



NOVA SCOTIA
GAMING CORPORATION

responsible • progressive • accountable

QUARTERLY REPORT

For the quarter ended September 30, 2011

FINANCIAL HIGHLIGHTS

For the second quarter ended
September 30, 2011 (unaudited)

In the second quarter of 2011-12, the total Payment to Province was \$36.8 million, \$0.8 million lower than the same quarter in the previous year, due to decreased revenue in the Ticket Lottery and Video Lottery business lines, offset by a decrease in expenses at the Halifax casino.

The Video Lottery business line accounted for \$22.1 million of the Payment to Province, \$0.7 million lower than the previous year. This decrease is attributed to lower revenue due to the maturity of the product and a decreasing number of terminals in the field.

The Ticket Lottery business line accounted for \$9.2 million of the Payment to Province, \$2.4 million lower than the previous year. This decrease was a result of lower Lotto Max revenue in 2011-12 than the previous year due to fewer \$50 million plus Maxmillion jackpot rolls.

Payment to Province from the Halifax casino was \$6.1 million, \$2.4 million higher than the previous year, due to lower Harmonized Sales Tax expense in 2011-12. Payment to Province from the Sydney casino was \$2.4 million, \$0.1 million lower than the previous year.

Win Tax of \$4.3 million was deducted from casino revenues and paid directly to the Province of Nova Scotia during the quarter. This was unchanged from the same quarter of the previous year.

Contributions and expenditures of \$1.3 million were incurred in the second quarter in support of responsible gambling and prevention programming initiatives, and research and treatment of problem gambling. This was \$0.3 million lower than the previous year primarily due to timing of when initiatives occur. The allocation of the \$1.3 million is as follows:

	Quarter ended September 30, 2011	Quarter ended September 30, 2010
Gambling Awareness Nova Scotia <i>Video Lottery Retailers</i> <i>Nova Scotia Gaming Corp.</i>	\$ 75,200 <u>75,200</u> 150,400	\$ 76,950 <u>76,950</u> 153,900
Responsible Gambling/Prevention Programming Programs	217,600	548,100
Contribution to Department of Health and Wellness	<u>900,000</u>	<u>900,000</u>
Total Contributions	\$ <u>1,268,000</u>	\$ <u>1,602,000</u>

OPERATIONAL HIGHLIGHTS

For the second quarter ended
September 30, 2011 (unaudited)

The second quarter brought new excitement to the Halifax and Sydney casinos as the two properties combined began to feature more than 120 new slot machines. Themes like *I Love Lucy*, *Jumpin Jalapenos*, *Action Stacked Diamonds* and *Money Mojo* provide casino visitors with the opportunity to play some of the newest and most popular games available in the market.

The Halifax casino also launched its new *Games!Room*. This freshly designated area of the casino provides a more vibrant atmosphere with new types of entertainment. *Games!Room* features all the exciting slots and table games customers have come to expect, and also includes a players' lounge area, video game play, flat screen TVs and a dance floor. The *Games!Room* also offers exclusive specials, promotions and events.

The Halifax casino offered a diverse entertainment program in the second quarter. The lineup included Gordie Sampson, Terri Clark and the always popular Songwriters' Circle series. The Schooner Showroom also hosted Freddy Cole and Kenny Baron as part of the Halifax Jazz Festival. In addition, the casino continued its strong association with Pride Week by featuring Serena Ryder and a special Pride Week edition of the Songwriters' Circle series.

The continued success of the *Support4Sport* program enabled NSGC to deliver a \$1.1 million payment to Sport Nova Scotia this quarter.

In the second quarter, Atlantic Lottery launched a "Create Your Own Scratch Ticket" contest. This contest received 1,792 entries and 9,475 votes for ticket themes.

Also in the second quarter, Atlantic Lottery launched the \$5 Black ticket, a regional Scratch'N Win ticket, launched in partnership with Loto-Québec. This ticket outpaced the average performance of other \$5 and \$7 tickets, mirroring the success of the ticket in many of the other jurisdictions across North America where it has been launched.

During the second quarter, one new Video Lottery game, Rainbow Riches, was launched on the IGT terminal. The game was a popular addition and well received by players.

Responsible gambling training for video and ticket lottery retailers continued this quarter with an online refresher course.

The Youth Gambling Awareness Program, delivered by the YMCA, conducted 46 presentations across the province, reaching 1,014 youth, parents and other adults.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30 (unaudited)
(in thousands)

ASSETS

	<u>2011</u>	<u>2010</u>
Current assets		
Cash and cash equivalents	\$ 20,537	\$ 21,887
Cash – restricted	5,724	5,107
Trade and other receivables	2,852	1,123
Prepaid expenses	2,916	3,236
Inventories	<u>2,148</u>	<u>1,528</u>
	<u>34,177</u>	<u>32,881</u>
Non-current assets		
Property, plant and equipment	85,026	87,008
Cash – casino capital replacement reserve	1,841	156
Investment in Interprovincial Lottery Corporation	<u>1</u>	<u>1</u>
	<u>86,868</u>	<u>87,165</u>
	<u>\$121,045</u>	<u>\$120,046</u>

