - some legal and some not - players are migrating to other forms of gaming, which represents a loss for Atlantic Lottery and the region as a whole. That noted, Atlantic Lottery remains the dominant provider of gaming/gambling products with almost three quarters of Atlantic Canadians playing its games in any given year. This base of players operates within what the company defines as "The Castle". This player base is an asset that must be protected by providing the most relevant games available. More and more, these games will involve skill, entertainment and social engagement. Investment in new technologies and new game design to deliver entertaining and responsible games in the retail and online spaces is key. Simply put, reinvention and modernization of "The Castle", often in partnership with the four other Canadian lottery companies, is central to Atlantic Lottery's strategies.

3. Develop The Frontier:

While "The Castle" pursues plans regarding the reinvention and modernization of current products and experiences, "The Frontier" is an investment in R&D that will help adapt the overall business for the future. The focus is on: acquiring potential players, including those that are currently engaging with offshore, unregulated and illegal suppliers; embedding the discipline of entrepreneurship into Atlantic Lottery culture; and fixing player pain points through proven science. Experimentation will become the norm, speed will be a must, and external talent and teams will be commonplace. The entrepreneurial thinking, skills and resources to drive further innovation and development of "The Frontier" will be supplemented through key partnerships and collaborations with consultants, academic institutions and other lotteries.

4. Defend the licence granted by shareholders:

Atlantic Lottery has a longstanding reputation for delivering safe, responsible products. Through a long-standing commitment to transparency, Atlantic Lottery has been earning public trust in its operations over the past 40 years. Protecting the licence granted by shareholders centres on two basic principles: to ensure that Atlantic Canadians that choose to game have safe and responsible options, and that its operations are conducted efficiently to ensure the returns to shareholders are optimized. The company's story is one that can inspire citizens of the region to what can be achieved when working together, with the benefits helping to build a stronger Atlantic Canada. Atlantic Lottery is the region's lottery company. It is critically important for all Atlantic Canadians that the company is fully licensed to compete.

5. Invest in actionable business intelligence:

Informed and intelligent decision-making through the effective use of data and analysis is the foundation needed for delivering on critical objectives and strategies. Atlantic Lottery monitors, interprets and evaluates many types of data (examples transactional data, player, product and retailer data) related to business needs, priorities, and measures. Business intelligence also encompasses traditional research including player segmentation and product testing. Actionable business intelligence contributes to the company's knowledge of players and their preferences.

6. Improve organizational effectiveness & productivity:

Continued optimization of Atlantic Lottery's operations requires the business to be agile, innovative and cost efficient. It must continuously re-evaluate all its programs and products to ensure alignment with the company's clearly defined objectives. It must focus its resources, people, and capital on those initiatives of the highest priority and highest value, leveraging technology investments, vendors and key partnerships with other lotteries for efficiencies and opportunities that will increase productivity. It's operations must stand the test of benchmarking against like operations.

7. Build people as a competitive advantage:

Atlantic Lottery long ago determined that people are its way forward. The skills, talents, leadership abilities and passion for what they do have been, and are, the key to the company's ability to compete and win. Atlantic Lottery will invest in skills development, target strategic recruitment, and provide competitive total rewards to ensure the company is fully equipped to meet the challenges of the new gaming landscape. A deliberate focus on building a culture of performance through comprehensive change management is serving to involve and inspire employees in building Atlantic Lottery's future together.

Risk Management

Atlantic Lottery has developed a comprehensive enterprise risk management framework to guide the development of its long-term strategic planning process. As part of the go-forward approach, Atlantic Lottery is committed to addressing risk elements related to the following categories:

Competition:
Ensuring its products are relevant in the face of increased competition and in particular in the online space.

Player Insights:
Ensuring depth of understanding of the wants/desires of the market to drive Atlantic Lottery's ability to appeal to demographics outside of its core player base.

Organizational Culture:
Evolving employee capabilities, performance management systems and competitive total rewards to support the organization's ability to operate in the competitive landscape.

Market Size:
Establishing a framework for collaboration to realize the advantages associated with economies of scale.

Retail Distribution Channels:
Innovating the retail channels to maintain traditional core players and appeal to emerging demographics.

Revenue Diversity:
Diversifying the revenue streams to ensure sustainable earnings.

Organizational Skills:
Executing the learning and recruiting requirements and compensation philosophy to ensure the workforce possesses the skills necessary to realize the strategy.

Player Base:
Maintaining the player base and attracting players who are playing outside of the Atlantic Lottery offering with safe and responsible options.

Brand Appeal:
Leveraging the recognition of the brand to appeal or resonate with emerging markets/demographics.

Financial Highlights

	2015/2016	2014/2015*	2013/2014	2012/2013	2011/2012	2010/2011
Gross ticket sales	$732,749	$654,290	$671,286	$646,903	$626,991	$646,428
Prizes on ticket sales	406,493	369,602	$384,294	367,723	362,527	366,827
Net ticket sales	**$326,256**	**$284,688**	**$286,992**	**$279,180**	**$264,464**	**$279,601**
Prizes as % of sales	55%	56%	57%	57%	58%	57%
Net video lottery receipts	438,138	397,897	374,053	381,830	411,101	411,596
Entertainment centre revenue	18,520	17,766	19,988	19,320	19,162	15,002
Direct costs (commissions, tickets, game licensing)	150,095	137,791	138,958	140,425	145,529	148,632
Gross profit	**632,819**	**562,560**	**542,075**	**539,905**	**549,198**	**557,567**
Gross profit as % of net sales	81%	80%	80%	79%	79%	79%
Operating expenses	109,008	98,309	111,294	116,137	124,010	125,135
Operating expenses as % of net sales	14%	14%	16%	17%	18%	18%
Capital-related costs	38,774	32,550	29,884	30,585	23,602	24,872
Other expenses and distributions	53,458	63,485	32,460	32,123	31,899	36,426
Net profit	**$431,579**	**$368,216**	**$368,437**	**$361,060**	**$369,687**	**$371,134**
Net profit as % of net sales	55%	53%	54%	53%	53%	53%
Profit distribution:						
New Brunswick	$132,221	$119,552	$119,756	$119,733	$120,010	$121,823
Newfoundland and Labrador	148,474	128,886	122,744	113,728	107,805	106,393
Nova Scotia	132,963	113,167	110,574	112,227	126,957	129,808
Prince Edward Island	17,901	15,263	15,316	15,391	14,871	13,202
	$431,559	$376,868	$368,390	$361,129	$369,643	$371,226
Profit distribution per capita:						
New Brunswick	$216	$194	$194	$198	$200	$203
Newfoundland and Labrador	345	302	289	276	260	259
Nova Scotia	173	147	143	147	172	172
Prince Edward Island	154	130	129	136	136	142
Number of lottery retail terminals	3,003	3,035	3,018	2,990	3,004	3,018
Number of multi-purpose retail terminals	29	40	44	57	63	91
Number of video lottery terminals	6,901	6,906	6,981	6,934	6,957	7,102

* This table is based on Atlantic Lottery's consolidated financial statements
* Certain 2014-2015 figures have been reclassified to be consistent with the financial presentation adopted in the current year
* Figures are rounded
* $ in '000's

Provincial Net Profit

New Brunswick	TOTAL		TRADITIONAL		DESTINATION	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Gross ticket sales	184,152	164,462	182,581	163,024	1,571	1,438
Net video lottery receipts	135,205	128,827	-	-	135,205	128,827
Gross Revenue	319,357	293,289	182,581	163,024	136,776	130,265
Direct costs	137,347	126,476	112,310	102,623	25,037	23,853
Gross profit	182,010	166,813	70,271	60,401	111,739	106,412
Operating and other expenses	49,789	47,261	26,514	24,678	23,275	22,583
Net Profit	**$132,221**	**$119,552**	**$43,757**	**$35,723**	**$88,464**	**$83,829**

Newfoundland and Labrador	TOTAL		TRADITIONAL		DESTINATION	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Gross ticket sales	279,610	248,267	278,574	247,347	1,036	920
Net video lottery receipts	147,041	134,237	-	-	147,041	134,237
Gross revenue	426,651	382,504	278,574	247,347	148,077	135,157
Direct costs	221,060	200,757	186,902	169,412	34,158	31,345
Gross profit	205,591	181,747	91,672	77,935	113,919	103,812
Operating and other expenses	57,117	52,861	33,386	30,517	23,731	22,344
Net Profit	**$148,474**	**$128,886**	**$58,286**	**$47,418**	**$90,188**	**$81,468**

