

# Atlantic Lottery Annual Report



2017-2018





**“These strategic capital investments are rapidly positioning the company to deliver stronger results, lead the industry, and compete in an ever-changing global gaming industry.”**

**—Sean O’Connor**  
Independent Board Chair



## Chair Message

In a time where the lottery industry's success or failure hinges on how capably it adapts to the evolution of player preferences, the past 12 months have been central to Atlantic Lottery's ability to sustainably contribute to Atlantic Canada.

As a Board of Directors, we are charged with ensuring Atlantic Lottery delivers on its mandate of providing government-regulated and responsible products to Atlantic Canadians who chose to game. Over the past fiscal year, Atlantic Lottery has reliably delivered against this mandate, balancing shareholder expectations with player demands.

With new gaming entrants to the market almost daily, today's players constantly expect new options. This includes the convenience to choose how, when, and most importantly where they want to game. To respond to this shift, over the past number of years the team at Atlantic Lottery worked to create a solid operating system to serve the company's needs into the future. In large part, this effort came to fruition in the past year.

In September 2017, Atlantic Lottery launched a new enabling technology system that enables added value to consumers and an increased return to shareholders. These strategic capital investments are rapidly positioning the company to deliver stronger results, lead the industry, and compete in an ever-changing global gaming industry. This type of undertaking, while necessary, is not easy and has involved literally hundreds of dedicated employees in cross divisional teams to pull off.

This industry and our company will continue to face challenges but with hard work and discipline, we will address these with an unwavering commitment to growth and to social responsibility. Recent changes to the governance structure have better positioned the Corporation to compete. This, combined with a visionary strategy, the right management team, appropriate enabling technology, and a results-driven workforce positions Atlantic Lottery for continued success.

**Sean O'Connor**  
Independent Board Chair

### Board members who served during fiscal 2017-18:

Bob MacKinnon

Les Barker

Nicole Picot

Jean Brousseau

Alyson Townsend

Dan Campbell

Patricia Mella

Kevin Breen

Jay Griffin

Paula McDonald

Janis Byrne



## CEO Message

In business, “continual renewal” is a familiar concept. It implies taking stock of where you are, what needs to be done to move forward, and then putting in place the mechanisms to do just that. This concept is reminiscent of the past year at Atlantic Lottery. We have a great story, but the gaming industry is fiercely competitive and change happens in the blink of an eye. We need to be agile, making the right decisions every day to stay relevant and to continue to provide value for our players. We are committed to Atlantic Canadians and our efforts this past year have us well positioned to compete. We look forward to what the future holds.

Over the past year, we have made some broad strides forward, and expanding and developing a more robust team was part of this. We recruited a number of exceptional leaders in marketing and information technology to complement our existing dedicated team. We have some of the best and the brightest in the business and they are contributing to our enterprise-wide commitment to think differently, using innovation strategies to propel product and player-experience development, and process renewal.

We had three exceptional successes this year that we are very proud of. First, we made a sizable investment in technology and launched a new lottery gaming system, the backbone of our retail and online sales platforms. This system includes many features such as new digital game options, new draw games, and mobile applications that can all be tailored to deliver a customized relevant experience for our players. Our new system will allow for quicker and more cost-effective development and deployment of games, promotions, and experiences.

We are also pleased that our expanded marketing team, through innovative strategies and promotion, were successful in growing our iLottery player base from 63,000 to 72,000 and we anticipate further growth next year.

And lastly, we have significantly improved video lottery site standards by moving hundreds of video lottery terminals, which contributed to greater returns.

We have many change experts on staff, and quite frankly, our entire team strives to bring about continual progressive change to ensure a better responsible play experience for our players, and optimized returns from our shareholders. Continual renewal is part of the game plan. We cannot be afraid of rebuilding. Our team internally understands this and we live this mantra every day.

### Executive team members who served during fiscal 2017-18:

**Brent Scrimshaw**  
President & CEO

**Jim Porter**  
Chief Operating Officer

**Patrick Daigle**  
Chief Financial Officer

**Alison Stultz**  
Vice President, People and Culture

**Kristin Root**  
Vice President, Information Technology

**Martha Stevens**  
Vice President, Sales and Marketing

**Jamie Davison**  
Vice President, Digital Gaming and Innovation

**Tracey Cutcliffe**  
Vice President, Regulatory Relations and Corporate Communications

Players have so many more options now, and while having a safe and regulated gaming industry is extremely important and at the heart of who we are, we still must ensure that our games, and the means by which we deliver them, are competitive. Speed to market matters. As an organization we need to be quicker to act and react. The market is evolving and to ensure we remain in the game—our technology, apps, and regulatory environment must evolve at the same pace.

It has been a busy but rewarding year. We understand Atlantic Canadians are going to look to gaming for entertainment and by expanding our offering they can choose a safe and regulated provider, which ensures revenue and profits remain in Atlantic Canada.

Please take some time to read our annual report and reach out to us with questions or comments at [askaway.ca](http://askaway.ca) or to me personally on Twitter @brentscrimshaw. Atlantic Lottery belongs to you, and your feedback is appreciated.



**Brent Scrimshaw**  
President and CEO



# Executive Summary

## Atlantic Lottery: Delivering on its Mandate in Atlantic Canada

Every business decision at Atlantic Lottery is made through the lens of balancing social responsibility with delivering sustainable returns for Atlantic Canadians. With that in mind, the company is pleased to report that in 2017-18 it exceeded its profit target by \$1.8 million and returned \$419.2 million to the provincial governments in Atlantic Canada.

In total, \$284.3 million was delivered to the four Atlantic provincial governments from the Destination line of business and \$134.9 million from Retail Lottery, which at this time includes its digital operations at [alc.ca](http://alc.ca) and [prolinestadium.com](http://prolinestadium.com).

Atlantic Lottery continues to evolve to ensure it meets the expectations of players now and into the future. While profits were strong, increased off-shore and domestic competition challenged performance in top line revenue and player participation. New players are demanding new games—and notably—new play experiences, thereby reinforcing the importance of the investments the company is making in technology and innovation.

The company successfully completed a critical gaming system implementation in 2017-18, providing the technology framework to enable the business to effectively compete in the new gaming market. This allowed many new games to be introduced in the Retail line (Daily Grand, Poker Lotto, Lotto 4), as well as a significant improvement in the delivery of iLottery product offerings, including several digital instant games—a new product suite for Atlantic Lottery. Moreover, the player experience online was significantly enhanced through broad refinements across the entire platform.

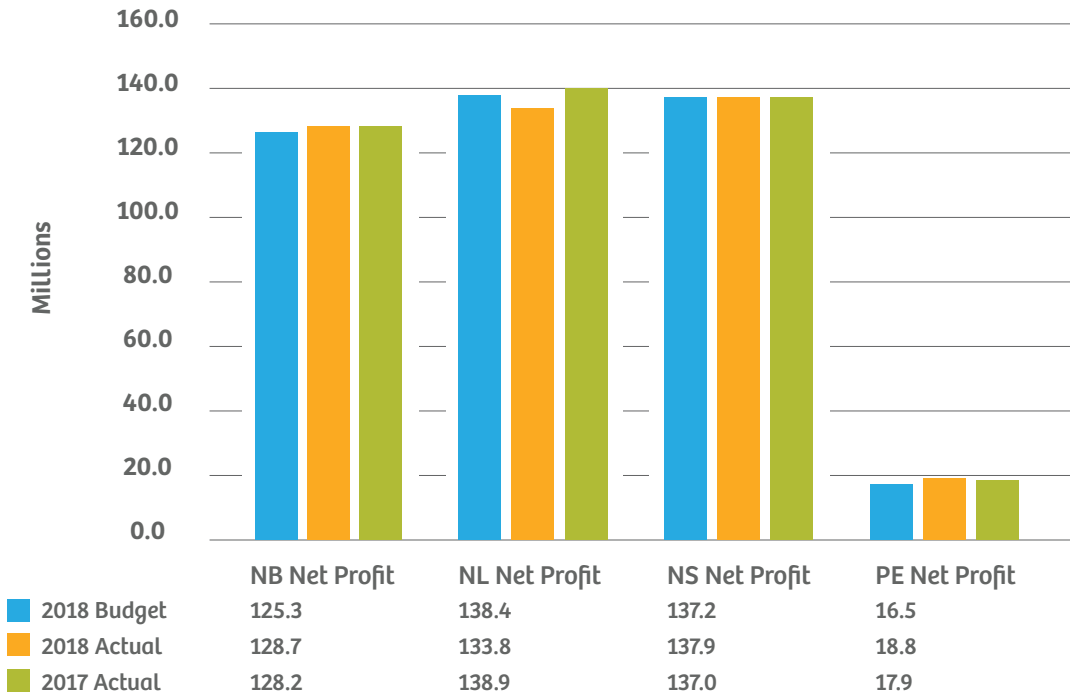
With the new foundation of the technology modernization program largely complete, the company is now well positioned to look to the future, providing the level of services and product innovations required for success.



