October 17, 2016

Re: Your request for access to information under Part II of the Access to Information and Protection of Privacy Act [Our File #: FIN-29-2016]

On May 6, 2016, the Department of Finance received your request for access to the following information:

"Correspondence with companies, people or agencies external to the department about casino gambling in Newfoundland and Labrador, both traditional (land-based) and virtual (web-based). Request includes records in any and all formats, including paper and electronic. Date range of request is Nov. 1, 2015 to the present."

On June 30, 2016 you were advised that the third party had filed a complaint with the Office of the Information and Privacy Commissioner to investigate the Department’s decision of partial release to the above request.

Additionally, on September 30, 2016 you were advised of the decision of the Office of the Information and Privacy Commissioner, in Report A-2016-020 dated September 26, 2016, and that the third party would have 15 business days to file a complaint with the trial division.

Please be advised that this time has elapsed and a complaint was not filed by the third party with the trial division. As such, the Department of Finance is pleased to advise that your request has been granted in part and is attached.

It is important to note the following regarding the attached:

- Some information is considered Policy Advice or Recommendations and has been severed pursuant to section 29.(1)(a) of the Access to Information and Protection of Privacy Act, 2015.
- Some information is considered Harmful to business interests of a third party and has been severed pursuant to sections 39.(1)(a)(ii), 39.(1)(b), 39.(1)(c)(i), and 39.(1)(c)(iii).
- Page 22 has been removed pursuant to sections 39.(1)(a)(ii), 39.(1)(b), 39.(1)(c)(i), and 39.(1)(c)(iii) of the Access to Information and Protection of Privacy Act, 2015.
- Pages 23 & 26 have been removed pursuant to section 29.(1)(a) of the Access to Information and Protection of Privacy Act, 2015.
Please be advised that you may ask the Information and Privacy Commissioner to review the processing of your access request, as set out in section 42 of the Access to Information and Protection of Privacy Act (the Act).

A request to the Commissioner must be made in writing within 15 business days of the date of this letter or within a longer period that may be allowed by the Commissioner. The address and contact information of the Information and Privacy Commissioner is as follows:

Office of the Information and Privacy Commissioner
2 Canada Drive
P. O. Box 13004, Stn. A
St. John’s, NL A1B 3V8

Telephone: (709) 729-6309
Toll-Free: 1-877-729-6309
Facsimile: (709) 729-6500

You may also appeal directly to the Supreme Court Trial Division within 15 business days after you receive the decision of the public body, pursuant to section 52 of the Act.

Please be advised that this letter will be published following a 72 hour period after it is sent electronically to you or five business days in the case where records are mailed to you. It is the goal to have the letter posted to the Completed Access to Information Requests website within one business day following the applicable period of time. Please note that requests for personal information will not be posted online.

If you have any further questions, please feel free to contact the undersigned by telephone at 709-729-2082, or by email at bethbartlett@gov.nl.ca.

Sincerely,

Beth Bartlett
ATIPP Coordinator

Attachment
Good afternoon Jay,

As discussed, attached you will find a pre-read for Minister Bennett’s January 19 meeting with Brent. Should you or Minister have any questions on the content contained herein, please do not hesitate to reach out.

A pre-read for the meeting scheduled for January 21 will follow in a separate email.

Regards,
Courtney

Courtney Pringle Carver  
Director, Public Affairs/ Directrice, Affaires publiques  
Direct: (506) 867-5942  
Mobile: (506) 862-9604

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Atlantic Lottery in Newfoundland and Labrador

1/19/2016
BACKGROUND
Established in 1976, Atlantic Lottery manages and operates the retail lottery, destination (video lottery) and regulated digital (Internet/Mobile) lottery business on behalf of its four shareholders, the four provincial governments of Atlantic Canada. The company provides safe and responsible games for those adult Atlantic Canadians who choose to play and, through that effort, delivers sustainable and optimized profits for the provinces.

Atlantic Lottery’s story is unique in that it embodies the inherent potential of regional collaboration. Since its inception, the company has returned over $8 billion in profit to the four provinces to fund programs and services such as health care and education. The company strengthens the economy of Atlantic Canada through direct and indirect job creation, contributes to the GDP and actively participates in the life of Atlantic Canada through sponsorships and other community partnerships.

Atlantic Lottery is widely considered a global leader in both corporate social responsibility and in gaming innovation. It carries the highest responsible gaming certification available through the World Lottery Association, a fact that contributes to the low incidence of problem gambling in the region, generally in the range of 1%. With respect to innovation, the company is leading the national strategic renewal project for the Inter-Provincial Lottery Corporation, a body representing the five Canadian lotteries.

Atlantic Lottery’s promise to players is to deliver fun and entertainment, provide a chance to win, and give them a reason to feel good about playing lottery. By offering lottery products across three lines of business - Ticket Lottery, Destination and Digital - it fulfills that promise. Atlantic Canadians deserve a safe, regulated gaming environment where revenue stays in Atlantic Canada and where they can be confident that all of the responsible checks and balances exist.

