

Atlantic Lottery Corporation  
1996-97

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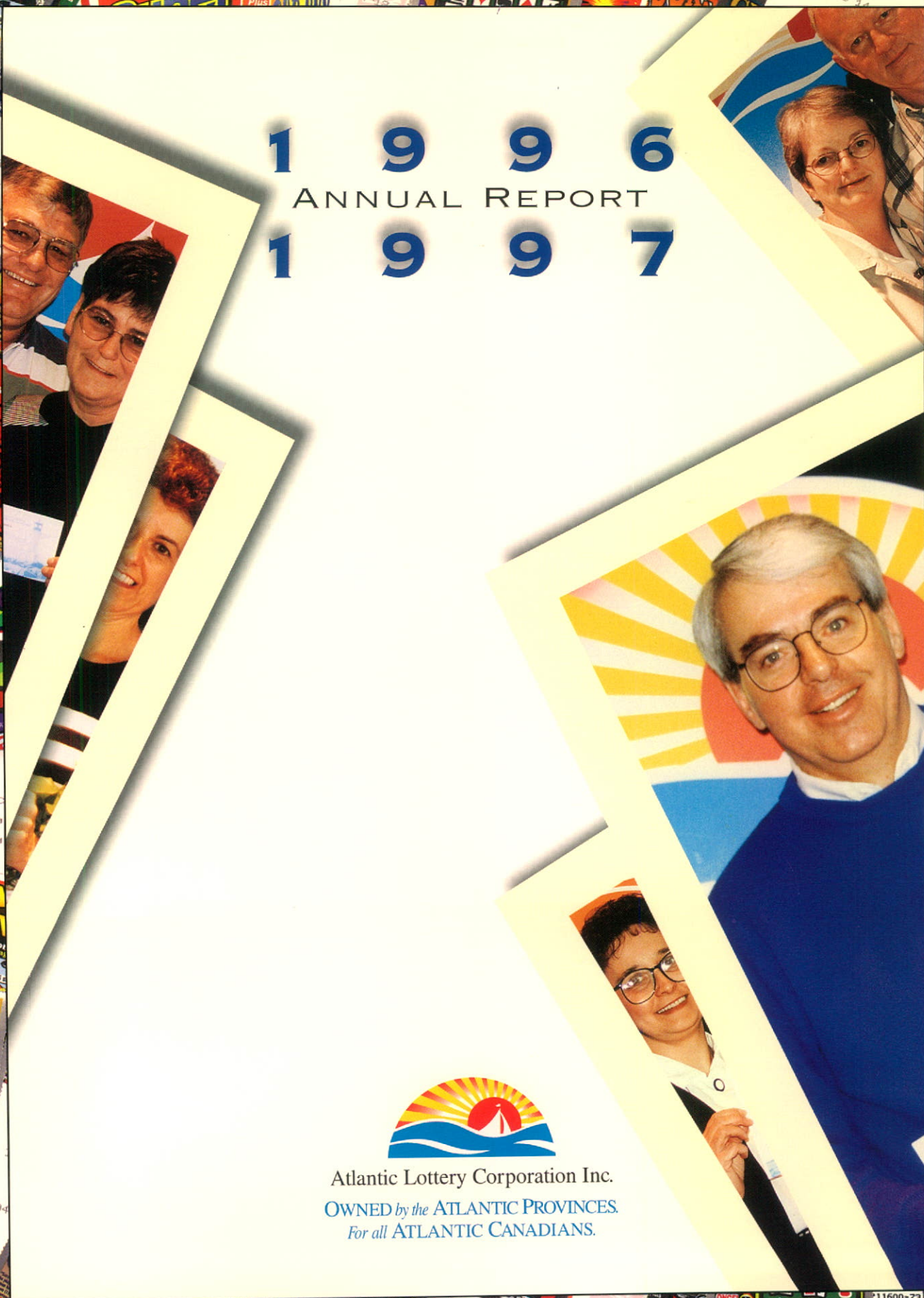
20TH ANNIVERSARY

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50TH ANNIVERSARY

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ANNUAL REPORT  
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Atlantic Lottery Corporation Inc.  
OWNED by the ATLANTIC PROVINCES.  
For all ATLANTIC CANADIANS.



## OUR MISSION

**T**he Atlantic Lottery Corporation will profitably create, develop, market and manage lottery and gaming activities with integrity in partnership with the shareholder provinces.

## OUR GOALS

- To ensure honesty, integrity and credibility are integrated into all business activities and work relationships throughout the Corporation.
- To maintain our industry leadership position by offering innovative products and services to our customers.
- To initiate and maintain programs and values that ensure satisfied, productive, contributing employees.
- To ensure accurate portrayal of the Atlantic Lottery Corporation to our shareholders and publics.
- To continually improve our systems and processes to enhance retailer and consumer satisfaction.
- To empower employees by providing them with the training, work tools and work environment they need to make confident decisions.
- To promote the benefits which can be realized when cross-functional / divisional teams act on corporate issues.
- To be recognized as consulting experts in new gaming activities.
- To constantly monitor and adjust all facets of the Atlantic Lottery Corporation in order to return to our shareholders maximal profits.
- To cultivate, encourage and support business and industry throughout Atlantic Canada.
- To introduce and support programs that guarantee siteholder and coin machine operator satisfaction.

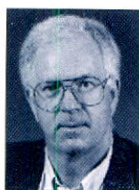
## CORPORATE GOVERNANCE

The shareholders of ALC – The Lotteries Commission of New Brunswick, The Nova Scotia Gaming Corporation, The Prince Edward Island Lotteries Commission and the Government of the Province of Newfoundland – each appoint two representatives to ALC's eight-member Board of Directors.

The mandate of the Board of Directors is to direct management with regard to the Corporation's business affairs.

The Board directs policies and makes decisions on corporate matters including gaming activities, corporate organizational structure and annual budgets. In addition to regular monthly meetings, the Board holds an annual meeting to discuss and approve the long-term directional plan of the Corporation and to consider and approve the annual operating and capital budgets. With the assistance of the audit committee, made up of one Board representative from each province, the Board also monitors the Corporation's internal control and financial reporting systems.

The Board has established rules governing the approval of transactions carried out in the course of the Corporation's operations, the delegation of authority and the signing or execution of documents on behalf of the Corporation.



**Chair of the Board**  
**Stirling "Ginger" Breedon**

*Deputy Minister*  
*Health & Social Services*  
P.O. Box 2000  
11 Kent Street, 2nd Floor  
Charlottetown PE C1A 7N8  
Tel: (902) 368-4935

**Vice-Chair**  
**Ralph E Fiske**  
*Chair, Nova Scotia Gaming Corporation*

P.O. Box 1501  
Halifax NS B3J 2Y3  
5151 George Street  
Suite 800  
Bank of Montreal Building  
Halifax NS B3J 1M5  
Tel: (902) 424-2203

**Secretary**  
**Philip Wall**

*Deputy Minister, Finance*  
*Department of Finance*  
Main Floor, East Block  
Confederation Building  
Prince Philip Drive  
P.O. Box 8700  
St. John's NF A1B 4J6  
Tel: (709) 729-2946

### DIRECTORS

**Fraser Lush**

*President of NF Liquor Corporation & Liquor Licensing Board*  
P.O. Box 8750, Station "A"  
Kenmount Road  
St. John's NF A1B 3V1  
Tel: (709) 724-1114