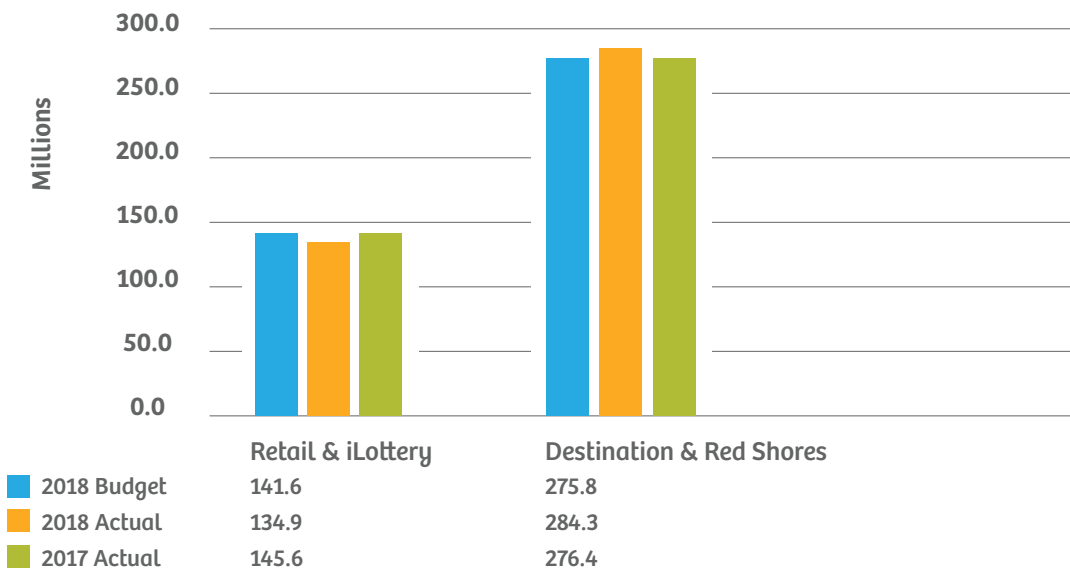
# Executive Summary

Atlantic Lottery: Delivering on its Mandate in Atlantic Canada

## Distribution of Profits by Province



## Distribution of Profits by Line of Business



# Corporate Performance to Targets

## 2017-18 Balanced Scorecard Corporate Performance to Targets

Atlantic Lottery uses a balanced scorecard to measure and report on those metrics that are key to successfully operating the business in this new competitive environment. It is our strategic objectives which form the basis of the scorecard measures. The scorecard is the summary

statement of performance from the strategic objectives and operating programs established by Atlantic Lottery's management team and the Board of Directors of the Corporation.

Metric	Target*	Actual*
<b>Perspective: Financial</b>		
Corporate Net Profit	\$417.4	\$419.2
NB Net Profit	\$125.3	\$128.7
NL Net Profit	\$138.4	\$133.8
NS Net Profit	\$137.2	\$137.9
PE Net Profit	\$16.5	\$18.8
Total Lottery Sales	\$1,178.8	\$1,168.3
<b>Perspective: Players</b>		
# of Transactions	122.1M	118.6M
Active iLottery Player Base	63,000	72,089
<b>Perspective: Operational Excellence</b>		
Unfavorable Opinion Among Involved Atlantic Canadians	27.5%	27.5%
Innovation Development Index	100%	117%
<b>Perspective: People</b>		
Employee Experience	86.4%	84.6%

\*dollars in millions

## Corporate Net Profit:

Atlantic Lottery exceeded its Net Profit target, delivering \$419.2 million against a budget of \$417.4 million. With overall sales falling short of budget, the positive profit variance was generated largely through the effective management of operational expenses, which included the delay of a large-scale gaming software implementation from Q1 to Q3, and careful cost management across the enterprise.

## Provincial Net Profit:

Net Profit is attributable to each province according to the terms of the Unanimous Shareholders Agreement. During 2017-18, Atlantic Lottery met or exceeded the profit

targets in three of the four provinces. External economic factors continue to impact Newfoundland and Labrador resulting in the profit target in that province being missed by \$4.5 million or 3.3 per cent of the target. The Retail line of business showed some weakness in Newfoundland and Labrador. The Corporation is working on a series of measures to reverse this performance.

## Corporate Lottery Sales:

Overall, Lottery Sales fell short of budget by \$10.5 million, with year-end sales totaling \$1.17 billion against a budget of \$1.18 billion. The Retail Lottery category was the primary cause of the softness due to significantly lower than forecast jackpots for its national games, Lotto Max, and Lotto 6/49. Specifically, the variance distributed by brand



categories includes national and regional lottery games at -\$36.7 million (against a budget of \$336 million), Breakopen at -\$7.4 million (against a budget of \$136 million), partly the result of a limited recall during the fiscal, and Sports at -\$2.5 million (against a budget of \$40 million). The Corporation continues to support approval of single event betting for Canadian operators to provide competitive parity with the illegal operators currently providing product and taking share from regulated providers such as Atlantic Lottery. Offsetting the sales shortfalls are overages in Scratch'N Win of \$29 million (against a budget of \$199 million), Video Lottery of \$4.8 million (against a budget of \$430 million), and iGames of \$2.5 million (against a budget of \$14 million).

## Player Transactions:

The number of player transactions ended the year at 118.6 million which represents a 3.5 million gap to the annual target. The National Games were the largest contributor with low jackpot levels and the performance per jackpot driving the variance, as noted above.

## Active iLottery Player Base:

The iLottery Active Player Base of 72,000 at the end of the fiscal was significantly above target, by 9,100 players. As the first Canadian lottery to introduce lottery online, Atlantic Lottery has benefited from its first mover status, and has a healthy and growing player base. The success of this measure is attributable to the acquisition and reactivation campaigns that ran during the year.



## Unfavorable Opinion among Involved Atlantic Canadians:

Atlantic Lottery's overall year-end reputation score among Involved Atlantic Canadians of 27.5 per cent represents ongoing improvement over the last year. The company places enormous value on its corporate reputation as it is only through the expressed confidence of Atlantic Canadians in Atlantic Lottery's transparency, commitment to corporate responsibility, and its ongoing effort to operate the enterprise efficiently, that it will maintain and grow its social license to compete as Atlantic Canada's gaming company of choice.


## Innovation Development Index:

The Corporation is committed to enterprise-wide innovation, not just in the products it delivers, but also to the effectiveness and efficiency of its operations. In this area, Atlantic Lottery is a leader on a national and international scale in the industry, and is recognized across Atlantic Canada as a pace-setter. With innovation hubs in Moncton and Halifax, the company is working hard to ensure it can meet the demands of the new player, while maintaining its commitment to responsibility; a commitment that is at the core of Atlantic Lottery's mission. The Innovation Development Index metric is designed to track progress on innovation throughout defined process stages including discover, design, deliver, and deploy. The approved portfolio of initiatives delivered a 117 per cent year-end result.

## Employee Experience:

A competent, adaptable, and engaged workforce is a critical enabler supporting Atlantic Lottery's strategy at its foundation. The Corporation is investing in emerging skills in technology, business intelligence, marketing, and communications, ensuring that it has the competencies required to compete and win in its new market. Atlantic Lottery is committed to achieving its long-term people goal of having employees define their work experience at the company as the best of their career, particularly in the area of learning and development. That is a solid foundation to achieve overall corporate success. The year-end rating in 2017-18 is 84.6 per cent, falling within our target range.

Results are based on Employee Experience surveys. For Atlantic Lottery, feedback themes included communications, workload, employees want to feel heard, rewarding the right behaviors, education/training, and leadership. At Red Shores, the themes included leadership and coaching, communications, and compensation.



“Atlantic Canadians are going to look to gaming for entertainment and by expanding our offering they can choose a safe and regulated provider, which ensures revenue and profits remain in Atlantic Canada.”

—Brent Scrimshaw  
President and CEO

# Economic Impact

## Financial Position Overview

The below provides an overview of the financial position of Atlantic Lottery (ALC) for the year ended March 31, 2018, and is to be read in conjunction with the associated audited Consolidated Financial Statements and note disclosures, prepared in accordance with International Financial Reporting Standards (IFRS). See the Notes to Consolidated Financial Statements (notes 1 and 2) for additional detail regarding the nature of operations for ALC, and the significant accounting policies employed.

IFRS 15, the new revenue accounting standard, and IFRS 9 (financial instruments), take effect for 2018-19. The financial impact is expected to be minimal, with the most significant changes coming from the presentation of financial statements and associated note disclosures. Additional information on Standards Issued, but not yet effective can be found in note 4.

