

Consolidated Financial Statements

Atlantic Lottery Corporation Inc.

March 31, 2016

Independent auditors' report

To the Shareholders of
Atlantic Lottery Corporation Inc.

We have audited the accompanying consolidated financial statements of **Atlantic Lottery Corporation Inc.**, which comprise the consolidated balance sheet as at March 31, 2016 and the consolidated statements of operations, comprehensive income, changes in deficiency and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Atlantic Lottery Corporation Inc.** as at March 31, 2016, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Saint John, Canada,
June 9, 2016

Chartered Professional Accountants



A member firm of Ernst & Young Global Limited

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

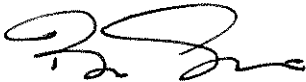
To the Shareholders of
Atlantic Lottery Corporation Inc.

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

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

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

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



Brent Scrimshaw
President & CEO



Patrick Daigle, CPA, CA
CFO

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

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

See accompanying notes

On behalf of the Board


Director


Director

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

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

See accompanying notes

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

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

See accompanying notes

ATLANTIC LOTTERY CORPORATION INC.
CONSOLIDATED STATEMENT OF CHANGES IN DEFICIENCY
AS AT MARCH 31

[In thousands of dollars]

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

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

See accompanying notes

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

[In thousands of dollars]

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

See accompanying notes

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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

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

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

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

The Corporation has conduct and manage agent agreements with the provinces of New Brunswick, Newfoundland and Labrador and Prince Edward Island which include similar provisions. Also, these provinces currently do not have the intent to cancel the agreements and therefore all assets and liabilities related to the lottery operations in these provinces are also recorded with the same assumption in the Corporation's consolidated financial statements.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Basis of measurement

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

Statement of compliance

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

Functional and presentation currency

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

Basis of consolidation

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

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

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

Cash and restricted prize cash

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

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

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

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

Inventory

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Property and equipment

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

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

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

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

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

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

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

Intangible assets

Intangible assets acquired separately

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

<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
Finance lease	Lease term

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

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

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

Internally generated intangible assets - research and development expenditures

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

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

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

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

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

Borrowing costs

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

Leases

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Corporation as a lessee

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

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

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

Impairment of financial assets

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

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

Impairment of non-financial assets

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Provisions

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

Pensions and other post-employment benefits

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

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

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

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

Financial instruments

Initial recognition and measurement

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Subsequent measurement of financial assets

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

- i. Financial assets at fair value through profit or loss

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

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

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

- ii. Loans and receivables

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

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

Derecognition

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

Impairment of financial assets

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

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

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

Subsequent measurement of financial liabilities

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

i. Financial liabilities at fair value through profit or loss

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

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

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

ii. Financial liabilities at amortized cost

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

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

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

iii. Derivatives designated as hedging instruments in an effective hedge

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

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

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

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

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

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

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

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

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

Current versus non-current classification

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

- Where the Corporation will hold a derivative as an economic hedge [and does not apply hedge accounting] for a period beyond 12 months after the reporting date, the derivative is classified as non-current [or separated into current and non-current portions] consistent with the classification of the underlying item.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Derecognition

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

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

Revenue recognition

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

Gross ticket sales

Lottery revenue

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

Instant ticket revenue

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

Interactive revenue

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

Net video lottery receipts

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Entertainment center revenue

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

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

Prize expense

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

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

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

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

Interest income

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

Sales tax

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

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

Income tax

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[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 20].

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

Determination of useful lives for tangible and intangible assets

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

Impairment of financial assets

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

Impairment of non-financial assets

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[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 and other post-employment benefits obligations, are determined using actuarial valuations. An actuarial valuation involves making various assumptions.

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

Development costs

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

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

Fair value of financial instruments

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

Revenue recognition – Player Loyalty Program

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9, *Financial Instruments*

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

IFRS 15, *Revenue from Contracts with Customers*

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

IFRS 16, *Leases*

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

5. CASH

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

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

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

6. ACCOUNTS RECEIVABLE

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

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

7. INVENTORY

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

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

8. PROPERTY AND EQUIPMENT

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

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

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

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

9. INTANGIBLES

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

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

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

9. INTANGIBLES [Continued]

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

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

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

10. LINE OF CREDIT

The Corporation has available a \$125,000 line of credit, which bears interest at prime less 0.50%, and charges a standby fee on the daily unadvanced portion of the credit facility at a rate of 0.1% per annum.

