

**NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO
CORPORATION**

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2013

Management Responsibilities for Financial Reporting

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

Management has prepared the consolidated financial statements in accordance with International Financial Reporting Standards. The financial information contained in the Report to Stakeholders is consistent with the data presented in the consolidated financial statements.

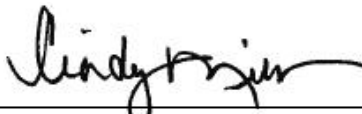
The gaming activities of NSPLCC are undertaken by operators acting on its behalf. These gaming activities are audited by independent auditors. The Corporation relies on the audit opinions of these independent auditors. The responsibility of the Auditor General of Nova Scotia is to express an independent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

NSPLCC maintains books of accounts and systems of financial and management control, which provide reasonable assurance that accurate financial information is available, that assets are protected, and that resources are managed efficiently.

The Board of Directors oversees audit activities through its audit committee. The committee reviews matters related to accounting, auditing and internal control systems, and the consolidated financial statements and audit reports of the auditors of the Corporation and its operators.



Robert MacKinnon, CA
Acting President & CEO



Cindy Mills, CMA
Director, Finance



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Nova Scotia Provincial Lotteries and Casino Corporation, which comprise the consolidated statement of financial position as at March 31, 2013, and the consolidated statements of net and comprehensive income, retained earnings (deficit) and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Nova Scotia Provincial Lotteries and Casino Corporation as at March 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Jacques R. Lapointe, CA
Auditor General

June 18, 2013
Halifax, Nova Scotia

NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31 (IN THOUSANDS)

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	\$ 8,046	\$ 7,655
Cash – restricted (Note 5)	6,047	6,317
Trade and other receivables (Note 6)	1,024	1,293
Other assets (Note 7)	2,308	2,987
Inventories (Note 8)	2,874	2,296
	20,299	20,548
Non-current assets		
Property, plant and equipment (Note 9)	99,587	73,426
Intangible assets (Note 10)	11,436	6,807
Cash - casino capital replacement reserve (Note 11)	2,552	860
Investment in Interprovincial Lottery Corporation (Note 22)	1	1
	113,576	81,094
	\$ 133,875	\$ 101,642
LIABILITIES AND EQUITY		
Current liabilities		
Bank indebtedness (Note 4)	\$ 354	\$ 711
Trade and other payables (Note 12)	14,136	15,390
Deferred revenue and recovery (Note 13)	643	986
Provisions (Note 14)	6,047	6,317
Due to Atlantic Gaming Equipment Limited (Note 15)	10,280	6,778
Other liabilities (Note 16)	1,279	1,231
Due to Province of Nova Scotia	54,920	55,553
	87,659	86,966
Non-current liabilities		
Due to Atlantic Gaming Equipment Limited (Note 15)	38,663	9,715
Investment in Atlantic Lottery Corporation Inc. (Note 3)	18,024	11,829
	144,346	108,510
Equity		
Casino capital replacement reserve (Note 11)	8,323	6,389
Retained deficit (Note 3)	(18,794)	(13,257)
	\$ 133,875	\$ 101,642

See accompanying notes to the financial statements

Approved on behalf of the Board,



Laura Lee Langley
Chair

NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION
CONSOLIDATED STATEMENT OF NET AND COMPREHENSIVE INCOME
 FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

	2013	2012
Revenue (Note 17)	\$ 407,907	\$ 427,356
Cost of sales	277,104	272,585
Gross profit	130,803	154,771
Amortization	(9,598)	(8,374)
Finance costs (Note 18)	(943)	(882)
Other expenses (Note 19)	(11,173)	(12,204)
Interest and other income	4,329	4,412
Net and comprehensive income before Win tax	113,418	137,723
Win tax (Note 3.15.2)	14,459	15,061
Net and comprehensive income	\$ 127,877	\$ 152,784

CONSOLIDATED STATEMENT OF RETAINED DEFICIT
 FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

	2013	2012
Balance, beginning of year	\$ (13,257)	\$ (12,029)
Net and comprehensive income	127,877	152,784
Payment to Province	(127,877)	(152,784)
Change in investment in Atlantic Lottery Corporation Inc. (Note 3)	(5,537)	(1,228)
Balance, end of year	\$ (18,794)	\$ (13,257)