Nova Scotia	TOTAL		TRADITIONAL		DESTINATION	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Gross ticket sales	231,373	208,357	230,117	207,548	1,256	809
Net video lottery receipts	136,771	117,598	-	-	136,771	117,598
Gross revenue	368,144	325,955	230,117	207,548	138,027	118,407
Direct costs	168,190	153,480	143,608	131,460	24,582	22,020
Gross profit	199,954	172,475	86,509	76,088	113,445	96,387
Operating and other expenses	66,991	59,308	33,543	31,145	33,448	28,163
Net Profit	**$132,963**	**$113,167**	**$52,966**	**$44,943**	**$79,997**	**$68,224**

Prince Edward Island	TOTAL		TRADITIONAL		DESTINATION	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Gross ticket sales	37,614	33,204	36,561	32,510	1,053	694
Net video lottery receipts	19,121	17,235	-	-	19,121	17,235
Entertainment centre revenue	18,520	17,766	-	-	18,520	17,766
Gross revenue	75,255	68,205	36,561	32,510	38,694	35,695
Direct costs	29,991	26,680	23,739	21,160	6,252	5,520
Gross profit	45,264	41,525	12,822	11,350	32,442	30,175
Operating and other expenses	27,363	26,262	6,834	6,821	20,529	19,441
Net Profit	**$17,901**	**$15,263**	**$5,988**	**$4,529**	**$11,913**	**$10,734**

Corporate Total	TOTAL		TRADITIONAL		DESTINATION	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Gross ticket sales	732,749	654,290	727,833	650,429	4,916	3,861
Net video lottery receipts	438,138	397,897	-	-	438,138	397,897
Entertainment centre revenue	18,520	17,766	-	-	18,520	17,766
Gross revenue	1,189,407	1,069,953	727,833	650,429	461,574	419,524
Direct costs	556,588	507,393	466,559	424,655	90,029	82,738
Gross profit	632,819	562,560	261,274	225,774	371,545	336,786
Operating and other expenses	201,260	185,692	100,277	93,161	100,983	92,531
Net Profit	**$431,559**	**$376,868**	**$160,997**	**$132,613**	**$270,562**	**$244,255**

* This table is based on Atlantic Lottery's non-consolidated financial statements
* Certain 2014-2015 figures have been reclassified to be consistent with the financial presentation adopted in the current year
* Figures are rounded
* $ in '000's

Consolidated Financial Statements

Atlantic Lottery Corporation Inc.

March 31, 2016

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, 2016 and the consolidated statements of operations, comprehensive income, changes in deficiency 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 International Financial Reporting Standards, 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, 2016, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Saint John, Canada,
June 9, 2016

Chartered Professional 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 **Atlantic Lottery Corporation Inc.** They have been approved by its Board of Directors.

Management prepared the consolidated financial statements in accordance with International Financial Reporting Standards. The financial information contained in the Annual Report is consistent with the data presented in the consolidated financial statements.

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
President & CEO

Patrick Daigle, CPA, CA
CFO

ATLANTIC LOTTERY CORPORATION INC.
CONSOLIDATED BALANCE SHEET
AS AT MARCH 31
[In thousands of dollars]

		2016		2015
ASSETS				
Current				
Cash *[note 5]*	**$**	**5,946**	$	4,573
Restricted prize cash *[note 5]*		**19,552**		18,812
Accounts receivable *[note 6]*		**17,912**		25,877
Prepaid expenses and deposits		**16,544**		15,839
Inventory *[note 7]*		**6,176**		4,765
		66,130		69,866
Property and equipment *[note 8]*		**107,618**		108,024
Intangibles *[note 9]*		**57,130**		51,907
Employee future pension benefits *[note 17]*		**10,915**		-
TOTAL ASSETS	**$**	**241,793**	$	229,797
LIABILITIES				
Current				
Line of credit *[note 10]*	**$**	**22,088**	$	24,239
Accounts payable and accrued liabilities *[note 11]*		**37,010**		17,339
Deferred revenue		**2,758**		2,326
Liabilities for unclaimed prizes *[note 12]*		**19,552**		18,812
Due to shareholders *[note 13]*		**2,998**		11,246
Current portion of long-term debt *[note 14]*		**96,481**		100,989
Current portion of long-term lease payable *[note 15]*		**393**		378
		181,280		175,329
Employee future pension benefits *[note 17]*		**-**		6,300
Employee future other post-employment benefits *[note 17]*		**12,940**		11,177
Long-term debt *[note 14]*		**53,490**		69,508
Long-term lease payable *[note 15]*		**111**		504
Other long-term liabilities		**2,615**		3,169
		69,156		90,658
SHAREHOLDERS' DEFICIENCY				
Share capital *[note 19]*		**1**		1
Accumulated other comprehensive (loss)		**(1,906)**		(2,485)
Deficit		**(6,738)**		(33,706)
		(8,643)		(36,190)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	**$**	**241,793**	$	229,797

Commitments *[note 22]*

See accompanying notes

On behalf of the Board

Robert Mackinnon Director

Director

ATLANTIC LOTTERY CORPORATION INC.
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31
[In thousands of dollars]

		2016		2015
Revenue				
Gross ticket sales	**$**	**732,749**	$	654,290
Net video lottery receipts		**438,138**		397,897
Entertainment center revenue		**18,520**		17,766
		1,189,407		1,069,953
Prizes on ticket sales		**406,493**		369,602
Net revenue		**782,914**		700,351
Direct expenses				
Commissions		**136,660**		125,412
Ticket printing		**10,776**		10,344
Other direct cost		**2,659**		2,035
		150,095		137,791
Gross profit		**632,819**		562,560
Expenses				
Operating and administrative expenses		**109,008**		98,309
Depreciation and impairment *[note 8 and 9]*		**38,774**		32,550
Interest *[note 10, 14 and 15]*		**3,407**		4,234
		151,189		135,093
Profit before the following		**481,630**		427,467
Other (income) expenses		**(295)**		2,578
Loss on impairment of investment		**-**		8,681
Taxes *[note 21]*		**45,838**		43,521
Payments to the Government of Canada *[note 20]*		**4,508**		4,471
		50,051		59,251
Net profit	**$**	**431,579**	$	368,216

See accompanying notes

ATLANTIC LOTTERY CORPORATION INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31
[In thousands of dollars]

		2016		2015
Net profit	**$**	**431,579**	$	368,216
Other comprehensive income (loss)				
Mark-to-market gains (losses) on derivative instruments designated and qualifying as cash flow hedges				
Change in fair value *[note 16]*		**579**		(3,453)
Employee future benefits				
Change in actuarial assumptions *[note 17]*		**4,171**		(4,277)
Other comprehensive income (loss)		**4,750**		(7,730)
Comprehensive income	**$**	**436,329**	$	360,486

See accompanying notes

ATLANTIC LOTTERY CORPORATION INC.
CONSOLIDATED STATEMENT OF CHANGES IN DEFICIENCY
AS AT MARCH 31
[In thousands of dollars]

	Share capital	**Accumulated other comprehensive income (loss)**	**Deficit**	**2016 Total shareholders' deficiency**
Balance, beginning of year	**$ 1**	**$ (2,485)**	**$ (33,706)**	**$ (36,190)**
Net profit	**-**	**-**	**431,579**	**431,579**
Other comprehensive income (loss)	**-**	**579**	**4,171**	**4,750**
Comprehensive income	**-**	**579**	**435,750**	**436,329**
Distribution of profit to shareholders *[note 13]*				
New Brunswick Lotteries and Gaming Corporation	**-**	**-**	**(124,137)**	**(124,137)**
Province of Newfoundland and Labrador	**-**	**-**	**(144,784)**	**(144,784)**
Nova Scotia Provincial Lotteries and Casino Corporation	**-**	**-**	**(128,199)**	**(128,199)**
Prince Edward Island Lotteries Commission	**-**	**-**	**(11,662)**	**(11,662)**
Total profit allocated to shareholders	**-**	**-**	**(408,782)**	**(408,782)**
Balance, end of year	**$ 1**	**$ (1,906)**	**$ (6,738)**	**$ (8,643)**

	Share capital	Accumulated other comprehensive income (loss)	Deficit	2015 Total shareholders' deficiency
Balance, beginning of year	$ 1	$ 968	$ (34,873)	$ (33,904)
Net profit	-	-	368,216	368,216
Other comprehensive (loss) income	-	(3,453)	(4,277)	(7,730)
Comprehensive income	-	(3,453)	363,939	360,486
Distribution of profit to shareholders *[note 13]*				
New Brunswick Lotteries and Gaming Corporation	-	-	(115,809)	(115,809)
Province of Newfoundland and Labrador	-	-	(125,196)	(125,196)
Nova Scotia Provincial Lotteries and Casino Corporation	-	-	(108,403)	(108,403)
Prince Edward Island Lotteries Commission	-	-	(13,364)	(13,364)
Total profit allocated to shareholders	-	-	(362,772)	(362,772)
Balance, end of year	$ 1	$ (2,485)	$ (33,706)	$ (36,190)

