

Consolidated Financial Statements

Atlantic Lottery Corporation Inc.

March 31, 2019

Independent auditor's report

To the Shareholders of
Atlantic Lottery Corporation Inc.

Opinion

We have audited the consolidated financial statements of **Atlantic Lottery Corporation Inc.** [the "Corporation"], which comprise the consolidated balance sheet as at March 31, 2019 and the consolidated statements of operations, comprehensive income, changes in equity (deficiency), and cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Corporation as at March 31, 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

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

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The Management's Discussion & Analysis and Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we have performed, we conclude that there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.



In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

Saint John, Canada
June 6, 2019

Ernst & Young LLP

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]

	2019		2018	
ASSETS				Restated [note 2]
<i>Current</i>				
Cash [note 5]	\$	2,664	\$	2,574
Restricted prize cash [note 5]		16,862		18,659
Accounts receivable [note 6]		25,357		22,326
Prepaid expenses and deposits		7,946		15,029
Inventory [note 7]		8,965		5,841
		<u>61,794</u>		<u>64,429</u>
Property and equipment, net [note 8]		58,392		71,405
Intangibles, net [note 9]		71,265		76,521
Employee future pension benefits [note 16]		36,164		34,264
Other long-term assets		976		2,633
TOTAL ASSETS	\$	228,591	\$	249,252
LIABILITIES				
<i>Current</i>				
Line of credit [note 10]	\$	12,649	\$	16,197
Accounts payable and accrued liabilities [note 11]		28,375		24,505
Deferred revenue		949		657
Liabilities for unclaimed prizes [note 12]		16,862		18,659
Due to shareholders [note 13]		6,240		6,595
Current portion of long-term debt [note 14]		36,960		45,617
		<u>102,035</u>		<u>112,230</u>
Employee future other post-employment benefits [note 16]		15,689		13,853
Long-term debt [note 14]		66,769		88,729
Other long-term liabilities		688		675
		<u>83,146</u>		<u>103,257</u>
SHAREHOLDERS' EQUITY				
Share capital [note 18]		1		1
Accumulated other comprehensive income		976		2,633
Retained earnings		42,433		31,131
		<u>43,410</u>		<u>33,765</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	228,591	\$	249,252

See accompanying notes

On behalf of the Board

Robert Mockin
Director

Yousaf Mahmood
Director

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

[In thousands of dollars]

	2019	2018
		Restated [note 2]
<i>Revenue</i>		
Net ticket sales	\$ 324,879	\$ 297,395
Net video lottery receipts	420,879	439,136
Entertainment centre revenue	19,076	19,626
<i>Net revenue</i>	764,834	756,157
<i>Direct expenses</i>		
Commissions	131,317	134,165
Ticket printing	9,017	11,583
Other direct cost	2,795	2,784
	143,129	148,532
Gross profit	621,705	607,625
<i>Expenses</i>		
Operating and administrative expenses	110,084	101,562
Depreciation and amortization [notes 8 and 9]	33,773	31,490
Interest [notes 10 and 14]	2,687	3,135
	146,544	136,187
Profit before the following	475,161	471,438
Other expenses (income)	52	(69)
Taxes [note 20]	48,239	47,714
Payments to the Government of Canada [note 19]	4,629	4,568
	52,920	52,213
Net profit	\$ 422,241	\$ 419,225

See accompanying notes

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

[In thousands of dollars]

	2019	2018
Net profit	\$ 422,241	\$ 419,225
Other comprehensive income (loss)		
Mark-to-market gains on derivative instruments designated and qualifying as cash flow hedges		
Change in fair value [note 15]	(1,657)	3,300
Employee future benefits		
Change in actuarial assumptions [note 16]	(2,800)	(492)
Other comprehensive income (loss)	(4,457)	2,808
Comprehensive income	\$ 417,784	\$ 422,033

See accompanying notes

ATLANTIC LOTTERY CORPORATION INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY [DEFICIENCY]
YEAR ENDED MARCH 31

[In thousands of dollars]

				2019
	Share capital	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance, beginning of year	\$ 1	\$ 2,633	\$ 31,131	\$ 33,765
Net profit	-	-	422,241	422,241
Other comprehensive income (loss)	-	(1,657)	(2,800)	(4,457)
Comprehensive income	-	(1,657)	419,441	417,784
Distribution of profit to shareholders [note 13]				
New Brunswick Lotteries and Gaming Corporation	-	-	(126,266)	(126,266)
Province of Newfoundland and Labrador	-	-	(131,704)	(131,704)
Nova Scotia Gaming Corporation	-	-	(133,817)	(133,817)
Prince Edward Island Lotteries Commission	-	-	(16,352)	(16,352)
Total profit allocated to shareholders	-	-	(408,139)	(408,139)
Balance, end of year	\$ 1	\$ 976	\$ 42,433	\$ 43,410

				2018
	Share capital	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance, beginning of year	\$ 1	\$ (667)	\$ 17,503	\$ 16,837
Net profit	-	-	419,225	419,225
Other comprehensive income (loss)	-	3,300	(492)	2,808
Comprehensive income	-	3,300	418,733	422,033
Distribution of profit to shareholders [note 13]				
New Brunswick Lotteries and Gaming Corporation	-	-	(124,923)	(124,923)
Province of Newfoundland and Labrador	-	-	(130,084)	(130,084)
Nova Scotia Gaming Corporation	-	-	(133,217)	(133,217)
Prince Edward Island Lotteries Commission	-	-	(16,881)	(16,881)
Total profit allocated to shareholders	-	-	(405,105)	(405,105)
Balance, end of year	\$ 1	\$ 2,633	\$ 31,131	\$ 33,765