**John E. Mallory**

*Deputy Minister, Finance*  
P.O. Box 6000  
Centennial Building, Room 371  
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Fredericton NB E3B 5H1  
Tel: (506) 453-2534

**Ernest L. MacKinnon**

*President & CEO*  
*NB Investment Management Corporation*  
440 King Street  
York Tower, Suite 381  
Fredericton NB E3B 5H8  
Tel: (506) 457-6991

**Dara L. Gordon**

*Patterson Palmer Hunt Murphy*  
P.O. Box 247  
Halifax NS B3J 2N9  
5151 George Street  
Suite 1600  
Bank of Montreal Building  
Halifax NS B3J 1M5  
Tel: (902) 492-2000

**Michael Kelly**

*Deputy Provincial Treasurer*  
*Provincial Treasury*  
P.O. Box 2000  
95 Rochford Street  
2nd Floor  
Charlottetown PE C1A 7N8  
Tel: (902) 368-4053  
*(Mr Kelly passed away May 5, 1997. He had been a member of ALC's Board of Directors since July 1995.)*

## FINANCIAL HIGHLIGHTS

(Stated in thousands of dollars)

	1996-97	1995-96	1994-95	1993-94	1992-93
Gross Ticket Sales	\$454,244	\$436,780	\$409,406	\$370,037	\$346,995
Prizes on Ticket Sales	243,239	233,035	216,014	193,295	180,665
Net Ticket Sales	211,005	203,745	193,392	176,742	166,330
Net Video Lottery Receipts	299,947	281,047	246,507	195,493	183,897
Total Net Sales	510,952	484,792	439,899	372,235	350,227
Commissions	139,738	131,707	122,805	112,356	111,724
Ticket Costs	10,938	9,461	9,272	8,318	9,092
Operating Expenses	54,666	51,325	51,079	42,012	40,676
Other Expenses (1)	18,504	16,636	16,963	12,742	14,076
Net Profit Returned to Provinces					
New Brunswick	87,026	82,031	63,902	57,412	47,236
Newfoundland	75,038	74,117	69,173	54,627	43,664
Nova Scotia	110,243	104,916	94,055	73,321	75,266
Prince Edward Island	14,799	14,599	12,650	11,447	8,493
Total Net Profit Returned to Provinces	287,106	275,663	239,780	196,807	174,659
Per Capita Net Profit Distributed (2)					
New Brunswick	165.18	155.70	121.29	108.97	89.66
Newfoundland	188.83	186.51	174.07	137.46	109.88
Nova Scotia	166.40	158.36	141.96	110.67	113.60
Prince Edward Island	160.08	157.92	136.84	123.82	91.87
Net Profit as a Percentage of Net Sales	56.19%	56.86%	54.51%	52.87%	49.87%
Operating Expenses as a Percentage of Net Sales	10.70%	10.59%	11.61%	11.29%	11.61%
Capital Expenditures	11,372	5,483	5,807	1,898	26,059
Depreciation Expense	9,503	9,649	9,890	9,422	8,042
Number of On-Line Terminals	3,241	3,214	3,130	2,429	2,370
Number of Video Lottery Terminals	9,876	9,366	8,630	7,275	6,436
Number of Games	13	12	12	11	10

(1) Includes Payment to Government of Canada, Goods and Services Tax, Special Commission to Non-Profit Organizations, Nova Scotia Retailer Bonus and Interest Income.

(2) Source: Statistics Canada 1991 Census of Population, adults 19 years of age and older (stated in actual dollars).

# TWENTY YEARS OF WINNING

## MESSAGE FROM THE PRESIDENT

**I**t was Dec. 15, 1976, in the Grand Salon of Moncton's Hotel Beausejour, when the numbered balls rolled down the chutes for the very first time.

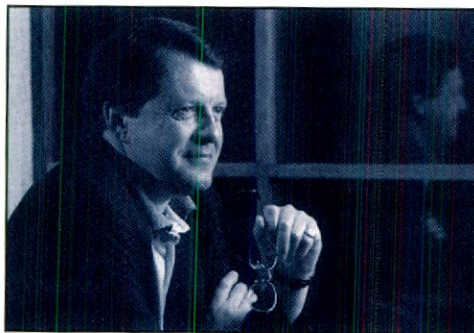
Across the Northumberland Strait, in Alberton, P.E.I., Judy Christopher was suddenly \$50,000 richer. It's probably safe to say that no one working with the Atlantic Lottery Corporation (ALC) that day had any idea how big or how fascinating our business would become over the next 20 years.

As we look at the highlights and successes of 1996-97, it's interesting to keep that humble starting point in mind. That single A-1 lottery draw held every two weeks has grown into 13 different types of games delivered in one of three ways: by person, by computer, or by video. And that first \$50,000 was the start of a prize total that now, after more than 20 years, exceeds \$2 billion. The total of winners from communities large and small across Atlantic Canada now numbers in the thousands.

### All about winners

Our players are just one group of ALC winners. Others who benefit from Atlantic Lottery include our four shareholders—Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland and Labrador—and the people who live and work in these provinces, from the retailers who sell our products, to our many suppliers, to all citizens.

In the 1996-97 fiscal year alone, we returned nearly \$300 million to the four Atlantic



provinces. In today's economic climate of reduced transfer payments and increased pressure for balanced budgets, this consistent and significant revenue source helps avoid tax increases and program reductions. And here's another figure we're proud of—prize expenses for the year on traditional lottery tickets alone were \$243 million. That translates into a lot of smiling faces.

ALC has also made a winner of the Atlantic region on the world map. We have become a global leader in gaming technology, game design, and financial and security controls. We've pioneered a number of innovations that have been adopted by lotteries in other parts of Canada and abroad. For example, our bar code on-line validation system for lottery tickets was a world first. It has become an industry standard. ALC was also the first to successfully adapt the traditional Bingo game into a lottery product. Variations of our game are now played across the globe.

### Busy year on many fronts

Looking back on the past year, I'm proud to say it was a good one—and a busy one! We have new premises in New Brunswick, Nova Scotia and Newfoundland. We are now in the final stages of developing an innovative new on-line terminal that will revolutionize operations for our retail partners. We raised our community profile by becoming involved in more fundraising and sponsorship events throughout the region. Special events, such as the Festival of Dreams ticket and game show, helped involve customers in our 20th anniversary celebrations. Finally, our successful first review by the provincial Auditors General yielded valuable information that will help us improve services to our shareholders. The expanded format of this annual report is just one way



Mary Hart of Sydney Mines, N.S., was the top winner in the Festival of Dreams game show. She collected more than \$140,000 in cash and prizes.  
 (Left to right) Mary Hart, host Dan Duran, Atlantic Lottery Corporation president Cluny Macpherson.

we are trying to make information about our operations more accessible to shareholders and interested members of the public.

The many changes we have undergone, and continue to go through, reflect how the entire lottery industry is evolving—and how we've more than kept pace.

In the midst of this change, we recognize that each of our shareholders has specific concerns and requirements unique to their province, due to individual regulatory and social climates. ALC's accountability to the four provinces is something we take very seriously. A new team of dedicated ALC employees is helping us to respond to our shareholders' needs even more effectively. We are also conducting a formal review of the strategic plan that was adopted in 1993 to ensure all our activities continue to meet our shareholders' needs.