See accompanying notes

ATLANTIC LOTTERY CORPORATION INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31
[In thousands of dollars]

		2016		2015
Cash provided by (used in)				
Operating activities				
Net profit	**$**	**431,579**	$	368,216
Add (deduct) non-cash items:				
Depreciation *[note 8 and 9]*		**38,774**		32,653
Loss on disposal of property and equipment		**207**		3,209
Impairment of long-lived assets *[note 8 and 9]*		**-**		(103)
Impairment of investment		**-**		8,681
Other comprehensive income (loss)		**4,750**		(7,730)
		475,310		404,926
Net change in non-cash components of working capital *[note 23]*		**18,444**		(18,552)
Decrease in employee future benefits		**(15,452)**		(11,427)
		478,302		374,947
Investing activities				
Purchase of property and equipment		**(24,558)**		(7,444)
Purchase of intangibles		**(19,626)**		(10,223)
Proceeds on disposal of property and equipment		**386**		1,825
		(43,798)		(15,842)
Financing activities				
Increase (decrease) in line of credit		**(2,151)**		9,299
Proceeds of long-term debt		**282,362**		260,224
Repayment of long-term debt		**(302,888)**		(268,573)
Repayment of long-term lease payable		**(378)**		(938)
Increase (decrease) in other long-term liabilities		**(554)**		3,632
		(23,609)		3,644
Distribution to shareholders *[note 13]*		**(408,782)**		(362,772)
Increase (decrease) in cash		**2,113**		(23)
Cash, beginning of year		**23,385**		23,408
Cash, end of year *[note 5]*	**$**	**25,498**	$	23,385

See accompanying notes

1. NATURE OF OPERATIONS

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 Provincial Lotteries and Casino Corporation, and Prince Edward Island Lotteries Commission. The registered office of the Corporation is located at 922 Main Street in Moncton, New Brunswick, Canada.

The profit of the Corporation is distributed twice monthly 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 Provincial Lotteries and Casino Corporation [“NSPLCC”].

The Corporation has entered into a formal operating agent agreement [“Agreement”] with NSPLCC that requires the Corporation to obtain the prior approval of NSPLCC 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 NSPLCC, and that all liabilities incurred to acquire those assets are also the liabilities of NSPLCC. In the case of the Agreement being cancelled, the Corporation has a 24 month period to transfer all assets and liabilities related to the lottery schemes in Nova Scotia to NSPLCC. However, these assets and liabilities related to the Nova Scotia lottery activities are included on the Corporation’s consolidated balance sheet, because NSPLCC does not have the intent to cancel the Agreement and therefore the Corporation’s expectation is that the economic benefit of all the acquired assets will stay with the Corporation over their entire useful lives.

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. Also, these provinces currently do not have the intent to cancel the agreements and therefore all assets and liabilities related to the lottery operations in these provinces are also recorded with the same assumption in the Corporation’s consolidated financial statements.

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 NSPLCC.

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 preparation
The consolidated financial statements of the Corporation for the year ended March 31, 2016 were authorized for issue by the Board of Directors on June 9, 2016.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Basis of measurement
These consolidated financial statements were prepared on a going concern basis, under the historical cost basis, except for derivative financial instruments that have been measured at fair value.

Statement of compliance
The consolidated financial statements of the Corporation and its subsidiaries for the year ended March 31, 2016 have been prepared in accordance with International Financial Reporting Standards [“IFRS”] and interpretations adopted by the International Accounting Standards Board [“IASB”].

Functional and presentation currency
The consolidated financial statements are presented in Canadian dollars, which is the Corporation’s functional currency. All dollar values are rounded to the nearest thousandth dollar ($’000), except for per share amounts.

Basis of consolidation
The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Atlantic Gaming Equipment Limited, and 7865813 Canada Inc. The financial statements of the subsidiaries are prepared for the same reporting period as the consolidated financial statements of the Corporation, using consistent accounting policies.

The subsidiaries are fully consolidated from the date of acquisition, being the date at which the Corporation obtains control, and continue to be consolidated until the date that such control ceases.

All inter-Corporation balances, transactions, income and expenses, and profits and losses, including dividends resulting from inter-Corporation transactions, are eliminated in full.

Cash and restricted prize cash
Cash and restricted prize cash in the consolidated balance sheet comprise cash at banks and on hand.

For the purpose of the consolidated statement of cash flows, cash and restricted prize cash consist of cash, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Corporation’s cash management.

Pursuant to provincial regulations the Corporation maintains restricted cash accounts in an amount equivalent to current game liabilities. Withdrawals from these accounts are restricted to payment of prizes [note 12].

Funds held for alc.ca wallets represent funds provided to the Corporation through player wallets on alc.ca. These amounts are deposited into a separate bank account and are internally restricted by the Corporation exclusively for funding the alc.ca wallet liability.

Inventory
Inventory consists of lottery tickets [Scratch’N Win and Breakopen], food and beverage consumables, and restaurant and merchandise supplies. Inventory is valued at the lower of cost, determined on an average cost basis, and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as purchase costs on an average cost basis.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Property and equipment
Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the assets. Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All other repair and maintenance expenses are charged to the consolidated statement of operations as incurred. Borrowing costs, internal salaries and travel costs related to the acquisition, construction or production of qualifying assets, are capitalized.

Land and assets not ready for use are not depreciated. Depreciation on other assets is charged to the consolidated statement of operations based on cost, less estimated residual value, on a straight-line basis over the estimated useful lives of the assets. The Corporation is using the following useful lives for the different asset categories:

Asset	Useful life
Building	7 to 50 years
Automotive	4 years
Operational and gaming equipment	3 to 24 years
Finance lease	Lease term
Leasehold improvements	Lease term

If the costs of a certain component of property and equipment are significant in relation to the total cost of the item, these costs are accounted for and depreciated separately.

The assets' residual values, useful lives and methods of depreciation are reviewed annually, and adjusted prospectively, if appropriate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset [calculated as the difference between the net disposal proceeds and the carrying amount of the asset] is included in the consolidated statement of operations in the year the asset is derecognized.

Pre-opening costs are expensed to the consolidated statement of operations as incurred.

Intangible assets

Intangible assets acquired separately
Acquired intangible assets are primarily software, patents and licenses on technologies. Intangible assets acquired separately are carried at cost less accumulated amortization and/or impairment losses. Amortization is charged to the consolidated statement of operations on a straight-line basis over their estimated useful lives as follows:

Asset	Useful life
Software licenses	3 to 15 years
Computer software	3 to 15 years
Gaming software	3 to 7 years
Finance lease	Lease term

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

The Corporation only has intangible assets acquired with a finite useful life. The estimated useful lives and amortization methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of operations in the expense category consistent with the function of the intangible asset. Intangible assets not ready for use are not amortized.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of operations when the asset is derecognized.

Internally generated intangible assets - research and development expenditures
Expenditure on research activities is recognized as an expense in the period in which it is incurred. Development costs relating primarily to the development of new gaming or lottery software or internet websites used for purposes of selling the Corporation's services are recognized as an intangible asset when the Corporation can demonstrate that the following conditions required by International Accounting Standards ["IAS"] 38, *Intangible Assets* are met:

- the asset is identifiable and will generate expected future economic benefits; and
- the cost can be determined reliably.

The amount initially recognized for internally generated intangible assets is the sum of the acquisition and manufacturing costs that can be directly attributed to the development process as well as a reasonable portion of the development-related fixed costs. If the internally generated intangible asset does not meet the conditions of IAS 38, the development expenditure is recognized in profit or loss in the period during which it was incurred. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and/or accumulated impairment losses. Amortization of the asset begins when the development is complete and the asset is available for use. It is amortized over the period of expected future benefit on a straight-line basis. The current useful lives applied are as follows:

Asset	**Useful life**
Software licenses	3 to 15 years
Computer software	3 to 15 years
Gaming software	3 to 7 years

During the period of development, the intangible asset is tested for impairment annually.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period during which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Corporation as a lessee

Finance leases, which transfer to the Corporation substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the lower of fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statement of operations.

Leased assets are depreciated on the same basis as owned assets over the useful lives of the assets. However, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognized as an expense in the consolidated statement of operations on a straight-line basis over the lease term.

Impairment of financial assets

The Corporation assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, the Corporation estimates the asset's fair market value. An asset's fair market value can be measured via recent market transactions or discounted cash flow model. If the carrying amount is lower than the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, impairment of that amount exists.

Impairment losses are recognized in the consolidated statement of operations in those expense categories consistent with the function of the impaired asset.

