Chair Message

“At the time, we identified ways to improve operations — we invested in capital, infrastructure, innovation and product development.”

Sean O’Connor
Independent Board Chair

Board Members who served between April 1, 2016 - March 31, 2017

Les Barker - Nova Scotia
Kevin Breen - Newfoundland and Labrador
Jean Brousseau - New Brunswick
Dan Campbell - Prince Edward Island
Jay Griffin - Newfoundland and Labrador
Patricia Mella - Prince Edward Island
Bob MacKinnon - Nova Scotia
Nicole Picot - New Brunswick
Jean-Marc Dupuis - New Brunswick
When I was appointed chair of Atlantic Lottery’s Board of Directors, a revolution in the gaming industry had started. Consumers were beginning to rely on mobile technology more in managing their everyday lives, and this included entertainment and gaming. Products needed to appeal to the changing demographics of our region.

At the time, we identified ways to improve operations — we invested in capital, infrastructure, innovation and product development — all while continuing to run in a responsible manner. Back-end technology systems were replaced to address the new demands of the market and operational costs were carefully controlled to ensure the company could operate competitively. We looked to our board and senior management team for strategic oversight, and implemented best-in-class levels of operational discipline, rigour and analysis. The result is that over the past five years, our profit has grown from $361 million to an all-time profit record of $431 million in 2015-16.

This past year, the four auditors general of Atlantic Canada completed an exhaustive audit on our operations. They identified a series of recommendations for the board and the company’s management, all of which have been acted upon. Their work, and our commitment to progressive change, will ensure that we continue to get better and better as a company.

As a result of a comprehensive governance review, we also made changes to our board this past year. These changes were made to support the strategic direction of the company and the work of the management team. Skills and experience were placed front and centre to ensure the principles of good corporate governance are upheld. But more importantly, these changes support delivery of our mandate of providing Atlantic Canadian adults with responsible, regulated gaming options, and return 100 per cent of lottery profits to the four Atlantic Canadian governments.

Today we find ourselves at an inflection point, not only as a company, but as an industry Atlantic Lottery is at the nexus of tradition and modernization. The company’s ability to offer products that captivate the imagination and entertain in unexpected ways will drive its success, and the returns it delivers to the communities we serve. In fact, in 2017-18, we will launch more player-facing improvements than ever before.

The future of Atlantic Lottery will continue to be driven by change. Today’s players want consistency across multiple platforms, so we are fully integrating back-end systems. Innovation will help us remain relevant, so that more profits stay here in our communities. We are proud of the work being done and we are excited to see where Atlantic Lottery will go next.

One thing will remain consistent: Atlantic Lottery will continue to make a valuable contribution to the vitality of our region through the spirit and ambition of its employees, the progressiveness of its shareholders, and, ultimately, the support of its players.
CEO Message

“Staying innovative is key to keeping Atlantic Lottery relevant, and we are up to the task.”

Brent Scrimshaw
President and CEO

Executive Team Members employed between April 1, 2016 - March 31, 2017

- Tracey D. Cutcliffe - VP, Stakeholder Relations & Communications
- Patrick Daigle - Chief Financial Officer
- James R. Davison - VP, Digital Gaming and Innovation
- Philip J. Holmes - VP, Strategy and Planning
- Kristin E. Killen - VP, Information Technology
- James T. Porter - Chief Operating Officer
- Martha E. Stevens - VP, Sales & Marketing
- Alison Stultz - VP, People
This year marked Atlantic Lottery’s 40th anniversary. Over that long history, the company has been a successful model of Atlantic Canadian cooperation. When it originated, the lottery had two jobs: 1. to provide Atlantic Canadian adults who choose to play, with safe, responsible and regulated games, and 2. through efficient operations, to return 100 per cent of profits from lottery and gaming sales to the four Atlantic Canadian provinces. Those two jobs remain our priorities today. To that end, Atlantic Lottery has delivered $9 billion to fund programs that support the citizens of this region.

In fiscal year 2016-17, I’m proud to share that Atlantic Lottery profits exceeded target at $422 million. Our profit trajectory, largely the result of operational improvements, now sees us returning $60 million dollars more per year than we were just five years ago. We credit this success to our 600 remarkable employees across all four provinces, who come to work every day motivated by the fact that what they do transforms their communities for the better. Their hard work is contributing to building a stronger Atlantic Canada.

Of course, overall profit is a big part of the story but it’s not the whole story. We experienced a good number of challenges this past year. Slowing economies, increased competition, and the accelerating shift to digital gaming, a channel in which we are not yet fully product competitive, are all hurdles that we are working to clear. Simply, we must be prepared to compete and win if we are to continue to deliver the profits from gaming that our provinces deserve.

Staying innovative is key to keeping Atlantic Lottery relevant, and we are up to the task. In addition to celebrating the 145,000 wins we see every day, we are responsibly changing our game roster and expanding the space in which we operate. At the same time, we are investing in technology and developing fresh and diverse products. Investment in innovation and commitment from employees are what’s driving us.

This time next year, Atlantic Lottery will report on new games and improved player experiences that are being launched in 2017-18. And that is just the beginning.

Our five-year strategy shows a trajectory of growth. And in line with that strategy, Atlantic Lottery is working towards offering all of its players the products they want, the way they want them -whether that’s online, mobile, at one of our nearly 4,000 retailers, or one of our two entertainment centres. We can and will succeed.

The company has come a long way since it was formed 40 years ago, and I’m excited to see where our commitment and dedication to Atlantic Canadians will steer us in the next four decades.

I invite you to read through our annual report. Reach out to us if you have questions or comments at askaway.ca or to me personally on Twitter @ brentscrimshaw. Atlantic Lottery is your company too and we want to hear from you.
Every business decision at Atlantic Lottery is made with the lens of balancing social responsibility, delivering a great play experience for our customers, and maximizing profits for Atlantic Canadians. With that in mind, the company is pleased that in 2016-17 it exceeded its target by $6.5 million and returned $422 million in profits to the provincial governments in Atlantic Canada.