ATLANTIC LOTTERY’S BUSINESS REALITY
Atlantic Lottery manages a portfolio of over 100 products each year. In the past year alone, roughly three quarters of adult Atlantic Canadians report having played one or more of its products.

In 2014-15, this popularity resulted in revenues in excess of $1 billion, and $368 million in responsibly generated profit. Over $128 million of that profit was allocated to the Government of Newfoundland and Labrador through a formula based on generated sales as prescribed in the Unanimous Shareholders Agreement.

Challenges:
Atlantic Lottery is widely regarded as one of the most innovative lotteries on the planet. But it is not immune to the changes in the gaming environment. Atlantic Lottery is in many ways unique, but shares similarities with other consumer product companies. It faces vast changes in consumer tastes, habits, and options. Like other technology companies, it faces lightning-speed developments in online and mobile device use, capabilities and acceptance. Lottery companies globally have not kept pace and, to that end, have seen their player populations decline.

Some of Atlantic Lottery’s broad strategic challenges include:
1. Relevance of Atlantic Lottery products to the existing and new player, and channel delivery
   a. 25% erosion in Atlantic Lottery’s player base in 10 years, including 35% from the emerging Millenial consumer group
2. An eroding monopoly with the emergence of global and domestic competitors
   a. Currently manifested in poker, casino and sports, offerings that conflict with Atlantic Lottery’s dual mandate (a Regulated Alternative + Profit to Provinces) can and will spread in the absence of a competitive and/or legal response from governments at any level.

3. Impacts of legacy operations and regulations
   a. Operating with a monopoly/ Crown Corporation mindset
   b. Limited risk appetite
   c. Four complex sets of regulations/legislation
      i. One result: expensive and slow to market, a non-competitive approach in a mobile, time sensitive consumer environment.

**Strategic Response:**
The corporation is addressing the above noted challenges through five core activities:

1. **Cultural Renewal:** Through a well-articulated change management program, Atlantic Lottery is strengthening its operations through the adoption of a series of internal changes rooted solidly in its Vision, Mission and Operating Principles. It has embarked on a restructuring of its Total Rewards Program for employees to reinforce its performance culture. Employees are responding well to the shift as recorded in an 89% score in employee experience measures.

2. **Technology Renewal:** The company must be able to operate at the speed of the market and, to that end, it is mid-way through a full technology renewal program. The introduction of an Oracle ERP system and the replacement of the central systems for video lottery, ticket lottery and iLottery will fuel the company’s ability to compete.

3. **Product Modernization:** Simply put, gaming is moving to digital delivery. This will be discussed in more detail later in the brief, but overall, the company is moving aggressively to ensure that it has the right games delivered through the right channels. Supporting its mandate to provide regulated and responsible games for Newfoundlanders and Labradorians that choose to game, the company must be in a position to provide products that are in demand. To not do so places players at risk and responsible returns to the provinces in jeopardy.

4. **Cost Restructuring:** Over the past four years, the company has focused on ensuring its cost of operations are in line with industry leaders. State of the science process leadership in product development, program leadership and benefits realization measurements are now standard at Atlantic Lottery. Over the next three years, the company will work to reduce overall costs, expressed as a percentage of sales, to a level demonstrating industry leadership for lotteries of its size.

5. **Social License:** When asked “how favourably or unfavourably do you view Atlantic Lottery”, opinion leaders in the province currently have mixed feelings towards the company’s efforts to connect and brand. This is being and will continue to be closely monitored by Atlantic Lottery, with responsive mitigation efforts to be planned and implemented to return social license to a more balanced position.
Overall, the strategy is delivering results as demonstrated by a profit turnaround. In 2014, Atlantic Lottery turned the corner on what was a declining profit trend which had troubled the organization since 2007. In its five year Strategic Plan, the company is setting a path forward that details responsible growth projecting profits in the mid $400 millions.

PROVINCIAL HIGHLIGHTS
Atlantic Lottery operations (directly, indirectly, and induced) contribute 2,744 jobs, $559.3 million in business revenues, $153.5 million in employment income, and $357.0 million in GDP to the economy of Newfoundland and Labrador.

Direct economic impact
- 44 jobs
- $237.8 million in business revenues
- $3.0 million in employment income
- $150.1 million in GDP contribution.

FINANCIAL OVERVIEW

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<td>2015-16</td>
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*These numbers are current as of December 15, 2015. It is anticipated that the January forecast will increase profit delivery.