## Consolidated Balance Sheet, as at March 31, 2018

Assets	2017-18	2016-17	Change
<b>Total Assets</b> (thousands of dollars)	<b>\$249,252</b>	<b>\$259,702</b>	<b>(\$10,450)</b>

Assets decreased by 4 per cent from 2016-17. Overall, short-term assets decreased by \$3.7 million, driven by prepaid expenses (\$5.9 million) from multi-year service agreements on technology projects, Breakopen ticket inventory, and Interprovincial Lottery Corporation (ILC) instant game prize funding. Said decreases were slightly offset by an increase in accounts receivable of \$2.6 million as a result of having

one more day of sales outstanding year-over-year. Long-term assets decreased by \$6.8 million, driven mainly by a decrease in property and equipment (\$17.6 million) as a result of depreciation (note 8). The decrease was partially offset by an increase in intangibles of \$6.5 million through software purchases for technology projects (note 9).

Liabilities	2017-18	2016-17	Change
<b>Total Liabilities</b> (thousands of dollars)	<b>\$215,487</b>	<b>\$242,865</b>	<b>(\$27,378)</b>

With respect to liabilities, there was an overall decrease of 11 per cent from 2016-17. Current liabilities remained relatively flat year-over-year, with long-term liabilities decreasing \$27.6

million as a result of principle repayments on debt, and no new long-term facilities acquired (note 14).

Shareholders' Equity	2017-18	2016-17	Change
<b>Total Shareholders' equity</b> (thousands of dollars)	<b>\$33,765</b>	<b>\$16,837</b>	<b>\$16,928</b>

The year-over-year increase in shareholders' equity is attributable to the \$14.1 million in profit withholdings from shareholder distributions to fund the supplemental pension plan payments to reduce the solvency deficit. Fiscal 2018-19 is the last planned year for the withholdings. The remaining

increase is driven by the change in other comprehensive income (OCI). OCI is comprised of the change in fair value of ALC's cash flow hedges on long-term debt, deemed effective with no changes in critical terms, and from the change in actuarial assumptions on employee future benefits (note 16).

## Consolidated Statement of Operations, year ended March 31, 2018

	2017-18	2016-17	Change
<b>(thousands of dollars)</b>			
Revenue	\$1,168,274	\$1,152,345	\$15,929
Prizes on ticket sales	\$412,117	\$392,267	\$19,850
Net revenue	\$756,157	\$760,078	(\$3,921)
Direct expenses	\$148,532	\$146,070	\$2,462
Gross profit	\$607,625	\$614,008	(\$6,383)
Expenses	\$188,400	\$192,076	(\$3,676)
Net Profit	\$419,225	\$421,932	(\$2,707)
Gross profit % of Net revenue	80.4%	80.8%	(0.4%)
Expenses % of Net revenue	24.9%	25.3%	(0.4%)
Net profit % of Net revenue	55.4%	55.5%	(0.1%)

The increase in revenue was driven by strong performances in Scratch’N Win (\$28.8 million), Video Lottery (\$5 million), and iGames (\$6.9 million) as a result of the launch of Digital Instant games. These increases were offset by year-over-year shortfalls in national and regional Draw Games (\$14.5 million) experienced across the country as a result of low levels of jackpot, Breakopen (\$7.7 million) due to a product recall, and Sports (\$2.3 million). The increase in associated Prizes on ticket sales was driven primarily by the increase in Scratch’N Win revenue, the launch of new products (iBingo, Digital Instants and Daily Grand), and higher payouts in Atlantic 49 with seven \$1 million wins.

Direct expenses includes commissions paid to retailers of \$134.2 million, ticket printing of \$11.6 million, and other direct costs of \$2.8 million. The slight increases over prior year align with the increase in Revenue, specifically around the Scratch’N Win product.

Expenses decreased by \$3.7 million. This decrease can be attributed to less spend on major technology projects (\$4.7 million) and the delayed activation of new technology infrastructure services (\$1.7 million). Expense decreases were partially offset by a \$1.5 million increase in the cost of salaries and benefits, the result of 29 additional full-time employees, increased overtime, and fewer capitalized salaries. Increased marketing costs of \$1.6 million driven by new creative development for national games also offset the decrease in expenses.



## Consolidated Statement of Cash Flows

	2017-18	2016-17
<b>Cash Provided By/ (Used In) (thousands of dollars)</b>		
Operating activities	\$449,453	\$432,724
Investing activities	(\$20,503)	(\$26,315)
Financing activities	(\$23,649)	(\$2,944)
<b>Distribution to shareholders</b>		
	<b>(\$405,105)</b>	<b>(\$407,926)</b>
Change in cash balance	\$196	(\$4,461)
Opening cash balance	\$21,037	\$25,498
Closing cash balance	<b>\$21,233</b>	<b>\$21,307</b>

The statement of cash flows provides the basis to assess the generation and spending of cash, prepared using the indirect method where net profit is adjusted for the effects of non-cash transactions.

Operating activities present the net of cash inflows and outflows from regular business activities. Beginning with net profit, adjustments are made for non-cash items such as depreciation and amortization of \$31.5 million, and other comprehensive income of \$2.8 million. Adjustments are also made for changes in non-cash working capital (\$1.1 million) and employee future benefits (\$3.1 million). This results in cash generated from regular business activities of \$449.5 million.

Investing activities represent the amount spent on capital assets, net of proceeds on asset disposals. Purchases of \$4.4 million for property and equipment are driven primarily by computer

hardware for technology projects (\$1.1 million), Red Shores facilities, slots and equipment (\$1.1 million), and retail operating equipment (\$900,000). Purchases of \$16.1 million for intangibles relate primarily to the lottery gaming system replacement (\$11.5 million) and Video Lottery software (\$1.5 million).

Financing activities reflect cash inflows and outflows relating to debt. During the year, ALC did not acquire new long-term debt, and managed cash flow and interest expense through the purchase of short-term 90-days bankers' acceptance notes in amounts of \$15 million or \$20 million. Debt repayments for both long-term facilities and the short-term notes totaled \$100.1 million.

The net change in cash for fiscal 2017-18 was \$196,000.



# Breaking Down the Lottery Dollar

Atlantic Lottery gives back to the four shareholder governments 100 per cent of unconsolidated profits every year, but that is only part of the story. Driving results through responsible growth and continuous improvement is clearly demonstrated through the breakdown of each and every Atlantic Lottery dollar with **93 cents** staying in the four Atlantic Canadian provinces.

## 36 cents - Profits back to Atlantic Canada

In 2017-18, Atlantic Lottery returned \$419.2 million in profit to the four Atlantic provinces to fund things like roads, schools, and hospitals.

## 35 cents - Winners in Atlantic Canada

In 2017-18, Atlantic Lottery paid out \$412.1 million in prizes to winners in every corner of Atlantic Canada.

## 12 cents - Retailers in Atlantic Canada

Nearly 4,000 Atlantic Canadian businesses earn part of their income from sales of Atlantic Lottery products. Commissions paid totaled \$134.2 million.

## 4 cents - Salaries and benefits

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

## 6 cents - Operations in Atlantic Canada

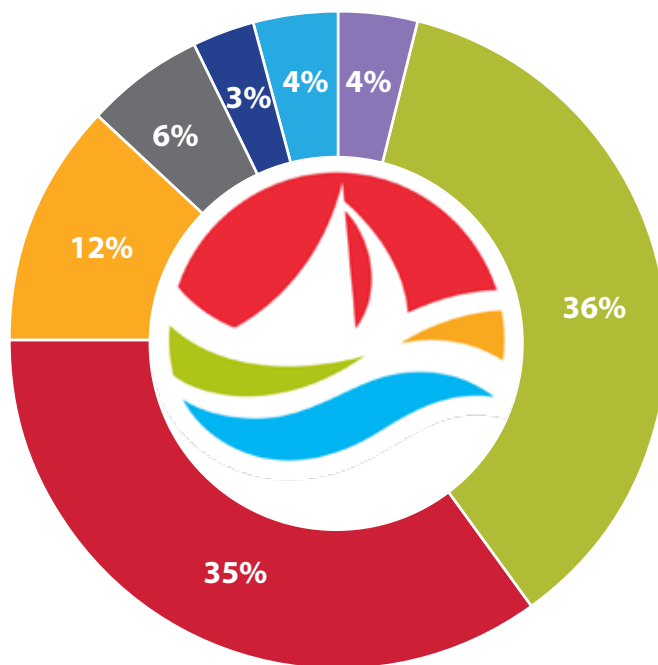
Operations contribute indirectly to more than 9,200 jobs and \$1.1 billion in economic activity.

## 3 cents - 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 cents - 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 93 cents of every lottery dollar stays here.