In total, $276 million was delivered to the four Atlantic provincial governments from the destination line of business and $146 million from the retail and iLottery line.

Atlantic Lottery continues to evolve to ensure it meets the expectations of players now and in to the future with a focus on generating sustainable and responsible profits. While profits were strong, increased off-shore and domestic competition challenged performance in areas such as top line revenue and player participation. New players are demanding new games and notably, new play experiences, reinforcing the importance of the investments the company is making in technology and innovation.

The company is nearing the end of a significant technology project, impacting all areas of the business. In 2017-18, it will launch new gaming and financial systems on a modernized infrastructure. With these in place, the company is now well positioned to look to the future, providing the level of services and product innovations required for success.
**Distribution of Profits by Province**

<table>
<thead>
<tr>
<th>Province</th>
<th>2017 Budget</th>
<th>2017 Actual</th>
<th>2016 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>NB Net Profit</td>
<td>$123,510,487</td>
<td>$128,229,454</td>
<td>$132,220,702</td>
</tr>
<tr>
<td>NL Net Profit</td>
<td>$140,912,676</td>
<td>$138,883,770</td>
<td>$148,473,018</td>
</tr>
<tr>
<td>NS Net Profit</td>
<td>$134,710,774</td>
<td>$136,963,344</td>
<td>$132,963,344</td>
</tr>
<tr>
<td>PE Net Profit</td>
<td>$15,910,219</td>
<td>$17,944,408</td>
<td>$17,901,013</td>
</tr>
</tbody>
</table>

**Distribution of Profits by Line of Business**

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>2017 Budget</th>
<th>2017 Actual</th>
<th>2016 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail &amp; iLottery</td>
<td>$131,942,171</td>
<td>$145,603,874</td>
<td>$160,996,688</td>
</tr>
<tr>
<td>Destination &amp; Red Shores</td>
<td>$283,101,785</td>
<td>$276,417,609</td>
<td>$270,561,389</td>
</tr>
</tbody>
</table>

Atlantic Lottery Annual Report 2016/2017
Atlantic Lottery uses a balanced scorecard to measure and report on metrics key to operating the business. It is the company’s strategic objectives which form the basis of the scorecard measures. The scorecard then aligns business activities to Atlantic Lottery’s vision and strategy and monitors performance against strategic goals.

### Corporate Performance to Targets

<table>
<thead>
<tr>
<th>Metric</th>
<th>Actual*</th>
<th>Target*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Perspective: Give Back</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Net Profit</td>
<td>$422.00</td>
<td>$415.00</td>
</tr>
<tr>
<td>NB Net Profit</td>
<td>$128.20</td>
<td>$123.50</td>
</tr>
<tr>
<td>NL Net Profit</td>
<td>$138.90</td>
<td>$140.90</td>
</tr>
<tr>
<td>NS Net Profit</td>
<td>$137.00</td>
<td>$134.70</td>
</tr>
<tr>
<td>PE Net Profit</td>
<td>$17.90</td>
<td>$15.90</td>
</tr>
<tr>
<td>Total Lottery Sales</td>
<td>$1,152.30</td>
<td>$1,178.00</td>
</tr>
<tr>
<td><strong>Perspective: Players</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td># of Transactions</td>
<td>115.2M</td>
<td>118.9M</td>
</tr>
<tr>
<td>Active iLottery Player Base</td>
<td>46,778</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Perspective: Operational Excellence</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unfavorable Opinion Among Involved Atlantic Canadians</td>
<td>29.50%</td>
<td>25%</td>
</tr>
<tr>
<td>Project Portfolio Health Index</td>
<td>66.70%</td>
<td>90%</td>
</tr>
<tr>
<td><strong>Perspective: People</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Experience Index</td>
<td>90.40%</td>
<td>87%</td>
</tr>
</tbody>
</table>

*dollars in millions
Consolidated corporate net profit:
Atlantic Lottery exceeded its Corporate Net Profit target, delivering $422 million against a budget of $415 million. With overall sales falling short of budget, the positive profit variance was generated largely through operational expense savings due to a change in the company’s information technology service model and operational cost-efficiency initiatives. In addition, savings were also identified through the delay of the launch of a large-scale gaming system implementation to 2017-18.

Provincial net profit:
Net Profit is attributable to each province according to the terms of the Unanimous Shareholders Agreement, the document that defines the interprovincial governance of Atlantic Lottery. During 2016-17, Atlantic Lottery exceeded the profit targets in three of the four provinces. Economic factors impacting Newfoundland and Labrador resulted in the profit target being missed by $2 million.

Corporate lottery sales:
Total Lottery Sales fell short of budget by $26 million or two per cent, with year-end sales totalling $1.152 billion against budget of $1.178 billion. This variance is essentially the result of a video lottery sales shortfall of $20 million (against a budget of $449 million), and a draws games shortfall of $6 million (against a budget of $319 million).

Player transactions:
Category sales performance of draws, sports and digital games at alc.ca (online) exceeded their targets. However, the overall number of player transactions ended the year at 115.2 million, a shortfall of 3.7 million (two per cent) from target. The gap can largely be attributed to the lag in launching new products due to the delay in Atlantic Lottery’s gaming system replacement project. Scratch’N Win sales under performance and an upward shift in average spend per transaction makes up the remainder of the gap.

Active iLottery player base:
Continuing its positive year-over-year upward trajectory, the Active iLottery Player Base sat at 46,778 at the end of March, up 1 per cent from the same month the year prior. The delayed launch of the gaming system and the associated new digital games, led to a result 13,222 below target. Even with 12,000 new players acquired this year, it was not enough to overcome the churn. It is critical that the digital store, alc.ca, offers a competitive suite of products in an engaging, user friendly and most importantly mobile environment, if it is to achieve its goals in this channel.

