



QUARTERLY REPORT

For the quarter ended December 31, 2005

**FINANCIAL
HIGHLIGHTS**
For the third quarter ended
December 31, 2005 (unaudited)

In the third quarter, the total Payment to Province was \$46.3 million, which was \$2.8 million lower than the prior year, primarily due to a decrease in the video lottery business line.

The lottery business line accounted for \$42.4 million of the Payment to Province, which was \$1.9 million lower than the prior year. Video lottery income decreased by \$5.4 million due to a number of factors including the removal of 800 VLTs and the reduction in hours of play pursuant to the Province's Gaming Strategy.

Ticket lottery income increased by \$3.5 million due to higher revenues, particularly in the online ticket (i.e. Super 7) as a result of high jackpot offerings as well as in the Scratch'n Win category.

The Halifax Casino Payment to Province was \$5.0 million, slightly higher (\$0.1 million) than the prior year. The Sydney Casino Payment to Province was \$2.0 million, \$0.8 million higher than the prior year due primarily to a reduction in expenses. NSGC entered into a new casino operating contract, effective July 1, 2005 that resulted in lower expenses associated with funding to the Capital Reserve Account than the prior year.

Responsible gambling expenditures increased by \$0.8 million over the prior year due to an increase in NSGC's responsible gambling programs and projects.

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

In addition to corporate initiatives aimed at promoting responsible use of its products, NSGC also made the following financial contributions to assist in the treatment, research and prevention of problem gambling:

	Quarter ended December 31, 2005	Quarter ended December 31, 2004
Nova Scotia Gaming Foundation		
<i>Video Lottery Retailers</i>	\$ 101,000	\$118,000
<i>Nova Scotia Gaming Corp.</i>	<u>101,000</u>	<u>118,000</u>
	202,000	236,000
Responsible gambling operations	879,000	302,000
Contribution to Nova Scotia Health Promotion	<u>1,250,000</u>	<u>250,000</u>
Total contributions	<u>\$2,331,000</u>	<u>\$788,000</u>

OPERATIONAL HIGHLIGHTS

For the third quarter ended
December 31, 2005 (unaudited)

The third quarter saw a number of responsible gambling initiatives undertaken and completed. First, the fourth annual Responsible Gambling Awareness Week (RGAW) was held during the week of October 2-8. The primary objectives of the Week were to educate people to make responsible gambling decisions, to increase awareness about the risks of gambling and to prevent problem gambling. NSGC also launched the *Know the Score* program during RGAW, which is a university-based awareness and education program that reached more than 2,200 young people between the ages of 19 and 24. In addition, NSGC sponsored *Caught In The Game*, a drama targeted at high-school students, which is designed to increase awareness of problem gambling. This was performed five times in high schools across the province.

The Halifax Casino Responsible Gambling Resource Centre (RGRC), a commitment included in the Province's Gaming Strategy, opened on October 5th, 11 months ahead of schedule. The purpose of the Centre is to provide relevant, useful and educational information on responsible gambling and to provide linkages to treatment.

The third quarter marked the beginning of Stage III of the Responsible Gambling Device (RGD) research project in Windsor and Mount Uniacke. The RGD is a card-based technology system that provides responsible gaming features to players. Stage III, which includes nine retailer sites with 51 video lottery terminals (VLTs) connected with RGDs, is designed to assess players' perceptions and the behavioural impacts.

Under the leadership of NSGC, amendments to the Casino Regulations were approved that will allow for many exciting changes at the Halifax and Sydney Casinos. A major Capital Improvement Plan will commence in January 2006 and will involve a number of enhancements, including new slot games, cosmetic improvements such as fresh paint and carpet, changes to the table games mix including a poker room in Halifax, and improved food, beverage and entertainment offerings. These changes will enhance the Halifax Casino's position as the premiere entertainment destination in Atlantic Canada and allow the Sydney Casino to compete effectively in its local market.

Casino Nova Scotia (CNS) held two poker tournaments, the East Coast Poker Challenge (September 30th - October 2nd) and the Holiday Classic (December 17th) in the third quarter. Given the growing broad-based popularity of this social game, CNS plans to continue to hold additional poker games with the opening of the newly-designed poker room in early March 2006.

The second VLT-related Gaming Strategy initiative, the removal of 800 terminals, was completed during the third quarter. On November 1, 2005, 800 terminals from retailers across Nova Scotia were electronically disabled and were physically removed from each site by November 11th.

Lotto 6/49 offered tremendous excitement in the month of October, culminating in the largest Lotto 6/49 jackpot in Canadian history (\$40 million). The lucky ticket was held by a group of 17 co-workers who shared the prize. Continued efforts are being made to further enhance the ticket lottery offerings.

BALANCE SHEET
As at December 31, 2005 (unaudited)
(in thousands)

ASSETS

	<u>2005</u>	<u>2004</u>
Current		
Cash & Short-term Investments	\$ 19,877	\$ 14,825
Cash – restricted	3,090	3,044
Accounts Receivable – operators	2,396	-
Inventory, at cost	1,476	2,354
Prepays	<u>216</u>	<u>669</u>
	<u>27,055</u>	<u>20,892</u>
Long-term		
Cash – Casino Replacement Reserve	4,816	2,528
Deferred charges	232	404
Investment in Atlantic Lottery Corporation Inc.	1	1
Investment in Interprovincial Lottery Corporation	1	1
Capital Assets	<u>100,347</u>	<u>114,765</u>
	<u>105,397</u>	<u>117,699</u>
	<u>\$132,452</u>	<u>\$138,591</u>

