



Third Quarter Report
2017

For the nine months ended December 31, 2016

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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. SaskGaming operates Casino Regina and Casino Moose Jaw under the regulatory authority of the Saskatchewan Liquor and Gaming Authority (SLGA). Effective April 1, 2008, SaskGaming came under the direction of the Crown Investments Corporation of Saskatchewan (CIC).

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 to our guests.

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 December 31, 2016. 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 period ended March 31, 2016.

FINANCIAL RESULTS

The following information provides details of the Corporation's financial performance for the periods October 1, 2016 to December 31, 2016 and April 1, 2016 to December 31, 2016 with comparative information for 2015.

	Three months ended December 31				Nine months ended December 31			
	2016	2015	Change	%	2016	2015	Change	%
(Thousands of Dollars)								
Revenue	\$ 31,086	\$ 32,416	\$ (1,330)	-4.1%	\$ 94,190	\$ 97,750	\$ (3,560)	-3.6%
Expenses	19,028	18,786	242	1.3%	57,012	55,824	1,188	2.1%
Income before payment to General Revenue Fund	12,058	13,630	(1,572)	-11.5%	37,178	41,926	(4,748)	-11.3%
Payment to GRF	6,029	6,815	(786)	-11.5%	18,589	20,963	(2,374)	-11.3%
Net Income	\$ 6,029	\$ 6,815	\$ (786)	-11.5%	\$ 18,589	\$ 20,963	\$ (2,374)	-11.3%

SaskGaming's year to date income before payment to the GRF for the third quarter of fiscal 2017 was \$37.2 million, a decrease over the same period in fiscal 2016 of \$4.7 million. Revenues decreased \$3.6 million, and expenses increased \$1.2 million.

1. Revenue

Revenue for the third quarter was \$31.1 million, a decrease of \$1.3 million over the same period in fiscal 2016. Year to date revenue was \$94.2 million, a decrease of \$3.6 million over the same period in fiscal 2016. Gaming revenues decreased \$3.5 million from fiscal 2016. The gaming revenue decrease is largely due to a \$3.0 million decline in slot revenue and a \$0.5 million decrease in table revenues. Guest counts at Casino Regina increased 6.0% from the prior year and at Casino Moose Jaw guest counts decreased 5.3%, which resulted in an overall increase in guest counts year to date of 3.7% from fiscal 2016. Although overall guest counts have increased, the average spend per slot guest is below fiscal 2016 levels.

2. Expenses

Total expenses for the third quarter were \$19.0 million, an increase year over year of \$0.2 million. Year to date expenses were \$57.0 million, an increase year over year of \$1.2 million. The increase is due primarily to increases in SaskGaming's salaries, wages and benefits of \$1.4 million and professional fees of \$0.2 million, offset by a reduction in computer supplies/consulting of \$0.4 million.

OUTLOOK

The Corporation's income before payment to GRF target for fiscal 2017 is \$49.7 million. At the end of the third quarter, income before payment to GRF is below budget by \$1.5 million. The casino gaming market in Saskatchewan and across Canada has matured, resulting in flattening or declining revenues in most jurisdictions. Net revenues are below budget by \$3.5 million, offset slightly by expenses being ahead of budget by \$1.5 million. Accordingly, SaskGaming has reduced its forecasted net income before payment to GRF for fiscal 2017 to \$49.0 million.

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (Thousands of Dollars)	<u>December 31, 2016</u> (Unaudited)	<u>March 31, 2016</u> (Audited)
ASSETS		
Current assets:		
Cash	\$ 20,133	\$ 17,721
Accounts receivable	189	205
Inventory	264	283
Prepaid expenses	550	435
	21,136	18,644
Property, plant and equipment	58,044	59,062
	\$ 79,180	\$ 77,706
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	\$ 9,339	\$ 10,552
Payable to the General Revenue Fund	6,029	5,826
Dividend payable	4,749	4,660
Current portion of long-term debt	-	1,266
Current portion of finance lease obligation	337	312
	20,454	22,616
Finance lease obligation	5,875	6,131
	26,329	28,747
Retained earnings	52,851	48,959
	\$ 79,180	\$ 77,706

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three and nine months ended December 31
(Unaudited)

(Thousands of Dollars)	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
Revenue	\$ 31,086	\$ 32,416	\$ 94,190	\$ 97,750
Operating expenses	15,979	15,740	47,827	46,550
Depreciation	1,406	1,350	4,174	4,177
Taxes	726	744	2,231	2,216
Contractual obligations	753	754	2,261	2,262
Finance expense	164	198	519	619
	19,028	18,786	57,012	55,824
Income before payment to the General Revenue Fund	12,058	13,630	37,178	41,926
Payment to the General Revenue Fund	6,029	6,815	18,589	20,963
Net income	6,029	6,815	18,589	20,963
Other comprehensive income	-	-	-	-
Comprehensive income	\$ 6,029	\$ 6,815	\$ 18,589	\$ 20,963

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine months ended December 31
(Unaudited)

(Thousands of Dollars)	2016	2015
Retained earnings, beginning of period	\$ 48,959	\$ 43,125
Comprehensive income	18,589	20,963
Dividends	(14,697)	(16,295)
Retained earnings, end of period	\$ 52,851	\$ 47,793

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended December 31
(Unaudited)

(Thousands of Dollars)	2016	2015
Operating activities:		
Net income	\$ 18,589	\$ 20,963
Adjustments for:		
Finance expense	519	619
Depreciation	4,159	4,105
Loss on sale of property, plant and equipment	15	72
Changes in non-cash working capital balances:		
Accounts receivable	16	(123)
Inventory	19	(19)
Prepaid expenses	(115)	195
Trade and other payables	(1,213)	(1,816)
Payable to the General Revenue Fund	203	923
	22,192	24,919
Investing activities:		
Proceeds from sale of property, plant and equipment	1	79
Purchases of property, plant and equipment	(3,157)	(2,542)
	(3,156)	(2,463)
Financing activities:		
Dividends paid	(14,608)	(15,210)
Interest paid	(519)	(619)
Repayment of finance lease obligation	(231)	(209)
Repayment of long-term debt	(1,266)	(1,189)
	(16,624)	(17,227)
Change in cash	2,412	5,229
Cash, beginning of period	17,721	12,158
Cash, end of period	\$ 20,133	\$ 17,387

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended December 31
(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* 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 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, 2016 audited financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on February 9, 2017.

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 nine months ended December 31
(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, 2016 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 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.

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended December 31
(Unaudited)

4. Fair Value (Continued)

(Thousands of Dollars)			December 31, 2016 (Unaudited)		March 31, 2016 (Audited)	
Financial Instruments	Classification ¹	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	OFL	Level Two	\$ -	\$ -	\$ 1,266	\$ 1,292
Finance lease obligation	OFL	Level Two	6,212	7,425	6,443	7,948

¹Classification:

OFL - Other financial liabilities

5. Comparative Figures

Certain of the December 31, 2015 figures have been reclassified to conform to the current period's presentation.