Impairment of non-financial assets

The Corporation assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the fair value of an asset or cash-generating unit ["CGU"] less costs to sell, and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are recognized in the consolidated statement of operations in those expense categories consistent with the function of the impaired asset.

For previously impaired assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Provisions
Provisions are recognized when the Corporation has a present obligation [legal or constructive] as a result of a past event, and the costs to settle the obligation are both probable and able to be reliably measured. Where the Corporation expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of operations net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. The Corporation has recorded provisions for sick leave and asset decommissioning.

Pensions and other post-employment benefits
The Corporation participates in a multiple-employer defined benefit contributory pension plan. The Corporation also provides certain post-employment healthcare benefits, life insurance and ad-hoc supplementary pensions.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial gains and losses are recognized as income or expense in other comprehensive income immediately in the period when they occur.

The past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognized immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds, as explained in note 17 less past service costs and (for the pension obligation) less the fair value of plan assets, out of which the obligations are to be settled. Plan assets are not available to the creditors of the Corporation, nor can they be paid directly to the Corporation. Fair value is based on market price information and, in the case of quoted securities, is the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Financial instruments

Initial recognition and measurement
The Corporation at initial recognition designates its financial assets either as (i) financial assets at fair value through profit or loss, (ii) loans and receivables, or as (iii) available for sale. Financial liabilities are classified as (i) fair value through profit or loss, (ii) financial liabilities at amortized cost, or as (iii) derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial instruments are initially measured at fair value plus, in the case of financial assets not recognized at fair value through profit or loss, directly attributable transaction costs.

The Corporation's financial assets include cash, restricted prize cash, accounts receivable, due from shareholders, and investments.

The Corporation's financial liabilities include line of credit, accounts payable and accrued liabilities, liabilities for unclaimed prizes, due to shareholders, long-term debt, long-term lease payable and other long-term liabilities, including derivative instruments.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Subsequent measurement of financial assets
The subsequent measurement of financial assets depends on their classification, as follows:

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by IAS 39, *Financial instruments: recognition and measurement*, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the consolidated balance sheet at fair value with changes in fair value recognized in other expenses (income) or interest expense in the consolidated statement of operations.

The Corporation has not designated any financial assets upon initial recognition as at fair value through profit or loss.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method [“EIR”], less impairment. The losses arising from impairment are recognized in the consolidated statement of operations in depreciation and impairment expense.

Securities in this category include cash, restricted prize cash, accounts receivable, and due from shareholders.

Derecognition
A financial asset [or, where applicable, a part of a financial asset or part of a group of similar financial assets] is derecognized when the rights to receive cash flows from the asset have expired or the Corporation has transferred its rights to receive cash flows from the asset.

<u>Impairment of financial assets</u>
The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset [an incurred “loss event”] and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

For financial assets carried at amortized cost, the Corporation first assesses individually whether objective evidence of impairment exists, individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which impairment losses are, or continue to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows [excluding future expected credit losses that have not yet been incurred].

Subsequent measurement of financial liabilities
The measurement of financial liabilities depends on their classification, as follows:

i. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of operations. The Corporation has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

ii. Financial liabilities at amortized cost

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of operations when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in other expenses (income) in the consolidated statement of operations.

Financial liabilities classified in this category include line of credit, accounts payable and accrued liabilities, liabilities for unclaimed prizes, due to shareholder, long-term debt, and long-term lease payable.

iii. Derivatives designated as hedging instruments in an effective hedge

The Corporation uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and is subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Interest rate swaps when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or highly probable forecast transactions are classified as cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income, while the ineffective portion is recognized in the consolidated statement of operations in other expenses (income).

Amounts taken to other comprehensive income are transferred to the consolidated statement of operations when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs.

If the forecasted transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the consolidated statement of operations. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

The Corporation uses interest rate swaps to hedge the volatility of variable interest payments to a fixed interest rate over the term of the respective debt.

Financial liabilities classified in this category include other long-term liabilities.

Current versus non-current classification
Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances [i.e., the underlying contracted cash flows].

- Where the Corporation will hold a derivative as an economic hedge [and does not apply hedge accounting] for a period beyond 12 months after the reporting date, the derivative is classified as non-current [or separated into current and non-current portions] consistent with the classification of the underlying item.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of operations.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations [bid price for long positions and ask price for short positions], without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Revenue recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, free tickets and pari-mutuel commissions. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as the principal or agent. The Corporation has concluded that it is acting as principal in all of its revenue arrangements. In each of the revenue categories, the following specific recognition criteria must also be met before revenue is recognized:

Gross ticket sales

Lottery revenue
Lottery revenue and the corresponding direct expenses are recognized on the draw date. Receipts for lottery tickets sold before March 31 for draws held subsequent to that date are recorded as deferred revenue.

Instant ticket revenue
Revenue from instant ticket games and the corresponding direct expenses are recognized at the time of activation, which determines the transfer of legal ownership to the retailer.

Interactive revenue
Revenue from interactive games and the corresponding direct expense are recognized at the time of play.

Net video lottery receipts
Revenue from video lottery and the corresponding direct expenses are recognized at the time of play and are recorded net of credits paid out.

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

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

The Corporation operates a loyalty points program at its Entertainment centre, which allows players to accumulate points at the time of play. The points can then be redeemed for products. Consideration received is allocated between the Entertainment centre revenue and the points issued, with the consideration allocated to the points equal to their fair value. The fair value of the points is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Prize expense
Prize expense for draw-based games is recorded based on the actual prize liability experienced for each online game at the time of the draw. All obligations for prizes from these drawings are recorded as liabilities for unclaimed prizes on the consolidated balance sheet.

Instant ticket prizes are recognized as a percentage of ticket sales in line with the theoretical prize payout for that game.

Video lottery and interactive game prizes are based on the actual prizes won for each individual game, at the point at which the sale occurs.

In addition to cash prizes, the Corporation also awards free tickets. The value ascribed to these prizes is equal to the sale price.

Interest income
For all financial instruments measured at amortized cost, interest income or expense is recorded using the EIR, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in other income in the consolidated statement of operations.

Sales tax
As a prescribed registrant, the Corporation makes GST/HST remittances to the Federal Government pursuant to the Games of Chance Regulations of the *Excise Tax Act*. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities. The net tax attributable to gaming activities results in a tax burden of two times the GST/HST rate on most taxable gaming expenditures incurred by the Corporation *[note 21]*. HST is paid in New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island at their respective HST rates.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

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

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

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 *[note 20]*.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Corporation's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts recognized in the consolidated financial statements of the Corporation are discussed below.

Determination of useful lives for tangible and intangible assets
The Corporation has based the determination of the useful lives for its tangible and intangible assets on a detailed review of all empirical data for the different asset classes and also used the knowledge of the appropriate operations people to conclude on the useful lives. Furthermore, the Corporation, at least annually, updates whether the current applied useful lives are still valid for the different asset classes. Any external or internal changes in the Corporation's environment may result in an impact on the expectation of the useful lives of certain assets and hence a triggering event to reconsider the expectation of the useful lives.

Impairment of financial assets
Impairment exists when the enterprise value of an asset exceeds its fair market value. Fair market value can be measured via recent market transactions or discounted cash flow model. The cash flows are derived from the budget for the next five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Impairment of non-financial assets
Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGU, including a sensitivity analysis, are further explained in notes 8 and 9.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS [Continued]

Employee future benefits
The cost of defined benefit pension plans and other post-employment benefits, and the present value of the pension and other post-employment benefits obligations, are determined using actuarial valuations. An actuarial valuation involves making various assumptions.

These key assumptions include the determination of the discount rate, future salary increases, mortality rates, health care trend rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details about the assumptions used are given in note 17.

Development costs
Development costs are capitalized in accordance with the accounting policy in note 2 "Intangible assets". Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. As at March 31, 2016, the amount of capitalized development costs was $2,718 [2015 - $9,596].

Capitalized development costs are primarily for the customization, implementation and testing of new gaming software solutions and of web sites offering information about games to the Corporation's customers, but also to place an order on the web site resulting in revenue for the Corporation. During the development of these new gaming software solutions and the revenue orientated web sites, there is some uncertainty, if these tools will be finally accepted by the market and will generate sufficient revenue. However, based on the Corporation's market research and review of other markets where these or similar solutions were already implemented, the Corporation's management is confident that the capitalized development costs will result in sufficient future benefits to cover the capitalized costs.

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities [especially derivative financial instruments like interest rate swaps] recorded on the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Revenue recognition – Player Loyalty Program
The Corporation estimates the fair value of points awarded under the Player Loyalty Program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences. Points issued under the program have a one year expiration period. As at March 31, 2016, the estimated liability for unredeemed points was approximately $55 [2015 - $9].

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Corporation's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Corporation reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Corporation intends to adopt these standards when they become effective.

