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QUARTERLY REPORT
For the quarter ended June 30, 2007

**FINANCIAL
HIGHLIGHTS**
For the first quarter ended
June 30, 2007 (unaudited)

In the first quarter, the total Payment to Province was \$34.6 million, which is \$3.4 million lower than the prior year due to budgeted declines in Video Lottery (VL) and unfavourable results from Ticket Lottery (TL).

The VL business line accounted for \$22.3 million of the Payment to Province, which is \$1.5 million lower than the previous year. The reduction in revenue was expected and resulted from the 100% Smoking Ban which took effect December 1, 2006.

The TL business line accounted for \$8.7 million of the Payment to Province, which is \$1.8 million lower than the previous year. This decrease is primarily due to lower revenue from Scratch'n Win tickets and sports games.

Payment to Province from the Halifax Casino was \$5.7 million, which is \$0.4 million higher than the previous year. Payment to Province from the Sydney Casino was \$2.1 million, \$0.1 million lower than the previous year. The improvement in results for the Halifax Casino is attributable to a reduction in expenses such as interest and HST due to the repayment of long term debt. Expenses calculated as a percent of revenue (i.e., operator fee and Win Tax) are also lower due to a decrease in revenue compared to the prior year.

Win Tax of \$4.1 million was deducted from casino revenues and paid directly to the Province of Nova Scotia during the quarter.

Contributions and expenditures of \$1.7 million were incurred in the first quarter, in support of responsible gambling and prevention programming initiatives as well as to assist in the research and treatment of problem gambling. The allocation of the \$1.7 million is as follows:

	Quarter ended June 30, 2007	Quarter ended June 30, 2006
Nova Scotia Gaming Foundation		
<i>Video Lottery Retailers</i>	\$ 88,300	\$ 97,675
<i>Nova Scotia Gaming Corp.</i>	<u>88,300</u>	<u>97,675</u>
	176,600	195,350
Responsible Gambling/Prevention Programming programs	625,600	645,000
Contribution to Department of Health Promotion and Protection	<u>900,000</u>	<u>1,000,000</u>
Total Contributions	<u>\$ 1,702,200</u>	<u>\$ 1,840,350</u>

OPERATIONAL
HIGHLIGHTS
For the first quarter ended
June 30, 2007 (unaudited)

In the first quarter, NSGC and Atlantic Lottery Corporation (ALC) continued to implement measures to ensure the integrity of ticket lottery and to restore public confidence as a result of the retailer win issue. Among the changes implemented was the modification of self-ticket checkers to display the prize amounts won. A signature line has also been added on the front of tickets to remind players to sign their tickets for ticket identification purposes. In addition, ALC began the installation of customer facing screens which allow customers to instantly see whether or not they have won a prize and the prize amount. New policies were also implemented by ALC in the first quarter. Retailers will no longer accept unsigned tickets from players for validation and retailers must return all non-winning tickets and matching validation slips to players.

In May 2007, NSGC and ALC launched a new suite of *Support 4 Sport* lottery products where 100% of profits go to amateur sport in Nova Scotia. Products include: Nova Scotia Special Edition Crossword, "Joe Fit" Breakopen and Super 7 Twist. NSGC also launched the *Support 4 Sport* Program website, which includes a special interactive magazine feature and all information related to the *Support 4 Sport* Program. The *Support 4 Sport* Program is expected to raise \$2 million in 2007-08 and will be used to buy sports equipment, create and enhance recreation/participation programming for all ages, support performance training programs for competitive athletes and hire coaches at all levels.

Entertainment once again was a highlight at Casino Nova Scotia in the first quarter. As a key sponsor of the Halifax Comedy Fest, the Halifax casino hosted several events throughout the week. The Schooner Showroom also continued to offer a full entertainment line-up including Fight Night at the Casino, and performances by the Amazing Kreskin, Doc Walker, David Usher and Dave Gunning, among others. Casino Nova Scotia continued to host the very popular No Limit Texas Hold'em poker tournaments in the first quarter. Two tournaments took place at the Halifax Casino including the Spring Triple Play tournament in May and the Summer Kick-off tournament in June. In addition, a new table game, Texas Hold'em Bonus Poker, was introduced in May.