VIDEO LOTTERY
Responsible Gambling
Atlantic Lottery believes that current video lottery regulations may not achieve the intended policy objective, nor is it responsibly optimizing revenue to the shareholder; specifically, the five terminal limit is generally removing the regular and casual player and therefore relying more heavily on potential problem gamblers for revenues. Return on investment and responsible gambling could both be enhanced by increasing the amount of time that VLTs are available for play, allowing for a higher number of terminals per site, and a reduction in the number of sites where VLTs are available.

Regulatory Change
In video lottery, some regulations in Atlantic Canada have not changed in twenty-five years. Policy changes and a decreased participation by regular players have significantly eroded profits.
Atlantic Lottery in Newfoundland and Labrador

Atlantic Lottery has not conducted a recent robust analysis of potential changes to the video lottery business in respect of the policy environment in Newfoundland and Labrador but with shareholder consent would desire to update scenario analysis for the business in the province to be provided to the Shareholder at a date in the near future.

For background, Newfoundland and Labrador has approximately 1,950 active video lottery terminals and a policy cap of 2,150. Also for background, when PEI implemented changes in summer 2015 (maximum bet and maximum win increased), the province also concurrently made VLTs available for play seven days a week. The Sunday openings were the only change that generated media attention, and that attention was minor. Additionally in the summer of 2015, Nova Scotia joined Prince Edward Island in offering a maximum prize for video lottery of $1,000. For context, most jurisdictions across Canada offer $1,000 top prizes, while Saskatchewan will move to $1,500 for new games introduced this year and Alberta offers a $10,000 maximum prize.

**PROJECT MATTHEW**

Atlantic Lottery has a responsibility to pursue opportunities that create profit for the province. A casino fit the criteria of a reasonably profitable opportunity that is consistent with our mandate.

Start-up costs are estimated at— that includes land, building, games and systems and other start-up costs like training, promotion, etc. Capital and start-up costs will come from the provincial government’s share of Atlantic Lottery profits.

**GOVERNANCE**

The four Atlantic Provinces own equal shares in Atlantic Lottery. The governments of Newfoundland and Labrador, New Brunswick and Prince Edward Island have given Atlantic Lottery the authority to 'conduct and manage' their respective lotteries. In Nova Scotia, the Gaming Control Act gives the Nova Scotia Provincial Lotteries and Casino Corporation (NSPLCC) that mandate; Atlantic Lottery operates ticket and video lotteries as an agent of NSPLCC. Atlantic Lottery returns 100% of its profits to shareholders, with the proportion determined by each province’s share of sales and subject to a cost sharing formula.

The relationship between Atlantic Lottery and Newfoundland and Labrador can be described as such: Atlantic Lottery fulfills its dual mandate of providing sustainable profits in a responsible way but does so subject to the ultimate ability of the Province to set gaming policies and control and direct lottery activities within the province.
Atlantic Lottery in Newfoundland and Labrador

A few key points bear highlighting:
- Shareholders retain full control for appointing and directing Board appointees; while recruitment may occur through an external process, the final decision rests solely with the Shareholder.
- The Mandate Letter defines the relationship between Shareholders, Board of Directors and Management.
- The Unanimous Shareholders Agreement clearly states that Shareholder commitments to increasingly align operations are only on a mutually accepted basis and respect the unique gaming strategies of each province.
- Shareholders can continue to have unique provincial gaming objectives, policies and strategies.

Broadly, current governance presents some challenges:
- Impedes Atlantic Lottery’s ability to fully deliver sustainable cash flows to shareholders by offering the most responsible and relevant lottery products available
- Inhibits responsible value optimization from the asset
- Allows competition to thrive because Atlantic Lottery is not able to fully compete; the current model is not adaptable to a fast-moving consumer goods business.

While governance will not protect Atlantic Lottery from competition, make it immune to consumer change, or lessen the challenges created by technology shifts, evolution in governance will allow for Atlantic Lottery’s response to be increasingly commercially oriented and better positioned to respond to both opportunities and challenges.

Evolution occurs through initiatives such as the signing of the Mandate Letter, routine reviews of the Unanimous Shareholders Agreement (U.S.A.), and revisions to corporate By-Laws. These initiatives help to codify responsibilities that allow Atlantic Lottery to meet both parts of its mandate in an increasingly competitive gaming and entertainment industry while ensuring that Shareholders have requisite oversight of (and are seen to be overseeing) the arms length corporation.

In an effort to ensure best of class corporate governance, the Board of Directors recently introduced a Mandate Letter clearly establishing the operating parameters of the company and the roles and responsibilities of the shareholders, the Board of Directors and the Chief Executive Officer. Currently, three of the four provinces are signatories.