IFRS 9, *Financial Instruments*
IFRS 9 will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For hedge accounting, IFRS 9 uses an objectives-based test to determine hedge effectiveness, amends how the risk component may be designated as the hedged item and changes the accounting for certain costs that can be excluded from the designation of a financial instrument as a hedging item. The Corporation is currently evaluating the impact of IFRS 9 on its future financial statements. IFRS 9 was issued by the IASB in November 2009 with amendments, primarily relating to hedge accounting, issued in November 2013. IFRS 9 is effective for annual periods beginning on or after January 2018, with early adoption permitted. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Corporation's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Corporation will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16, *Leases*
IFRS 16 was issued in January 2016 with the objective to prescribe the accounting policies and disclosures applicable to leases, both for lessees and lessors. The standard provides a single lessee model, requiring lessees to recognize most leases on the balance sheet while current lessor accounting will be essentially unchanged. IFRS 16 was issued in January 2016 and is effective January 1, 2019 with early application permitted. The Corporation is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

March 31, 2016 [thousands of dollars]

5. CASH

Cash is represented by cash on hand and bank balances, less outstanding cheques.

	2016	2015
Cash	**$ 5,946**	$ 4,573
Restricted prize cash	**19,552**	18,812
Total cash	**$ 25,498**	$ 23,385

The Corporation has a cash balance of $895 [2015 - $836] to fund player wallets.

6. ACCOUNTS RECEIVABLE

	2016	2015
Lottery retailers	**$ 10,939**	$ 20,596
Taxes receivable	**2,089**	-
Other	**4,884**	5,281
Total accounts receivable	**$ 17,912**	$ 25,877

Lottery retailers' receivables are collected on a weekly basis. The Corporation had bad debt expense of $118 [2015 - $96] related to lottery retailer receivables.

7. INVENTORY

	2016	2015
Ticket stock	**$ 6,084**	$ 4,637
Food and beverage	**69**	128
Restaurant and merchandise	**23**	-
Total inventory	**$ 6,176**	$ 4,765

During the year, the Corporation recorded inventory write-offs in the amount of $592 [2015 - $619].

March 31, 2016 [thousands of dollars]

8. PROPERTY AND EQUIPMENT

	Land	Building	Automotive	Operational and gaming equipment	Finance lease	Leasehold improvements	Not ready for use	Total
Cost or valuation:								
As at March 31, 2014	$ 1,807	$ 22,061	$ 2,041	$ 162,639	$ 5,120	$ 9,429	$ 31,014	$ 234,111
Additions	-	895	445	6,001	-	88	15	7,444
Transfers	-	12	-	31,105	-	23	(30,142)	998
Disposals	(100)	(3,800)	(277)	(55,183)	-	(1,164)	(11)	(60,535)
As at March 31, 2015	1,707	19,168	2,209	144,562	5,120	8,376	876	182,018
Additions	**-**	**73**	**889**	**1,041**	**-**	**20**	**22,535**	**24,558**
Transfers	**-**	**70**	**-**	**7,163**	**-**	**101**	**(7,191)**	**143**
Disposals	**-**	**(120)**	**(1,194)**	**(4,880)**	**-**	**(15)**	**-**	**(6,209)**
As at March 31, 2016	**$ 1,707**	**$ 19,191**	**$ 1,904**	**$ 147,886**	**$ 5,120**	**$ 8,482**	**$ 16,220**	**$ 200,510**
Depreciation and impairment:								
As at March 31, 2014	$ -	$ 9,157	$ 1,032	$ 90,473	$ 5,006	$ 6,349	$ -	$ 112,017
Depreciation for the year	-	887	385	18,492	114	465	-	20,343
Transfers	-	2	-	105	-	23	-	130
Disposals	-	(2,730)	(210)	(54,404)	-	(1,152)	-	(58,496)
As at March 31, 2015	-	7,316	1,207	54,666	5,120	5,685	-	73,994
Depreciation for the year	**-**	**812**	**337**	**22,931**	**-**	**463**	**-**	**24,543**
Disposals	**-**	**(57)**	**(851)**	**(4,722)**	**-**	**(15)**	**-**	**(5,645)**
As at March 31, 2016	**$ -**	**$ 8,071**	**$ 693**	**$ 72,875**	**$ 5,120**	**$ 6,133**	**$ -**	**$ 92,892**
Net book value:								
As at March 31, 2016	**$ 1,707**	**$ 11,120**	**$ 1,211**	**$ 75,011**	**$ -**	**$ 2,349**	**$ 16,220**	**$ 107,618**
As at March 31, 2015	$ 1,707	$ 11,852	$ 1,002	$ 89,896	$ -	$ 2,691	$ 876	$ 108,024

During the year, the Corporation carried out a review of the recoverable amount of assets and did not identify any impairment [2015 - nil]. The recoverable amount was measured by a comparison of the carrying amount of an asset to estimated future cash flows expected to be generated by the CGU. The discount rate utilized was 2.2%-2.5% per annum [2015 - 2.5%].

As at March 31, 2016, assets classified as not ready for use had $7,288 for gaming equipment [2015 - $152]; $8,706 was for computer equipment not yet in use [2015 - $717]; $7 was for borrowing costs on computer equipment not yet in use [2015 - $7]; and $219 was for building and leasehold improvements not yet in use [2015 - nil].

Assets classified as finance lease are comprised of computer hardware long-term lease disclosed in note 15.

March 31, 2016 [thousands of dollars]

9. INTANGIBLES

	Software licenses	Computer software	Gaming software	Finance lease	Not ready for use	Total
Cost:						
As at March 31, 2014	$ 66,781	$ 5,110	$ 29,430	$ 7,128	$ 26,429	$ 134,878
Additions	3,536	31	512	-	6,144	10,223
Transfers	13,171	698	6,528	-	(21,395)	(998)
Disposals	(12,644)	-	(14,481)	-	(1,446)	(28,571)
Disposals of impairment	(2,720)	-	-	-	(1,250)	(3,970)
As at March 31, 2015	68,124	5,839	21,989	7,128	8,482	111,562
Additions	**1,117**	**-**	**19**	**-**	**18,490**	**19,626**
Transfers	**16,474**	**-**	**13**	**-**	**(16,630)**	**(143)**
Disposals	**(8,214)**	**-**	**(737)**	**-**	**-**	**(8,951)**
As at March 31, 2016	**$ 77,501**	**$ 5,839**	**$ 21,284**	**$ 7,128**	**$ 10,342**	**$ 122,094**
Amortization and impairment:						
As at March 31, 2014	$ 49,698	$ 2,987	$ 17,750	$ 5,439	$ 1,250	$ 77,124
Amortization	7,571	960	2,882	897	-	12,310
Impairment (recovery)	(103)	-	-	-	-	(103)
Transfers	(388)	258	-	-	-	(130)
Disposals	(11,152)	-	(14,424)	-	-	(25,576)
Disposals of impairment	(2,720)	-	-	-	(1,250)	(3,970)
As at March 31, 2015	42,906	4,205	6,208	6,336	-	59,655
Amortization	**8,494**	**1,029**	**4,327**	**381**	**-**	**14,231**
Disposals	**(8,210)**	**-**	**(712)**	**-**	**-**	**(8,922)**
As at March 31, 2016	**$ 43,190**	**$ 5,234**	**$ 9,823**	**$ 6,717**	**$ -**	**$ 64,964**
Net book value:						
As at March 31, 2016	**$ 34,311**	**$ 605**	**$ 11,461**	**$ 411**	**$ 10,342**	**$ 57,130**
As at March 31, 2015	$ 25,218	$ 1,634	$ 15,781	$ 792	$ 8,482	$ 51,907

The above includes internally developed additions of $2,718 [2015 - $1,573], transfers of ($105) [2015 - nil], impairments of nil [2015 - $6], and disposals of ($102) [2015 - ($7,069)].

During the year, the Corporation carried out a review of the recoverable amount of intangibles, which did not lead to any recognition of impairment [2015 - ($103)]. The recoverable amount was measured by a comparison of the carrying amount of an asset to estimated future cash flows expected to be generated by the CGU. The discount rate utilized was 2.2%-2.5% per annum [2015 - 2.5%].

March 31, 2016 [thousands of dollars]

9. INTANGIBLES [Continued]

The Corporation capitalizes internal salary and travel expenditures related to implementation and testing of new gaming software solutions and internet websites for the sale of new customer products.

During the year, the Corporation recorded capitalized borrowing costs amounting to $97 [2015 - $58] at a rate of 2.20%-2.50% [2015 - 2.50%].

Assets classified as finance lease are comprised of software under long-term lease disclosed in note 15.

10. LINE OF CREDIT

The Corporation has available a $125,000 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 0.1% per annum.

