

# A Corporate Story

NOVA SCOTIA GAMING CORPORATION  
ANNUAL REPORT 2005 - 06

“ The corporate story of Nova Scotia Gaming Corporation is one of responsibility, progress and accountability. As the steward of our gambling industry, we exist to create and manage a safe and regulated industry that generates responsible and sustainable revenue to provide resources to build roads, schools, communities and social programs across Nova Scotia. ”

– Marie T. Mullally, President and CEO, Nova Scotia Gaming Corporation



Casino Nova Scotia, Halifax, N.S.

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Photographed in the McInnes Cooper Law Office, Summit Place, Halifax, N.S.

## *NOVA SCOTIA GAMING CORPORATION PRESIDENT AND BOARD OF DIRECTORS*

Left to right: John Khattar; Peter Fardy, Stephen Mont, Charles Cox, Sean O'Connor

Seated: Marie Mullally

### *DIRECTOR, John Khattar*

Barrister and Solicitor  
John G. Khattar Law Office  
Sydney, Nova Scotia

### *DIRECTOR, Stephen Mont*

Barrister and Solicitor  
Dartmouth, Nova Scotia

### *CHAIR, C. Sean O'Connor, CA*

Vice-President, Business Development  
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### *DIRECTOR, Peter Fardy*

Vice-President, Advancement  
St. Francis Xavier University  
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### *DIRECTOR, Charles F. Cox*

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### *Marie T. Mullally, CA*

President and CEO  
Nova Scotia Gaming Corporation

A MESSAGE FROM NSGC'S PRESIDENT AND CEO

# TELLING THE STORY

NOVA SCOTIA IS A PROVINCE built on the ancient practice of sharing stories. We proudly share stories about our culture, our history, and most importantly, our people. At Nova Scotia Gaming Corporation (NSGC), we're contributing to this story every day. Working with our operators, retailers, government and Nova Scotians themselves, we're implementing innovative projects and breaking new ground to ensure Nova Scotia has the most progressive and responsible gaming industry in the world.

And we are succeeding. NSGC's 2005-06 corporate story is especially robust. It's one of responsibility, progression and accountability. It's a story of trying new things, providing new resources and sharing the facts. And it's one that we believe is woven with shared values and shared goals; a story that helps build a better Nova Scotia.

Our job as a steward of the province's gambling industry is twofold: to generate revenue for Nova Scotians and to ensure it happens in a safe and regulated environment. By doing both of these things well, we're able to make an important contribution to the well-being of the province. It's important to the more than 1,000 people who are directly employed by our industry. It's important to the government services and programs that benefit from the \$174 million in profit we generated in 2005-06 alone. And it's important to the 1,600 businesses involved in the industry; businesses that collectively made more than \$53.5 million in commissions this year.

We work hard to ensure all of this is achieved in an environment that is socially responsible. So, over the past year, a critical part of our focus has been on projects that work to improve the lives of Nova Scotians. That means increased education through social marketing campaigns, responsible gambling education programs and high-school awareness initiatives. It means new methods of practice, such as reducing accessibility through the removal of 800 video lottery terminals (VLTs). And it means increased research, such as the world's first field testing of a

card-based responsible gaming device, to help us make evidence-based decisions that are in the best interest of our province.

In the pages ahead, you will read about projects that collectively accomplish our goals of being progressive, accountable and responsible. You'll learn about our role as a world leader in responsible gambling initiatives. You'll be introduced to the new and innovative products that are meeting our customers' expectations for fun and safe entertainment experiences. And, perhaps most importantly, you'll get a sense of how NSGC's work and commitment to enhancing the lives of Nova Scotians is in fact making this province a better place to live.

And we aren't stopping here. 2006-07 promises to be another year of firsts. In the months to come, we've committed to new projects and initiatives that will continue to make Nova Scotia's gambling industry entertaining, innovative and responsible in order to continue to provide an enjoyable experience for the 89% of Nova Scotians who participate in gambling activities every year.

We recognize that only by building a responsible industry will we have a sustainable industry; one that continues to generate reasonable, but sustainable revenue to build roads, schools, communities and social programs across Nova Scotia. This is NSGC's success story.



Marie T. Mullally, CA  
President and CEO

## Nova Scotia Gaming Corporation

RESPONSIBLE • PROGRESSIVE • ACCOUNTABLE

The Nova Scotia Gaming Corporation (NSGC) is responsible for the business of gaming in Nova Scotia. It is a crown corporation governed by the *Gaming Control Act*, and is charged with leading an economically sustainable and socially responsible gaming industry for the benefit of Nova Scotians and their communities.

### Gaming Stats:

Casinos	2
Casino tables	40 Halifax, 10 Sydney
Slot machines	722 Halifax, 344 Sydney
Ticket Lottery retailers	1,167
Video Lottery retailers	454
VLTs	2,361

### Financial Results (\$ millions): 2005 - 06 Actual

<i>Corporate</i>	
Revenue	\$ <u>489.2</u>
Net Income	\$ <u>157.0</u>
Win Tax	\$ <u>17.1</u>
Contribution to Province	\$ <u>174.1</u>
<i>Casinos</i>	
Halifax Revenue	\$ <u>74.4</u>
Halifax Contribution	\$ <u>20.2</u>
Sydney Revenue	\$ <u>21.3</u>
Sydney Contribution	\$ <u>7.7</u>
<i>Ticket Lottery</i>	
Revenue	\$ <u>210.7</u>
Net Income	\$ <u>39.6</u>
<i>Video Lottery</i>	
Revenue	\$ <u>182.2</u>
Net Income	\$ <u>117.4</u>

## NSGC's Impact:

### Economic:

- \$174.1 million to government
- \$53.5 million to 1,500 small businesses across Nova Scotia
- 1,100 Nova Scotians directly employed, with a payroll of \$37 million

### Social:

According to the 2003 Nova Scotia Gambling Prevalence Study:

- 89% of Nova Scotia's adult population gamble each year.
- 93% of those who gamble do so with no risk.
- The other 7% are broken down as follows: 0.8% (7,000) are problem gamblers; 1.3% (8,000) are moderate risk; 4.8% (35,000) low or at-risk.
- Nova Scotia has the lowest rate of problem gambling in Canada.

### Prevention and Treatment:

- NSGC spent more than \$7 million on responsible gambling programs and problem gambling treatment and prevention.
- NSGC has more than 12 different community outreach and prevention programs, directly reaching more than 24,000, and achieving more than 20.9 million media impressions annually.

### Community Contributions:

Harness Racing Industry	\$750,000
Sport Nova Scotia	\$100,000
Exhibition Association of Nova Scotia	\$50,000
Cultural Federation of Nova Scotia	\$50,000

## LOOKING BACK ON A YEAR OF GAMING STRATEGY ACHIEVEMENTS

# FINDING THE BALANCE

ANNIVERSARIES ALWAYS BRING reflection; an opportunity to look both back and forward. In Nova Scotia, the one-year anniversary of the Province's Gaming Strategy, *A Better Balance: Nova Scotia's First Gaming Strategy*, is doing just that. A full 12 months after the implementation of the country's first comprehensive gambling strategy, there is much to look back on.

"The plan for 2005-06 was significant," says Marie Mullally, President and CEO of NSGC. "But we were prepared to take up the challenge and work with our Gaming Strategy partners to deliver results. By reducing accessibility and availability, the Strategy focused NSGC's efforts squarely on prevention. The changes that we have made to video lottery have had a real, positive impact on players across the province. This is our model of social responsibility in action."

