

**NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO  
CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

---

## 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.

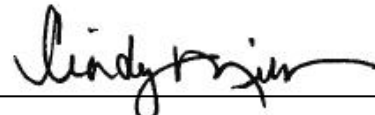
NSPLCC maintains books of accounts and systems of financial and management control, which provide reasonable assurance that accurate financial information is available, that assets are protected, and that resources are managed efficiently.

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**  
President & CEO



---

**Cindy Mills, CMA**  
Director, Finance



Nova Scotia

# Office of the Auditor General

1888 Brunswick Street, Suite 302  
Halifax, Nova Scotia  
B3J 3J8 Canada

902•424•5907 tel  
902•424•4350 fax  
www.oag-n.s.ca

## INDEPENDENT AUDITOR’S REPORT

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

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, 2014, and the consolidated statement of net and comprehensive income, retained 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 audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require 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 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, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Alan Horgan, CA  
Acting Auditor General

June 18, 2014  
Halifax, Nova Scotia

# NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31 (IN THOUSANDS)

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 4)	\$ 10,805	\$ 8,046
Cash – restricted (Note 5)	6,145	6,047
Disputed HST assessments (Note 24)	31,583	-
Trade and other receivables (Note 6)	1,168	1,024
Other assets (Note 7)	3,347	2,308
Inventories (Note 8)	2,775	2,874
	55,823	20,299
<b>Non-current assets</b>		
Property, plant and equipment (Note 9)	95,240	99,587
Intangible assets (Note 10)	10,338	11,436
Cash - casino capital replacement reserve (Note 11)	3,963	2,552
Investment in Interprovincial Lottery Corporation (Note 22)	1	1
	109,542	113,576
	<b>\$ 165,365</b>	<b>\$ 133,875</b>
 <b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 4)	\$ 333	\$ 354
Trade and other payables (Note 12)	18,457	14,136
Deferred revenue (Note 13)	748	643
Provisions (Note 14)	6,145	6,047
Due to Atlantic Gaming Equipment Limited (Note 15)	9,241	10,280
Other liabilities (Note 16)	971	1,279
Due to Province of Nova Scotia	84,783	54,920
	120,678	87,659
<b>Non-current liabilities</b>		
Due to Atlantic Gaming Equipment Limited (Note 15)	36,517	38,663
Investment in Atlantic Lottery Corporation Inc. (Note 3)	7,920	18,024
	44,437	56,687
<b>Equity</b>		
Casino capital replacement reserve (Note 11)	10,220	8,323
Retained deficit (Note 3)	(9,970)	(18,794)
	250	(10,471)
	<b>\$ 165,365</b>	<b>\$ 133,875</b>

See accompanying notes to the financial statements

Approved on behalf of the Board,



**Kelliann Dean**  
Chair

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

	2014	2013
Revenue (Note 17)	\$ 402,345	\$ 407,907
Cost of sales (Note 27)	274,371	277,104
Gross profit	127,974	130,803
Depreciation	(9,815)	(9,598)
Finance costs (Note 18)	(1,292)	(943)
Other expenses (Note 19)	(12,228)	(11,173)
Interest and other income	4,352	4,329
	(18,983)	(17,385)
<b>Net and comprehensive income before Win tax</b>	<b>108,991</b>	<b>113,418</b>
<b>Win tax (Note 3.15.2)</b>	<b>14,292</b>	<b>14,459</b>
<b>Net and comprehensive income</b>	<b>\$ 123,283</b>	<b>\$ 127,877</b>

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

	2014	2013
<b>Balance, beginning of year</b>	<b>\$ (18,794)</b>	<b>\$ (13,257)</b>
Net and comprehensive income	123,283	127,877
Payment to Province	(123,283)	(127,877)
Change in investment in Atlantic Lottery Corporation Inc. (Note 3)	8,824	(5,537)
<b>Balance, end of year</b>	<b>\$ (9,970)</b>	<b>\$ (18,794)</b>

