



QUARTERLY REPORT

For the quarter ended December 31, 2006

**FINANCIAL
HIGHLIGHTS**
For the third quarter ended
December 31, 2006 (unaudited)

In the third quarter, the total Payment to Province was \$43.2 million, which is \$3.1 million lower than the prior year, due to budgeted declines in Video Lottery (VL) and offset by favourable results from the casino business lines.

The VL business line accounted for \$25.3 million of the Payment to Province, which is \$3.5 million lower than the previous year. The reduction in revenue was expected and resulted from the implementation of the four VLT-related Gaming Strategy initiatives and the 100% Smoking Ban which took effect December 1, 2006.

The Ticket Lottery (TL) business line accounted for \$12.9 million of the Payment to Province, which is \$0.7 million lower than the previous year. This decrease is attributable to an unfavourable variance in Lotto 6/49 which experienced very high sales in the same quarter last year due to large jackpots.

Payment to Province from the Halifax Casino was \$5.8 million, which is \$1.0 million higher than the previous year. Payment to Province from the Sydney Casino was \$2.1 million, \$0.1 million higher than the previous year. The improvement in results is attributable to favourable customer response to the Capital Improvement Plan which saw the implementation of new slot machines, Ticket-in Ticket-out technology, renovations to the gaming floor, and a shift in marketing programs targeting the social occasional gamer.

Responsible gambling expenditures of \$1.1 million were used to support responsible gambling and prevention programming initiatives launched and implemented during this period.

Win Tax of \$4.4 million was deducted from casino revenues and paid directly to the Province of Nova Scotia during the quarter.

In addition to corporate initiatives aimed at promoting the responsible use of its products, the Nova Scotia Gaming Corporation (NSGC) made the following financial contributions to assist in the research and treatment of problem gambling, as well as in the delivery of prevention programs:

	Quarter ended December 31, 2006	Quarter ended December 31, 2005
Nova Scotia Gaming Foundation		
<i>Video Lottery Retailers</i>	\$ 88,150	\$ 101,000
<i>Nova Scotia Gaming Corp.</i>	<u>88,150</u>	<u>101,000</u>
	176,300	202,000
Responsible Gambling/Prevention Programming programs	1,070,700	879,000
Contribution to Department of Health Promotion and Protection	<u>1,000,000</u>	<u>1,000,000</u>
Total Contributions	<u>\$ 2,247,000</u>	<u>\$ 2,081,000</u>

**OPERATIONAL
HIGHLIGHTS**
For the third quarter ended
December 31, 2006 (unaudited)

The Casino business line continued to host its popular No Limit Texas Hold'em poker tournaments in the third quarter. Three tournaments took place at the Halifax Casino including the "Autumn Classic" and "Jack and Jill" tournaments in October, and the "Winter Classic" tournament in November. The Halifax Casino also held its "Free Fall" promotion in November and December, offering special rewards for Player's Club members 50 years and older. In addition, the Casino hosted an exciting entertainment line-up featuring performances by The Philosopher Kings, Michelle Wright, and Bruce Guthro, among others.

Renovations to the Sydney Casino were completed in the third quarter, including the installation of new carpet on the gaming floor, the introduction of a new floor layout and the installation of new signage. The revitalized property was officially launched with a gala event on November 22nd and was further promoted through the launch of the "Where Friends Come to Play" marketing campaign for the Sydney market. In addition, the "Crystal and Ice" No Limit Texas Hold'em poker tournament took place at the Sydney Casino in November.

The Ticket Lottery business line continued to roll out its WISHBOX branding on retail kiosks in the third quarter, including locations at the SunnySide Mall and Mic Mac Mall. In addition, the implementation of the second phase of *SuperStar* Bingo continued with information sessions being held with charities in order to communicate the benefits of charitable Linked Bingo directly. Sign up of new charities continued throughout the third quarter and the additional halls are expected to participate early in the fourth quarter.