See accompanying notes to the financial statements

NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

	<u>2013</u>	<u>2012</u>
OPERATING		
Net and comprehensive income	\$ 127,877	\$ 152,784
Allocation of income to Province	(127,877)	(152,784)
Amortization	12,737	11,819
Loss on disposal of property, plant and equipment	153	46
Changes in non-cash working capital balances		
Trade and other receivables	269	264
Other assets	679	(1,977)
Inventories	(578)	(162)
Trade and other payables	(1,254)	784
Deferred revenue and recovery	(343)	(12,246)
Other liabilities	48	416
Due to Province of Nova Scotia	(633)	(1,553)
	<u>11,078</u>	<u>(2,609)</u>
FINANCING		
Increase in due to Atlantic Gaming Equipment Limited	32,450	391
INVESTING		
Purchases of capital assets	(43,680)	(10,778)
Change in investment of Atlantic Lottery Corporation Inc.	658	(2,861)
Increase in Casino Capital Replacement Reserve, net of cash	242	619
	<u>(42,780)</u>	<u>(13,020)</u>
Net increase (decrease) in cash and cash equivalents	748	(15,238)
Cash and cash equivalents, beginning of year	6,944	22,182
Cash and cash equivalents, end of year	\$ 7,692	\$ 6,944

See accompanying notes to the financial statements

1. Reporting entity

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

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

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

2. Basis of presentation

A. Basis of accounting

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

B. Basis of measurement

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

C. Functional and presentation currency

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

D. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

- Estimates of gaming revenue (see note 3.3);
- Valuation of casino award credits (see note 3.3); and,
- Useful lives of property, plant and equipment (see note 3.7).

The following key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are contained in the various notes to the statements and are discussed below:

- Impairment of property, plant and equipment (see note 3.8); and,
- Estimates of employee benefits cost (see note 3.6).

3. Significant accounting policies

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

3.1 Basis of consolidation

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

Control is achieved where the Corporation has the power to directly or indirectly govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The entities controlled by the Corporation are as follows:

	Description	Basis of consolidation
Nova Scotia Gaming Equipment Limited	Wholly owned subsidiary	Consolidation
Casino Nova Scotia	An entity being land and buildings located in Halifax and Sydney, Nova Scotia operating as a casino	Consolidation

Nova Scotia Gaming Equipment Limited

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

Casino Nova Scotia

Casino Nova Scotia is the entity created as a result of the May 31, 1995, Operating Contract between the Corporation and Metropolitan Entertainment Corporation, 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 Corporation (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. Casino Nova Scotia is fully consolidated as the Operating Contract provides the Corporation with the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

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

3.2 Interests in joint ventures

Joint ventures are those entities over whose activities the Corporation has joint control, established by contractual agreement.

Jointly controlled entities

Jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. An entity's investment would include goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Corporation's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align the accounting policies with those of the Corporation, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Corporation's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Corporation has an obligation or has made payments on behalf of the investee.

Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Corporation controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Corporation incurs and its share of the income that it earns from the joint operation.

Atlantic Lottery Corporation Inc.

In 1976, the Atlantic Lottery Corporation Inc. was set up by the four Atlantic Provinces to operate lottery and gaming activities in the region. The Atlantic Lottery Corporation Inc. is the Corporation's exclusive agent to operate ticket lotteries and video lotteries in Nova Scotia. Each of the Corporation, Province of Newfoundland and Labrador, New Brunswick Lotteries and Gaming Corporation and Prince Edward Island Lotteries Commission own 25% of the Atlantic Lottery Corporation Inc. The Corporation's interest in the Atlantic Lottery Corporation Inc. is accounted for as a jointly controlled entity (equity method) which is recorded in the investment in Atlantic Lottery Corporation Inc. account, and which is substantially comprised of the Corporation's share of Atlantic Lottery Corporation Inc.'s obligations for future employee benefits (pension and other post-employment benefits). The portion of future obligations relating to prior periods was recorded through retained deficit in accordance with IFRS, with the current year change in those obligations recorded to retained deficit through the statement of retained deficit.

