NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2015

Management Responsibilities for Financial Reporting

These consolidated financial statements are the responsibility of the management of Nova Scotia Provincial Lotteries and Casino Corporation ("NSPLCC"). They have been approved by its Board of Directors.

Management has prepared the consolidated financial statements in accordance with International Financial Reporting Standards. The financial information contained in the Summary of Results is consistent with the data presented in the consolidated financial statements.

The gaming activities of NSPLCC are undertaken by operators acting on its behalf. These gaming activities are audited by independent auditors. The Corporation relies on the audit opinions of these independent auditors. The responsibility of the Auditor General of Nova Scotia is to express an independent opinion on whether the consolidated financial statements of NSPLCC are stated fairly, in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

NSPLCC maintains books of accounts and systems of financial and management control, 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 audit activities through its audit committee. The committee reviews matters related to accounting, auditing and internal control systems, and the consolidated financial statements and audit reports of the auditors of the Corporation and its operators.

Robert MacKinnon, CA
President & CEO

Cindy Mills, CMA
Director, Finance

5161 George Street
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Auditor General of Nova Scotia

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of the Nova Scotia Provincial Lotteries and Casino Corporation:

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Nova Scotia Provincial Lotteries and Casino Corporation, which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statements of net and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Consolidated Financial Statements
Management is responsible for the preparation and fair representation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards required that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made my management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Nova Scotia Provincial Lotteries and Casino Corporation as at March 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
I draw attention to Note 24 to the consolidated financial statements which describes an ongoing matter between the Corporation and the Canada Revenue Agency with respect to Harmonized Sales Tax on video lottery revenues operating on First Nations' reserves in Nova Scotia. The Corporation has remitted the assessed amount of $29,600,000 for the period from June 1, 2009 to October 31, 2013 and has self-assessed and remitted monthly amounts totaling $8,569,000 since Novermber 1, 2013. All amounts have been remitted on a without prejudice basis. The Corporation has filed Notices of Objection with the Canada Revenue Agney and the outcome of the appeal is undeterminable at this time.

Michael A. Pickup, CA
Auditor General of Nova Scotia

Halifax, Nova Scotia
June 24, 2015

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NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31 (IN THOUSANDS)

	2015	2014[1]
ASSETS		
Current assets		
Cash and cash equivalents *(Note 4)*	$ 8,696	$ 10,805
Cash – restricted *(Note 5)*	5,552	6,145
Disputed HST assessments *(Note 24)*	38,169	31,583
Trade and other receivables *(Note 6)*	1,444	1,429
Other assets *(Note 7)*	5,071	3,347
Inventories *(Note 8)*	1,979	2,775
	60,911	56,084
Non-current assets		
Property, plant and equipment *(Note 9)*	89,157	95,240
Intangible assets *(Note 10)*	6,386	10,338
Cash - casino capital replacement reserve *(Note 11)*	6,636	3,963
Investment in Interprovincial Lottery Corporation *(Note 22)*	1	1
	102,180	109,542
	$ 163,091	**$ 165,626**
LIABILITIES AND EQUITY		
Current liabilities		
Bank indebtedness *(Note 4)*	$ 357	$ 333
Trade and other payables *(Note 12)*	16,679	18,541
Deferred revenue *(Note 13)*	984	748
Provisions *(Note 14)*	5,552	6,145
Due to Atlantic Gaming Equipment Limited *(Note 15)*	8,122	9,241
Other liabilities *(Note 16)*	873	971
Due to Province of Nova Scotia	91,784	84,783
	124,351	120,762
Non-current liabilities		
Due to Atlantic Gaming Equipment Limited *(Note 15)*	30,004	36,517
Investment in Atlantic Lottery Corporation Inc. *(Note 3)*	2,311	7,920
Other long-term liabilities – asset retirement obligation *(Note 14)*	267	177
	32,582	44,614
Equity		
Casino capital replacement reserve *(Note 11)*	12,638	10,220
Retained deficit *(Note 3)*	(6,480)	(9,970)
	6,158	250
	$ 163,091	**$ 165,626**

[1] Certain 2014 figures have been restated—see note 3.18

See accompanying notes to the financial statements

Approved on behalf of the Board,

Kelliann Dean
Chair

NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION
CONSOLIDATED STATEMENT OF NET AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

	2015	2014
Revenue *(Note 17)*	$ 396,641	$ 402,345
Cost of sales *(Note 27)*	268,730	274,371
Gross profit	127,911	127,974
Depreciation	(8,733)	(9,815)
Finance costs *(Note 18)*	(1,079)	(1,292)
Other expenses *(Note 19)*	(12,416)	(12,228)
Interest and other income	4,350	4,352
	(17,878)	(18,983)
Net and comprehensive income before Win tax	**110,033**	**108,991**
Win tax *(Note 3.15.2)*	**13,492**	**14,292**
Net and comprehensive income	**$ 123,525**	**$ 123,283**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

	Retained earnings/ (deficit)	Casino capital replacement reserve	Total
Balance at March 31, 2013	$ (18,794)	$ 8,323	$ (10,471)
Net and comprehensive income	123,283	-	123,283
Contributions or distributions			
Change in reserve	-	1,897	1,897
Change in investment in Atlantic Lottery Corporation Inc.	8,824	-	8,824
Payment to Province	(123,283)	-	(123,283)
Balance at March 31, 2014	**$ (9,970)**	**$ 10,220**	**$ 250**
Net and comprehensive income	123,525	-	123,525
Contributions or distributions			
Change in reserve	-	2,418	2,418
Change in investment in Atlantic Lottery Corporation Inc.	3,490	-	3,490
Payment to Province	(123,525)	-	(123,525)
Balance at March 31, 2015	**$ (6,480)**	**$ 12,638**	**$ 6,158**