The joint renewable Mandate Letter, which was developed with renowned governance experts Brown Governance, following direction from the 2014 Ministers’ Summit, provides direction to Atlantic Lottery until March 31, 2018. It outlines in broad terms performance expectations and general direction. Specific topics addressed include:
- The governance and operating principles (such as responsible growth)
- The applicable legislation and regulations
- The specific responsibilities of the corporation (including broad performance thresholds)
- The specific responsibilities of the government (to enable the realization of the performance thresholds, such as support for the Atlantic Lottery Growth strategy)
- Areas of shared responsibility (including social responsibility and economic development)
- The reporting framework (such as annual reporting and periodic reporting).
To date, New Brunswick, Newfoundland and Labrador, and Prince Edward Island have signed the Mandate Letter. Nova Scotia is not a signatory to the letter but has confirmed that it will operationalize the majority of items outlined in the letter. Atlantic Lottery will seek to create the conditions which would see Nova Scotia become a signatory to the letter in the near term.

A few additional key points on general governance matters respecting Atlantic Lottery are as follows:

- In addition to conducting, managing and/or operating lottery, Shareholders may authorize Atlantic Lottery to engage in Permitted Commercial Activities to enhance enterprise value. For instance, consulting may be allowed by Shareholders, via the U.S.A.
- Individual Shareholders requesting or permitting Atlantic Lottery to engage in a Permitted Commercial Activity will consider regional cooperation in its decision-making.
  - Shareholders also agree to compensate Atlantic Lottery and other Shareholders for adverse financial impacts that arise from Atlantic Lottery complying with a Shareholder request.
- Shareholders each appoint two voting directors to the Board. Shareholders may also appoint one ex-officio non-voting director, who can vote on Committee matters.
- Individual Shareholders are protected via a requirement that a Shareholder withdrawing from the U.S.A. must uphold its accrued financial obligations.

The final word on governance is this: each Shareholder has ultimate discretion over their respective gaming policies and Atlantic Lottery’s operations in their respective provinces. The Board of Directors and Executive Team of Atlantic Lottery wish to continue to build an increasingly commercially viable operation that maintains a robust responsible gambling approach to business. Shareholder direction via a range of modern governance tools such as a Mandate Letter, U.S.A and By-Laws help to achieve these objectives.

PENSION
Pension Special Payments are being made to bring Atlantic Lottery’s plan benefits to a fully-funded status (on a solvency basis). The pension fund, administered by the Pension Plan for Employees of Council of Atlantic Premiers and Participating Employers, benefits Atlantic Lottery’s approximately 600 employees in the region.

To achieve the fully funded status, all four Atlantic provinces have been making special payments. In total, payments will be $78.7 million; Newfoundland and Labrador’s share will be $20.6 million. These payments will continue until 2018/2019 in order to ensure the repayment is evenly distributed over a period of time rather than have shareholders have to make a substantial one-time payment.

Atlantic Lottery watches pension developments in ALL provinces very carefully to ensure its plan is well governed, and that benefits are there for employees when they retire. This is a defined benefit plan. Because of the multi-jurisdictional nature of the plan, we are restricted with what we can implement.

The Pension Benefits Act prescribes the minimum contributions that participating employers must make to the Plan. The minimum contributions in respect of a defined benefit component of a pension plan are comprised of going concern current service cost and special payments to fund any going concern or solvency shortfalls. Since the pension plan shows a solvency deficit, the employer must make special payments to close the gap. Atlantic Lottery has 5 years to fund the new solvency deficit i.e. until December 31, 2019.
Atlantic Lottery in Newfoundland and Labrador

A pension committee consisting of employees, management, members of the Council of Atlantic Premiers (who are a participating employer) and a New Brunswick civil servant with pension expertise oversee the fund. The investment committee has pension investment expertise from all provinces. The committee is accountable to provincial ministers accountable for treasury in all provinces.

Recent changes to the plan include capping indexing to 50% of CPI (to a maximum of 3%) in 2013; elimination of pre-retirement indexing on deferred pensions in 2013; and, elimination of cash withdrawals from plan on retirement in 2014.

AUDITORS GENERAL REVIEW
In the summer of 2014, the Auditors General requested information to start a performance audit of Atlantic Lottery, a process being led by the Auditor General in Nova Scotia. Atlantic Lottery provided that documentation within a few weeks, in accordance with the Auditors General timeline.

Atlantic Lottery is operating in a transparent and accountable manner as the Auditors General conduct their performance audit. The company has been and will continue to work with the Auditors General throughout their process, by meeting with their officials and providing additional information.

The five lines of inquiry are:
- Corporate Governance
- Procurement of Services
- Contract Management
- Executive and employee compensation and benefits
- Travel, hospitality and board expenses

Because of the coordination between four provinces, the report may be late into 2016.

SUMMARY
Atlantic Lottery is a responsible gaming provider. Its record as an innovator in the industry is matched by its leadership in responsible gaming and social responsibility. The company is moving aggressively toward a more commercial and competitive footing through a clearly articulated strategy of renewal. It has recognized that its players are moving online and is adjusting its operations to meet that need. In this area, it must take balanced risks. Not all initiatives will be successful although, clearly, the organization’s track record demonstrates that the great majority are.