The Corporation entered into an Agency Agreement with Atlantic Lottery Corporation Inc. in 2000, whereby revenues are required to be kept in a separate account and not co-mingled with those of the other provinces, costs are to be deducted from its account, and assets acquired or liabilities incurred by Atlantic Lottery Corporation Inc. exclusively for the operation of lotteries in Nova Scotia are the Corporation's. Under the Agreement, Atlantic Lottery Corporation Inc. cannot make any material change relating to the conduct and management of lotteries in Nova Scotia without the approval of the Corporation. The operations covered within the Agency Agreement are accounted for as a jointly controlled operation (the assets and liabilities have been included on the Corporation's consolidated statement of financial position and the balance recorded as due to the Atlantic Lottery Corporation Inc. or Atlantic Gaming Equipment Limited).

3.3 Revenue recognition

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

3.3.1 Sale of goods

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

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

This applies to:

- Lottery ticket revenues;
- Instant ticket game sales; and,
- Food and beverage sales.

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

3.3.2 Casino gaming revenue

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

3.3.3 Video lottery revenue

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

3.3.4 Interest income

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

3.4 Operating Leases

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

3.4.1 The Corporation as lessor

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

3.4.2 The Corporation as lessee

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

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

3.5 Foreign currencies

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

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

3.6 Employee benefit costs

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

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

3.6.1 Defined contribution plans

Contributions to defined contribution plans are expensed when employees have rendered service entitling them to the contributions.

3.6.2 Defined benefit plans

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

Multi-employer defined benefit plans for which insufficient information was able to be obtained by the Corporation are accounted for as defined contribution plans. 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 for which insufficient information is able to be obtained and is therefore accounted for as a defined contribution plan.

3.7 Property, plant and equipment

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

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

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

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

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

Computer equipment	30%
Furniture and equipment	20%

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

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

3.8 Impairment of long-lived assets

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

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

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

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

3.9 Intangible assets

3.9.1 Intangible assets acquired separately

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

Software	3 - 10 years
Other intangibles	3 - 5 years

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

3.9.2 Intangible assets internally generated – research and development expenditure

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

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

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

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

3.10 Inventories

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

3.11 Provisions

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

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

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

3.12 Financial assets

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

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

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

3.12.1 Loans and receivables

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

3.12.2 Impairment of financial assets

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

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

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

3.12.3 Derecognition of financial assets

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

3.12.4 Effective interest method

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

3.13 Financial liabilities

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

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

3.13.1 Other financial liabilities

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

3.13.2 Derecognition of financial liabilities

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

3.14 Borrowing costs

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

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

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

3.15 Taxes

3.15.1 Sales tax

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

3.15.2 Win tax

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

3.16 Accounting standards issued but not yet effective

A number of new standards, interpretations and amendments to existing standards are not yet effective as at March 31, 2013, and have not been applied in preparing these consolidated statements. The Corporation has included standards and interpretations issued that it reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Corporation has not chosen to early apply these revised standards and is currently assessing the impact these standards will have on the consolidated financial statements in the following periods:

- IFRS 7, *Financial Instruments: Disclosures*, effective for annual periods beginning on or after April 1, 2013. This standard requires increased disclosure for the transfer of financial assets, particularly where there is a disproportionate amount of transactions that take place at the end of a reporting period.
- IFRS 9, *Financial Instruments*, effective for annual periods on or after January 1, 2015. This standard is the first of the IASB's three-phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It requires classification and measurement of financial assets and financial liabilities in either the amortized cost or the fair value category.
- IFRS 10, *Consolidated Financial Statements*, effective for annual periods on or after January 1, 2013. IFRS 10 replaces the consolidation guidance in IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, *Consolidation – Special Purpose Entities*, with the introduction of a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities).

Under IFRS 10, control is based on whether an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns.

- IFRS 11, *Joint Arrangements*, effective for annual periods on or after January 1, 2013. IFRS 11, introduces new accounting requirements for joint arrangements, and replaces IAS 31, *Interests in Joint Ventures*. IFRS 11 removes the option to apply the proportional consolidation method when accounting for jointly controlled entities and eliminates the concept of jointly controlled assets. IFRS 11 now only differentiates between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets.
- IFRS 12, *Disclosure of Involvement with Other Entities*, effective for annual periods on or after January 1, 2013. IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to provide financial statement users with information to evaluate the basis of control, any restrictions on consolidated assets and

liabilities and, risk exposures arising from involvement with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

- IAS 27, *Separate Financial Statements* (as revised in 2011). As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Corporation does not present separate financial statements.