See accompanying notes to the financial statements

NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

	2015	2014[1]
OPERATING		
Net and comprehensive income	$ 123,525	$ 123,283
Allocation of income to Province	(123,525)	(123,283)
Depreciation	11,783	13,256
Loss on disposal of property, plant and equipment	3,023	64
Net transfers of property, plant and equipment	(4,632)	(354)
Changes in non-cash working capital balances		
Disputed HST assessments	(6,586)	(31,583)
Trade and other receivables	(15)	(405)
Other assets	(1,724)	(1,039)
Inventories	796	99
Trade and other payables	(1,862)	4,405
Deferred revenue and recovery	236	105
Other liabilities	(98)	(308)
Due to Province of Nova Scotia	7,001	29,863
	7,922	14,103
FINANCING		
Decrease in due to Atlantic Gaming Equipment Limited	(7,542)	(3,008)
INVESTING		
Purchases of capital assets	(139)	(7,521)
Change in investment of Atlantic Lottery Corporation Inc.	(2,119)	(1,280)
(Increase)/decrease in Casino Capital Replacement Reserve, net of cash	(255)	486
	(2,513)	(8,315)
Net (decrease)/ increase in cash and cash equivalents	**(2,133)**	**2,780**
Cash and cash equivalents, beginning of year	**10,472**	**7,692**
Cash and cash equivalents, end of year *(Note 4)*	**$ 8,339**	**$ 10,472**

[1] Certain 2014 figures have been restated—see note 3.18

See accompanying notes to the financial statements

1. Reporting entity

The Nova Scotia Gaming Corporation was incorporated on February 15, 1995, by Chapter 4 of the Acts of 1994-95, the *Gaming Control Act*. The *Gaming Control Act* was amended on November 13, 2012, whereby the name of the Corporation was changed to Nova Scotia Provincial Lotteries and Casino Corporation. The address of its registered office and principal place of business is 5th Floor Summit Place, 1601 Lower Water Street, Halifax, Nova Scotia, Canada. The consolidated financial statements comprise those of the individual entity, Nova Scotia Provincial Lotteries and Casino Corporation, its subsidiaries and its interest in associates and jointly controlled entities (collectively referred to as “the Corporation”).

The principal activities of Nova Scotia Provincial Lotteries and Casino Corporation is to develop, undertake, organize, conduct and manage casinos, other lottery schemes and related businesses on behalf of the Province of Nova Scotia.

The Corporation is exempt from income tax under Section 149 of the *Income Tax Act*.

2. Basis of presentation

A. Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (“IASB”).

B. Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets at the time of acquisition.

C. Functional and presentation currency

The Corporation’s presentation and functional currency is Canadian dollars. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

D. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Corporation’s accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and when such amounts are not readily apparent. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements and assumptions concerning the future that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognized in financial statements are contained in the various notes to the statements as follows:

- estimates of gaming revenue (see note 3.3);
- valuation of casino award credits (see note 3.3);
- useful lives of property, plant and equipment (see note 3.7);
- impairment of property, plant and equipment (see note 3.8); and
- estimates of employee benefits cost (see note 3.6).

3. Significant accounting policies

The accounting policies followed by the Corporation are summarized as follows:

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation, and entities controlled by the Corporation from the date that control commences until the date whereby control ceases.

The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The entities controlled by the Corporation are as follows:

Nova Scotia Gaming Equipment Limited

Nova Scotia Gaming Equipment Limited is the Corporation's 100%-owned subsidiary and is fully consolidated in these statements.

Casino Nova Scotia

Casino Nova Scotia is the entity created as a result of the Amended and Restated Operating Contract with Metropolitan Entertainment Group (referred to as "MEG"), (now a partnership between 6364942 Canada Inc. and 6364951 Canada Inc.) to operate casinos in Halifax and Sydney for a period expiring on July 1, 2015. In June 2014, MEG exercised its option to renew the contract until July 1, 2025. Casino Nova Scotia is fully consolidated as the Corporation is the party with the authority to operate casinos in Nova Scotia under the *Criminal Code* (Canada) and *Gaming Control Act* (Nova Scotia), and the Amended and Restated Operating Contract provides the Corporation with the authority to set annual operating and capital budgets and to stipulate or review and/or approve other aspects of the casino operations.

All intra-Corporation transactions, balances, income and expenses are eliminated in full on consolidation.

3.2 Interests in joint arrangements

A joint operation is a joint arrangement whereby all parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Entities subject to joint arrangements characterized as joint operations are consolidated, whereby the Corporation recognizes its direct interest in the assets, liabilities, revenues and expenses arising from the joint operations, including its share of any assets held jointly, liabilities incurred jointly, and its share of revenues of the joint operation and expenses incurred jointly.

Atlantic Lottery Corporation Inc.

In 1976, Atlantic Lottery Corporation Inc. (referred to as "ALC") was set up by the four Atlantic Provinces to operate lottery and gaming activities in the region. Atlantic Lottery Corporation Inc. is the Corporation's exclusive agent to operate ticket lotteries and video lotteries in Nova Scotia. Each of the Corporation, Province of Newfoundland and Labrador, New Brunswick Lotteries and Gaming Corporation and Prince Edward Island Lotteries Commission own 25% of Atlantic Lottery Corporation Inc.

The Corporation entered into an Agency Agreement with Atlantic Lottery Corporation Inc. in 2000, whereby revenues are required to be kept in a separate account and not co-mingled with those of the other provinces. Costs are to be deducted from this account, and assets acquired or liabilities incurred by Atlantic Lottery Corporation Inc. exclusively for the operation of lotteries in Nova Scotia are paid through this account and are the Corporation's. Under the Agreement, Atlantic Lottery Corporation Inc. cannot make any material change relating to the conduct and management of lotteries in Nova Scotia without the approval of the Corporation.

The Corporation consolidates its direct interest in the operations covered within the Agency Agreement and proportionately consolidates its share of the assets held jointly, liabilities incurred jointly, and its share of revenue of the joint operation and expenses incurred jointly as per the Unanimous Shareholders' Agreement that are not covered within the Agency Agreement.