See accompanying notes

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

	2019	2018
Cash provided by (used in)		
<i>Operating activities</i>		
Net profit	\$ 422,241	\$ 419,225
Add (deduct) non-cash items:		
Depreciation and amortization [notes 8 and 9]	33,773	31,490
Loss on disposal of property and equipment	95	105
Loss on impairment of intangibles	182	-
Loss on disposal of intangibles	7	-
Other comprehensive income (loss)	(4,457)	2,808
	451,841	453,628
Net change in non-cash components of working capital [note 22]	2,938	(1,125)
Increase in employee future benefits	(64)	(3,050)
	454,715	449,453
<i>Investing activities</i>		
Purchase of property and equipment	(9,097)	(4,391)
Purchase of intangible assets	(6,784)	(16,132)
Proceeds on disposal of property and equipment	93	20
	(15,788)	(20,503)
<i>Financing activities</i>		
Increase (decrease) in line of credit	(3,548)	4,717
Proceeds of long-term debt	90,000	75,000
Repayment of long-term debt	(120,617)	(100,068)
Increase (decrease) in other long-term liabilities	13	(665)
Decrease (increase) in other long-term assets	1,657	(2,633)
	(32,495)	(23,649)
Distribution to shareholders	(408,139)	(405,105)
Increase (decrease) increase in cash	(1,707)	196
Cash and restricted prize cash, beginning of year	21,233	21,037
Cash and restricted prize cash, end of year	\$ 19,526	\$ 21,233

See accompanying notes

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

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 Gaming 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 Gaming Corporation [“NSGC”].

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Corporation for the year ended March 31, 2019 were authorized for issue by the Board of Directors on June 6, 2019.

Basis of measurement

These consolidated financial statements were prepared on a going concern basis, under the historical cost basis, except for derivative financial instruments, which 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, 2019 have been prepared in accordance with International Financial Reporting Standards ["IFRS"] and interpretations adopted by the International Accounting Standards Board.

Adoption of new accounting standards

IFRS 9, *Financial Instruments* ["IFRS 9"]

IFRS 9 replaces International Accounting Standard ["IAS"] 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"]. It introduces amendments to classification and measurement for financial assets, a new expected loss impairment model, and a new hedge accounting model. IFRS 9 became effective on April 1, 2018 and has been applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

IFRS 15, *Revenue from Contracts with Customers* ["IFRS 15"]

IFRS 15 was issued in May 2014 and provides a single, principles-based five-step model to be applied to all contracts with customers. The standard provides guidance on timing of revenue recognition, including accounting for variable consideration, costs of fulfilling and obtaining a contract and various other matters. New disclosures about revenue are also introduced. The new standard is required to be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the new standard recognized at the date of initial application ["modified retrospective method"]. The Corporation has adopted the new standard under the modified retrospective method from April 1, 2018.

Except for the changes below, the Corporation has consistently applied the accounting policies set out in note 2 to all periods presented in these consolidated financial statements. The Corporation has adopted the following new standards, including any consequential amendments to other standards, as at April 1, 2018.

- IFRS 9
- IFRS 15

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Standards applied to Atlantic Lottery Products and Sales Breakdown for 2019.

IFRS 9		IFRS 15	
Product	Revenue ['000's]	Product	Revenue ['000's]
Daily Grand	6,251	Lotto Max	60,617
Atlantic 49	12,429	Lotto 6/49	46,612
Bucko	897	Scratch'N Win	80,127
Keno Atlantic	5,073	Salsa Bingo	1,738
Lotto 4	417	Breakopen	43,839
Poker Lotto	3,595	iGames	7,936
TAG	26,636	Poker	1,916
Twist	9,874		
Proline Sports	14,188		
Racing	1,953		
Slots & Table games	11,813		
Video Lottery	416,489		
<i>Total revenue IFRS 9</i>	<i>509,615</i>	<i>Total revenue IFRS 15</i>	<i>242,785</i>
<i>No brand, food & beverage, and other revenue</i>			<i>12,434</i>
Total revenue			764,834

The impact of adopting IFRS 9 and IFRS 15 on the opening consolidated balance sheet as at April 1, 2017 is immaterial. The nature and effects of the changes are explained below.

Revenue

IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when or as the entity satisfies a performance obligation.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs.

The Corporation applied IFRS 15 retrospectively as at April 1, 2018. The details and quantitative impact of the changes in accounting policies are disclosed below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

i. Presentation:

Under IFRS 15, revenue is measured at the transaction price, which is allocated to the performance obligations identified in the contract with the customer. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to customers.

As a result, revenue is required to be reported as net of expected cash prizes. This change results in all of the Corporation's income [including income from IFRS 9 and IFRS 15], as described in the significant accounting policies, being combined into a single line on the consolidated statement of operations, labelled revenue. The following table illustrates the impact of this change on the comparative figures.