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>2014</u>	<u>2013</u>
<b>OPERATING</b>		
Net and comprehensive income	\$ 123,283	\$ 127,877
Allocation of income to Province	(123,283)	(127,877)
Depreciation	13,256	12,737
(Gain)/loss on disposal of property, plant and equipment	64	153
Net transfers of property, plant and equipment	(354)	(13,996)
Changes in non-cash working capital balances		
Disputed HST assessments	(31,583)	-
Trade and other receivables	(144)	269
Other assets	(1,039)	679
Inventories	99	(578)
Trade and other payables	4,321	(1,254)
Deferred revenue and recovery	105	(343)
Other liabilities	(308)	48
Due to Province of Nova Scotia	29,863	(633)
	<u>14,280</u>	<u>(2,918)</u>
<b>FINANCING</b>		
(Decrease)/increase in due to Atlantic Gaming Equipment Limited	(3,185)	32,450
<b>INVESTING</b>		
Purchases of capital assets	(7,521)	(29,684)
Change in investment of Atlantic Lottery Corporation Inc.	(1,280)	658
Increase in Casino Capital Replacement Reserve, net of cash	486	242
	<u>(8,315)</u>	<u>(28,784)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,780</b>	<b>748</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>7,692</b>	<b>6,944</b>
<b>Cash and cash equivalents, end of year (Note 4)</b>	<b>\$ 10,472</b>	<b>\$ 7,692</b>

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 5<sup>th</sup> 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, its subsidiaries and its interest in associates and jointly controlled entities (collectively referred to as “the Corporation”).

The principal activities of Nova Scotia Provincial Lotteries and Casino Corporation is 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.

The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The entities controlled by the Corporation are as follows:

#### **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 Amended and Restated Operating Contract with Metropolitan Entertainment Group (referred to as "MEG"), (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 Corporation is the party with the authority to operate casinos in Nova Scotia under the *Criminal Code* (Canada) and *Gaming Control Act* (Nova Scotia), and the Amended and Restated Operating Contract provides the Corporation with the authority to set annual operating and capital budgets and to stipulate or review and/or approve other aspects of the casino operations.

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

#### **3.2 Interests in joint arrangements**

A joint operation is a joint arrangement whereby all parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Entities subject to joint arrangements characterized as joint operations are consolidated, whereby the Corporation recognizes its direct interest in the assets, liabilities, revenues and expenses arising from the joint operations, including its share of any assets held jointly, liabilities incurred jointly, and its share of revenues of the joint operation and expenses incurred jointly.

#### **Atlantic Lottery Corporation Inc.**

In 1976, the Atlantic Lottery Corporation Inc. (referred to as "ALC") 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 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 this 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 Corporation consolidates its direct interest in the operations covered within the Agency Agreement and proportionately consolidates its share of the assets held jointly, liabilities incurred jointly, and its share of revenue of the joint operation and expenses incurred jointly as per the Unanimous Shareholders' Agreement that are not covered within the Agency Agreement.



### **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 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 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

**NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)**

---

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 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 depreciation and impairment losses. Depreciation is charged to the consolidated statement of net and comprehensive income on a straight-line basis over the assets' 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 depreciation 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 depreciation 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 depreciation and accumulated impairment losses. Depreciation 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

#### **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 Changes in accounting policies

The Corporation adopted the following accounting standards and amendments to accounting standards effective April 1, 2013:

- 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. These

**NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)**

---

disclosure requirements have been incorporated into the Corporation's consolidated financial statements.

- 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. There was no impact on the Corporation's consolidated financial statements upon the adoption of this standard.
- 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. The Corporation has re-evaluated its involvement in its only joint arrangement and has reclassified the arrangement from a jointly controlled entity to a joint operation. Notwithstanding the reclassification, the arrangement continues to be recognized by consolidating assets and liabilities and revenues and expenses that are controlled and equity accounting for operations that are jointly controlled.
- 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. These disclosure requirements have been incorporated into the Corporation's consolidated financial statements.
- 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) has 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 has assessed the impact of this amendment and has determined the impact to be through its joint arrangement with Atlantic Lottery Corporation Inc. and has been retrospectively applied to its March 31, 2013 financial statements with an impact of \$13 to its retained deficit.