Through its Board of Directors and its leadership team, responsible oversight is critically applied. This is a company with a broad contribution to Newfoundland and Labrador and Atlantic Canada. It is living its vision of ‘Making Atlantic Canada A Better Place....One Player Experience at a Time.'

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Atlantic Lottery in Newfoundland and Labrador

Appendix

Vision
Building a stronger Atlantic Canada, one player experience at a time

Mission
We offer fun gaming experiences for the benefit of all Atlantic Canadians.
For our Players, we are the trusted provider of safe and responsible games where and when they choose to play.
For our Employees, we offer a career best work experience.
For our Business Partners, we build relationships based on mutual and responsible business success.
For our Community, we're viewed with pride and respect for what we do and how we do it.
For our Shareholders, we define operational excellence and growing sustainable economic contribution.

Values
Integrity – The games we offer and the way we conduct business are fair, honest and trustworthy.
Social Responsibility – Everything we do is done with consideration of its impact on and for the people.

Operating Principles
Our Players – Making decisions through the eyes of players
Our People – Bringing out the best in our people
Our Partners – Sharing risks and rewards
Our Operations – Purposefully fast is better than slow
Our Reputation – Hardwired with integrity, responsibility and transparency
Our Success – Balancing short-term results with long-term business health

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Good afternoon Jay,

Attached you will find a covering letter and pre-read for the January 21 meeting. If you have any questions prior to, please feel free to call at any time.

Regards,
Courtney

Courtney Pringle Carver
Director, Public Affairs/ Directrice, Affaires publiques
Direct: (506) 867-5942
Mobile: (506) 862-9604
January 2016

Dear Minister Bennett,

Since 1976, Atlantic Lottery has been mandated to provide a safe and regulated option for those who want to gamble, and to return all profits to provincial treasuries for the common good. Since day one, Atlantic Lottery has fulfilled that mandate, giving adult Atlantic Canadians a lottery offering with world-class responsible gambling features while providing billions of dollars to the four Atlantic governments.

We are at a hinge point that will determine whether that is a story only of the past, or also of the future. The landscape for gaming is changing, and is steadily and with growing momentum leaving Atlantic Lottery.

Atlantic Lottery’s high profit this year masks the underlying trend away from the type of games we offer — specifically, the proliferation of egaming and its undeniable trend as the future of lottery.

Gaming and gambling are increasingly happening online, and that is outside our current jurisdictional mandate. If Atlantic Lottery is going to continue to offer a safe and regulated option for players, and keep profits in the region, then the mandate needs to change to reflect the very real shift in what players want. In this way, shareholders will be undertaking a responsible action comparable to providing Atlantic Lottery with the mandate to operate the video lottery line of business in 1990 — ensuring mandatory controls in a formerly unregulated product while generating profits for shareholders in the 25 years since.

This is not about creating demand for new and different types of gambling but offering what Atlantic Canadians are already accessing, but in this region and with the strength of this regions’ governments and regulators protecting those players. This is about player safety in an offshore online gambling world that is already the gaming destination of thousands of Atlantic Canadians, and of tens of millions of Atlantic Canadian dollars.

These unregulated operators are already ahead. If we wait any longer, the private offshore providers will be so entrenched that it will be impossible to effectively enter the space with a new brand. It will be impossible to operate a sustainable business generating profits.

Unregulated casino and poker are the current threats to Atlantic Canadian players and the current threat to our ability to fulfill our mandate. The current online providers are taking nearly $60 million out of Atlantic Canada each year. Most important, tens of thousands of Atlantic Canadians are providing financial and personal information to non-Canadian illegal and unlicensed companies.

Atlantic Lottery has plans to develop the digital space and has invested in a world class technological platform to enable real transformation. Our focus is on a comprehensive digital gaming platform.
We are ready to begin preparations for the launch of these services, including talking publicly with Atlantic Canadians about the problems with offshore and unregulated gaming. This will be done in a factual yet firm manner, so that Atlantic Canadians are aware of and understand why their governments are giving their regulated provider the authority to enter into this space. We are prepared to have an intelligent public discourse about how the Atlantic Canadian lottery should be the regulated provider of all forms of gambling to Atlantic Canadians.

We are confident that Atlantic Canadians will accept this change. The Atlantic Lottery mandate continues to be strongly supported by our citizens, with nearly 8 in 10 Atlantic Canadians supporting Atlantic Lottery as the provider of online gambling. This large majority of Atlantic Canadians agree that it is safer and better for the player for online games to be played through Atlantic Lottery and they believe that it is best for lottery money to remain here for the public good.

You can be assured that we will leverage our existing goodwill and bring an expert marketing approach to building public support for iLottery as we have to building the current Atlantic Lottery brand.

Minister, protecting players via our own regional iLottery, and repatriating money already being spent in the medium, is in the best interests of Atlantic Canadian gamblers and in the best interests of Atlantic Canada.