## Employee commitment leads the way

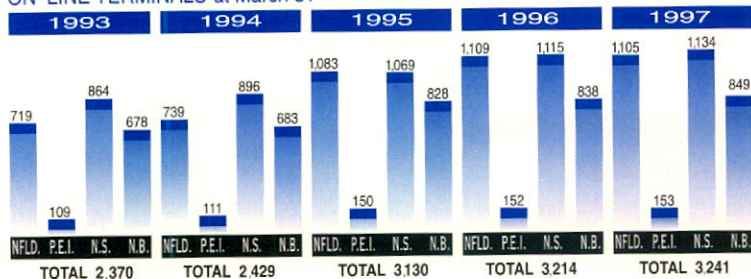
Whether we consider only the past year or look way back to those early days, one vital factor in our Corporation's success remains constant—employee commitment. Our staff enjoy what they do and feel tremendous pride in the organization. This is true from head office and the regional offices through to field operations and our retail partners. We now employ more than 430 people throughout Atlantic Canada, and our independent retail sales network is nearly 6,100 strong. Creative employees have conceived and designed so many of the innovations that have kept ALC growing during the past 20 years. I am confident their skills will help ensure an equally successful future.

On behalf of the Board of Directors—representing the four provinces—I thank all our staff and retail partners for an excellent year. It goes without saying that I also thank our players! I invite you to read on to discover more about the activities of our past 12 months—and some of the plans we have for the future.

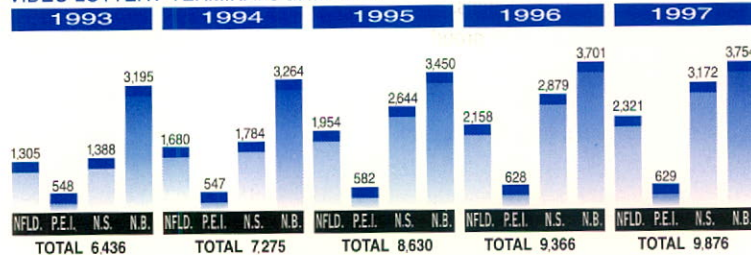
Warmest regards,  


Cluny Macpherson  
 President and Chief Executive Officer

### ON-LINE TERMINALS at March 31



### VIDEO LOTTERY TERMINALS at March 31



(1) In N.B. and P.E.I., VLTs are owned by "VL Owners" (coin machine operators).  
 (2) There were 181 VLTs located on native reserves in Nova Scotia in 1996 and 348 in 1997. The net sales from these reserves are not recorded as revenues. ALC provides the services to operate these devices for an administration fee.

## New workplaces improve organizational effectiveness

One of the highlights of 1996-97 was the completion of a project started in 1993 to consolidate most of ALC's operations. Rapid growth during the late 1980s and early '90s had forced us to lease several facilities in New Brunswick, Newfoundland and Nova Scotia. With today's activities frequently involving teamwork and cross-divisional collaboration, uniting our staff under a single roof was an excellent business decision. By bringing each province's team together, we are providing our employees with the work environment they need to meet the challenges of the future. ALC's staff also deserve much praise for keeping all aspects of our business functioning with good humour, enthusiasm—and a high level of service—during the moves.

*"ALC now has a high-performance workplace that was designed and planned to enable our people to be more productive, enjoy a better quality of work life, and achieve the goals of ALC."*

Cathy Pickard  
Vice President, Workplace and  
Communication Services

## LOTTERIES ARE A COMMUNITY AFFAIR AT EUGENE'S IN TIGNISH

Regular customers at Eugene's General Store in Tignish, P.E.I., never have to worry about filling out their favourite numbers for Lotto 6/49, Super 7, or Pik 4. Joanne Perry keeps a box beside the terminal with their selection slips filled out and filed by name. It's just one of many things she and her husband, Tommy, do to make their customers feel welcome.

The store itself is a tradition in the community. Tommy's parents ran it for 30 years before selling the business outside the family. Ten years later, Joanne and Tommy bought the store and renamed it in honour of Tommy's father.

Joanne and Tommy have been Atlantic Lottery retailers for 11 years. They are also one of the top 10 in sales for P.E.I.

Joanne enjoys the pleasure lottery products give their customers—from the retired gentleman who comes in regularly for his coffee and three Bingo tickets, to the 30-person community Lotto 6/49 pool.

## Technical innovations keep our business growing

In 1976, ALC's initial product line consisted of one game, and the tickets were delivered to local retailers by car. Technology has brought extraordinary changes to the lottery business in the last two decades and ALC has always been an innovator. One of the many advantages of our



*The Barra MacNeils performed at the ALC Community Stage during the 1997 East Coast Music Awards.*

four-province cooperative system is the resources available for technological development.

In October 1996, at World Meet—an annual conference organized by the three major international lottery organizations—we presented our new on-line terminal and its development concepts. Delegates from around the globe gave it rave reviews. Three years in development, the new terminal is a testament to the creativity of our staff and industry partners.

*"The new on-line lottery terminal will be one of the most innovative in the world. We're sure many other lotteries will emulate it."*

Vince Brunet  
Vice President, Information Technology

Using the latest technology, based on personal computers and Windows NT software, this innovative terminal will allow us to improve services to





our retailers and players. Remote trouble-shooting will reduce downtime for the retailer. Designed to be easy to use, the new terminal has a coloured touch screen—a first in the lottery industry—and uses a thermal printer for fast, quiet operation. Internet connections will give retailers better access to our staff. The terminal even has built-in training so that new retail staff can learn very quickly about lottery products and selling. Field trials for the new terminal will start this September with a full network roll-out planned to begin in fall 1998.

#### ATLANTIC CANADIAN BUSINESSES— A VITAL RESOURCE

The new terminal project is an example of the effectiveness of ALC's commitment to sourcing products and services within the region wherever possible. In 1996-97, Atlantic Canadian businesses supplied almost \$37 million in goods and services for our operations. For the new terminals, we partnered with a young Nova Scotia technology development firm, Applied Microelectronics Inc. (AMI) and a New Brunswick firm, Spielo Gaming International. Our staff developed the system requirements, AMI and ALC created the software application the retailer will use to produce and validate tickets, and Spielo designed the hardware. We were also able to place the \$30-million manufacturing contract for 3,000 terminals locally. The new terminals will give us plenty of scope to introduce new products and services well into the 21st century.

During the year we also implemented a new gaming system for video lottery terminals (VLTs) and new on-line system software. They replaced a VLT system that was seven years old and an on-line system that had been in operation since 1982. These new systems will ensure cost-effective operations, greater flexibility, and a shorter development cycle for improvements.

Today, about 80% of our products depend on technology to some extent for completion. With 3,000 gaming terminals and 10,000 VLTs, ALC has one of the largest networks in Atlantic Canada. This network is our lifeblood and its integrity forms a large part of our reputation.

New technology, such as the new on-line, PC-based retail terminal, will also expand our game potential in the years ahead. However, ticket security and system integrity are our first concerns in developing new products. ALC has an excellent record in this area and when we enter a new market we do so with confidence in the technology and our ability to manage it with complete security.

#### RESEARCH—THE KEY TO NEW IDEAS

Our continuing goal is to ensure that we deliver the best possible value to our customers and shareholders. Each year we compare our performance with that of other Canadian lotteries. This exercise allows us to identify potential areas for improvement and to make changes to our products and operations.