Unfavourable opinion of Atlantic Lottery:
Atlantic Lottery works hard to ensure that its reputation among Atlantic Canadians is strong and supportive of its operations. The company measures unfavourable public opinion as its core measure. The 2016-17 fiscal year missed the target with a score of 29.5 per cent. Although causation is difficult to substantiate, the auditors general audit of Atlantic Lottery (released in October) may be a contributing factor. The company has since implemented the recommendations of the auditors, and made conscious efforts to increase its engagement with all Atlantic Canadians through traditional and social media. The company will continue to work diligently to ensure it has the trust and support of all Atlantic Canadians.

Project portfolio health index (PPHI):
The PPHI measures project execution for all major projects or programs planned for the fiscal year, including adherence to budget, schedule, and scope. Included in the 2016-17 scores are the gaming system replacement program and the IT renewal program. Both programs were on track with respect to budget and scope, however both programs have experienced schedule delays resulting in a final score of 66.67 per cent.

Employee experience index:
A competent, adaptable and engaged workforce is a critical enabler supporting Atlantic Lottery’s strategy. Achieving its long-term people goal of having employees define their work experience at Atlantic Lottery as the best of their career is a solid foundation to achieve overall corporate success. The year-end rating in 2016-17 was 90.4 per cent, exceeding the target by nearly four per cent. Results are based on employee experience surveys and compliance with performance management processes.
Economic Impact: Financial Position Overview

This section provides a narrative summary of the financial position of Atlantic Lottery and is to be read in conjunction with the 2016-17 consolidated financial statements and associated notes. The audited statements are prepared in accordance with the International Financial Reporting Standards (IFRS). Atlantic Lottery is incorporated under the Canada Business Corporations Act with its shareholders the four Atlantic provinces; New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island. See the Financial Statement (FS) notes one and two for additional detail regarding the nature of operations for Atlantic Lottery and the significant accounting policies employed.

Financial Overview
Consolidated Balance Sheet, as at March 31, 2017

<table>
<thead>
<tr>
<th>Assets</th>
<th>Fiscal 2017</th>
<th>Fiscal 2016</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets (thousands)</td>
<td>$259,702</td>
<td>$241,793</td>
<td>$17,909</td>
</tr>
</tbody>
</table>

Overall assets increased 7 per cent or $18 million from fiscal 2016. The shorter term assets in total (cash, receivables, prepaid expenses) increased $2 million largely due to the increase of prepaid items related to an increase in multi-year service agreements for technology projects currently underway. The longer term assets in total (property and equipment, intangible assets, employee future pension benefits) increased by $16 million. This change in asset value is largely attributable to the reduction of asset value through depreciation and the increase in value of the employee future pension benefits. (See FS notes 7, 8 and 9)

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Fiscal 2017</th>
<th>Fiscal 2016</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Liabilities (thousands)</td>
<td>$242,865</td>
<td>$250,436</td>
<td>($7,571)</td>
</tr>
</tbody>
</table>

With respect to liabilities, there was an overall decrease of 3 per cent or $7.5 million for fiscal 2017. What’s important to note in this area is a change in the overall debt financing strategy for the corporation. In fiscal 2017, to better manage its debt financing requirements, Atlantic Lottery reduced its use of the available bankers’ acceptance facility and moved to an increased reliance on fixed term debt financing. Over time, this will result in reduced interest expense and require less administration time to manage the process. This change can be noted in the year-over-year decrease in the current portion of debt and the increase in the long-term portion. (See FS note 14)

<table>
<thead>
<tr>
<th>Shareholders’ Equity</th>
<th>Fiscal 2017</th>
<th>Fiscal 2016</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Shareholders Equity (thousands)</td>
<td>$16,837</td>
<td>$(8,643)</td>
<td>$25,480</td>
</tr>
</tbody>
</table>

The year-over-year increase in shareholders’ equity is attributable to $14 million in profit payment with holdings to fund the required special pension payments combined with a $10 million increase in the pension plan value related to a change in actuarial assessment assumptions. The increase in pension value is represented in the Shareholders’ Equity section as a component of Other Comprehensive Income (OCI). OCI identify and disclose those items of increased/decreased value that are of a non-cash nature. (See FS notes 13 and 17)
There was a 3 per cent shortfall in revenue last year. This shortfall of ($37 million) is largely represented by declines in the National products ($29.5 million), Regional products ($10.4 million) and Video Lottery program ($4.0 million). These declines were partially offset by revenue gains in the other product categories. See the Business Overview section for more detail on revenue performance.

Direct expenses primarily include commissions paid to retailers at $133 million and ticket printing costs at $10 million. These costs can be viewed as variable as they largely follow revenue, which accounts for the year-over-year decrease given the reduced total revenue amount.

Operating expenses are best categorized as fixed in that they do not materially fluctuate with revenue. The three largest components of operating expense include salaries and benefits (S&B), technology costs, and lease and depreciation (L&D) costs. A continued focus on cost management in fiscal 2017 provided for a $10 million cost saving in overall operating expenses. Reductions were found in S&B resulting from an early retirement program initiated in 2016, changes in technology infrastructure, and a sustained focus on efficient operations in areas like travel, consumables, training, and fleet expenses.

Other expenses include total taxes paid which represent 93 per cent or $47.9 million of the total. Additional information is referenced in FS note 21.

The outcome of total operations leads to a net profit of $422 million. While this is ($10 million) less than last year, it continues to represent a validation of Atlantic Lottery’s overall growth strategy resulting in a second consecutive year of plus $400 million in net profit.