The requirements relating to separate financial statements in IAS 27 are unchanged in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. IAS 28, *Investments in Associates and Joint Ventures*, is amended to conform to changes in IFRS 10, IFRS 11 and IFRS 12.

- Each of the above standards, IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28, have an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted so long as each of the other standards noted above are also early applied. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without technically early applying the provisions of IFRS 12 (and thereby each of the other four standards).
- IFRS 13, *Fair Value Measurement*, effective for annual periods beginning on or after January 1, 2013. IFRS 13 establishes a single framework for measuring fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.
- IAS 19, *Employee Benefits* (amended). The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording of the standard. The Corporation is currently assessing the full impact of this amendment.

4. Cash and cash equivalents

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

	2013	2012
Cash and bank balances	\$ 8,046	\$ 7,655
Bank indebtedness	(354)	(711)
	\$ 7,692	\$ 6,944

Under the Amended and Restated Casino Operating Contract, total casino revenues are the Corporation's revenue and the casino bank accounts and Capital Reserve accounts (CRA) are owned by the Corporation. The Corporation included \$2,407 in cash from the casino accounts on the consolidated balance sheet at March 31, 2013 (2012 - \$2,821).

5. Cash – restricted and unclaimed prizes

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

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

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6. Trade and other receivables

	2013	2012
Due from operator	\$ 1,024	\$ 1,293
	\$ 1,024	\$ 1,293

6.1 Trade receivables

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

6.2 Due from Operators

	2013	2012
ALC (i)	\$ 314	\$ 279
MEG	710	1,014
	\$ 1,024	\$ 1,293

(i) Amounts due from ALC include deferred revenue of \$314 (2012 - \$279).

7. Other assets

	2013	2012
Prepayments	\$ 2,294	\$ 2,979
Deferred charges (i)	14	8
	\$ 2,308	\$ 2,987

(i) Deferred charges are prepaid commissions to lottery retailers from the sale of tickets, where the draw date is after March 31.

8. Inventories

	2013	2012
Food, beverage and merchandise - casinos	\$ 144	\$ 155
Lottery tickets	2,730	2,141
	\$ 2,874	\$ 2,296

The cost of inventories recognized as an expense includes \$18 (2012 - \$240) in respect of write-downs of inventory to net realisable value, and was included in ticket printing and costs.

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9. Property, plant and equipment

	Land	Buildings & Leaseholds	Automobile	Operational Equipment	Lottery Gaming Equipment	Casino Gaming Equipment	Casino Buildings	Total
Cost								
Balance at March 31, 2011	\$ 10,025	\$ 614	\$ 815	\$ 1,343	\$ 62,115	\$ 47,024	\$ 72,256	\$ 194,192
Additions	-	34	471	234	1,198	3,420	345	5,702
Disposals	-	(48)	(112)	(175)	(11,994)	-	(500)	(12,829)
Transfers	-	-	-	7	4,859	-	-	4,866
Balance at March 31, 2012	\$ 10,025	\$ 600	\$ 1,174	\$ 1,409	\$ 56,178	\$ 50,444	\$ 72,101	\$ 191,931
Additions	-	60	192	126	20,759	3,162	333	24,632
Disposals	-	(566)	(532)	(31)	-	-	-	(1,129)
Transfers	-	-	1	-	10,842	-	-	10,843
Balance at March 31, 2013	\$ 10,025	\$ 94	\$ 835	\$ 1,504	\$ 87,779	\$ 53,606	\$ 72,434	\$ 226,277
Accumulated depreciation and impairment								
Balance at March 31, 2011	\$ -	\$ 598	\$ 447	\$ 870	\$ 55,792	\$ 40,909	\$ 24,334	\$ 122,950
Disposals	-	(35)	(80)	(133)	(12,036)	-	(500)	(12,784)
Depreciation	-	11	126	148	2,650	3,233	2,171	8,339
Impairments	-	-	-	-	-	-	-	-
Balance at March 31, 2012	\$ -	\$ 574	\$ 493	\$ 885	\$ 46,406	\$ 44,142	\$ 26,005	\$ 118,505
Disposals	-	(566)	(370)	(33)	(15)	-	-	(984)
Depreciation	-	13	139	157	3,819	2,956	2,085	9,169
Impairments	-	-	-	-	-	-	-	-
Balance at March 31, 2013	\$ -	\$ 21	\$ 262	\$ 1,009	\$ 50,210	\$ 47,098	\$ 28,090	\$ 126,690
Net book value								
Balance at March 31, 2012	\$ 10,025	\$ 26	\$ 681	\$ 524	\$ 9,772	\$ 6,302	\$ 46,096	\$ 73,426
Balance at March 31, 2013	\$ 10,025	\$ 73	\$ 573	\$ 495	\$ 37,569	\$ 6,508	\$ 44,344	\$ 99,587