## 93¢ of every lottery dollar goes back to Atlantic Canada

- Profit to Provinces
- Winners in Atlantic Canada
- Retailers in Atlantic Canada
- Operations in Atlantic Canada
- Operations
- Salaries & Benefits in Atlantic Canada
- Taxes

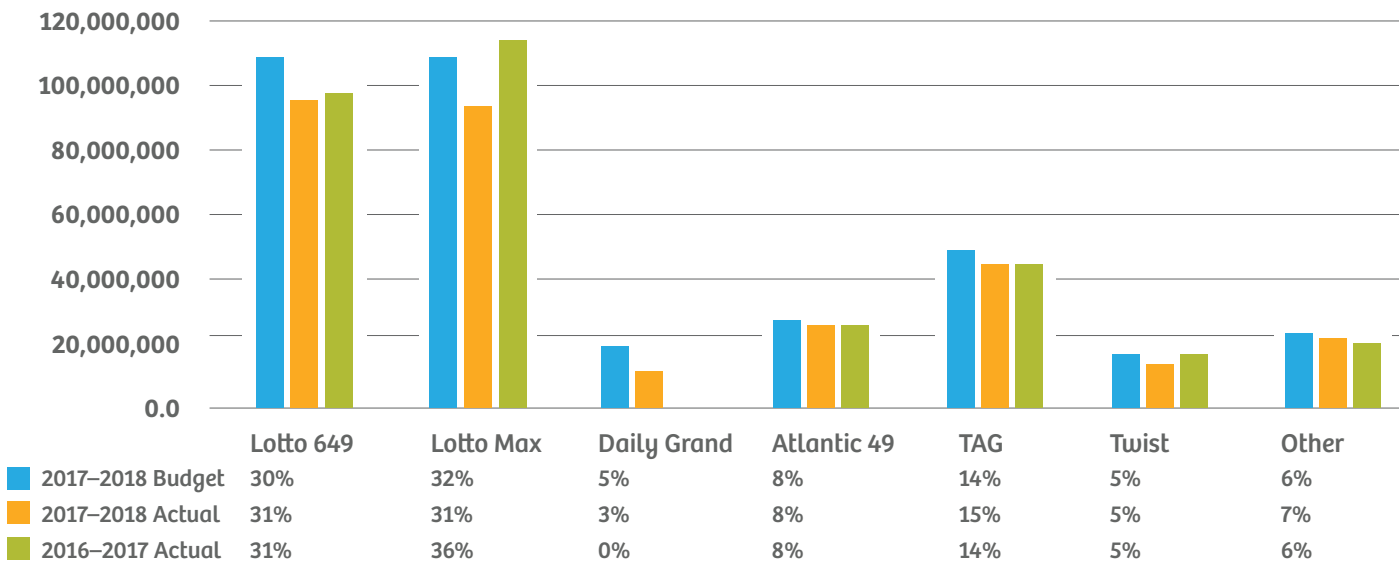
# Business Overview

## Draw Games

The national and regional category implemented three new games in fiscal 2017-18. The three game launches included Daily Grand (September 2017), Lotto 4 (January 2018), and Poker Lotto (February 2018) and represented a contribution of \$12.1 million in revenue to the category in fiscal 2017-18.

Lotto 6/49 finished the year \$6.3 million under budget. The brand experienced a positive roll pattern, total aggregate jackpot was up 4 per cent to the previous year, but results at each jackpot level underperformed. In fiscal 2017-18, Lotto 6/49 offered a total of 13 Super Draws including nine in July and August (Super Wednesdays).

## Draw Games Sales



Lotto Max sales were down versus prior year due to lower jackpot activity. For fiscal 2017-18, Lotto Max had 14 Maxmillion events versus a budget of 17; eight fewer Maxmillion events than fiscal 2016-17. For fiscal 2017-18, there was a total of 10 base jackpots, seven more than fiscal 2016-17. The lack of jackpot momentum impacted sales at all jackpot levels as total aggregate jackpot value was down 25 per cent to the previous year. Fiscal 2017-18's actual roll pattern would have required an 86 per cent level of confidence.

Daily Grand launched in September 2017. Daily Grand's shortfall to budget is due to a delayed launch from May to September. Daily Grand finished the year above budget \$310,000 for the months that it was in market. Daily Grand held a bonus promotion in October offering five additional second prizes of \$25,000 a Year for Life.

Poker Lotto was Atlantic Lottery's first Watch 'N Win game launched in February 2018. Budget reflected a November 2017 launch with variance to budget reflecting the delayed launch from November to February. Since launch, Poker Lotto has exceeded target by 198 per cent ending the year with sales of \$2 million in one month.

Digital marketing has continued to leverage jackpots on big lotto brands to drive digital share of sales to a new high. Significant growth achieved in the active player base online is expected to translate to further digital share growth this coming year. Increased access, via the new mobile app and responsive website launched in 2017, as well as promotion of the new online subscription option are both expected to add to this category's growth.

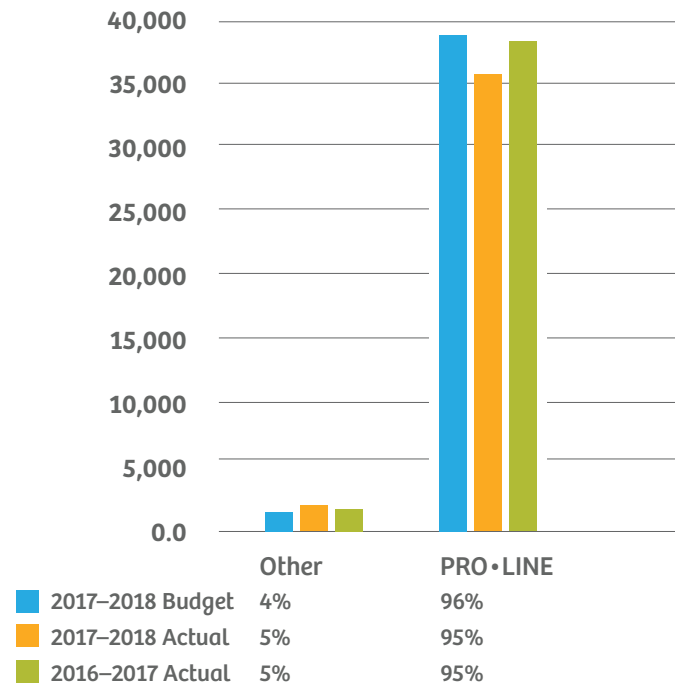
## Sports

PRO•LINE’s player base has shown strong growth, despite intense international competition, with a 15.7 per cent year-over-year increase in active internet accounts. This number was bolstered by over 5,000 new or reactivated players and an excellent 67 per cent player retention rate. Much of the success in player growth came from introducing new sports offerings, such as fighting, racing, eSports, and PRO•LINE Pairs. That said, the ability to provide a single event betting option for competitive parity is required to ensure a sustainable presence for this regulated and responsible offering.

The Sports category had a decline in sales, missing target by six per cent, largely due to Major League Baseball (\$1.1 million), and a softer than anticipated performance in U.S. football (\$0.8 million).

PRO•LINE will be introducing website updates in 2018-19. Site enhancements will not only improve the online customer experience by delivering a fully optimized solution for mobile devices, but it will modernize the retail experience with a QR code meant to facilitate in-store purchases.