Included in interest expense is $451 [2015 - $467] relating to line of credit.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Trade payables and accruals	**$24,746**	$7,893
Salaries payable	**5,444**	4,793
Taxes payable	**6,030**	3,988
Asset decommissioning provision	**1**	10
Player payable	**789**	655
Total accounts payable and accrued liabilities	**$37,010**	$17,339

March 31, 2016 [thousands of dollars]

12. LIABILITIES FOR UNCLAIMED PRIZES

	2016	2015
Unclaimed prizes		
Current prizes	**$ 19,550**	$ 18,810
Special prize fund	**2**	2
	$ 19,552	$ 18,812

	2016	2015
Special prize fund		
Balance, beginning of year	**$ 2**	$ 3
Unclaimed prizes expired during year	**5,415**	5,659
Prize payouts	**(5,415)**	(5,660)
Balance, end of year	**$ 2**	$ 2

Unclaimed prizes from regional lottery games are retained in a prize fund for 12 months from the announced beginning date of the draw and sports games are retained in a prize fund for 744 days from the date of purchase of the ticket. Unclaimed prizes remaining after the respective 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. Prizes of national lottery games are funded by the Interprovincial Lottery Corporation, with the exception of prizes for certain free tickets, which are paid out of general prize funds as incurred.

Scratch'N Win prizes do not have an expiry period. Based on historical records, the Corporation has determined that minimal prizes are claimed after 36 months from the date of launch of the game. All unclaimed prizes from Scratch'N Win lottery games are retained in a prize fund for 36 months from the date of launch of the game. Unclaimed prizes remaining after the 36 month claiming period are transferred to a special prize fund and are recorded as a reduction to prize expense and/or used for prizes in subsequent draws. Unclaimed prizes of national games are administered by the Interprovincial Lottery Corporation.

March 31, 2016 [thousands of dollars]

13. DUE TO/FROM SHAREHOLDERS

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

	2016				
	Profit earned	**Profit withheld**	**Profit distributed**	**Profit paid**	**Profit payable (receivable)**
New Brunswick Lotteries and Gaming Corporation	**$ 132,221**	**$ 8,084**	**$ 124,137**	**$ 122,548**	**$ 1,589**
Province of Newfoundland and Labrador	**148,474**	**3,690**	**144,784**	**142,820**	**1,964**
Nova Scotia Provincial Lotteries and Casino Corporation	**132,963**	**4,764**	**128,199**	**128,575**	**(376)**
Prince Edward Island Lotteries Commission	**17,901**	**6,239**	**11,662**	**11,841**	**(179)**
	$ 431,559	**$ 22,777**	**$ 408,782**	**$ 405,784**	**$ 2,998**

	2015				
	Profit earned	Profit withheld	Profit distributed	Profit paid	Profit payable (receivable)
New Brunswick Lotteries and Gaming Corporation	$ 119,552	$ 3,743	$ 115,809	$ 112,804	$ 3,005
Province of Newfoundland and Labrador	128,886	3,690	125,196	121,333	3,863
Nova Scotia Provincial Lotteries and Casino Corporation	113,167	4,764	108,403	104,234	4,169
Prince Edward Island Lotteries Commission	15,263	1,899	13,364	13,155	209
	$ 376,868	$ 14,096	$ 362,772	$ 351,526	$ 11,246

Profit earned is based on lottery operations and does not include the profit or loss of subsidiary companies.

Since 2007, the Corporation has been making supplemental payments to the pension plan to reduce the pension plan solvency deficit. The supplemental payments were being funded by the Corporation via debt because the Corporation retains no retained earnings. The Corporation began withholding a portion of monthly profit distributions to shareholders in 2014 to fund the supplemental payments. The withholdings are scheduled until 2019 when the pension solvency deficit is expected to be eliminated and supplemental payments discontinued. Upon transition to IFRS, a retained earnings (deficit) was created. The deficit will be eliminated through the withholding of profit for the purpose of funding the supplemental pension payments. In 2016, profits were also withheld from New Brunswick and Prince Edward Island to payback the Geonomics investment of $8,681.

The deficit withholdings are allocated among the shareholders based on the provincially allocated pension expense during the period of 2007-2010 to align with the time period in which the deficit arose. During the year ended March 31, 2016, the Corporation withheld profit of $22,777 [2015 - $14,096].

March 31, 2016 [thousands of dollars]

14. LONG-TERM DEBT

	2016	2015
Bank term loan, amortized over 84 months, bearing variable interest rates based on 30-day Bankers' Acceptances, hedged by fixed interest rate swaps bearing interest rates at 1.94%, maturing in December 2019.	**$ 60,673**	$ 76,034
Bank term loan, amortized over 55 months, bearing variable interest rates based on 30-day Bankers' Acceptances, hedged by fixed interest rate swaps bearing interest rates at 2.58%, maturing in October 2015.	**-**	10,606
Bank term loan, amortized over 20 years, bearing variable interest rates based on 30-day Bankers' Acceptances, hedged by a fixed interest rate swap bearing interest at 5.13%, maturing in August 2016 and refinanced with a fixed interest rate swap bearing interest at 2.88%, beginning August 2016 and maturing in August 2026.	**8,835**	9,687
Bankers' Acceptance, maturing on June 15, 2015 bearing interest at 1.61%.	**-**	65,000
Bankers' Acceptance, maturing on June 15, 2015 bearing interest at 1.61%.	**-**	8,681
Bankers' Acceptance, maturing on April 14, 2016 bearing interest at 1.47%.	**80,000**	-
Non-revolving credit facility, maturing on June 30, 2015, bearing interest at prime plus 1.00%	**-**	489
Bank term loan, amortized over 186 months, bearing a fixed interest rate at 3.50%, maturing in November 2018.	**463**	-
	149,971	170,497
Current portion of long-term debt	**96,481**	100,989
	$ 53,490	$ 69,508

Long-term debt is reduced by established monthly payments. Payments over the next 12 months are disclosed in the current portion of long-term debt.

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2016 are approximately as follows: 2017 - $96,481; 2018 - $16,788; 2019 - $17,588; 2020 - $13,319; and 2021 - $815.

Included in interest expense is $2,928 [2015 - $3,722] relating to long-term debt.

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. No assets have been pledged as security for the above debt.

March 31, 2016 [thousands of dollars]

15. LONG-TERM LEASE PAYABLE

		2016		2015
Lease of computer hardware payable in monthly installments of $6 including interest at an imputed rate of 3.5% until June 2017.	$	**90**	$	163
Lease of computer software payable in monthly installments of $27 including interest at an imputed rate of 4.17% until July 2017.		**414**		719
		504		882
Current portion of long-term lease		**393**		378
	$	**111**	$	504

The aggregate payment of long-term lease payable for each of the five years subsequent to March 31, 2016 are approximately as follows: 2017 - $393; 2018 - $111; 2019 - nil; 2020 - nil; and 2021 - nil.

Included in interest expense is an amount of $27 [2015 - $45] related to software and hardware under capital lease.

16. CASH FLOW HEDGE

Derivatives not designated as hedging instruments
The Corporation does not use derivative contracts to manage transaction exposures.

Cash flow hedges
The Corporation holds three bank term loans bearing variable interest rates based on 30-day Bankers' Acceptances, hedged by fixed interest rate swaps. The interest rate swap has the same terms as the loan agreement to realize an effective hedge situation and therefore is not expected to impact the consolidated statement of operations. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the consolidated statement of operations.

During the year ended March 31, 2016, the Corporation recorded the fair value of its cash flow hedges as a long-term liability of $1,906 [2015 - $2,484] while the effective portion of the hedging derivative was recognized in other comprehensive income (loss).

17. 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, the fair value on plan assets, and the related accrued benefit obligation have been actuarially measured for accounting purposes as at March 31, 2016 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 main plan is funded by contributions from participating employers and from plan members, including the Corporation. As a multi-employer plan, obligations and assets are not segregated by employer. All main plan assets are available to provide for all main plan obligations. The Corporation's share of the main plan assets is 89.8%, based on the Corporation's share of the main plan liabilities to total main plan liabilities as at December 31, 2014, the date of the last actuarial valuation.

In addition to the main plan, there are two supplemental plans: a supplemental executive retirement plan and a supplemental employee retirement plan. These plans provide additional pension benefits to certain members of the plan. Both supplemental plans are unfunded pension arrangements.

The most recent actuarial valuation for funding purposes was performed on December 31, 2014 by Mercer, a firm of consulting actuaries. This valuation disclosed an unfunded liability of $19,650 for the entire plan [2013 - $5,107 for all] of which the Corporation is one of the participating employers. Pursuant to the Act, the Corporation will pay its share of special payments, on average $13,400 annually, into the Plan in addition to the employer contribution for current service cost. These payments will continue until 2019 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, 2016 was $14,078 [2015 - $9,504].