During the year, the Corporation carried out a review of the recoverable amount of assets. This review lead to no indicators of impairment or reversals of impairment identified (2012 - \$0).

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10. Intangible assets

	Software Licenses	Gaming Software	Not Ready for Use	Total
Cost				
Balance at March 31, 2011	\$ 10,560	\$ 5,565	\$ -	\$ 16,125
Additions	5	-	193	198
Disposals	12	-	-	12
Transfers	-	-	-	-
Balance at March 31, 2012	\$ 10,577	\$ 5,565	\$ 193	\$ 16,335
Additions	-	4,349	703	5,052
Disposals	-	-	-	-
Transfers	193	527	2,433	3,153
Balance at March 31, 2013	\$ 10,770	\$ 10,441	\$ 3,329	\$ 24,540
Accumulated depreciation and impairment				
Balance at March 31, 2011	\$ 2,160	\$ 3,887	\$ -	\$ 6,047
Disposals	-	-	-	-
Depreciation	2,368	1,113	-	3,481
Impairments	-	-	-	-
Balance at March 31, 2012	\$ 4,528	\$ 5,000	\$ -	\$ 9,528
Disposals	-	8	-	8
Depreciation	2,903	665	-	3,568
Impairments	-	-	-	-
Balance at March 31, 2013	\$ 7,431	\$ 5,673	\$ -	\$ 13,104
Net book value				
At March 31, 2012	\$ 6,049	\$ 565	\$ 193	\$ 6,807
At March 31, 2013	\$ 3,339	\$ 4,768	\$ 3,329	\$ 11,436

During the year, the Corporation carried out a review of the recoverable amount of assets. This review led to the recognition of an impairment loss of \$0 (2012 - \$0).

11. Reserves

11.1 Casino capital replacement reserve

The casino capital replacement reserve is intended to provide for replacement of casino capital assets. From April 1, 2012, to March 31, 2013, it was based on the greater of 5% of total revenues of the casinos or \$5,206. Cash has been segregated on the consolidated balance sheet in the amount of \$2,552 (March 31, 2012 - \$860) for this purpose.

	2013	2012
Cash balance, beginning of year	\$ 860	\$ 178
Funding	5,206	5,135
Interest	16	5
Proceeds from sale of capital assets	24	11
Capital asset purchases	-	-
Reimbursements to MEG for entertainment	(102)	(244)
Reimbursements to MEG for capital asset purchases	(2,806)	(3,166)
Interest paid on balance owing to MEG for capital asset purchases	(69)	(69)
HST related to capital asset purchases and reimbursements	(577)	(990)
Capital assets purchased by MEG	-	-
Cash balance, end of year	2,552	860
Add: cumulative capital asset purchases	50,368	46,874
Less: accumulated amortization	(43,542)	(40,405)
Add (Less): HST payable	(220)	3
Less: capital assets purchased by MEG	(835)	(943)
Balance, end of year	\$ 8,323	\$ 6,389

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12. Trade and other payables

	2013	2012
Trade payables	\$ 1,254	\$ 1,770
Harmonized Sales Tax	897	812
Due to Gambling Awareness Nova Scotia (i)	38	45
Due to Operators	11,947	12,763
	\$ 14,136	\$ 15,390