LIABILITIES

Current		
Accounts Payable	\$ 3,101	\$ 1,223
Accounts Payable - operators	-	6,919
Deferred Lottery Revenue	357	434
Liabilities for Unclaimed Prizes	3,090	3,044
Capital Obligation – current portion	37,134	36,614
Due to Atlantic Gaming Equipment Limited – current portion	14,655	15,892
Due to Nova Scotia Gaming Foundation	64	75
Due to Province of Nova Scotia	<u>53,108</u>	<u>34,416</u>
	<u>111,509</u>	<u>98,617</u>
Long-term		
Due to Atlantic Gaming Equipment Limited	5,002	14,723
Capital Obligation	<u>4,375</u>	<u>17,499</u>
	<u>9,377</u>	<u>32,222</u>
	<u>120,886</u>	<u>130,839</u>

EQUITY

Casino Capital Replacement Reserve	<u>11,566</u>	<u>7,752</u>
	<u>\$132,452</u>	<u>\$138,591</u>

Statement of Income and Payment to Province

For the Third Quarter Ended December 31, 2005 (unaudited)
(in thousands)

	2005								2004							
	LOTTERIES		CASINOS		RES. GAMING	OTHER	TOTAL		LOTTERIES		CASINOS		RES. GAMING	OTHER	TOTAL	
	Ticket Lottery	Video Lottery	HFX	SYD			3 rd Qtr	Year to date	Ticket Lottery	Video Lottery	HFX	SYD			3 rd Qtr	Year to date
Revenues	\$58,800	\$45,642	\$18,452	\$5,059	\$ -	\$ 75	\$128,028	\$371,269	\$50,414	\$51,073	\$18,612	\$4,855	\$ -	\$ 60	\$125,014	\$376,459
Expenses	<u>45,240</u>	<u>16,889</u>	<u>16,716</u>	<u>3,942</u>	<u>879</u>	<u>697</u>	<u>84,363</u>	<u>244,545</u>	<u>40,360</u>	<u>16,903</u>	<u>17,043</u>	<u>4,481</u>	<u>248</u>	<u>615</u>	<u>79,650</u>	<u>242,552</u>
Net income before Distributions	13,560	28,753	1,736	1,117	(879)	(622)	43,665	126,724	10,054	34,170	1,569	374	(248)	(555)	45,364	133,907
Distributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>702</u>	<u>750</u>	<u>1,452</u>	<u>4,617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>488</u>	<u>-</u>	<u>488</u>	<u>2,446</u>
Net income	13,560	28,753	1,736	1,117	(1,581)	(1,372)	42,213	122,107	10,054	34,170	1,569	374	(736)	(555)	44,876	131,461
Win tax	<u>-</u>	<u>-</u>	<u>3,217</u>	<u>891</u>	<u>-</u>	<u>-</u>	<u>4,108</u>	<u>13,176</u>	<u>-</u>	<u>-</u>	<u>3,328</u>	<u>874</u>	<u>-</u>	<u>-</u>	<u>4,202</u>	<u>13,316</u>
Payment to Province	<u>\$13,560</u>	<u>\$28,753</u>	<u>\$ 4,953</u>	<u>\$ 2,008</u>	<u>\$(1,581)</u>	<u>\$(1,372)</u>	<u>\$ 46,321</u>	<u>\$135,283</u>	<u>\$10,054</u>	<u>\$34,170</u>	<u>\$ 4,897</u>	<u>\$1,248</u>	<u>\$(736)</u>	<u>\$(555)</u>	<u>\$ 49,078</u>	<u>\$144,777</u>

Statement of Retained Earnings

For the Third Quarter Ended December 31, 2005 (unaudited)
(in thousands)

	2005		2004	
	3 rd QUARTER	YEAR TO DATE	3 rd QUARTER	YEAR TO DATE
Retained earnings, beginning of period	\$ 79,894	\$ -	\$ 86,585	\$ -
Net Income	42,213	122,107	44,876	131,461
Net Income paid to Province	<u>(122,107)</u>	<u>(122,107)</u>	<u>(131,461)</u>	<u>(131,461)</u>
Retained earnings, end of period	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

STATEMENT OF
CASH FLOW
For the third quarter ended
December 31, 2005 (unaudited)
(in thousands)

	<u>2005</u>	<u>2004</u>
Operating		
Net income	\$ 42,213	\$ 44,876
Allocation of income to Province	(42,213)	(44,876)
Amortization	4,563	7,554
Loss on disposal of capital assets	1,359	-
Net changes in working capital	<u>15,176</u>	<u>2,383</u>
	<u>21,098</u>	<u>9,937</u>
Financing		
Decrease in obligation to Atlantic Gaming Equipment Limited	(4,142)	(3,445)
Reduction of capital obligation	<u>(3,325)</u>	<u>(3,155)</u>
	<u>(7,467)</u>	<u>(6,600)</u>
Investing		
Purchase of capital assets	(1,549)	(1,694)
Increase (decrease) in Casino Capital Replacement Reserve, net of cash	<u>895</u>	<u>(819)</u>
	<u>(654)</u>	<u>(2,513)</u>
Net increase in cash & cash equivalents	12,977	824
Cash, beginning of quarter	<u>6,900</u>	<u>14,001</u>
Cash, end of quarter	<u>\$19,877</u>	<u>\$14,825</u>

CERTIFICATION
For the third quarter ended
December 31, 2005 (unaudited)

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

Marie T. Mullally, C.A.
President & CEO

Robert MacKinnon, C.A.
Director, Corporate Services