On December 1, 2006 amendments to the provincial *Smoke-Free Places Act* took effect making Nova Scotia's smoke-free legislation the strongest in Canada. As a result, smoking is no longer permitted at the Casino properties, or at video lottery retail sites. This change is expected to materially and negatively impact the financial performance of both the Casino and Video Lottery business lines over the next year.

In the third quarter, NSGC illustrated its commitment to social responsibility through a number of initiatives. The fifth annual Responsible Gambling Awareness Week (RGAW) was held from October 1-7 with the goal of increasing public awareness about the risks of gambling and the importance of responsible gambling. NSGC also launched its Social Responsibility Charter with its operators Atlantic Lottery Corporation (ALC) and Great Canadian Gaming Corporation (GCGC), formalizing NSGC's ongoing commitment to social responsibility. A Youth Gambling Prevention Summit was introduced, with international experts providing insight into the prevalence of youth gambling, the risks involved, and how to effectively connect with this hard-to-reach audience with awareness and education messages. In addition, Interactive Community Education Displays visited five communities during RGAW, bringing important facts about responsible gambling and information about the risks of gambling to people across the Province.

BALANCE SHEET
As at December 31, 2006 (unaudited)
(in thousands)

ASSETS

	<u>2006</u>	<u>2005</u>
Current		
Cash and Short-term Investments	\$ 5,489	\$ 19,877
Cash – restricted	5,685	3,090
Accounts receivable – Operators	-	2,396
Inventory, at cost	1,782	1,476
Prepays	<u>776</u>	<u>216</u>
	<u>13,732</u>	<u>27,055</u>
Long-term		
Cash – Casino Capital Replacement Reserve	961	4,816
Deferred charges	100	232
Investment in Atlantic Lottery Corporation Inc.	1	1
Investment in Interprovincial Lottery Corporation	1	1
Capital assets	<u>105,722</u>	<u>100,347</u>
	<u>106,785</u>	<u>105,397</u>
	<u>\$120,517</u>	<u>\$132,452</u>

LIABILITIES

Current		
Accounts payable	\$ 1,518	\$ 3,101
Deferred lottery revenue	495	357
Liabilities for unclaimed prizes	5,685	3,090
Capital obligation – current portion	11,975	37,134
Due to operators	10,572	-
Due to Atlantic Gaming Equipment Limited – current portion	9,037	14,655
Due to Nova Scotia Gaming Foundation	50	64
Due to Province of Nova Scotia	<u>51,043</u>	<u>53,108</u>
	<u>90,375</u>	<u>111,509</u>
Long-term		
Due to Atlantic Gaming Equipment Limited	4,122	5,002
Capital obligation	<u>14,039</u>	<u>4,375</u>
	<u>18,161</u>	<u>9,377</u>
	<u>108,536</u>	<u>120,886</u>

EQUITY

Casino Capital Replacement Reserve	<u>11,981</u>	<u>11,566</u>
	<u>\$120,517</u>	<u>\$132,452</u>

Statement of Income and Payment to Province

For the Third Quarter Ended December 31, 2006 (unaudited)
(in thousands)