## Sports Games Sales

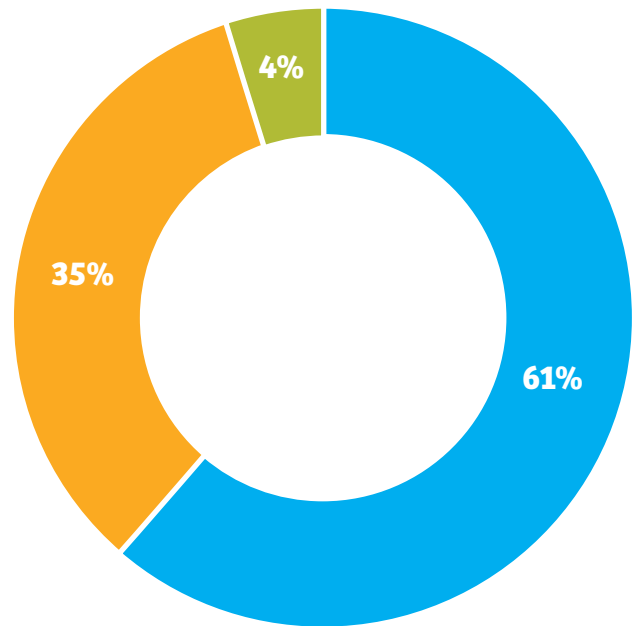




## Instant Games

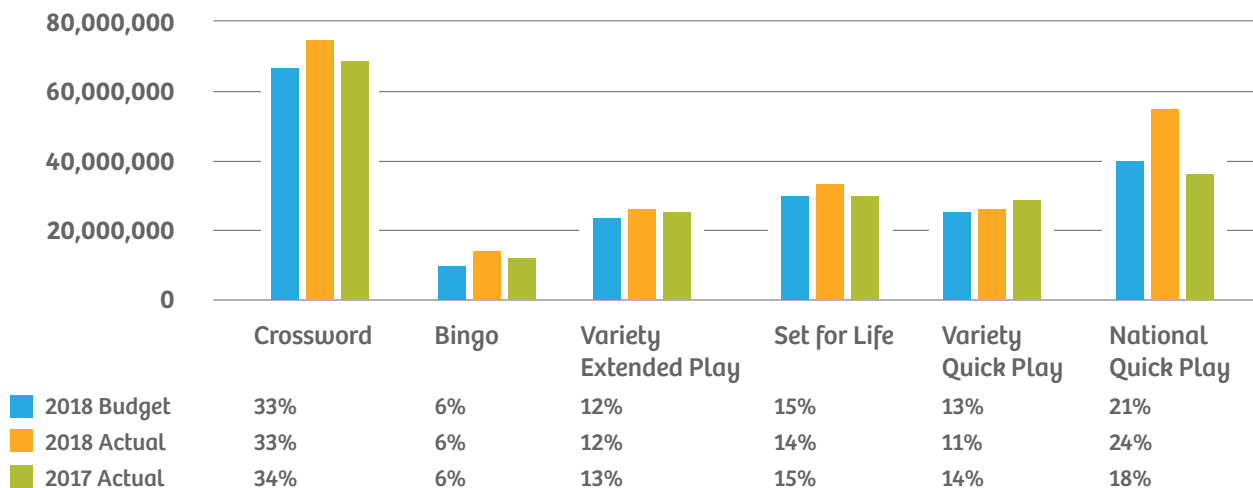
Scratch’N Win sales exceeded \$228 million this year, a new record and the largest year-over-year increase ever experienced. This success was driven by brand extensions into higher price point tickets, including \$30 Crossword and the new \$20 Super Set for Life. Other high price point games developed nationally through the ILC also contributed to last year’s growth, as well as the ongoing popularity of \$4 Set for Life, a brand that has seen its sales more than double since 2010. 2018-19 will build off this success by introducing a greater variety of games, including the first \$50 product and tickets/promotions designed to generate play across categories and channels.

### Instant Games Sales by Category



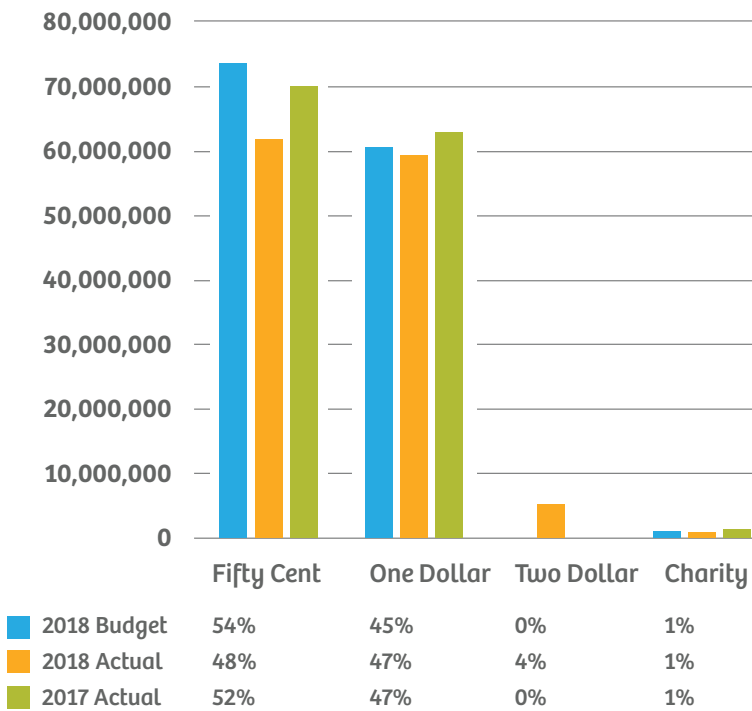
■ Scratch’N Win 228,188,412    
 ■ Breakopen 128,611,108    
 ■ iGames 15,434,623

### Scratch’N Win Games Sales



Despite a product recall, Breakopen sales fell just shy of budget and previous year sales. Sales of \$0.50 and \$1 games were impacted by the recall, but a significant chunk of the shortfall was made up by sales of the new \$2 Breakopen, called Max Bonus. This new price point was initially introduced as a trial, but is now being offered on a regular basis due to its success.

## Breakopen Games Sales



## iGames Sales

The iGames category line had a record setting year, thanks in large part to the launch of its new Digital Instants brand. This brand features popular Scratch'N Win titles, including Set for Life and Crossword, Breakopen titles, as well some unique online-only offerings. The success of this brand exceeded expectations, more than doubling its \$3.5 million sales budget. Familiar titles, a portfolio of games with entertaining play styles, and availability of all games across both mobile and desktop devices led to over 28,000 unique players trialing this brand.

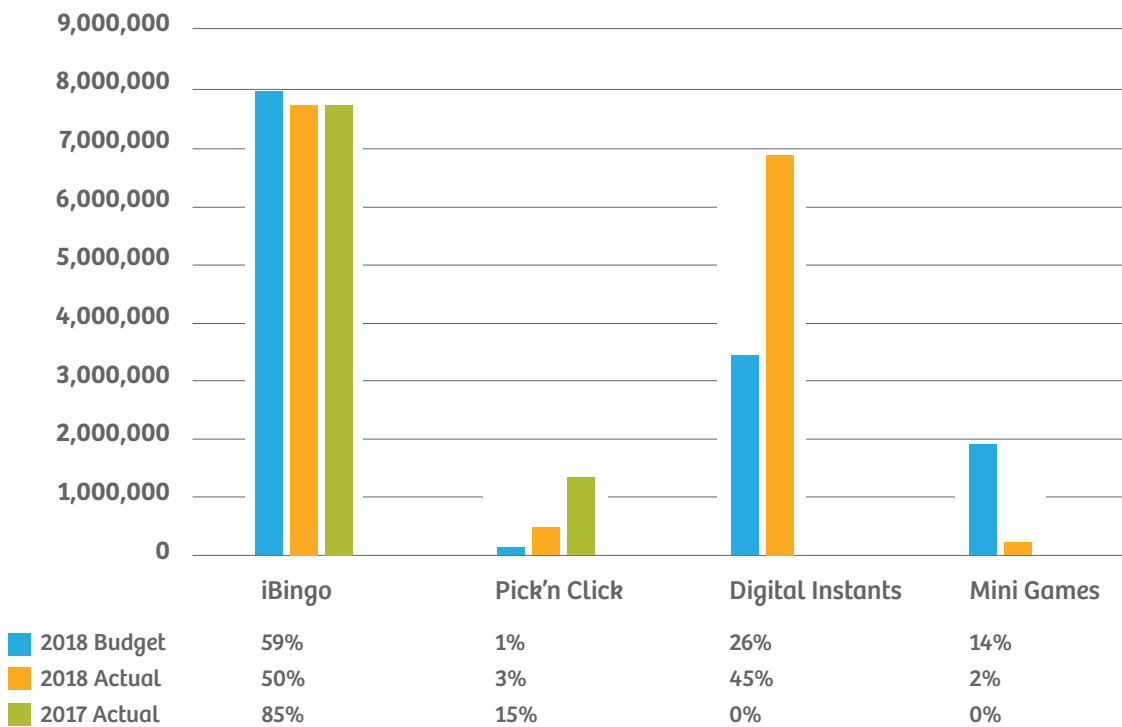
The iBingo product saw an upgrade which included the addition of a complimentary line of Mini-Games that are



offered alongside running bingo games. These products underperformed due largely to players choosing to allocate their play toward the Instant Wins brand. Pick 'n Click products were retired in 2017, but saw greater sales than budget due to remaining in market longer than anticipated.

Further launches of new game content is expected into each of the iGames product brands. In particular, the Digital Instants brand is expected to have new games launched, or existing games refreshed, on a monthly basis. Within this, there are plans to see a coordinated Digital Instants/ Scratch'N Win effort in-market this coming year.

## iGames Sales



## Video Lottery

Video Lottery sales experienced modest growth over the prior year, exceeding last year sales by \$5 million. The first half of the year was very strong, driven largely by new game launches. The second half of the year was more challenging, mitigated by a well-received player contest called Winter Cash Giveaway.

Five game launches, including Run With The Pack on the SGV 22/22 terminals, demonstrated strong support by players. Effective technical upgrades on the IGT GL20 allowed for a seamless launch of the game Golden Jungle to this underutilized terminal. Continued system updates and monitoring ensured terminals were consistently available for play. The product category was also enhanced with time-of-day and regional play initiatives that will continue next year.