Excerpt of the consolidated statement of operations

For the year ended March 31, 2018

[In thousands of dollars]

	As previously reported
Revenue	\$1,168,274
Prize expense	412,117
Net Sales	\$ 756,157
	As restated
Net Revenue	\$ 756,157

i. Deferred revenue:

As a result of IFRS 15, the Corporation completed a scoping exercise to identify revenue contracts within the scope of IFRS 15. Upon completion of this exercise, it was identified that some of the Corporation's income from gaming products falls within the scope of IFRS 9. Under IAS 18, advanced wagers were recorded as deferred revenue until the draw or event took place. For products that fall within either IFRS 15 or IFRS 9, these wagers are now presented as deferred revenue, identifiable by brand, net of prize expense.

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

ii. Deferred prize expense:

Under IAS 18, all advanced wagers were recorded as deferred revenue until the draw or the event took place. In compliance with IFRS 15 and IFRS 9, the amount of the revenue deemed to be prize expense is recorded separately as deferred prize expense, identifiable by brand. As a result of this change, \$445 was reclassified from deferred revenue into liabilities for unclaimed prizes as at March 31, 2018.

Excerpt of the consolidated balance sheet

As at march 31, 2018

[In thousands of dollars]

	As previously reported	Impact of change in accounting policy	As restated
Deferred revenue	\$ 1,102	\$ (445)	\$ 657
Liabilities for unclaimed prizes	\$ 18,214	\$ 445	\$ 18,659

As a consequence of increased liabilities for unclaimed prizes, \$445 was reclassified from cash to restricted prize cash to remain in accordance with provincial regulations which imposes restricted cash amounts equivalent to game liabilities.

Excerpt of the consolidated balance sheet

As at march 31, 2018

[In thousands of dollars]

	As previously reported	Impact of change in accounting policy	As restated
Cash	\$ 3,019	\$ (445)	\$ 2,574
Restricted prize cash	\$ 18,214	\$ 445	\$ 18,659

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

SUMMARY OF QUANTITATIVE IMPACTS

Consolidated statement of operations

For the year ended March 31, 2018

[In thousands of dollars]

	As previously reported	Impact of changes in accounting policy	As restated
<i>Revenue</i>			
Net ticket sales	\$ 709,512	(412,117)	297,395
Net video lottery receipts	439,136		439,136
Entertainment centre revenue	19,626		19,626
	<u>1,168,274</u>	<u>(412,117)</u>	<u>756,157</u>
Prizes on ticket sales	412,117	(412,117)	-
<i>Net revenue</i>	756,157		756,157
<i>Direct expenses</i>			
Commissions	134,165		134,165
Ticket printing	11,583		11,583
Other direct cost	2,784		2,784
	<u>148,532</u>		<u>148,532</u>
Gross profit	607,625		607,625
<i>Expenses</i>			
Operating and administrative expenses	101,562		101,562
Depreciation and amortization	31,490		31,490
Interest	3,135		3,135
	<u>136,187</u>		<u>136,187</u>
Profit before the following	<u>471,438</u>		<u>471,438</u>
Other expenses (income)	(69)		(69)
Taxes	47,714		47,714
Payments to the Government of Canada	4,568		4,568
	<u>52,213</u>		<u>52,213</u>
Net profit	\$ 419,225		\$ 419,225

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

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.

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.

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

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	5 to 50 years
Automotive	4 to 10 years
Operational and gaming equipment	3 to 24 years
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.

Intangibles

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

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 IAS 38, *Intangible Assets* ["IAS 38"] 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:

<u>Asset</u>	<u>Useful life</u>
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

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 (loss) 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 16 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

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

The Corporation at initial recognition designates its financial assets as subsequently measured at amortized cost, fair value through other comprehensive income [OCI], and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Corporation's business model for managing them. The Corporation initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Corporation has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest [SPPI]' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Corporation's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost [debt instruments];
- Financial assets at fair value through OCI with recycling of cumulative gains and losses [debt instruments];
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition [equity instruments]; and
- Financial assets at fair value through profit or loss

Financial assets at amortized cost [debt instruments]

The Corporation measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest [EIR] method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Corporation's financial assets at amortized cost includes cash, restricted prize cash, accounts receivables, and due from shareholders.

Financial assets at fair value through OCI [debt instruments]

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

Financial assets at fair value through profit or loss

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

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.

When the Corporation has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Corporation continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Corporation also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Corporation has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Corporation could be required to repay.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Impairment of financial assets

The Corporation recognizes an allowance for expected credit losses ["ECLs"] for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months [a 12-month ECL]. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default [a lifetime ECL].

For trade receivables and contract assets, the Corporation applies a simplified approach in calculating ECLs. Therefore, the Corporation does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Corporation has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Corporation applies the low credit risk simplification. At every reporting date, the Corporation evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Corporation reassesses the internal credit rating of the debt instrument.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include 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 incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss 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 as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or 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, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

iii) Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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 are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; and
- Hedges of a net investment in a foreign operation

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Before January 1, 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Corporation will assess the effectiveness of changes in the hedging instrument's fair value 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.

Beginning January 1, 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Corporation will assess whether the hedging relationship meets the hedge effectiveness requirements [including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined]. A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Corporation actually hedges and the quantity of the hedging instrument that the Corporation actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging instrument is recognized in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of profit or loss as other expense.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a nonfinancial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, free tickets and pari-mutuel commissions.