Of the 23 initiatives outlined in the Strategy for the next five years, NSGC was responsible for nine: reduce the hours of operation for VLTs, remove 1,000 VLTs, reduce the speed of play by 30% and disable the "stop button" function on all VLTs (including First Nations reserves), pilot card-based responsible gambling tools on VLTs, open Responsible Gambling Resource Centres in both provincial casinos, introduce a game to support the charitable sector (Linked Bingo) and develop a strategy for the charitable sector; pilot card-based responsible gambling technology at Casino Nova Scotia, and continue to implement and enhance responsible gambling programs and tools.

All of NSGC's initiatives are either complete or on-track for completion; on time and on budget. The remaining Gaming Strategy initiatives are being led by other government departments: Nova Scotia Health Promotion and Protection, Office of Aboriginal Affairs and the Department of Environment and Labour.

But for many Nova Scotians, the real question around the Gaming Strategy is, "did the VLT changes go far enough?" Although the outcome is many months, and perhaps years, away from being conclusive, early results indicate that so far the changes are doing what was intended: helping keep players responsible.

Corporate Research Associates have been tracking the impact of the changes. Preliminary data based on two months of player tracking and analysis shows that reducing the number of terminals appears to be causing low - and moderate - risk players to decrease the amount of money and time spent playing on VLTs. Similar results have also been seen in problem gamblers.

And the changes are also impacting NSGC's bottom line. The four Gaming Strategy VLT initiatives were expected to reduce overall net income by \$19 million in the 2005-06 fiscal year. The outcome was very close to what was expected, with total net income being reduced by just over \$20 million.

While the results are encouraging and suggest NSGC is moving in the right direction, there is still work to be done. Over the next four years, NSGC will continue to implement initiatives in support of the Gaming Strategy and continually monitor and evaluate the impact of all changes. It's all part of their commitment to making Nova Scotia's story one to be proud of.



responsible **G**ambling  
RESOURCE CENTRE

**PAUL GIRARD**

Supervisor, Responsible Gambling Resource Centre (Halifax)

IF YOU THINK YOUR SLOT MACHINE is on a hot streak, Paul Girard is out to set the record straight. Supervisor at NSGC's Responsible Gambling Resource Centre (RGRC) at Casino Nova Scotia (Halifax), Paul is working every day to dispel common gambling myths. Like the fact that there is no such thing as hot and cold machines and that every outcome is random. His job is to help keep players responsible.

"Gamblers have a belief system and we try to bring that back into an arena where they can gamble in a more realistic way," Paul says. "If you can get the right information to someone from the beginning, you can

make the experience much better and prevent them from moving into the area of problem gambling."

And the RGRC is seeing success with a variety of players. "I know that we're successful when we provide information and challenge belief systems and someone says 'Wow, I didn't know that!'" Paul says. "But we're also seeing an impact amongst problem gamblers. I've seen gamblers who are attending Gamblers' Anonymous or seeing counselors walk into the Casino, see the RGRC and decide to get the help they need to go home."



A NEW OPERATOR, A FACELIFT AND EXCITING ENTERTAINMENT IS PUTTING THE GROOVE BACK IN CASINO NOVA SCOTIA

# DEALING A NEW HAND

TEN YEARS AFTER Casino Nova Scotia (CNS) opened its doors, a new operator and a new casino contract are revitalizing the properties. The goal: to make Nova Scotia's casinos the premier entertainment destinations in Atlantic Canada. On May 31, 2005, Great Canadian Gaming Corporation (GCGC) took ownership over both CNS properties. With them came a commitment to give the facilities a much-needed facelift, deliver a unique and entertaining product and implement a steadfast commitment to responsible gambling.

The sale of the properties opened the doors for NSGC to renegotiate the Operating Contract. GCGC welcomed the opportunity. The result was a better deal

**"THIS WILL MAKE CASINO NOVA SCOTIA ATLANTIC CANADA'S PREMIER ENTERTAINMENT DESTINATION. IT'S A MODEL WE'VE USED ACROSS THE COUNTRY AND WE ARE CONFIDENT IT WILL BE SUCCESSFUL HERE AS WELL."**

**HOWARD BLANK, VP OF MEDIA AND ENTERTAINMENT WITH GCGC**

for Nova Scotians, who are now getting a bigger share of the revenue. Over the next ten years, an additional \$48 million of existing casino revenue will stay in Nova Scotia. That's not an increase in revenue, but a more balanced sharing of revenue. And, under the old arrangement, there were no provisions

surrounding social responsibility and responsible gambling. Now it's a priority, ensuring that the Province's Gaming Strategy is fully implemented in the casino environment.

"This contract is a win-win. It's good for Great Canadian and it's good for Nova Scotians," says Marie Mullally, President and CEO of NSGC. "Great Canadian is a responsible operator. Their commitment to making sure Nova Scotia's casino environment is both responsible and economically sustainable will be important to its future success."

Players are also seeing a difference in their experiences now that GCGC has taken ownership. A \$22 million Capital Improvement Plan is making Casino Nova Scotia a more exciting place to be, including expanded entertainment and food and beverage offerings, as well as a new poker room. The properties also moved to a ticket-in, ticket-out system that replaces the use of coins/tokens in slot machines with tickets. The tickets allow players to easily cash out, an important factor in encouraging responsible play. GCGC has also introduced multidenominational slots that allow players to select specific denominations from \$0.01 up to \$1 or more. Maximum bet levels at the casinos have not been increased by this change.

And according to Howard Blank, Vice-President of Media and Entertainment with GCGC, Nova Scotians should feel good about the changes. "This will make Casino Nova Scotia Atlantic Canada's premier entertainment destination. It's a model we've used across the country and we are confident it will be successful here as well," he says.

# CIRQUE SUBLIME

Part of Casino Nova Scotia's exciting entertainment lineup for 2005 - 06.



NSGC IS LEADING UNPARALLELED FIELD RESEARCH TO FIND  
NEW WAYS TO ENCOURAGE RESPONSIBLE GAMBLING

# BREAKING GROUND

WIDELY-REGARDED BY GAMBLING experts around the world as a leader in responsible gambling initiatives, Nova Scotia Gaming Corporation upped the ante in 2005-06. The organization's Responsible Gaming Device (RGD) research project took gambling research to a whole new level. The RGD, a play management tool developed by Techlink Entertainment International, a Sydney, Nova Scotia company, was attached to VLTs and required the use of cards in order to play. The device was placed in all VLT retail locations in the Windsor and Mount Uniacke area. This groundbreaking field research is the first of its kind in the world.

Players were required to insert cards into the RGDs in order to start a VLT. Once activated, they were able to set limits on how much time and money they wanted to play and could exclude themselves from playing at certain times or days. They could track how much money they had spent for one day, one week, one month or one year. For NSGC, this project is about determining whether a tool like this can actually help players gamble more responsibly. That won't be clear until the research is completed and NSGC presents its final recommendations in the summer of 2006.

# G NEW

“THIS PROJECT IS ABOUT FIGURING OUT WHETHER A TOOL LIKE THIS CAN ACTUALLY HELP PLAYERS GAMBLE MORE RESPONSIBLY.”