Research is also a vital tool in helping us determine consumer interest areas so that we can expand our player base. Most of our products are designed in-house. By creating innovative, complementary games targeted to specific customer groups, we can increase the scope of product appeal while safeguarding our existing successful products. This is why each Instant game has a slightly different image, prize incentives and play mechanics. ALC's in-house brand management, market research and creative services teams work together to design innovative new products with strong appeal.



*Terry MacNeil of Sydney River, N.S., won \$500,000, the top prize on Festival of Dreams.*

**GOLD MINERS AND HOLIDAY DREAMERS IN STEPHENVILLE**

When people in Stephenville, Nfld., run out of milk, want to rent a movie, or feel like an ice cream on a hot day, they know where to go. A. V. Gallant Ltd. has been there with the necessities and the treats since 1952. Aaron and Bernice Gallant see a lot of the community in the course of a week, and many people pick up a lottery ticket as they pay for their shopping. The Gallants have been retailers since Atlantic Lottery first came to Stephenville.

Bernice says that Lotto 6/49 is still the most popular game with their customers, but the scratch Bingo tickets are a close second. Among the regulars are a group of men who buy tickets on their way to the gold mine at Hope Brook. "They fly in for two weeks at a time, and always drop in on their way out to check the numbers," says Bernice. And it seems almost everyone in town has a dream trip to Hawaii planned if they win. "They all promise they'll take us along," says Bernice with a laugh.

**Special game marks anniversary year**

In October 1996, one million \$5 tickets went on sale for our special 20th anniversary game. It was carefully designed to capture the 'Dream Experience' for players. Prizes included cash, luxury vacations, a motorcycle, cars, a house, and a chance to participate in the televised game show, aired on ATV. On Jan. 22, six winners, each paired with an 'at-home' partner, became contestants on an exciting Festival of Dreams television game show hosted by Dan Duran.

*"Our marketing strategy has always been simple: good products that offer value and enjoyment, presented professionally and ethically with integrity beyond reproach."*

Jeff Salvis  
Vice President, Marketing

**Giving back to the community**

We believe an important part of any corporation's role is responsibility to the region it serves. In recent years the Atlantic Lottery Corporation has increased its community involvement in several ways. In 1996-97 our local profile was the highest yet. As a Platinum Sponsor of the East Coast Music Awards we were able to support a

Community Stage that provided a venue for dozens of up-and-coming musicians from all four provinces. More than 6,000 people visited Moncton's Champlain Place Mall to enjoy the entertainment. Our involvement in this event not only generated exceptional public goodwill, it helped extend the scope of the celebration. We are planning a similar involvement for the ECMAs in Halifax in 1998.

In October, we also took a significant sponsorship role in the 1996 Children's Wish Foundation's Wishmaker Parades in 30 communities throughout the region. The Children's Wish Foundation is a non-profit organization dedicated to fulfilling a favourite wish for children afflicted with high-risk, life-threatening illnesses. Our organizations both work to make dreams come true, so it was an ideal match. ALC helped out by sponsoring pledge sheet printing and a variety of promotional activities. The event was so well received that we intend to increase our sponsorship to include the support of parades in 50 communities for the October 1997 event.

*"The public throughout the region knows the name Atlantic Lottery. We try to use that public profile to help give back to the community."*

Bert McWade  
Vice President, Sales and Promotions

Across the Atlantic region, ALC's entertaining fundraiser games have become a prominent part of many community exhibitions and fairs. These games, which include Body Bingo for Bucks, Lucky Strike, and Rope the Calf, help attract the public to the events and raise money for community causes. A variety of shelters, food banks, and the YMCA have all been beneficiaries. Our community fundraising total in 1996-97 was \$59,305, almost double that of the previous year. Since the events began in 1994, our fundraiser games have generated over \$106,000 for worthy community causes. That total was raised \$1 at a time by people in the community taking part in the promotions.

ALC's community involvement is so successful because employees in the head office, regional offices and out in the field give generously and cheerfully of their time. It takes considerable organization to coordinate the events, and a lot of work on site to make them run smoothly. We're extremely grateful because their contribution is vital to fulfilling our community commitment.



Nora Richard (2nd from right), with son-in-law Jeff, daughter Julie & son David of Summerside, P.E.I., won a Harley Davidson on Festival of Dreams.

#### PLENTY OF 'SCRATCH' FANS IN SHIPPAGAN

When Stephane Thomas started as an Atlantic Lottery retailer in 1991, his weekly ticket sales were around \$200.

These days, they average \$6,000. Stephane believes lottery products are an important part of business for any convenience store today. He says the \$2 extended play tickets are a big favourite in Shippagan, N.B. "I find my customers are intrigued by innovative games," he says. "They appreciate the new ideas and the attractive tickets."

Stephane makes sure his customers can find exactly what they're looking for. He's arranged a counter set-up so that all the scratch games are clearly displayed and customers can choose easily. And many of them have chosen winners. In recent years Stephane's store has had one \$10,000 Bingo winner, several lucky TAG players, and one top Auto Plus winner.

#### First Shareholders' Audit offers opportunities

In 1996, we underwent our first-ever Auditor General's review. It was conducted jointly by the Auditors General of New Brunswick and Nova Scotia on behalf of all four provinces. The review took a year and required a considerable amount of time from ALC's Board, audit committee, and staff. We were pleased, though not surprised, when the report confirmed that ALC is a credible, accountable organization.

Several of the 30 recommendations in the report present opportunities for improvement. These range from minor procedural changes to more significant issues, such as reevaluating the distribution of profits among shareholders. Each recommendation is being addressed, or has been implemented already.

#### Working to improve communications

One specific recommendation from the Shareholders' Audit—to provide more financial and operational information—has already been addressed in this annual report. It is one example of an increased emphasis on communications at ALC, and we are working to be more proactive in presenting information to our publics.

*"By delivering games for all provinces through one central administration, ALC realizes considerable economies of scale. For 20 years we've also been a model of regional cooperation."*

Carmen McAfee  
Vice President, Finance

The lottery business is constantly changing. So are the specific requirements within each jurisdiction. Not surprisingly, this means each province and government routinely has concerns that need to be addressed. During the



*Yvonne Allain, Brenda Belliveau, Edith Caissie, Francine Cormier, Shirley Fanjoy, Eduard Foley, Roger Gauvin, Rita Gauvin, Daniel Jaillet, Douglas Killam, Aline Landry, Robert Lane, Helen Leger, Flechette Levesque, Rodney O'Dell, Bonnie Wallace & Geraldine Wilson (co-workers at Vail's Drycleaning, Moncton, N.B.) won \$3,333,333 on Lotto 6/49.*

past year we established a new Corporate Services group of senior staff to ensure a quick and effective response when these issues arise. The group will help us provide the best possible support for each shareholder and ensure compliance in each jurisdiction.

During 1996-97 we also developed and adopted an advertising code to ensure that all our lottery product advertising meets specific standards, with the main focus being on promoting the fun and enjoyment of the games.

