

—— NOVA SCOTIA PROVINCIAL ——
LOTTERIES & CASINO CORPORATION

QUARTERLY REPORT

For the quarter ended June 30, 2014

**FINANCIAL
HIGHLIGHTS**
For the first quarter ended
June 30, 2014 (unaudited)

In the first quarter of 2014-15, the total Payment to Province was \$26.9 million, \$4.0 million lower than the same quarter the previous year due primarily to decreased revenue in the Ticket Lottery business and timing of funding for the harness racing industry and new projects such as *Support4Culture* and youth prevention programming.

The Video Lottery business line accounted for \$15.7 million of the Payment to Province, \$0.1 million lower than the previous year. The decrease was due to a reduction in revenue as a result of the continued impact of the My-Play system and challenging economic conditions.

The Ticket Lottery business line accounted for \$9.8 million of the Payment to Province, \$1.2 million lower than the previous year. This decrease was due to lower Lotto 6/49 revenue than the previous year as a result of lower jackpot amounts in the first quarter and a decrease within the Scratch'n Win ticket category.

Payment to Province from the Halifax casino was \$4.8 million, \$0.3 million lower than the same quarter the previous year. Payment to Province from the Sydney casino was \$1.9 million, \$0.2 million lower than the previous year. This decrease is due to a general revenue decline in both locations.

Win Tax of \$3.4 million was deducted from casino revenues and paid directly to the Province of Nova Scotia during the quarter. This was \$0.3 million lower than the same quarter in the previous year and is a calculation of 20% of casino gaming revenues.

Contributions and expenditures of \$2.0 million were incurred in the first quarter in support of responsible gambling and prevention programming initiatives, research and treatment of problem gambling. This was \$0.5 million higher than the previous year due to the transfer of funds to Department of Health and Wellness in support of youth gambling prevention programs. The allocation of the \$2.0 million is as follows:

	Quarter ended June 30, 2014	Quarter ended June 30, 2013
Gambling Awareness Nova Scotia <i>Video Lottery Retailers</i> <i>NSPLCC</i>	\$ 65,500 <u>65,500</u> 131,000	\$ 68,000 <u>68,000</u> 136,000
Responsible Gambling/ Prevention Programs	165,000	166,000
Contribution to Department of Health and Wellness	<u>1,700,000</u>	<u>1,200,000</u>
Total Contributions	\$ <u>1,996,000</u>	\$ <u>1,502,000</u>

In June, NSPLCC and Great Canadian Gaming Corporation (GCGC) announced that GCGC had exercised its option with NSPLCC to extend the term of the Casino Contract under which GCGC operates the casinos in Halifax and Sydney. Under the terms of the contract extension option, GCGC will remain as the casino operator of the Nova Scotia casinos through 2025, and has committed to make substantial capital investments to renovate and update the two casinos totaling \$10 million.

The Artist in Residence program at the Halifax casino awards one Nova Scotia based musician or group with \$20,000 in funding to assist with developing their career through recording, marketing and live performance opportunities. On June 6, Halifax-based band The Brood was named Casino Nova Scotia's Artist in Residence for the year. The Brood were selected from a group of six finalists that had been chosen from over 50 applicants to the program.

Also in the first quarter, Atlantic Lottery, NSPLCC's lottery operator, re-launched its successful 2nd Chance Contest which offers players a chance to win a total of \$0.5 million in prize by entering select non-winning tickets online. The contest is open for player registration and ticket entry between June 1, 2014, and March 31, 2015.

In June, there were additional bonus draws in Lotto 6/49. Each draw date saw an extra guaranteed prize of \$1 million be awarded (eight in total).

The *Support4Sport* Program is the most significant source of funding for amateur sport in Nova Scotia with 100% of the proceeds from *Support4Sport* branded tickets in Nova Scotia going to amateur sport. Over \$0.8 million was raised in the first quarter, which will help develop community and provincial sporting programs and provide training and development opportunities for athletes, coaches and officials.

The *Support4Culture* Program is a source of funding for Nova Scotia's artistic, heritage and cultural communities with 100% of proceeds from *Support4Culture* branded tickets going to support initiatives sponsored by the program. Nearly \$0.7 million was raised in the first quarter of 2014-15 which will help support initiatives such as the Artistic Innovation Program, the Built Heritage Development Fund and the Mi'kmaq Cultural Activities Program.

In the first quarter of 2014-15, NSPLCC supported two community casino fundraisers through the *Support4Communities* Casino Nights program and helped to raise more than \$12,000. These events were in support of the Lower Sackville Boys and Girls Club, Bedford-Sackville Early Intervention and Clare Special Olympics.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30 (unaudited)
(in thousands)

ASSETS

	<u>2014</u>	<u>2013</u>
Current assets		
Cash and cash equivalents	\$ 12,008	\$ 7,631
Cash – restricted	6,137	6,777
Disputed HST assessments	33,682	-
Trade and other receivables	989	944
Prepaid expenses	5,442	3,731
Inventories	<u>2,746</u>	<u>2,778</u>
	<u>61,004</u>	<u>21,861</u>
 Non-current assets		
Property, plant and equipment	93,479	108,922
Cash – casino capital replacement reserve	4,306	2,511
Investment in Interprovincial Lottery Corporation	<u>1</u>	<u>1</u>
	<u>97,786</u>	<u>111,434</u>
	<u>\$ 158,790</u>	<u>\$ 133,295</u>