Responsible Gaming Device

“We don't know what the outcome of this project is going to be,” says Caroline Wolfe Stewart, Director of Operations Management at NSGC. “But that's the value of this research. We can't know until we try this technology with real players in the real world. It may prove to be beneficial and it may not, but the fact that Nova Scotia was willing to test this before anyone else says a lot about our commitment to responsible gambling. And we couldn't have done this project without the commitment and support of ALC and our retailers.”

FROM EXCITING NEW GAMES TO A \$54 MILLION LOTTO 6/49 JACKPOT,  
NOVA SCOTIANS HAVE BEEN DREAMING BIG

# DREAM A DREAM

FOR THE MORE THAN 70 PER CENT of adult Nova Scotians (506,000 people) who play ticket lottery, 2005-06 was an exciting year. From a \$54 million Lotto 6/49 jackpot in October to the introduction of Atlantic Lottery Corporation's (ALC) new games, Bucko! and Props, there has been much to dream about.

"People like to play the lottery because it gives them a chance to brighten their day," says Michelle Carinci, Atlantic Lottery's President and CEO. "A win could provide little extras like dinner out, or luxuries like a new car. And since lottery profits help pay for important public programs and services throughout the province, everybody wins."

## TICKET LOTTERY IN 2005-06

### Introduction of Props

A new addition to ALC's popular Pro-Line game, Props allows players to participate in proposition wagering. Each prop is a question posed, for example: which quarterback will have the most pass completions: Brady vs. Bledsoe?

### Introduction of Bucko!

ALC's newest daily draw game. A 5/41 instapik game only available in Atlantic Canada, the top prize is \$20,000 with other prizes ranging from a free ticket to \$1,000. Gross sales for the game were \$1.6 million in 2005-06; 132% more than projected.

### Lotto 6/49 Jackpot

In October, the Lotto 6/49 jackpot topped \$54 million, the largest in Canadian history. The payout made headlines across the country.

# LITTLE



DEBRA MILTON  
DARTMOUTH, N.S.

Won: \$20,076 on Bucko!  
Purchased from: Sobey's on Forest Hills Drive, Dartmouth, N.S., which received a \$200 seller's prize.

Debra and her fiancé are planning a September wedding. She'll use some of her winnings for the wedding and the rest to pay off her student loan and a few bills.



MARY AND AARON COLE  
NORTH RANGE, N.S.

Won: \$500,000 on Atlantic PAYDAY  
Purchased from: Wagner's Country Store, Brighton, N.S., which received a \$5,000 seller's prize.

Mary (72) and Aaron (77) are getting a brand new vehicle for the first time, "With 14 kids, it wasn't easy," Mary remarked. "We never had a new vehicle before."



JOHN AND PATRICK GRAYDON  
DARTMOUTH, N.S.

Won: \$15,427,356 on Lotto 6/49  
Purchased from: Travelex, Enfield Airport, Enfield, N.S., which received a \$154,273 seller's prize.

Father and son say they will do a European tour, playing golf at St. Andrews, Scotland, and other famous courses along the way. John also plans to buy a boat.



ELIZABETH WILSON  
NEW WATERFORD, N.S.

Won: \$7,359,178 on Lotto 6/49  
Purchased from: King Street Dairy, New Waterford, N.S., which received a \$73,591 seller's prize.

A miner's widow, Elizabeth plans to give \$1 million to each of her children and share some of the prize with nine grandchildren and five brothers. With the money she keeps, she hopes to complete a few home renovations.



## JULIE WHITEHEAD

NSGC Responsible Gambling Officer showcases *Know the Score*, a prevention program launched during RGAW 2005.

"Getting students talking about responsible gambling and teaching them that we are especially susceptible to it, are the first steps in educating the entire community. I sincerely hope that this program continues as one of Nova Scotia Gaming Corporation's initiatives."

- Helen Scammell, *Know the Score* student worker  
St. Francis Xavier University, Antigonish, N.S.

"I was able to teach fellow students on my campus about problem gambling and from what many students were saying, the education is needed. I feel that there are many more people now who have a much better understanding of problem gambling and how to protect themselves from developing such a problem. I am thankful I was able to be a part of this awareness program and prevention effort!"

- Tiffany Silver, *Know the Score* student worker  
Nova Scotia Community College (Kingstec), Kentville, N.S.

SHARING THE MESSAGE OF RESPONSIBLE GAMBLING WITH NOVA  
SCOTIANS FROM ALL CORNERS OF THE PROVINCE

# KNOWING THE FACTS

**TWENTY-FOUR EVENTS**, seven communities, seven days. NSGC's Responsible Gambling Awareness Week (RGAW) 2005 was a whirlwind of activity. From a two-day conference, *Creating a Better Balance: Nova Scotia's Responsible Gambling Conference*, and the opening of a Responsible Gambling Resource Centre in Casino Nova Scotia (Halifax), to the launch of a 14-school tour of *Know the Score* – a responsible gambling education program targeting post-secondary students – Nova Scotians from all corners of the province heard messages about responsible gambling.

The goal was to ensure Nova Scotians “know the facts” about gambling by educating them about what's true and what's false. Awareness programs included vital information such as the odds of winning on a

VLT (on average 1 in 266,990), how many Nova Scotians are problem gamblers (0.8 % of the population) and important facts such as, “the outcomes in games of chance are always random and the truth is, the odds are always against you winning.”

“RGAW 2005 was a significant undertaking,” says Margaret McGee,

Director of Communications and Public Affairs. “Our objectives were ambitious, but when it was all said and done, we were pleased with the outcomes. Knowing the facts will go a long way towards helping Nova Scotians better understand the risks of gambling in order to make responsible decisions.”

And the experts couldn't agree more. The importance of RGAW in delivering information about responsible gambling was unanimous. “I enjoyed participating in your conference,” says Peter Collins, Director of the Centre for the Study of Gambling (United Kingdom) and a keynote speaker at RGAW 2005. “Nova Scotia is clearly established as one of the world's most enlightened, intelligent and progressive gambling jurisdictions.”

“NOVA SCOTIA IS CLEARLY  
ESTABLISHED AS ONE  
OF THE WORLD'S MOST  
ENLIGHTENED, INTELLIGENT  
AND PROGRESSIVE  
GAMBLING JURISDICTIONS.”

– PETER COLLINS, DIRECTOR OF THE  
CENTRE FOR THE STUDY OF GAMBLING  
(UNITED KINGDOM).

## A WEEK OF SUCCESS - RGAW 2005:

- Focused on seven target communities: Halifax Regional Municipality, Wolfville, New Glasgow, Sydney, Yarmouth, Membertou and Millbrook.
- Two-day conference featured 19 international speakers and leading authorities on gambling issues and was attended by more than 300 industry and community members.
- RGAW events directly reached more than 4,200 people.
- 70% of people in target communities were aware of responsible gambling messages following RGAW.
- 84% of people in target communities supported RGAW.
- Public awareness and retention of “myths and realities” of gambling was 86% after RGAW.
- Total public reach of RGAW messages: 10,281,561.
- Cost per person reached: 3¢



# PREVENTING THE PROBLEM

FOR MANY, THE FIRST 25 YEARS of life are reserved for discovery, exploration and experimentation. With that also comes a desire to take risks, expand boundaries and challenge limitations. And for many young adults, gambling is the risk-taking activity of choice.

Statistics show that Nova Scotian youth between the ages of 19 and 24 are participating in gambling in significant numbers. And they have the highest risk of becoming problem gamblers; nearly twice the risk of 35 to 44-year-olds and four times the risk of adults over 45.