### Dealing with emerging issues

While lotteries and other forms of gambling have been around for centuries, most people are aware

#### THEY'VE WON THE LOTTERY— NOW WHAT?

A 1996 survey asked winners of Lottery prizes over \$10,000 what they did with their windfall. Here's what they said:

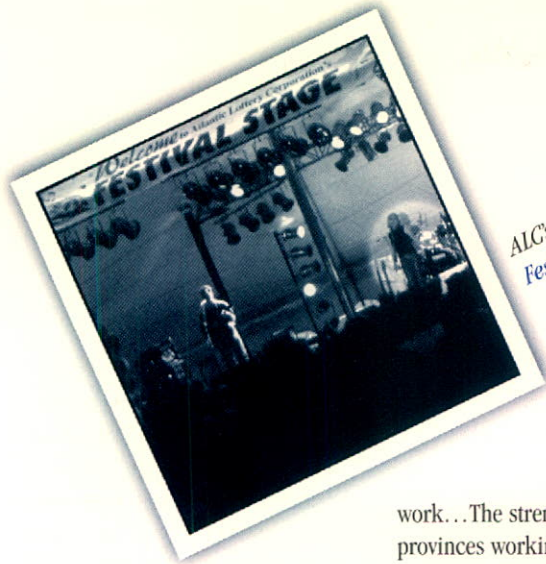
- 70% put their winnings in the bank
- 60% made bill or loan payments
- 50% shared their winnings with family members
- 33% purchased a new car
- 25% bought new appliances or furniture
- 22% did home renovations
- 21% made mortgage payments
- 20% took a vacation
- 19% made charitable donations
- 17% invested in bonds

that a small percentage of the population can develop an addiction problem. This is a concern for ALC, for our shareholders, and for some members of the public. Every industry in the world has to deal with the potential misuse of its products. In the lottery industry, video lottery is currently one area where concern is most often expressed.

The video lottery program is managed according to regulations and guidelines set by the shareholder provinces. Funding has been allocated for addiction services, and programs have been established for people with concerns or problems. These range from posters and stickers on VLTs to 1 800 referral numbers, Internet home pages, liaison with Gamblers Anonymous, and treatment manuals. As the agent who delivers services on our shareholders' behalf, ALC is committed to working with them to help address the issue. We will continue to provide support at the direction of our shareholders.

### The road ahead

Many other interesting events and projects are on our calendars for the future. For example, we are already preparing to host the 1999 North American State and Provincial Lotteries annual conference at the World Trade and Convention Centre in Halifax. This major event will



*ALC's Community Stage was part of Festival of Lights in Charlottetown, P.E.I.*

bring together as many as 1,500 industry professionals from across the continent and beyond. It will involve all departments and present an excellent opportunity to showcase ALC's expertise.

*"Since I've been with Atlantic Lottery—almost 19 years—we've gone from \$10 million in annual profits returned to the provincial shareholders, to almost \$300 million this past year. This success didn't just happen. People made it happen. It's the result of the creativity, dedication and hard work of ALCers."*

**Doug Milton**  
Vice President, Corporate Services

Twenty years of success is certainly something to celebrate, but we are fortunate to have had excellent resources with which to

work... The strength of four provinces working together collaboratively. A clear corporate vision that guides our development. The creativity and commitment of talented people. And the courage to be a leader in our field. Each has helped us deliver significant benefits to our shareholders, and to our business and retail partners. It is a record of success far beyond the expectations of our founders. The Atlantic Lottery Corporation is celebrating, but we're also hard at work keeping the success growing. Here's to another 20 great years!

*Lotto 6/49 is a registered trademark of Loto Québec used under license.*

*TAG is a registered trademark of Atlantic Lottery Corporation (ALC).*

*Lotto Super 7 is a registered trademark of Interprovincial Lottery Corporation used under license.*

*Bingo is a registered trademark of Western Canada Lottery Corporation used under license.*

*Pik 4 is a registered trademark of ALC.*

*Atlantic Choice is a registered trademark of ALC.*

*Scratch 'n Win is a registered trademark of ALC.*

*Auto Plus is a registered trademark of Loto Québec used under license.*

*Video Lotto is a registered trademark of Loto Québec used under license.*

*Festival of Dreams is a registered trademark of ALC.*

#### ALL SMILES FOR THIS CAMERA IN AMHERST

Frank Elliott knows what's important to the customers of Elliott's Grocery in Amherst, N. S. That's why he's set up a 'hot line' recording on the store's telephone number giving the latest winning numbers.

Frank recently had an experience that marked a high point in his 20 years as an Atlantic Lottery retailer. One of the store's customers comes in every noon for a bottle of pop and newspaper. She also picks up a copy of the winning numbers. Frank heard a couple of quiet exclamations, followed quickly by "I think I've won! I think I've won!" He checked her TAG ticket and indeed she had—\$100,000! First there were tears, then laughter—then hugs all around.

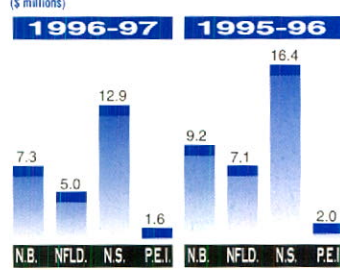
Later, Frank realized the thrilling moment had been captured on the store's security surveillance camera. He sent the tape for our archives—ALC's first-ever video recording of a winner at the actual moment of discovery. And if that wasn't enough excitement, one of Frank's friends was also a TAG winner a couple of weeks later. Guess who sold him the ticket!



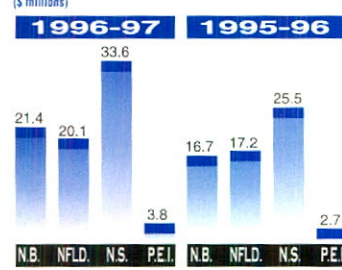
*Sarah & Fred Adair & their daughter Carlie of Miramichi, N.B., won the Maple Leaf House on Festival of Dreams.*