In response to the demand for poker in the Sydney market, two poker tables were added to the Sydney Casino in April. Three poker tournaments took place at the Casino in the first quarter including the Jack and Jill tournament in April, the Spring Fling tournament in May, and the first qualifying round for the Tournament of Champions in June. In addition, the Classic Country Show proved to be very popular to entertainment fans in the Sydney area in June.

BALANCE SHEET
As at June 30 (unaudited)
(in thousands)

ASSETS

	<u>2007</u>	<u>2006</u>
Current		
Cash and Short-term Investments	\$ 4,862	\$ 5,256
Cash – restricted	2,797	4,639
Inventory, at cost	1,670	1,937
Prepays	<u>961</u>	<u>403</u>
	<u>10,290</u>	<u>12,235</u>
Long-term		
Cash – Casino Capital Replacement Reserve	963	1,468
Deferred charges	17	169
Investment in Atlantic Lottery Corporation Inc.	1	1
Investment in Interprovincial Lottery Corporation	1	1
Capital assets	<u>93,654</u>	<u>107,668</u>
	<u>94,636</u>	<u>109,307</u>
	<u>\$104,926</u>	<u>\$121,542</u>

LIABILITIES

Current		
Accounts payable	\$ 2,814	\$ 4,491
Deferred lottery revenue	203	468
Liabilities for unclaimed prizes	2,797	4,639
Capital obligation – current portion	10,800	13,969
Due to operators	8,743	9,578
Due to Atlantic Gaming Equipment Limited – current portion	7,963	10,757
Due to Nova Scotia Gaming Foundation	58	66
Due to Province of Nova Scotia	<u>53,699</u>	<u>40,786</u>
	<u>87,077</u>	<u>84,754</u>
Long-term		
Due to Atlantic Gaming Equipment Limited	1,984	6,699
Capital obligation	<u>7,762</u>	<u>20,235</u>
	<u>9,746</u>	<u>26,934</u>
	<u>96,823</u>	<u>111,688</u>

EQUITY

Casino Capital Replacement Reserve	<u>8,103</u>	<u>9,854</u>
	<u>\$104,926</u>	<u>\$121,542</u>

Statement of Income and Payment to Province

For the First Quarter Ended June 30 (unaudited)

(in thousands)

	2007							2006						
	LOTTERIES		CASINOS		RESP. GAMBLING	OTHER	TOTAL	LOTTERIES		CASINOS		RESP. GAMBLING	OTHER	TOTAL
	Ticket Lottery	Video Lottery	HFX	SYD			1 st Quarter and Year to date	Ticket Lottery	Video Lottery	HFX	SYD			1 st Quarter and Year to date
Revenues	\$52,149	\$35,351	\$17,519	\$5,411	\$ -	\$ -	\$110,430	\$56,572	\$39,136	\$18,898	\$5,685	\$ -	\$ 16	\$120,307
Expenses	<u>43,489</u>	<u>13,008</u>	<u>14,958</u>	<u>4,337</u>	<u>371</u>	<u>1,043</u>	<u>77,206</u>	<u>46,031</u>	<u>15,319</u>	<u>16,919</u>	<u>4,506</u>	<u>645</u>	<u>875</u>	<u>84,295</u>
Net Income before Contributions	8,660	22,343	2,561	1,074	(371)	(1,043)	33,224	10,541	23,817	1,979	1,179	(645)	(859)	36,012
Community Programs Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,331</u>	<u>1,464</u>	<u>2,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,195</u>	<u>1,200</u>	<u>2,395</u>
Net income	8,660	22,343	2,561	1,074	(1,702)	(2,507)	30,429	10,541	23,817	1,979	1,179	(1,840)	(2,059)	33,617
Win Tax	<u>-</u>	<u>-</u>	<u>3,150</u>	<u>997</u>	<u>-</u>	<u>-</u>	<u>4,147</u>	<u>-</u>	<u>-</u>	<u>3,362</u>	<u>1,034</u>	<u>-</u>	<u>-</u>	<u>4,396</u>
Payment to Province	\$ <u>8,660</u>	\$ <u>22,343</u>	\$ <u>5,711</u>	\$ <u>2,071</u>	\$ <u>(1,702)</u>	\$ <u>(2,507)</u>	\$ <u>34,576</u>	\$ <u>10,541</u>	\$ <u>23,817</u>	\$ <u>5,341</u>	\$ <u>2,213</u>	\$ <u>(1,840)</u>	\$ <u>(2,059)</u>	\$ <u>38,013</u>