Financial Overview
Consolidated Statement of Operations, year ended March 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2017</th>
<th>Fiscal 2016</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$1,152,345</td>
<td>$1,189,407</td>
<td>($37,062)</td>
</tr>
<tr>
<td>Prizes</td>
<td>$392,267</td>
<td>$406,493</td>
<td>($14,226)</td>
</tr>
<tr>
<td>Net Revenue</td>
<td>$760,078</td>
<td>$782,914</td>
<td>($22,836)</td>
</tr>
<tr>
<td>Direct Expenses</td>
<td>$146,070</td>
<td>$150,095</td>
<td>($4,025)</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$614,008</td>
<td>$632,819</td>
<td>($18,811)</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$140,918</td>
<td>$151,189</td>
<td>($10,271)</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>$51,158</td>
<td>$50,051</td>
<td>$1,107</td>
</tr>
<tr>
<td>Net Profit</td>
<td>$421,932</td>
<td>$431,579</td>
<td>($9,647)</td>
</tr>
<tr>
<td>OPEX % of Net Revenue</td>
<td>18.5%</td>
<td>19.3%</td>
<td></td>
</tr>
<tr>
<td>Gross Profit % of Net Revenue</td>
<td>80.7%</td>
<td>80.8%</td>
<td></td>
</tr>
<tr>
<td>Net Profit %</td>
<td>55.5%</td>
<td>55.1%</td>
<td></td>
</tr>
</tbody>
</table>

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Other expenses include total taxes paid which represent 93 per cent or $47.9 million of the total. Additional information is referenced in FS note 21.

The outcome of total operations leads to a net profit of $422 million. While this is ($10 million) less than last year, it continues to represent a validation of Atlantic Lottery’s overall growth strategy resulting in a second consecutive year of plus $400 million in net profit.
The statement of cash flows provides the basis to assess the ability of an organization to generate cash and evaluate the associated needs of those cash flows. ALC uses the indirect method where the Net Profit (Loss) is adjusted for the effects of non-cash transactions.

Operating activities provide the adjusted amount of the stated Net Profit. The adjustments include depreciation $32 million, Other Comprehensive Income $11 million, change in non-cash working capital ($13 million) and change in employee future benefits ($19 million). When these adjustments are applied against the Net Profit of $422 million, the resulting cash generated by Atlantic Lottery in fiscal 2017 is $432 million.

Investing activities provide a summary of the uses of cash. For Atlantic Lottery, the primary use of cash is found in the purchase of property and equipment ($4.2 million) and intangible assets (mostly comprised of software) at ($23 million). Any proceeds on asset disposal in the year reduces this amount. In fiscal 2017 $1.3 million was applied. See FS notes 8 and 9 for additional detail.

Financing activities include those transactions which change the composition of the outstanding equity and debt position of the company. These changes result from either the repayment of debt or the proceeds of debt. For fiscal 2017 the net change is a reduction of the overall debt position of $3 million. Since all profits are returned to the shareholders, Atlantic Lottery requires a comprehensive debt program to manage its day to day activities. See FS note 14 for an overview of the current debt facilities in place.
Breaking down the lottery dollar

As mentioned earlier, 100 per cent of Atlantic Lottery profits are returned to the four Atlantic provincial governments, and that is just part of the story. Driving results through responsible growth and continuous improvement is clearly demonstrated through the breakdown of each and every Atlantic Lottery dollar; 91 cents stays in the four Atlantic Canadian provinces (except for some out-of-region operational costs and taxes).

37¢ - Profits to Atlantic Canada
In 2016-17, Atlantic Lottery returned $422 million in profit to the four Atlantic provinces to fund things like roads, schools, and hospitals.

34¢ - Winners in Atlantic Canada
In 2016-17, Atlantic Lottery paid out $392.3 million in prizes to winners in every corner of Atlantic Canada.

12¢ - Retailers in Atlantic Canada
Nearly 4,000 Atlantic Canadian businesses earn part of their income from sales of Atlantic Lottery products.

3¢ - Salaries and benefits in Atlantic Canada
Atlantic Lottery employs more than 600 Atlantic Canadians in all four provinces. They live here, work here, and spend their salaries here.

5¢ - Operations in Atlantic Canada
Operations contribute indirectly to more than 9,300 jobs and $1.2 billion in economic activity.

5¢ - Operations
There are times when Atlantic Lottery needs to partner with companies outside of Atlantic Canada, depending on the needs and the availability of third parties and the services they provide.

4¢ - Taxes
Yes, Atlantic Lottery pays taxes too. And the organization knows that a portion of the taxes do go back to Atlantic Canada which means that even more than 91 cents of every lottery dollar stays here.
Business Overview

Draw Games

Draw game sales are down year-over-year a total of $40 million. As the previous fiscal generated all-time record jackpots, much of this decline was anticipated; however, results still remained $6 million below budget.

The most significant contributing factor to the year-over-year results resides with national games (Lotto 6/49 and LottoMax), where large swings can occur due to the volatility of jackpots and the closely correlated impact on sales. The 2015-16 fiscal year delivered nearly a 50 per cent increase in sales over the previous year on LottoMax due to an unprecedented 30 MaxMillions events that year. As a result, current year-over-year results are substantially down. The jackpot impact is further compounded by the associated spiel products (TAG and Twist), which are sold as an addition to the initial national game sale and contribute more than 30 per cent of the national brand sales value.

Additionally, the ongoing project to replace existing gaming systems precluded the ability to deliver new games to players in 2016-17, while two existing games (ShaBam and Pik4) were removed from market. The benefits of this significant investment in gaming technology will start to be realized in 2017-18 with the delivery of the new applications. This will enable the timely introduction of modern products to address changing player preferences beginning with two new game launches in 2017-18.

Digital marketing will continue to promote jackpots and purchase opportunities to the right players at the right time. The 2017-18 fiscal year will also see the launch of a fully mobile-optimized user experience and subscription service to enhance ease of access, convenience, and overall player experience.