Other post-employment benefits
The Corporation also sponsors the following post-employment benefits:

1. Extended health and dental benefits.
2. Life insurance.

The most recent actuarial valuation of the other post-employment benefits liabilities was conducted on January 1, 2015, and those results were extrapolated to March 31, 2016. Actuarial reports are prepared based on projections of employees' compensation levels to the time of retirement and future health care costs based on management's best estimate.

Sick leave
The Corporation offers its employees accumulation of unused sick leave days that the employees can use in later annual periods. The Corporation has provided for the cumulated sick leave days for which past empirical data of the usage of such days and the resulting future cash outflow are probable. Included in the individual costs for a sick leave day are all annual payroll costs of the respective employee divided by the average number employment days per annum. A provision totaling $657 [2015 - $635] is recorded and is included as part of other post-employment benefits.

March 31, 2016 [thousands of dollars]

17. EMPLOYEE FUTURE BENEFITS [Continued]

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

	Defined benefit pension plan - Corporation's share		Other post-employment benefits (unfunded)	
	2016	2015	**2016**	2015
Change in defined benefit obligation				
Balance, beginning of year	**$ 167,220**	$ 146,705	**$ 10,542**	$ 13,281
Current service cost [employer portion]	**5,411**	3,833	**656**	712
Past service cost		(2,899)	**-**	-
(Gain)/loss on settlements	**-**	-		(290)
Interest expense	**6,369**	6,478	**407**	494
Cash flows				
Benefits paid	**(6,005)**	(5,777)	**(199)**	(267)
Settlement payments from plan	**-**	-		(5,007)
Employees' contributions	**2,353**	2,209	**-**	-
Remeasurements				
Effect of changes in demographic assumptions		(2,323)	**106**	(141)
Effect of changes in financial assumptions	**(13,481)**	19,769	**(41)**	1,760
Effect of experience adjustments	**(801)**	(775)	**812**	-
Balance, end of year	**$ 161,066**	$ 167,220	**$ 12,283**	$ 10,542
Change in fair value of plan assets				
Balance, beginning of year	**$ 160,920**	$ 131,738	**$ -**	$ -
Interest income	**6,544**	6,398	**-**	-
Return on plan assets [excluding interest income]	**(9,234)**	14,013	**-**	-
Cash flows				
Employer contributions	**17,723**	12,659	**199**	5,274
Employees' contributions	**2,353**	2,209	**-**	-
Benefits paid	**(6,005)**	(5,777)	**(199)**	(267)
Settlement payments from plan	**-**	-	**-**	(5,007)
Administrative expense paid from plan assets	**(320)**	(320)	**-**	-
Balance, end of year	**$ 171,981**	$ 160,920	**$ -**	$ -
Amounts recognized in the consolidated balance sheet				
Defined benefit obligation ["DBO"]	**$ 161,066**	$ 167,220	**$ 12,283**	$ 10,542
Fair value of plan assets	**171,981**	160,920	**-**	-
Funded status	**(10,915)**	6,300	**12,283**	10,542
Net liability (asset)	**$ (10,915)**	$ 6,300	**$ 12,283**	$ 10,542

March 31, 2016 [thousands of dollars]

17. EMPLOYEE FUTURE BENEFITS [Continued]

	Defined benefit pension plan - Corporation's share		Other post-employment benefits (unfunded)	
	2016	2015	**2016**	2015
Components of defined benefit cost				
Service cost				
Current service cost	**$ 5,411**	$ 3,833	**$ 656**	$ 712
Past service cost	**-**	(2,899)	**-**	-
(Gain)/ loss on settlements	**-**		**-**	(290)
Total service cost	**5,411**	934	**656**	422
Net interest cost				
Interest expense on DBO	**6,369**	6,478	**407**	494
Interest (income) on plan assets	**(6,544)**	(6,398)	**-**	-
Total net interest cost	**(175)**	80	**407**	494
Administrative expenses on taxes	**320**	320	**-**	-
Defined benefit cost included in Statement of Operations ["Stmt. Ops."]	**5,556**	1,334	**1,063**	916
Remeasurements				
Effect of changes in demographic assumptions	**-**	(2,323)	**106**	(141)
Effect of changes in financial assumptions	**(13,481)**	19,769	**(41)**	1,760
Effect of experience adjustments	**(801)**	(775)	**812**	-
(Return) on plan assets [excluding interest income]	**9,234**	(14,013)	**-**	-
Total remeasurements included in other comprehensive income ["OCI"]	**(5,048)**	2,658	**877**	1,619
Total defined benefit cost recognized in Stmt. Ops and OCI	**$ 508**	$ 3,992	**$ 1,940**	$ 2,535
Net defined benefit liability (asset) reconciliation				
Net defined benefit liability	**$ 6,300**	$ 14,967	**$ 10,542**	$ 13,281
Defined benefit cost included in Stmt. Ops.	**5,556**	1,334	**1,063**	916
Total remeasurements included in OCI	**(5,048)**	2,658	**877**	1,619
Cash flows				
Employer contributions	**(17,723)**	(12,659)	**(199)**	(267)
Employer direct benefit payments	**-**	-	**-**	(5,007)
Net defined benefit liability as of end of year	**$ (10,915)**	$ 6,300	**$ 12,283**	$ 10,542
Significant assumptions				
Benefit obligation				
Discount rate	**4.00%**	3.90%	**4.00%**	3.90%
Rate of salary increase	**3.00%**	3.25%	**-**	3.50%
Rate of price inflation	**1.75%**	2.10%	**-**	-
Rate of pension increase	**1.75%**	2.10%	**-**	-
Rate of immediate trend of health care costs	**-**	-	**4.08%**	4.43%
Defined benefit cost				
Discount rate	**3.90%**	4.70%	**3.90%**	4.70%
Rate of salary increase	**3.25%**	3.70%	**N/A**	3.70%
Rate of price inflation	**2.10%**	2.20%	**-**	-
Rate of pension increase	**1.05%**	2.20%	**-**	2.20%
Rate of immediate trend of health care costs	**-**	-	**4.43%**	N/A

March 31, 2016 [thousands of dollars]

17. EMPLOYEE FUTURE BENEFITS [Continued]

The following table demonstrates the Corporation's sensitivity to a reasonably possible change in the significant assumptions used to determine the defined benefit obligations:

		Defined benefit pension plan - Corporation's share		Other post-employment benefits (unfunded)	
	Change in discount rate	**Weighted average duration of defined benefit obligation**	**2016**	**Weighted average duration of defined benefit obligation**	**2016**
Effect on net defined benefit obligation	+ 0.5%	17.19 years	$ 147,780	19.40 years	$ 11,148
Effect on net defined benefit obligation	- 0.5%	17.66 years	$ 175,838	20.21 years	$ 13,589
	Change in inflation rate		**2016**		**2016**
Effect on net defined benefit obligation	+ 0.5%		$ 170,496		N/A
Effect on net defined benefit obligation	- 0.5%		$ 152,105		N/A
	Change in mortality		**2016**		**2016**
Effect on net defined benefit obligation	- 1 year setback		$ 164,059		$ 12,554
Effect on net defined benefit obligation	+ 1 year setback		$ 157,600		$ 12,012
	Change in health care cost trend rate		**2016**		**2016**
Effect on net defined benefit obligation	+ 1.0%		N/A		$ 15,030
Effect on net defined benefit obligation	- 1.0%		N/A		$ 10,185

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the net defined benefit obligation as at March 31, 2016 as a result of reasonable changes in key assumptions.

18. PROVISIONS

Decommissioning

The Corporation records the fair value of a decommissioning provision in the year during which it is incurred and can be reasonably estimated. This provision is associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Corporation also records a corresponding asset that is amortized over the life of the asset. Decommissioning provisions are classified as current if the useful life will expire in the next fiscal year and as a long-term asset if the useful lives extend beyond the next fiscal year. Provisions have been recorded for gaming equipment in the amount of $711 [2015 - $695]. The provision is classified as a current payable of $1 [2015 - $10] and a long-term liability of $710 [2015 - $685].

March 31, 2016 [thousands of dollars]

19. 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.

20. PAYMENTS TO THE GOVERNMENT OF CANADA

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 disposable income of the province, as follows:

	2016	2015
New Brunswick Lotteries and Gaming Corporation	**$ 1,378**	$ 1,379
Province of Newfoundland and Labrador	**1,127**	1,100
Nova Scotia Provincial Lotteries and Casino Corporation	**1,744**	1,735
Prince Edward Island Lotteries Commission	**259**	257
	$ 4,508	$ 4,471

21. TAXES

In lieu of the collection of HST on lottery ticket sales to the consumer, GST/HST paid on goods and services purchased that relate to gaming activities is not recoverable and is recorded as tax expense. Said goods and services are subject to the HST rate being applied a second time for remittance to the Federal Government, also recorded as tax expense.