The Corporation's revenue recognition policies are as follows:

Income from major product lines includes both revenue transactions and transactions that are accounted for, and meet the definition of, gains or losses under IFRS 9.

Transactions in which the Corporation and player are wagering against a specific outcome of an event are accounted for as gains or losses under IFRS 9.

Transactions in which the Corporation administers a game amongst players are accounted for as revenue under IFRS 15. In these games, the Corporation recognizes the portion of the wagers retained, and not distributed as prizes, as revenue from operating the game.

Net ticket sales

Lottery revenue

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

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

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

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.

Entertainment centre revenue

Entertainment centre 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, racing events, 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 or play. 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 issued is deferred and recognized as revenue when the points are redeemed.

Interest income

For all financial instruments measured at amortized cost, interest income or expense is recorded using the EIR method, 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 expense is included in other expense (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 20]. 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 taxes

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

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 19].

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 revenue, expenses, assets and liabilities, and the disclosure of contingent assets and 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 if 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

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 obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions.

These include the determination of the discount rate, future salary increases, mortality rates, the return on the investment in the plan assets 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 16.

Development costs

Development costs are capitalized in accordance with the accounting policy in note 2 “Intangibles”. 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 benefit. As at March 31, 2019, the amount of capitalized development costs was \$1,405 [2018 - \$2,792].

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 flow 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 16, Leases [“IFRS 16”]

IFRS 16 was issued in January 2016 and it replaces IAS 17, Leases [“IAS 17”], International Financial Reporting Interpretations Committee 4, *Determining whether an Arrangement contains a Lease*, Standards Interpretations Committee 15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of “low-value” assets [e.g., personal computers] and short-term leases [i.e., leases with a lease term of 12 months or less]. At the commencement date of a lease, a lessee will recognize a liability to make lease payments [i.e., the lease liability] and an asset representing the right to use the underlying asset during the lease term [i.e., the right-of-use asset]. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events [e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments]. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Corporation has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, lease of IT software and lease contracts for which the underlying asset is of low value.

Transition to IFRS 16

IFRS 16 will be implemented as of April 1, 2019 as per the standard’s guidelines. The Corporation is opting for a modified retrospective approach. This signifies that the cumulative effect of the initial adoption will be recorded in the opening balance of retained earnings.

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE [Continued]

During 2018, the Corporation performed a detailed impact assessment of IFRS 16. In summary, the impact of the IFRS 16 adoption is expected to be as follows;

Impact on the statement of consolidated balance sheet [increase (decrease)] as at March 31, 2019:

Assets

Property and equipment [right-of-use assets]	\$ 12,085
----------------------------------------------	-----------

Liabilities

Lease liabilities	13,065
Tax rate changes	(30)
<u>Net impact on equity</u>	<u>\$ (950)</u>

Impact on the statement of consolidated statement of operations [increase (decrease)] for 2019:

Depreciation expense	\$ 1,923
<u>Operating Expense</u>	<u>(2,300)</u>
<u>Operating Profit</u>	<u>377</u>
Finance costs	462
Taxes	-
<u>Profit for the year</u>	<u>\$ (85)</u>

The adoption of IFRS 16 will increase operating profit and increase interest expense, resulting in a decrease of net profit.

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

[thousands of dollars]

5. CASH AND RESTRICTED PRIZE CASH

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

		<u>2019</u>		<u>2018</u>
Cash	\$	2,664	\$	2,574
Restricted prize cash		16,862		18,659
Total cash	\$	19,526	\$	21,233

The Corporation has a cash balance of \$1,686 [2018 - \$1,479] to fund player wallets.

6. ACCOUNTS RECEIVABLE

		<u>2019</u>		<u>2018</u>
Lottery retailers	\$	19,354	\$	17,443
Taxes receivable		697		237
Other		5,306		4,646
Total accounts receivable	\$	25,357	\$	22,326

Lottery retailers' receivables are collected on a weekly basis. The Corporation had bad debt expense of \$247 [2018 - \$61] related to lottery retailer receivables.

7. INVENTORY

		<u>2019</u>		<u>2018</u>
Ticket stock	\$	8,867	\$	5,750
Food and beverage		66		79
Restaurant and merchandise		32		12
Total inventory	\$	8,965	\$	5,841

During the year, the Corporation recorded inventory write-offs in the amount of \$444 [2018 - \$1,884].