3.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

3.3.1 Sale of goods

Revenue from the sale of goods is recognized when all of the following conditions are satisfied:

- the Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Corporation; and,
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

This revenue recognition policy applies to:

- lottery ticket revenues;
- instant ticket game sales; and,
- food and beverage sales.

Sale of goods that result in award credits for customers under Casino Nova Scotia's Player's Club rewards program are accounted for as multiple-element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could also be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction, but is deferred and recognized as revenue when the award credits are redeemed and Casino Nova Scotia's obligations have been fulfilled.

3.3.2 Casino gaming revenue

Casino gaming revenue are all amounts wagered in casinos less amounts paid as winnings to players of casino games.

3.3.3 Video lottery revenue

Video lottery revenue are recognized at the time of play and are recorded net of credits paid out.

3.3.4 Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.4 Operating Leases

Operating leases are leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items.

3.4.1 The Corporation as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the related lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

3.4.2 The Corporation as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.5 Foreign currencies

Transactions in currencies other than the Corporation's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognized in profit or loss in the period in which they arise.

3.6 Employee benefit costs

A liability is recognized for benefits accruing to employees in respect of wages and salaries when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognized in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Corporation in respect of services provided by employees up to the reporting date.

3.6.1 Defined benefit plans

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognized in full in profit or loss in the period in which they occur. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested. The defined benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation, adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan. The liability for employees of the Atlantic Lottery Corporation Inc. consolidated in the Corporation's statements is accounted for as a defined benefit plan.

3.7 Property, plant and equipment

Property plant and equipment, including buildings and leasehold improvements held for use in the supply of goods, services or administrative purposes are carried at cost, less subsequent depreciation and impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Corporation's accounting policies described below. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use. Construction in progress is stated at cost. Cost includes expenditure that is directly attributable to the acquisition or construction of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is provided to write off the cost of items of property, plant and equipment other than land over their estimated useful lives and after taking into account their estimated residual value, using both the straight-line method and diminishing value method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year in which the item is derecognized.

Depreciation of the Corporation's head office property, plant and equipment is charged based on the diminishing balance method of depreciation. The following annual rates are used in the calculation of depreciation:

Computer equipment	30%
Furniture and equipment	20%

Depreciation of the Corporation's Halifax and Sydney casinos, and lottery businesses' property, plant and equipment is charged based on the straight line method of depreciation. Leasehold improvements are amortized over the remaining lease term, including one renewal period. The following annual rates are used in the calculation of depreciation:

Casino assets	2.5% - 20%
Lottery assets	4% - 33%

3.8 Impairment of long-lived assets

At each reporting date, the Corporation reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3.9 Intangible assets

3.9.1 <u>Intangible assets acquired separately</u>

Acquired intangible assets are primarily software, patents and licenses on technologies. Intangible assets acquired separately are carried at cost less accumulated depreciation and impairment losses. Depreciation is charged to the consolidated statement of net and comprehensive income on a straight-line basis over the assets' estimated useful lives as follows:

Software	3 - 15 years
Other intangibles	3 - 5 years

The Corporation only has intangible assets acquired with a finite useful life. The estimated useful life and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The depreciation expense on intangible assets with finite lives is recognized in the statement of net and comprehensive income in the expense category consistent with the function of the intangible asset. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of net and comprehensive income when the asset is derecognized.

3.9.2 Intangible assets internally generated – research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Development costs relating primarily to the development of new gaming or lottery software are recognized as an intangible asset when the Corporation can demonstrate that all conditions required by IAS 38 are met.

The amount initially recognized for internally generated intangible assets is the sum of the acquisition and manufacturing costs that can be directly attributed to the development process as well as a reasonable portion of the development-related fixed costs. If the internally generated intangible asset does not meet the conditions of IAS 38, the development expenditure is recognized in profit or loss in the period in which it was incurred. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated depreciation and accumulated impairment losses. Depreciation of the asset begins when the development is complete and the asset is available for use. It is amortized over the period of expected future benefit on a straight-line basis. The current useful lives applied are:

Gaming or lottery software	5 - 15 years
Other intangibles	5 - 7 years

During the period of development, the intangible asset is tested for impairment annually.

3.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on an average cost basis, and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.11 Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event; it is probable that the Corporation will be required to settle the obligation; and, a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.12 Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Corporation's financial assets are classified into the following categories:

	Classification	Measurement
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost

3.12.1 Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.12.2 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are also assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is directly reduced by the impairment loss for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

3.12.3 Derecognition of financial assets

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor substantially retains all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

3.12.4 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

3.13 Financial liabilities

The Corporation's financial liabilities are classified into the following categories:

	Classification	Measurement
Bank indebtedness	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Liabilities for unclaimed prizes	Other financial liabilities	Amortized cost
Due to Atlantic Gaming Equipment Limited	Other financial liabilities	Amortized cost
Other liabilities	Other financial liabilities	Amortized cost
Due to Province of Nova Scotia	Other financial liabilities	Amortized cost

3.13.1 <u>Other financial liabilities</u>

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method.

3.13.2 <u>Derecognition of financial liabilities</u>

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take greater than nine months to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.15 Taxes

3.15.1 <u>Sales tax</u>

As a prescribed registrant for HST, the Corporation makes HST remittances to the Government of Canada pursuant to the *Games of Chance Regulations* of the *Excise Tax Act* ("the Regulations"). The Corporation's net tax for a reporting period is comprised of net tax attributable to both gaming and non-gaming activities. Imputed tax on gaming expense is calculated according to a formula set out in the Regulations resulting in the direct payment of additional HST at the applicable statutory rate. The net tax attributable to non-gaming activities is calculated similar to any other HST registrant.

3.15.2 <u>Win tax</u>

Section 31 of the *Casino Regulations*, made under Section 127 of the *Gaming Control Act*, prescribes that the Corporation is required to make daily payment to the Province of an amount equal to twenty percent of casino gaming revenue, otherwise known as win tax. This amount can be found as an expense to the casino line of business and is added back to derive the total Payment to Province.

