

Sask Gaming

Third Quarter Report 2009

For the nine month period ended September 30, 2009

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CORPORATE OVERVIEW

The Saskatchewan Gaming Corporation (SaskGaming) was established in 1994 as a Treasury Board Crown Corporation to operate casino gaming on behalf of the province. 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, 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.

SaskGaming'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 SaskGaming for the nine month period ended September 30, 2009. This discussion should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes. The Board of Directors for SaskGaming 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 SaskGaming. 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 SaskGaming 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. SaskGaming 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 SaskGaming. At this time, the impact on the Corporation's future financial position and results of operations is not reasonably determinable.

Outlook

The Corporation's net income before payment to GRF target for 2009 was \$50.7 million. However, the 2009 budget was created during a period of optimism for Saskatchewan, which had been experiencing record income. SaskGaming's revenue budget reflected that optimism and the strong business results of 2008. SaskGaming has not been experiencing the anticipated growth trend, and has adjusted its revenue forecast to reflect the current trend. Adjustments have been made to expenditures wherever possible, however these cannot be adjusted downward to the extent required to offset the declining revenues without significant impacts to the business. Accordingly, SaskGaming is now forecasting a net income before payment to GRF of \$48.3 million.

FINANCIAL RESULTS

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

(in 000's)	Three months ended September 30				Nine months ended September 30			
	2009	2008	Change	%	2009	2008	Change	%
Net Revenue	32,715	32,376	339	1.0%	99,163	94,922	4,241	4.5%
Expenses	19,119	19,686	(567)	-2.9%	59,523	57,922	1,601	2.8%
Income before payment to General Revenue Fund	13,596	12,690	906	7.1%	39,640	37,000	2,640	7.1%
Payment to GRF	6,798	6,345	453		19,820	13,349	6,471	
Net Income	6,798	6,345	453		19,820	23,651	(3,831)	

Before April 1, 2008, SaskGaming 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.

SaskGaming's income before payment to the GRF for the third quarter of 2009 was \$13.6 million, an increase over the same period in 2008 of \$906,000. Net revenues increased \$339,000, however expenses decreased \$567,000.

Year to date income before payment to GRF is \$39.6 million, an increase of \$2.6 million over the same period last year. Net revenues increased \$4.2 million, while expenses increased \$1.6 million.

1. Net Revenue

Net revenue for the third quarter was \$32.7 million, an increase of \$339,000 over the same period in 2008. Year to date net revenues were \$99.2 million, an increase of \$4.2 million. The increase in net revenue is due primarily to increases in slot revenues. Spend per guest is up year over year.

2. Expenses

Expenses were \$19.2 million in the second quarter, a decrease of \$567,000 from the same period in 2008. Year to date expenses are \$59.5 million, up \$1.6 million from 2008. Direct operating expenses increased primarily due to increased labour costs due to required additional staff and increased salary and benefit rates.

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

As at (in 000's)	(Unaudited) September 30 2009	(Audited) December 31, 2008
Assets		
Current assets:		
Cash	\$ 23,839	\$ 23,780
Accounts receivable	163	918
Inventory	351	276
Prepaid expenses	1,340	205
	<u>25,693</u>	<u>25,179</u>
Property, plant and equipment	56,982	56,858
Total Assets	\$ 82,675	\$ 82,037
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,050	\$ 8,896
Payable to the General Revenue Fund	6,797	5,801
Dividend payable	4,330	5,298
Current portion of long term debt	5,391	5,105
Current portion of capital lease obligation	900	900
	<u>25,468</u>	<u>26,000</u>
Long Term Debt	11,433	15,513
Capital Lease obligation	6,809	6,889
	<u>18,242</u>	<u>22,402</u>
Total Liabilities	43,710	48,402
Equity advance	29,805	29,805
Retained earnings	9,160	3,830
	<u>38,965</u>	<u>33,635</u>
Total liabilities and equity	\$ 82,675	\$ 82,037

(See accompanying notes)