	2006								2005							
	LOTTERIES		CASINOS		RESP. GAMBLING	OTHER	TOTAL		LOTTERIES		CASINOS		RESP. GAMBLING	OTHER	TOTAL	
	Ticket Lottery	Video Lottery	HFX	SYD			3 rd Qtr	Year to date	Ticket Lottery	Video Lottery	HFX	SYD			3 rd Qtr	Year to date
Revenues	\$54,598	\$38,910	\$19,133	\$5,327	\$ -	\$ 577	\$118,545	\$359,389	\$58,800	\$45,642	\$18,257	\$5,004	\$ -	\$ 75	\$127,778	\$371,269
Expenses	<u>41,698</u>	<u>13,658</u>	<u>16,841</u>	<u>4,118</u>	<u>1,071</u>	<u>1,046</u>	<u>78,432</u>	<u>243,030</u>	<u>45,240</u>	<u>16,889</u>	<u>16,716</u>	<u>3,942</u>	<u>879</u>	<u>697</u>	<u>84,363</u>	<u>244,545</u>
Net Income before Contributions	12,900	25,252	2,292	1,209	(1,071)	(469)	40,113	116,359	13,560	28,753	1,541	1,062	(879)	(622)	43,415	126,724
Community Programs Contributions	—	—	—	—	<u>426</u>	<u>924</u>	<u>1,350</u>	<u>4,385</u>	—	—	—	—	<u>452</u>	<u>750</u>	<u>1,202</u>	<u>4,617</u>
Net income	12,900	25,252	2,292	1,209	(1,497)	(1,393)	38,763	111,974	13,560	28,753	1,541	1,062	(1,331)	(1,372)	42,213	122,107
Win Tax	—	—	<u>3,501</u>	<u>940</u>	—	—	<u>4,441</u>	<u>13,914</u>	—	—	<u>3,217</u>	<u>891</u>	—	—	<u>4,108</u>	<u>13,176</u>
Payment to Province	<u>\$12,900</u>	<u>\$25,252</u>	<u>\$ 5,793</u>	<u>\$2,149</u>	<u>\$(1,497)</u>	<u>\$(1,393)</u>	<u>\$ 43,204</u>	<u>\$125,888</u>	<u>\$13,560</u>	<u>\$28,753</u>	<u>\$ 4,758</u>	<u>\$1,953</u>	<u>\$(1,331)</u>	<u>\$(1,372)</u>	<u>\$ 46,321</u>	<u>\$135,283</u>

Statement of Retained Earnings

For the Third Quarter Ended December 31, 2006 (unaudited)
(in thousands)

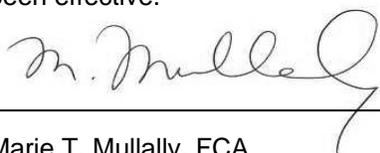
	2006		2005	
	3 rd QUARTER	YEAR TO DATE	3 rd QUARTER	YEAR TO DATE
Retained earnings, beginning of period	\$ 73,211	\$ -	\$ 79,894	\$ -
Net income	38,763	111,848	42,213	122,107
Net income paid to Province	<u>(111,974)</u>	<u>(111,848)</u>	<u>(122,107)</u>	<u>(122,107)</u>
Retained earnings, end of period	\$ —	\$ —	\$ —	\$ —

STATEMENT OF
CASH FLOW
For the third quarter ended
December 31, 2006 (unaudited)
(in thousands)

	<u>2006</u>	<u>2005</u>
Operating		
Net income	\$ 38,763	\$ 42,213
Allocation of income to Province	(38,763)	(42,213)
Amortization	3,489	4,563
Loss on disposal of capital assets	-	1,359
Net changes in working capital	<u>2,540</u>	<u>15,176</u>
	<u>6,029</u>	<u>21,098</u>
Financing		
Decrease in obligation to Atlantic Gaming Equipment Limited	(2,312)	(4,142)
Reduction of capital obligation	<u>(3,889)</u>	<u>(3,325)</u>
	<u>(6,201)</u>	<u>(7,467)</u>
Investing		
Purchases of capital assets	(1,104)	(1,549)
Increase in Casino Capital Replacement Reserve, net of cash	<u>1,238</u>	<u>895</u>
	<u>134</u>	<u>(654)</u>
Net (decrease) increase in cash & cash equivalents	(38)	12,977
Cash, beginning of quarter	<u>5,527</u>	<u>6,900</u>
Cash, end of quarter	\$ <u>5,489</u>	\$ <u>19,877</u>

CERTIFICATION
For the third quarter ended
December 31, 2006 (unaudited)

I have evaluated the effectiveness of NSGC's disclosure controls and procedures as of the end of the period covered by the Quarterly Report and conclude that such disclosure controls and procedures have been effective.



Marie T. Mullally, FCA
President & CEO



Robert MacKinnon, CA
Vice President Finance