3.16 Changes in accounting policies

The Corporation adopted the following accounting standards and amendments to accounting standards effective April 1, 2014:

- IFRS 21, *Levies*. IFRS 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. The

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Corporation has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years; as such, there is no impact from IFRS 21.

- IAS 32, *Financial Instruments Presentation.* Amendments to this standard clarify the application of the offsetting requirements of financial assets and financial liabilities. The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Corporation since none of the entities in the Corporation has any offsetting arrangements.

3.17 Accounting standards issued but not yet effective

A number of new standards, interpretations and amendments to existing standards are not yet effective as at March 31, 2015, and have not been applied in preparing these consolidated financial statements. The following paragraphs describe standards and interpretations that the Corporation reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date; however, the Corporation does not expect these amendments to have a significant effect on the consolidated financial statements when they are adopted in future periods:

- IFRS 9, *Financial Instruments*, effective for annual periods on or after a future date to be determined. This standard is the first of the IASB's three-phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It requires classification and measurement of financial assets and financial liabilities in either the amortized cost or the fair value category. The Corporation intends to adopt IFRS 9 but does not expect it to have a material impact on its financial statements.

- IFRS 15, *Revenue from Contracts with Customers,* effective for annual periods on or after January 1, 2017, with either a full or modified retrospective application, and with early adoption permitted. IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structure approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Corporation Is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

3.18 Restatement of financial statements

During the course of reviewing accounts the Corporation consolidates as part of its direct interest in the operations covered within the Agency Agreement with Atlantic Lottery Corporation Inc., it was discovered that the current and long term portion of the liability for asset retirement obligation of certain assets was omitted. The March 31, 2014 balance has been restated to correct this error as follows:

		2014
Increase in trade and other receivables	$	261
Increase in trade and other payables		(84)
Increase in other long-term liabilities – asset retirement obligation		(177)
Net effect on financial position	**$**	**-**

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4. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2015	2014
Cash and cash equivalents	$ 8,696	$ 10,805
Bank indebtedness	(357)	(333)
	$ 8,339	**$ 10,472**

Under the Amended and Restated Casino Operating Contract, total casino revenues are the Corporation's revenue and the casino bank accounts and Capital Reserve accounts (CRA) are owned by the Corporation. The Corporation included $2,095 in cash from the casino accounts on the consolidated balance sheet at March 31, 2015 (2014 - $2,546).

5. Cash – restricted

Cash is restricted for unclaimed prizes. Unclaimed prizes from regional lottery games are retained in a prize fund for twelve months from the announced beginning date of the draw and Sports games are retained in a prize fund for 744 days from the date of purchase of the ticket. Unclaimed prizes remaining after the respective periods are transferred to a special prize fund and are recorded as a reduction to prize expense and/or used for prizes in subsequent draws.

All unclaimed prizes from Scratch 'N Win lottery games are retained in a prize fund for thirty-six months from the date of launch of the game. Unclaimed prizes remaining after the thirty-six month claiming period are transferred to a special prize fund and are recorded as a reduction to prize expense and/or used for prizes in subsequent draws. Although Scratch 'N Win prizes do not expire, an expiration date of thirty-six months from the date of launch of the game was selected as historically there have been minimal validations after this period.

Prizes of national lottery games are funded by the Interprovincial Lottery Corporation, with the exception of prizes for certain free tickets, which are paid out of general funds of that Corporation as incurred. Unclaimed prizes of national games are administered by the Interprovincial Lottery Corporation.

6. Trade and other receivables

	2015	2014
Due from operators	$ 1,444	$ 1,429
	$ 1,444	**$ 1,429**

6.1 Trade receivables

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortized cost.

6.2 Due from Operators

	2015	2014
ALC *(i)*	$ 1,015	$ 756
MEG	429	673
	$ 1,444	**$ 1,429**

(i) Amounts due from ALC include deferred revenue of $745 (2014 - $495).

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7. Other assets

	2015	2014
Prepayments	$ 5,008	$ 3,052
Deferred charges *(i)*	63	295
	$ 5,071	**$ 3,347**

(i) Deferred charges include prepaid commissions of $34 (2014 - $23) to lottery retailers from the sale of tickets, where the draw date is after March 31.

8. Inventories

	2015	2014
Food, beverage and merchandise - casinos	$ 162	$ 152
Lottery tickets	1,817	2,623
	$ 1,979	**$ 2,775**

The cost of inventories recognized as an expense includes $80 (2014 - $54) in respect of write-downs of inventory to net realisable value, and was included in ticket printing and costs.

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9. Property, plant and equipment