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8. PROPERTY AND EQUIPMENT

	Land	Building	Automotive	Operational and gaming equipment	Leasehold improvements	Not ready for use	Total
Cost or valuation:							
As at March 31, 2017	\$ 1,707	\$ 19,366	\$ 1,664	\$ 152,532	\$ 8,500	\$ 1,917	\$ 185,686
Additions	-	361	46	1,390	-	2,594	4,391
Transfers	-	457	38	3,710	-	(4,244)	(39)
Disposals	-	(38)	(24)	(6,155)	-	-	(6,217)
As at March 31, 2018	\$ 1,707	\$ 20,146	\$ 1,724	\$ 151,477	\$ 8,500	\$ 267	\$ 183,821
Additions	-	15	501	1,035	592	6,954	9,097
Transfers	-	410	-	4,521	122	(5,053)	-
Disposals	-	(79)	(399)	(2,599)	(98)	-	(3,175)
As at March 31, 2019	\$ 1,707	\$ 20,492	\$ 1,826	\$ 154,434	\$ 9,116	\$ 2,168	\$ 189,743
Depreciation and impairment:							
As at March 31, 2017	\$ -	\$ 8,876	\$ 628	\$ 80,659	\$ 6,514	\$ -	\$ 96,677
Depreciation for the year	-	686	343	20,492	331	-	21,852
Disposals	-	(32)	(18)	(6,063)	-	-	(6,113)
As at March 31, 2018	\$ -	\$ 9,530	\$ 953	\$ 95,088	\$ 6,845	\$ -	\$ 112,416
Depreciation for the year	-	713	322	20,545	342	-	21,922
Disposal of Impaired Assets	-	-	-	(91)	-	-	(91)
Disposals	-	(75)	(334)	(2,417)	(70)	-	(2,896)
As at March 31, 2019	\$ -	\$ 10,168	\$ 941	\$ 113,125	\$ 7,117	\$ -	\$ 131,351
Net book value:							
As at March 31, 2019	\$ 1,707	\$ 10,324	\$ 885	\$ 41,309	\$ 1,999	\$ 2,168	\$ 58,392
As at March 31, 2018	\$ 1,707	\$ 10,616	\$ 771	\$ 56,389	\$ 1,655	\$ 267	\$ 71,405

The above includes internal costs related to deployment of assets of \$82 [2018 - \$11].

During the year, the Corporation carried out a review of the recoverable amount of assets and there was no impairment identified [2018 - nil].

As at March 31, 2019, assets classified as not ready for use consist of \$2,018 for gaming equipment [2018 - \$95]; \$81 for computer equipment [2018 - \$140]; \$11 for building and leasehold improvements [2018 - \$32]; and \$58 for retail equipment [2018 - nil].

Atlantic Lottery Corporation Inc.

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9. INTANGIBLES

	Software licenses	Computer software	Gaming software	Not ready for use	Total
Cost:					
As at March 31, 2017	\$ 78,921	\$ 5,839	\$ 19,930	\$ 30,262	\$ 134,952
Additions	134	87	15	15,896	16,132
Transfers	40,673	45	2,572	(43,251)	39
Disposals	(30,625)	(5,341)	(335)	-	(36,301)
As at March 31, 2018	\$ 89,103	\$ 630	\$ 22,182	\$ 2,907	\$ 114,822
Additions	2,536	2	156	4,030	6,724
Transfers	(494)	958	1,475	(1,879)	60
Disposals	(1,101)	-	(24)	-	(1,125)
As at March 31, 2019	\$ 90,044	\$ 1,590	\$ 23,789	\$ 5,058	\$ 120,481
Amortization and impairment:					
As at March 31, 2017	\$ 49,087	\$ 5,754	\$ 10,102	\$ -	\$ 64,943
Amortization	6,193	38	3,407	-	9,638
Disposals	(30,610)	(5,340)	(330)	-	(36,280)
As at March 31, 2018	\$ 24,670	\$ 452	\$ 13,179	\$ -	\$ 38,301
Amortization	7,851	230	3,770	-	11,851
Disposals	(1,101)	-	(17)	-	(1,118)
Impairment	182	-	-	-	182
As at March 31, 2019	\$ 31,602	\$ 682	\$ 16,932	\$ -	\$ 49,216
Net book value:					
As at March 31, 2019	\$ 58,442	\$ 908	\$ 6,857	\$ 5,058	\$ 71,265
As at March 31, 2018	\$ 64,433	\$ 178	\$ 9,003	\$ 2,907	\$ 76,521

The above includes internally developed additions of \$1,405 [2018 - \$2,792], transfers of nil [2018 - \$28], impairments of \$4 [2018 - nil], and disposals of nil [2018 - (\$68)].

During the year, the Corporation carried out a review of the recoverable amount of assets and there was an impairment of \$182 identified [2018 - nil].

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 no capitalized borrowing costs [2018 - \$294 with rates of 2.15% to 2.65%].

10. LINE OF CREDIT

The Corporation has available a \$60,000 line of credit, which bears interest at prime less 0.55%, and charges a standby fee on the daily unadvanced portion of the credit facility at a rate of 0.09% per annum.

Included in interest expense is \$316 [2018 - \$277] relating to the line of credit.

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
Trade payables and accruals	\$ 19,076	\$ 15,486
Salaries payable	3,228	3,491
Taxes payable	4,733	4,413
Asset decommissioning provision	1	1
Player payable	1,337	1,114
Total accounts payable and accrued liabilities	\$ 28,375	\$ 24,505

12. LIABILITIES FOR UNCLAIMED PRIZES

	2019	2018
Unclaimed prizes		
Current prizes	\$ 16,862	\$ 18,659
Special prize fund	-	-
	\$ 16,862	\$ 18,659

	2019	2018
Special prize fund		
Balance, beginning of year	\$ -	\$ -
Unclaimed prizes expired during year	4,971	3,944
Prize payouts	(4,971)	(3,944)
Balance, end of year	\$ -	\$ -

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 purchased before March 2019 are retained in a prize fund for 744 days from the date of purchase of the ticket. Any sports games purchased after March 2019 are retained in the prize fund for 365 days from the last event on 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 from tickets printed after November 2018 will have an expiry date of one year, prior to this, instant tickets did not have an expiry period. For any new tickets that include an expiry date, all unclaimed prizes will be retained for 12 months from the launch of the game. For all tickets printed prior to December 2018, all unclaimed prizes are retained in a prize fund for 36 months from the date of launch of the game. Unclaimed prizes remaining after the prize claiming period ends 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.