Draw Game Sales Year-over-Year

![Bar chart showing draw game sales year-over-year comparison between 2015-16 and 2016-17](chart.png)

- **Lotto 6/49**: 31% in 2016-17, 31% in 2015-16
- **Lotto Max**: 36% in 2016-17, 36% in 2015-16
- **Atlantic 49**: 8% in 2016-17, 8% in 2015-16
- **Pik 4**: 0.2% in 2016-17, 0.4% in 2015-16
- **TAG**: 14% in 2016-17, 14% in 2015-16
- **Keno Atlantic**: 4% in 2016-17, 3% in 2015-16
- **BUCKO**: 1% in 2016-17, 1% in 2015-16
- **Salsa Bingo**: 5% in 2016-17, 5% in 2015-16
- **Twist**: 0.01% in 2016-17, 0.1% in 2015-16
- **ShaBam**: 0.01% in 2016-17, 0.1% in 2015-16
Sport Games

The sports category continues to grow with positive results year-over-year and compared to budget. Sales growth was strongest on the Internet, up 10 per cent from last year and contributing 72 per cent of the overall $792k increase over 2015-16 results.

Leveraging the popularity of fantasy sports, the emerging PRO•LINE Fantasy brand delivered the largest growth rate, up 425 per cent and $712,000 from the prior year.

Digital marketing tactics and assets were utilized throughout the year and will continue to be a core growth strategy going forward. Fiscal year 2017-18 plans will also focus on delivering a fully optimized PRO•LINE experience for mobile devices, and will employ the power of digital technologies to improve customer experience across all distribution channels.
The **Instant Games** category is comprised of Scratch’N Win and Breakopen products, which account for half of the retail lottery channel; and iGames, available only on the Internet and contributing 31 per cent of total iLottery channel sales. In total these products delivered $5.6 million in sales growth year-over-year, falling just $400,000, or 0.1 per cent, short of budget.

**Scratch’N Win** games yielded 73 per cent of the total category sales growth in 2016-17, supported by player and retailer research efforts, product introductions, and advertising campaigns. The Christmas season produced record sales results with the help of an increased focus on mass media and in-store promotions.

The growth strategy for 2017-18 includes updates to the prize structure that will increase the payout by two per cent. This strategy aims to improve player experience, solidifying the core player base.
Plans for 2016-17 assumed a shift in play from Breakopen to Scratch’N Win with $2 million in budgeted sales transferred between these product lines. The anticipated swing in sales did not fully materialize, resulting in a $3 million positive variance to budget for Breakopen, offset partially by the $2 million negative variance in Scratch ‘N Win. Growth has slowed from four per cent year-over-year in 2015-16 to one per cent ($800,000) in 2016-17, mainly due to economic factors impacting Newfoundland and Labrador where more than 60 per cent of Breakopen sales reside.

Longer term strategies for the Breakopen product line will attempt to benefit from the digital instant experience, with trials of digital Breakopen applications, coordinated virtual and physical tickets, and eventually shared prize pooling.

An aggressive 25 per cent sales growth was planned for the iGames product line in 2016-17 based on the gaming system replacement. Delays in project delivery resulted in a full year on existing technology, with a limited portfolio of games and features. The result was $1.4 million negative performance against budget, but the iGames products still delivered $700,000 in growth year over year thanks to favourable jackpots, promotions, and digital marketing tactics related to iBingo.

Implementation of the new gaming system in 2017-18 will deliver a new platform for iBingo with new features, new instant win games introducing variety and freshness, and an improved mobile-optimized user experience.
Video Lottery

**Video Lottery** sales have experienced reasonable growth over the prior two years following an investment in new technology, and was planned to continue into 2016-17 with budgeted growth of $16 million. An unexpected significant downturn in the Newfoundland and Labrador economy was one factor that contributed to slowed growth. Both Newfoundland and Labrador and New Brunswick contributed to a combined $6 million toward the corporate year-over-year decline of $4 million in sales.

While Nova Scotia also under performed against budget, $2 million in year-over-year growth was realized largely due to the replacement of all Techlink video lottery devices with IGT Prodigy Vu terminals. The replacement of 12 slot machines at Red Shores with video lottery terminals also yielded positive results for Prince Edward Island.

Numerous initiatives were undertaken to mitigate the negative performance impact. To recover from the loss of the two high revenue sites in New Brunswick, the Coasters brand was expanded to include two new sites and will be developed further in 2018 to include another two sites. Significant effort was spent refining the technical performance of the IGT GL-20 terminals, and on asset management to redistribute terminals to maximize asset utilization.
The agility of the software content management application allowed for the introduction of five new games and the return of two favourites to the player community. This strategy of evolving and enhancing the video lottery game portfolio will continue with plans to launch seven new games next year, along with the implementation of new system features to optimize time of day and regional play.

Plans to continue delivering the best player experience include investigating alternative vendor platforms to drive new content for players by diversifying the product mix, and updating minimum site standards. Continued investment in marketing programs will support player acquisition.

For the next fiscal year, the company will leverage the system capability of managing gaming devices remotely to reduce operational expenses and increase speed to market. Cross-functional teams actively engage with vendors to ensure asset availability is at the highest level possible.
Red Shores

Casino games, harness racing, food and beverage, and lottery ticket sales are offered at the two Red Shores facilities in Prince Edward Island. They contributed a combined 27 per cent to the total lottery sales for the province, representing year-over-year growth of more than $800,000, and exceeding budget by more than $500,000. Red Shores contributed $1.9 million (11 per cent) to Prince Edward Island’s total profit in 2016-17.

Casino Games

Casino games are the major contributor to Red Shores’ revenues, making up 71 per cent of sales for this channel. Lottery sales were up $621,000 over the prior year, driven by improved performance in slots and the introduction of Ultimate Texas Hold’em, combined with the removal of Let it Ride.