# SALES BY GAME BY PROVINCE

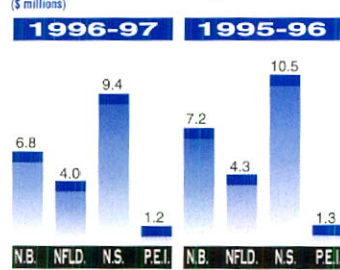
Total Sales of \$1 Instant by Province



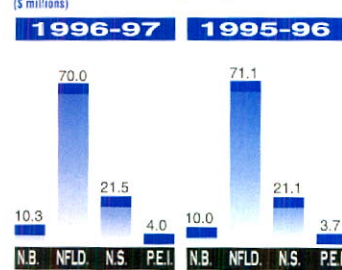
Total Sales of \$2 Instant by Province



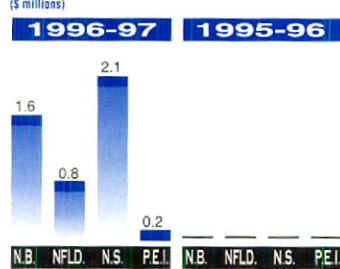
Total Sales of Auto Plus by Province



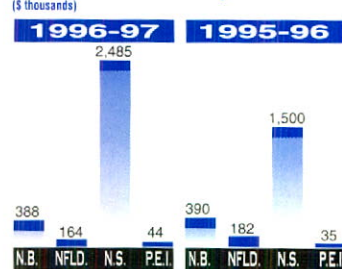
Total Sales of Breakopen by Province



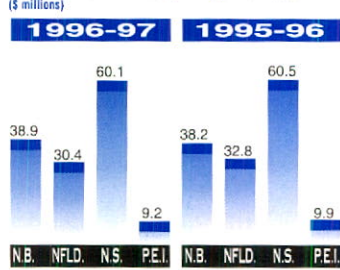
Total Sales of \$5 Game by Province



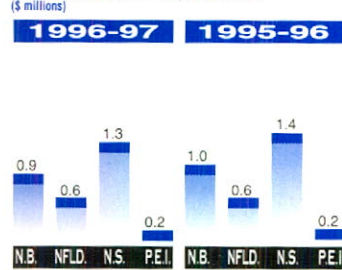
Total Sales of \$20 Game by Province



Total Sales of Lotto 6/49 by Province

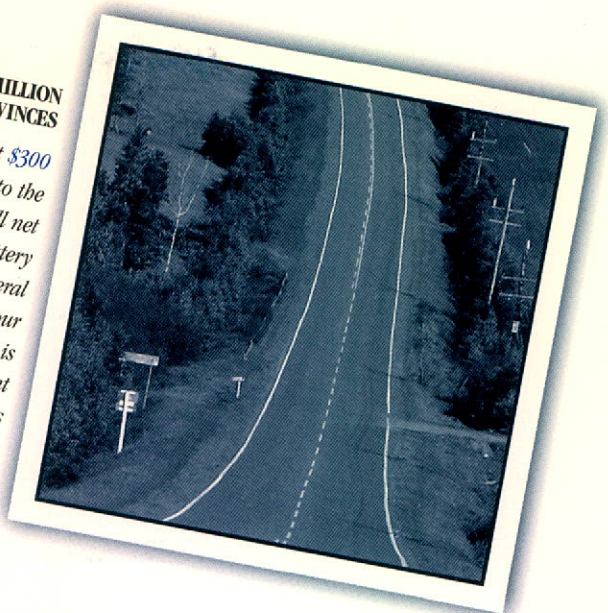


Total Sales of Pik 4 by Province

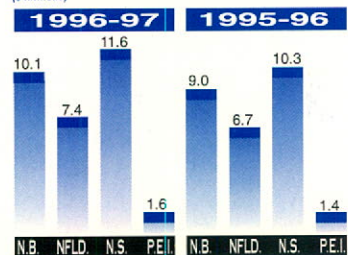


## ALMOST \$300 MILLION RETURNED TO THE PROVINCES

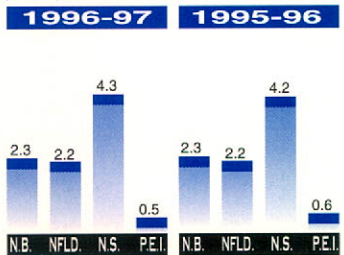
In fiscal 1996-97, almost \$300 million was returned to the shareholder provinces. All net profit from the sale of lottery products goes to the general revenue fund of each of the four Atlantic provinces, where it is used to fund government programs and services such as education, health care and roads in Atlantic Canada.



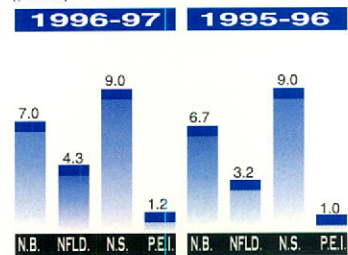
Total Sales of TAG by Province (\$ millions)



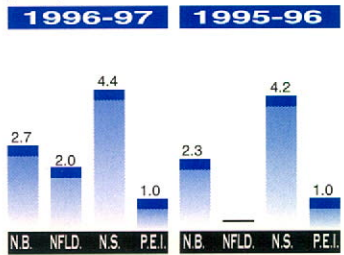
Total Sales of Atlantic Choice by Province (\$ millions)



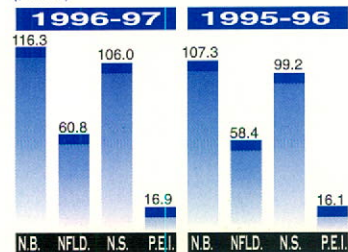
Total Sales of Super 7 by Province (\$ millions)



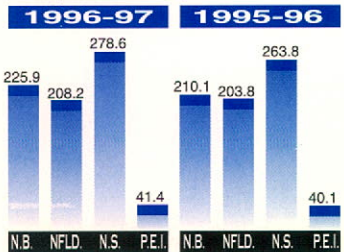
Total Sales of Sports Lottery by Province (\$ millions)



Net Video Lotto Receipts by Province (\$ millions)



Total Sales by Province (\$ millions)



Total of gross ticket sales and net video lottery receipts.

Désiré and Jeannine Cormier  
of Bouctouche, N.B., won \$505,561  
on Lotto 6/49.



## AUDITORS' REPORT TO THE SHAREHOLDERS

## MANAGEMENT RESPONSIBILITIES FOR FINANCIAL REPORTING

We have audited the balance sheet of the Atlantic Lottery Corporation Inc. as at March 31, 1997 and the statements of operations and allocation of profit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants  
Moncton, Canada  
June 2, 1997

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

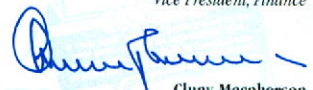
Management prepared the financial statements in accordance with generally accepted accounting principles in Canada. The financial information contained in the Annual Report is consistent with the data presented in the financial statements.

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

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



Carmen McAfee  
Vice President, Finance



Cluny Macpherson  
President



# BALANCE SHEET

MARCH 31, 1997,  
WITH COMPARATIVE FIGURES FOR 1996

(Stated in thousands of dollars)

	1997	1996
<b>Assets</b>		
Cash (note 2)	\$30,184	\$34,603
Accounts receivable	12,196	9,936
Prepaid expenses and deposits	8,732	4,801
Capital assets (note 3)	18,675	17,064
	<b>\$69,787</b>	<b>\$66,404</b>

## Liabilities and Shareholders' Equity

Accounts payable and accrued liabilities	\$13,292	\$ 10,315
Deferred revenue	1,150	884
Liabilities for unclaimed prizes	31,515	29,398
Payable to the shareholders	23,830	25,807
Share capital (note 4)	—	—
Commitments (note 9)	—	—
	<b>\$69,787</b>	<b>\$66,404</b>

See accompanying notes to financial statements.

On behalf of the Board:

  
Ginger Breedon  
Chair

  
John Mallory  
Director

Pat Gilroy of Springhill  
N.S., won \$6,000,000 on  
Lotto 6/49.

# STATEMENT OF OPERATIONS AND ALLOCATION OF PROFIT

YEAR ENDED MARCH 31, 1997,  
WITH COMPARATIVE FIGURES FOR 1996

*(Stated in thousands of dollars)*

	1997	1996
<b>Sales:</b>		
Gross ticket sales	\$ 454,244	\$ 436,780
Prizes on ticket sales	243,239	233,035
	<b>211,005</b>	203,745
Net video lottery receipts	299,947	281,047
Net revenue	<b>510,952</b>	484,792
<b>Direct expenses:</b>		
Commissions (wholesale and retail)	139,738	131,707
Ticket printing	10,938	9,461
	<b>150,676</b>	141,168
Gross profit	<b>360,276</b>	343,624
<b>Operating expenses:</b>		
Marketing	9,055	8,694
Sales and promotion	8,226	7,601
Finance	2,318	2,108
Corporate services	8,238	7,510
Information technology	26,829	25,412
	<b>54,666</b>	51,325
Operating profit	<b>305,610</b>	292,299
Interest and other income	2,392	2,852
Profit before undernoted items	<b>308,002</b>	295,151
<b>Less:</b>		
Payments to the Government of Canada (note 5)	3,635	3,565
Goods and Services Tax (note 6)	13,116	11,970
Special commission to non-profit organizations (note 7)	209	220
Nova Scotia retailer bonus (note 8)	3,936	3,733
	<b>20,896</b>	19,488
Profit for distribution to the shareholders	<b>\$ 287,106</b>	\$ 275,663
<b>Allocation of profit:</b>		
Lotteries Commission of New Brunswick	\$ 87,026	\$ 82,031
Province of Newfoundland	75,038	74,117
Nova Scotia Gaming Corporation	110,243	104,916
Prince Edward Island Lotteries Commission	14,799	14,599
	<b>\$ 287,106</b>	\$ 275,663

See accompanying notes to financial statements.

# STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED MARCH 31, 1997,  
WITH COMPARATIVE FIGURES FOR 1996

(Stated in thousands of dollars)

	1997	1996
Cash provided by (used in):		
<b>Operations:</b>		
Profit for distribution to the shareholders	\$ 287,106	\$ 275,663
Depreciation, which does not involve cash	9,503	9,649
Net changes in non-liquid short-term assets and liabilities	(2,808)	4,225
	293,801	289,537
<b>Financing:</b>		
Long-term debt, net of repayments	—	(11,000)
<b>Investment:</b>		
Purchase of capital assets (net)	(11,114)	(5,089)
<b>Distribution to the shareholders</b>	<b>(287,106)</b>	<b>(275,663)</b>
Decrease in cash	(4,419)	(2,215)
Cash, beginning of year	34,603	36,818
Cash, end of year	\$ 30,184	\$ 34,603

See accompanying notes to financial statements.

Anne Hardiman (with friend Rhonda Casey)  
of Digby, N.S., won \$40,000 on Auto Plus  
Summer Cars.



# NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 1997  
(STATED IN THOUSANDS OF DOLLARS)

The Atlantic Lottery Corporation Inc. was incorporated under the Canada Business Corporations Act on September 3, 1976. The Governments of the Provinces of New Brunswick, Newfoundland, Nova Scotia and Prince Edward Island or their agencies are shareholders in the Corporation.

The Corporation is responsible to develop, organize, undertake, conduct and manage lotteries in Atlantic Canada. The Corporation is also the Regional Marketing Organization for the Celebration, Super 7 and Lotto 6/49 national lottery games, which are joint undertakings by the Provinces of Canada acting through the Interprovincial Lottery Corporation, a company whose shares are held by Her Majesty the Queen in right of the Provinces.

## 1. Significant accounting policies:

### (a) Capital expenditures:

The Corporation capitalizes any major purchase which has a useful life beyond the current year and which will materially affect net income in the current year. Assets are recorded at their original cost and are depreciated on a straight-line basis according to their estimated useful life using the following rates:

Asset	Rate
Building	5% and 20%
Automotive	33.3%
Furniture and equipment	10% and 20%
On-line gaming terminals	20% and 33.3%
Video lottery terminals	20% and 33.3%
Computer equipment	20% and 33.3%
Leasehold improvements	Remaining lease term

Lease term includes the original lease term and one renewal period.

### (b) Revenues and expenses:

The recognition of lottery sales revenue and the corresponding direct expenses for all draw games is at the date of the draw. Receipts for lottery tickets sold before March 31 for draws held subsequent to that date are recorded as deferred revenue. The related costs of ticket printing and retailer commissions are recorded as prepaid expenses.

For all other lotteries, the recognition of lottery sales revenue and the corresponding direct expenses is at the time of sale.

### (c) Prizes paid:

In addition to cash prizes, the Corporation also awards free tickets. The value ascribed to these prizes is equal to the sale price and is recorded in sales as income and in prizes as an expense.

### (d) Unclaimed prizes:

All unclaimed prizes from regional lottery games are retained in a prize fund for one year from the announced beginning date of the draw. Unclaimed prizes remaining after the one-year claiming period are transferred to a special prize fund to be used for prizes in subsequent draws. Prizes of the national lottery games are funded directly by the Interprovincial Lottery Corporation with the exception of prizes for certain free tickets, which are paid out of general funds as incurred.

**(e) Distribution of profit:**

The profit of the Corporation is distributed to each of the four Atlantic Provinces or their lottery agencies. The distribution to each province consists of the calculated profit from video lottery in each province and the allocation of profit from all other products based on the percentage of net revenues (sales minus prizes) in that province.

**(f) Net video lottery receipts:**

Video lottery receipts are recorded net of credits paid out.

**2. Cash:**

Cash is represented by deposits on account less outstanding cheques:

	1997	1996
Deposits on account	\$ 31,854	\$ 36,663
Less outstanding cheques	(1,670)	(2,060)
Cash, end of year	\$ 30,184	\$ 34,603

**3. Capital assets:**

	1997		1996	
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 100	\$ -	\$ 100	\$ 100
Building	3,091	2,540	551	588
Automotive	905	607	298	951
Furniture and equipment	3,494	1,229	2,265	997
On-line gaming terminals	20,708	19,871	837	3,217
Video lottery terminals	35,470	28,540	6,930	8,793
Computer equipment	11,964	7,961	4,003	2,385
Leasehold improvements	3,844	153	3,691	33
	\$ 79,576	\$ 60,901	\$ 18,675	\$ 17,064

Operating expenses include depreciation of \$9,503 (1996 - \$9,649).

**4. Share capital:**

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



# NOTES TO FINANCIAL STATEMENTS

## (CONTINUED)

YEAR ENDED MARCH 31, 1997  
(STATED IN THOUSANDS OF DOLLARS)

### 5. Payments to the Government of Canada:

Under Federal/Provincial agreements, the Government of Canada agreed to withdraw from the sale of lottery tickets and to refrain from re-entering the field of gaming and betting. In consideration the provinces are paying \$24 million annually, in 1979 dollars, adjusted by the consumer price index each year. The amount for the current year was \$51.6 million.

The Corporation, as the Regional Marketing Organization of the Interprovincial Lottery Corporation, remits its member provinces' share of the above payments to the Interprovincial Lottery Corporation. The payment is included in the Statement of Operations and Allocation of Profit as a deduction from profit.

### 6. Goods and Services Tax (GST):

In lieu of the collection of GST on lottery ticket sales to the consumer, the Corporation pays the federal tax based on a specific formula and absorbs the cost. In addition to the GST paid by the Corporation, GST paid on goods and services purchased is not recoverable and is recorded with the cost to which it relates.

### 7. Special commission to non-profit organizations:

Special commissions are paid by the Corporation directly to non-profit organizations selling breakopen tickets.

### 8. Nova Scotia retailer bonus:

The Corporation pays a special 3% bonus to Nova Scotia retailers on their first \$400,000 of gross annual sales for all products except Video Lotto, Celebration and Breakopen games. This special bonus is charged to the Nova Scotia Gaming Corporation.

### 9. Commitments:

The Corporation is committed to payments for the lease of premises occupied by its head office. The minimum future annual lease payments over the ten-year term are as follows:

1998	\$ 1,616
1999	1,616
2000	1,616
2001	1,616
2002	1,616
2003 to 2007	7,676
	<b>\$ 15,756</b>

The Corporation has an option to renew the premises lease for an additional five years at terms to be negotiated.

As at March 31, 1997, the Corporation had commitments of \$25.3 million for the acquisition of retailer terminals. Most of these expenditures will be incurred over the next two fiscal years.