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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13. DUE TO SHAREHOLDERS

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

	2019					
	Profit					
	Profit earned	Profit withheld	distributed	Profit paid	Profit payable	
New Brunswick Lotteries and Gaming Corporation	\$ 130,009	\$ 3,743	\$ 126,266	\$ 124,036	\$ 2,230	
Province of Newfoundland and Labrador	135,394	3,690	131,704	129,816	1,888	
Nova Scotia Gaming Corporation	138,572	4,755	133,817	131,891	1,926	
Prince Edward Island Lotteries Commission	18,250	1,898	16,352	16,156	196	
	\$ 422,225	\$ 14,086	\$ 408,139	\$ 401,899	\$ 6,240	

	2018					
	Profit					
	Profit earned	Profit withheld	distributed	Profit paid	Profit payable	
New Brunswick Lotteries and Gaming Corporation	\$ 128,666	\$ 3,743	\$ 124,923	\$ 122,330	\$ 2,593	
Province of Newfoundland and Labrador	133,774	3,690	130,084	128,381	1,703	
Nova Scotia Gaming Corporation	137,981	4,764	133,217	131,197	2,020	
Prince Edward Island Lotteries Commission	18,779	1,898	16,881	16,602	279	
	\$ 419,200	\$ 14,095	\$ 405,105	\$ 398,510	\$ 6,595	

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 final withholdings occurred in March 2019. The pension solvency deficit is expected to be eliminated and supplemental payments discontinued in fiscal 2020.

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, 2019, the Corporation withheld profit of \$14,086 [2018 - \$14,095].

On November 14, 2016, the Corporation filed an appeal with the Tax Court of Canada for notices of assessment received from the Canada Revenue Agency ["CRA"] for HST in respect of the operation of video lottery terminals on First Nations' reserves in the province of Nova Scotia. The assessments were paid, covered the periods from June 2009 to July 2013, and totaled \$29,668. The Corporation has been self-assessing HST for the periods from August 2013 onwards, and remitting the monthly payments to CRA. At March 31, 2019, the additional self-assessed amounts totaled \$40,374 [2018 - \$31,806]. All amounts paid to CRA have been reimbursed to the Corporation by NSGC. If the Corporation is successful, it will collect total amounts remitted to CRA and make a corresponding payment to the NSGC. Currently, the outcome is indeterminable.

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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14. LONG-TERM DEBT

	2019	2018
Bank term loan, amortized over 10 years, bearing variable interest rates based on 30-day Bankers' Acceptances, hedged by a fixed interest rate swap bearing interest at 1.98%, maturing in July 2026.	\$ 69,200	\$ 77,647
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.	12,533	28,930
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 3.14%, beginning August 2016 and maturing in August 2026.	6,581	7,337
Bankers' Acceptance, maturing on April 8, 2019 bearing interest at 2.49%.	15,000	-
Bankers' Acceptance, matured on June 4, 2018 bearing interest at 2.27%.	-	20,000
Bank term loan, amortized over 258 months, bearing a fixed interest rate at 3.50%, maturing in May 2038.	415	432
	103,729	134,346
Current portion of long-term debt	36,960	45,617
	\$ 66,769	\$ 88,729

Long-term debt is reduced by established monthly and quarterly 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, 2019 are approximately as follows: 2020 - \$36,960; 2021 - \$9,634; 2022 - \$9,848; 2023 - \$10,067; and 2024 - \$10,290.

Included in interest expense is \$2,371 [2018 - \$2,858] 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.

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15. CASH FLOW HEDGES

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, 2019, the Corporation recorded the fair value of its cash flow hedges as a long-term asset of \$976 [2018 - \$2,633] while the effective portion of the hedging derivative was recognized in other comprehensive income (loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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16. EMPLOYEE FUTURE BENEFITS

Pension benefits

The Corporation participates in a multi-employer defined benefit contributory pension plan. Benefits of the pension plan are based on employees' length of service and the average of the 60 consecutive months of highest pensionable earnings prior to termination or retirement. The Corporation's share of the multi-employer plan assets and the related accrued benefit obligation have been actuarially measured for accounting purposes as at March 31, 2019, 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 fair value of plan assets are broken down into two classes: 58% common stock [2018 - 57%], and 42% fixed income securities [2018 - 43%].

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 91.1%, based on the Corporation's share of the main plan liabilities to the total main plan liabilities as at March 31, 2017, 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 March 31, 2017 by Mercer, a firm of consulting actuaries. Despite there being a surplus of \$75,600 on a going concern basis, the valuation resulted in a solvency deficit of \$12,900 for the entire plan. Pursuant to the Act, the Corporation will pay its share of special payments, on average \$5,013 annually, into the Plan in addition to the employer contribution for current service cost. The next actuarial funding valuation will be performed at March 31, 2020. The additional amount paid during the fiscal year ended March 31, 2019 was \$4,898 [2018 - \$5,250].

