



Third Quarter Report
2014

For the nine months ended September 30, 2014

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CORPORATE OVERVIEW

The Saskatchewan Gaming Corporation (SaskGaming or the Corporation) was established in 1994 as a Treasury Board Crown Corporation to operate casino gaming on behalf of the province of Saskatchewan. It currently operates Casino Regina and Casino Moose Jaw. Effective April 1, 2008, SaskGaming came under the direction of the Crown Investments Corporation of Saskatchewan (CIC). SaskGaming operates Casino Regina and Casino Moose Jaw under the regulatory authority of the Saskatchewan Liquor and Gaming Authority (SLGA).

Casino Regina, located in Regina's historic Union Station, opened to the public on January 26, 1996 and is a full-service entertainment facility offering slot machines, table games, a Show Lounge, restaurant, and on-site parking.

Casino Moose Jaw opened September 6, 2002. It offers guests table games, slot machines, food and beverage services and parking facilities. Entertainment is offered to Moose Jaw customers through a partnership with the Mae Wilson Theatre.

SaskGaming's vision is as follows:

SaskGaming is the recognized leader in providing gaming entertainment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis highlights the primary factors that impacted the operations and financial results of SaskGaming for the nine month period ended September 30, 2014. This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2013.

FINANCIAL RESULTS

The following information provides details of the Corporation's financial performance for the periods July 1 to September 30, 2014 and January 1 to September 30, 2014 with comparative figures for 2013.

	Three months ended September 30				Nine months ended September 30			
	2014	2013	Change	%	2014	2013	Change	%
(in 000s)								
Revenue	\$ 33,087	\$ 32,410	\$ 677	2.1%	\$ 96,314	\$ 96,824	\$ (510)	(0.5%)
Expenses	19,011	20,716	(1,705)	(8.2%)	58,406	62,264	(3,858)	(6.2%)
Income before payment to General Revenue Fund	14,076	11,694	2,382	20.4%	37,908	34,560	3,348	9.7%
Payment to GRF	7,038	5,847	1,191	20.4%	18,954	17,280	1,674	9.7%
Net Income	\$ 7,038	\$ 5,847	\$ 1,191	20.4%	\$ 18,954	\$ 17,280	\$ 1,674	9.7%

SaskGaming's income before payment to the GRF for the third quarter of 2014 was \$14.1 million, an increase over the same period in 2013 of \$2.4 million. Revenues increased \$0.7 million, and expenses decreased \$1.7 million.

Year to date income before payment to the GRF was \$37.9 million, an increase of \$3.3 million. Revenues decreased \$0.5 million and expenses decreased \$3.8 million.

1. Revenue

Revenue for the third quarter was \$33.1 million, an increase of \$0.7 million over the same period in 2013. Gaming revenues increased \$0.8 million and ancillary revenues decreased \$0.1 million. Year to date revenue was \$96.3 million, a decrease of \$0.5 million from 2013 due to a \$0.4 million decline in gaming revenues and a \$0.1 million decline in ancillary revenues. The gaming revenue decrease is due to a \$0.9 million decline in slot revenues offset by a \$0.5 million increase in table revenues. Guest counts at Casino Regina increased 1.9% from the prior year and at Casino Moose Jaw guest counts decreased 11.6%, which resulted in an overall decrease in guest counts year to date of 1.0% from 2013. Although guest spend has increased slightly from the prior year, it is not enough to counteract the decline in guest counts.

2. Expenses

Total expenses for the third quarter were \$19.0 million, a decrease year over year of \$1.7 million. Year to date expenses were \$58.4 million, a decrease of \$3.8 million from 2013. The decrease is due primarily to a reduction in SaskGaming's salaries and benefits expenses. FTE (full time equivalent) expense reductions, including the FTE reductions from the organizational restructuring that took place in October of 2013, resulted in savings of approximately \$3.1 million in salary and benefit expenses.

OUTLOOK

The Corporation's income before payment to GRF target for 2014 is \$50.4 million. At the end of the third quarter, income before payment to GRF is above budget by \$0.5 million. Net revenues are below budget by \$4.2 million. SaskGaming has not experienced the anticipated revenue growth in 2014 due to guest spend and guest visits being down to budget and year over year. The casino gaming market in Saskatchewan and across Canada has matured, resulting in flattening or declining revenues in most jurisdictions.

The corporation has used strong expense management to achieve its income before payment to the GRF target through Q3. The corporation will continue to monitor expenses closely in the last quarter of the year although it does not anticipate significant savings in expenses. Accordingly, SaskGaming has reduced its forecasted net income before payment to GRF to \$48.9 million.