### 3.17 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, 2014, and have not been applied in preparing these consolidated statements. The Corporation has included below 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 does not expect these amendments to have a significant effect on the consolidated financial statements in the following periods:

- IFRS 9, *Financial Instruments*, effective for annual periods on or after a future date to be determined. 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. The Corporation intends to adopt IFRS 9 but does not expect it to have a material impact on its financial statements.
- IAS 32, *Financial Instruments Presentation*, effective for annual periods on or after January 1, 2014, with retrospective application. Amendments to this standard clarify the application of the offsetting requirements of financial assets and financial liabilities. The Corporation intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning April 1, 2014. The Corporation does not expect the amendments to have a material impact on the financial statements.
- IAS 36, *Impairment of Assets*, effective for annual periods on or after January 1, 2014, with retrospective application. This standard provides guidance on recoverable amount disclosures for non-financial assets. The Corporation intends to adopt the amendments to IAS 36 in its financial statements for the annual period beginning April 1, 2014. The Corporation does not expect the amendments to have a material impact on the financial statements.
- IFRIC 21, *Levies*, provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executor contract or other contractual arrangements. The interpretation also confirms an entity recognizes a liability for a levy only when the triggering event in the specified legislation occurs. The Corporation intends to adopt IFRIC 21 in its financial statements for the annual period beginning on April 1, 2014. However, the Corporation is not able to estimate reasonably at this time, the impact that the amendments will have on the financial statements.

### 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:

	<b>2014</b>	<b>2013</b>
Cash and bank balances	\$ 10,805	\$ 8,046
Bank indebtedness	(333)	(354)
	<b>\$ 10,472</b>	<b>\$ 7,692</b>

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 \$2,546 in cash from the casino accounts on the consolidated balance sheet at March 31, 2014 (2013 - \$2,407).

### 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



**NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)**

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.

**6. Trade and other receivables**

	<b>2014</b>	<b>2013</b>
Due from operators	\$ 1,168	\$ 1,024
	<b>\$ 1,168</b>	<b>\$ 1,024</b>

**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**

	<b>2014</b>	<b>2013</b>
ALC (i)	\$ 495	\$ 314
MEG	673	710
	<b>\$ 1,168</b>	<b>\$ 1,024</b>

(i) Amounts due from ALC include deferred revenue of \$314 (2013 - \$314).

**7. Other assets**

	<b>2014</b>	<b>2013</b>
Prepayments	\$ 3,052	\$ 2,294
Deferred charges (i)	295	14
	<b>\$ 3,347</b>	<b>\$ 2,308</b>

(i) Deferred charges include prepaid commissions of \$23 (2013 - \$14) to lottery retailers from the sale of tickets, where the draw date is after March 31.

**8. Inventories**

	<b>2014</b>	<b>2013</b>
Food, beverage and merchandise - casinos	\$ 152	\$ 144
Lottery tickets	2,623	2,730
	<b>\$ 2,775</b>	<b>\$ 2,874</b>

The cost of inventories recognized as an expense includes \$54 (2013 - \$18) in respect of write-downs of inventory to net realisable value, and was included in ticket printing and costs.

NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

9. Property, plant and equipment

	Land	Buildings & Leaseholds	Automobile	Operational Equipment	Lottery Gaming Equipment	Casino Gaming Equipment	Casino Buildings	Total
<b>Cost</b>								
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
Additions	-	-	-	24	2,770	2,653	593	6,040
Disposals	-	-	(138)	(60)	(29,605)	-	-	(29,803)
Transfers	-	-	25	-	(14)	-	-	11
<b>Balance at March 31, 2014</b>	<b>\$ 10,025</b>	<b>\$ 94</b>	<b>\$ 722</b>	<b>\$ 1,468</b>	<b>\$ 60,930</b>	<b>\$ 56,259</b>	<b>\$ 73,027</b>	<b>\$ 202,525</b>
<b>Accumulated depreciation and impairment</b>								
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
Disposals	-	-	(90)	(54)	(29,595)	-	-	(29,739)
Transfers	-	-	11	-	(526)	-	-	(515)
Depreciation	-	12	164	149	5,177	3,201	2,146	10,849
Impairments	-	-	-	-	-	-	-	-
<b>Balance at March 31, 2014</b>	<b>\$ -</b>	<b>\$ 33</b>	<b>\$ 347</b>	<b>\$ 1,104</b>	<b>\$ 25,266</b>	<b>\$ 50,299</b>	<b>\$ 30,236</b>	<b>\$ 107,285</b>
<b>Net book value</b>								
Balance at March 31, 2013	\$ 10,025	\$ 73	\$ 573	\$ 495	\$ 37,569	\$ 6,508	\$ 44,344	\$ 99,587
<b>Balance at March 31, 2014</b>	<b>\$ 10,025</b>	<b>\$ 61</b>	<b>\$ 375</b>	<b>\$ 364</b>	<b>\$ 35,664</b>	<b>\$ 5,960</b>	<b>\$ 42,791</b>	<b>\$ 95,240</b>