	Land	Buildings & Leaseholds	Automobiles	Operational Equipment	Lottery Gaming Equipment	Casino Gaming Equipment	Casino Buildings	Total
Cost								
Balance at March 31, 2013	$ 10,025	$ 94	$ 835	$ 1,504	$ 87,779	$ 53,606	$ 72,434	$ 226,277
Additions	-	-	-	24	2,770	2,653	593	6,040
Disposals	-	-	(138)	(60)	(29,605)	-	-	(29,803)
Transfers	-	-	25	-	(14)	-	-	11
Balance at March 31, 2014	**$ 10,025**	**$ 94**	**$ 722**	**$ 1,468**	**$ 60,930**	**$ 56,259**	**$ 73,027**	**$ 202,525**
Additions	-	-	127	106	(2,164)	2,140	443	652
Disposals	-	-	(58)	(500)	(17,815)	-	-	(18,373)
Transfers	-	-	-	(421)	5,042	-	-	4,621
Balance at March 31, 2015	**$ 10,025**	**$ 94**	**$ 791**	**$ 653**	**$ 45,993**	**$ 58,399**	**$ 73,470**	**$ 189,425**
Accumulated depreciation and impairment								
Balance at March 31, 2013	$ -	$ 21	$ 262	$ 1009	$ 50,210	$ 47,098	$ 28,090	$ 126,690
Disposals	-	-	(90)	(54)	(29,595)	-	-	(29,739)
Transfers	-	-	11	-	(526)	-	-	(515)
Depreciation	-	12	164	149	5,177	3,201	2,146	10,849
Impairments	-	-	-	-	-	-	-	-
Balance at March 31, 2014	**$ -**	**$ 33**	**$ 347**	**$ 1,104**	**$ 25,266**	**$ 50,299**	**$ 30,236**	**$ 107,285**
Disposals	-	-	(38)	(409)	(17,597)	-	-	(18,044)
Transfers	-	-	-	(423)	1,080	-	-	657
Depreciation	-	10	148	126	5,133	2,781	2,172	10,370
Impairments	-	-	-	-	-	-	-	-
Balance at March 31, 2015	**$ -**	**$ 43**	**$ 457**	**$ 398**	**$ 13,882**	**$ 53,080**	**$ 32,408**	**$ 100,268**
Net book value								
Balance at March 31, 2014	$ 10,025	$ 61	$ 375	$ 364	$ 35,664	$ 5,960	$ 42,791	$ 95,240
Balance at March 31, 2015	**$ 10,025**	**$ 51**	**$ 334**	**$ 255**	**$ 32,111**	**$ 5,319**	**$ 41,062**	**$ 89,157**

During the year, the Corporation carried out a review of the recoverable amount of assets. This review led to no indicators of impairment or reversals of impairment identified (2014 - $0).

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10. Intangible assets

	Software Licenses	Gaming Software	Not Ready for Use	Total
Cost				
Balance at March 31, 2013	$ 10,770	$ 10,441	$ 3,329	$ 24,540
Additions	-	75	1,406	1,481
Disposals	-	-	-	-
Transfers	2,091	(75)	(166)	1,850
Balance at March 31, 2014	**$ 12,861**	**$ 10,441**	**$ 4,569**	**$ 27,871**
Additions	-	268	(782)	(514)
Disposals	(10,333)	(5,598)	(1,408)	(17,339)
Transfers	-	3,536	(2,379)	1,157
Balance at March 31, 2015	**$ 2,528**	**$ 8,647**	**$ -**	**$ 11,175**
Accumulated depreciation and impairment				
Balance at March 31, 2013	$ 7,431	$ 5,673	$ -	$ 13,104
Disposals	-	-	-	-
Depreciation	2,030	(8)	-	2,022
Transfers	1,651	756	-	2,407
Impairments	-	-	-	-
Balance at March 31, 2014	**$ 11,112**	**$ 6,421**	**$ -**	**$ 17,533**
Disposals	(9,071)	(5,575)	-	(14,646)
Transfers	-	490	-	490
Depreciation	487	925	-	1,412
Impairments	-	-	-	-
Balance at March 31, 2015	**$ 2,528**	**$ 2,261**	**$ -**	**$ 4,789**
Net book value				
At March 31, 2014	$ 1,749	$ 4,020	$ 4,569	$ 10,338
At March 31, 2015	**$ -**	**$ 6,386**	**$ -**	**$ 6,386**

During the year, the Corporation carried out a review of the recoverable amount of assets. This review led to the recognition of an impairment loss of $0 (2014 - $0).

11. Cash – casino capital replacement reserve

The casino capital replacement reserve is intended to provide for replacement of casino capital assets. Cash has been segregated on the consolidated balance sheet in the amount of $6,636 (March 31, 2014 - $3,963) for this purpose.

	2015	2014
Cash balance, beginning of year	$ 3,963	$ 2,552
Funding	5,412	5,312
Interest	59	35
Proceeds from sale of capital assets	45	-
Capital asset purchases	(2,382)	(2,549)
Reimbursements to MEG for capital asset purchases	(735)	(997)
Interest paid on balance owing to MEG for capital asset purchases	-	(8)
HST related to capital asset purchases and reimbursements	117	(1,117)
Capital assets purchased by MEG	157	735
Cash balance, end of year	**6,636**	**3,963**
Add: cumulative capital asset purchases	56,243	53,614
Less: accumulated depreciation	(50,079)	(46,984)
(Less)/Add: HST (payable)/receivable	(5)	362
Less: capital assets purchased by MEG	(157)	(735)
Casino capital replacement reserve balance, end of year	**$ 12,638**	**$ 10,220**

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12. Trade and other payables

	2015	2014
Trade payables	$ 2,063	$ 2,436
Harmonized Sales Tax	669	336
Due to Gambling Awareness Nova Scotia *(i)*	40	35
Due to Operators	13,907	15,734
	$ 16,679	$ 18,541

(i) Video Lottery retailers in Nova Scotia have agreed, under the terms of their retailer agreements with the Atlantic Lottery Corporation Inc., to contribute one per cent of their Video Lottery commission to Gambling Awareness Nova Scotia. The Corporation has agreed to contribute an amount equal to all contributions made by the Video Lottery retailers.

12.1 Due to Operators

	2015	2014
ALC	$ 7,345	$ 6,474
MEG	6,562	9,260
	$ 13,907	$ 15,734

13. Deferred revenue

	2015	2014
Lottery tickets *(i)*	$ 745	$ 495
Casino award credits (see note 3.3.1)	239	253
	$ 984	$ 748

(i) The deferred revenue for lottery tickets arises in respect of receipts for lottery tickets sold prior to March 31 for draws held subsequent to that date (see note 3).

14. Provisions

	2015	2014
Unclaimed prizes		
Current prizes	$ 5,551	$ 6,144
Special prize fund	1	1
Balance, end of year	$ 5,552	$ 6,145

Unclaimed prizes

As explained in note 5, a provision is recognized for prizes not yet claimed on lottery games. The provisions are measured by using the expected value approach multiplying the average statistical probability for all tickets to result in a future payout with the number of currently sold tickets minus all winner payments already made at the reporting date.