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (in 000s)	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash	\$ 19,497	\$ 10,841
Accounts receivable	368	419
Inventory	292	321
Prepaid expenses	1,579	638
	21,736	12,219
Property, plant and equipment	61,884	66,638
	\$ 83,620	\$ 78,857
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	\$ 9,787	\$ 11,810
Payable to the General Revenue Fund	7,038	3,267
Dividend payable	5,040	1,578
Short term advance	---	3,000
Current portion of long-term debt	7,547	7,476
Current portion of finance lease obligation	268	955
	29,680	28,086
Long-term debt	2,077	3,246
Finance lease obligation	6,587	6,083
	38,344	37,415
Equity advance	4,000	4,000
Retained earnings	41,276	37,442
	\$ 83,620	\$ 78,857

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three and nine months ended September 30
(Unaudited)

(in 000s)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenue	\$ 33,087	\$ 32,410	\$ 96,314	\$ 96,824
Operating expenses	15,414	17,203	47,644	51,771
Depreciation	1,788	1,661	5,339	4,866
Taxes	776	777	2,294	2,405
Contractual obligations	753	753	2,261	2,261
Finance expense	280	322	868	961
Income before payment to the General Revenue Fund	14,076	11,694	37,908	34,560
Payment to the General Revenue Fund	7,038	5,847	18,954	17,280
Net income	7,038	5,847	18,954	17,280
Other comprehensive income	---	---	---	---
Comprehensive income	<u>\$ 7,038</u>	<u>\$ 5,847</u>	<u>\$ 18,954</u>	<u>\$ 17,280</u>

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine months ended September 30
(Unaudited)

(in 000s)	September 30, 2014			September 30, 2013		
	Retained Earnings	Equity Advance	Total	Retained Earnings	Equity Advance	Total
Balance as at January 1	\$ 37,442	\$ 4,000	\$ 41,442	\$ 33,333	\$ 4,000	\$ 37,333
Comprehensive income	18,954	---	18,954	17,280	---	17,280
Dividends	(15,120)	---	(15,120)	(14,859)	---	(14,859)
Balance as at September 30	<u>\$ 41,276</u>	<u>\$ 4,000</u>	<u>\$ 45,276</u>	<u>\$ 35,754</u>	<u>\$ 4,000</u>	<u>\$ 39,754</u>

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended September 30
(Unaudited)

(in 000s)	2014	2013
Operating activities:		
Net income	\$ 18,954	\$ 17,280
Adjustments for:		
Finance expense	868	961
Depreciation	5,245	4,890
Loss (gain) on sale of property, plant and equipment	94	(24)
Changes in non-cash working capital balances:		
Accounts receivable	51	27
Inventory	29	28
Prepaid expenses	(941)	(723)
Trade and other payables	(2,023)	(697)
Payable to the General Revenue Fund	3,771	(338)
	26,048	21,404
Investing activities:		
Proceeds from sale of property, plant and equipment	23	99
Purchases of property, plant and equipment	(608)	(3,448)
	(585)	(3,349)
Financing activities:		
Dividends paid	(11,658)	(15,583)
Interest paid	(868)	(961)
Repayment of short term advance	(3,000)	6,000
Repayment of finance lease obligation	(183)	(165)
Repayment of long-term debt	(1,098)	(1,031)
	(16,807)	(11,740)
Increase in cash	8,656	6,315
Cash, beginning of period	10,841	10,583
Cash, end of period	\$ 19,497	\$ 16,898

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)

1. Description of Business

The Saskatchewan Gaming Corporation (SaskGaming) is a corporation domiciled in Canada. The address of SaskGaming's registered office and principal place of business is 1880 Saskatchewan Drive, Regina, SK, S4P 0B2.

SaskGaming manages and operates Casino Regina and Casino Moose Jaw. SaskGaming was established under *The Saskatchewan Gaming Corporation Act, 1994* (Act) to provide for separation of regulatory and operational aspects of gaming. SaskGaming must operate in accordance with statutory provisions established under Section 207 of the *Criminal Code of Canada* and *The Alcohol and Gaming Regulation Act, 1997*. Regulation of SaskGaming's operations is controlled by the separately constituted Saskatchewan Liquor and Gaming Authority.

SaskGaming operates under the direction of its owner, the Crown Investments Corporation of Saskatchewan (CIC). CIC is the provincial government's holding corporation for its commercial Crown corporations. The financial results of SaskGaming are included in the consolidated financial statements of CIC.

2. Basis of Preparation

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 20, 2014.

b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments which are classified as fair value through profit and loss, which are measured at fair value.

c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is SaskGaming's functional currency.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include: useful lives of property, plant and equipment and the customer loyalty program.

3. Significant Accounting Policies

The accounting policies applied by SaskGaming in these condensed consolidated interim financial statements are consistent with those applied by SaskGaming in its December 31, 2013 annual financial statements.

4. Fair Value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk and remaining maturities. Fair value measurements are subjective in nature, and represent point-in-time estimates which may not reflect fair value in the future.

The methods and assumptions used to develop fair value measurements have been prioritized into three levels as per the fair value hierarchy included in IFRS. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs other than quoted prices included in Level one that are observable for the asset or liability. Level three includes inputs that are not based on observable market data.

The fair values of long term debt and finance lease obligation are estimated by discounting the expected future cash flows using the interest rate of a Government of Canada bond with similar terms, adjusted for an appropriate risk premium.

(in 000s)			<u>September 30, 2014</u>		<u>December 31, 2013</u>	
Financial Instruments	Classification ¹	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	OFL	Level Two	\$ 9,624	\$ 9,856	\$ 10,722	\$ 11,125
Finance Lease obligation	OFL	Level Two	6,855	8,231	7,038	8,206

¹ Classification:

OFL - Other financial liabilities