During the year, the Corporation carried out a review of the recoverable amount of assets. This review led to no indicators of impairment or reversals of impairment identified (2013 - \$0).

NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

10. Intangible assets

	Software Licenses	Gaming Software	Not Ready for Use	Total
<b>Cost</b>				
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
Additions	-	75	1,406	1,481
Disposals	-	-	-	-
Transfers	2,091	(75)	(166)	1,850
<b>Balance at March 31, 2014</b>	<b>\$ 12,861</b>	<b>\$ 10,441</b>	<b>\$ 4,569</b>	<b>\$ 27,871</b>
<b>Accumulated depreciation and impairment</b>				
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
Disposals	-	-	-	-
Transfers	2,030	(8)	-	2,022
Depreciation	1,651	756	-	2,407
Impairments	-	-	-	-
<b>Balance at March 31, 2014</b>	<b>\$ 11,112</b>	<b>\$ 6,421</b>	<b>\$ -</b>	<b>\$ 17,533</b>
<b>Net book value</b>				
At March 31, 2013	\$ 3,339	\$ 4,768	\$ 3,329	\$ 11,436
<b>At March 31, 2014</b>	<b>\$ 1,749</b>	<b>\$ 4,020</b>	<b>\$ 4,569</b>	<b>\$ 10,338</b>

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 (2013 - \$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, 2013, to March 31, 2014, it was based on the greater of 5% of total revenues of the casinos or \$5,312. Cash has been segregated on the consolidated balance sheet in the amount of \$3,963 (March 31, 2013 - \$2,552) for this purpose.

	2014	2013
Cash balance, beginning of year	\$ 2,552	\$ 860
Funding	5,312	5,206
Interest	35	16
Proceeds from sale of capital assets	-	24
Capital asset purchases	(2,549)	-
Reimbursements to MEG for entertainment	-	(102)
Reimbursements to MEG for capital asset purchases	(997)	(2,806)
Interest paid on balance owing to MEG for capital asset purchases	(8)	(69)
HST related to capital asset purchases and reimbursements	(1,117)	(577)
Capital assets purchased by MEG	735	-
Cash balance, end of year	3,963	2,552
Add: cumulative capital asset purchases	53,614	50,368
Less: accumulated depreciation	(46,984)	(43,542)
Add (Less): HST receivable (payable)	362	(220)
Less: capital assets purchased by MEG	(735)	(835)
<b>Balance, end of year</b>	<b>\$ 10,220</b>	<b>\$ 8,323</b>

NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

**12. Trade and other payables**

	<b>2014</b>	<b>2013</b>
Trade payables	\$ 2,436	\$ 1,254
Harmonized Sales Tax	336	897
Due to Gambling Awareness Nova Scotia (i)	35	38
Due to Operators	15,650	11,947
	<u>\$ 18,457</u>	<u>\$ 14,136</u>

(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**

	<b>2014</b>	<b>2013</b>
ALC	\$ 6,390	\$ 5,786
MEG	9,260	6,161
	<u>\$ 15,650</u>	<u>\$ 11,947</u>

**13. Deferred revenue**

	<b>2014</b>	<b>2013</b>
Lottery tickets (i)	\$ 495	\$ 314
Casino award credits (see note 3.3.1)	253	329
	<u>\$ 748</u>	<u>\$ 643</u>

(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).

