



Second Quarter Report
2019

For the six months ended September 30, 2018

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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:

We are the number one entertainment choice in our markets.

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 six month period ended September 30, 2018. 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 March 31, 2018.

FINANCIAL RESULTS

The following information provides details of the Corporation's financial performance for the periods July 1, 2018 to September 30, 2018 and April 1, 2018 to September 30, 2018 with comparative information for 2017.

(Thousands of Dollars)	Three months ended September 30				Six months ended September 30			
	2018	2017	Change	%	2018	2017	Change	%
Revenue	\$ 30,091	\$ 31,429	\$ (1,338)	-4.3%	\$ 60,113	\$ 61,900	\$ (1,787)	-2.9%
Expenses	18,563	17,947	616	3.4%	36,831	35,778	1,053	2.9%
Income before payment to General Revenue Fund	11,528	13,482	(1,954)	-14.5%	23,282	26,122	(2,840)	-10.9%
Payment to GRF	5,764	6,741	(977)	-14.5%	11,641	13,061	(1,420)	-10.9%
Net Income	\$ 5,764	\$ 6,741	\$ (977)	-14.5%	\$ 11,641	\$ 13,061	\$ (1,420)	-10.9%

SaskGaming's year to date income before payment to GRF for the second quarter of fiscal 2019 was \$23.3 million, a decrease over the same period in fiscal 2018 of \$2.8 million. Revenues decreased \$1.8 million and expenses increased by \$1.1 million.

1. Revenue

Revenue for the second quarter was \$30.1 million, a decrease of \$1.3 million over the same period in fiscal 2018. Year to date revenue was \$60.1 million, a decrease of \$1.8 million over the same period in fiscal 2018. Gaming revenues decreased \$1.7 million from fiscal 2018. The gaming revenue decrease is largely due to a \$1.2 million decline in slot revenue and a \$0.5 million decrease in table revenues. Guest counts from the prior year decreased by 5.1% at Casino Regina and by 4.3% at Casino Moose Jaw. This resulted in an overall decrease in guest counts year to date of 5.0% from fiscal 2018.

2. Expenses

Total expenses for the second quarter were \$18.6 million, an increase year over year of \$0.6 million. Year to date expenses were \$36.8 million, an increase year over year of \$1.1 million. The increase is due primarily to increases in SaskGaming's salaries, wages & benefits of \$0.7 million, advertising & promotions of \$0.2 million, sponsorships of \$0.1 million and repairs & maintenance of \$0.1 million.

OUTLOOK

SaskGaming's income before payment to GRF for the three month period was \$11.5 million and \$23.3 million year to date. At the end of the second quarter, income before payment to GRF is below budget by \$0.5 million. At this time, SaskGaming has reduced its income before payment to GRF target for fiscal 2019 to \$44.6 million.

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (Thousands of Dollars)	September 30, 2018 (Unaudited)	March 31, 2018 (Audited)
ASSETS		
Current assets:		
Cash	\$ 16,490	\$ 17,204
Accounts receivable	429	219
Inventory	232	243
Prepaid expenses	1,265	446
	<u>18,416</u>	<u>18,112</u>
Property, plant and equipment	<u>59,734</u>	<u>56,729</u>
	<u>\$ 78,150</u>	<u>\$ 74,841</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	\$ 11,174	\$ 10,522
Payable to the General Revenue Fund	5,764	4,887
Dividend payable	4,449	5,165
Current portion of finance lease obligation	404	384
	<u>21,791</u>	<u>20,958</u>
Finance lease obligation	<u>5,194</u>	<u>5,401</u>
	26,985	26,359
Retained earnings	<u>51,165</u>	<u>48,482</u>
	<u>\$ 78,150</u>	<u>\$ 74,841</u>

(See accompanying notes)

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

(Thousands of Dollars)	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
Revenue	\$ 30,091	\$ 31,429	\$ 60,113	\$ 61,900
Operating expenses	15,446	14,937	30,630	29,769
Depreciation	1,589	1,413	3,091	2,773
Contractual obligations	754	754	1,508	1,508
Taxes	630	690	1,311	1,419
Finance expense	144	153	291	309
	<u>18,563</u>	<u>17,947</u>	<u>36,831</u>	<u>35,778</u>
Income before payment to the General Revenue Fund	11,528	13,482	23,282	26,122
Payment to the General Revenue Fund	<u>5,764</u>	<u>6,741</u>	<u>11,641</u>	<u>13,061</u>
Net income	5,764	6,741	11,641	13,061
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Comprehensive income	<u>\$ 5,764</u>	<u>\$ 6,741</u>	<u>\$ 11,641</u>	<u>\$ 13,061</u>

(See accompanying notes)

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

(Thousands of Dollars)	2018	2017
Retained earnings, beginning of period	\$ 48,482	\$ 43,834
Comprehensive income	11,641	13,061
Dividends	<u>(8,958)</u>	<u>(9,414)</u>
Retained earnings, end of period	<u>\$ 51,165</u>	<u>\$ 47,481</u>

(See accompanying notes)

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

(Thousands of Dollars)	<u>2018</u>	<u>2017</u>
Operating activities:		
Net income	\$ 11,641	\$ 13,061
Adjustments for:		
Finance expense	291	309
Depreciation	3,083	2,761
Loss on sale of property, plant and equipment	8	12
Changes in non-cash working capital balances:		
Accounts receivable	(210)	(354)
Inventory	11	25
Prepaid expenses	(819)	(767)
Trade and other payables	652	(274)
Payable to the General Revenue Fund	877	955
	<u>15,534</u>	<u>15,728</u>
Investing activities:		
Purchases of property, plant and equipment	<u>(6,096)</u>	<u>(2,894)</u>
	<u>(6,096)</u>	<u>(2,894)</u>
Financing activities:		
Dividends paid	(9,674)	(19,510)
Interest paid	(291)	(309)
Repayment of finance lease obligation	<u>(187)</u>	<u>(169)</u>
	<u>(10,152)</u>	<u>(19,988)</u>
Change in cash	(714)	(7,154)
Cash, beginning of period	<u>17,204</u>	<u>21,705</u>
Cash, end of period	<u>\$ 16,490</u>	<u>\$ 14,551</u>

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended September 30
(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 to establish and operate casinos in Saskatchewan; conduct and manage games of chance in casinos; and to establish and operate or to provide for the establishment and operation of any business or activity that it considers reasonably related to operating a casino. 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 is an agent of Her Majesty in Right of the Province of Saskatchewan, and, as a provincial Crown corporation, is not subject to provincial or federal income and capital taxes.

SaskGaming operates under the direction of its owner, Crown Investments Corporation of Saskatchewan (CIC). CIC is the Government of Saskatchewan'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 do not include all of the information required for full annual financial statements, and accordingly should be read in conjunction with the March 31, 2018 audited financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 15, 2018.

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.

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended September 30
(Unaudited)

2. Basis of Preparation (Continued)

d) Use of estimates and judgements

The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) 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 March 31, 2018 financial statements.

4. Fair Value

Fair values approximate amounts at which financial instruments could be exchanged in an orderly transaction between market participants 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 the finance lease obligation is 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.

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended September 30
(Unaudited)

4. Fair Value (Continued)

(Thousands of Dollars)			September 30, 2018 (Unaudited)		March 31, 2018 (Audited)	
Financial Instruments	Classification ¹	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Finance lease obligation	OL	Level Two	5,598	6,362	5,785	6,713

¹Classification:

OL - Other liabilities