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

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

12. LIABILITIES FOR UNCLAIMED PRIZES

	2016	2015
Unclaimed prizes		
Current prizes	\$ 19,550	\$ 18,810
Special prize fund	2	2
	<u>\$ 19,552</u>	<u>\$ 18,812</u>

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

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

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

13. DUE TO/FROM SHAREHOLDERS

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

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

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

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

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

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

[thousands of dollars]

14. LONG-TERM DEBT

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

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

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

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

The Corporation has a debt covenant limiting cash payments to shareholders to be less than or equivalent to profit earned. The Corporation is in compliance with this covenant. No assets have been pledged as security for the above debt.

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[thousands of dollars]

15. LONG-TERM LEASE PAYABLE

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

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

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

16. CASH FLOW HEDGE

Derivatives not designated as hedging instruments

The Corporation does not use derivative contracts to manage transaction exposures.

Cash flow hedges

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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17. EMPLOYEE FUTURE BENEFITS

Pension benefits

The Corporation participates in a multi-employer defined benefit contributory pension plan. Benefits of the pension plan are based on employees' length of service and the average of the 60 consecutive months of highest pensionable earnings prior to termination or retirement. The Corporation's share of the multi-employer plan assets, the fair value on plan assets, and the related accrued benefit obligation have been actuarially measured for accounting purposes as at March 31, 2016 using the projected benefit method prorated on service and management's best estimate of expected plan performance, salary escalation and retirement ages of employees.

The main plan is funded by contributions from participating employers and from plan members, including the Corporation. As a multi-employer plan, obligations and assets are not segregated by employer. All main plan assets are available to provide for all main plan obligations. The Corporation's share of the main plan assets is 89.8%, based on the Corporation's share of the main plan liabilities to total main plan liabilities as at December 31, 2014, the date of the last actuarial valuation.

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

The most recent actuarial valuation for funding purposes was performed on December 31, 2014 by Mercer, a firm of consulting actuaries. This valuation disclosed an unfunded liability of \$19,650 for the entire plan [2013 - \$5,107 for all] of which the Corporation is one of the participating employers. Pursuant to the Act, the Corporation will pay its share of special payments, on average \$13,400 annually, into the Plan in addition to the employer contribution for current service cost. These payments will continue until 2019 or until the benefits under the Act are fully funded as determined by an actuarial valuation whichever comes first. The additional amount paid during the fiscal year ended March 31, 2016 was \$14,078 [2015 - \$9,504].

Other post-employment benefits

The Corporation also sponsors the following post-employment benefits:

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

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

Sick leave

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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17. EMPLOYEE FUTURE BENEFITS [Continued]

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

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

Atlantic Lottery Corporation Inc.

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[thousands of dollars]

17. EMPLOYEE FUTURE BENEFITS [Continued]

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

Atlantic Lottery Corporation Inc.

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17. EMPLOYEE FUTURE BENEFITS [Continued]

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

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

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

18. PROVISIONS

Decommissioning

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[thousands of dollars]

19. SHARE CAPITAL

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

20. PAYMENTS TO THE GOVERNMENT OF CANADA

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

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

21. TAXES

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

	2016	2015
Harmonized Sales Tax (HST)	<u>\$ 45,838</u>	<u>\$ 43,521</u>

22. COMMITMENTS

Operating leases

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

Outsource agreement

On July 18, 2010, the Corporation entered into a 7 year outsourcing agreement with CGI, with the option of three one year renewable terms. The scope of the agreement is for Infrastructure Services, Application Services, Project Services and the purchase of most non-gaming IT assets. The minimum annual payment to CGI over the next year is as follows: 2017 - \$12,506.

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[thousands of dollars]

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

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

24. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

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

Other related party transactions

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

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

Atlantic Lottery Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[thousands of dollars]

25. FINANCIAL INSTRUMENTS

Fair value versus carrying amounts

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[thousands of dollars]

26. CAPITAL MANAGEMENT

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

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

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

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

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

27. FINANCIAL RISK MANAGEMENT

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

Risk management framework

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

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

Credit risk

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

Atlantic Lottery Corporation Inc.

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March 31, 2016

[thousands of dollars]

27. FINANCIAL RISK MANAGEMENT [Continued]

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

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

Liquidity risk

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

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

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

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

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

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[thousands of dollars]

27. FINANCIAL RISK MANAGEMENT [Continued]

Market risk

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

Currency risk

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

Interest rate risk

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

Other market price risk

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

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

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

28. SUBSEQUENT EVENTS

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

29. COMPARATIVE FIGURES

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