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

12.1 Due to Operators

	2013	2012
ALC	\$ 5,786	\$ 5,989
MEG	6,161	6,774
	\$ 11,947	\$ 12,763

13. Deferred revenue and recovery

	2013	2012
Lottery tickets (i)	\$ 314	\$ 279
Casino award credits (see note 3.3.1)	329	707
	\$ 643	\$ 986

- (i) The deferred revenue for lottery tickets arises in respect of receipts for lottery tickets sold prior to March 31 for draws held subsequent to that date (see note 3).
- (ii) A Harmonized Sales Tax ("HST") Input Tax Credit ("ITC") arose as a result of the transfer of casino assets to Nova Scotia Gaming Equipment Limited (the Corporation's wholly owned subsidiary) in July 2010. The ITC was subject to policy review by the Canada Revenue Agency, which was not complete at March 31, 2011, and the amount was recorded as a deferred recovery on the March 31, 2011, financial statements of the Corporation. The Canada Revenue Agency communicated to the Corporation through the Corporation's tax advisor that it accepted the basis under which the ITC was submitted and the ITC was recognized in the operating results of the Corporation for the fiscal year ended March 31, 2012.

14. Provisions

	2013	2012
Unclaimed prizes		
Current prizes	\$ 6,047	\$ 6,327
Special prize fund (i)	-	(10)
Balance, end of year	\$ 6,047	\$ 6,317

(i) Special prize fund

	2013	2012
Balance, beginning of year	\$ (10)	\$ 156
Unclaimed prizes expired during the year	1,883	1,185
Prize payouts	(1,873)	(1,351)
Balance, end of year	\$ -	\$ (10)

Unclaimed prizes

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

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15. Due to Atlantic Gaming Equipment Limited

	2013	2012
Unsecured – at amortized cost		
Loans from:		
Atlantic Gaming Equipment Limited (i)	\$ 48,943	\$ 16,493
Current	\$ 10,280	\$ 6,778
Non-current	38,663	9,715
	\$ 48,943	\$ 16,493

- (i) This liability represents the Corporation's portion of Atlantic Lottery Corporation Inc. ("ALC") debt used in the acquisition of property, plant and equipment operated on behalf of the Corporation. All amounts are payable by ALC and are due on or before August 2016. The debt is based on variable interest rates ranging from 1.34% to 2.58%. The aggregate maturity of long-term debt for the year subsequent to March 31, 2013, is approximately as follows: 2014 - \$17,176; 2015 - \$9,896; 2016 - \$7,790; 2017 - \$4710. Included in interest expense is \$766 (2012 - \$663) relating to long-term debt.

16. Other liabilities

	2013	2012
Outstanding chips	\$ 145	\$ 168
Progressive jackpot liabilities	1,134	1,063
	\$ 1,279	\$ 1,231

17. Revenue

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

	2013	2012
Casinos (i)	\$ 80,000	\$ 82,861
Ticket Lottery	214,035	207,295
Video Lottery	113,872	137,200
	\$ 407,907	\$ 427,356

- (i) Casinos revenue is comprised of gaming revenue \$72,296 (2012 - \$75,304) and food, beverage, and other revenue.

18. Finance costs

	2013	2012
Interest on bank overdrafts and loans	\$ 943	\$ 882

19. Other expenses

	2013	2012
Distributions to community programs (i)	\$ 4,760	\$ 5,495
Responsible gambling programs	6,413	6,709
	\$ 11,173	\$ 12,204

- (i) Included in distributions to community programs are the following expenses:

19.1 Harness racing

The Corporation annually contributes to the Nova Scotia Harness Racing industry amounts as directed by Government. The Government of Nova Scotia approved a contribution of \$1,000 in 2013 (2012 - \$1,000) to support the harness racing industry in Nova Scotia. The 2014 approved budget includes \$1,000 to support the harness racing industry in Nova Scotia.

19.2 Special payments and bonus commissions

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

	2013	2012
The Department of Communities, Culture and Heritage (in support of the Cultural Federation of Nova Scotia)	\$ 50	\$ 50
The Department of Agriculture (in support of the Exhibition Association of Nova Scotia)	50	50
The Department of Health and Wellness (in support of Sport Nova Scotia)	100	100
	\$ 200	\$ 200

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

Additionally, as part of its 2005 Gaming Strategy, the Government of Nova Scotia approved a contribution of \$3,000 to the Department of Health and Wellness in 2013 (2012 - \$3,000) to fund problem gambling treatment.