NSGC has taken up the challenge, tackling this issue head-on. They're talking to young Nova Scotians and teaching them about gambling risks. For NSGC, it's not just about being heard, but ultimately, it's about changing behaviours. And from what young people are saying, it's a good start.

"This is an amazing site. I think you guys did a wicked awesome job... the message is really clear – well done!" writes one 19-year-old who visited the *friends4friends* website and provided feedback.

Launched in January 2006, *friends4friends* is a social marketing campaign developed by the Responsible Gambling Council (RGC) that harnesses the power of friendship by encouraging young adults to help each other. The campaign's print and television ads are showing up everywhere young people are: in bars, public transit buses, movie theatres, and during popular TV shows like *The Simpsons*. The ads direct people to [www.friends4friends.ns.ca](http://www.friends4friends.ns.ca), where they'll find out how to identify signs of a gambling problem and what they can do to help a friend in trouble.

**"THIS IS AN AMAZING SITE. I THINK YOU GUYS DID A WICKED AWESOME JOB ... THE MESSAGE IS REALLY CLEAR – WELL DONE!"**

- 19-YEAR-OLD VISITOR TO [WWW.FRIENDS4FRIENDS.NS.CA](http://WWW.FRIENDS4FRIENDS.NS.CA)

The campaign has been a success and NSGC is hearing young adults refer to *friends4friends* often. Through direct interactions, like the ones that take place during the delivery of a prevention program called *Know the Score*, students are telling NSGC that they have not only seen the ads, but they remember them. And by bringing *Know the Score* to 14 college and university campuses across the province, NSGC has heard from many students who agree there is a need for this type of youth outreach.

"In my trips to colleges and universities I am learning about students gambling during their lunch breaks and the increased popularity of online gambling and sports betting," says Julie Whitehead, Responsible Gambling Officer for NSGC. "Many youth are happy we have responsible gambling programs to educate them about the risks of gambling, the signs of problem gambling and where to go for help."

The reality is that many Nova Scotians are starting to gamble while they're still in high school. Early exposure to gambling needs to be balanced with early education about the risks. *Caught in the Game* does just that. It's a drama developed by RGC, about a first-year university student whose life unravels when his gambling spirals out of control.

By the end of the 2006 academic school year, this play will have been performed in front of more than 4,000 high-school students. It's another important piece of NSGC's much larger effort: preventing the next generation of problem gamblers.

Gambling problems develop over time, and changing gambling behaviour will take time too. But by educating young people about responsible gambling practices and the risks of gambling before they develop a problem, NSGC is moving in the right direction.

Nova Scotia troupe of *Caught in the Game*

(back l-r) Aldea Mulhern  
Nancy Regan (Producer)  
Jonah Hundert  
(front l-r) Pasha Ebrahimi  
Matthew Stephenson



## YOUTH PREVENTION PROGRAMS SPONSORED BY NSGC

### KNOW THE SCORE

- Interactive, peer-led responsible gambling awareness program offered on community college and university campuses.
- Dispels myths about randomness, alerts students to the signs of a gambling problem, tells them where they can get help and suggests ways to limit risks.
- Visited 14 college and university campuses across the province and reached more than 7,400 students.

### CAUGHT IN THE GAME

- Dramatic production designed to alert high-school students about the risks of gambling.
- By the end of the 2006 academic school year, will have been performed at 14 high schools to more than 4,000 students.

### FRIENDS4FRIENDS

- Social marketing campaign featuring advertisements in transit shelters, restaurants, and on television, websites and movie screens.
- Speaks to young people who believe a friend may have a gambling problem and directs them to an interactive website ([www.friends4friends.ns.ca](http://www.friends4friends.ns.ca)) where they can find out what to do and where to get help.
- During a three-month pilot of *friends4friends*, the campaign website received more than 1,500 visits and media impressions exceeded 14.4 million.

# SUMMARY OF RESULTS

## I. Responsible

- Allocated more than \$7 million to responsible gambling programs, and problem gambling treatment and prevention.
- Successfully carried out the first full year of two new responsible gambling education programs for youth.
  - *Know the Score*
    - Reached more than 7,400 post-secondary students
    - 97% of participants felt the program was effective in getting the message out
  - *Caught in the Game*
    - Sponsored a Nova Scotia troupe
    - By the end of the 2006 academic school year, will have been performed at 14 high schools to more than 4,000 students
- Launched a new social marketing campaign targeting youth between 19 and 29-years-old.
  - Received more than 1,500 website hits during the three-month pilot
- Continued and enhanced Responsible Gambling Awareness Week (RGAW).
  - Targeted seven communities, including two First Nations communities
  - Directly reached more than 4,200 Nova Scotians
  - Public awareness and retention of myths and realities of gambling was 86% after RGAW
- Maintained shareholder and stakeholder support and communications.
  - Quarterly and Annual Reports to shareholder
  - Updates on strategic/ operational matters to the Minister responsible
  - Quarterly reporting meetings with operators
  - Regular meetings/discussions with stakeholder groups
- Negotiated a new Operating Contract for Nova Scotia's casinos.
  - Resulted in an additional \$48 million of existing casino revenue staying in Nova Scotia over the next ten years
- On-track to complete all nine of NSGC's Gaming Strategy initiatives on time and on budget, including:
  - Reduced the hours of operation for VLTs, eliminating the 12 midnight-to-close timeframe
  - Removed 800 VLTs, with another 200 being removed through attrition, in order to reduce availability and accessibility
  - Removed the "stop button" functionality on all VLTs
  - Reduced the speed of individual VLT games by 30%
  - Piloted card-based player management tools on VLTs
  - Opened an on-site Responsible Gambling Resource Centre at Casino Nova Scotia (Halifax)
  - Implemented and enhanced responsible gambling tools and programs
  - Introduced Linked Bingo and developing a strategy for the charitable sector
  - On-track to pilot card-based player management tools at Casino Nova Scotia

## II. Progressive

- Became the first jurisdiction in the world to field-test card-based responsible gambling technology on VLTs.
- Opened the Responsible Gambling Resource Centre at Casino Nova Scotia (Halifax).
  - First of its kind on the Eastern Seaboard
- Continued strong community support, including the following categories:
  - Prevention and treatment – more than \$1 million
  - Employment – more than 1,000 employed directly
  - Commissions – more than \$53.5 million in commissions for primarily small businesses
  - Sponsorships – \$640,000 from operators
  - Other contributions
    - \$750,000 – Harness Racing Industry
    - \$50,000 – Cultural Federation of Nova Scotia
    - \$100,000 – Sport Nova Scotia
    - \$50,000 – Exhibition Association of Nova Scotia

## III. Accountable

- Full compliance with legislative and regulatory requirements. All incidents, as defined by regulation, were reported pursuant to the *Gaming Control Act*.