Atlantic Lottery saw renewed emphasis in 2016-17 on the gaming component of the Red Shores portfolio, with the focus on asset management, slot utilization, and promotional activities including the successful execution of several VIP appreciation events. Promotions remain a core growth strategy going into 2017-18, enabled by the recent implementation of a new casino management system.

At the Charlottetown location, a complete casino floor redesign project was kicked off to enhance overall customer experience, including improvements to the floor layout, new amenities, updated décor, and the addition of WiFi. With planning efforts now complete, the bulk of the changes will be executed next year. Also planned for 2017-18 is the introduction of new electronic roulette, baccarat table games, and slot tournament games.
Harness Racing

Harness racing also performed favourably compared to prior years, as well as to current year budget, accounting for 10 per cent of total Red Shores’ sales in 2016-17. The Back to the Track campaign was launched and will continue through next year, delivering a variety of on-track promotions as well as a learn-to-wager educational offering for new players.

Signature events such as the annual Governor’s Plate and Gold Cup & Saucer continued to support revenues in the harness racing category. Red Shores hosted the Atlantic Breeders Crown Weekend banquet for the first time this year and is confirmed as the final Canadian host track for the World Driving Championship in August 2017.

The focus on improving customer experience continues through the harness racing category with a full rebuild of the exterior grandstand seating in 2018, as well as significant maintenance of the starting gates.
Food & Beverage

All brands in the food and beverage category showed marginal growth year-over-year, due to the continued success of various themed and specialty events coupled with strategic pricing increases aimed at maintaining competitiveness with local markets.

The 2017-18 strategy focuses on utilizing food and beverage to augment the gaming and racing experiences at Red Shores, including promotions for hotels and bus tours, redemption of loyalty points for gaming guests, and specialty dining experiences paired with harness racing events.
Sales Channels

Atlantic Lottery manages four sales distribution channels, each providing a unique user experience aimed at satisfying a variety of player preferences.

The retail lottery channel remains the most popular for players purchasing draw games, instants (Scratch'N Win and Breakopen) and sports, representing 58 per cent of total corporate lottery sales.

Performance in 2016-17 was down $35 million from the prior year and $3 million behind budget. With 95 per cent of total draw game sales at retail, this channel felt the full impact of fluctuations in jackpots for national games and delays in the gaming system replacement program, which more than accounts for the overall downward results.

The destination channel delivers gaming in a social setting with representation at more than 960 age-restricted sites. Contributing 38 per cent to total corporate lottery sales, the destination channel accounts for nearly 100 per cent of video lottery sales and less than one per cent each of draws, instants, and sports sales.

Results in 2016-17 were down $4.5 million from the prior year and $20.5 million below budget. All product categories under-performed, but the economic challenges impacting video lottery were by far the most significant contributing factor to total channel results.
The Red Shores entertainment facilities provide Atlantic Lottery’s only access to live table games and slots, the time-honoured Island harness racing tradition, and award-winning dining experiences, the sum of which account for 96 per cent of total Red Shores sales. The remainder comes largely from video lottery, with marginal sales in the draws, instants, and sports categories.

In Prince Edward Island this channel accounts for 27 per cent of total sales for the province. Positive results were achieved in 2016-17 as budget targets were exceeded and $800,000 in growth was delivered year-over-year.

Accounting for 2.5 per cent of corporate sales, the iLottery channel represents Atlantic Lottery’s digital presence with online and mobile offerings for draw games, instants, and sports. While sales were up $1.7 million from the prior year, performance fell short of budget by $2.5 million due to delays with the gaming system replacement project.

With updated technology in place for 2017-18, both the iLottery and retail lottery channels will benefit from improved player experience, enhanced game options, and cross-promotional capabilities that will be available.
The winners’ communications strategy continues to drive awareness of wins in the region and has had a positive impact on sales. The map below reflects wins of $10,000 or more as awarded by Province of Residence. Any groups claiming prizes are reflected in the map as one prize.

**Exceptions not included in 2016/17 map:**
1. Ontario winner who bought a Tag ticket in New Brunswick and won $100,000
2. Ontario winner who bought a Lotto 649 ticket in Newfoundland and Labrador and won $10,000
3. Ontario winner who bought a Super Pack ticket in Nova Scotia and won $10,000
4. Ontario winner who bought a Crossword Deluxe in Newfoundland and Labrador and shared a $30,000 win with a Newfoundland and Labrador winner. The Newfoundland and Labrador winner is included in the map.
5. Quebec winner who bought an Atlantic 49 ticket in Newfoundland and Labrador won $25,649
6. Quebec winner who bought an Atlantic 49 ticket in Newfoundland and Labrador won $25,649
As Atlantic Lottery evolves its business to meet player demands and competes with operators outside Atlantic Canada, it knows employees will be its differentiator and driving force.

Atlantic Lottery people-focused results and initiatives in 2016-17 included:

**Retention**
At the end of the fiscal year, the company employed 653 people across the Atlantic Provinces and achieved a retention rate of 89 per cent, meeting target.

**Employee experience index**
Atlantic Lottery’s Employee Experience Index enables the company to measure and report on performance management, as well as variable, top-of-mind topics of interest to employees. The company exceeded its target of 87 per cent, ending the year with a score of 90.4 per cent.

**Career opportunities**
Through various technology and innovation projects, Atlantic Lottery provided its employees with new career opportunities. These opportunities enabled employees to not only lend their knowledge and expertise but also to ensure core operations ran smoothly.

**Corporate social responsibility (CSR) pillars**

**Diversity and inclusion**
Atlantic Lottery’s foundation is CSR. In 2016-17, the company became members of the Canadian Centre for Diversity and Inclusion (CCDI) and through CCDI, executed a Diversity and Inclusion Census to help Atlantic Lottery better understand its workforce and areas of focus that are important to them.