Other post-employment benefits

The Corporation also sponsors the following post-employment benefits:

1. Extended health and dental benefits.
2. Life insurance and ad hoc supplementary pensions.

The most recent actuarial valuation of the other post-employment benefits liabilities was conducted on March 31, 2018, and those results were extrapolated to March 31, 2019. 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 \$739 [2018 - \$771] is recorded and is included as part of other post-employment benefits.

Atlantic Lottery Corporation Inc.

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[thousands of dollars]

16. 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)	
	2019	2018	2019	2018
Change in defined benefit obligation				
Balance, beginning of year	\$ 188,348	\$ 172,127	\$ 13,082	\$ 14,447
Current service cost [employer portion]	5,534	4,890	844	892
Interest expense	6,724	6,615	473	558
Cash flows				
Benefits paid	(8,206)	(6,821)	(233)	(277)
Employees' contributions	2,539	2,445	-	-
Other significant events				
Employee contributions paid to buy past service	8	17	-	-
Remeasurements				
Effect of changes in demographic assumptions	-	34	-	(1,510)
Effect of changes in financial assumptions	8,838	7,994	722	368
Effect of experience adjustments	(23)	1,047	62	(1,396)
Balance, end of year	<u>\$ 203,762</u>	<u>\$ 188,348</u>	<u>\$ 14,950</u>	<u>\$ 13,082</u>
Change in fair value of plan assets				
Balance, beginning of year	\$ 222,612	\$ 204,656	\$ -	\$ -
Interest income	8,168	8,056	-	-
Return on plan assets [excluding interest income]	6,799	6,045	-	-
Cash flows				
Employer contributions	8,006	8,214	233	277
Employees' contributions	2,539	2,445	-	-
Benefits paid	(8,206)	(6,821)	(233)	(277)
Administrative expense paid from plan assets	-	-	-	-
Other significant events				
Employee contributions paid to buy past service	8	17	-	-
Balance, end of year	<u>\$ 239,926</u>	<u>\$ 222,612</u>	<u>\$ -</u>	<u>\$ -</u>
Amounts recognized in the consolidated balance sheet				
Defined benefit obligation ["DBO"]	\$ 203,762	\$ 188,348	\$ 14,950	\$ 13,082
Fair value of plan assets	239,926	222,612	-	-
Funded status	<u>(36,164)</u>	<u>(34,264)</u>	<u>14,950</u>	<u>13,082</u>
Sick leave provision	-	-	739	771
Net liability (asset)	<u>\$ (36,164)</u>	<u>\$ (34,264)</u>	<u>\$ 15,689</u>	<u>\$ 13,853</u>

Atlantic Lottery Corporation Inc.

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16. EMPLOYEE FUTURE BENEFITS [Continued]

	Defined benefit pension plan - Corporation's share		Other post-employment benefits (unfunded)	
	2019	2018	2019	2018
Components of defined benefit cost				
Service cost				
Current service cost	\$ 5,534	\$ 4,890	\$ 844	\$ 892
Total service cost	5,534	4,890	844	892
Net interest cost				
Interest expense on DBO	6,724	6,615	473	558
Interest income on plan assets	(8,168)	(8,056)	-	-
Total net interest cost	(1,444)	(1,441)	473	558
Administrative expenses on taxes	-	-	-	-
Defined benefit cost included in consolidated statement of operations ["Stmt. Ops. "]	4,090	3,449	1,317	1,450
Remeasurements				
Effect of changes in demographic assumptions	-	34	-	(1,510)
Effect of changes in financial assumptions	8,838	7,994	722	368
Effect of experience adjustments	(23)	1,047	62	(1,396)
Return on plan assets [excluding interest income]	(6,799)	(6,045)	-	-
Total remeasurements included in other comprehensive income (loss) ["OCI"]	2,016	3,030	784	(2,538)
Total defined benefit cost recognized in Stmt. Ops and OCI	\$ 6,106	\$ 6,479	\$ 2,101	\$ (1,088)
Net defined benefit liability (asset) reconciliation				
Net defined benefit liability (asset) as of beginning of year	\$ (34,264)	\$ (32,529)	\$ 13,082	\$ 14,447
Defined benefit cost included in Stmt. Ops.	4,090	3,449	1,317	1,450
Total remeasurements included in OCI	2,016	3,030	784	(2,538)
Cash flows				
Employer contributions	(8,006)	(8,214)	(233)	(277)
Net defined benefit liability (asset) as of end of year	\$ (36,164)	\$ (34,264)	\$ 14,950	\$ 13,082
Significant assumptions				
Benefit obligation				
Discount rate	3.40%	3.65%	3.40%	3.65%
Rate of salary increase	2.25%	2.25%	-	-
Rate of price inflation	1.75%	1.75%	-	-
Rate of pension increase [service after July 1, 2013]	0.88%	0.88%	-	-
Rate of pension increase [service before July 1, 2013]	1.75%	1.75%	-	-
Rate of immediate trend of health care costs	-	-	3.17%	3.30%
Defined benefit cost				
Discount rate	3.65%	3.90%	3.65%	3.90%
Rate of salary increase	2.25%	2.25%	-	-
Rate of price inflation	1.75%	1.75%	-	-
Rate of pension increase [service after July 1, 2013]	0.88%	0.88%	-	-
Rate of pension increase [service before July 1, 2013]	1.75%	1.75%	-	-
Rate of immediate trend of health care costs	-	-	3.30%	3.27%