### 10. Fair value of financial assets and financial liabilities:

The fair value of the Corporation's cash, accounts receivable, accounts payable and accrued liabilities, liabilities for unclaimed prizes for unexpired draws, and the amount payable to the Atlantic Provinces approximate their carrying amounts due to the relatively short periods to maturity of the instruments.

### 11. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current years.

# SEGMENTED OPERATIONS

	ALC TOTAL		TRADITIONAL		VIDEO LOTTERY	
	1997	1996	1997	1996	1997	1996
Gross Ticket Sales	454,244	436,780	454,244	436,780		
Prizes on Ticket Sales	243,239	233,035	243,239	233,035		
Net Ticket Sales	211,005	203,745	211,005	203,745		
Net Video Lottery Receipts	299,947	281,047			299,947	281,047
Total Net Sales	510,952	484,792	211,005	203,745	299,947	281,047
Less:						
Commissions	139,738	131,707	32,922	31,915	106,816	99,792
Ticket Costs	10,938	9,461	10,685	9,231	253	230
Gross Profit	360,276	343,624	167,398	162,599	192,878	181,025
Operating & Other Expenses	73,170	67,961	56,444	50,896	16,726	17,065
Net Profit Distributed	287,106	275,663	110,954	111,703	176,152	163,960

The above segmentation is based on the current profit distribution methodology which does not attempt to report each segment on a full cost basis. The Corporation is in the process of adapting its financial information system to allow for more full cost reporting in 1997-98.

As outlined in the above schedule, the Atlantic Lottery Corporation basically operates two distinct lines of business, "traditional" lottery and video lottery (VL). Profit is calculated and distributed among the four shareholders according to these categories.

Video lottery profits are calculated taking into account the different environments in which each provincial program operates. For example, in New Brunswick and Prince Edward Island VL "Owners" (coin machine operators) are responsible for the administration of VL; therefore, the only VL expenses that are deducted from their provincial revenues are retailer and operator commissions and taxes. In Nova Scotia and Newfoundland, however, the Corporation administers the VL programs and therefore deducts from revenue operating expenses that are attributable to each of these shareholders.

Traditional profits are basically allocated to the four shareholders based on their percentage of total net sales. Adjustments are then applied to again recognize the unique environments that each province creates for traditional lottery operations. For example, in each province assigned games are distributed to charities for resale using different commissions as determined by the provinces.

Since it was founded in 1976, the Atlantic Lottery Corporation has paid almost \$2 billion in profits to its four shareholders. These past 20 years have allowed four distinct provinces to come together in a venture that exemplifies cooperation and sharing yet still recognizes uniqueness.

The following page illustrates the distribution of profits to our shareholders by line of business for fiscal 1996-97.



Roger Whalen of Pilley's Island, Nfld., won \$250,000, with Atlantic Choice.

## SEGMENTED OPERATIONS BY PROVINCE

	NEW BRUNSWICK					
	TOTAL		TRADITIONAL		VIDEO LOTTERY	
	1997	1996	1997	1996	1997	1996
Gross Ticket Sales	109,650	102,869	109,650	102,869		
Prizes on Ticket Sales	56,618	52,820	56,618	52,820		
Net Ticket Sales	53,032	50,049	53,032	50,049		
Net Video Lottery Receipts	116,274	107,301			116,274	107,301
Total Net Sales	169,306	157,350	53,032	50,049	116,274	107,301
Less:						
Commissions	62,593	56,494	8,280	6,375	54,313	50,119
Ticket Costs	2,686	2,172	2,686	2,172		
Gross Profit	104,027	98,684	42,066	41,502	61,961	57,182
Operating & Other Expenses	17,001	16,653	13,177	13,121	3,824	3,532
Net Profit Distributed	87,026	82,031	28,889	28,381	58,137	53,650

	NOVA SCOTIA					
	TOTAL		TRADITIONAL		VIDEO LOTTERY	
	1997	1996	1997	1996	1997	1996
Gross Ticket Sales	172,652	164,598	172,652	164,598		
Prizes on Ticket Sales	89,966	85,275	89,966	85,275		
Net Ticket Sales	82,686	79,323	82,686	79,323		
Net Video Lottery Receipts	106,007	99,183			106,007	99,183
Total Net Sales	188,693	178,506	82,686	79,323	106,007	99,183
Less:						
Commissions	42,310	38,112	12,914	10,606	29,396	27,506
Ticket Costs	4,354	3,635	4,193	3,490	161	145
Gross Profit	142,029	136,759	65,579	65,227	76,450	71,532
Operating & Other Expenses	31,786	31,843	24,496	24,034	7,290	7,809
Net Profit Distributed	110,243	104,916	41,083	41,193	69,160	63,723

	PRINCE EDWARD ISLAND					
	TOTAL		TRADITIONAL		VIDEO LOTTERY	
	1997	1996	1997	1996	1997	1996
Gross Ticket Sales	24,508	23,895	24,508	23,895		
Prizes on Ticket Sales	12,772	12,318	12,772	12,318		
Net Ticket Sales	11,736	11,577	11,736	11,577		
Net Video Lottery Receipts	16,873	16,176			16,873	16,176
Total Net Sales	28,609	27,753	11,736	11,577	16,873	16,176
Less:						
Commissions	9,819	9,210	1,863	1,583	7,956	7,627
Ticket Costs	604	513	604	513		
Gross Profit	18,186	18,030	9,269	9,481	8,917	8,549
Operating & Other Expenses	3,387	3,431	2,906	2,970	481	461
Net Profit Distributed	14,799	14,599	6,363	6,511	8,436	8,088

	NEWFOUNDLAND					
	TOTAL		TRADITIONAL		VIDEO LOTTERY	
	1997	1996	1997	1996	1997	1996
Gross Ticket Sales	147,434	145,418	147,434	145,418		
Prizes on Ticket Sales	83,883	82,622	83,883	82,622		
Net Ticket Sales	63,551	62,796	63,551	62,796		
Net Video Lottery Receipts	60,793	58,387			60,793	58,387
Total Net Sales	124,344	121,183	63,551	62,796	60,793	58,387
Less:						
Commissions	25,016	27,891	9,865	13,351	15,151	14,540
Ticket Costs	3,294	3,141	3,202	3,056	92	85
Gross Profit	96,034	90,151	50,484	46,389	45,550	43,762
Operating & Other Expenses	20,996	16,034	15,865	10,771	5,131	5,263
Net Profit Distributed	75,038	74,117	34,619	35,618	40,419	38,499

The above segmentation is based on the current profit distribution methodology which does not attempt to report each segment on a full cost basis. The Corporation is in the process of adapting its financial information system to allow for more full cost reporting in 1997-98.





## Atlantic Lottery Corporation

922 Main Street, P.O. Box 5500  
Moncton, N.B. E1C 8W6

Tel: (506) 867-5800  
Toll Free: 1 800 561-3942  
Fax: (506) 867-5439  
Internet: <http://www.alc.ca>

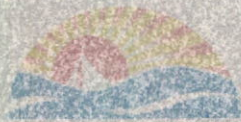
Marina Sbafter (with grandson Justin) of Riverview, N.B., won \$10,000 on her Bingo ticket.







Atlantic Lottery Corporation Inc.  
OWNED *by the* ATLANTIC PROVINCES  
*For all* ATLANTIC CANADIANS.



Atlantic Forestry Association  
OWNED BY ATLANTIC FORESTERS  
AN ATLANTIC CANADIAN