Decommissioning

The Corporation records the fair value of a decommissioning provision in the year during which it is incurred and can be reasonably estimated. This provision is associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Corporation also records a corresponding asset that is amortized over the life of the asset. Decommissioning provisions are classified as current if the useful life will expire in the next fiscal year and as a long-term asset if the useful lives extend beyond the next fiscal year. Provisions have been recorded for gaming equipment in the amount of $270 (2014 - $261). The provision is classified as a current payable of $3 (2014 - $84) and a long-term liability of $267 (2014 - $177).

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15. Due to Atlantic Gaming Equipment Limited

	2015	2014
Unsecured – at amortized cost		
Loans from:		
Atlantic Gaming Equipment Limited *(i)*	$ 38,126	$ 45,758
Current	$ 8,122	$ 9,241
Non-current	30,004	36,517
	$ 38,126	**$ 45,758**

(i) This liability represents the Corporation's portion of Atlantic Lottery Corporation Inc. ("ALC") debt used in the acquisition of property, plant and equipment operated on behalf of the Corporation. All amounts are payable by ALC and are due on or before December 2019. The debt is based on variable interest rates ranging from 1.61% to 2.58%. The aggregate maturity of long-term debt for the years subsequent to March 31, 2015, is approximately as follows: 2016 - $27,300; 2017 - $4,700; 2018 - $4,800; 2019 - $4,900; 2020 - $3,800. Included in interest expense is $1,079 (2014 - $1,100) relating to long-term debt.

16. Other liabilities

	2015	2014
Outstanding chips	$ 150	$ 151
Progressive jackpot liabilities	723	820
	$ 873	**$ 971**

17. Revenue

An analysis of the Corporation's revenue for the year (excluding interest income) is as follows:

	2015	2014
Casinos *(i)*	$ 75,070	$ 78,920
Ticket Lottery	208,528	217,537
Video Lottery	113,043	105,888
	$ 396,641	**$ 402,345**

(i) Casinos' revenue is comprised of gaming revenue of $67,460 (2014 - $71,460) and food, beverage, and other revenue.

18. Finance costs

	2015	2014
Interest on bank overdrafts and loans	$ 1,079	$ 1,292

19. Other expenses

	2015	2014
Distributions to community programs	$ 6,157	$ 6,485
Responsible gambling programs	6,259	5,743
	$ 12,416	$ 12,228

Other expenses include distributions to community and responsible gambling programs, some of the more significant amounts, including payments required by legislation, are as follows:

19.1 Harness racing

The Corporation annually contributes to the Nova Scotia Harness Racing industry amounts as directed by Government. The Government of Nova Scotia approved a contribution of $1,000 in 2015 (2014 - $1,000) to support the harness racing industry in Nova Scotia. The 2016 approved budget includes $1,000 to support the harness racing industry in Nova Scotia.

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19.2 Special payments

The Corporation is obligated to make direct payments annually to three provincial government bodies as follows:

	2015	2014
The Department of Communities, Culture and Heritage (in support of the Cultural Federation of Nova Scotia)	$ 50	$ 50
The Department of Agriculture (in support of the Exhibition Association of Nova Scotia)	50	50
The Department of Health and Wellness (in support of Sport Nova Scotia)	100	100
	$ 200	$ 200

These payments are special funds under the Provincial *Finance Act* established by the Minister of Finance and Treasury Board under Section 14(1) of the *Atlantic Lottery Regulations* as made under the *Gaming Control Act*.

19.3 Responsible Gambling payments

The Government of Nova Scotia approved a contribution to the Department of Health and Wellness as part of its 2005 Gaming Strategy to fund problem gambling treatment of $3,000 in 2015 (2014 - $3,000) and as part of its 2011 Gaming Strategy to fund youth gambling prevention of $500 in 2015 (2014 - $0).

20. Financial instruments

20.1 Capital risk management

The Corporation manages its capital to ensure that entities in the Corporation will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Corporation’s overall strategy remains unchanged from 2014.

The capital structure of the Corporation consists of net debt (borrowings offset by cash and bank balances) and equity of the Corporation, comprising capital replacement reserves (as disclosed in note 11) and retained deficit.

The Corporation is not subject to any externally imposed capital requirements.

The Corporation’s objectives are to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk levels. The Corporation manages its capital structure in light of changes in economic conditions and the risk characteristics of the Corporation’s operations. The Corporation’s major capital allocation decisions include a comparison of whether the expected financial returns from those investments exceed its estimated weighted average cost of capital.

20.2 Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement, and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

20.3 Financial risk management

The Corporation’s activities expose it to a variety of financial risks including market (interest rate) risk, credit risk, and liquidity risk. The Corporation’s overall risk management program recognizes the nature of these risks and seeks to minimize potential adverse effects on the Corporation’s financial performance.

20.4 Interest rate risk management

Interest rate risk is the risk that the value of the Corporation’s assets and liabilities will fluctuate due to changes in market interest rates. The Corporation has interest bearing debt which is subject to interest rate variations in the market.

The Corporation’s exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

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20.5 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Corporation. In the normal course of business, the Corporation is subject to credit risk from trade debtors in the gaming and lotteries industry, and transactions with their operators. The Corporation has a credit policy which has been issued to manage this exposure to credit risk. As part of this policy, limits on exposures with counter parties have been set and approved by the Board of Directors and are monitored on a regular basis. The Corporation does not have any significant concentrations of credit risk. Trade debtors are monitored closely for compliance with terms of trade. The Corporation does not expect the non-performance of any obligations at balance date. The maximum credit risk is the carrying values of accounts receivables, bank accounts and short-term deposits.

20.6 Liquidity risk management

Liquidity risk represents the Corporation's ability to meet its contractual obligations. The Corporation evaluates its liquidity requirements on an ongoing basis by monitoring its capital structure, regularly monitoring forecast and actual cash flows and managing the maturity profiles of financial assets and financial liabilities. In general, the Corporation generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities.