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16. 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 DBO:

	Change in discount rate	Defined benefit pension plan - Corporation's share		Other post-employment benefits (unfunded)	
		Weighted average duration of DBO	2019	Weighted average duration of DBO	2019
Effect on net DBO	+ 0.5%	17.13 years	\$ 187,037	19.62 years	\$ 13,554
Effect on net DBO	- 0.5%	18.20 years	\$ 223,179	20.45 years	\$ 16,561
	Change in inflation rate		2019		2019
Effect on net DBO	+ 0.5%		\$ 217,990		N/A
Effect on net DBO	- 0.5%		\$ 193,000		N/A
	Change in mortality		2019		2019
Effect on net DBO	- 1 year setback		\$ 209,312		\$ 15,341
Effect on net DBO	+ 1 year setback		\$ 200,417		\$ 14,562
	Change in health care cost trend rate		2019		2019
Effect on net DBO	+ 1.0%		N/A		\$ 18,287
Effect on net DBO	- 1.0%		N/A		\$ 12,394

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the net DBO as at March 31, 2019 as a result of reasonable changes in key assumptions.

17. 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 \$689 [2018 - \$676]. The provision is classified as a current payable of \$1 [2018 - \$1] and a long-term liability of \$688 [2018 - \$675].

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18. 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.

19. 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 below 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:

	2019	2018
New Brunswick Lotteries and Gaming Corporation	\$ 1,453	\$ 1,419
Province of Newfoundland and Labrador	1,115	1,130
Nova Scotia Gaming Corporation	1,782	1,750
Prince Edward Island Lotteries Commission	279	269
	<u>\$ 4,629</u>	<u>\$ 4,568</u>

20. 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.

	2019	2018
HST	\$ 48,239	\$ 47,714

21. 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 2019 to 2029. 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: 2020 - \$4,581; 2021 - \$4,227; 2022 - \$4,170; 2023 - \$3,513; and 2024 - \$2,952. Future lease payments due later than five years total \$10,699.

Other commitments

The Corporation entered into multiple agreements for infrastructure services, application services and project services. The minimum annual payments over the next five years are as follows: 2020 - \$6,434; 2021 - \$5,216; 2022 - \$3,203; 2023 - \$1,557; and 2024 - \$399.

Atlantic Lottery Corporation Inc.

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

	2019	2018
Decrease (increase)		
Accounts receivable	\$ (3,031)	\$ (2,636)
Prepaid expenses and deposits	7,083	5,979
Inventory	(3,124)	579
	\$ 928	\$ 3,922
Increase (decrease)		
Accounts payable and accrued liabilities	\$ 3,870	\$ (1,722)
Deferred revenue	292	(880)
Liabilities for unclaimed prizes	(1,797)	539
Due to shareholders	(355)	(2,984)
	\$ 2,010	\$ (5,047)
Net change	\$ 2,938	\$ (1,125)

23. 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, 2019 is \$2,474 [2018 - \$2,202], which includes pension benefits of \$153 [2018 - \$143].

Other related party transactions

The Corporation is related to its shareholders: New Brunswick Lotteries and Gaming Corporation, Province of Newfoundland and Labrador, NSGC and Prince Edward Island Lotteries Commission.

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

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24. 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.

	2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivatives designated as hedging instruments in an effective hedge	\$ -	\$ 976	\$ -	\$ 976
Total financial assets	\$ -	\$ 976	\$ -	\$ 976

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivatives designated as hedging instruments in an effective hedge	\$ -	\$ 2,633	\$ -	\$ 2,633
Total financial assets	\$ -	\$ 2,633	\$ -	\$ 2,633

The fair value of cash, restricted prize cash, accounts receivable, due to shareholders, line of credit, accounts payable and accrued liabilities and liabilities for unclaimed prizes approximates 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 as at the consolidated balance sheet date equals the fair value of the financial instrument.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[thousands of dollars]

25. 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.

26. 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.

Atlantic Lottery Corporation Inc.

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[thousands of dollars]

26. FINANCIAL RISK MANAGEMENT [Continued]

This risk is managed through frequent collection of revenue and the control to pull funds from retailers' bank accounts and through retaining security deposits where the individual risk is assessed as high. The 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 \$72 and the average balance for any one retail location outstanding is approximately \$6. There is an accounts receivable balance outstanding of \$22 greater than 90 days. As a result of the limited and controlled risk, there is no provision established for bad debts.

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 web-cash 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 \$60,000. Short-term financing is unsecured and interest is payable at prime less 0.55%, and charges a standby fee on the daily unadvanced portion of the credit facility at a rate of 0.09% 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	Less than 12			
	On demand	months	1 to 5 years	Over 5 years
Line of credit	\$ 12,649	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	-	28,375	-	-
Liabilities for unclaimed prizes	-	16,862	-	-
Long-term debt	-	36,960	39,839	26,930
Other long-term liabilities	-	15	660	13
	\$ 12,649	\$ 82,212	\$ 40,499	\$ 26,943

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[thousands of dollars]

26. 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 consists 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 0.55% and charges a standby fee on the daily unadvanced portion of the credit facility at a rate of 0.09%. Fluctuations in the prime rate by plus or minus 1% could impact the Corporation's annual net profit by an amount of \$126 [2018 - \$162] based on the line of credit balance as at March 31, 2019.

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.