Statement of Retained Earnings

For the First Quarter Ended June 30 (unaudited)

(in thousands)

	2007	2006
	1 st QUARTER & YEAR TO DATE	1 st QUARTER & YEAR TO DATE
Retained earnings, beginning of period	\$ -	\$ -
Net income	30,429	33,617
Net income paid to Province	<u>(30,429)</u>	<u>(33,617)</u>
Retained earnings, end of period	\$ <u>-</u>	\$ <u>-</u>

STATEMENT OF
CASH FLOW
For the first quarter ended
June 30 (unaudited)
(in thousands)

	<u>2007</u>	<u>2006</u>
Operating		
Net income	\$ 30,429	\$ 33,617
Allocation of income to Province	(30,429)	(33,617)
Amortization	2,847	4,367
Net changes in working capital	<u>2,447</u>	<u>3,900</u>
	<u>5,294</u>	<u>8,267</u>
Financing		
Decrease in obligation to Atlantic Gaming Equipment Limited	(1,145)	(2,102)
Reduction of capital obligation	<u>(5,488)</u>	<u>(4,621)</u>
	<u>(6,633)</u>	<u>(6,723)</u>
Investing		
Purchases of capital assets	(1,937)	(8,360)
Increase in Casino Capital Replacement Reserve, net of cash	<u>493</u>	<u>1,220</u>
	<u>(1,444)</u>	<u>(7,140)</u>
Net increase (decrease) in cash & cash equivalents	(2,783)	(5,596)
Cash, beginning of quarter	<u>7,645</u>	<u>10,852</u>
Cash, end of quarter	\$ <u>4,862</u>	\$ <u>5,256</u>

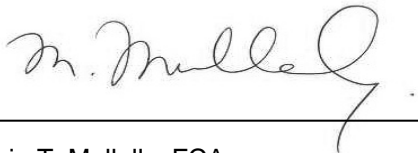
CERTIFICATION
For the first quarter ended
June 30, 2007 (unaudited)

We have evaluated the effectiveness of Nova Scotia Gaming Corporation's disclosure controls and procedures as of the end of the period covered by the Quarterly Report. Except as discussed in the following two paragraphs, we conclude that such disclosure controls and procedures are effective to ensure that the information required to be disclosed is accumulated and communicated to management, including the President & Chief Executive Officer and the Vice President, Finance.

NSGC relied upon procedures performed and certifications provided over disclosure controls and internal controls over financial reporting provided by Great Canadian Gaming Corporation (GCGC). NSGC has contracted GCGC to operate the Halifax and Sydney Casinos and certain balances, including revenues, associated with those businesses are included in the financial statements.

NSGC's evaluation did not include disclosure controls and procedures and internal controls over financial reporting performed by the Atlantic Lottery Corporation (ALC), and therefore is not intended to identify and report any deficiencies in internal control that might exist at ALC. NSGC has contracted ALC to operate the Video and Ticket Lottery businesses and the revenue, expenses, assets and liabilities associated with those businesses are included in the financial statements.

During the period beginning on April 1, 2007 and ended on June 30, 2007, NSGC has not made any changes in its internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting



Marie T. Mullally, FCA
President & CEO



Robert MacKinnon, CA
Vice President, Finance