On behalf of the hundreds of Atlantic Canadians working at Atlantic Lottery, I ask that you support our business plan for enhancing our iLottery offering. I look forward to getting your direction on this matter in the near future.

Sincerely,

Brent Scrimshaw
President & CEO
Executive Summary: “A Legal Alternative”

In Atlantic Canada, iCasino (electronically delivered slot and table games) is being sold without regulated player protections and with all economic benefits – already in the tens of millions of dollars annually – being exported to unregulated operators.

To fully satisfy its mandate of player protection and responsible revenue generation, Atlantic Lottery must introduce an iCasino platform. It is advisable to introduce iCasino early in 2017 with approvals, procurement and software development to take place throughout 2016.

Atlantic Canadians deserve a legal and regulated alternative. Casino-style products are popular. Atlantic Lottery is best positioned to provide that alternative with an 11-year track record of responsible internet gambling and a well-established digital presence with over 42,000 customers. Atlantic Lottery ranks first in Canada in per capita active customers, lottery revenue, bingo revenue and sports revenue. And, contrary to some misconceptions, digital ecommerce provides more robust responsible gambling controls than land-based due to account-based wagering.

Research indicates that Atlantic Lottery is most trusted by Atlantic Canadians to operate internet gambling by a wide margin – 8 in 10 Canadians prefer an Atlantic Lottery offering. We are confident that we will continue to earn that trust by introducing this product successfully and responsibly; our citizens and customers expect no less.

While financial gain is not the main motivator, iCasino is expected to deliver $122 million in net revenue and $80 million in net profit over seven years. Due to iCasino’s profitability, the investment payback is less than one year and 3 of 4 provinces could go alone, though it is more advantageous to shareholders and players to have a unified, standardized regional offering.

Canadian peers have introduced a legal alternative on-line, with more than 80% of Canadians now having access to a regulated online lottery provider. Their experience is proof that a province-owned lottery operator can succeed in iCasino - gaining market share within a socially responsible framework of regulatory standards. iCasino is the top revenue generator on-line, higher than lottery, sports, poker and bingo.

A study by problem gambling research experts at Strategic Science recommended in 2014 that the best way to protect citizens is to offer a regulated alternative within a robust regulatory framework. Atlantic Lottery would collaborate with provincial regulators to develop iCasino product standards.

As soon as governments provide authority, Atlantic Lottery can issue the RFP to the market to select a software provider. We are targeting March 2016 to issue the RFP and July 2016 to kick-off the project with the vendor.

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iCasino Overview

iCasino refers to a software platform that enables the sale of "casino style" products such as slot games and table games (black jack, roulette, etc.).

An iCasino platform can offer many products simultaneously from a variety of content providers, all from one "iCasino lobby". For example, British Columbia's iCasino offers up to 200 games, 40 of which are optimized for mobile play. They also refresh content regularly, adding new games every couple weeks much like Atlantic Lottery does for instant games at retail.

iCasino is the biggest revenue driver among internet gambling products, generating more revenue than lottery, sports, poker and bingo, based on data from consultancy H2GC, and regulated lottery operators in Quebec, Ontario, and B.C.

In Atlantic Canada today there are hundreds of off-shore iCasino sites operating and accepting wagers from Atlantic Canadians. None of these sites are regulated or legal. Meanwhile, over 80% of the Canadian population now has access to a regulated iCasino offered by the provincial lottery operator.

The barriers to entry are low for iCasino:
- Several iCasino platforms are readily available and can integrate 3rd party games from leading content providers. ALC.CA already includes a web portal and player account management system; as a result, adding an iCasino platform is relatively low cost.
- The revenue model is pay-as-you-go rather than large up-front capital outlays.
- Minimal customization would be required, and ALC.CA would have access to all the best games from around the world.
- iCasino does not require liquidity so population size does not matter.
- Canadian peers have proven a province-operated iCasino can succeed, as they are delivering significant revenue and market share with high standards of social responsibility.
- Atlantic Lottery already has significant expertise in casino-style product operation (Red Shores, slots, table games, VLT network) which is transferable on-line.
- Atlantic Lottery has a well-established ecommerce operation with 11 years of experience, ranking first in Canada in per capita active customers, lottery revenue, bingo revenue and sports revenue. ALC.CA now has over 42,000 active customers.

"Contains confidential information, including information provided in confidence to or by a government body, the disclosure of which could harm intergovernmental relations, as well as Atlantic Lottery's financial interests: not intended for public distribution."
iCasino Benefits

The benefits of introducing an Atlantic Lottery-operated iCasino include improved citizen protection and economic benefits.