# CORPORATE PROFILE

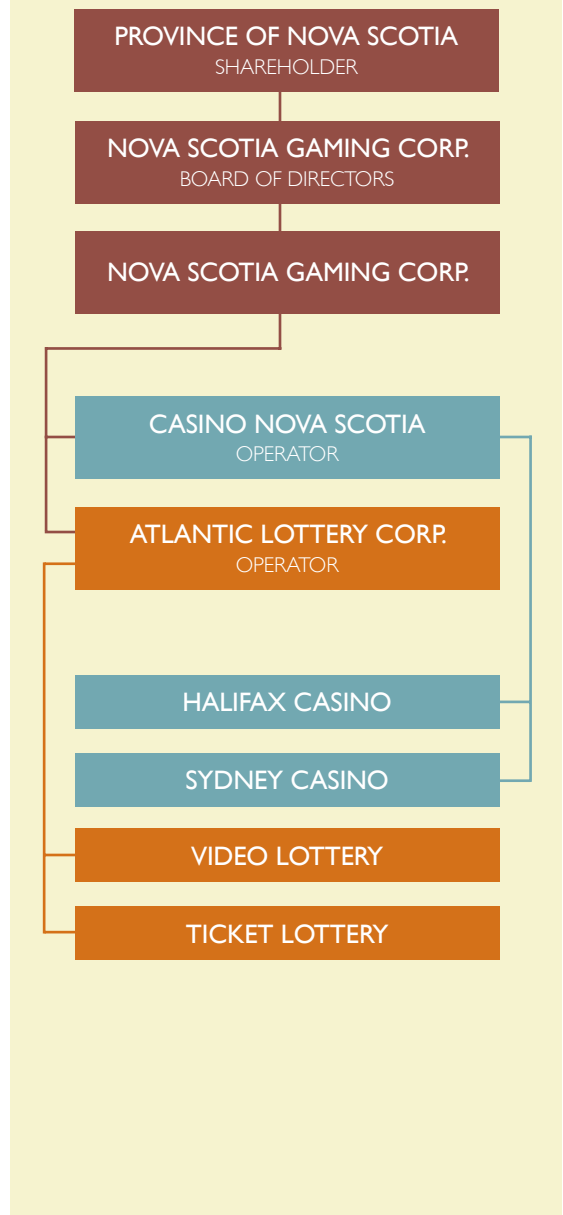
The Nova Scotia Gaming Corporation (NSGC) is a Crown corporation governed by the provincial *Gaming Control Act*.

The Nova Scotia government, and ultimately the people of Nova Scotia, are the shareholders and owners of the gaming industry in the province. The industry is licensed and regulated by the Alcohol and Gaming Division of the Department of Environment and Labour. It is managed by NSGC. The Corporation's role is to ensure the gaming industry is as socially responsible as possible, while generating reasonable profits. The provincial government makes the big picture, policy decisions about how the industry will be operated in Nova Scotia. NSGC manages and implements those decisions. The Corporation also oversees and manages the gaming operators who carry out the day-to-day business of gaming – Casino Nova Scotia and Atlantic Lottery Corporation.

Gaming revenues go directly into the general revenues of the provincial government and help pay for programs and services that benefit all Nova Scotians. In 2005-06, \$174.1 million was paid to the Province to help build better roads, schools, hospitals and communities. To put the potential impact of this money in context, \$174.1 million would pay for the construction of 20 elementary schools, the salaries of more than 2,500 nurses, the construction of 115 kilometres of new twinned-lane highway or the repaving of 820 kilometres of roads in Nova Scotia.

NSGC is recognized as a world leader in responsible gambling with more than a dozen innovative programs and projects designed to help prevent problem gambling through education and awareness. As an industry steward, NSGC's goal is to lead a balanced, socially responsible gambling industry that is safe, regulated and accountable.

## NOVA SCOTIA'S GAMING STRUCTURE:



# MANAGEMENT RESPONSIBILITIES FOR FINANCIAL REPORTING

These financial statements are the responsibility of the management of Nova Scotia Gaming Corporation. They have been approved by its Board of Directors.

Management has prepared the financial statements in accordance with generally accepted accounting principles in Canada. The financial information contained in the Annual Report is consistent with the data presented in the financial statements.

The gaming activities of Nova Scotia Gaming Corporation 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 financial statements of Nova Scotia Gaming Corporation are stated fairly, in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

Nova Scotia Gaming Corporation 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 financial statements and audit reports of the auditors of the Corporation and its operators.

## CERTIFICATION FOR THE YEAR ENDED MARCH 31, 2006

We have evaluated the effectiveness of Nova Scotia Gaming Corporation's disclosure, controls and procedures as of the end of the year covered by the 2005-06 Annual Report and conclude that such disclosure controls and procedures have been effective.



Marie T. Mullally, CA  
President and  
Chief Executive Officer



Robert MacKinnon, CA  
Director;  
Corporate Services

# AUDITOR'S REPORT

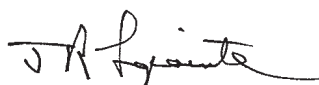


To the Members of the Legislative Assembly of  
Nova Scotia; and  
To the Minister of Finance

I have audited the balance sheet of Nova Scotia Gaming Corporation as at March 31, 2006, the statement of income and payment to Province, the statement of retained earnings and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.



Jacques R. Lapointe, CA • CIA  
Auditor General  
Halifax, Nova Scotia  
June 6, 2006


## BALANCE SHEET

AS AT MARCH 31, 2006 (IN THOUSANDS)

ASSETS	2006	2005
<b>CURRENT</b>		
Cash and Short-term Investments (Note 3)	\$ 10,852	\$ 14,088
Cash – restricted (Note 2)	2,636	2,193
Inventory, at cost	1,727	1,662
Prepays	292	809
	15,507	18,752
<b>LONG-TERM</b>		
Cash – Casino Capital Replacement Reserve (Notes 3 and 10)	1,453	3,145
Deferred charges (Note 2)	204	349
Investment in Atlantic Lottery Corporation Inc. (Note 2)	1	1
Investment in Interprovincial Lottery Corporation (Notes 2 and 6)	1	1
Capital assets (Note 7)	103,673	112,118
	105,332	115,614
	<b>\$ 120,839</b>	<b>\$ 134,366</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable	\$ 2,105	\$ 1,420
Deferred lottery revenue (Note 2)	486	404
Liabilities for unclaimed prizes (Note 2)	2,636	2,193
Capital obligation – current portion (Note 8)	15,544	37,924
Due to operators (Note 13)	5,681	8,250
Due to Atlantic Gaming Equipment Limited - current portion (Note 9)	12,515	16,473
Due to Nova Scotia Gaming Foundation	59	72
Due to Province of Nova Scotia	42,870	31,954
	81,896	98,690
<b>LONG-TERM</b>		
Due to Atlantic Gaming Equipment Limited (Note 9)	7,043	12,886
Capital obligation (Note 8)	23,281	14,218
	30,324	27,104
<b>EQUITY</b>		
Casino Capital Replacement Reserve (Note 10)	8,619	8,572
	<b>\$120,839</b>	<b>\$134,366</b>

Commitments (Notes 3, 5, 12 and 14)

Approved on behalf of the Board,

  
C. Sean O'Connor, CA  
Chair

See accompanying notes to the financial statements

# STATEMENT OF INCOME AND PAYMENT TO PROVINCE

FOR THE YEAR ENDED MARCH 31, 2006 (IN THOUSANDS)

REVENUE	2006	2005
Ticket lottery (Schedule I)	\$ 210,677	\$ 200,471
Video lottery (Schedule I)	182,205	200,229
Halifax casino (Schedule II)	74,378	73,789
Sydney casino (Schedule III)	21,314	20,680
Other (Schedule IV)	621	210
	489,195	495,379
<b>EXPENSES</b>		
Ticket lottery (Schedule I)	171,076	164,447
Video lottery (Schedule I)	64,813	67,674
Halifax casino (Schedule II)	67,402	67,241
Sydney casino (Schedule III)	17,522	18,645
Responsible gambling	4,249	3,068
Other (Schedule IV)	7,082	4,001
	332,144	325,076
Net income	157,051	170,303
Win tax	17,077	16,999
Payment to Province	\$ 174,128	\$ 187,302

# STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 2006 (IN THOUSANDS)

	2006	2005
Retained earnings, beginning of year	\$ -	\$ -
Net income	157,051	170,303
Net income paid to Province	(157,051)	(170,303)
Retained earnings, end of year	\$ -	\$ -

See accompanying notes to the financial statements

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2006 (IN THOUSANDS)

	2006	2005
<b>OPERATING</b>		
Net income	\$ 157,051	\$ 170,303
Allocation of income to Province	(157,051)	(170,303)
Amortization of capital assets	23,604	22,524
Amortization of deterred charges	145	131
Net changes in working capital (Note 16)	9,553	6,200
	33,302	28,855
<b>FINANCING</b>		
Decrease in obligation to Atlantic Gaming Equipment Limited	(9,801)	(6,801)
Reduction of capital obligation	(13,317)	(13,368)
	(23,118)	(20,169)
<b>INVESTING</b>		
Purchases of capital assets, net of dispositions	(15,159)	(11,500)
Decrease in Casino Capital Replacement Reserve, net of cash decrease	1,739	2,132
	(13,420)	(9,368)
Net decrease in cash and cash equivalents	(3,236)	(682)
Cash, beginning of year	14,088	14,770
Cash, end of year	\$ 10,852	\$ 14,088

See accompanying notes to the financial statements



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

## 1) DESCRIPTION OF BUSINESS

The Corporation was incorporated on February 15, 1995 by Chapter 4 of the Acts of 1994-95, the *Gaming Control Act*. The purpose of the Corporation is to develop, undertake, organize, conduct and manage casinos and other lottery schemes on behalf of the Province.

## 2) ACCOUNTING POLICIES

### a) Basis of Presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

### b) Casino Revenues

In accordance with industry practice, casino revenues are reported as the net win from gaming activities, which is the difference between amounts wagered and amounts paid as winnings. Casino revenues are reported net of accruals for anticipated amounts to be paid as winnings for progressive slot machine jackpots.

### c) Ticket Lottery Revenues

Gross ticket lottery sales are recorded before deducting sales discounts and prize expense.

Receipts for lottery tickets sold prior to March 31, 2006 for draws held subsequent to that date are recorded as deferred revenue.

### d) Video Lottery Revenues

Video lottery revenues are reported as the net revenues from video lottery activities, which is the difference between amounts wagered and amounts paid as winnings.

### e) Capital Assets

Capital Assets are stated at cost less accumulated amortization.

Amortization of the Corporation's head office capital assets is provided on the declining balance basis at the following annual rates:

Computer equipment	30%
Furniture and equipment	20%

Amortization of the Halifax and Sydney casino assets is recorded on a straight-line basis according to their estimated useful lives at rates between 2.5% and 20%.

Amortization of the Corporation's capital assets

used in the operation of its lottery businesses is recorded on the straight-line basis according to their estimated useful lives at rates between 4% and 33%. Leasehold improvements are amortized over the remaining lease term, including one renewal period.

### f) Nova Scotia Gaming Foundation Contribution

VLT retailers in Nova Scotia have agreed, under the terms of their retailer agreements with the Atlantic Lottery Corporation Inc., to contribute 1% of their VLT commission to the Nova Scotia Gaming Foundation. The Corporation has agreed to contribute an amount equal to all contributions made by the VLT retailers.

### g) Deferred Charges

The deferred charges relate to payments made to site holders to remove video lottery terminals from certain sites. These costs are being amortized on a straight-line basis over five years.

### h) Long-term Investments

Investments in Atlantic Lottery Corporation Inc. and the Interprovincial Lottery Corporation are recorded using the cost method of accounting for investments.

### i) Cash – restricted and Unclaimed Prizes

Unclaimed prizes from regional lottery games are retained in a prize fund for one year from the announced beginning date of the draw. 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 as incurred.

### j) Prize Expense

Prize expense for regional online games is recorded based on the theoretical prize expense for each game. The actual expense incurred each year will vary from the estimate based on the nature of games of chance. Over the long term it is expected that the actual prize expense will approximate the theoretical expense.

### k) Use of Estimates

In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

## 3) CASINO NOVA SCOTIA

### a) Operating Contract

#### i) Term and Structure

On May 31, 1995, the Corporation entered into an Operating Contract with Metropolitan

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

Entertainment Group (Operator), then a partnership between ITT Sheraton Canada Ltd. (now Park Place Entertainment Scotia Limited) and Purdy's Wharf Development Limited (now East Port Properties Ltd.), to operate casinos in Halifax and Sydney for a period expiring on December 31, 2015.

On July 1, 2005, the Corporation amended and restated the Operating Contract with Metropolitan Entertainment Group (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, renewable until July 1, 2025, at the Operator's option.

## ii) Payments to Operator

Under the Amended and Restated Casino Operating Contract, effective July 1, 2005, the Operator is entitled to certain payments from each casino, calculated with reference to the following items, which are included in Article 7 of the Amended and Restated Casino Operating Contract:

- an amount based upon the Operator's Capital Investment in Halifax (\$92.0 million total, \$14.2 million outstanding) and Sydney (\$23.2 million total, \$0.0 million outstanding) with respect to each casino complex, to be amortized straight-line over a ten-year term in the Sydney Casino and a seven-year term in the Halifax Casino, with interest calculated monthly at 12% per annum on the original capital investment outstanding;
- an Operator Fee in the amount equal to 55.5% of total casino revenue after deducting payment to fund a capital replacement reserve;
- an amount based on the Mandatory Deferral (\$24.5 million total, \$23.1 million outstanding) to be repaid over a 4 year term, with interest calculated monthly at Prime + 1% per annum;

Prior to July 1, 2005, the Operator was entitled to certain payments from each casino, calculated with reference to the following items, which are listed in Section 4.7 of the original Operating Contract;

- an amount based upon the Operator's Capital Investment in Halifax (\$92.0 million total, \$14.2 million outstanding) and Sydney (\$23.2 million total, \$0.0 million outstanding) with respect to each casino complex, to be amortized straight-line over a ten-year term in the Sydney Casino and a seven-year term in the Halifax Casino, with interest calculated monthly at 12% per annum on the original capital investment outstanding;
- an amount equal to not less than 1.5% of casino revenue before casino win taxes (20%) to fund a capital replacement reserve;
- an amount equal to 3% of casino revenue before casino win taxes (20%) in Sydney as a Base Fee and 10% of casino

revenue less casino win taxes, the Base Fee and Operating Expenses as an Incentive Fee;

- an amount equal to the Operator's shortfall in any one year that income is insufficient to make payments, as described above with interest calculated monthly at Prime + 1% per annum; and,
- an amount equal to 35% of cash available for distribution in Halifax.

## iii) Option to Terminate

Under the Amended and Restated Casino Operating Contract, either the Corporation or the Operator has the option to terminate the Operating Contract at anytime during the first or second term with six months notice.

Upon termination the operator must be repaid the unpaid balance of Payments to operator, Approved Capital Expenditures, and unamortized balance of Operator's Additional Acquisition Costs.

If the Operator terminates the contract or the Corporation terminates without cause, the Corporation must pay the Operator a Compensation fee calculated as the greater of the net present value of 10% of the Operator fee or Operator's Actual EBITDA for the preceding twelve months.

