

# **Saskatchewan Gaming Corporation**

## **Second Quarter Report 2009**

For the six month period ended June 30, 2009

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## **Corporate Overview**

The Saskatchewan Gaming Corporation (Sask Gaming) was established in 1994 as a Treasury Board Crown Corporation to operate casino gaming on behalf of the province and currently operates Casino Regina and Casino Moose Jaw. Effective April 1, 2008, Sask Gaming came under the direction of the Crown Investments Corporation of Saskatchewan (CIC). Sask Gaming 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, and is connected via pedestrian walkway to Temple Gardens Mineral Spa. It has table games, slot machines, a lounge/snack bar and parking facilities. Entertainment is offered to Moose Jaw customers through a partnership with the Mae Wilson Theatre.

Sask Gaming's vision is as follows:

*"We are the premier destination for casino entertainment, setting the standards for Five Star Service experience and properties."*

## **Management's Discussion and Analysis**

The Management's Discussion and Analysis highlights the primary factors that impacted the operations and financial results of Sask Gaming for the six month period ended June 30, 2009. This discussion should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes. The Board of Directors for Sask Gaming has approved these interim financial statements. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the period ended December 31, 2008.

This discussion includes forward looking statements about the corporate direction and financial objectives of Sask Gaming. Due to the risks and uncertainties inherent in any forecast, the actual results could differ materially from those anticipated.

In February 2008, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board confirmed that publicly accountable enterprises, including Sask Gaming and its subsidiary, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles (GAAP) for interim and annual reporting in the fiscal year beginning January 1, 2011, including comparative figures for the prior year. Sask Gaming has commenced an IFRS conversion project, including the development of a high level IFRS implementation plan. An external advisor has been engaged to assist with the development of the plan and to perform a detailed review of the differences between current Canadian GAAP and IFRS as they relate to Sask Gaming. At this time, the impact on the Corporation's future financial position and results of operations is not reasonably determinable.

## Financial Highlights

The following information provides details of the corporation's financial performance for the period January 1 to June 30, 2009, with comparable figures for the same period last year.

(in 000's)	Three months ended June 30				Six months ended June 30			
	2009	2008	Change	%	2009	2008	Change	%
Net Revenue	34,206	32,647	1,559	4.8%	66,448	62,546	3,902	6.2%
Expenses	20,694	18,639	2,055	11.0%	40,404	38,236	2,168	5.7%
Income before payment to General Revenue Fund	13,512	14,008	(496)	-3.5%	26,044	24,310	1,734	7.1%
Payment to GRF	6,756	7,004	(248)		13,022	7,004	6,018	
Net Income	6,756	7,004	(248)		13,022	17,306	(4,284)	

Before April 1, 2008, Sask Gaming paid all of its net income to the General Revenue Fund (GRF). Beginning April 1, 2008, the payment to the GRF is considered an expense item, and is deducted to arrive at the net income figure. For the purpose of this discussion, comparisons will be made based on income before payment to the GRF.

Sask Gaming's income before payment to the GRF for the second quarter of 2009 was \$13.5 million, a slight decrease over the same period in 2008 of \$496,000. Net revenues increased \$1.6 million, however expenses increased almost \$2.1 million.

Year to date income before payment to GRF is \$26 million, an increase of \$1.7 million over the same period last year. Net revenues increased \$3.9 million, while expenses increased \$2.2 million.

### 1. Net Revenue

Net revenue for the second quarter was \$34.2 million, an increase of \$1.6 million over the same period in 2008. Year to date net revenues were \$66.4 million, an increase of \$3.9 million. The increase in net revenue is due primarily to slot revenues. Food & beverage sales and ticket revenue also saw an increase. Guest visits at Sask Gaming's properties have increased year over year.

### 2. Expenses

Expenses were \$20.7 million in the second quarter, an increase of \$2.1 million from the same period in 2008. Year to date expenses are \$40.4 million, up \$2.2 million from 2008. Direct operating expenses increased primarily due to increased labour costs due to additional staffing requirements and increased salary and benefit rates.

## Outlook

The Corporation's net income before payment to GRF target for 2009 is \$50.7 million. Revenues were down from forecast after the end of the second quarter, however the net income target was achieved through expenditures management. There has been a slowdown in the anticipated growth included in the budget, which will likely continue for the remainder of the year. Sask Gaming will be keeping a close watch on the revenues and managing its expenses accordingly.

**Saskatchewan Gaming Corporation**  
**Consolidated Statement of Financial Position**

As at (in 000's)	(Unaudited) June 30 2009	(Audited) December 31, 2008
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 24,466	\$ 23,780
Accounts receivable	157	918
Inventory	363	276
Prepaid expenses	1,820	205
	<u>26,806</u>	<u>25,179</u>
Property, plant and equipment	55,300	56,858
	<u>55,300</u>	<u>56,858</u>
<b>Total Assets</b>	<b>\$ 82,106</b>	<b>\$ 82,037</b>
<b>Liabilities and Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 7,924	\$ 8,896
Payable to the General Revenue Fund	6,757	5,801
Dividend payable	5,080	5,298
Current portion of long term debt	5,294	5,105
Current portion of capital lease obligation	900	900
	<u>25,955</u>	<u>26,000</u>
Long Term Debt	12,818	15,513
Capital Lease obligation	6,836	6,889
	<u>19,654</u>	<u>22,402</u>
<b>Total Liabilities</b>	<b>45,609</b>	<b>48,402</b>
Equity advance	29,805	29,805
Retained earnings	6,692	3,830
	<u>36,497</u>	<u>33,635</u>
<b>Total liabilities and equity</b>	<b>\$ 82,106</b>	<b>\$ 82,037</b>