20.7 Fair values of financial instruments

The fair values of the Corporation's financial instruments are considered to approximate the carrying amounts. Levels 1 to 3 are defined based on the degree to which fair value inputs are observable or unobservable, as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are based on inputs which have a significant effect on fair value that are observable, either directly or indirectly from market data; and
- Level 3 inputs are unobservable (supported by little or no market activity)

20.8 Quantitative disclosures

Liquidity and interest risk tables

The following table details the Corporation's exposure to interest rate and liquidity risk.

	Weighted Average effective interest rate	Variable interest	Fixed maturity	Non-interest bearing	Total
	%				
As at March 31, 2015					
Financial assets					
Cash and cash equivalents		$ -	$ -	$ 8,696	$ 8,696
Cash restricted		-	-	5,552	5,552
Disputed HST assessments		-	-	38,169	38,169
Trade and other receivables		-	-	1,444	1,444
		$ -	$ -	$ 53,861	$ 53,861
Financial liabilities					
Bank indebtedness		$ -	$ -	$ 357	$ 357
Trade and other payables		-	-	16,679	16,679
Provisions		-	-	5,552	5,552
Due to Atlantic Gaming Equipment Limited	1.34%-2.58%	-	-	38,126	38,126
Other liabilities		-	-	873	873
Due to Province of Nova Scotia		-	-	91,784	91,784
		$ -	$ -	$ 153,371	$ 153,371

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An analysis of the contractual maturity dates is as follows:

	Variable interest	Fixed maturity	Non-interest bearing	Total
As at March 31, 2015				
Financial assets				
Less than 1 year	$ -	$ -	$ 15,692	$ 15,692
1 to 2 years	-	-	38,169	38,169
2 to 5 years	-	-	-	-
5 years	-	-	-	-
	$ -	$ -	$ 53,861	$ 53,861

Fair Value

During the years ended March 31, 2015 and 2014, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Corporation`s financial instruments are considered to approximate the carrying amounts. The following table provides the disclosures of the fair value and the level in the hierarchy.

	2015			2014		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Financial assets classified as loans and receivables:						
Cash	$ 8,696	$ -	$ -	$ 10,805	$ -	$ -
Cash – restricted	5,552	-	-	6,145	-	-
Cash – casino capital replacement reserve	6,636	-	-	3,963	-	-
Disputed HST assessments	38,169	-	-	31,583	-	-
Trade and other receivables	-	1,444	-	-	1,429	-
Financial liabilities at amortized cost:						
Bank indebtedness	$ 357	$ -	$ -	$ 333	$ -	$ -
Trade and other payables	-	16,679	-	-	18,541	-
Liabilities for unclaimed prizes	-	-	5,552	-	-	6,145
Due to Atlantic Gaming Equipment Limited	-	38,126	-	-	45,758	-
Other liabilities	-	-	873	-	-	971
Due to Province of Nova Scotia	-	91,784	-	-	84,783	-

21. Employee future benefits

All permanent employees of the Corporation are entitled to receive pension benefits under the Province of Nova Scotia Public Service Superannuation Plan, a multi-employer defined benefit plan. The plan is funded by equal employee and employer contributions. The Corporation includes contributions to the Plan in its management expenses. The Corporation is not responsible for any unfunded liability with respect to the Public Service Superannuation Plan.

The total expense recognized in the income statement of $113 (2014 - $114) represents contributions paid to this plan by the Corporation at rates specified in the rules of the plan. As at March 31, 2015, contributions of $7 due in respect of the 2015 reporting period (2014 - $7) had not been paid over to the plan. The amounts were paid subsequent to the end of the reporting period.

22. Related party transactions

The immediate parent and ultimate controlling party of Nova Scotia Provincial Lotteries and Casino Corporation is the Province of Nova Scotia. Balances and transactions between the Corporation and its subsidiaries that are related parties of the Corporation have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

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22.1 Compensation of key management personnel

	2015	2014
Short-term benefits	$ 499	$ 478
Post-employment benefits	57	52
	$ 556	$ 530

In 2015, key management is considered to be comprised of members of the Board of Directors and Audit Committee, and the Corporation's Chief Executive Officer, Vice President and some Directors. Key management in 2014 was considered to be comprised of members of the Board of Directors, and the Corporation's Chief Executive Officer, Vice President and Directors.

22.2 Other related party transactions

Interprovincial Lottery Corporation

The Interprovincial Lottery Corporation was incorporated on August 16, 1976, under the *Canada Business Corporations Act.* The Interprovincial Lottery Corporation owns and operates nation-wide lottery games (Lotto 6/49, Super 7, Lotto Max, Millionaire Life, various national instant games). Nova Scotia holds one of ten shares of this Corporation, and appoints one of 21 directors to the Board of Directors of the Interprovincial Lottery Corporation.

23. Commitments

23.1 The Corporation as lessee

23.1.1 Operating lease arrangements

Commitments for minimum lease payments in relation to non-cancellable operating leases for premises and outsourcing of infrastructure, application and project services are as follows:

	2015	2014
Not later than 1 year	$ 8,963	$ 8,345
Later than 1 year and not later than 5 years	13,375	19,990
	$ 22,338	$ 28,335

The Corporation has entered into an operating lease for rental of office space occupied by its head office. The lease commenced October 2011 and expires on December 2020.

Included in the Corporation's commitments is the Corporation's share of the Atlantic Lottery Corporation Inc.'s minimum annual lease payments for their premises. The Corporation's share of the Atlantic Lottery Corporation Inc.'s minimum annual lease payments for premises is approximately $4,600 over the next five years. Also included in the Corporation's commitments is the Corporation's share of the Atlantic Lottery Corporation Inc.'s aggregate payment of long-term lease payable for infrastructure, application and project services contract through a seven-year outsourcing agreement with CGI, with the option of three one-year renewable terms. The Corporation's share of the Atlantic Lottery Corporation Inc.'s aggregate payment of long-term lease payable for each of the five years subsequent to March 31, 2015, is as follows: 2016 - $7,700; 2017 - $7,600; 2018 - $1,900; 2019 - $0 and 2020 - $0.