Citizen Protection

- A regulated and legal option for Atlantic Canadians. Currently, Atlantic Canadians who wish to play iCasino must take their chances among the hundreds of providers who operate illegally in our region without any regulatory protections.
- Standards would be mandatory and subject to oversight, not voluntary and without oversight as is the case today. These standards would be enforced by provincial regulators and cover a range of matters such as product design standards, manufacturer supply standards, player registration and account standards, content and advertising standards, player protection standards and operator control measure standards.

Economic Benefits

- Currently, 100% of Atlantic Canadian players' iCasino wagers are going off-shore, with unregulated operators capturing an estimated revenue of $18.2 million in 2015 and $21.2 million by 2017 (source: H2GC).

Benefits could be even greater if government implemented enforcement mechanisms against illegal operators such as Internet Provider blocking or cease & desist letters.

With an Atlantic Lottery iCasino offering, more gambling activity would take place in a regulated environment with mandatory player protections and more economic benefits would flow to Atlantic communities.

This business case assumed no enforcement against illegal operators, which is consistent with today's model in Quebec, Ontario, Manitoba and B.C. where a regulated iCasino is offered. For information, Quebec plans to introduce legislation for IP blocking against black listed sites in February 2016 which would be enforced starting February 2017.

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Supporting Rationale: Citizen Protection

ALC.CA is a proven, safe and responsible internet gambling site with 11 years of experience. Atlantic Lottery also has 25 years of experience operating slot/video lottery games. In 2016, the company will have 40 years of operating responsible and profitable lotteries in this region. The company celebrates this anniversary holding the highest World Lotteries Association responsible gambling certification level available.

Atlantic Lottery’s peer in Ontario launched its iCasino in January 2015 with what are generally considered the most robust player protections in the world. As such, their launch received public acceptance and RG expert endorsement. This is what state-operated and regulated lotteries are capable of delivering to shareholders.

The Internet offers more player protections than land-based anonymous can:

- Play is only possible through an account which includes verification of age-of-majority and residency requirements by a 3rd party
- Players cannot have more than one account
- Deposit limits are applied to every account
- Options to self-limit deposits are available on every account
- Options to self-exclude are available on every account
- A mandatory 24 Hour “cooling off” period must pass before a player can raise their deposit limit
- Each session is tracked and displayed for continuous time spent playing
- A pop-up window at certain time intervals helps players to manage play
- Geo-IP checks to make sure you are within the region when placing bets
- Tips to gamble responsibly and links to get help are mandatory and built into the offerings
- The latest emerging trend which Ontario is using is predictive behavior tools that can categorize all customers for their problem gambling risk level and adapt promotional messages accordingly.
  - For example, someone categorized as “high risk” would receive RG messages rather than promotional messages. ALC.CA could also incorporate such a tool if project time and cost permit; a separate business case would be required.
- Atlantic Lottery could partner with RG experts or local universities by giving them access to customer transaction data to further research problem gambling. English operator BWin has done this and received accolades for the action.
- Atlantic Lottery could allocate a percentage of revenue to problem gambling research; however, profits are ultimately government revenue and final direction would be at the shareholders’ discretion.

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A report from Strategic Science in 2014, experts in problem gambling, recommended a regulated alternative operated by Atlantic Lottery to best protect citizens. See appendix A for Strategic Science executive summary.

Atlantic Lottery is prepared to talk with Atlantic Canadians about the need for online protection, and how a regulated offering is a responsible offering. The company is prepared to create an environment in which an iCasino would be a successful public initiative for the company and shareholders.

Supporting Rationale: Economic Benefits

Revenue forecast methodology:
- H2GC consulting estimates for the casino market in Canada form the basis of Atlantic Lottery’s analysis. The data were prorated to Atlantic Canada population size (7% of Canada). As a result, the iCasino market is estimated at $21.2 million in 2017. That amount was increased by 20% to account for a regulated option being introduced to the market for the first time, as Atlantic Canadians want to game with Atlantic Lottery.
- Atlantic Lottery undertook analysis to project iCasino market growth in subsequent years. This analysis suggested growth of 10% in year #2, and the company adapted H2GC forecasting of 7% growth until 2019, the furtherst projection available.
- Market share capture is estimated at 33% in year #1 and reaching 57% by year #3.
- Actual 2015 iCasino data from OLG, BCLC and LQ was used to calculate per capita sales; this was applied to Atlantic Canada for further validation.

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>iCasino Years in Market</th>
<th>2015 Projected iCasino Net Revenue</th>
<th>Population</th>
<th>Per Capita iCasino Net Revenue</th>
<th>ALC.CA Per Capita Annual Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>LQ</td>
<td>4</td>
<td></td>
<td>8.2 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OLG</td>
<td>&lt;1</td>
<td></td>
<td>13.6 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BCLC</td>
<td>4</td>
<td></td>
<td>4.6 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Three Combined</td>
<td>N/A</td>
<td></td>
<td>26.4 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AL YR1 FORECAST</td>
<td>0</td>
<td></td>
<td>2.3 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AL YR2 FORECAST</td>
<td>1</td>
<td></td>
<td>2.3 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AL YR3 FORECAST</td>
<td>2</td>
<td></td>
<td>2.3 million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

BCLC stands out with significantly higher per capita sales. Like Atlantic Lottery, BCLC has 11 years of experience in internet gambling. However, B.C. does not have a wide area video lottery network, which may increase demand for internet supply in that jurisdiction. BCLC has done a strong job of building its iCasino content compared to LQ and OLG, with 200 games and 40 of them optimized for mobile. Play@OLG in particular is a start-up with an inferior portfolio of content and none of it is optimized for mobile.