**Responsible gambling (RG)**
In 2016-17, the company renewed its World Lottery Association Level 4 (highest level) International RG Accreditation, which demonstrates its continued commitment to responsible gambling. Moreover, Atlantic Lottery works with industry and community partners at local, national and international levels to help advance and align efforts in the education and awareness of responsible play.

**Health and wellness**
Atlantic Lottery continues to place a strong focus on employee health and wellness. In particular, the company expanded its efforts in the area of mental health by partnering with Shepell and Queen’s University for a second year to offer a Workplace Mental Health Leadership Certificate Program to 25 people leaders.

Atlantic Lottery’s employees are critical to the success of its business. It will continue to invest in and manage its workforce to meet the business’ current and emerging needs. This, coupled with a focus on leadership and communications, will inspire employees to make Atlantic Lottery an even better company.
Enterprise Risk Management

Atlantic Lottery has implemented an Enterprise Risk Management program that is integrated into its strategic and business planning processes. This integration ensures that critical risks to our organization are appropriately managed. The company's leadership team understands that risks to the organization have potential impacts on our organization's ability to succeed. With that in mind they review the organizational risk portfolio and corresponding mitigation plans quarterly, annually, and as emerging risks are identified. This review takes place engaging several levels of leadership and stakeholders including the Executive Team, Audit Committee, Board and Shareholders.

As a result of these activities Atlantic Lottery has identified nine key risks categorized into three main areas, which if left unmanaged, could impair the organization’s ability to succeed relative to our strategic objectives. These risks, as provided, have been subject to thorough review and planning to ensure that we are adequately prepared to manage them appropriately.

Ability to Compete
Acceptable - Being monitored

Organizational agility vs. the private sector
Ensuring the organization is efficient, effective and able to adjust to changing conditions at the same pace as the private sector.

Risk adverse culture
Ensuring the organization is willing to take risks when appropriate and within acceptable tolerances resulting in higher returns to our shareholders.

Failure to recognize or respond to market disruption
Ensuring the organization has the market intelligence to recognize new market trends and entrants.

Permission Space
Area of concern - Trending down

Regulatory consistency & clarity
Working with our shareholder provinces to ensure regulations are consistent and clear to reduce operational complexity, and modernized to meet the needs of the market.

Growth expectations of stakeholders
Working with our stakeholders to ensure we understand and are meeting their expectations with respect to growth.

Permission space ambiguity
Working with our shareholder provinces to ensure that the products we offer are aligned with their expectations and within our mandate while at the same time responsive to the needs of the market.

Meeting the needs of the Market
Cautionary - Trending down

Current product offerings may not be competitive
Ensuring our products are competitive when compared to other providers operating in our market.

Internal capacity to address the needs of the market
Ensuring that the organization has the right skills and competencies to meet the needs of the market.

Understanding the needs of our customers
Ensuring the organization has a solid understanding of our current and potential customers so that we provide them with the experiences they expect when and where they expect them.
Future focused: Atlantic Lottery’s Strategy Overview

Lottery and gaming industry today
All successful businesses balance their time and attention on the state of their enterprise today and their future strategies and plans. Atlantic Lottery is no exception. The global lottery and gaming industry has been changing rapidly to keep pace with player preferences and the technologies that make meeting those preferences possible. The more Atlantic Lottery understands the trajectory of the industry, the more the company understands its players, and the more likely Atlantic Lottery is to make the right strategic choices and sound investments. On a macro industry level, the lottery sector as well as the land-based gambling sector are merging with the online gaming business, as consumer preferences change in line with technology and lifestyle evolutions. With increasing levels of connectivity around the world and the persuasiveness of computers, smart phones and tablets, a different generation of players is searching for more enhanced gaming and gambling experiences. Variables such as disruptive technologies, innovative delivery platforms, social gaming, digital entertainment, technology adoption rates, big data, and the internet of connected things will affect the nature and content of gaming, and will necessarily cause lotteries to adjust course if they are to remain relevant and sustainable.

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

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

The context of this strategy is based on many internal and external factors and continuous market analysis in order to strive towards Atlantic Lottery’s vision of “Building a stronger Atlantic Canada, one player experience at a time.” As a result, Atlantic Lottery’s strategy focuses on achieving sustainable growth in what is now a very competitive industry. Atlantic Lottery’s five-year strategy is defined under seven key pillars that will guide the organization through 2022:

1. Build player experiences into a competitive advantage:
Increased competition for the gaming dollar, technology changes and a new generation of players has transformed the gambling landscape entirely. Business sustainability depends on Atlantic Lottery’s ability to differentiate its players’ experiences from the competition that comes in all forms of regulated/non regulated forums. In addition, although its market position will continue to provide advantages in the short term, the comfort it once enjoyed has evaporated. Only by understanding the needs and wants of its player base and translating that understanding inside game development and delivery, will Atlantic Lottery be able to achieve leadership in player experience. The right enabling technology coupled with operational agility and the means by which Atlantic Lottery is preparing itself for continuing its strong record as a competitive and commercial crown corporation.

2. Grow The Castle:
Players have many choices for their gaming dollar. With the influx of global operators, some legal and some not, players are migrating to other forms of gaming, which represents a loss for Atlantic Lottery and the region as a whole. That noted, Atlantic Lottery remains the dominant provider of gaming/gambling products with approximately 70 per cent of Atlantic Canadians playing its games in any given year. This base of players operates within what the company defines as its “Business Castle”. This player base is an asset that must be protected by providing the most relevant games available. More and more, these games will involve skill, entertainment and social engagement. Investment in new technologies and new game design to deliver entertaining and responsible games in the retail and online spaces is key. Simply put, reinvention and modernization of “The Castle”, often in partnership with the four other Canadian lottery companies, is central to Atlantic Lottery’s strategies.
3. Develop The Frontier:
While “The Castle” pursues plans regarding the reinvention and modernization of current products and experiences, “The Frontier” is an investment in research and development that will help adapt Atlantic Lottery for the future. In order for Atlantic Lottery to remain relevant in an ever-changing world and with an audience who, increasingly, is not engaging with traditional lottery play, it is paramount for Atlantic Lottery to have deep knowledge of the latest trends in technology, the way young adults engage with brands, and understand new upstarts who are poised to disrupt the industry. Atlantic Lottery is tackling these by consolidating a team of leading thinkers within the business in its Innovation Team in Moncton and at its Innovation Outpost in Halifax in partnership with Volta Labs. The entrepreneurial thinking, skills and resources to drive further innovation and development of “The Frontier” will be supplemented through key partnerships and collaborations with consultants, academic institutions and other lotteries.