**14. Provisions**

	<b>2014</b>	<b>2013</b>
Unclaimed prizes		
Current prizes	\$ 6,144	\$ 6,047
Special prize fund (i)	1	-
Balance, end of year	<u>\$ 6,145</u>	<u>\$ 6,047</u>

(i) Special prize fund

	<b>2014</b>	<b>2013</b>
Balance, beginning of year	\$ -	\$ (10)
Unclaimed prizes expired during the year	1,675	1,883
Prize payouts	(1,674)	(1,873)
Balance, end of year	<u>\$ 1</u>	<u>\$ -</u>

**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.

**15. Due to Atlantic Gaming Equipment Limited**

	<b>2014</b>	<b>2013</b>
<b>Unsecured – at amortized cost</b>		
Loans from:		
Atlantic Gaming Equipment Limited (i)	\$ 45,758	\$ 48,943
Current	\$ 9,241	\$ 10,280
Non-current	36,517	38,663
	<u>\$ 45,758</u>	<u>\$ 48,943</u>

**NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)**

- (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 2026. The debt is based on variable interest rates ranging from 1.83% to 2.88%. The aggregate maturity of long-term debt for the years subsequent to March 31, 2014, is approximately as follows: 2015 - \$21,900; 2016 - \$7,800; 2017 - \$4,700; 2018 - \$4,800; 2019 - \$4,900. Included in interest expense is \$1,100 (2013 - \$766) relating to long-term debt.

**16. Other liabilities**

	<b>2014</b>	<b>2013</b>
Outstanding chips	\$ 151	\$ 145
Progressive jackpot liabilities	820	1,134
	<b>\$ 971</b>	<b>\$ 1,279</b>

**17. Revenue**

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

	<b>2014</b>	<b>2013</b>
Casinos (i)	\$ 78,920	\$ 80,000
Ticket Lottery	217,537	214,035
Video Lottery	105,888	113,872
	<b>\$ 402,345</b>	<b>\$ 407,907</b>

- (i) Casinos revenue is comprised of gaming revenue \$72,296 (2013 - \$72,296) and food, beverage, and other revenue.

**18. Finance costs**

	<b>2014</b>	<b>2013</b>
Interest on bank overdrafts and loans	\$ 1,292	\$ 943

**19. Other expenses**

	<b>2014</b>	<b>2013</b>
Distributions to community programs (i)	\$ 6,485	\$ 4,760
Responsible gambling programs	5,743	6,413
	<b>\$ 12,228</b>	<b>\$ 11,173</b>

- (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 2014 (2013 - \$1,000) to support the harness racing industry in Nova Scotia. The 2015 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:

	<b>2014</b>	<b>2013</b>
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
	<b>\$ 200</b>	<b>\$ 200</b>

These payments are special funds under the Provincial *Finance Act* established by the Minister of Finance and Treasury Board 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 2014 (2013 - \$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 2013.

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 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.

NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

**20.7 Fair values of financial instruments**

The fair values of the Corporation's financial instruments are considered to approximate the carrying amounts. Levels 1 to 3 are defined based on the degree to which fair value inputs are observable or unobservable, as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are based on inputs which have a significant effect on fair value that are observable, either directly or indirectly from market data; and
- Level 3 inputs are unobservable (supported by little or no market activity)

**20.8 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
<b>As at March 31, 2014</b>					
<b>Financial assets</b>					
Cash and cash equivalents		\$ -	\$ -	\$ 10,805	\$ 10,805
Cash restricted		-	-	6,145	6,145
Disputed HST assessments		-	-	31,583	31,583
Trade and other receivables		-	-	1,168	1,168
		\$ -	\$ -	\$ 49,424	\$ 49,424
<b>Financial liabilities</b>					
Bank indebtedness		\$ -	\$ -	\$ 333	\$ 333
Trade and other payables		-	-	18,180	18,180
Liabilities for unclaimed prizes		-	-	6,145	6,145
Due to Atlantic Gaming Equipment	1.34%-2.58%	-	-	45,758	45,758
Other liabilities		-	-	971	971
Due to Province of Nova Scotia		-	-	84,783	84,783
		\$ -	\$ -	\$ 156,170	\$ 156,170