No compensation fee is payable to the operator if NSGC terminates the contract for cause.

## b) Cash in Casino Accounts

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 are owned by the Corporation. Under the original Operating Contract, the cash was managed by the Operator on behalf of the Corporation. The Corporation included \$8.3 million in cash from the casino accounts on the Balance Sheet at March 31, 2005.

## c) Casino Capital Replacement Reserve

A capital replacement reserve is intended to provide for replacement of casino capital assets. Prior to July 1, 2005 it was based on 1.5% of total casino revenue at the Halifax Casino and 9% at the Sydney Casino. After July 1, 2005, it is based on 5% of total revenues of the casinos. Cash has been segregated on the balance sheet in the amount of \$1.4 million (2005 - \$3.1 million) for this purpose.

## 4) ATLANTIC LOTTERY CORPORATION INC.

In 1976, the Atlantic Lottery Corporation Inc. was set up by the four Atlantic Provinces to operate lottery

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

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, Lotteries Commission of New Brunswick and Prince Edward Island Lotteries Commission own 25 % of Atlantic Lottery Corporation Inc.

The Corporation entered into an Agency Agreement (the "Agreement") with Atlantic Lottery Corporation Inc. whereby the Corporation has appointed Atlantic Lottery Corporation Inc. to operate ticket and video lotteries in Nova Scotia as an agent of the Corporation on the terms and conditions set out in the Agreement. 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 Agreement requires that the Corporation's revenues be kept in a separate account and not co-mingled with those of the other provinces. The Corporation's costs are to be deducted from its account. The Agreement clarified that assets acquired or liabilities incurred by Atlantic Lottery Corporation Inc. exclusively for the operation of the lotteries in Nova Scotia are the Corporation's. As a result, for financial statement reporting purposes, the Corporation has included these assets and liabilities on its balance sheet, with the balance recorded as amounts due to Atlantic Lottery Corporation Inc. or Atlantic Gaming Equipment Limited (a subsidiary of Atlantic Lottery Corporation Inc.), as appropriate. The Corporation has not recorded any portion of those assets and liabilities that are shared by all Atlantic Lottery Corporation Inc. shareholders in which the Corporation has an interest, the treatment and valuation of which has not yet been determined. This includes common capital assets.

The amounts due to Atlantic Lottery Corporation Inc. and Atlantic Gaming Equipment Limited represent a portion of Atlantic Lottery Corporation Inc.'s line of credit, which bears interest at prime less 1% on borrowings equal to funds on deposit and prime for amounts borrowed in excess of funds on deposit and bank term loans. These loans have various terms and interest rates from 3.76% to 5.64% maturing at various dates through April 2010. The line of credit is secured by a general security agreement over all assets of Atlantic Lottery Corporation Inc., and those owned by the Corporation. The bank term loans are secured by a general security agreement over present and future assets held by

Atlantic Lottery Corporation Inc. and Atlantic Gaming Equipment Limited and an indenture of subordination from the Corporation up to the value of assets utilized directly for the benefit of Nova Scotia.

The assets and liabilities recorded by the Corporation are recorded for financial statement reporting purposes only and do not necessarily represent the values that the Corporation would take if it were to withdraw from Atlantic Lottery Corporation Inc.

## 5) SPECIAL PAYMENTS AND BONUS COMMISSIONS

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

(in thousands)	2006	2005
The Department of Tourism, Culture and Heritage (in support of the NS Cultural Federations)	\$ 50	\$ 50
The Department of Agriculture (in support of the Exhibition Association of Nova Scotia)	50	50
Nova Scotia Health Promotion and Protection (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 under Section 14(1) of the Atlantic Lottery Regulations as made under the *Gaming Control Act*.

Additionally, in May 2005, as part of its Gaming Strategy, Government approved a contribution of \$3.0 million to Nova Scotia Health Promotion and Protection in 2005-06 to fund problem gambling treatment.

Bonus commissions of \$1,170 (2005 - \$988) were paid during the year to eight sporting and cultural organizations.

## 6) 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 nationwide lottery games (Lotto 6/49, Super 7, Special Event – Celebration). 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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

7) CAPITAL ASSETS			2006	2005
(in thousands)	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Automotive	\$ 872	\$ 346	\$ 526	\$ 604
Computer equipment	6,973	4,084	2,889	1,533
Furniture and equipment	119	65	54	75
Computer software	334	40	294	43
Retail equipment	2,281	1,184	1,097	893
Leaseholds	23	2	21	245
Halifax casino assets	91,952	30,423	61,529	65,722
Sydney casino assets	23,206	12,318	10,888	11,250
Casino furniture and equipment	22,258	10,730	11,528	5,426
Online gaming terminals	10,761	10,328	433	1,924
Video lottery terminals	48,289	33,875	14,414	24,403
	\$207,068	\$ 103,395	\$103,673	\$112,118

In 2005-06, the Corporation acquired capital assets of \$7.0 million (2005 - \$7.9 million) financed through Atlantic Gaming Equipment Limited, \$5.2 million (2005 - \$4.5 million) financed by the Casino Capital Replacement Reserve, and \$4.4 million (2005 - \$0.0 Million) financed by MEG.

### 8) CAPITAL OBLIGATION

The Corporation has an obligation under the Operating Contract to repay the operator of the casinos for the initial cost of the Halifax and Sydney casinos to the extent that there is adequate cash flow from the casinos to fund these obligations. The Corporation has the option to purchase these casinos at any time with six months notice. Future minimum obligations based on there being adequate cash flow are as follows:

(in thousands)	Total
2007	\$ 18,371
2008	12,457
2009 + subsequent years	12,745
Net minimum obligation	43,573
Less: amount representing interest	(4,748)
Present value of minimum obligation	38,825
Less: amount due within one year	(15,544)
Balance of obligation	\$ 23,281

### 9) DUE TO ATLANTIC GAMING EQUIPMENT LIMITED

The liability represents a portion of the Atlantic Lottery Corporation Inc. (ALC) debt used in the acquisition of assets operated on behalf of NSGC. All amounts are payable by ALC and are due on or before April 2010. The debt is non-interest bearing with no set repayment terms.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

10) CASINO CAPITAL REPLACEMENT RESERVE	2006	2005
<i>(in thousands)</i>		
Cash balance, beginning of year	\$ 3,145	\$ 5,287
Funding	4,321	2,248
Interest	32	70
Capital asset purchases	(10,409)	(4,460)
Capital assets purchased by MEG	4,364	-
Cash balance, end of year	1,453	3,145
Add: cumulative capital asset purchases	22,259	11,850
Less: accumulated amortization	(10,729)	(6,423)
Less: capital assets purchased by MEG	(4,364)	-
Balance, end of year	\$ 8,619	\$ 8,572

## 11) RELATED PARTY TRANSACTIONS

The Province of Nova Scotia, Nova Scotia Harness Racing Incorporated, Atlantic Gaming Equipment Limited and the Atlantic Lottery Corporation Inc. are related parties of the Corporation. Details of any transactions between these related parties are separately disclosed in the financial statements.

## 12) HARNESS RACING

The Corporation annually contributes to the Nova Scotia Harness Racing Fund amounts approved by the Minister of Finance. In May 2005, Government approved a contribution of \$750,000 in 2005-06 to support the harness racing industry in Nova Scotia.