20. Financial instruments

20.1 Capital risk management

The Corporation manages its capital to ensure that entities in the Corporation will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Corporation's overall strategy remains unchanged from 2012.

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

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

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

20.2 Significant accounting policies

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

20.3 Financial risk management

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

20.4 Interest rate risk management

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

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

20.5 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Corporation. In the normal course of business, the Corporation is subject to credit risk from trade debtors in the gaming and lotteries industry, and transactions with their operators. The Corporation has a credit policy which

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has been issued to manage this exposure to credit risk. As part of this policy, limits on exposures with counter parties have been set and approved by the Board of Directors and are monitored on a regular basis. The Corporation does not have any significant concentrations of credit risk. Trade debtors are monitored closely for compliance with terms of trade. The Corporation does not expect the non-performance of any obligations at balance date. The maximum credit risk is the carrying values of accounts receivables, bank accounts and short-term deposits.

20.6 Liquidity risk management

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

20.7 Quantitative disclosures

Liquidity and interest risk tables

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

	Weighted Average effective interest rate %	Variable interest	Fixed maturity	Non-interest bearing	Total
As at March 31, 2013					
Financial assets					
Cash and cash equivalents		\$ -	\$ -	\$ 8,046	\$ 8,046
Cash restricted		-	-	6,047	6,047
Trade and other receivables		-	-	1,024	1,024
Other financial assets		-	-	2,308	2,308
		\$ -	\$ -	\$ 17,425	\$ 17,425
Financial liabilities					
Bank indebtedness		\$ -	\$ -	\$ 354	\$ 354
Trade and other payables		-	-	14,136	14,136
Liabilities for unclaimed prizes		-	-	6,047	6,047
Due to Atlantic Gaming Equipment	1.34%-2.58%	-	-	48,943	48,943
Other liabilities		-	-	1,279	1,279
Due to Province of Nova Scotia		-	-	54,920	54,920
		\$ -	\$ -	\$ 125,679	\$ 125,679

An analysis of the contractual maturity dates is as follows:

	Variable interest	Fixed maturity	Non-interest bearing	Total
As at March 31, 2013				
Financial assets				
Less than 1 year	\$ -	\$ -	\$ 17,425	\$ 17,425
1 to 2 years	-	-	-	-
2 to 5 years	-	-	-	-
5 years	-	-	-	-
	\$ -	\$ -	\$ 17,425	\$ 17,425

21. Employee benefits

All permanent employees of the Corporation are entitled to receive pension benefits under the Province of Nova Scotia Public Service Superannuation Plan, a multi-employer 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.

The total expense recognized in the income statement of \$116 (2012 - \$136) represents contributions payable to this plan by the Corporation at rates specified in the rules of the plan. As at March 31, 2013, contributions of \$7 due in respect of the 2013 reporting period (2012- \$7) had not been paid over to the plan. The amounts were paid subsequent to the end of the reporting period.

22. Related party transactions

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

22.1 Compensation of key management personnel

	2013	2012
Short-term benefits	\$ 589	\$ 506
Post-employment benefits	55	44
	<u>\$ 644</u>	<u>\$ 550</u>

In 2013, key management is considered to be comprised of members of the Board of Directors, the Corporation's Chief Executive Officer, Vice Presidents and Directors. Key management in 2012 was considered to be comprised of members of the Board of Directors, the Corporation's Chief Executive Officer, and the Corporation's Vice Presidents.

22.2 Other related party transactions

Interprovincial Lottery Corporation

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

23. Commitments

23.1 The Corporation as lessee

23.1.1 Operating lease arrangements

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

	2013	2012
Not later than 1 year	\$ 9,001	\$ 7,025
Later than 1 year and not later than 5 years	27,126	23,415
	<u>\$ 36,127</u>	<u>\$ 30,440</u>

The Corporation has entered into an operating lease for rental of office space occupied by its head office. The lease commenced October 2011 and expires on December 2014.