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There is significant profit upside if Atlantic Lottery’s performance mirrors BCLC, which have the highest per capita numbers in the country. There is more profit upside if Atlantic Lottery can categorize the vendor relationship as a “distributorship” and thus avoid paying double taxes on revenue share; this requires further taxation law investigation.

Since iCasino is so profitable, Atlantic Lottery does not need all four provinces to proceed. Only PEI is too small to proceed alone to realize profit. Ideal profitability is most likely to be achieved should all provinces participate to share the costs.

### Cost Assumptions

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perception: “This is expansion of gambling in Atlantic Canada”</td>
<td>Low (Quebec, Ontario, Manitoba and BC introduced this product without significant opposition)</td>
</tr>
<tr>
<td>Perception: “Internet gambling is bad and will create more problem gamblers”</td>
<td>Low (Quebec, Ontario, Manitoba and BC introduced this product without significant opposition)</td>
</tr>
<tr>
<td>Public opposition if GVT decides to block IPs/ send cease &amp; desist letters to illegals: “This is GVT censorship”</td>
<td>None if GVT decides to not enforce against illegal operators (this business case assumes no enforcement).</td>
</tr>
</tbody>
</table>

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In order for Atlantic Lottery to implement an iCasino, a public bidding process is required. As a result, the first step for the project is government approval, most likely via the issuance of an RFP and supporting public statement to support the business and social license case for introduction.

The earliest iCasino launch date is approximately 12 months after shareholder approval. There are a series of milestones along the way: government public announcement, Atlantic Lottery issues and then awards RFP, regulators issue product standards, Atlantic Lottery finalizes negotiations, and vendor development work and testing begins.

More specifically, timelines are anticipated as follows:
- 4 weeks to draft RFP requirements, receive necessary approvals and issue
- 8 weeks for bidder responses, evaluations and necessary approvals
- 8 weeks for regulator to finalize technical standards and for Atlantic Lottery to negotiate contract terms (requirements, service levels, costs, etc.)
- 9 months for design, development, testing and launch approvals

These are initial estimates and may be subject to some change once project is initiated and as Atlantic Lottery receives information from regulators and bidders.

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Appendix A- Strategic Science Recommendations

Atlantic Lottery and the Nova Scotia Provincial Lotteries and Casino Corporation commissioned a study by Strategic Science requesting expert advice based on a review of empirical research, discourse, practices and standards across the globe. The Strategic Science analysis was conducted by highly regarded professionals in the field of problem gambling, including Judith Glynn and Alex Blaszczynski. The following nine recommendations were part of the June 2014 report provided by Strategic Science.

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Section 39.(1)(a)(ii), Section 39.(1)(b), Section 39.(1)(c)(i), Section 39.(1)(c)(iii)
Good morning Jay,

Weather dependent, Jim and I are planning to be in NL tomorrow. I should be arriving around 2 pm.

As discussed last week, I thought it would be good to get together for coffee with you and Maxine, should your schedules allow. We could review this document and answer any questions you might have at that time. Please let me know if this would be helpful and if you have the time (completely understand if you are too pressed).

Thanks,
Courtney
February 4, 2016

Hon. Cathy Bennett
Minister of Finance and President of Treasury Board
Government of Newfoundland and Labrador
P.O. Box 8700
Main Floor, East Block
Confederation Building
St. John’s, NL A1B 4J6

Dear Minister:

Thank you again for taking the time to meet with me and my colleagues. I know the demands on your schedule and appreciate you spending time with us so early in your mandate.

As we discussed, there are a number of opportunities available that would both provide new revenues to the province while at the same time strengthening our footprint in responsible gaming practices. To that end, I have included a one-page summary for your review.

Should you require any additional information on these matters, you are, of course, welcome to contact me at your convenience.

On behalf of all of us at Atlantic Lottery, I continue to wish you the very best as you work to improve the future for all Newfoundlanders and Labradorians.

Best regards,

Brent Scrimshaw
President & Chief Executive Officer

Enclosure

c: Donna Brewer, Deputy Minister, Department of Finance
    Jay Griffin, Director, Tax Policy, Department of Finance
    Kevin Breen, Board Member, Atlantic Lottery
    Courtney Pringle Carver, Director, Public Affairs, Atlantic Lottery