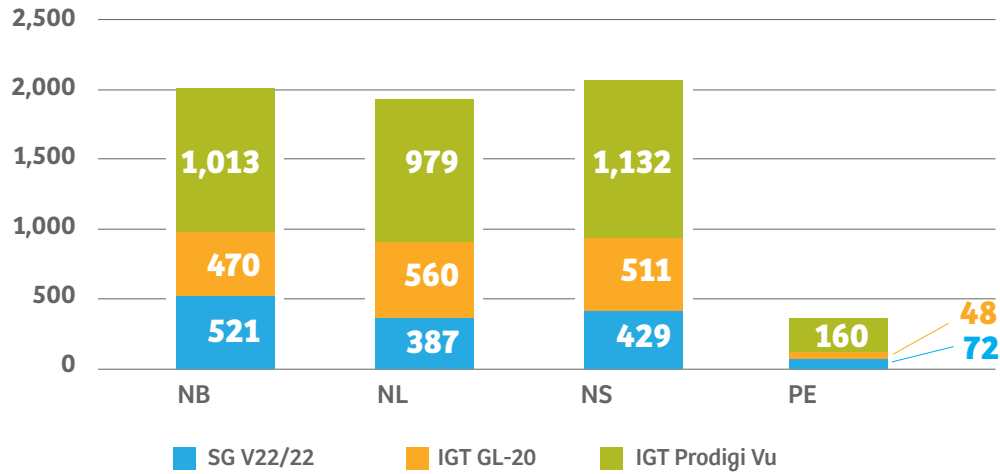
New Brunswick ended with \$4 million year-over-year growth. Several Coasters locations were given major redesigns providing a better experience for players. Nova Scotia grew \$1.2 million year-over-year driven by a voluntary reallocation initiative of Community Minded and

Legion terminals to locations with more player demand. Nova Scotia also continued to benefit in the first half of the year from the replacement of terminals to the IGT ProdigyVu, initiated from the previous year.

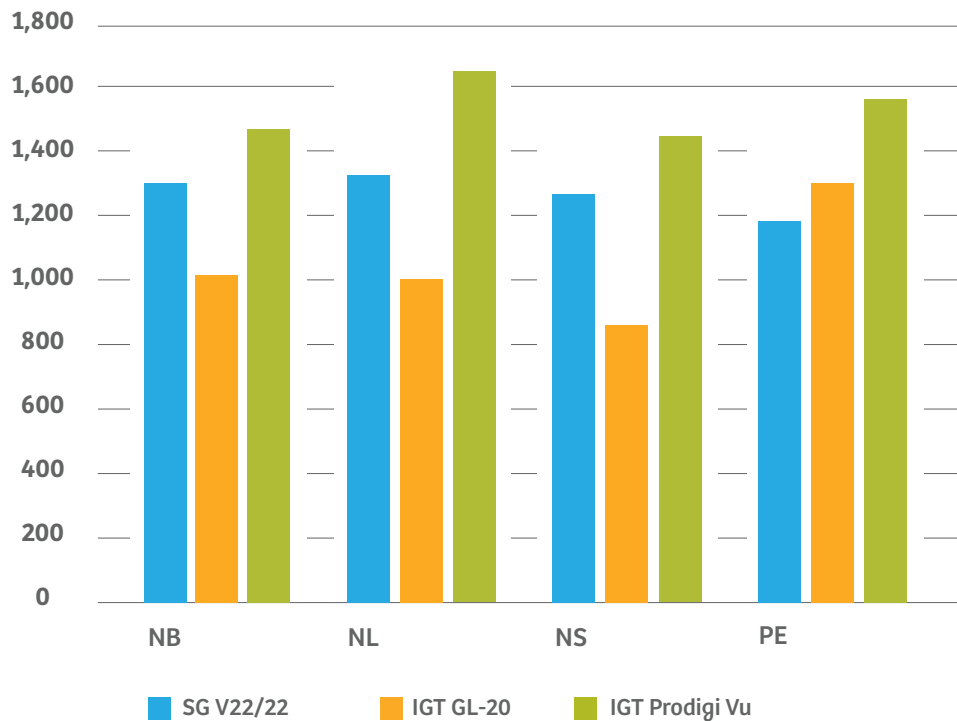
Prince Edward Island finished \$1.4 million above last year benefitting from the strongest economy in Atlantic Canada. Newfoundland and Labrador continued to struggle economically ending the year -\$1.6 million below last year sales results. This decline was tempered with site initiatives designed to add capacity to meet player demand.

The player experience will continue to be enhanced with a complete operating system upgrade and five more game launches across all of the existing terminal types, including a game that was successfully tested in New Brunswick Coasters locations. Of note, the Coasters format has proven to be a winner with superior player environments in place. Updating site standards will continue with planned major renovations for more Coasters locations and site standard best practices developed for all sites.

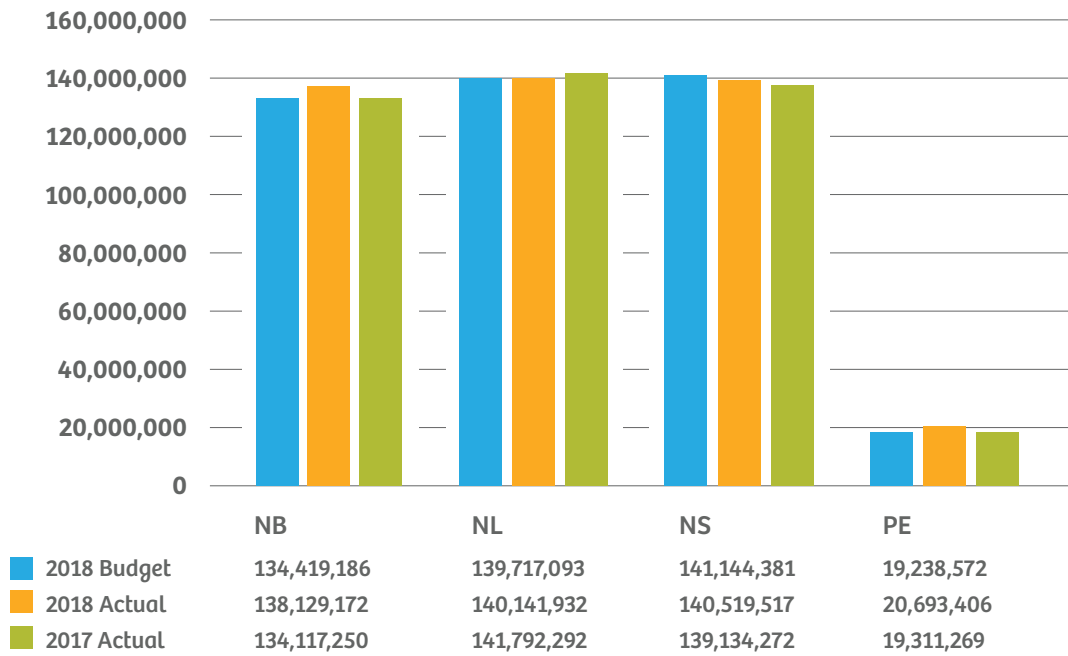
## Video Lottery Terminal Count by Type



## Video Lottery Weekly Average Net Revenue (WANR) by Terminal Type



## Video Lottery Net Sales by Province



NOTE: Graph above includes administrative and other general revenue.