Included in the Corporation's commitments is the Corporation's share of the Atlantic Lottery Corporation Inc.'s minimum annual lease payments for their premises. The Corporation's share of the Atlantic Lottery Corporation Inc.'s minimum annual lease payments for premises is approximately \$4.1 million over the next five years.

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Also included in the Corporation's commitments is the Corporation's share of the Atlantic Lottery Corporation Inc.'s aggregate payment of long-term lease payable for infrastructure, application and project services contract through a seven-year outsourcing agreement with CGI, with the option of three one-year renewable terms. The Corporation's share of the Atlantic Lottery Corporation Inc.'s aggregate payment of long-term lease payable for each of the five years subsequent to March 31, 2013, is as follows: 2014 - \$7,670; 2015 - \$7,472; 2016 - \$7,386; 2017 - \$7,372 and 2018 - \$1,842.

23.1.2 Payments recognized as an expense

	2013	2012
<u>Minimum lease payments</u>	<u>\$ 7,023</u>	<u>\$ 8,856</u>

23.1.3 Capital lease arrangements

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

	2013	2012
Not later than 1 year	\$ 450	\$ -
Later than 1 year and not later than 5 years	1,007	1,758
Later than 5 years	-	469
	<u>1,457</u>	<u>2,227</u>
<u>Current portion of long-term lease</u>	<u>911</u>	<u>860</u>
	<u>\$ 546</u>	<u>\$ 1,367</u>

The aggregate payment of long-term lease payable for each of the five years subsequent to March 31, 2013, are approximately as follows: 2014 - \$911; 2015 - \$285; 2016 - \$113; 2017 - \$118 and 2018 - \$29.

Included in interest expense is \$68 (2012 - \$92) related to software under capital lease.

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

24. Contingencies

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

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

25. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on June 18, 2013.

NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

27. Segmented Statement of Operations

27.1 Casinos

	2013	2012
Revenue		
Casino revenue	\$ 72,296	\$ 75,304
Beverage, food and other revenue	7,704	7,557
	80,000	82,861
Expenses		
Lease and amortization	1,905	1,905
Capital Replacement Reserve	5,206	5,135
Operating Expenses	43	59
Harmonized Sales Tax (Note 13(ii))	2,569	(8,276)
Operator fee	41,461	43,934
Win tax	14,459	15,061
	65,643	57,818
Net income	14,357	25,043
Win tax	14,459	15,061
Payment to Province	\$ 28,816	\$ 40,104

27.2 Lotteries

	Ticket	Video	Total 2013	Total 2012
Revenue				
Ticket lottery sales	\$ 214,035	\$ -	\$ 214,035	\$ 207,295
Prize expense	119,091	-	119,091	117,471
Net ticket lottery sales	94,944	-	94,944	89,824
Net video lottery sales	-	113,872	113,872	137,200
Total net sales	94,944	113,872	208,816	227,024
Retailer commissions	13,827	21,154	34,981	38,759
Ticket costs	4,203	945	5,148	5,258
	18,030	22,099	40,129	44,017
Gross profit	76,914	91,773	168,687	183,007
Expenses				
Operating expenses				
Salaries and benefits	8,212	4,946	13,158	13,427
Training and development	189	120	309	379
Meetings and travel	312	217	529	705
Employee services	114	70	184	238
Costs of premises	1,056	574	1,630	1,577
Fleet expense	142	151	293	350
Consumable supplies	36	31	67	62
Terminal maintenance	(33)	598	565	245
Equipment and maintenance	660	604	1,264	1,036
Telecommunications	1,626	551	2,177	2,221
Outsourced services	5,325	2,374	7,699	10,233
Marketing	3,917	553	4,470	5,247
Social responsibility/Communications	536	432	968	825
Retailer training and support	786	34	820	969
Financial services	144	91	235	471
Lease and amortization	6,635	7,819	14,454	9,854
Total operating expenses	29,657	19,165	48,822	47,839
Operating profit	47,257	72,608	119,865	135,168
Interest expense	(402)	(541)	(943)	(882)
Other income	(27)	4,336	4,309	4,247
Profit before other distributions	46,828	76,403	123,231	138,533
Other distributions	5,543	4,927	10,470	11,142
Net income	\$ 41,285	\$ 71,476	\$ 112,761	\$ 127,391