



Third Quarter Report  
2010

For the nine month period ended September 30, 2010

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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. 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 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, 2010. This discussion should be read in conjunction with the unaudited interim 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 December 31, 2009.

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 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. In September 2009, the Public Sector Accounting Board approved an amendment to the introduction to the Public Sector Accounting Handbook confirming the direction which requires Government Business Enterprises, including Sask Gaming, to adopt IFRS.

SaskGaming has commenced an IFRS conversion project including an implementation plan. An external advisor has been engaged to assist with the development of this plan and to perform a detailed review of the differences between current Canadian GAAP and IFRS as they relate to the Corporation. Based on the analysis to date, the most significant areas of differences are related to accounting for property, plant and equipment, and promotional allowances. The impact of the transition to IFRS on the financial statements continues to be assessed.

### **Outlook**

The Corporation's net income before payment to GRF target for 2010 is \$44.1 million. Sask Gaming is unable to meet its original budget of \$50.4 million due to a slower than anticipated start to the year combined with a 53 day strike which began June 3.

## **FINANCIAL RESULTS**

The following information provides details of the corporation's financial performance for the period January 1 to September 30, 2010, with comparable figures for the same period last year.

(in 000's)	Three months ended September 30				Nine months ended September 30			
	2010	2009	Change	%	2010	2009	Change	%
Net Revenue	31,178	32,715	(1,537)	-4.7%	92,139	99,163	(7,024)	-7.1%
Expenses	19,476	19,119	357	1.9%	59,303	59,523	(220)	-0.4%
Income before payment to General Revenue Fund	11,702	13,596	(1,894)	-13.9%	32,836	39,640	(6,804)	-17.2%
Payment to GRF	5,851	6,798	(947)		16,418	19,820	(3,402)	
Net Income	5,851	6,798	(947)		16,418	19,820	(3,402)	

SaskGaming's net income for the third quarter of 2010 was \$5.85 million, a decrease over the same period in 2009 of \$0.9 million. Net revenues decreased \$1.5 million, and expenses increased \$357,000.

Year to date net income was \$16.4 million, a decrease of \$3.4 million. Net revenues decreased \$7.0 million and expenses decreased \$220,000.

### 1. Net Revenue

Net revenue for the third quarter was \$31.2 million, a decrease of \$1.5 million over the same period in 2009. Gaming revenues were down \$0.4 million and ancillary revenues were up \$0.6 million. Promotional allowances were up significantly by \$1.8 million in order to drive business during the strike and retain customers. The strike action began at Casino Regina on June 3, 2010 and continued until July 26. Guest counts at Casino Regina increased year over year in the third quarter by approximately 9.5%, however year to date guest counts were down 2.2%. Slot games were in full operation during the strike but with reduced operating hours. Table games and the restaurant were closed during the period of the strike.

### 2. Expenses

Expenses for the third quarter were \$19.5 million, an increase of \$357,000 from the same period in 2009. Direct operating expenses decreased \$324,000 due to decreased in-scope labour costs during the strike, offset by retroactive pay for the union settlements. Offsetting the decrease in direct operating expenses was an increase in amortization expense of \$711,000, resulting from the property refresh that was completed in 2009.

## FINANCIAL STATEMENTS

### Consolidated Statement of Financial Position

As at (in 000's)	(Unaudited) September, 2010	(Audited) December 31, 2009
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 8,307	\$ 14,482
Accounts receivable	379	345
Inventory	307	357
Prepaid expenses	1,233	433
	<u>10,226</u>	<u>15,617</u>
Property, plant and equipment	<u>61,670</u>	<u>62,794</u>
	<u><b>\$ 71,896</b></u>	<u><b>\$ 78,411</b></u>
<b>Liabilities and Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 8,508	\$ 9,123
Payable to the General Revenue Fund	5,851	5,564
Dividend payable	3,911	5,818
Current portion of long term debt	3,712	5,490
Current portion of capital lease obligation	900	900
	<u>22,882</u>	<u>26,895</u>
Long term debt	13,721	16,023
Capital lease obligation	6,692	6,781
	<u>43,295</u>	<u>49,699</u>
Equity advance	19,805	19,805
Retained earnings	8,796	8,907
	<u>28,601</u>	<u>28,712</u>
	<u><b>\$ 71,896</b></u>	<u><b>\$ 78,411</b></u>

(See accompanying notes)

## Consolidated Statement of Operations and Comprehensive Income

(Unaudited) (in 000's)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
<b>Revenue:</b>				
Gaming revenues	\$ 31,348	\$ 31,770	\$ 89,546	\$ 95,084
Ancillary revenues	3,663	3,064	11,576	11,309
	35,011	34,834	101,122	106,393
Less:				
Promotional allowances	3,187	1,433	6,985	4,915
Ancillary cost of goods sold	646	686	1,998	2,315
	31,178	32,715	92,139	99,163
Operating Expenses:				
Direct operating expenses	15,173	15,497	46,852	48,420
GST	447	409	1,415	1,315
Interest	438	496	1,390	1,558
Amortization	2,262	1,551	6,178	4,728
Property taxes	403	413	1,207	1,241
Contractual obligations	753	753	2,261	2,261
Total expenses	19,476	19,119	59,303	59,523
Income before payment to GRF	11,702	13,596	32,836	39,640
Payment to GRF	5,851	6,798	16,418	19,820
Net Income	5,851	6,798	16,418	19,820
Other comprehensive income	-	-	-	-
Comprehensive income	\$ 5,851	\$ 6,798	\$ 16,418	\$ 19,820

## Consolidated Statement of Retained Earnings

(Unaudited) (in 000's)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Retained earning, beginning of period	6,856	6,692	8,907	3,830
Net income	5,851	6,798	16,418	19,820
Dividends	3,911	4,330	16,529	14,490
Retained earnings, end of period	\$ 8,796	\$ 9,160	\$ 8,796	\$ 9,160

(See accompanying notes)

## Consolidated Statement of Cashflows

(Unaudited) (in 000's)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
<b>Operating activities:</b>				
Net income	\$ 5,851	\$ 6,798	\$ 16,418	\$ 19,820
Items not involving cash:				
Amortization	2,206	1,551	6,155	4,723
Loss (gain) on sale of property, plant and equipment	56	0	23	5
Net change in non-cash working capital balances	1,498	652	(1,112)	(305)
	<u>9,611</u>	<u>9,001</u>	<u>21,484</u>	<u>24,243</u>
<b>Investing activities:</b>				
Proceeds from sale of property, plant and equipment	68	0	234	30
Additions to property, plant and equipment	(47)	(3,233)	(5,288)	(4,882)
	<u>21</u>	<u>(3,233)</u>	<u>(5,054)</u>	<u>(4,852)</u>
<b>Financing activities:</b>				
Dividends paid	(6,309)	(5,080)	(18,436)	(15,458)
Repayment of capital lease obligation	(30)	(27)	(89)	(80)
Repayment of long-term debt	(1,385)	(1,288)	(4,080)	(3,794)
	<u>(7,724)</u>	<u>(6,395)</u>	<u>(22,605)</u>	<u>(19,332)</u>
Net (decrease) increase in cash	1,908	(627)	(6,175)	59
Cash, beginning of period	6,399	24,466	14,482	23,780
Cash, end of period	<u>\$ 8,307</u>	<u>\$ 23,839</u>	<u>\$ 8,307</u>	<u>\$ 23,839</u>
Supplemental Information:				
Cash interest paid	\$ 211	\$ 305	\$ 785	\$ 982

(See accompanying notes)



**September 30, 2010**

(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, 2009 annual report.