# Red Shores

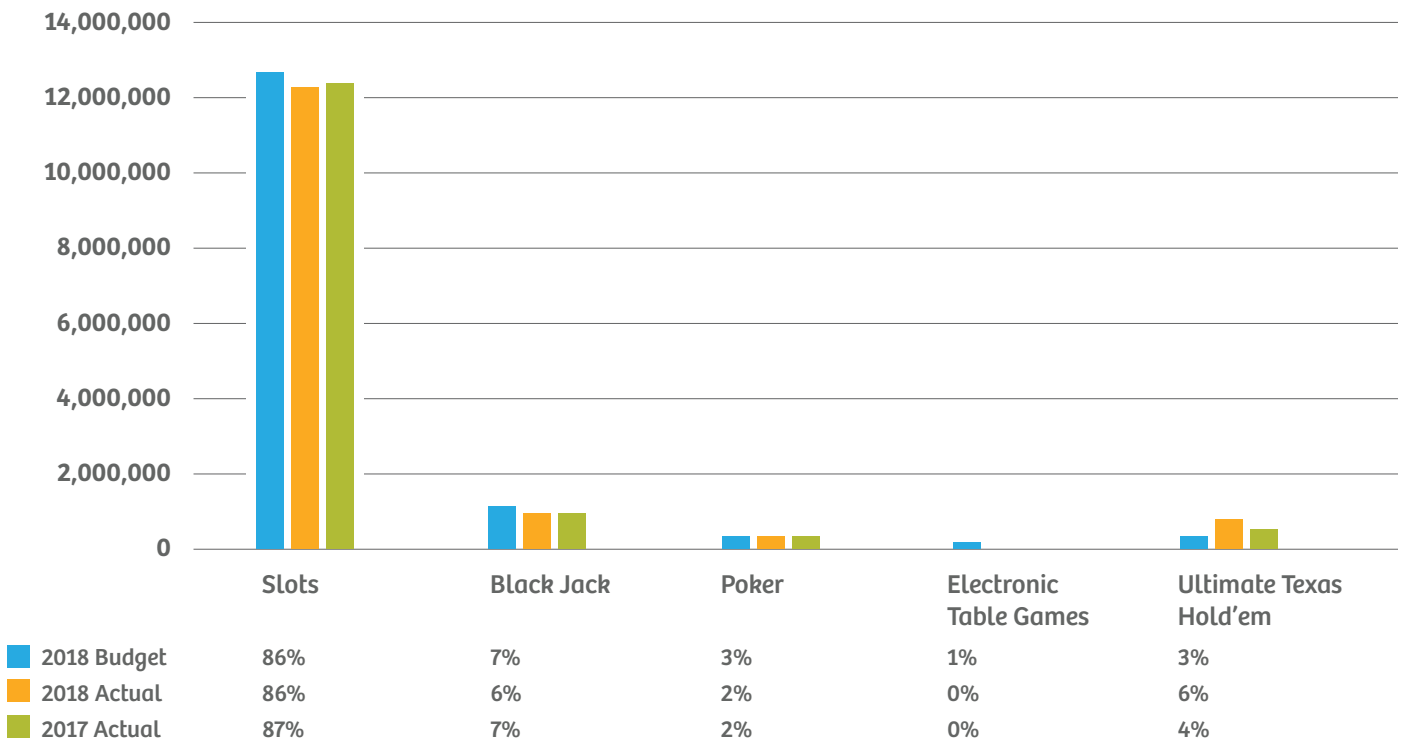
## Casino Games

With \$14 million in sales, Casino Games represent 73 per cent of Red Shores’ sales. Although sales were marginally down year-over-year in Slots, Black Jack and Poker, Ultimate Texas Hold’em showed a strong year-over-year increase of \$300,000.

In January 2018, Red Shores introduced their first Electronic Table Games including Roulette and Baccarat.

In 2018-19, Red Shores will look to introduce new slot machines targeted toward the growing demographic of international customers.

### Casino Games Sales

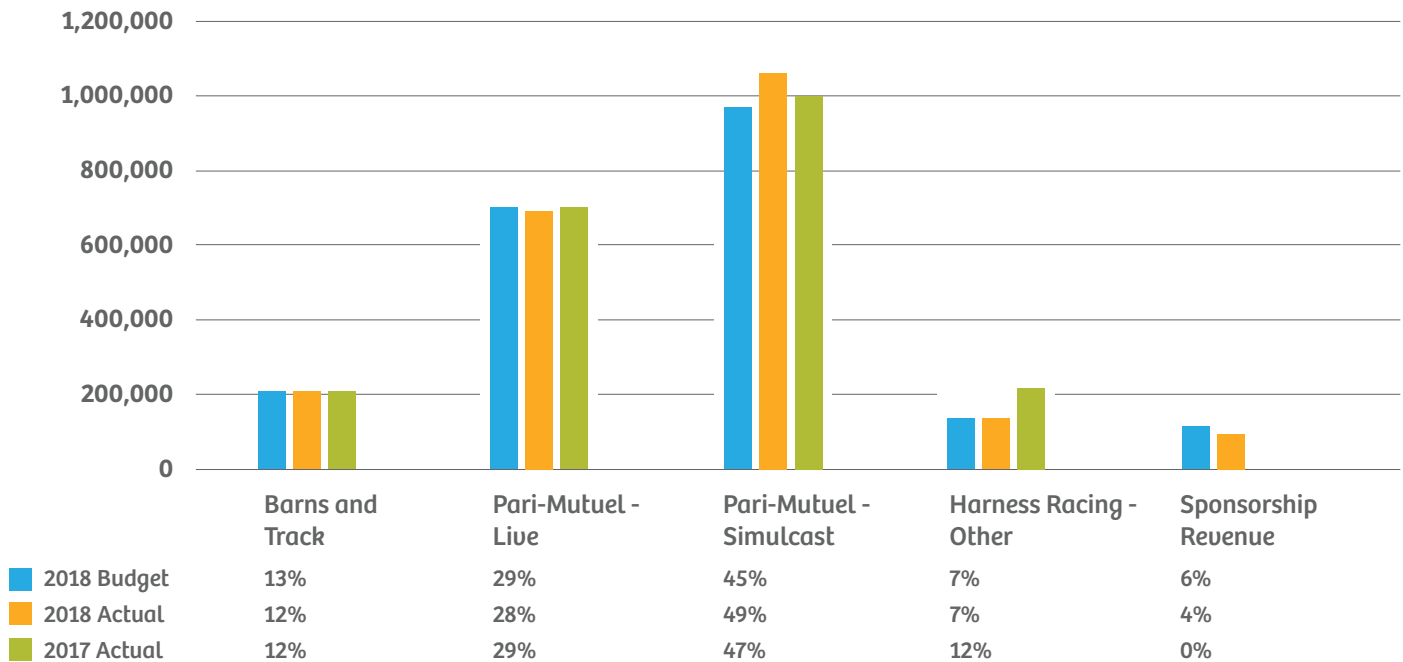


## Harness Racing

Harness Racing showed continued growth marginally outperforming previous year, as well as current year budget, accounting for 11 per cent of total Red Shores’ sales in 2017-18.

Signature events such as the annual Governor’s Plate and Gold Cup & Saucer continued to support revenues in the Harness Racing category.

## Harness Racing Sales

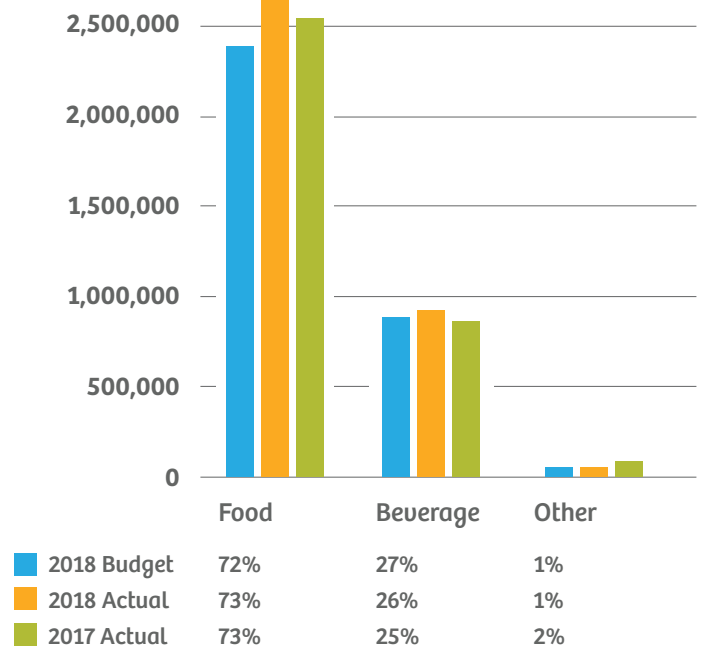


## Food & Beverage

With over \$3 million in Food and Beverage sales, this category saw a year-over-year growth of \$100,000.

The 2018-19 strategy will focus on three points: enhancing Red Shores' guest experience in gaming and racing, building group sales through partnership with the local hospitality and tourism industry, and reducing cost of sales.

### Food & Beverage Sales



# Winners

Year-over-year wins of \$10,000+ by province

Province	2017-18	2016-17
New Brunswick Wins	158	152
Newfoundland and Labrador Wins	170	154
Nova Scotia Wins	185	173
Prince Edward Island Wins	31	25

*\*In 2017-18, there were an additional nine wins by non-residents who purchased tickets in Atlantic Canada (five in 2016-17).*





## People and Culture

As Atlantic Lottery continues to evolve its business to compete within the changing business landscape, it knows motivated and capable employees will be foundational to success.

### Retention

At the end of the fiscal year, the company employed 650 people across the Atlantic Provinces and continued to achieve a retention rate of 89 per cent.

### Employee Experience

Atlantic Lottery's Employee Experience measure enables the company to measure and report on top-of-mind topics of interest and engagement drivers to employees. In 2017-18 the company's score was 84.6 per cent for the year, within range, but slightly off the full target of 86.4 per cent.

### Career Opportunities

Providing opportunities for development is an important part of Atlantic Lottery's employee value proposition and allows for transfer of knowledge and capabilities and career growth. Nearly 40 per cent of employees had an internal career move or changes to their role in the organization. The company also introduced six new 'in person' development programs—three leadership focused and three for all employees. These offerings build skills, knowledge and expertise, and help raise the bar in how work is delivered.

### Corporate Social Responsibility (CSR) Pillars

Corporate Social Responsibility is foundational to Atlantic Lottery, and practiced primarily through efforts that focus on Diversity and Inclusion, Responsible Gambling and Health and Wellness. As well, our employees actively give back to communities in a variety of ways, such as through the United Way Day of Caring which fosters volunteerism and being a good community citizen.

### Diversity and Inclusion

The company continued as members of the Canadian Centre for Diversity and Inclusion and, through this organization, looked at strategies to better understand its workforce and opportunities to build a more inclusive company.