Consolidated Statement of Operations

(Unaudited) (in 000's)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue:				
Gross revenues	\$ 34,834	\$ 34,788	\$ 106,393	\$ 101,917
Less:				
Promotional allowances	1,433	1,603	4,915	4,530
Ancillary cost of goods sold	686	809	2,315	2,465
	<u>32,715</u>	<u>32,376</u>	<u>99,163</u>	<u>94,922</u>
Operating Expenses:				
Direct operating expenses	15,497	15,982	48,420	46,189
GST	409	388	1,315	1,273
Interest	496	589	1,558	1,834
Amortization	1,551	1,546	4,728	5,042
Property taxes	413	428	1,241	1,323
Contractual obligations	753	753	2,261	2,261
Total Expenses	<u>19,119</u>	<u>19,686</u>	<u>59,523</u>	<u>57,922</u>
Income before payment to GRF	13,596	12,690	39,640	37,000
Payment to GRF	<u>6,798</u>	<u>6,345</u>	<u>19,820</u>	<u>13,349</u>
Net Income	6,798	6,345	19,820	23,651
Other comprehensive income	-	-	-	-
Comprehensive income	<u>\$ 6,798</u>	<u>\$ 6,345</u>	<u>\$ 19,820</u>	<u>\$ 23,651</u>

Consolidated Statement of Retained Earnings

(Unaudited) (in 000's)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Retained earning, beginning of period	6,692	2,305	3,830	-
Net income	6,798	6,345	19,820	23,651
Dividends	4,330	5,324	14,490	10,023
Transfer to General Revenue Fund				10,302
Retained earnings, end of period	<u>\$ 9,160</u>	<u>\$ 3,326</u>	<u>\$ 9,160</u>	<u>\$ 3,326</u>

(See accompanying notes)

Consolidated Statement of Cashflows

(Unaudited) (in 000's)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Operating activities:				
Net income	\$ 6,798	\$ 6,345	\$ 19,820	\$ 23,651
Items not involving cash:				
Depreciation of property, plant and equipment	1,551	1,606	4,723	5,028
Loss on sale of capital assets	0	11	5	14
Write off of miscellaneous assets				1,009
Net change in non-cash working capital balances	652	(143)	(305)	4,755
	<u>9,001</u>	<u>7,819</u>	<u>24,243</u>	<u>34,457</u>
Investing activities:				
Proceeds from sale of capital assets	0	0	30	0
Purchase of capital assets	(3,233)	(152)	(4,882)	(1,066)
	<u>(3,233)</u>	<u>(152)</u>	<u>(4,852)</u>	<u>(1,066)</u>
Financing activities:				
Payment to General Revenue Fund	0	0	0	(40,277)
Dividends paid	(5,080)	(4,699)	(15,458)	(4,699)
Equity advance		0		29,805
Repayment of capital lease obligation	(27)	(24)	(80)	(72)
Repayment of long-term debt	(1,288)	(1,197)	(3,794)	(3,527)
	<u>(6,395)</u>	<u>(5,920)</u>	<u>(19,332)</u>	<u>(18,770)</u>
Net increase in cash	(627)	1,747	59	14,621
Cash, beginning of period	24,466	22,840	23,780	9,966
Cash, end of period	<u>\$ 23,839</u>	<u>\$ 24,587</u>	<u>\$ 23,839</u>	<u>\$ 24,587</u>
Supplemental Information:				
Cash interest paid	\$ 305	\$ 400	\$ 982	\$ 1,248

(See accompanying notes)

September 30, 2009

(Unaudited)

Notes to Consolidated Financial Statements

1. Description of Business

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.

Effective April 1, 2008, SaskGaming operates under the direction of the Crown Investments Corporation of Saskatchewan (CIC). As a CIC Crown, SaskGaming's fiscal year end changed to December 31. SaskGaming 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 SaskGaming will now pay dividends to the CIC as per its directions.

The consolidated financial statements combine the accounts of the SaskGaming 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.