An analysis of the contractual maturity dates is as follows:

	Variable interest	Fixed maturity	Non-interest bearing	Total
<b>As at March 31, 2014</b>				
<b>Financial assets</b>				
Less than 1 year	\$ -	\$ -	\$ 17,841	\$ 17,841
1 to 2 years	-	-	31,583	31,583
2 to 5 years	-	-	-	-
5 years	-	-	-	-
	\$ -	\$ -	\$ 49,424	\$ 49,424

**NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)**

Fair Value

During the years ended March 31, 2014 and 2013, there were no transfer between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Corporation's financial instruments are considered to approximate the carrying amounts. The following table provides the disclosures of the fair value and the level in the hierarchy.

	2014			2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets classified as</b>						
<b>loans and receivables:</b>						
Cash	\$ 10,805	\$ -	\$ -	\$ 8,046	\$ -	\$ -
Cash – restricted	6,145	-	-	6,047	-	-
Cash – casino capital replacement reserve	3,963	-	-	2,552	-	-
Disputed HST assessments	31,583	-	-	-	-	-
Trade and other receivables	-	1,168	-	-	1,024	-
<b>Financial liabilities at</b>						
<b>amortized cost:</b>						
Bank indebtedness	\$ 333	\$ -	\$ -	\$ 354	\$ -	\$ -
Trade and other payables	-	18,457	-	-	14,136	-
Liabilities for unclaimed prizes	-	-	6,145	-	-	6,047
Due to Atlantic Gaming Equipment	-	45,758	-	-	48,943	-
Other liabilities	-	-	971	-	-	1,279
Due to Province of Nova Scotia	-	84,783	-	-	54,020	-

**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 Corporation accounts for the plan on a defined contribution basis with contributions included in its 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 \$114 (2013 - \$116) represents contributions paid to this plan by the Corporation at rates specified in the rules of the plan. As at March 31, 2014, contributions of \$7 due in respect of the 2014 reporting period (2013- \$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**

	2014	2013
Short-term benefits	\$ 478	\$ 589
Post-employment benefits	52	55
	<u>\$ 530</u>	<u>\$ 644</u>

In 2014, key management is considered to be comprised of members of the Board of Directors, and the Corporation's Chief Executive Officer, Vice President and Directors. Key management in 2013 was considered to be comprised of members of the Board of Directors, and the Corporation's Chief Executive Officer, Vice Presidents and Directors.



**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:

	<b>2014</b>	<b>2013</b>
Not later than 1 year	\$ 8,345	\$ 9,001
Later than 1 year and not later than 5 years	19,990	27,126
	<b>\$ 28,335</b>	<b>\$ 36,127</b>

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 \$4,100 over the next five years. 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, 2014, is as follows: 2015 - \$7,387; 2016 - \$7,290; 2017 - \$7,276; 2018 - \$2,121 and 2019 - \$0.

23.1.2 Payments recognized as an expense

	<b>2014</b>	<b>2013</b>
Minimum lease payments	\$ 5,928	\$ 7,023

23.1.3 Capital lease arrangements

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

	<b>2014</b>	<b>2013</b>
Not later than 1 year	\$ 150	\$ 450
Later than 1 year and not later than 5 years	396	1,007
Later than 5 years	-	-
	<b>546</b>	<b>1,457</b>
Current portion of long-term lease	281	911
	<b>\$ 265</b>	<b>\$ 546</b>

The aggregate payment of long-term lease payable for each of the five years subsequent to March 31, 2014, are approximately as follows: 2015 - \$281; 2016 - \$113; 2017 - \$118; 2018 - \$33 and 2019 - nil.

Included in interest expense is \$36 (2013 - \$68) 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.

**NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)**

**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. The Atlantic Lottery Corporation Inc. received Notices of Assessment from Canada Revenue Agency for Harmonized Sales Tax in respect of the operation of video lottery terminals sited on First Nations' reserves in the province of Nova Scotia for the period June 1, 2009 to October 31, 2013, in amounts totalling \$29,600. Through Atlantic Lottery Corporation Inc., the Corporation has remitted, on a without prejudice basis, the amount of the assessments solely to avoid the accumulation of interest and penalties. The Corporation is self-assessing Harmonized Sales Tax for every period thereafter and is depositing monthly installments to the Canada Revenue Agency. Remittances up to and including March 31, 2014, total a further \$2,000. The matter is being contested with the Canada Revenue Agency and Notices of Objection for the assessments have been filed. The Corporation intends to vigorously defend its position. The outcome is undeterminable at this time and no amounts related to the contingent liability have been accrued in the Corporation's consolidated statement of financial position.

c. 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. Comparative figures**

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

**26. Approval of financial statements**

The financial statements were approved by the Board of Directors and authorized for issue on June 18, 2014.

**27. Segmented Statement of Operations**

**27.1 Cost of Sales**

	<b>2014</b>	<b>2013</b>
Casinos	\$ 65,686	\$ 65,643
Lotteries		
Prizes	\$ 121,650	\$ 119,091
Retailer commissions	34,279	34,981
Ticket costs	4,255	5,148
Operating expenses	45,940	48,822
Other distributions	<u>9,779</u>	<u>10,470</u>
Corporate operating expenses (i)	<u>2,597</u>	<u>2,547</u>
	284,186	286,702
Less: Depreciation (ii)	<u>9,815</u>	<u>9,598</u>
	<u>\$ 274,371</u>	<u>\$ 277,104</u>

(i) Represents operating costs of NSPLCC.

(ii) Included in lease and depreciation expenses of casino, lotteries and corporate expenses above.

NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

27. Segmented Statement of Operations

27.2 Casinos

	2014	2013
<b>Revenue</b>		
Casino revenue	\$ 71,460	\$ 72,296
Beverage, food and other revenue	7,460	7,704
	78,920	80,000
<b>Expenses</b>		
Lease and depreciation	1,905	1,905
Capital Replacement Reserve	5,312	5,206
Operating Expenses	57	43
Harmonized Sales Tax	2,569	2,569
Operator fee	41,551	41,461
Win tax	14,292	14,459
	65,686	65,643
<b>Net income</b>	<b>13,234</b>	<b>14,357</b>
<b>Win tax</b>	<b>14,292</b>	<b>14,459</b>
<b>Payment to Province</b>	<b>\$ 27,526</b>	<b>\$ 28,816</b>

27.3 Lotteries

	Ticket	Video	Total 2014	Total 2013
Ticket lottery sales	\$ 217,537	\$ -	\$ 217,537	\$ 214,035
Prize expense	121,650	-	121,650	119,091
Net ticket lottery sales	95,887	-	95,887	94,944
Net video lottery sales	-	105,887	105,887	113,872
Total net sales	95,887	105,887	201,774	208,816
Retailer commissions	14,113	20,166	34,279	34,981
Ticket costs	3,346	909	4,255	5,148
	17,459	21,075	38,534	40,129
Gross profit	78,428	84,812	163,240	168,687
Operating expenses				
Salaries and benefits	8,086	4,601	12,687	13,158
Training and development	162	96	258	309
Meetings and travel	258	154	412	529
Employee services	127	71	198	184
Costs of premises	864	510	1,374	1,630
Fleet expense	137	130	267	293
Consumable supplies	46	25	71	67
Terminal maintenance	80	788	868	565
Equipment and maintenance	752	555	1,307	1,264
Telecommunications	1,528	487	2,015	2,177
Outsourced services	5,652	2,836	8,488	7,699
Marketing	3,470	854	4,324	4,470
Social responsibility/Communications	378	275	653	968
Retailer training and support	650	11	661	820
Financial services	106	99	205	235
Lease and depreciation	4,453	7,699	12,152	14,454
Total operating expenses	26,749	19,191	45,940	48,822
Operating profit	51,679	65,621	117,300	119,865
Interest expense	(308)	(985)	(1,293)	(943)
Other income	49	4,296	4,345	4,309
Profit before other distributions	51,420	68,932	120,352	123,231
Other distributions	5,007	4,772	9,779	10,470
<b>Net income</b>	<b>\$ 46,413</b>	<b>\$ 64,160</b>	<b>\$ 110,573</b>	<b>\$ 112,761</b>