### Responsible Gambling (RG)

In 2017-18, Atlantic Lottery launched updates to the retailer RG training programs with a focus on addressing the areas that were identified by retailers. The company also updated and refreshed their PlayWise materials to strengthen efforts to support players in making informed purchase decisions. The Red Shores facility in Charlottetown maintained RG Check Accreditation which demonstrates Red Shores' continued commitment to responsible gambling. Also, Atlantic Lottery continues to work closely with industry and community partners at local, national, and international levels to help advance and align our collective efforts in the education and awareness of responsible play.

### Health and Wellness

Atlantic Lottery continues to place a strong focus on employee health and wellness. Once again, the company expanded efforts in the area of mental health and offered a workplace mental health training program to more than 50 employees and leaders. The company also participated in Mental Health Awareness Week and various other events to keep mental and physical wellness top of mind for employees.

Atlantic Lottery is evolving the culture in the organization and will continue to invest in and manage its workforce to motivate innovative thinking and to deliver in this commercially-competitive environment.

## 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. Atlantic Lottery understands the trajectory of the industry and is immersing itself in understanding its players across all lines of business through rich and deep business intelligence, marketing research, and innovation exploration. The more the company understands its players, 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 social destination gaming sector—are merging with

the online gaming business as players demand more and preferences change in line with technology and lifestyle evolution. With increasing levels of connectivity around the world and the pervasiveness of smart phones and tablets, a different generation of players is searching for more enhanced gaming and gambling experiences. In fact, the desire for enhanced technology spans a number of generations.

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 Strategy

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 mandate. As a result, Atlantic Lottery's strategy focuses on achieving sustainable growth in, what is now, a very competitive industry. Atlantic Lottery's strategy is rooted in three main goals.

### Being relevant to the customer

Atlantic Lottery has been on a multi-year journey to modernize technology by delivering a multichannel technology platform capable of competing with leading global gaming providers. While that journey necessarily cannot end, the Corporation is now in a strong position to transition to product and experience delivery on the strength of the technology investments it has made. As competition for players' time, attention, and share of wallet continues to increase, the company must be able

to compete on the strength of the breadth of its products' offerings, the channels served, the experience delivered, and its competitive bundle versus its competitors.

At the core is the recognition of supremacy of the player. Although Atlantic Lottery has experienced declines in its player base over the past several years, it remains the dominant provider of regulated gaming/gambling products with almost three quarters of Atlantic Canadians playing its games at least annually. This player base is an asset that cannot be taken for granted. Without change, the player base will continue to decline. As such, this plan introduces new measures to better know the player and engage existing players to play responsibly. But more, to re-engage lapsed players and to engage new players currently gaming with other providers.



## Innovate

Leadership at Atlantic Lottery believes that only those companies that innovate and adapt to new customer needs and wants will survive in a landscape of endless choices. Atlantic Lottery invests broadly in innovation and process renewal, in leadership time, and financial investment. Innovation is far more than an operating department within the Corporation. At Atlantic Lottery, we are committed to enterprise-wide innovation as a pillar of corporate culture. At Atlantic Lottery, innovation goals encompass relevance, agility, and efficiency. The Corporation leads the North American industry which is both an advantage and a concern as cooperative productive development is also essential for growth.

## Building the organization to compete

“Culture eats strategy for breakfast” is a quote attributed to the leadership guru, Peter Drucker, and was made famous by a former president of the Ford Motor Company. It is in every sense true, and, at the same time, one of the most difficult areas to meaningfully advance. Leadership is proud of Atlantic Lottery’s people and offers as evidence their performance during this growth phase. Moving forward, to enable career-best experiences for its people, the Corporation must advance its culture to one that has the clarity of mission and individual accountability. Atlantic Lottery strives to be a progressive, performance-based organization noted as the employer of choice for employees of choice.

# 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, and Board.



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 organizations ability to succeed relative to our strategic objectives. These risks, as provided below, have been subject to thorough review and planning to ensure that we are adequately prepared to manage them appropriately.

**Acceptable** – Risk has been reduced to an acceptable level

**Area of Concern** – Additional work is required in terms of developing a risk management strategy

**Cautionary** – Risk is being managed but still requires additional activity to be satisfactorily mitigated

## 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, and a more sustainable business.

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 & relevance - 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.

Market driven- 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 products 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.

# Financial Highlights

## Provincial Net Profit

	New Brunswick		Newfoundland and Labrador		Nova Scotia		Prince Edward Island	
	2018	2017	2018	2017	2018	2017	2018	2017
Gross ticket sales	\$182,083	\$179,237	\$265,470	\$263,747	\$225,506	\$220,478	\$36,453	\$35,612
Prizes on ticket sales	103,663	97,894	157,810	152,232	129,226	121,964	21,418	20,177
Net ticket sales	78,420	81,343	107,660	111,515	96,280	98,514	15,035	15,435
<i>Prizes as % of sales</i>	57%	55%	59%	58%	57%	55%	59%	57%
Net video lottery receipts	138,023	134,013	140,039	141,691	140,391	139,007	20,683	19,301
Entertainment center revenue	-	-	-	-	-	-	19,626	19,259
<b>Net revenue</b>	<b>216,443</b>	<b>215,356</b>	<b>247,699</b>	<b>253,206</b>	<b>236,671</b>	<b>237,521</b>	<b>55,344</b>	<b>53,995</b>
Direct expenses	38,624	37,595	58,860	58,696	42,008	41,165	9,040	8,614
<b>Gross profit</b>	<b>177,819</b>	<b>177,761</b>	<b>188,839</b>	<b>194,510</b>	<b>194,663</b>	<b>196,356</b>	<b>46,304</b>	<b>45,381</b>
<i>Gross profit as % of net revenue</i>	82%	83%	76%	77%	82%	83%	84%	84%
Operating and administrative expenses	25,350	26,454	27,715	28,844	29,456	30,818	19,127	19,034
Operating expenses as % of net revenue	12%	12%	11%	11%	12%	13%	35%	35%
Capital-related costs	8,647	8,232	8,583	8,300	10,894	11,645	3,471	3,507
Other expenses and distributions	15,156	14,846	18,767	18,482	16,332	16,929	4,927	4,896
<b>Net profit</b>	<b>\$128,666</b>	<b>\$128,229</b>	<b>\$133,774</b>	<b>\$138,884</b>	<b>\$137,981</b>	<b>\$136,964</b>	<b>\$18,779</b>	<b>\$17,944</b>
<i>Net profit as % of net revenue</i>	59%	60%	54%	55%	58%	58%	34%	33%
<i>Number of lottery retail terminals</i>	855	862	923	922	1,038	1,062	161	161
<i>Number of multi-purpose retail terminals</i>	-	1	-	-	-	1	-	-
<i>Number of active video lottery terminals</i>	2,004	2,000	1,926	1,896	2,072	2,072	280	280
Profit distribution per capita	\$209	\$209	\$309	\$320	\$177	\$177	\$155	\$151

\*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

# Financial Highlights

## Corporate Net Profit

	2018	2017	2016	2015	2014
Gross ticket sales	\$709,512	\$699,074	\$732,749	\$654,290	\$671,286
Prizes on ticket sales	412,117	392,267	406,493	369,602	384,294
Net ticket sales	297,395	306,807	326,256	284,688	286,992
<i>Prizes as % of sales</i>	58%	56%	55%	56%	57%
Net video lottery receipts	439,136	434,012	438,138	397,897	374,053
Entertainment center revenue	19,626	19,259	18,520	17,766	19,988
<b>Net revenue</b>	<b>756,157</b>	<b>760,078</b>	<b>782,914</b>	<b>700,351</b>	<b>681,033</b>
Direct expenses	148,532	146,070	150,095	137,791	138,958
<b>Gross profit</b>	<b>607,625</b>	<b>614,008</b>	<b>632,819</b>	<b>562,560</b>	<b>542,075</b>
<i>Gross profit as % of net revenue</i>	80%	81%	81%	80%	80%
Operating and administrative expenses	101,562	105,054	109,008	98,309	111,294
<i>Operating expenses as % of net revenue</i>	13%	14%	14%	14%	16%
Capital-related costs	31,490	32,549	38,774	32,550	29,884
Other expenses and distributions	55,348	54,473	53,458	63,485	32,460
<b>Net profit</b>	<b>\$419,225</b>	<b>\$421,932</b>	<b>\$431,579</b>	<b>\$368,216</b>	<b>\$368,437</b>
<i>Net profit as % of net revenue</i>	55%	56%	55%	53%	54%
<i>Number of lottery retail terminals</i>	2,977	3,007	3,003	3,035	3,018
<i>Number of multi-purpose retail terminals</i>	-	2	29	40	44
<i>Number of active video lottery terminals</i>	6,282	6,248	6,300	6,298	6,373
Profit distribution per capita	-	-	-	-	-

\*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