	2016	2015
Harmonized Sales Tax (HST)	**$ 45,838**	$ 43,521

22. COMMITMENTS

Operating leases
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, Newfoundland and Labrador, and Prince Edward Island. These leases have a duration of between one and 12 years, and the lease contracts end in the period from 2016 to 2027. Some of the contracts for the head office and operational properties include renewal options. The minimum future annual lease payments over the next five years are as follows: 2017 - $4,142; 2018 - $3,205; 2019 - $3,094; 2020 - $3,079 and 2021 - $3,093. Future lease payments later than five years total $17,322.

Outsource agreement
On July 18, 2010, the Corporation entered into a 7 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. The minimum annual payment to CGI over the next year is as follows: 2017 - $12,506.

March 31, 2016 [thousands of dollars]

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

	2016	2015
Decrease (increase)		
Accounts receivable	**$ 7,965**	$ (4,804)
Prepaid expenses and deposits	**(705)**	(6,040)
Inventory	**(1,411)**	2,395
	$ 5,849	$ (8,449)
Increase (decrease)		
Accounts payable and accrued liabilities	**$ 19,671**	$ (15,379)
Deferred revenue	**432**	861
Liabilities for unclaimed prizes	**740**	(1,936)
Due to shareholders	**(8,248)**	6,351
	$ 12,595	$ (10,103)
Net change	**$ 18,444**	$ (18,552)

24. RELATED PARTY TRANSACTIONS

Transactions with key management personnel
Key management personnel [Corporate Executives] receive compensation in the form of short-term employee benefits and post-retirement benefits. Key management personnel compensation for the year ended March 31, 2016 is $2,235 [2015 - $2,299], which includes pension benefits of $145 [2015 - $155].

Other related party transactions
The Corporation is related to its shareholders: New Brunswick Lotteries and Gaming Corporation, Province of Newfoundland and Labrador, Nova Scotia Provincial Lotteries and Casino Corporation and Prince Edward Island Lotteries Commission.

The Corporation holds 100% equity interest in Atlantic Gaming Equipment Limited, and 7865813 Canada Inc. All intra-Corporation balances, transactions, income and expenses, and profits and losses, including dividends resulting from intra-Corporation transactions, are eliminated in full.

March 31, 2016 [thousands of dollars]

25. FINANCIAL INSTRUMENTS

Fair value versus carrying amounts
The fair value of financial instruments generally corresponds to the consideration for which the instrument could be exchanged in an arm's-length transaction between knowledgeable, willing parties.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices [unadjusted] in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly [i.e. as prices] or indirectly [i.e. derived from prices]; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data [unobservable inputs].

The following tables present the breakdown of fair value measurements of financial instruments recognized at fair value on the consolidated balance sheet.

			2016					
		Level 1		Level 2		Level 3		Total
Financial liabilities								
Derivatives designated as hedging instruments in an effective hedge	$	-	$	1,906	$	-	$	1,906
Total financial liabilities	$	-	$	1,906	$	-	$	1,906

			2015					
		Level 1		Level 2		Level 3		Total
Financial liabilities								
Derivatives designated as hedging instruments in an effective hedge	$	-	$	2,484	$	-	$	2,484
Total financial liabilities	$	-	$	2,484	$	-	$	2,484

The fair value of cash, restricted prize cash, accounts receivable, due to/from shareholders, line of credit, accounts payable and accrued liabilities and liabilities for unclaimed prizes approximate their carrying amount largely due to the short-term maturities of these instruments.

The Corporation has entered into a derivative financial instrument with a financial institution with an investment grade credit rating. Interest rate swaps are the only derivatives valued using a valuation technique with market observable inputs. The applied valuation technique is a swap valuation model using present value calculations. The models incorporate various inputs, including the credit quality of counterparties and interest rate curves. Because the derivatives are valued with their fair value in accordance with IAS 39, the recorded carrying value at the consolidated balance sheet date equals the fair value of the financial instrument.

26. CAPITAL MANAGEMENT

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

The Corporation's policy is to maintain a structure that allows it to have sufficient liquidity to meet both operational demands and payments to the provinces. The profit of the Corporation is distributed twice monthly to each of the shareholders.

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.

27. FINANCIAL RISK MANAGEMENT

The Corporation has exposure to credit risk, liquidity risk, and market risk from its use of financial instruments. This note presents information about the Corporation's exposure to each of these risks and its objectives, policies and procedures for measuring and managing these risks.

Risk management framework
The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board of Directors has established the Audit Committee, which is responsible for developing and monitoring the Corporation's risk management policies. The Audit Committee reports regularly to the Board of Directors on its activities. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Corporation's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Corporation is subject to credit risk due to the nature of its operations where retail partners collect the Corporation's revenue.

March 31, 2016 [thousands of dollars]

27. FINANCIAL RISK MANAGEMENT [Continued]

This risk is managed through frequent collection of revenue, the control to pull funds from retailers' bank accounts and through retaining security deposits where the individual risk is assessed as high. The Corporation is not materially exposed to any one individual retailer or service provider and has applied standard credit practices, which limit the Corporation's exposure to credit risk. The maximum risk the Corporation would be exposed to is $57 and the average balance for any one retail location outstanding is approximately $3. There are no accounts receivable balances outstanding greater than 90 days. As a result of the limited and controlled risk, there is no provision established for bad debt.

The Corporation is not subject to credit risk for internet gaming sales because they are through credit card, debit card, online bill payment purchases or webcash purchases where customers pay in advance of transactions.

Liquidity risk
Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due.

To manage cash flow requirements, the Corporation has a line of credit from which it may borrow up to $125,000. Short-term financing is unsecured and interest is payable at prime less 0.50%, and charges a standby fee on the daily unadvanced portion of the credit facility at a rate of 0.1% per annum.

The Corporation's Finance division manages liquidity risk by forecasting and assessing actual cash flow requirements on an ongoing basis, as well as by planning for short-term liquidity with investment maturities chosen to ensure that sufficient funds are available to meet the Corporation's financial obligations.

The carrying values of the financial liabilities approximate their fair values due to the relatively short periods to maturity of these items, or because they are payable on demand. The table below summarizes the maturity profile of the Corporation's financial liabilities based on contractual undiscounted payments.

Maturity	On demand	Less than 12 months	1 to 2 years	2 to 5 years	5 to 10 years
Line of credit	$ 22,088	$ -	$ -	$ -	$ -
Accounts payable and accrued liabilities	-	37,010	-	-	-
Liabilities for unclaimed prizes	-	19,552	-	-	-
Debt	-	96,481	34,376	14,134	4,980
Lease payable	-	393	111	-	-
Other long term liabilities	-	-	70	615	26
	$ 22,088	$ 153,436	$ 34,557	$ 14,749	$ 5,006

27. FINANCIAL RISK MANAGEMENT [Continued]

Market risk
Market risk is the risk that changes in market prices will affect the fair value of future cash flows of a financial instrument. Market risk is comprised of currency risk, interest rate risk and other market price risk.

Currency risk
The Corporation is exposed to currency risk [or foreign exchange risk] by settling certain obligations in foreign currencies [primarily USD and GBP]. Gains and losses due to foreign exchange rate fluctuations are minimized by settling foreign obligations as quickly as possible. The transactions in foreign currency are minimal and therefore the Corporation is not materially impacted by currency risk.

Interest rate risk
The Corporation's Finance division manages interest rate risk by forecasting and assessing actual cash flow requirements on an ongoing basis, and securing fixed rate debt (hedges) for financing of long-term projects. On an ongoing basis, the Corporation is exposed to interest rate risk through its line of credit which is subject to interest charges at prime less 0.50%, and charges a standby fee on the daily unadvanced portion of the credit facility at a rate of 0.1%. Fluctuations in the prime rate by plus or minus 1% could impact the Corporation's annual net profit by an amount of $221 [2015 - $242] based on the line of credit balance as at March 31, 2016.

Other market price risk
The Corporation offers the Proline brand of lottery products in the marketplace. The Corporation manages risks associated with these products by:

- setting odds for each event within a short time frame before the actual event;
- establishing sales liability thresholds by events, by combination of events, by retailer, and by player; and
- posting conditions and prize structure statements on www.alc.ca.

The Corporation has the authority to suppress sales of any game at any time when liability is a concern.

28. SUBSEQUENT EVENTS

Subsequent to March 31, 2016, the Corporation terminated its Master Service Agreement with CGI Information Systems and Management Consultants Inc. The early termination will result in associated contractual fees of approximately $7,617.

29. COMPARATIVE FIGURES

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