The 2007 budget has committed \$1.0 million to support the harness racing industry in Nova Scotia.

## 13) DUE TO OPERATORS

<i>(in thousands)</i>	2006	2005
Due from Atlantic Lottery Corporation Inc.	\$ (972)	\$ (2,759)
Due from lottery operations	(5,487)	(4,495)
Due to lottery operations	8,301	7,631
Due to casino operations	-	7,873
Due from MEG	(525)	-
Due to MEG-CRA purchases	4,364	-
	\$ 5,681	\$ 8,250

## 14) OTHER COMMITMENTS

The Corporation is required to make annual lease payments of approximately \$663,390 over the next five years.

The Corporation's share of Atlantic Lottery Corporation Inc.'s minimum annual lease payments for the premises is approximately \$1.1 million over the next five years.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

### 15) PENSIONS

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 plan. The plan is funded by equal employee and employer contributions. The employer accounts for the plan on a deferred contribution basis with contributions included in the Corporation's management expenses. The Corporation is not responsible for any unfunded liability with respect to the Public Service Superannuation Plan.

### 16) SUPPLEMENTAL CASH FLOW INFORMATION

Net change in working capital:

<i>(in thousands)</i>	2006	2005
Inventory	\$ (65)	\$ 473
Prepays	517	476
Accounts payable	685	(31)
Deferred lottery revenue	82	46
Due to operators	(2,569)	(3,212)
Payable to Nova Scotia Gaming Foundation	(13)	(13)
Due to Province of Nova Scotia	10,916	8,461
	\$ 9,553	\$ 6,200

### 17) COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in this fiscal year.

### 18) FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of the Corporation's cash and short-term investments, accounts payable, deferred lottery revenue, liabilities for unclaimed prizes, due to operators, due to Atlantic Gaming Equipment Limited, due to the Nova Scotia Gaming Foundation and due to the Province of Nova Scotia approximate their carrying amounts, due to their relatively short terms to maturity.

It is not practicable to estimate the fair value for capital obligation, as repayment can only be made to the extent there is adequate cash flow from the casinos.

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from financial instruments.

# **SCHEDULE I: NOVA SCOTIA GAMING CORPORATION** **TICKET LOTTERY AND VIDEO LOTTERY, OPERATING RESULTS**

FOR THE YEAR ENDED MARCH 31, 2006 (IN THOUSANDS)

	Ticket Lottery	Video Lottery	Total 2006	Total 2005
<b>REVENUE</b>				
Ticket lottery sales	\$ 210,677	\$ -	\$ 210,677	\$ 200,471
Ticket lottery sales discounts	-	-	-	451
Prize expense	117,603	-	117,603	109,964
Net ticket lottery sales	93,074	-	93,074	90,056
Net video lottery sales	-	182,205	182,205	200,229
Total net sales	93,074	182,205	275,279	290,285
Retailer commissions	15,321	36,405	51,726	54,939
Ticket costs	5,291	2,986	8,277	7,160
	20,612	39,391	60,003	62,099
Gross profit	72,462	142,814	215,276	228,186
<b>EXPENSES</b>				
Operating expenses				
Advertising and promotion	-	-	-	3,869
Communications and relations	3,949	230	4,179	273
Development and recruitment	192	94	286	311
Equipment and maintenance	735	295	1,030	1,504
General and professional services	503	244	747	914
Lease and amortization	6,268	12,182	18,450	17,675
Movement and storage	664	80	744	695
Occupancy cost	853	475	1,328	1,294
Other expenses	90	60	150	233
Research and development	350	327	677	573
Retailer player support	-	-	-	358
Salaries and benefits	8,116	4,552	12,668	11,376
Supplies	240	206	446	256
Telecommunication	2,457	241	2,698	2,700
Travel and vehicle	400	327	727	757
Total operating expenses	24,817	19,313	44,130	42,788
Operating profit	47,645	123,501	171,146	185,398
Other income (expenses)	(418)	2,296	1,878	1,501
Profit before other distributions	47,227	125,797	173,024	186,899
HST expense	4,842	7,680	12,522	13,002
Federal contribution	940	725	1,665	1,637
Charity non-profit	53	-	53	50
Retailer bonus	1,791	-	1,791	3,631
<b>Net profit</b>	<b>\$ 39,601</b>	<b>\$ 117,392</b>	<b>\$ 156,993</b>	<b>\$ 168,579</b>

## **SCHEDULE II: NOVA SCOTIA GAMING CORPORATION HALIFAX CASINO NOVA SCOTIA, OPERATING RESULTS**

FOR THE YEAR ENDED MARCH 31, 2006 (IN THOUSANDS)

	2006	2005
<b>REVENUE</b>		
Casino revenue	\$ 66,050	\$ 66,104
Beverage, food and other revenue	8,328	7,685
	74,378	73,789
<b>EXPENSES</b>		
Amortization	4,193	5,838
Capital Replacement Reserve (Note 3)	3,032	1,107
General administration and marketing	2,365	10,499
Harmonized Sales Tax	4,394	4,265
Interest	3,864	5,080
Operator fee (Note 3)	29,023	-
Other expenses including cost of beverage and food	1,187	4,453
Premise expense	723	2,818
Salaries and benefits	5,411	19,960
Win tax	13,210	13,221
	67,402	67,241
Net income	6,976	6,548
Win tax	13,210	13,221
Total payment to Province	\$ 20,186	\$ 19,769

## **SCHEDULE III: NOVA SCOTIA GAMING CORPORATION SYDNEY CASINO NOVA SCOTIA, OPERATING RESULTS**

FOR THE YEAR ENDED MARCH 31, 2006 (IN THOUSANDS)

	2006	2005
<b>REVENUE</b>		
Casino revenue	\$ 19,338	\$ 18,890
Beverage, food and other revenue	1,976	1,790
	21,314	20,680
<b>EXPENSES</b>		
Amortization	361	490
Capital Replacement Reserve (Note 3)	1,289	1,142
General administration and marketing	543	2,386
Harmonized Sales Tax	693	1,195
Interest	36	252
Operator fee (Note 3)	8,712	1,076
Other expenses including cost of beverage and food	257	1,272
Premise expense	173	700
Salaries and benefits	1,590	6,354
Win tax	3,868	3,778
	17,522	18,645
Net income	3,792	2,035
Win tax	3,867	3,778
Total payment to Province	\$ 7,659	\$ 5,813



**SCHEDULE IV:**  
**NOVA SCOTIA GAMING CORPORATION**  
**OTHER REVENUES AND EXPENSES**

FOR THE YEAR ENDED MARCH 31, 2006 (IN THOUSANDS)

	2006	2005
Other revenues	\$ 621	\$ 210
Other expenses		
Special payments and bonus commissions (Note 5)	3,201	201
Nova Scotia Harness Racing Fund contribution (Note 12)	750	750
Linked Bingo Expenses	346	-
Management expenses		
Advertising	3	26
Amortization	36	23
Directors fees	75	87
Harmonized Sales Tax	274	327
Membership dues	13	10
Occupancy taxes	8	7
Office and miscellaneous	92	67
Office equipment	60	45
Periodicals	28	20
Postage and freight	19	14
Printing and stationery	12	27
Professional and other fees	394	824
Rent	124	122
Salaries and benefits	1,456	1,280
Telecommunications	39	25
Training	66	54
Travel	86	92
	2,785	3,050
Total other expenses	\$ 7,082	\$ 4,001



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