(See accompanying notes)

**Saskatchewan Gaming Corporation**  
**Consolidated Statement of Operations and Comprehensive Income**

(Unaudited) (in 000's)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
<b>Revenue:</b>				
Gross revenues	\$ 36,760	\$ 34,936	\$ 71,559	\$ 67,129
Less:				
Promotional allowances	1,748	1,425	3,482	2,927
Ancillary cost of goods sold	806	864	1,629	1,656
	<u>34,206</u>	<u>32,647</u>	<u>66,448</u>	<u>62,546</u>
<b>Operating Expenses:</b>				
Direct operating expenses	17,038	14,958	32,923	30,207
GST	456	262	906	885
Interest	520	611	1,062	1,245
Amortization	1,525	1,609	3,177	3,496
Property taxes	401	445	828	895
Contractual obligations	754	754	1,508	1,508
<b>Total Expenses</b>	<u>20,694</u>	<u>18,639</u>	<u>40,404</u>	<u>38,236</u>
Income before payment to GRF	13,512	14,008	26,044	24,310
Payment to GRF	6,756	7,004	13,022	7,004
Net Income	6,756	7,004	13,022	17,306
Other comprehensive income	-	-	-	-
<b>Comprehensive income</b>	<u>\$ 6,756</u>	<u>\$ 7,004</u>	<u>\$ 13,022</u>	<u>\$ 17,306</u>

**Saskatchewan Gaming Corporation**  
**Consolidated Statement of Retained Earnings**

(Unaudited) (in 000's)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Retained earning, beginning of year	5,016	-	3,830	-
Net income	6,756	7,004	13,022	17,306
Dividends	5,080	4,699	10,160	4,699
Transfer to General Revenue Fund				10,302
<b>Retained earnings, end of year</b>	<u>\$ 6,692</u>	<u>\$ 2,305</u>	<u>\$ 6,692</u>	<u>\$ 2,305</u>

(See accompanying notes)

**Saskatchewan Gaming Corporation**  
**Consolidated Statement of Cashflows**

(Unaudited) (in 000's)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
<b>Operating activities:</b>				
Net income	\$ 6,756	\$ 7,004	\$ 13,022	\$ 17,306
Items not involving cash:				
Depreciation of property, plant and equipment	1,550	1,609	3,172	3,422
Loss on sale of capital assets	(25)	0	5	3
Write off of miscellaneous assets				1,009
Net change in non-cash working capital balances	(1,313)	4,280	(957)	4,898
	<u>6,968</u>	<u>12,893</u>	<u>15,242</u>	<u>26,638</u>
<b>Investing activities:</b>				
Proceeds from sale of capital assets	30	0	30	0
Purchase of capital assets	(1,131)	(60)	(1,649)	(914)
	<u>(1,101)</u>	<u>(60)</u>	<u>(1,619)</u>	<u>(914)</u>
<b>Financing activities:</b>				
Payment to General Revenue Fund	0	(29,805)	0	(40,277)
Dividends paid	(5,080)	0	(10,378)	0
Equity advance		29,805		29,805
Repayment of capital lease obligation	(27)	(24)	(53)	(48)
Repayment of long-term debt	(1,264)	(1,176)	(2,506)	(2,330)
	<u>(6,371)</u>	<u>(1,200)</u>	<u>(12,937)</u>	<u>(12,850)</u>
Net increase in cash	(504)	11,633	686	12,874
Cash, beginning of year	24,970	11,207	23,780	9,966
Cash, end of year	<u>\$ 24,466</u>	<u>\$ 22,840</u>	<u>\$ 24,466</u>	<u>\$ 22,840</u>
Supplemental Information:				
Cash interest paid	\$ 328	\$ 412	\$ 677	\$ 848

(See accompanying notes)



**Saskatchewan Gaming Corporation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2009**  
(Unaudited)

**1. Description of Business**

The Saskatchewan Gaming Corporation (Sask Gaming) manages and operates Casino Regina and Casino Moose Jaw. Sask Gaming was established under *The Saskatchewan Gaming Corporation Act, 1994* (Act) to provide for separation of regulatory and operational aspects of gaming. Sask Gaming 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 Sask Gaming's operations is controlled by the separately constituted Saskatchewan Liquor and Gaming Authority.

Effective April 1, 2008, Sask Gaming operates under the direction of the Crown Investments Corporation of Saskatchewan (CIC). As a CIC Crown, Sask Gaming's fiscal year end changed to December 31. Sask Gaming is required to make payments to the General Revenue Fund to the extent required to meet the Government's obligations under the Act to the First Nations Trust, the Community Initiatives Fund, and the Métis Development Fund. In addition Sask Gaming will now pay dividends to the CIC as per its directions.

The consolidated financial statements combine the accounts of the Sask Gaming and its wholly-owned subsidiary, SGC Holdings Inc. which is incorporated under The Business Corporations Act (Saskatchewan). All intercompany transactions and accounts have been eliminated on consolidation.

**2. Accounting Policies**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are consistent with those used and described in the December 31, 2008 annual report.