23.1.2 Payments recognized as an expense

	2015	2014
Minimum lease payments	$ 8,587	$ 5,928

23.1.3 Capital lease arrangements

Commitments for minimum lease payments in relation to non-cancellable capital leases are as follows:

	2015	2014
Not later than 1 year	$ -	$ 150
Later than 1 year and not later than 5 years	265	396
Later than 5 years	-	-
	265	546
Current portion of long-term lease	113	281
	$ 152	$ 265

FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

The aggregate payment of long-term lease payable for each of the five years subsequent to March 31, 2015, are approximately as follows: 2016 - $113; 2017 - $118; 2018 - $33; 2019 - nil and 2020 - nil.

Included in interest expense is $13 (2014 - $36) related to software under capital lease.

Included in the Corporation's commitments is the Corporation's share of the Atlantic Lottery Corporation Inc.'s aggregate payment of long-term capital lease payable for the purchase of non-gaming information technology assets contracted as part of a seven-year outsourcing agreement with CGI, with the option of three one-year renewable terms.

24. Contingencies

a. The Corporation has been made aware of a statement of claim filed from Safe Gaming System Inc., alleging a patent infringement related to the Corporation's responsible gaming device known as the *My-Play System*. The claim is at an early stage and the Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

b. The Atlantic Lottery Corporation Inc. received Notices of Assessment from Canada Revenue Agency for Harmonized Sales Tax in respect of the operation of video lottery terminals sited on First Nations' reserves in the province of Nova Scotia for the period June 1, 2009 to October 31, 2013, in amounts totalling $29,600. Through Atlantic Lottery Corporation Inc., the Corporation has remitted, on a without prejudice basis, the amount of the assessments solely to avoid the accumulation of interest and penalties. The Corporation is self-assessing Harmonized Sales Tax for every period thereafter and is depositing monthly installments to the Canada Revenue Agency. Remittances up to and including March 31, 2015, total a further $8,569 (2014 - $1,983). The Corporation is contesting the matter with the Canada Revenue Agency, and Notices of Objection for the assessments have been filed. The Corporation intends to vigorously defend its position and the outcome of the appeal is undeterminable at this time.

c. From time to time the Corporation is involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on its consolidated statement of financial position; however, due to the uncertainty of potential legal outcomes this cannot be predicted with any assurance. Estimates, where appropriate, have been included in the consolidated statement of financial position, however additional settlements, if any, concerning these contingencies will be accounted for as a charge to the consolidated statement of net and comprehensive income in the period in which the settlement occurs.

25. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue June 24, 2015.

26. Segmented Statement of Operations

26.1 Cost of Sales

		2015		2014
Casinos		$ 62,737		$ 65,686
Lotteries				
Prizes	$ 115,483		$ 121,650	
Retailer commissions	34,722		34,279	
Ticket costs	4,790		4,255	
Operating expenses	46,205		45,940	
Other distributions	10,599	211,799	9,779	215,903
Corporate operating expenses *(i)*		2,927		2,597
		277,463		284,186
Less: Depreciation *(ii)*		8,733		9,815
		$ 268,730		$ 274,371

(i) Represents operating costs of NSPLCC.
(ii) Included in lease and depreciation expenses of casino, lotteries and corporate expenses above.

FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

26. Segmented Statement of Operations - continued

26.2 Casinos

	2015	2014
Revenue		
Casino revenue	$ 67,460	$ 71,460
Beverage, food and other revenue	7,610	7,460
	75,070	78,920
Expenses		
Lease and depreciation	1,905	1,905
Capital Replacement Reserve	5,412	5,312
Operating Expenses	62	57
Harmonized Sales Tax	2,450	2,569
Operator fee	39,416	41,551
Win tax	13,492	14,292
	62,737	65,686
Net income	12,333	13,234
Win tax	13,492	14,292
Payment to Province	**$ 25,825**	**$ 27,526**

26.3 Lotteries

	Ticket	Video	Total 2015	Total 2014
Ticket lottery sales	$ 208,528	$ -	$ 208,528	$ 217,537
Prize expense	115,483	-	115,483	121,650
Net ticket lottery sales	93,045	-	93,045	95,887
Net video lottery sales	-	113,043	113,043	105,887
Total net sales	93,045	113,043	206,088	201,774
Retailer commissions	13,689	21,033	34,722	34,279
Ticket costs	3,606	1,184	4,790	4,255
	17,295	22,217	39,512	38,534
Gross profit	75,750	90,826	166,576	163,240
Operating expenses				
Salaries and benefits	6,375	3,848	10,223	12,687
Training and development	115	69	184	258
Meetings and travel	257	153	410	412
Employee services	62	40	102	198
Costs of premises	792	454	1,246	1,374
Fleet expense	136	147	283	267
Consumable supplies	40	25	65	71
Terminal maintenance	88	523	611	868
Equipment and maintenance	837	781	1,618	1,307
Telecommunications	1,514	481	1,995	2,015
Outsourced services	6,617	3,503	10,120	8,488
Marketing	3,330	448	3,778	4,324
Social responsibility/Communications	337	229	566	653
Retailer training and support	847	16	863	661
Financial services	62	51	113	205
Lease and depreciation	3,804	10,224	14,028	12,152
Total operating expenses	25,213	20,992	46,205	45,940
Operating profit	50,537	69,834	120,371	117,300
Interest expense	(355)	(724)	(1,079)	(1,293)
Other income	142	4,203	4,345	4,345
Profit before other distributions	50,324	73,313	123,637	120,352
Other distributions	5,377	5,222	10,599	9,779
Net income	**$ 44,947**	**$ 68,091**	**$ 113,038**	**$ 110,573**