LIABILITIES and EQUITY

Current liabilities		
Bank indebtedness	\$ 415	\$ 488
Trade and other payables	14,700	12,273
Deferred revenue and recovery	12,713	13,008
Liabilities for unclaimed prizes	5,724	5,107
Due to Atlantic Gaming Equipment Limited	6,275	7,629
Other liabilities	968	727
Due to Province of Nova Scotia	<u>64,228</u>	<u>64,812</u>
	<u>105,023</u>	<u>104,044</u>
Non-current liabilities		
Due to Atlantic Gaming Equipment Limited	12,442	8,870
Investment in Atlantic Lottery Corporation Inc.	<u>9,454</u>	<u>14,132</u>
	<u>126,919</u>	<u>127,046</u>

EQUITY

Casino capital replacement reserve	7,659	7,885
IFRS transition adjustment	<u>(13,533)</u>	<u>(14,885)</u>
	<u>\$121,045</u>	<u>\$120,046</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the second quarter ended September 30 (unaudited)
(in thousands)

	2011								2010							
	LOTTERIES		CASINOS		RG	OTHER	TOTAL		LOTTERIES		CASINOS		RG	OTHER	TOTAL	
	Ticket Lottery	Video Lottery	HFX	SYD			2 nd Qtr	Year to date	Ticket Lottery	Video Lottery	HFX	SYD			2 nd Qtr	Year to date
Revenues	\$49,264	\$34,415	\$16,932	\$6,269	\$ -	\$ 62	\$106,942	\$213,509	\$52,241	\$35,219	\$16,962	\$6,447	\$ -	\$ -	\$110,869	\$222,561
Expenses	<u>40,249</u>	<u>12,172</u>	<u>13,913</u>	<u>5,005</u>	<u>218</u>	<u>617</u>	<u>72,174</u>	<u>143,899</u>	<u>40,654</u>	<u>12,406</u>	<u>16,274</u>	<u>5,140</u>	<u>548</u>	<u>735</u>	<u>75,757</u>	<u>150,396</u>
Net Income before Contributions	9,015	22,243	3,019	1,264	(218)	(555)	34,768	69,610	11,587	22,813	688	1,307	(548)	(735)	35,112	72,165
Contributions to Community Programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,050</u>	<u>1,164</u>	<u>2,214</u>	<u>5,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,054</u>	<u>694</u>	<u>1,748</u>	<u>5,635</u>
Net Income	9,015	22,243	3,019	1,264	(1,268)	(1,719)	32,554	64,098	11,587	22,813	688	1,307	(1,602)	(1,429)	33,364	66,530
Win Tax	<u>-</u>	<u>-</u>	<u>3,090</u>	<u>1,163</u>	<u>-</u>	<u>-</u>	<u>4,253</u>	<u>8,024</u>	<u>-</u>	<u>-</u>	<u>3,070</u>	<u>1,194</u>	<u>-</u>	<u>-</u>	<u>4,264</u>	<u>8,086</u>
Payment to Province	<u>\$ 9,015</u>	<u>\$22,243</u>	<u>\$ 6,109</u>	<u>\$2,427</u>	<u>\$(1,268)</u>	<u>\$(1,719)</u>	<u>\$ 36,807</u>	<u>\$ 72,122</u>	<u>\$11,587</u>	<u>\$22,813</u>	<u>\$ 3,758</u>	<u>\$2,501</u>	<u>\$(1,602)</u>	<u>\$(1,429)</u>	<u>\$ 37,628</u>	<u>\$ 74,616</u>

Consolidated Statement of Retained Earnings

For the second quarter ended September 30 (unaudited)
(in thousands)

	2011	2010
	2 nd QUARTER & YEAR TO DATE	2 nd QUARTER & YEAR TO DATE
Retained earnings, beginning of period	\$ -	\$ -
Net income	32,554	33,364
Net income paid to Province	<u>(32,554)</u>	<u>(33,364)</u>
Retained earnings, end of period	\$ <u>-</u>	\$ <u>-</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the second quarter ended
September 30 (unaudited)
(in thousands)

	<u>2011</u>	<u>2010</u>
Operating		
Net income	\$ 32,554	\$ 33,364
Allocation of income to Province	(32,554)	(33,364)
Amortization	2,983	7,357
Decrease (increase) in IFRS adjustment	624	(124)
Net changes in working capital	<u>583</u>	<u>9,247</u>
	<u>4,190</u>	<u>16,480</u>
Financing		
Increase (decrease) in obligation to Atlantic Gaming Equipment Limited	<u>1,129</u>	<u>(1,518)</u>
Investing		
Purchases of capital assets	(5,924)	(5,080)
Change in investment of Atlantic Lottery Corporation Inc.	(1,156)	2,304
Increase in Casino Capital Replacement Reserve, net of cash	<u>239</u>	<u>1,513</u>
	<u>(6,841)</u>	<u>(1,263)</u>
Net increase (decrease) in cash & cash equivalents	(1,522)	13,699
Cash & cash equivalents, beginning of quarter	<u>22,059</u>	<u>8,188</u>
Cash & cash equivalents, end of quarter	\$ <u>20,537</u>	\$ <u>21,887</u>

CERTIFICATION

For the second quarter ended
September 30, 2011 (unaudited)

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

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

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

During the period beginning on July 1, 2011, and ended on September 30, 2011, NSGC did not make any changes in its internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting



Stephen S. MacDonald, CA
Acting President & CEO



Robert MacKinnon, CA
Vice-President, Finance