LIABILITIES and EQUITY

Current liabilities		
Bank indebtedness	\$ 1	\$ 340
Trade and other payables	21,665	13,625
Deferred revenue and recovery	739	652
Liabilities for unclaimed prizes	6,137	6,777
Due to Atlantic Gaming Equipment Limited	2,131	2,812
Other liabilities	844	1,278
Due to Province of Nova Scotia	<u>85,184</u>	<u>55,372</u>
	<u>116,701</u>	<u>80,856</u>
 Non-current liabilities		
Due to Atlantic Gaming Equipment Limited	31,492	44,190
Investment in Atlantic Lottery Corporation Inc.	<u>7,888</u>	<u>17,378</u>
	<u>39,380</u>	<u>61,568</u>

EQUITY

Casino capital replacement reserve	11,485	9,666
Retained deficit	<u>(8,776)</u>	<u>(18,795)</u>
	<u>\$ 158,790</u>	<u>\$ 133,295</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the first quarter ended June 30 (unaudited)
(in thousands)

	2014							2013						
	LOTTERIES		CASINOS		RG	OTHER	TOTAL	LOTTERIES		CASINOS		RG	OTHER	TOTAL
	Ticket Lottery	Video Lottery	HFX	SYD			1st Quarter and Year to date	Ticket Lottery	Video Lottery	HFX	SYD			1st Quarter and Year to date
Revenues	\$ 50,536	\$ 26,596	\$ 13,802	\$ 5,041	\$ -	\$ -	\$ 95,975	\$ 52,508	\$ 27,667	\$ 14,848	\$ 5,319	\$ -	\$ -	\$ 100,342
Expenses	<u>40,731</u>	<u>10,933</u>	<u>11,502</u>	<u>4,032</u>	<u>165</u>	<u>729</u>	<u>68,092</u>	<u>41,475</u>	<u>11,840</u>	<u>12,398</u>	<u>4,226</u>	<u>166</u>	<u>584</u>	<u>70,689</u>
Net Income before Contributions														
Contributions	9,805	15,663	2,300	1,009	(165)	(729)	27,883	11,033	15,827	2,450	1,093	(166)	(584)	29,653
Contributions to Community Programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,831</u>	<u>2,594</u>	<u>4,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,336</u>	<u>1,078</u>	<u>2,414</u>
Net Income	9,805	15,663	2,300	1,009	(1,996)	(3,323)	23,458	11,033	15,827	2,450	1,093	(1,502)	(1,662)	27,239
Win Tax	<u>-</u>	<u>-</u>	<u>2,488</u>	<u>928</u>	<u>-</u>	<u>-</u>	<u>3,416</u>	<u>-</u>	<u>-</u>	<u>2,686</u>	<u>980</u>	<u>-</u>	<u>-</u>	<u>3,666</u>
Payment to Province	\$ <u>9,805</u>	\$ <u>15,663</u>	\$ <u>4,788</u>	\$ <u>1,937</u>	\$ <u>(1,996)</u>	\$ <u>(3,323)</u>	\$ <u>26,874</u>	\$ <u>11,033</u>	\$ <u>15,827</u>	\$ <u>5,136</u>	\$ <u>2,073</u>	\$ <u>(1,502)</u>	\$ <u>(1,662)</u>	\$ <u>30,905</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the first quarter ended June 30 (unaudited)
(in thousands)

	2014	2013
	First Quarter & Year to date	First Quarter & Year to date
Retained earnings, beginning of period	\$ (9,970)	\$ (18,794)
Change in investment in ALC	-	(1)
Net income	23,458	27,239
Net income paid to Province	<u>(23,458)</u>	<u>(27,239)</u>
Retained earnings, end of period	\$ <u>(9,970)</u>	\$ <u>(18,795)</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the first quarter ended
June 30 (unaudited)
(in thousands)

	<u>2014</u>	<u>2013</u>
Operating		
Net Income	\$ 23,458	\$ 27,240
Allocation of income to Province	(23,458)	(27,240)
Amortization	2,233	2,830
Net changes in working capital	<u>(513)</u>	<u>(1,298)</u>
	<u>1,720</u>	<u>1,532</u>
Financing		
(Decrease)/increase in obligation to Atlantic Gaming Equipment Limited	<u>(12,135)</u>	<u>(1,941)</u>
Investing		
Purchases of capital assets	4,519	(729)
Transfer of capital assets	5,347	-
Change in investment of Atlantic Lottery Corporation Inc.	1,162	(647)
Increase in Casino Capital Replacement Reserve, net of cash	<u>923</u>	<u>1,384</u>
	<u>11,951</u>	<u>8</u>
Net increase (decrease) in cash & cash equivalents	1,536	(401)
Cash & cash equivalents, beginning of quarter	<u>10,471</u>	<u>7,692</u>
Cash & cash equivalents, end of quarter	\$ <u>12,007</u>	\$ <u>7,291</u>