4. Defend the licence granted by shareholders:
Since 1976, Atlantic Lottery has held the social licence (granted by its shareholders) to operate an efficient and responsible lottery. Back then, it was mandated with two jobs:
- To provide Atlantic Canadian adults with government regulated responsible lottery products.
- To return 100 per cent of profits from lottery sales to the four Atlantic Canadian governments.
The company has done those two jobs well during the past 40 years with integrity, efficiency, transparency and social responsibility as its key values. As such, the company has earned the public trust and it continues to earn that trust every single day. Social licence to operate is a result. Social licence, however, is not a given.

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>New Brunswick</th>
<th>Newfoundland and Labrador</th>
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<tbody>
<tr>
<td>Gross ticket sales</td>
<td>$179,237</td>
<td>$184,152</td>
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<td>Prizes on ticket sales</td>
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<td>Net ticket sales</td>
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<td>Prizes as % of sales</td>
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<tr>
<td>Net video lottery receipts</td>
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<td>135,205</td>
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<tr>
<td>Entertainment center revenue</td>
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<td>-</td>
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<tr>
<td><strong>Net revenue</strong></td>
<td><strong>$215,356</strong></td>
<td><strong>$220,167</strong></td>
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<tr>
<td>Direct expenses</td>
<td>37,595</td>
<td>38,157</td>
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<tr>
<td><strong>Gross profit</strong></td>
<td><strong>$177,761</strong></td>
<td><strong>$182,010</strong></td>
</tr>
<tr>
<td>Gross profit as % of net revenue</td>
<td>83%</td>
<td>83%</td>
</tr>
<tr>
<td>Operating and administrative expenses</td>
<td>26,454</td>
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<td>Operating expenses as % of net revenue</td>
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<tr>
<td>Capital-related costs</td>
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<td>Other expenses and distributions</td>
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<tr>
<td><strong>Net profit</strong></td>
<td><strong>$128,229</strong></td>
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<td>Net profit as % of net revenue</td>
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<tr>
<td>Number of lottery retail terminals</td>
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<tr>
<td>Number of multi-purpose retail terminals</td>
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<tr>
<td>Number of video lottery terminals</td>
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<tr>
<td>Profit distribution per capita</td>
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* Provincial Net Profit is based on Atlantic Lottery’s non-consolidated financial statements
* Corporate Net Profit is based on Atlantic Lottery’s consolidated financial statements
* $ in ’000’s
* Figures are rounded
### Nova Scotia

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Ticket Sales</th>
<th>Prizes on Ticket Sales</th>
<th>Net Ticket Sales</th>
<th>Prizes as % of Sales</th>
<th>Net Video Lottery Receipts</th>
<th>Entertainment Center Revenue</th>
<th>Net Revenue</th>
<th>Direct Expenses</th>
<th>Gross Profit</th>
<th>Gross Profit as % of Net Revenue</th>
<th>Operating and Administrative Expenses</th>
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<th>Capital-Related Costs</th>
<th>Other Expenses and Distributions</th>
<th>Net Profit</th>
<th>Net Profit as % of Net Revenue</th>
<th>Number of Lottery Retail Terminals</th>
<th>Number of Multi-Purpose Retail Terminals</th>
<th>Number of Video Lottery Terminals</th>
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<tbody>
<tr>
<td>2017</td>
<td>$220,478</td>
<td>$97,894</td>
<td>$81,343</td>
<td>55%</td>
<td>$134,013</td>
<td>-</td>
<td>$215,356</td>
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<td>$128,229</td>
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<td>862</td>
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<td>12%</td>
<td>$8,896</td>
<td>$13,601</td>
<td>$132,963</td>
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<td>$9,728</td>
<td>$17,201</td>
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<tr>
<td>2013</td>
<td>$220,478</td>
<td>$121,964</td>
<td>$98,514</td>
<td>55%</td>
<td>$139,007</td>
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<td>$30,818</td>
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<td>$136,964</td>
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### Prince Edward Island

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<tr>
<th>Year</th>
<th>Gross Ticket Sales</th>
<th>Prizes on Ticket Sales</th>
<th>Net Ticket Sales</th>
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<th>Net Video Lottery Receipts</th>
<th>Entertainment Center Revenue</th>
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<th>Gross Profit</th>
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<th>Operating and Administrative Expenses</th>
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<th>Capital-Related Costs</th>
<th>Other Expenses and Distributions</th>
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<th>Net Profit as % of Net Revenue</th>
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<tr>
<td>2017</td>
<td>$35,612</td>
<td>$20,177</td>
<td>$15,435</td>
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<td>$19,301</td>
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### Corporate Net Profit

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<tr>
<th>Year</th>
<th>Provincial Net Profit</th>
<th>Corporate Net Profit</th>
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<tr>
<td>2017</td>
<td>$699,074</td>
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<tr>
<td>2016</td>
<td>$732,749</td>
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<td>$654,290</td>
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<td>2014</td>
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<tr>
<td>2013</td>
<td>$646,903</td>
<td>$367,723</td>
</tr>
</tbody>
</table>

*Figures are rounded*